

HFSF STEWARDSHIP POLICY

Introduction to the Hellenic Financial Stability Fund

1. The Hellenic Financial Stability Fund (HFSF) was founded in 2010. Its objective is to contribute to the maintenance of the stability of the Greek banking system, for the sake of the public interest.
2. Although established by law, the HFSF is a private legal entity which has administrative and financial autonomy from the State. Law 3864/2010 specifies its overall responsibilities and rights in relation to the banks in which it invests, as well as its own governance arrangements. The HFSF's primary responsibilities under the law are:
 - to provide capital support to banks in compliance with EU state aid rules;
 - to monitor and assess how these banks comply with their restructuring plans, while at the same time safeguarding the business autonomy of each institution; and
 - to exercise its rights deriving from the law and the HFSF's participation in the banks to which capital support is provided.
3. As well as its responsibilities for individual banks, the HFSF has a broader remit to undertake strategic systemic initiatives intended to strengthen the sustainability of the banking system.
4. The HFSF currently has holdings in four banks: Alpha Bank; Eurobank; National Bank of Greece and Piraeus Bank
5. As part of the preparation for ultimately divesting its holdings, the HFSF recognizes that there is a need for transparency and clarity about its powers, objectives and actions. This requires it to engage not only with bank boards and management and EU and national regulators and supervisors, but also with current and potential future shareholders. The publication of this Stewardship Policy is part of that process.

The HFSF's relationship with investee credit institutions

6. There are different ways in which the HFSF can engage with and exercise a degree of influence over the banks in which it invests.
7. The HFSF has a formal Relationship Framework Agreement (RFA) with each institution¹. The RFAs are used to give force to Law 3864/2010 and grant the HFSF certain rights. These include:
 - The right to have one representative on the bank's board, to and send a non-participating observer to their board meetings;

¹ The template for the RFAs can be found at http://www.hfsf.gr/en/rfa_2015.htm

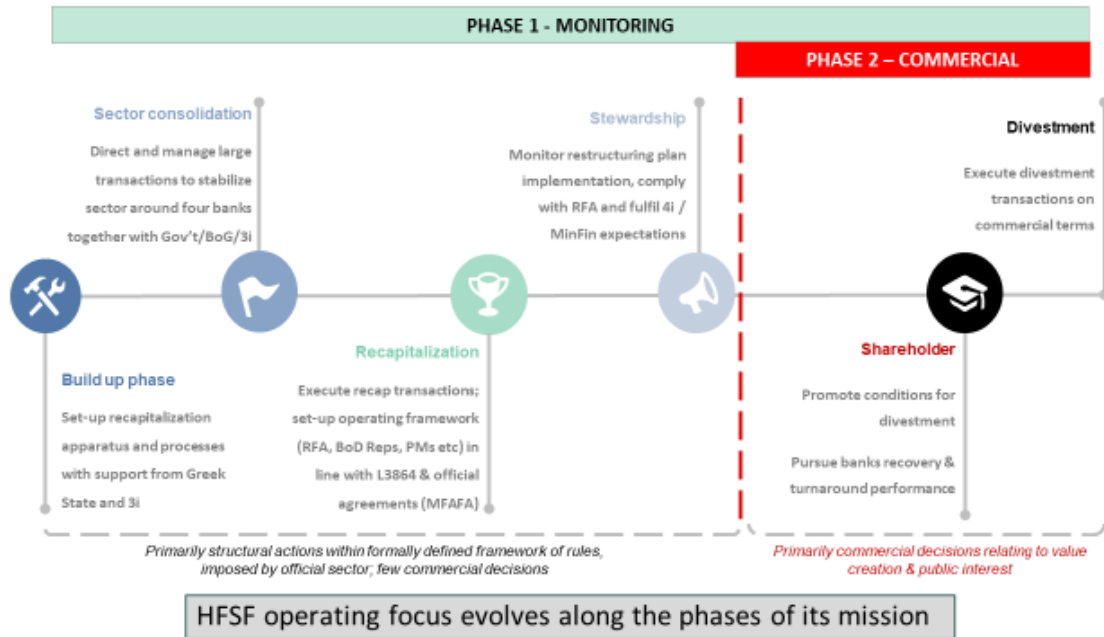
- The right for the board representative to veto certain decisions, including those that relate to dividend distribution, board remuneration policy and some corporate actions;
 - The right to pre-approve certain policies and transactions, including the risk and capital strategy, the policy on relations with connected borrowers, and the policy for selecting and appointing board members; and
 - The right to requisition an emergency general meeting or table a shareholder resolution. The HFSF has the right to do this even in those banks where its shareholding is lower than the threshold required under company law (currently Alpha Bank and Eurobank).
8. The HFSF is also able to use its rights as a shareholder, although under Law 3864/2010 these rights are limited in some of the banks in which it invests (currently Alpha Bank and Eurobank). In these banks, the HFSF can vote only on resolutions regarding charter modifications, material asset transfers or any other matters that requires a super-majority for approval.
9. This combination of rights and powers effectively means the HFSF is able to act as an oversight body as well as a shareholder. The use it makes of these rights, and its approach to engaging with investee banks, is determined by its strategic priorities and by market conditions at the time. The processes followed are described in the section on monitoring, engagement and escalation.

The HFSF's evolving approach to oversight and monitoring

10. Ultimately the aim is for the HFSF to divest its holdings in these institutions. In order to be able to do so, the HFSF needs to be confident that the sustainability of the individual banks and the stability of the banking system more generally will not be adversely affected by its departure. It also needs to be confident that the institution will be seen as an attractive investment proposition by other investors with a long-term perspective.
11. For both of these reasons, the HFSF's objective is to ensure that each of the banks is financially viable, has a sustainable business model, exhibits high standards of corporate governance and respects shareholder rights.
12. In broad terms, when the HFSF was established the strategic priorities were to restructure and recapitalise the banks. The HFSF took the view that this was more likely to be achieved if it adopted a relatively interventionist approach to monitoring and oversight.
13. As its priorities changed to become more focused on value, the HFSF's approach has been modified as well, as shown in this graph. The HFSF has developed a set of criteria for assessing the banks, which it will monitor in order to decide when the time is right for it to divest its holdings. In general, the HFSF will only intervene where it believes a bank's actions will put at risk its ability to achieve the conditions necessary for divestment.



HFSF Mission and its evolution



Confidential

Divestment strategy and assessment criteria

14. The HFSF has defined a set of criteria to be applied when considering disposal of any of its holdings. The proposed criteria are divided into two main groups: those that safeguard systemic stability; and those that indicate whether the relevant bank will be considered a viable and attractive investment.

15. The systemic criteria include:

- a stable macro-environment;
- completion of restructuring plans;
- disengagement from the State Aid regime;
- funding normality; and
- a strong regulatory framework that will protect the public interest.

16. The criteria for assessing the viability and attractiveness of individual banks include:

- a realistic and implementable business plan;
- evidence that the Bank is returning to a course of sustainable profitability;
- a funding structure able to be based on purely private sources;
- a market valuation that reflects a real intrinsic value;
- sound corporate governance; and

- sufficient interest by, and capacity of, private investors to invest in the relevant bank in a way that is in line with the objectives.
17. In line with the objectives of the Fund and its role as a shareholder, and as part of the Fund's preparation for exiting from its holdings, HFSF aims to manage its holdings prudently. In this respect, the Fund has engaged more actively in the strategic objective-setting of the four systemic banks. The Fund's aim is to ensure that shareholder value is significantly enhanced under the leadership of the Board and Executive Management team within the boundaries of the overall Greek banking market size.
18. The HFSF develops specific shareholder expectations, to each of its portfolio holdings which will form the basis of its assessment of the Bank's overall performance. This assessment is made on a frequent basis. Beyond aligning on targets in terms of profitability, based on optimization of the Bank's operating model, NPE reduction, cost containment and sufficient capital base, the HFSF aims to ensure that the Bank's underlying strategy is based on clear, unique value propositions, and is in line with the Bank's risk appetite and competitive advantage position. In that respect, HFSF is in the process of developing for each Bank:
- Operational, strategic and governance KPIs;
 - Year on year targets until the end of 2022, to be reviewed and if necessary, revised every year;
 - An operating model and process for monitoring performance, including arrangements for exchanging data; and
 - A communication and engagement plan covering strategy implementation.
19. In assessing the corporate governance of each bank, the HFSF ensures that the bank complies with the requirements of the HFSF Law and the RFA. In addition, the Fund has developed a set of objectives and indicators which it adopted in 2020 following a review of international best practice and investor voting policies. These are set out in the HFSF's Voting Policy for 2020/21 and cover:
- board and committee composition;
 - board performance and appointment;
 - corporate culture;
 - risk management;
 - accounting, audit and compliance;
 - director remuneration;
 - related party transaction;
 - shareholder rights;
 - corporate structure; and
 - environmental and social issues.

Monitoring and engagement

Monitoring

20. The HFSF has a team of portfolio managers who are responsible for coordinating the Fund's monitoring of and engagement with the banks, with one manager dedicated to each bank. They undertake monitoring through three methods:
- Attending all board meetings as observers;
 - Maintaining regular contact with the HFSF's board representative. The board representative and portfolio manager will typically meet other members of HFSF after each board meeting to brief them on the matters discussed. There will also be discussions between the HFSF and board representative in advance of any board meeting for which there are items on the agenda that board members will be asked to vote on; and
 - Requesting information directly from the bank. Each RFA specifies the information that the bank is expected to provide to the HFSF. This typically includes information on the bank's financial performance, risk management and internal controls, management of troubled assets and governance policies.

Engagement

21. The HFSF maintains regular direct contact with each bank. It will typically meet the Chair every two to three months, and senior management more frequently.
22. In addition, engagement takes place where the bank wishes to take an action that requires the prior approval of the HFSF (as specified in the RFA). In these instances, engagement will be initiated by the bank, and may involve a call or meeting between the HFSF and the bank in order to clarify what is being proposed and the rationale before a recommendation is made to the relevant decision-making body within the HFSF. This will be either the General Council or the Executive Board depending on the issue.

Escalation

23. The procedures described above provide a mechanism by which the HFSF can escalate any concerns on the relatively small number of actions on which the RFA requires it to give prior approval, and for those decisions and transactions which it has the right to veto. The HFSF considers the right of veto to be a power that should only ever be used as a last resort, and to date it has not found it necessary to exercise the veto. The decision on whether to do so would be the responsibility of the General Council.
24. If the HFSF has concerns about issues for which it has no special rights under Law 3864/2010 or the RFA – which includes many issues affecting the performance and governance of each bank – these will normally be raised in the first instance through the board representative as they have the ability to raise these concerns directly with their colleagues on the board. Under the terms of the RFA, the representative also has the right to place items on the agenda for board meetings.

25. If the board representative is unable to persuade the board to address the concerns, the HFSF will contact the bank directly, usually either by a phone call or letter in the first instance, followed up by face-to-face meetings if necessary.
26. If direct engagement fails, the HFSF will consider:
- Where it has the right to do so, voting against management resolutions at the AGM, including resolutions to re-elect individual board members. Further details of the criteria used by the HFSF to decide how it will vote are set out in the Voting Policy;
 - Using its right under Law 3864/2010 and the RFA to table a shareholder resolution at the AGM; or
 - In extreme circumstances, using its right to call an extraordinary general meeting.

Engagement with other investors

27. The HFSF undertakes a program of engagement with investors, including but not limited to those with shareholdings in the banks in which HFSF invests. The main objective is to explain HFSF's operational strategy and answer questions on publicly available information. No confidential information shall be shared with market participants in those meetings.
28. The HFSF is willing to collaborate with other shareholders that share its long-term perspective where it believes this will result in more effective engagement and increase the likelihood that the credit institution will respond positively to shareholder concerns and take action to address them. Depending on the specific circumstances, this could include jointly proposing shareholder resolutions.
29. If investors wish to discuss issues concerning any of the banks with the HFSF, the contact details are:

Tel: +30 215 5606 951

Email: ir@hfsf.gr

Internal Governance of HFSF

30. Detail of the HFSF's internal governance, including the decision-making responsibilities of the General Council and Executive Board, can be found at:
- http://www.hfsf.gr/en/about_corpgovernance.htm
31. The HFSF has a Conflict of Interests Policy which is in line with best practice in OECD countries. It provides a practical reference for people working at the HFSF to use when reviewing existing controls and aims to promote a culture where conflicts of interest are properly identified and resolved or managed in an appropriately transparent and timely manner.