HELLENIC FINANCIAL STABILITY FUND

HFSF CORPORATE GOVERNANCE OBJECTIVES AND STANDARDS

Introduction

The Fund's long-term strategy is to divest its holdings in the banks. To be able to do so, the Fund needs to be confident that the banks will be able to remain viable in the long term without its support, and each bank needs to be attractive investment propositions for other investors. For both reasons, the Fund needs to ensure that each of the banks exhibits high standards of corporate governance and respects shareholder rights.

This is partly achieved by ensuring the banks comply with the HFSF law and the RFA, but additional criteria for assessing whether the banks are meeting these tests have been developed and are set out in this paper.

The corporate governance standards – specific practices that can help to protect the interests of the Fund and other shareholders – are grouped under ten governance objectives. The intention is that the Fund's decision on whether a bank's governance arrangements were sufficiently robust for it to divest safely would be based on whether these objectives had been met, not only on whether the specific practices were being followed.

<u>Topics</u>

1. **Board and committee composition**
2. **Board performance and appointment**
3. **Corporate culture**
4. **Risk management**
5. **Accounting, audit and compliance**
6. **Director remuneration**
7. **Related party transactions**
8. **Shareholder rights**
9. **Corporate structure**
10. **Environmental and social issues**

1. Board and committee composition

Objective

The board should have sufficient knowledge, industry experience, independence, competence and diversity of perspectives to enable it to exercise effective oversight and to make objective decisions in the best long-term interests of the company, its shareholders and other stakeholders.

Standards

- The board collectively should have the knowledge and experience identified in the joint ESMA and EBA 'Guidelines on the assessment of suitability of members of the management body and key function holders'. The board should have a 'skills matrix' setting out the knowledge and experience it needs.
- The chairman and CEO roles should be kept separate.
- The chairman should be a non-executive director and should not hold any positions in other organisations that may create a conflict of interest.
- There should be a senior independent director whose role should include coordinating the non-executive board members and being a point of contact for shareholders, regulators, and other stakeholders, along with the chairman
- Board size should be between 7 and 15 members.
- At least half the board should be independent of the company and of any major shareholders. Independence will be judged against the criteria in Greek law[1] and international best practice[2].
- The board should set a date by which it will have at least 30% members of both genders and report annually on progress towards that target.
- In addition to the board committees required under Banking Law 4261/2014[3], there should be committees with responsibility for strategy, ethics and sustainability.
- All board committees should be chaired by an independent board member, and the majority of the members of each committee should be independent.

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[1] *HFSF Law, Law 4706/2020 Corporate Governance of Listed Companies*
[2] *EBA's Guidelines on Internal Governance, ICGN Global Governance principles*
[3] *Audit, risk, remuneration and nomination committees*

2. Board performance and appointment

Objective

The board should regularly assess its own effectiveness and that of its committees and individual members and should refresh its composition as necessary to ensure that it has the ability to deal with future challenges and opportunities.

Standards

- The effectiveness of the board and committees should be formally reviewed annually, and the main actions agreed should be disclosed in the annual report. An independent reviewer should be engaged at least every two years, and the same reviewer should not be used for more than three consecutive reviews.
- Succession plans for the board and senior management should be reviewed annually by the nomination committee.
- No director should have more than four other appointments, or three if one of them is an executive position, to ensure they can devote the necessary time to the role.
- Individual directors' attendance at board and committee meetings should be published annually. If a director has attended less than 85% of meetings, they will be judged to be under-performing.
- The nomination committee should have a transparent procedure for appointing new directors that draws on the skills matrix and the outcomes of the board review.
- All directors should be nominated individually not as part of a 'slate'.

3. Corporate culture

Objective

The board should adhere to and promote high ethical and professional standards and should ensure that such standards are communicated and implemented throughout the company.

Standards

- There should be a published code of conduct and ethics that is compatible with the EBA's 'Guidelines on Internal Governance'.

- There should be a published whistle-blowing procedure, overseen by the board, which enables employees and others to raise concerns.

4. Risk management

Objective

The board should set the risk appetite and culture, and policies and processes should be in place that enable it to approve and oversee the approach to risk management and regularly review its effectiveness.

Standards

- The board should have a risk appetite framework that is aligned with the business strategy and compatible with the EBA's 'Guidelines on Internal Governance'.

- The annual report should describe the actions taken to develop and foster a bank-wide risk culture.

- The annual report should describe the main financial and non-financial risks that the bank faces and explain how they are being monitored and mitigated.

- The board or the risk committee should review the effectiveness of the bank's risk management, its internal control systems and its risk management plan at least annually.

- There should be an internal audit function. If there is no such function, the need for one should be assessed annually as part of the effectiveness review.

5. Accounting, audit and compliance

Objective

Company disclosures should present a fair and balanced assessment of the company's performance and future prospects and the board should take action to ensure the integrity of financial and other statements and the independence and effectiveness of the internal and external audit functions.

Standards

- The bank should adhere to international financial reporting standards.
- There should be a shareholder vote on the appointment of the external auditor.
- Fees paid to the external auditor should be disclosed. Fees paid for non-audit services should not exceed 70% of the audit fees.
- The bank should not employ the same external audit firm for more than ten years.
- The remit of the internal audit function should include monitoring of financial statements and operations.
- There should be an annual compliance review of conflict of interest and investment advice

6. Director remuneration

Objective

Remuneration should be designed to align the interests of directors with the long-term interests of the company and its shareholders and should be compatible with the company's risk appetite and its culture and values.

Standards

- The remuneration policy for board members, senior management and 'identified staff' should be compatible with EBA guidelines.

- The annual remuneration report should show the amounts awarded to individual directors, divided into fixed and variable remuneration.

- The remuneration policy for board members should be approved by shareholders at least every four years, and the remuneration report should be subject to an annual advisory vote.

- The remuneration policy should specify the circumstances in which variable remuneration can be withheld or recovered.

- Shares awarded to board members should be held for at least two years after they have vested.

- Severance payments for departing board members should not exceed the equivalent of two years' fixed salary.

- Non-executive directors should not receive performance-based or other variable remuneration.

7. Related party transactions

Objective

The company should have a transparent and robust procedure for approving material related party transactions to ensure that such transactions do not extract value from the company or prejudice the interests of the shareholders.

Standards

- All material related party transactions should be approved by the board and all details provided to shareholders at the time the transaction is concluded.

- When publishing details of material transactions, the board should explain why it believes that the transaction has been valued fairly and is not prejudicial to the interests of the company, and the basis on which it reached that view.

8. Shareholder rights

Objective

The rights of all shareholders should be protected and respected, including the right to vote on key decisions or transactions which affect their interest in the company, and all shareholders should be treated equally.

Standards

- Shareholders should have the right to approve: amendments to the governing documents of the company; company share repurchases; issuance of additional shares for which pre-emption rights are not offered; anti-takeover mechanisms (poison pills); proposals to change the voting rights of different series and classes of shares; and material and major transactions such as mergers and acquisitions

- Resolutions should be approved by a simple majority, except for amendments to governing documents and major transactions for which a supermajority might be appropriate.

- Shareholders who collectively have 5% holdings should have the ability to table resolutions, including nominating directors.

- Shareholders who collectively have 10% holdings should have the ability to call a special General Assembly.

- The principle of one share, one vote should be applied. If there is more than one class of shares, they should be accessible to all.

- Electronic voting should be available.

9. Corporate structure

Objective

The company should have a transparent corporate structure with a clear economic rationale and no unnecessary complexity, and the group board should ensure that the policies and activities of subsidiaries are consistent with the group's risk appetite and corporate culture.

Standards

- The parent company should publish in its annual report a description of the legal and organizational structure of the group and how it is governed.
- The parent company board should require a periodic independent formal review of each subsidiaries' structures, controls and activities, and their consistency with board-approved strategy.
- The parent company board should ensure that its risk management system and governance policies are applied throughout the group.
- Intra-group transactions should be subject to the same approval and disclosure requirements as other material transactions.

10. Environmental and social issues

Objective

The board should ensure that material environmental and social considerations are integrated into the company's strategy, business model and risk management system and addressed in its public disclosures.

Standards:

- Reporting on climate-related financial risks and opportunities in the bank's annual report should be in line with the recommendations of the Task Force on Climate-related Financial Disclosures.
- The bank's risk statement should identity the main environment and social risks to the bank's long-term sustainability and describe how they are being mitigated.
- Executive remuneration should be linked to the achievement of relevant environment and social targets.