

## REPORT

### **of the Board of Directors (BoD) to the Extraordinary General Meeting of the Shareholders dated 28.03.2014 in accordance with article 13 para. 10 of c.l. 2190/1920 and article 9 para. 1 of Law 3016/2002**

Dear Shareholders,

During the ongoing financial crisis in Greece, Piraeus Bank played a leading role in the restructuring of the Greek banking system. Through the acquisition of 6 banks/banking activities during the period 2012-2013, the Bank obtained a leading position in the country with a 30% market share in loans and 29% in deposits and with 93bn assets on 30.09.2013.

Today, following a 6-year recession that led to an aggregate contraction in Greece's GDP higher than 25%, the first tangible recovery signs are formed. In 2013, a primary budget surplus was achieved, the balance of payments presented a positive sign as a percentage of GDP for the first time since 1948, the lost competitiveness over the last decade has almost been recovered (on the basis of unit labour cost), the unemployment ratio is being stabilized, although at a high level, whereas the range of structural changes that have been effected over the last few years ranks the country at the top of the relative OECD list.

Piraeus Bank aims to be the first credit institution in the country to strengthen its capital by taking advantage of the perceived recovery of the Greek economy and the current favourable market conditions, which will be the first but important step towards the return to the Bank's full privatization.

To this end, the Board of Directors of the Bank, estimating that the direct exploitation of the present positive conjuncture will benefit the Bank and its shareholders, proposes to the Extraordinary General Meeting of the Shareholders dated 28<sup>th</sup> March 2014 the increase of the share capital by payment in cash for the purpose of raising capital up to the amount of € 1,750 bn by waiving the pre-emption right of existing shareholders.

Said share capital increase shall enable the Bank:

- To repay in full, in accordance with the provisions of the legislative and regulatory framework, the preference shares of the Greek State amounting to € 750 mn, and thus improve the quality of its capital structure, repay the corresponding state aid received and make a first step necessary for regaining the required flexibility for future dividend distributions.
- To create an adequate capital reserve above the minimum mandatory regulatory levels, which will aim to address potential capital needs arising from stress tests (including the stress test recently carried out by the Bank of Greece with the assistance of Blackrock) even under extremely adverse scenarios.
- To further strengthen the already strong capital base of the Bank so as to become one of the best capitalized banks in Europe, on the basis of full implementation of the new Basel III framework.

- Upon completion of the Share Capital Increase and following repayment of the preference shares of the Greek State, the Common Equity Tier 1 Ratio, based on full implementation of the new Basel III framework, will be increased to a level higher than 11% and will be significantly higher than the mandatory limits set by the regulatory framework for the subsequent years.
- To facilitate access to international capital markets for the purpose of raising liquidity under more favorable terms.
- To broaden its share structure, since by this transaction the liquidity of its shares will be further increased, constituting a significant step towards full privatization of the Bank's shareholder base.
- To continue its growth path by taking advantage of its leading position and contributing to the restart of the Greek economy by investing in growth opportunities.

In this context, the Board of Directors of Piraeus Bank proposes, inter alia, to the General Meeting in relation to item 1 on the agenda relating to the increase of the Bank's share capital by payment in cash and by issuing new ordinary shares, the waiver of the pre-emption right of existing shareholders. Said share capital increase shall be paid up in cash and the new shares will be offered through a tender offer to the public in Greece and through private placement to institutional or qualified investors abroad.

#### **Justification of the waiver of pre-emption right of existing shareholders**

The waiver of the pre-emption right of existing shareholders is deemed under the present circumstances imperative because:

- It allows the acceleration of the related procedures for the rapid completion of the share capital increase under the current legal framework on recapitalization, granting to the Bank maximum degree of flexibility
- It allows the Bank to exploit the current positive international economic environment by taking advantage of the investment conjuncture without delay
- It ensures the participation in the increase of exclusively private funds, allowing the expansion of the private shareholder base and consequently the increase in the free float and marketability of the share

The issue price of the new shares will be determined in a transparent and competitive manner, on the basis of the offers of investors of the largest international capital markets by way of book building, to be opened in the context of this increase.

The Bank intends to explore the possibilities of a potential allocation of the new shares in priority to existing shareholders and to holders of warrants, to the extent that this is permissible under the legislative and regulatory framework.

### **Purpose of use of the funds to be raised**

Any funds raised by virtue of this decision of the General Meeting will be used (a) for the repayment of the preference shares held by the Greek State amounting to € 750mn, subject to related statutory and regulatory approvals, and (b) for further strengthening the Bank's capital adequacy ratios.

### **Account for use of funds from the latest share capital increase**

Further to the decisions of the Second Iterative General Meeting of the Shareholders held on 23/4/2013, which were approved by the Meeting of the sole Preferred Shareholder dated 23/5/2013 and particularized by virtue of the decision of the Board of Directors dated 29/5/2013, Piraeus Bank proceeded, inter alia, to the share capital increase by issuing new ordinary shares for the purpose of raising funds up to the amount of €8,429bn partially by payment in cash and partially by contribution in kind by the HFSF. In particular, the funds raised amounted totally to 8,428,999,999.80 Euros thus increasing the share capital by 1,487,470,588.20 Euros, and 4,958,235,294 new common registered shares of a nominal value of €0.30 each were issued. The reserve premium was increased by € 6,746,680,370.97 after deduction of the increase expenses and attributable deferred tax.

Following completion of the share capital increase, as at 30/09/2013 the share capital amounts to €2,271,770,384.28 divided into 5,072,567,951 common registered voting shares of a nominal value of €0.30 each and (a) 77,568,134 preferred non-voting shares of a nominal value of €4.77 each as well as (b) 1,266,666,666 preferred non-voting shares of a nominal value of €0.30 each.

The total of these funds was used for strengthening the Bank's capital adequacy ratios.

For the above reasons, the BoD proposes to the General Meeting the share capital increase under the above-mentioned terms by waiving the pre-emption right of existing shareholders.

Athens, 6 March 2014

The Board of Directors