

## REPORT

### **of the Board of Directors (BoD) to the Extraordinary General Meeting of the Shareholders on 12.04.2013 according to par. 10 in article 13 of c.l. 2190/1920 and par. 1 in article 9 of I.3016/2002, and par. 4.1.4.1.2 of the Athens Exchange Rulebook**

Dear Shareholders,

As you know, following the implementation of the private sector bond exchange programme (Private Sector Involvement, PSI), the Greek banks suffered severe capital losses during 2011, thus requiring a recapitalization process with the support of the Hellenic Financial Stability Fund (HFSF). Piraeus Group participated in the PSI programme with all eligible Greek Government Bonds and loans owned, with a nominal value of €7.7 bn. In this context, the total impairment which was recognized during 2011 for Piraeus Group due to PSI was €5.9 bn pre tax; as a result the total equity of Piraeus Group stood at negative level. It is noted that, according to the report of the Bank of Greece (BoG) regarding the Recapitalization and Restructuring of the Greek Banking Sector, which was published at the end of December 2012, the core tier I capital of Piraeus Group, excluding the impact of PSI, was at a positive level and specifically at €2.6 bn.

As a result of the above mentioned, as well as due to the extremely unfavorable macroeconomic environment in Greece, which is under a prolonged period of economic recession, the BoG launched a recapitalization process for the Greek banks. The BoG requested and received from Greek banks detailed Business Plans for the period 2012-2015 and the corresponding Recapitalization Plans in the first quarter of 2012. According to these business plans, which included both the effects of PSI, as well as the results of the diagnostic exercise of BlackRock Solutions for domestic loan portfolios, the four largest banks, including Piraeus Bank, were considered as viable by the BoG and their capital needs were determined.

The recapitalization of Piraeus Bank and the other three viable "systemic" Greek Banks, as determined by the BoG, is expected to be implemented in three phases and based on the provisions of the I.3864/2010, and the Ministers' Council no Act 38/9.11.12 (Government Gazette 223/2012): the 1<sup>st</sup> phase refers to the provision of an additional capital advance by the Hellenic Financial Stability Fund (HFSF) which was given to the Banks in December 2012, allowing the Core Tier I ratio to reach a minimum of 9%. The 2<sup>nd</sup> phase relates to the issuance of contingent convertible securities in early 2013, which will be entirely covered by the HFSF. It should be noted that the Second Iterative General Meeting of Piraeus Bank's shareholders, which was held on 31.01.2013 decided to issue contingent convertible securities up to the amount of €2.0 bn. Finally, the 3<sup>rd</sup> phase refers to the completion of the share capital increase with common shares, by the second quarter 2013, in which any unsubscribed shares by private investors will be undertaken by the HFSF.

Piraeus Bank, by December 2012, has already received from the HFSF advances of 6,253,000,000 euros, as well as 1,082,000,000 euros in Commitment Letter, which cumulatively amount to 7,335,000,000 euros, corresponding to the total capital needs of Piraeus Bank, as they were determined by the Bank of Greece.

In this context, the BoD proposes to the General Meeting under item 3 of the agenda, inter alia, the increase of the Bank's share capital in accordance with the provisions of I. 3864/2010 by issuing new ordinary shares for the purpose of raising capital up to a total amount of 400,000,000 euros, paid up in cash by investors through private placement and partial waiver of pre-emption rights of existing shareholders.

### **Justification of the Partial Waiver of Pre-Emption Rights of Existing Shareholders**

The partial waiver of the pre-emption rights of existing shareholders up to the amount of 400,000,000 euros is necessary in order for international prominent investors to participate in the capital increase and hence strengthen critically the effort to preserve the private nature of the Bank. Specifically, through this placement a considerable part for the minimum private sector participation threshold will be attained (10% of the minimum total capital increase with the issuance of new ordinary shares, defined by the I.3864/2010). This event will restrict HFSF to exercise its voting rights at the General Meeting only for decisions requiring increased majority as provided by c.l. 2190/1920. It should be noted, that by achieving a 10% private sector participation, the private investors will be receiving warrants on HFSF ordinary shares, which means that they can buy back the shares in the future from HFSF, according to the provisions of the Cabinet Act 38/9.11.12.

The subscription price of the new shares, which corresponds to the partial waiver of the pre-emption rights, will be equal to the subscription price of the new shares, to be issued following exercise of the existing shareholders' pre-emption rights and, in any case, in compliance with the price stipulated in article 1 para. 1 case b sub-case (aa) of Cabinet Act 38/9.11.2012.

### **Purpose of Use of the Funds to be raised**

Any funds raised by virtue of this decision of the General Meeting will be used for further strengthening the Bank's capital adequacy ratios.

### **Account for Use of Funds from the Past Share Capital Increase**

On December 23, 2011, the General Meeting of Piraeus Bank shareholders decided to increase the share capital and the waiver of the pre-emption rights of existing shareholders in favor of the Greek State, by contribution in kind, in accordance with the provisions of I 3723/2008. On December 30, 2011, the 380 million euros rights issue was completed with the issuance of 1,266,666,666 new preference shares of nominal value € 0,30 each, which were undertaken by the Greek Government. The total amount of these funds were used to strengthen the capital adequacy ratios of the Bank

For these reasons, the BoD proposes to the General Meeting the approval of the waiver of pre-emption rights of the existing shareholders and the aforementioned share capital increase under the conditions described above

Athens, April 4<sup>th</sup>, 2013

The Board of Directors