

HFSF VOTING POLICY

PART 1: INTRODUCTION

About the Hellenic Financial Stability Fund

The Hellenic Financial Stability Fund (HFSF) is a private legal entity which has administrative and financial autonomy from the State. The Fund's remit is to contribute to the maintenance of the stability of the Greek banking system for the sake of the public interest. It does so by:

- providing capital support to banks in compliance with EU state aid rules;
- monitoring and assessing how these banks comply with their restructuring plans, while at the same time safeguarding the business autonomy of each institution; and
- exercising its rights deriving from the law and its participation in the banks to which capital support is provided.

The Fund currently has stakes in four Greek banks or their holding companies, referred to in this document interchangeably as “company” or “bank”, and identified as Systemically Important Financial Institutions (SIFIs):

- Alpha Bank;
- Eurobank;
- National Bank of Greece
- Piraeus Bank.

The Fund has a representative on the board of each bank and formal Relationship Framework Agreements (RFAs), under which it has certain rights, such as the right to approve some categories of decisions. More details can be found in the Fund's Stewardship Policy and the template RFA¹.

As well as its responsibilities for individual banks, the Fund has a broader remit to undertake strategic systemic initiatives intended to strengthen the sustainability of the banking system.

Our approach to corporate governance

The Fund's long-term strategy is to divest its holdings in the banks. 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 each bank, upon their divestment, will be seen as an attractive investment proposition by other investors with a long-term perspective.

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

The Fund considers it essential that each systemic bank in which it is invested exhibits high standards of corporate governance and respects shareholder rights, as well as being financially viable and having a sustainable business model. Sound corporate governance practices, meaningful disclosure and responsible corporate behaviour contribute to long-term performance and are important to well-functioning public capital markets.

The Fund recognizes that the corporate governance arrangements of each bank need to take account of its specific circumstances. While the relevant legal requirements must of course be complied with, and while there are good practices that will be appropriate in most circumstances, such as those set out in the Hellenic Corporate Governance Code and the sectoral guidelines issued by the European Banking Authority (EBA), there is no single governance model that can be applied to all companies.

The HFSF has developed a set of objectives, related to corporate governance and shareholder rights, that it believes need to be met before it could consider divestment. For each objective, the Fund has identified selected good practices and other indicators, to help it assess how well each bank is meeting those objectives. The objectives and practices also form the basis of this voting policy.

The intention is not to adopt a 'tick-box' approach to these good practices, but to use them as an agenda for engagement with the banks. The Fund will carefully consider explanations provided for departures from good practice and aim to ensure that bespoke arrangements provide the necessary checks, balances and protection for shareholders.

Our approach to voting

The Fund seeks to establish a supportive and constructive relationship with the boards of the banks in which we invest, and in general will only intervene where the Fund believes that a bank's actions or practices might put at risk its ability to achieve the conditions necessary for divestment.

Where the Fund has such concerns, it will raise them directly with the bank itself in the first instance, either through its board representative or one of the other mechanisms available to it under the Relationship Framework Agreement (described in the Stewardship Policy). The Fund will only consider voting against a management resolution or tabling or supporting a shareholder resolution if it is not possible to resolve its concerns through these means.

The Fund aims to be predictable and consistent when engaging with investee banks and when voting at shareholder meetings. Consistency does not necessarily mean that the Fund will vote in the same way each year, or at all banks, but that its voting decisions can be explained on the basis of its corporate governance objectives. As well as the objectives and practices, the policy also indicates some of the specific circumstances in which the Fund might consider voting against the board.

PART 2: OBJECTIVES, INDICATORS AND VOTING INTENTIONS

This section sets out the **Corporate Governance Objectives** developed by the Fund, the good practices and other indicators that it will use to assess whether these objectives are being met, and potential circumstances in which the Fund might consider voting against the board. These objectives cover ten topics:

- Board and committee composition;
- Board performance and appointment;
- Corporate culture;
- Risk governance, culture and management;
- Accounting, audit and compliance;
- Remuneration of directors;
- Related party transactions;
- Shareholder rights;
- Corporate structure; and
- Environmental and social issues.

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.

Indicators

- 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’ demonstrating how these and any other attributes it needs are met.
- The chairman and CEO roles should be kept separate to ensure that there is appropriate oversight of executive management. 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 (SID) whose role should include coordinating the non-executive board members and being a key point of contact for shareholders, regulators and other stakeholders, along with the chairman.

- The Board's size should be between 7 and 15 members. The appropriate size will depend on the size and complexity of the bank but the board should be small enough to be cohesive and effective and large enough to contain the required experience and skills and exercise all its responsibilities effectively.
- At least half the board members should be independent of the company and of any major shareholders, to provide robust internal challenge and to ensure that the board acts in the best interests of the company. Independence will be judged against the criteria in the HFSF Law, in Law 4706/2020 on the Corporate Governance of Listed Companies, ESMA and EBA guidelines, and international good practice as set out in the ICGN Global Governance Principles.
- 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. While target dates will need to reflect the current composition of the board, the aim should be to reach the target as quickly as is compatible with the normal cycle for refreshing the board.
- Banks are required under Greek Banking Law to have audit, risk, remuneration and nomination committees. There should also be board committees with responsibility for strategy, ethics and sustainability, reflecting the importance of these issues for the long-term health of the company.
- All board committees should be chaired by an independent board member, and the majority of the members of each committee should be independent.

Voting intentions

The Fund will vote against the election of an executive chairman, including when the role is combined with that of CEO

The Fund will consider voting against the re-election of [the chairman and/or] the chair of the nomination committee if:

- the board size falls outside the parameters specified above;
- there are an insufficient number of independent directors; or
- insufficient progress has been made towards achieving the desired level of gender diversity.

The Fund will consider voting against the re-election of the chairs of board committees if they are not independent.

The Fund may also consider voting against the re-election of non-independent non-executive directors if it believes this is necessary in order to reduce the size of the board or to achieve the desired level of independence on the board and its committees.

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.

Indicators

- The effectiveness of the board and committees should be formally reviewed annually, and the main actions agreed following that review should be disclosed in the annual report with a timetable for implementation. An independent board reviewer should be engaged at least every two years, and the same reviewer should not be used for more than three consecutive independent reviews.
- Succession plans for the board and senior management should be reviewed annually by the nomination committee. Companies with good succession planning arrangements – including the development of internal talent - are generally seen to perform better over the long-term.
- The nomination committee should have a transparent procedure for appointing new directors according to HFSF's Guidelines on the Board of Directors' selection and appointment process in Greek Systemic Banks which is published on HFSF's web-site. A robust nomination process can help to attract well-qualified candidates from diverse backgrounds. The person specifications used to identify potential candidates should be tailored to reflect the needs identified in the skills matrix and the board review.
- All directors should be nominated individually, not as part of a 'slate'. If a director is not performing to an acceptable standard, shareholders should have the ability to indicate their concerns without having to vote against the entire board.
- No director should have more than four other board level appointments, or three if one of those is an executive position, to ensure they can devote the necessary time to the role. Executive directors as well executive committee members should not participate in the Boards of companies that are customers of the Bank
- Individual directors' attendance at board and committee meetings should be published annually, so that shareholders can judge their level of commitment to the role.

Voting intentions

The Fund will consider voting against the election of board candidates or the re-election of non-executive directors where the number or nature of their other roles may compromise their ability to fulfil their responsibilities or, in the case of existing directors, where they have attended less than 85% of the meetings of the board and relevant committees.

The Fund will also consider voting against the re-election of the chair of the nomination committee if it considers that insufficient attention has been given to succession planning or if previously expressed concerns about over-boarded directors have not been addressed.

The Fund will consider opposing any proposals to change the governing documents to extend directors' terms of office, and against the election of any directors for terms of more than four years.

In cases where it is proposed that the whole board be elected on a slate, the Fund will vote against the election of the board.

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.

Indicators

- 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, which enables employees and others to raise concerns without fear of reprisals or detrimental treatment. The board should oversee the procedure and approve how and by whom legitimate material concerns shall be investigated and addressed.

Voting intentions

The Fund will consider voting against the re-election of the chair of the board committee responsible for ethics and other relevant board members where there are material cultural issues in the bank that have not been adequately addressed.

The Fund will consider voting against the election of a director whose service on other boards has been associated with misconduct.

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.

Indicators

- 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. This should include how the approach to risk is reflected in the rewards and incentives available to managers and employees and how risk culture is measured and assessed.
- 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 and/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 and the reason why it is not felt necessary should be explained in the annual report.

Voting intentions

The Fund will consider voting against the re-election of the chair of the risk committee, and potentially other board members as well, if the bank has experienced material failures of risk oversight or disclosure and not taken adequate steps to address them.

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.

Indicators

- The bank should adhere to international financial reporting standards when reporting its financial results.
- There should be a shareholder vote on the appointment of the external auditor. The role of the auditor is to provide shareholders with reasonable assurance that the financial statements are reliable, and the shareholders therefore need to have confidence in the auditor's ability to do so.



- Fees paid to the external audit firm should be disclosed. Fees paid for non-audit services should not exceed 70% of the audit fee. High levels of non-audit fees can undermine the auditor's independence and can affect the quality of audit due to potential conflicts of interests arising when the company has acted on advice provided by the auditor's own firm.
- The bank should not employ the same external audit firm for more than ten years, to ensure auditor independence and to benefit from a fresh perspective that a new auditor can bring.
- The remit of the internal audit function should include monitoring of financial statements and operations.
- There should be an annual compliance review of conflicts of interest and investment advice.

Voting intentions

The Fund will consider voting against the approval of the annual report and accounts if there is insufficient disclosure and/or if the external auditor has given an adverse opinion or flagged material weaknesses. The Fund will also consider voting against the re-election of the chair of the audit committee, and potentially other board members, in such circumstances and/or if it considers that insufficient steps have been taken to address any such weaknesses.

The Fund will consider voting against the appointment of the external auditor if it has concerns about the competence of the audit partner, the length of tenure of the partner or firm, or the level of non-audit fees. Any of these factors could affect the auditor's ability to act effectively and independently.

REMUNERATION OF DIRECTORS

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.

Indicators

- The remuneration policy for board members, senior management and 'identified staff' should be compatible with the EBA's 'Guidelines on Sound Remuneration Policies'.
- 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. Board members should not be improperly rewarded in cases of misconduct or declining performance by the bank or individual.
- Shares awarded to board members should be held for at least two years after they have vested in order to deter them from taking decisions designed to inflate the share price in the short term that could have adverse long-term consequences.
- 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 in order not to compromise their independence.
- The annual remuneration report should show the amounts awarded to individual directors, divided into fixed and variable remuneration.

Voting intentions

The Fund will consider voting against the remuneration policy if it believes that policy is not aligned with the interests of shareholders and the long-term interests of the company, that performance conditions are not aligned with the strategy or are not stretching, that there is provision for discretionary payments that cannot be justified, or if there is poor disclosure of the structure, targets and outcomes.

The Fund will consider voting against the annual remuneration report if it considers that the amounts awarded cannot be justified by the performance of the company or the board.

The Fund will consider voting against the re-election of the chair and other members of the remuneration committee in any of these circumstances, or if it considers that the committee has failed adequately to address previously expressed shareholder concerns.

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.

Indicators

- All material related party transactions should be approved by the board and all relevant 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.

Voting intentions

The Fund will consider voting against the re-election of the relevant board members where material related party transactions have been approved by the board that the Fund considers are not in the long-term interests of the company and its shareholders, or if there is inadequate disclosure of material transactions.

Where transactions require shareholder approval, the Fund will assess them on a case by case basis. It will generally vote to approve transactions that fall within the company's regular course of business or those for which the company has provided a sufficient rationale.

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.

Indicators

- 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 to ensure that all shareholders are treated equally. If there is more than one class of shares, they should be accessible to all.
- Electronic voting should be available to enable all shareholders to exercise their rights.



Voting intentions

The Fund will vote against any resolution on share structures or shareholder rights that it considers would not be in the long-term interest of shareholders, while reflecting the special shareholder status of the Fund, and the stability of the Greek banking system for the sake of the public interest.

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 policies

Indicators

- 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, operations and governance policies are applied throughout the group. Operating through complex or non-transparent structures may pose financial, legal, reputational and other risks to the bank and impede the ability of the board to conduct appropriate oversight.
- Intra-group transactions should be subject to the same approval and disclosure requirements as other material related party transactions.

Voting intentions

The Fund will consider voting against the re-election of relevant Group board members if it considers that the board has failed to exercise sufficient oversight over its subsidiaries, or if it has created corporate structures that reduce transparency to shareholders.

The Fund will not support mergers, acquisitions, or other corporate transactions that it considers are not in the long-term interests of:

- the company,
- its shareholders while reflecting the special shareholder status of the Fund, and
- the stability of the Greek banking system for the sake of the public interest.

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.

Indicators

- 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 identify the main environment and social risks to the bank's long-term sustainability and describe how they are being mitigated. All companies are exposed to ESG risks and opportunities, and the extent to which these issues are understood and managed determines the sustainability of a company's business model.
- Executive remuneration should be linked to the achievement of relevant environment and social targets.

Voting intentions

The Fund will consider voting against the re-election of the chair of the board committee responsible for sustainability and other relevant board members when it considers that material environmental or social risks or impacts have not been adequately addressed.

The Fund will consider voting against the re-election of the chair of the remuneration committee if it considers that relevant environment and social targets are not adequately reflected in the remuneration policy.