PIRAEUS
BANK
GROUP

# CAPITAL ADEQUACY & RISK MANAGEMENT

# REGULATORY DISCLOSURES ON A

# CONSOLIDATED BASIS

# FOR THE YEAR

# 2010

# (PILLAR III)

PIRAEUS GROUP


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## Introduction

Since January 2008 Piraeus Group has implemented the new regulatory capital adequacy framework (Basel II), being in line with the Greek Law 3601/2007, as well as, with the related Governors Acts of the Bank of Greece. In the context of implementing the Basel II requirements as well as the related legislation, financial Institutions are obliged to disclose regulatory figures regarding their capital adequacy and the management of the undertaken risks. This disclosure constitutes the Pillar III of the new regulatory framework with reference to 31.12.2010 data of Piraeus Group.

The information included in this report (Pillar III) intends to comply with the requirements set by the existing legislation and explain the calculation framework and the juxtaposition of capital adequacy figures, according to the new regulatory framework Basel II, as well as the depiction of the overall risk management framework of Piraeus Group. Therefore, this report does not constitute either a form of financial statement or an evaluation of the future financial situation or business expectation for Piraeus Group. However, any differentiations between capital adequacy figures and those presented in 31.12.2010 Consolidated Financial Statements are sufficiently reasoned.

This report is available on the Bank's website:
*http://www.piraeusbank.gr/Documents/internet/Enimerosi_Ependiton/Etairiki_Diakibernisi/pylonas_3_2010_en.pdf*

PIRAEUS GROUP

# 1 General Information

Accounting Consolidation

Accounting Consolidation of Piraeus Group is conducted in accordance with the International Financial Reporting Standards (IFRS). The Consolidated Financial Statements consist of Piraeus Bank as well as its Subsidiaries and Associates Companies.

- Subsidiaries: The companies which the Bank controls directly or indirectly through other subsidiaries, holding more than 50% of the voting rights.
- Associates: The companies over which the Group exercises significant influence, but does not have the control.

Regulatory Consolidation

Regulatory Consolidation is conducted in accordance with the Accounting Consolidation, in order to provide to Bank of Greece specific reports. The most important difference concerns the special purpose companies for securitisation of claims which are included in the accounting consolidation but not in the regulatory. Those companies are the following:

- Estia Mortgage Finance PLC
- Estia Mortgage Finance II PLC
- Estia Mortgage Finance III PLC
- Axia Finance PLC
- Axia II Finance PLC
- Axia III Finance PLC
- Praxis I Finance PLC
- Praxis II Finance PLC
- Gaia Lease PLC
- Axia III APC LIMITED
- Praxis II APC LIMITED

Axia II Finance PLC is under liquidation because the second securitisation of corporate loans was called back in October 2010.

In the Appendix subsidiaries and associates companies of the Group, based on the regulatory consolidation, are presented analytically along with a concise description of their activity.

Major Remarks:

1. The terms and definitions of exposure and capital differ between IFRS and the regulatory, capital adequacy framework.
2. IFRS non-performing loans differ from those imposed by the regulatory framework as:

- Delinquent loans for less than 90 days which are classified as "Regulatory High Risk" **are not** considered as non-performing for IFRS purposes.

3. There are differences in the methods of consolidation between accounting and regulatory reporting.

CEBS Stress Tests' Result for Piraeus Bank Group

Piraeus Bank Group participated successfully in the pan-European stress test for hypothetical extreme situations for the banking industry, the results of which were announced on 23.07.2010. The stress test includes one base (likely, expected), one adverse (especially unfavourable) and one extremely adverse scenario (extremely unfavourable). The objective of the exercise was to investigate the resilience of capital adequacy in the banking industry in Europe, in case of further worsening of the economic crisis, and to define the amount of necessary capital for the restoration of the Tier I capital to 6%, when taking into consideration the adverse scenario and the extremely adverse scenario at the end of 2011.

The criteria that were applied in the case of Greece compared to the rest of European countries were by far the strictest, and they do not reflect the current situation of gradual fiscal adjustment and the smoothing of economic conditions in the country. Indicative of the strict conditions that applied in Greece is that the assessment of the losses in the mortgage portfolio in the extreme adverse scenario for Greece was 37%, when the respective ratio for the immediately next country was at 24%. Also, a haircut of (23,1%) was applied for Greek Government bonds of the Trading Book in the extremely unfavourable scenario on 2011, while a second worst haircut of 14,1% was applied for other country's bonds.

The results of the stress tests for the Tier I capital ratio of Piraeus Bank Group for 2011 were the following:

- at the Base scenario **10.9%**,
- at the Adverse scenario **8.3%**,
- at the Extremely Adverse scenario **6.0%**

It is noted that even under the Extremely Adverse scenario the Tier I ratio of Piraeus Bank Group stands at **6.4%,** taking into account the fact that the trading portfolio of Greek Government Bonds at 30.06.2010 was significantly decreased (to €0.1 bn against €1.1 bn at 31.3.2010), which was announced during the conference call for the announcement of the Group's financial results for the first quarter of 2010.

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## 2. Regulatory Own Funds

### *2.1 Regulatory Own Funds Structure*

According to Bank of Greece regulatory capital is comprised of Tier I and Tier II Capital.

In order to calculate regulatory capital, own funds are adjusted to deducting goodwill, unrealized gains from the revaluation in fair value of real estate investments, part of the available for sale reserves, and proposed dividends.

*In € '000*

| **Tier I Capital** | **31.12.2010** |
|---|---|
| Ordinary shares | 100,882 |
| Share premium | 2,430,877 |
| Preference shares | 370,000 |
| Less: treasury shares | (8,790) |
| Minority Interest | 140,920 |
| Available for sale reserve | (342,714) |
| Legal reserve and other reserves | (90,131) |
| Retained earnings | 672,687 |
| Hybrid capital | 159,439 |
| Less: intangible assets | (384,308) |
| Total regulatory adjustments on Tier I capital | 151,159 |
| **Total Tier I Capital** | **3,200,021** |
| **Tier II Capital** | |
| Subordinated debt | 347,145 |
| Total regulatory adjustments on Tier II capital | (19,223) |
| **Total Tier II Capital** | **327,922** |
| **Regulatory Capital** | **3,527,943** |

It is noted that in January 2011 Piraeus Bank's capital increase of €807 mil. was successfully completed. Total equity capital of Piraeus Bank Group amounted to €4.284 mil. (pro-forma for December 2010 data).

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## *2.2 Capital Adequacy*

### 2.2.1 Internal Capital Adequacy Assessment Process

Piraeus Group is conducting an Internal Capital Assessment Process (ICAAP). This procedure involves the identification and assessment of the Group's undertaken and potential risks in order to determine the level of capital requirements regarding the Group's risk profile. The existence of sufficient financial resources (capital) is thus ensured against essential undertaken risks.

The calculation of capital requirements under this specific process is based on the regulatory determined approaches, but it extends beyond it for the following reasons:

- The internally calculated capital requirements correspond to the most important risks undertaken by the Group, including also those not covered or not faced sufficiently in Pillar I.
- Moreover, alternative methodologies are used in order to calculate Pillar I risks from those applied for relative capital requirements' calculation, such as the Value at Risk (VaR) method for market risk, based on Group's internal models.

Specifically, the methodology for the estimation of the internal capital for the operational risk has been developed in order to utilize the main elements of the Group Operational Risk Management Framework and adopts well-established quantification techniques and methodologies. The following main datasets are used:

- Internal losses and Risk and Control Self Assessment (RCSA) data.
- Extreme Scenario Analysis data.

Loss distributions derived from internal loss data, RCSA data and Extreme Scenario Analysis are combined through simulation to provide aggregate loss distributions for the Bank.
Furthermore, the risk mitigating effect of the insurance coverage in each loss category, provided by numerous insurance contracts at group level, has been calculated and incorporated in the internal capital calculation model.

For the internal capital requirements' calculation, the existing capabilities for risk measurement in the form of capital requirements are taken into consideration as well as the assessment of the risk management framework in Group level for every risk and for all Group subsidiaries according to the level of importance.

The adequacy and effectiveness of risk management framework affects directly capital requirements via i.e. the adoption of more conservative estimations where their further improvement is required.

In every case, the Management aims at the continuous improvement of the management of material risks and not only for holding sufficient capital. Continuous improvement is realised on a regular basis where it is necessary according to the Group's risk management strategic planning.

The assessment of undertaken risks and consequently the internal capital requirements do not concern only on going operations but also the Group's future activities. Thus, scenarios and analyses are performed, including stress test scenarios. The scenarios cover expected but also unfavorable conditions in the economy and risk parameters' behaviors.

In all cases, Management determines the size and type of risks that the Group wishes to undertake, taking into consideration the Group's risk strategy as defined by the Board of Directors.

### 2.2.2 Capital Requirements Calculation Approach

Bank of Greece requires from each Financial Institution a minimum level of regulatory capital according to the level of the undertaken risks.

The Capital Adequacy Ratio is defined as the ratio of Regulatory Capital over Risk Weighted on and off balance sheet Assets. Based to the new legislative and regulatory framework, total capital adequacy ratio should be at least 8%.

Group Capital Adequacy Ratio on 31/12/2010 is provided in the following table:

| Capital Adequacy Ratios | 31.12.10 |
|---|---|
| Tier I Capital Adequacy Ratio | 8,4% |
| Total Capital Adequacy Ratio | 9,3% |

The main objectives of the Group regarding the management of capital adequacy are summarized below:

- Comply with the regulatory requirements against undertaken risks according to the Greek regulatory framework.
- Sustain Piraeus Group's ability to continue its activities smoothly in order to produce profits and benefits to the equity holders.
- Retain a sound capital base to support Group's business plan.

It is pointed out that with Piraeus Bank's capital increase of about €807mn in January 2011 the (pro forma) Total Capital Adequacy Ratio amounts to 11,2%, while the Tier I Capital Adequacy Ratio at 10.4%.

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Piraeus Group capital requirements by risk category and asset class are presented in the following table:

**Capital Requirements for Credit, Market and Operational Risk - 31/12/2010**

***In € '000.***

| Total Capital Requirements for Credit Risk | |
|---|---|
| Central Governments/ Central Banks | 49,860 |
| Regional Governments, Local Authorities and Public Sector Entities | 13,051 |
| Administrative bodies and non-profit organizations | 20,027 |
| Financial Institutions | 81,764 |
| Corporate customers | 1,108,751 |
| Retail customers | 271,171 |
| Exposures Secured by real estate property | 247,29 |
| UCITS | 929 |
| Regulatory High Risk categories | 96,987 |
| Past due items | 157,597 |
| Equities & Participations in Associate companies | 47,275 |
| Other Assets | 216,986 |
| Securitisation positions | 445,158 |
| **Total** | **2,756,846** |
| | |
| Position Risk | 19,277 |
| Counterparty & Settlement Risk | 25,183 |
| Foreign Exchange Risk | 29,394 |
| **Total** | **73,854** |
| | |
| Total Capital Requirements for Operational Risk | 208,337 |
| Total Capital Requirements | 3,039,037 |

## 3. Financial Institution's exposure to risks and their assessment

### *3.1 General Obligations*

Financial risk management and the Group's business activity are mutually implicative. Management, aiming at maintaining the stability and continuity of its operations, places high priority on the goal of implementing and continuously improving an effective risk management framework to minimize potential negative effects on the Group's financial results.

The Bank's Board of Directors has full responsibility for the development and supervision of the risk management framework. In order to coordinate and timely address all risks, a Risk Management Committee has been established at the Board level, responsible for the implementation and supervision of the financial risk management policy and principles. The Board Risk Management Committee convenes at least on a quarterly basis and reports to the Board of Directors on its activities. It is noted that, during 2010 the Board Risk Management Committee held 7 meetings.

Both the principles and the existing risk management policy have been created for timely identifying and analyzing the risks assumed by the Group, establishing the appropriate limits and control systems, as well as systematically monitoring risks and ensuring compliance with established limits. The Group re-examines the adequacy and effectiveness of the risk management framework annually in order to ensure it keeps pace with market dynamics, changes in the banking products offered, and international best practices.

In Piraeus Bank Group, the Group Risk Management Division is entrusted with the executive responsibility for the planning and the implementation of the risk management framework, according to the directions of the Board Risk Management Committee. The Group Risk Management consists of the Group Credit Risk & Capital Management Division as well as of the Group Market Risk & Operational Risk Management Division. Its activities are supervised by Group Internal Audit, which evaluates the effectiveness and efficiency of the risk management procedures applied.

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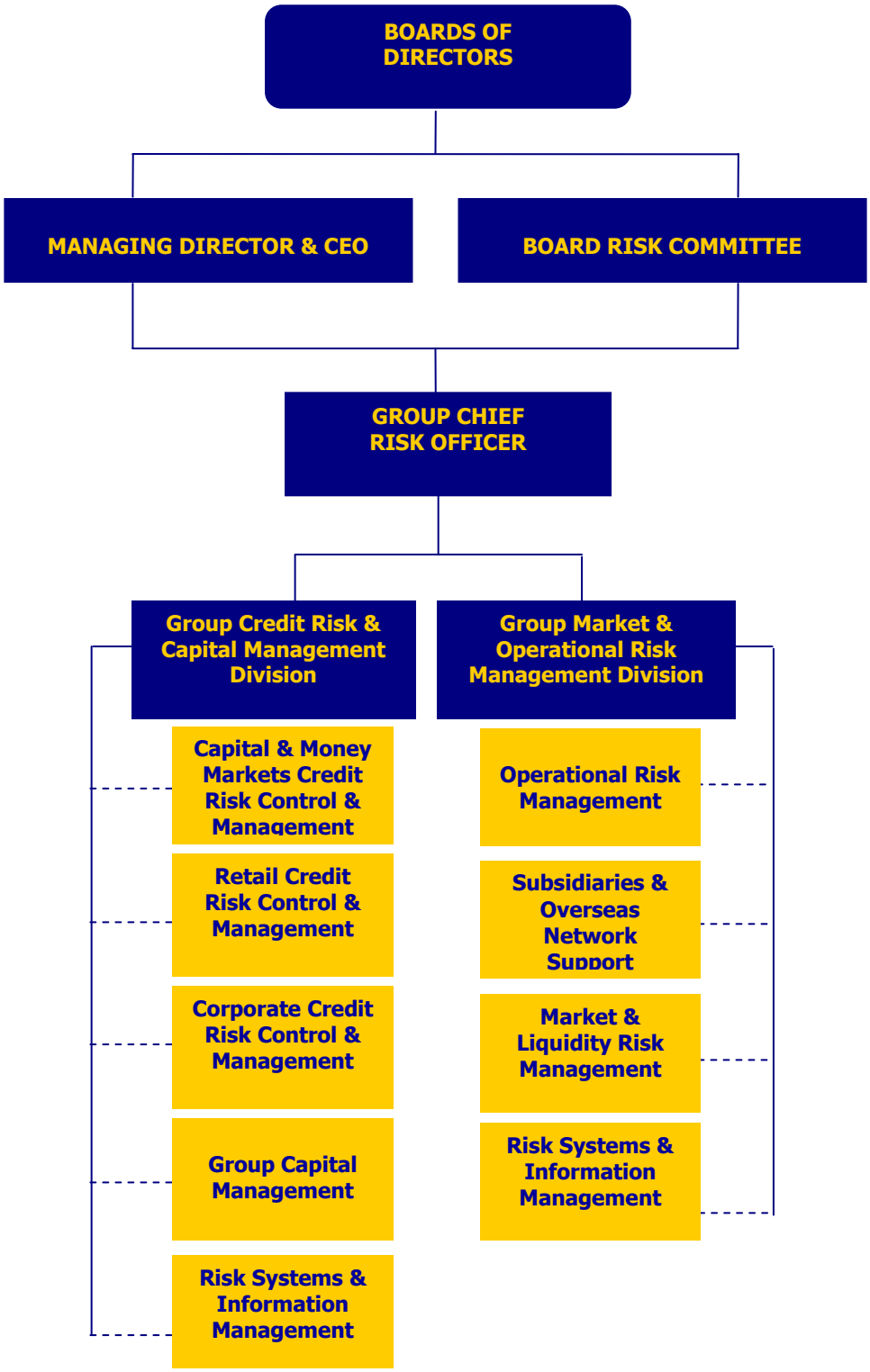


The Group systematically monitors the under mentioned material risks resulting its activities: credit risk, market risk, liquidity risk, and operational risk.

### 3.1.1 Credit Risk

Strategies and Procedures for Credit Risk Management

Banking activity and the Group's profits are closely related to credit risk undertaking. Credit risk is the risk of financial loss for the Group that results when the debtors are in no position to fulfil their contractual/ transactional obligations. Credit risk is considered the most significant for the Group, and its efficient monitoring and management constitutes a top priority for Management.

The Group's overall exposure to credit risk mainly results from approved credit limits and financing of corporate and retail credit, from the Group's investment and transaction activities, from trading activities in the derivative markets, as well as from the settlement of transactions. The level of risk associated with any credit exposure depends on various factors, including the general economic and market conditions prevailing, the debtors' financial condition, the amount, the type, and duration of the exposure, as well as the presence of any collateral/security (guarantees).

The implementation of the credit policy that describes the principles of credit risk management at the Group, ensures effective and uniform credit risk monitoring and control. Piraeus Bank Group applies a uniform policy and practice with respect to the credit assessment, approval, renewal and monitoring procedures. All credit limits are reviewed and/ or renewed at least once annually and the responsible approval authorities are determined, based on the size and the category of the total credit risk exposure assumed by the Group for each debtor or group of interrelated debtors (one obligor principle).

The Bank's Board of Directors has assigned the executive responsibility for credit risk management to the Board's Group Risk Management Committee that monitors and evaluates the credit risk arising from the Group's everyday activities, while supervising the proper application and functionality of credit risk management policies.

Under the Group Risk Management function, operates the Credit Risk Management and Capital Management Division with mission the continuous monitoring, measurement and control of the Group's credit risk exposures against enterprises, individuals, banks and central governments.

Credit Risk Measurement and Reporting Systems

Reliable credit risk measurement is of top priority within the Group's risk management framework. The continuous development of infrastructure, systems, and methodologies aimed at quantifying and evaluating credit risk is an essential precondition in order to timely and efficiently support management and the business units in relation to decision making, policy formulation and the fulfilment of supervisory requirements.

***Loans and Advances***

For credit risk measurement purposes involved in the Group's loans and advances at the counterparty level: (i) a customer's creditworthiness and the probability of defaulting on their contractual obligations is systematically assessed, (ii) the Group's exposure to credit risk arising from the claim is monitored and (iii) the Group's probability of potential recovery, in the event of the debtor defaulting on its obligations is estimated, based on existing collateral and security - guarantees provided. All these three credit risk measurement parameters are incorporated into the Group's day to day operations.

***Systematic evaluation of the customers' creditworthiness and assessment of the probability of defaulting on their contractual obligations***

The Group assesses the creditworthiness of its borrowers and estimates the probability of defaulting on their obligations by applying credit rating models appropriate for their special characteristics and features. These models have been developed internally and combine financial and statistical analysis together with the expert advice of responsible officers. Whenever possible, these models are tested by benchmarking them against externally available information.

According to the Group's policy, each borrower is rated when their credit limit is initially determined and thereafter, they are systematically re-rated on at least an annual basis. The ratings are also updated in cases when there is updated available information that may have a significant impact on the level of credit risk. The Group regularly tests the predictive capability of the creditworthiness evaluation and rating models used both for Corporate and Retail Credit, thus ensuring its potential of accurately depicting any credit risk and allowing for the timely implementation of measures addressing potential problems.

***Corporate Credit***

As far as Corporate Credit is concerned, the credit rating models applied depend on the type of operations and size of the enterprise. For large and medium-sized enterprises, Piraeus Bank Group applies the Moody's Risk Advisor borrower credit rating system, whereas for small to medium-sized enterprises an internally developed rating system as well as scoring systems are applied. In accordance with the mandates of the supervisory framework (Basel II), separate credit rating models have been developed and are implemented for specialized lending.

As part of efforts to continuously improve its credit rating systems, the Group has optimised the existing Moody's Risk Advisor (MRA) borrower credit rating model for all Bank corporate customers that keep "C" category accounting books and have a turnover less than €2.5 million and has introduced a new credit rating model for all Bank corporate customers having "C" category accounting books and turnover larger or equal to €2.5 million, or without turnover (e.g. newly established enterprises).

All Corporate Credit customers are assigned to credit rating grades, which correspond to different levels of credit risk and relate to different default probabilities. Each rating grade is associated with a specific customer relationship policy.

***Retail Credit***

As far as retail credit is concerned, the Group, focusing on the application of modern credit risk measurement methods, evaluates applicants using application scoring models, while it is going to implement models for the evaluation of existing customers' transactional behaviour (behaviour scoring) for each product but also at the borrower level (Behaviour models have been already implemented at the Bank level).

Additionally during the approval process, Credit Bureau Scoring Models are used (Tiressias Scoring Models). These models take into account the exposures of the applicants in the Greek Market. The usage of Bureau Scoring Models improves the efficiency of the existing application and behaviour scoring models. All the models that are used by the Bank are Validated every six months (at minimum).

The results of the internal scoring models consist of the main source of information that feed the Basel II Models (Probability of Default Models – Loss Given Default Models) that are used in the Retail Portfolio of Piraeus Bank. Basel II models are examined in detail each six months (at minimum) in order to ensure:

- The Stability of the Population Rating between the Development and the Recent Period.
- Whether the changes in the PD / LGD parameters are statistically significant
- Whether the models retain their discrimination power

Hence, possible problems in the application of the models are detected as soon as they occur and as a result corrective measures are taken.

***Monitoring credit risk exposure***

The Group monitors the credit risk exposure of its loans and advances to customers, based on their nominal amount.

***Recovery based on existing collateral, security and guarantees***

Along with the rating of the counterparties' creditworthiness, the Group estimates during the setting/review of credit limits, the recovery rate related to the exposure, in the event the debtors default on their contractual obligations. The estimation of the recovery rate is based on the type of credit and the existence and quality of any collateral / security. According to standard practice, the lower the credit rating of a borrower, the greater the collateral/security required, so that the recovery rate is as large as possible in case of borrower's default on their contractual obligations to the Group.

***Securities and other bills***

For the measurement and evaluation of credit risk entailed in debt securities and other bills, external ratings from rating agencies are used. The amount of the Group's exposure to credit risk from debt securities and other bills is measured according to the relevant IFRS provisions per portfolio category.

***Credit risk Limits***

Piraeus Bank Group applies credit limits in order to manage and control its credit risk exposure and concentration. Credit limits define the maximum acceptable risk per counterparty, per group of counterparties, per credit rating, per product, per sector of economic activity and per country. Additionally, limits are set and applied against exposures to financial institutions. The Group's total exposure to borrower credit risk, including financial institutions, is further controlled by the application of sub-limits that address on and off-balance sheet exposures.

In order to set customer limits, the Group takes into consideration any collateral or security which reduce the level of risk assumed. The Group categorizes the risk of credits into risk classes, based on the type of collateral / security associated and their potential liquidation. The maximum credit limits that may be approved per risk class are determined by the Board of Directors. In Piraeus Bank Group, no credit is approved by one sole person, since the procedure regularly requires the approval of a minimum of three authorized officers, with the exception of consumer loans and credit cards, if the criteria that are set under the credit policy are met. Approval authorities are designated based on the level of risk exposure and their role in contributing to the quality of the Group's total credit portfolio is particularly significant.

Credit limits of the Group are set with an effective duration of up to twelve months and they are subject to annual or more frequent review. The responsible approval authorities may, in special circumstances, set a shorter duration than twelve months. The outstanding balances along with their corresponding limits are monitored on a daily basis, and any limit excesses are timely reported and dealt with accordingly.

***Stress Testing Exercises***

Stress testing exercises constitute an integral part of the Group's credit risk measurement and quantification, providing estimates of the size of financial losses that could occur under extreme financial/market conditions. Piraeus Bank Group systematically runs credit risk stress testing exercises in accordance with the instructions issued by the Bank of Greece (Governor of the Bank of Greece's Decree 2577/ 9.3.2006), the results of which are presented to and evaluated by the Board Risk Management Committee.

These stress tests are performed by the Group Credit Risk and Capital Management Division. The methodology and stress scenarios applied use as a basis the requirements of exercises performed by the International Monetary Fund for the Greek banking system under the Financial Sector Assessment

Program (FSAP), and are further enhanced with internally developed scenarios and models adapted to the particular risk characteristics of the Group.

In addition, credit risk stress-testing scenarios are developed for each country where the Group has presence, according to directions provided by local supervisory authorities. These scenarios are reviewed by Group Credit Risk and Capital Management Division. Within this stress testing framework, loans and claims of the Group to borrowers located in Greece and abroad are examined, as well as bond market credit exposures. Additional stress-testing scenarios are examined for portfolios quite vulnerable to economic conditions, such as the shipping, construction and real estate management.

In 2010, the Group participated successfully in the pan-european stress-test (2010 EU Wide Stress Testing exercise of European Banks) conducted by the Committee of European Banking Supervisors (CEBS) in cooperation with the European Central Bank and under the supervision of the Bank of Greece.

### 3.1.2 Market Risk

Market risk is defined as the risk of incurring losses due to adverse changes in the level or the volatility of market prices and rates, including equity prices, interest rates, commodity prices and currency exchange rates, as well as changes in their correlation.

The Group has established a Group-wide market risk limit system. The adequacy of the system and the limits are reviewed annually. The adherence to the limits structure is monitored by the Group Market and Liquidity Risk Unit and the responsible Units at subsidiary's level as well. Piraeus Bank has adopted and applied widely accepted techniques for the measurement of market risk.

The Value-at-Risk measure is an estimate of the maximum potential loss in the net present value of a portfolio, over a specified period and within a specified confidence level. The Group implements the parametric Value-at-Risk methodology, assuming a one-day holding period and utilizing a 99% confidence level. Value-at-Risk is measured for the positions in the trading book as well as the available for sale equity portfolio.

The Value-at-Risk for the Bank's total trading book was € 4.05 mil. on 31/12/2010. Total VaR is broken down to € 0.86 mil. for interest rate risk, € 3.08 mil. for equity risk, € 2.68 mil. for foreign exchange risk and € 0.16 mil. for commodities risk. The diversification effect for the total portfolio amounted to € 2.73 mil., which reduces the overall trading book Value at Risk. During 2010 there was a decrease in the Trading Book's Value at Risk, mainly due to the reduction in Greek Governments Bonds' positions in the trading portfolio. Respectively, the Total value at risk estimate was €9.22 mil. on 31/12/2009.

Amounts mil €

| | Group Trading Book Total VaR | VaR – Interest Rate Risk | VaR - Equity Risk | VaR - Foreign Exchange Risk | VaR - Commodities Risk | Diversification Effect |
|---|---|---|---|---|---|---|
| 2010 | 4,05 | 0,86 | 3,08 | 2,68 | 0,16 | -2,73 |
| 2009 | 9,22 | 6,4 | 5,44 | 3,3 | 0,13 | -6,05 |

The Group tests the validity of the estimated Value-at-Risk by conducting back-testing on the trading book. The Value-at-Risk estimate is compared on a daily basis against the actual change in the value of the portfolio, due to the changes in market prices.

Additionally, the Group monitors the evolution of assumed risks using sensitivity indicators and thus calculating the effect of changes in the level of market prices to the value of all on and off balance sheet items, so as to have a complete view on the level and evolution of risk factors. An additional key method for the measurement of assumed risks is the regular application of stress testing scenarios, measuring the effect of extreme adverse changes in market prices on the value of the Bank's assets & liabilities.

Due to the expansion of international activities, the Group constantly enhances its infrastructure and closely monitors the evolution of market risks at subsidiary level, as well as on a consolidated basis. A Market Risk Management Policy has been in place in all Group units since the beginning of 2003. On the basis of this policy, every Group unit has been assigned specific market risk limits, which are monitored on a continuous basis, both from local as well as from Group risk units.

The interest rate risk is a major risk category and pertains to the potential negative effects on the Group's financial position, as a result of exposure to general interest-rate variability. It is imperative for the Group to assume this type of risk, on a going concern basis. However, the maintenance of significant interest rate positions may adversely affect the Group's interest income and financial position.

Interest rates variations affect the Group's results, changing the net interest income, as well as the value of other revenues or expenses that are sensitive to interest rate changes. Interest rate changes also affect the value of assets and liabilities, since the present value of future cash flows (or even the cash flows themselves) changes upon interest rate variations. Therefore, it is imperative for the Group to apply an efficient risk management process that assesses and monitors interest rate risk and keeps it within acceptable and approved levels (through the effective use of hedging techniques when appropriate).

The Interest Rate Gap Analysis allows for the assessment of interest rate risk through the "Earnings-at-Risk" measure, which expresses the impact on projected earnings over a specified period, caused by a change in interest rates across all maturities and currencies.

The Group estimates potential financial losses based on hypothetical crisis scenarios affecting the general interest rate level. The crisis scenarios include major changes in interest rates, changes in the slope and shape of interest rate curves, or changes in the market rate volatility.

During 2010, the Group's market risks remained within acceptable limits. It is worth mentioning that the Group does not hold structured or high risk transactions, or positions linked to the sub-prime debt market.

### 3.1.3 Liquidity Risk

Liquidity risk management is associated with Piraeus Bank's ability to maintain adequate liquidity positions in order to meet its payment obligations. In order to manage this risk, future liquidity requirements are monitored thoroughly, along with the respective needs for funding, depending on the projected maturity of outstanding transactions. In general, liquidity management is a process of balancing cash flows within time bands, so that, under normal conditions, the Group may meet all its payment obligations, as they fall due.

The Group's liquidity risk management remained a key priority during 2010, due to the adverse liquidity conditions that prevailed over the Greek economy. To that end, functions related to close monitoring of the Bank's liquidity position, regular flow of relevant information and evaluation of measures to sustain adequate liquidity were enhanced further.

Important areas under constant monitoring are:

- the evolution and concentration of deposits,
- the intraday change of deposit balances per customer, product and branch,
- the evolution of maturity mismatches,
- the loans to deposits ratio,
- the cost of deposits,
- the disbursement of loans

Great emphasis is also placed on the evolution of the Liquid Assets and other Assets that may be used for refinancing purposes, thus providing further liquidity. In particular, the following are monitored:

- the adjusted through the application of adequate haircut value of Bonds and other securities available and unencumbered for refinancing operations with ECB or the Interbank Market,
- the maintenance and availability of other Assets (Loans), that may be additionally pledged for ECB refinancing.

Since the end of 2003, all Group units have applied a uniform Liquidity Risk Management Policy. This policy is consistent with the globally applied practices and supervisory regulations, and adapted to the individual activities and structures of Piraeus Bank Group. This policy outlines the principal liquidity risk

assessment definitions and methods, defines the roles and responsibilities of the units and staff involved and sets out the guidelines to manage liquidity crisis. The policy is focused on the liquidity needs expected to emerge, in a week's or month's time, on the basis of hypothetical liquidity crisis scenarios.

Furthermore, the policy includes a Liquidity Crisis Management Plan, which is applied in the event of a crisis due to either a specific event associated with the Group's activities, or the general market conditions. There are activation conditions and increased readiness indicators that trigger the activation of the Liquidity Crisis Management Plan.

At the same time, liquidity ratios are measured daily, taking into account all balance-sheet items, according to the Liquidity Risk Management Policy and the Bank of Greece supervisory framework for liquidity.

In addition, stress testing scenarios are performed on a regular and ad hoc basis, so as to calculate the impact of potential extreme market conditions on the Group's liquidity position. The scenarios applied are based on potential adverse effects including deposits withdrawal, devaluation of liquid assets (e.g. debt securities and equities).

During 2010, the Group managed the adverse market liquidity conditions in an effective manner, maintaining and further expanding its funding sources. In addition, the Bank participated in the provisions granted by the law for the Liquidity Enhancement of the Economy (3723/2008). Specifically, the Bank drew liquidity via Guarantees provided by the Greek Government (Pillar II) and through Special Greek Government Bonds (Pillar III) amounting to a total of €9.4bil. During 2010, liquidity through non liquid assets (commercial loans) was enhanced and reached a total of €1.9bil, in the context of European Central Bank Funding. Finally, at the start of 2011 the first covered bonds issue with a maturity of 3 years and an amount of €1.2bil was completed. The covered bond was retained, and posted as collateral for European Central Bank funding amounting to €1 bil.

Liquidity levels were also maintained at a satisfactory level as a result of the highly liquid profile of the Bank's fixed income portfolio, which mainly consists of Greek Government bonds. Additionally a remarkable portion of loans is eligible for ECB refinancing, providing more funding sources.

### 3.1.4 Operational Risk

Piraeus Bank Group acknowledges its exposure to operational risk deriving from its daily operations and from the implementation of its business and strategic objectives.

In 2010, the Group proceeded with the coherent implementation of the Operational Risk Management Framework across the Units of the Bank, as well as its Subsidiaries. The aforementioned framework

covers the identification, assessment, quantification, monitoring and mitigation of the operational risk. The continuous development of the framework enhances the timely and effective support to the business function of the Group and to the fulfilment of the regulatory requirements. The Operational Risk Management Framework relies on the following fundamental principles:

- Operational Risk is assumed and managed locally, on a Unit level, as close as possible to the source of the risk. The implementation of the framework at Group level are supervised and coordinated centrally by the Group Market and Operational Risk Management Division.
- The Operational Risk Management framework:
    - Includes documented methodologies and procedures and its scope extends to all business activities and support functions of the Bank.
    - Promotes a common culture of risk awareness and provides clear roles and responsibilities as well as sufficient training and skills to all employees involved.
    - Ensures the systematic monitoring of the relevant data (including loss data)
    - Is regularly reviewed and adjusted in accordance with the activities of the Group and its risk profile.

By implementing the Operational Risk Management Framework across its activities, the Group aims at achieving business and strategic goals, including:

- improvement of its operations and its Internal Control System
- minimization of financial losses caused by Operational Risk incidents
- enhancement of human resources efficiency and reduction of operating costs
- prevention of unexpected and severe losses from potential Operational Risk incidents
- the creation of added value for its shareholders, customers and employees.

The Operational Risk Management Framework which is implemented across the Subsidiaries of the Group is adjusted to the size and scope of activities of each Subsidiary, as well as to any local supervisory requirements.

With regard to the identification, assessment, monitoring and mitigation of the Operational Risk, the annual implementation of the Risk and Control Self-Assessment (RCSA) methodology is in progress across all business and support units of the Bank. Furthermore, in 2010, the Loss Data Collection methodology was implemented to collect internal data on actual losses caused by Operational Risk incidents. These losses were allocated and mapped to the eight (8) regulatory Business Lines and the seven (7) Loss Event Type Categories.

In order to mitigate Operational Risk, the Group has adopted suitable approaches and qualitative and quantitative techniques, which are summarized as follows:

- **Internal Control System (ICS)**. The Internal Control System consists of internal controls and processes that constantly cover every activity and contribute to the effective and continuous operations of the Bank and its Subsidiaries. The Group monitors systematically the adequacy and effectiveness of the existing Internal Control System and takes immediate actions, as required, to constantly manage and mitigate the Operational Risk. At the same time, the Group uses appropriate early warning mechanisms to control the consistent implementation of the Internal Control System in its Units, as well as the full compliance of all involved parties with the principles and objectives of the ICS.

- **Insurance Coverage.** The Group acknowledges that insurance policies serve as an efficient Operational Risk mitigating technique. According to the current insurance framework, these policies provide partial or total coverage of the actual losses induced by Operational Risk incidents.

- **Human Resources Training.** The Group provides its personnel with complete information and training in Operational Risk issues, thus making them more knowledgeable of and sensitive to the management and mitigation of this risk.

  An indicative sample of these activities includes:

  - Educational programs on the implementation of Operational Risk Management framework
  - Specialized training programs on mitigation of External Fraud (i.e. authenticity of bank notes and customer documents, dealing with Robberies) including anti-money laundering and combating financing of terrorism
  - Effective use of Intranet for the fast dissemination of critical information and instructions.

- **Business Continuity Plan.** The Bank has proceeded to the development and implementation of a comprehensive Business Continuity Plan, in order to minimize potential negative effects of crisis situations on its activities. This Plan, coupled with the Disaster Recovery Site, ensure continuity of operations in all its business units and infrastructure, effective management of Operational Risk and full alignment with the regulatory framework.

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## *3.2 Credit Risk*

### 3.2.1 General Disclosures

**Definitions**

- ***Loans not delinquent or impaired***

Current claims without any delinquencies or provisions

- ***Delinquent Loans and Claims, not impaired***

The category includes all delinquent loans that have not been impaired. This category contains the actual amount of claim from the customer. Delinquent loans and claims, before provisions, not impaired are analyzed **per portfolio** (Retail Credit: mortgages, consumer/personal loans, credit cards and other loans), (Corporate Credit: loans to small and medium size companies, corporates) and **according to period of delay as follows**: 1) 1-90 days in delay, 2) 91-180 days in delay, 3) over 180 days in delay.

- ***Impaired Loans and claims***

The category includes all the impaired loans irrespective of the days past due. A claim has been impaired when the book value exceeds the expected recovery amount. The expected recovery amount is defined as the total present value of payments and the present value of potential liquidation of collaterals or securities in case the debtor is incapable to repay the loan.

Impairment and provisioning policy

Piraeus Bank Group systematically examines whether there is solid and objective evidence that a claim's value has been impaired. To this end as of the date of each published financial statement, it conducts an impairment test concerning the value of its loans, according to the general principles and methodology described in the International Accounting Standards, and proceeds with assuming the respective provisions.

A claim is considered impaired when its book value exceeds its anticipated recoverable amount. The recoverable amount is estimated by the sum of the present value of future cash flows from anticipated repayments and the present value of the liquidation of any collateral/ guarantees in case the borrower fails to service the loan. In the event that there are indications that the Group will not be able to receive all payments due, a specific provision is made for the impaired amount associated with the loan. The amount of the provision is set as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate of the loan.

The Group, according to its IAS 39, considers the criteria and objective evidence that a loan or group of loans has been impaired.

Objective evidence that a loan or group of loans is impaired or it is not collectable is the following events:

- ✓ Significant financial difficulty of the issuer or the obligor.
- ✓ A breach of contract (i.e. default or delinquency in interest or principal payments).
- ✓ The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider.
- ✓ It is becoming probable that the borrower will enter bankruptcy or financial reorganisation.
- ✓ Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - -Adverse changes in the payment status of borrowers in the group (i.e. increase in the number of delayed payments due to sector problems), or
  - -National or local economic conditions that correlate with defaults on the assets in the group (i.e. increase in the unemployment rate for a geographical area of borrowers, decrease in the value of property placed as guarantee for the same geographical area, or unfavourable changes in the operating conditions of a sector, which affect the borrowers of this specific group).

The estimation concerning the existence of impairment and any resulting provisioning is conducted individually at loan level (for both retail and corporate portfolios) for those considered by the Group as significant, and collectively on a loan group level for those considered less significant. The estimation of impairment is conducted collectively for claims (portfolios of claims) with common risk characteristics, which are not considered significant on an individual basis. Also collective assessment includes loans that have been tested individually for impairment but no impairment has occurred.

For impairment estimation on a collective basis, financial assets are grouped according to their similar credit risk characteristics (e.g. according to assessment criteria of the Group which take into consideration the nature of each asset, the sector where it belongs, the geographical area, the type of security and other such factors). These characteristics are correlated to the estimation of future cash flow for such groups of assets, indicating the customer's ability to pay amounts due, according to the contractual terms of the financial assets under evaluation.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reduced and the difference is recognised in the Income Statement.

**Credit Risk Exposure 31/12/2010[1]**

***In € '000.***

| | 31.12.2010 | Average |
|---|---|---|
| **Loans (after provisions)** | | |
| **Loans to individuals:** | | |
| Mortgages | 6,825,420 | 6,715,679 |
| Consumer/personal loans | 3,211,646 | 3,489,585 |
| Credit cards | 685,981 | 713,890 |
| **Loans to corporate entities:** | | |
| Small/Medium entities | 17,521,196 | 17,639,954 |
| Large Corporate entities | 9,393,832 | 9,104,059 |
| **Total** | **37,638,075** | **37,663,166** |
| **Other Receivables** | | |
| Loans and advances to credit institutions | 1,476,856 | 1,234,591 |
| Derivative financial instruments – assets[2] | 143,967 | 157,717 |
| Bonds and Treasury Bills of trading portfolio | 633,233 | 963,378 |
| Bonds at fair value through Profit & Loss | 12,805 | 83,752 |
| Debt securities – receivables | 2,512,337 | 1,847,671 |
| Repos | 955,401 | 477,700 |
| Bonds of investment portfolio | 6,681,857 | 6,083,783 |
| Other assets | 997,735 | 1,018,597 |
| **Total** | **13,414,190** | **11,867,190** |
| **Exposures relating to off-balance sheet assets[3]** | | |
| Letters of guarantee | 2,872,163 | 3,056,705 |
| Letters of credit | 129,312 | 128,055 |
| Committed unused limits | 3,609,990 | 3,461,330 |
| **Total** | **6,611,465** | **6,646,089** |
| **Total Credit Risk exposures** | **57,663,730** | **56,176,445** |

[1] *Based on the Group's Consolidated Financial Statements as of 31.12.2010 according to the International Financial Reporting Standards (IFRS). Both credit risk exposure of specific loans or loans' classification may differ under the IFRS and capital adequacy regulatory framework.*

[2] *Based on the Group's Consolidated Financial Statements of 31.12.2010 according to the International Financial Reporting Standards (IFRS).*

[3] *Based on the Group's Consolidated Financial Statements of 31.12.2010 according to the International Financial Reporting Standards (IFRS).*

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## Geographical distribution[4] of Group's major credit exposures at 31/12/2010

*In € '000.*

| | Greece | Southeast Europe[5] | Other Countries[6] | Total |
|---|---|---|---|---|
| Loans and advances to credit institutions | 982,683 | 68,500 | 425,672 | **1,476,856** |
| Derivative financial instruments – assets | 142,778 | 1,190 | | **143,967** |
| Bonds and Treasury Bills of trading portfolio | 184,259 | 448,974 | | **633,233** |
| Bonds at fair value through profit or loss | 12,805 | | | **12,805** |
| **Loans and Advances to Customers** | | | | |
| Loans to individuals | | | | |
| *- Mortgages* | *6,065,520* | *658,237* | *101,663* | ***6,825,420*** |
| *- Consumer – personal loans* | *1,897,056* | *1,212,590* | *102,000* | ***3,211,646*** |
| *- Credit cards* | *631,223* | *40,441* | *14,317* | ***685,981*** |
| Loans to corporate entities | 19,538,861 | 2,955,162 | 4,421,005 | **26,915,028** |
| Bonds of investment portfolio | 6,323,419 | 241,101 | 117,336 | **6,681,857** |
| Debt securities - receivables | 2,470,281 | 22,423 | 19,633 | **2,512,337** |
| Repos | 955,401 | 0 | 0 | **955,401** |
| Other assets | 865,728 | 105,017 | 26,991 | **997,735** |
| **Total** | **40,070,013** | **5,753,635** | **5,228,617** | **51,052,265** |

[4] *Based on the Group's Consolidated Financial Statements of 31.12.2010 according to the International Financial Reporting Standards (IFRS).*

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## Geographical break down of impaired loans and past due loans over 90 days

*In € '000.*

| | Loans to individuals | | | Loans to corporate entities | Total |
|---|---|---|---|---|---|
| | Mortgages | Consumer/ Personal loans | Credit cards | | |
| **Greece** | **536,861** | **402,384** | **191,037** | **1,514,978** | **2,645,261** |
| > 90 days | 313,937 | 62,388 | 26,465 | 527,857 | 930,647 |
| Impaired loans | 222,924 | 339,996 | 164,572 | 987,121 | 1,714,614 |
| **Southeast Europe[7]** | **42,215** | **211,242** | **13,136** | **527,113** | **793,707** |
| >90 days | 15,778 | 33,857 | 993 | 54,029 | 104,657 |
| Impaired loans | 26,438 | 177,385 | 12,143 | 473,084 | 689,050 |
| **Other Countries [8]** | **1,537** | **17,880** | **4,381** | **283,034** | **306,832** |
| >90 days | 791 | 3,651 | 360 | 76,877 | 81,679 |
| Impaired loans | 746 | 14,229 | 4,020 | 206,158 | 225,153 |
| **Total past due and impaired loans** | | | | | |
| **>90 days** | **330,505** | **99,896** | **27,818** | **658,763** | **1,116,983** |
| Impaired loans | **250,108** | **531,610** | **180,736** | **1,666,363** | **2,628,817** |
| **Total** | **580,613** | **631,506** | **208,554** | **2,325,126** | **3,745,800** |

Impaired loans as of 31/12/2010 include loans of €786 mil., which are not past due over 90 days. The respective amount as of 31/12/2009 is €433 million.

[7] *South East Europe: Bulgaria, Romania, Ukraine, Serbia, Albania, Cyprus.*

[8] *Other Countries: Egypt, USA, United Kingdom, Luxembourg and others.*

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**Movement in allowance (impairment) for losses on loans and advances to customers [9]**

***In € '000.***

| Loans to individuals | |
|---|---|
| Balance at 01/01/2010 | 492,355 |
| Charge of the year | 284,792 |
| Loans written off | -95,172 |
| FX Differences | 374 |
| **Balance at 31/12/2010** | **682,349** |
| **Loans to corporate entities** | |
| Balance at 01/01/2010 | 502,615 |
| Charge of the year | 286,864 |
| Loans written off | -48,862 |
| FX Differences | 10,112 |
| **Balance at 31/12/2010** | **750,729** |

[9] *Based on the Group's Consolidated Financial Statements of 31.12.2010 according to the International Financial Reporting Standards (IFRS).*

### 3.2.2 Credit Risk – Standardised Approach

**External Credit Assessment Institutions (ECAIs)**

In order to implement the new Capital Adequacy regulatory framework (Basel II), according to the Standardised Approach, Piraeus Group uses the following Institutions' external ratings:

- Moody's
- Fitch
- Standard & Poor's
- ICAP

These Institutions have been evaluated and accepted by the Bank of Greece as approved credit assessment institutions. Piraeus Group uses Moody's, Fitch and Standard & Poor's ratings for the following asset classes:

- Credit exposures against Central Governments/Central Banks
- Credit exposures against Regional Governments and Local Authorities
- Long and short term credit exposures against Financial Institutions in Greece and abroad
- Credit exposures against Administrative bodies & non-profit undertakings in Greece and abroad
- Long and short term credit exposures against Corporate Customers in Greece and abroad

ICAP's ratings are used for the asset class loans and advances to Corporate Customers in Greece.

If there are multiple available ratings for a specific exposure, the Group follows the directions of Bank of Greece in order to determine the exposure's risk weight. In particular, if for a specific exposure there are two available ratings then the rating leading to the higher risk weight is selected. In case, that there are more than two available ratings, initially the two ratings leading to the lower risk weights are chosen and then from the aforesaid two choices is selected the one corresponding to the higher risk weight.

### 3.2.3 Credit Risk Mitigation – Standardised Approach

- **Collateral Valuation Process**
  - The bonds received as collateral are valued on a daily basis and monitored through a collateral system that takes into account the specific characteristics of every contract (price, accrued interest, valuation date, source of valuation).
  - For the capital adequacy ratio calculation, only shares and equities listed in the stock exchange are taken into account. Their valuation is based on the official daily closing prices of the previous day for each share while systemically, the entire valuation process is conducted in the Collateral system.
  - According to the Capital Adequacy regulatory framework real-estate collateral should be evaluated at least once a year in case of commercial real estate and once every three years in case of residential real estate. For the valuation of residential and commercial real estate, Piraeus Bank uses specific methods and statistical models of valuation and re-evaluation.

- **Types of collaterals accepted by the Bank**

The Group receives collaterals or security, which reduce the overall credit risk exposure and ensure the prompt repayment of claims.

For that purpose, it has defined and included in its credit policy, the following main types of acceptable collateral and security[10]:

- Pledged deposits
- Greek government guarantees
- Guarantees by the Credit Guarantee Fund for Small and Very Small Enterprises (TEMPME)
- Bank letters of guarantee
- Pledged financial instruments such as stocks, bonds, bills or mutual fund shares
- Pledged cheques
- Mortgages on real estate property
- Ship mortgages
- Receivables

The valuation of collateral/security is performed initially during the approval of claim based on its current value and is revalued regularly. In general, collateral/security is not taken for exposures on financial institutions, unless it concerns reverse-repos or other securities' lending activities.

For **the better understanding** of figures presented in the table bellow, the following should be noted:

1. In the secured, by collateral/guarantee type, value of exposures are included off balance sheet items, derivatives' potential future exposures, as well as the exposures (including the retained portion of securitized loans) and collaterals of repurchase agreements and securities borrowing.
2. Only **regulatory eligible** according to the Standardised Approach, guarantees and financial collaterals are included, which are considerably fewer compared to those accepted by Piraeus Group for business purposes.
3. The exposures secured with real estate collaterals are fully covered by commercial and residential real estate excluding Greek Government guarantees which are presented in a separate column. Residential and commercial real estate collateral does not affect the value of the exposure, as occurs in other asset classes, but is reflected in a more favorable risk weight against credit risk according to the regulatory framework.
4. The majority of delinquent loans and of those classified as regulatory high risk, are covered, apart from the regulatory eligible guarantees and financial collateral, with commercial and residential real estate as well. The additional coverage does not affect the value of the exposure as occurs in other asset classes, but is reflected in a more favorable risk weight against credit risk according to the regulatory framework.

[10] For the calculation of capital requirements, eligible collateral are only those mention in the Governor's Act 2588/20.8.2007, which constitute a significantly smaller subset of the types of collateral/security accepted by Piraeus Group in its business activities.

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**Exposures secured by regulatory eligible credit risk mitigation instruments as of 31.12.2010**

*In € '000.*

| Exposure Type | Financial Collateral | Guarantees | Secured by Real Estate |
|---|---|---|---|
| Central Governments/ Central Banks | 24,636 | | |
| Regional governments and local authorities | 1,035 | 3,596 | |
| Administrative Bodies & Non-Profit Organizations | 22,463 | 355,340 | |
| Financial Institutions | 295,084 | | |
| Corporate entities | 2,209,905 | 452,636 | |
| Retail customers | 250,850 | 109,474 | |
| Claims secured by real estate property | | 122,087 | 11,627,249 |
| Regulatory high risk exposures & past due items. | 40,020 | 175,385 | 607,870 |
| Total | 2,843,993 | 1,218,518 | 12,235,119 |

### 3.2.4 Counterparty credit risk

Concerning positions in derivatives, the calculation of exposure against counterparty credit risk exposure is performed according to the Mark to Market Method, as defined in Bank of Greece Governor's Act 2594/20.08.2007. In particular, the exposure value is calculated as the sum of the contract's replacement cost (market value), if it is positive, and the potential future exposure, which depends on the nominal value, the type and the residual maturity of the contract. For repos and reverse-repos positions, the calculation of counterparty credit risk exposure is based on the Analytical Method for Financial Collaterals, as described in Bank of Greece Governor's Act 2588/20.08.2007.

The total initial exposure to counterparty credit risk in group level for the 31st of December 2010, amounted to €1,942 mil. The adjusted for volatility and maturity mismatch value of the corresponding financial collaterals that mitigates part of the relevant credit exposure, amounted to €1,422 mil.

It is noted that the total exposure to credit risk deriving from derivative products as presented in the group's IFRS, due to methodological differences, differs from the exposure measured according to the Basel II regulatory framework.

### 3.2.5 Securitisation

**The objectives of (Originator) credit institution regarding the activity of securitisation.**

During 2010 Piraeus Bank Group did not originate any new securitisation programs. In the past, the Group has successfully completed nine (9) securitisation programs (three (3) concerning mortgage loans, three (3) concerning corporate loans, two (2) concerning consumer loans and one (1) concerning financial leases), in accordance with L. 3156/2003, amounting €9,625 bil. and fulfilling all necessary

requirements for ECB financing. All completed securitisation programs are of traditional form[11], with the first two issues -concerning mortgage loans- having been made available to investors. Furthermore, for the calculation of the capital requirements arising from securitisation positions, the Group applies the Standardized Approach.

**The role and the extent of involvement of the Bank in the Securitisation process.**

Piraeus Bank acts as originator, servicer, and sponsor in the process of asset securitization, while it finances through subordinated loans the establishment of special purpose vehicles (SPVs). The Group according to the IFRS consolidates SPVs, when it controls these entities. As in certain cases the determination of Group's control on a SPV can not be clearly defined, an assessment of the related risks and benefits, as well as the ability of decision making is conducted. In many cases considering relevant information on an ad hoc basis can not prove the existence or not of control to the SPV and the overall examination does not clarify whether control is applied. In that case, the SPV is consolidated.

**Existing Securitisations on 31/12/2010.**

The Group's existing securitisation programs on 31/12/2010, for accounting objectives, were conducted for financing purposes and consequently securitisation profits were not realised. There are no claims related to the existing securitisations on 31/12/2010. Below, information about the existing securitisations is presented:

- The first bond issuance from securitisation of mortgage loans amounted to €750 mil. was performed by ESTIA Mortgage Finance Plc, which was established for this purpose in the United Kingdom in 2005. The bonds provide the originator with recall right at 9 years and the average cost amounts to Euribor 3M plus 18 basis points.

- The second bond issuance of mortgage loans amounted ton €1,250 mil. was performed by ESTIA Mortgage Finance II Plc, which was established for this purpose in the United Kingdom in 2007. The bonds provide the originator with recall right at 7 years and the average cost amounts to Euribor 3M plus 18 basis points

- The third bond issuance of mortgage loans amounted to €800 mil. was performed by ESTIA Mortgage Finance III Plc, which was established for this purpose in the United Kingdom in April 2008. The bonds provide the originator with recall right within 7 years and the average cost amounts to Euribor 3M plus 53 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from the European Central Bank.

- The first bond issuance from securitisation of corporate loans amounted to €1,750 mil. was performed by AXIA Finance Plc, which was established for this purpose in the United Kingdom in November 2008. The average cost amounts to Euribor 3M plus 46 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from the European Central Bank.

[11] Traditional securitisation: Securitisation involving the economic transfer of the exposures being securitised to a securitisation special purpose entity which issues securities. This shall be accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through sub-participation. The securities issued do not represent payment obligations of the originator credit institution.

- The first bond issuance from securitisation of consumer loans amounted to €725 mil. was performed by Praxis I Finance Plc, which was established for this purpose in the United Kingdom in April 2009. The average cost amounts to Euribor 1M plus 27 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from the European Central Bank.

- The second bond issuance from securitisation of corporate loans amounted to €900 mil. was performed by Axia II Finance Plc, which was established for this purpose in the United Kingdom in May 2009. The average cost amounts to Euribor 3M plus 99 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from the European Central Bank.

- The first bond issuance from securitisation of leasing receivables amounted to €540 mil. was performed by Gaia Lease Plc, which was established for this purpose in the United Kingdom in August 2009. The average cost amounts to Euribor 3M plus 60 basis points. This issue was retained by Piraeus Group and can be used for financing purposes from the European Central Bank.

- The second bond issuance from securitisation of consumer loans and credit cards amounted to €558 mil. was performed by Praxis II Finance Plc, which was established for this purpose in the United Kingdom in August 2009. The average cost amounts to Euribor 1M plus 38 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from the European Central Bank.

- The third bond issuance from securitisation of corporate loans amounted to €2,352 mil. was performed by Axia III Finance Plc, which was established for this purpose in the United Kingdom in August 2009. The average cost amounts to Euribor 1M plus 79 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from the European Central Bank.

- The Piraeus Group uses for securitisation the available ratings of the following ECAIs:
  - Moody's
  - Fitch
  - Standard & Poor's.

- It should be noted that the third securitisation of mortgage loans in the amount of € 800 million, the first and third securitisation of corporate loans in the amount of € 1,750 million and € 2,352 million respectively, as well as, the first and second consumer loan backed securitisation of €725 million and €558 million respectively, continue to be retained by Piraeus Bank. The second securitisation of corporate loans in the amount of €900 million was called back in October 2010.

- The doubtful and over 90 days delinquent securitized loans, amount to €327.9 mil. on 31/12/2010.

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## Total and retained Securitisation positions

*In € '000.*

| Securitisation Name | Total amount of Securitised Assets | Type of Securitisation | Securitised Asset Type | Nominal Value of Retained/ Acquired Positions 31/12/2010 |
|---|---|---|---|---|
| **ESTIA I** | 750,000 | Traditional | Mortgage | 54,014 |
| **ESTIA II** | 1,250,000 | Traditional | Mortgage | 387,136 |
| **ESTIA III** | 800,000 | Traditional | Mortgage | 769,532 |
| **AXIA I** | 1,750,000 | Traditional | Corporate | 1,750,000 |
| **AXIA II** | 900,000 | Traditional | Corporate | 0 |
| **AXIA III** | 2,352,200 | Traditional | Corporate | 2,352,000 |
| **PRAXIS I** | 725,000 | Traditional | Consumer | 725,000 |
| **PRAXIS II** | 558,000 | Traditional | Consumer | 558,000 |
| **GAIA Lease** | 539,700 | Traditional | Leasing | 461,851 |

## Analysis of the Nominal Value of Retained / Acquired Positions based to 31.12.2010 data

*In € '000.*

| | Rated (Credit quality step from 1 to 4) | | | | 1250% | | (-) Capital deductive element |
|---|---|---|---|---|---|---|---|
| | 20% | 50% | 100% | 350% | Rated | Unrated | |
| **ESTIA I** | | 46,587 | 7,427 | | | | |
| **ESTIA II** | | 288,636 | 91,250 | 7,250 | | | |
| **ESTIA III** | 683,532 | | | | | 86,000 | |
| **AXIA I** | | 1,408,750 | | | | 341,250 | |
| **AXIA III** | | 1,670,100 | | | | 682,100 | |
| **PRAXIS I** | | 493,000 | | | | 232,000 | |
| **PRAXIS II** | | 379,000 | | | | 178,800 | |
| **GAIA LEASE** | | 272,600 | | | | 189,251 | |

### *3.3 Operational Risk*

**Piraeus Bank**, on both solo and consolidated basis, has adopted the Standardized Approach for calculating Operational Risk Capital Requirements, through the allocation of its Gross Income (GI) into the eight (8) regulatory Business Lines.

In accordance with Group Policy, the following income categories are allocated to the eight (8) regulatory Business Lines:

- Net Interest Income
- Fees & Commissions
- Net Trading Income
- Other Operating Income
- Dividend Income

The income that accrues from activities that cannot be classified in any of the 8 regulatory business lines is assigned to a "Group Financial Cost Centre (Unclassified)" and receives the highest operational risk capital charge factor (18%), as it is mapped to the "Trading & Sales" Business Line, according to regulatory requirements.

It should be noted that the above mentioned framework is not applied to the Group Subsidiaries that do not belong to the financial sector. The Gross Income (GI) of these Subsidiaries is fully allocated to the "Asset Management" regulatory Business Line.

### *3.4 Equities: Disclosures for those exposures not included in the trading book*

Available for Sale (AFS) shares are those, for which there is no specific holding period, and which can be liquidated according to the liquidity needs, the changes in interest-rates or equities prices. The classification of equities in the Available for Sale portfolio (AFS) is not binding and as a result future reclassification is permitted.

Regular purchase and sale of the AFS portfolio shares is recognised based on the transaction date, at which the Bank commits to purchase or sale the assets.

Available foe sale equities are initially recognised at fair value (plus transaction costs) and subsequently are carried at fair value according to current market prices or valuation models, where the market prices are not available (in accordance with IAS 39 provisions). Not realised profits or losses due to changes in equities fair value, classified in the AFS portfolio, are recognised in a special reserve own funds account. If shares of the AFS portfolio are sold, the corresponding accumulated profits/losses are transferred from the special reserve own funds account to the profited & loss account.

The shares of the available for sale portfolio are recognized when it is no longer possible to receive their cash flow or when the Group has transferred the majority of risks and benefits to third parties.

The Group performs on a quarterly basis impairment test (significant or extended reductions of fair value) of these shares using various valuation models. These models include valuation based on the price to book value (P/BV) where the factor 2,5 is used, the price to the earnings per share (P/E) where the factor 15 is used or the divergence of 25% from their market value for investments which are listed in a stock market. If the above mentioned models show indication of impairment, the Group evaluates thoroughly the possibility of recovering the acquisition cost based on the historical volatility of each share separately.

When there are objective indications that the AFS asset has been permanently impaired, then the realised accumulated loss in own funds, is transferred to the profit and loss account. This loss is the difference between the acquisition cost and the market value after deducting any losses which have been recognised in previous period's results. Impairment loss of the AFS shares that has been recognised in the Financial Statements can not be reversed.

***In € '000.***

| **Shares in AFS** | **31/12/2010[12]** |
|---|---|
| Athens stock exchange listed shares | 60,614 |
| Foreign stock exchange listed shares | 15,994 |
| Unlisted shares | 158,917 |
| Mutual funds | 190,541 |
| **Total** | **426,066** |

Additionally, the sum of realized profit/loss from sales and liquidation of available for sale equities amounted to €0.4 mil. in 2010. The total net amount of non realized loss from the above equities' value adjustments amounted to € 137.1 mil. on 31/12/2010. This amount was included in the AFS reserve and deducted from Group's Tier I Capital.

### *3.5 Interest Rate Risk*

Interest Rate Risk arises from both the execution of core banking activities, such as taking deposits and granting loans, as well as the undertaking of investment and trading positions on financial instruments such as bonds, whose market value is affected by the level and/or the volatility of interest rates. Interest rate risk is generated mainly by financial instruments that carry a fixed interest rate, especially those whose rate is fixed for a long period of time, such as mortgage or consumer loans and fixed rate debt securities.

Piraeus Bank Group monitors and controls interest rate risk closely and on a continuous basis, by applying an interest rate risk management policy and by adopting risk assessment techniques based on the Interest Rate Gap Analysis. This analysis reflects the interest rate profile of all interest rate bearing assets and liabilities, including off balance sheet items.

[12] *Based on the Group's Consolidated Financial Statements of 31.12.2010 according to the International Financial Reporting Standards (IFRS).*

According to this analysis, assets and liabilities are allocated to time periods according to their remaining maturity (fixed rate assets and liabilities), or next interest rate re-pricing date (variable rate assets and liabilities). Assets or Liabilities lacking a predetermined contractual maturity or interest rate re-fixing periodicity (e.g. overdraft loan facilities, sight and saving deposits), are mapped on the overnight time period.

On the basis of the Interest Rate Gap, the Group measures the sensitivity of its balance sheet items, to potential changes in interest rates, having set risk appetite limits expressed in terms of the impact of changes in interest rates by 100 basis points (1%). More specifically, the Group measures its interest rate risk, through the anticipated change in the net present value of Assets and Liabilities (PV100 – Present Value of 100 basis points), as well as the impact on its interest income over one year (EaR – Earnings at Risk), caused by the aforementioned move in interest rates by 100 basis points.

Indicative estimates of the above described measures per currency as of 31.12.2010 are as follows:

*Figures in € 000*

| | EUR | USD | CHF | Other |
|---|---|---|---|---|
| **PV 100** | -85.545 | -2.644 | -1.969 | +466 |
| **EaR** | -50.563 | -4.938 | -1.805 | -3.058 |

The above risk sensitivity measures remain at very low levels as percentage of the Regulatory Own Funds (risk bearing capacity), which amount to € 3,528 mil., as of 31.12.2011. The monitoring and control of the interest rate risk positions is performed on a daily basis at the Bank level and on a monthly basis at the Group level.

The Interest Rate Risk that stems from the core banking activities (i.e. loans and deposits), is transferred to the Units which are responsible for the management of this risk (i.e. Treasury Units). The transfer is performed through an appropriate internal Funds Transfer pricing mechanism, applied at the transaction level, taking into account the interest rate behaviour of individual transactions. As a result, the monitoring and control of exposure is fast and continuous and covers the full breadth of activities in all currencies.

The maintenance of the interest rate risk within approved limits, is achieved through the execution of hedging transactions (e.g. Interest Rate Swaps, Interest rate and Bond Futures), aiming at immunising the risk on a portfolio or on a total balance sheet basis, per currency.

In order to mitigate the fixed rate loans and deposits prepayment/early termination risk, the Bank applies a methodology for the calculation of the potential cost to the Bank for individual transactions, on the basis of relevant market rates for the residual fixed rate period of the transaction. This cost is carried by the customer when this is provided for within the terms of the transaction, or by law.

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## 4. APPENDIX: REGULATORY CONSOLIDATION

### 4.1 Subsidiaries companies (full consolidation method)

| Name of Company | Activity | % holding | Country |
|---|---|---|---|
| Marathon Banking Corporation | Banking Activities | 96,24% | U.S.A. |
| Tirana Bank I.B.C. S.A. | Banking Activities | 96,71% | Albania |
| Piraeus Bank Romania S.A. | Banking Activities | 100,00% | Romania |
| Piraeus Bank Beograd A.D. | Banking Activities | 100,00% | Serbia |
| Piraeus Bank Bulgaria A.D. | Banking Activities | 99,98% | Bulgaria |
| Piraeus Bank Egypt S.A.E. | Banking Activities | 98,03% | Egypt |
| JSC Piraeus Bank ICB (former OJSC Piraeus Bank ICB) | Banking Activities | 99,98% | Ukraine |
| Piraeus Bank Cyprus Ltd | Banking Activities | 100,00% | Cyprus |
| Piraeus Asset Management Europe S.A. | Mutual Funds Management | 100,00% | Luxemburg |
| Piraeus Leasing Romania S.R.L. | Finance Leases | 100,00% | Romania |
| Piraeus Insurance and Reinsurance Brokerage S.A. | Insurance & Reinsurance Brokerage | 100,00% | Greece |
| Tirana Leasing S.A. | Finance Leases | 100,00% | Albania |
| Piraeus Securities S.A. | Stock Exchange Operations | 100,00% | Greece |
| Piraeus Group Capital LTD | Debt Securities Issue | 100,00% | United Kingdom |
| Piraeus Leasing Bulgaria EAD | Finance Leases | 100,00% | Bulgaria |
| Piraeus Auto Leasing Bulgaria EAD. | Auto Leases | 100,00% | Bulgaria |
| Piraeus Group Finance P.L.C. | Debt Securities Issue | 100,00% | United Kingdom |
| Piraeus Factoring S.A. | Corporate Factoring | 100,00% | Greece |
| Piraeus Multifin S.A. | Motor vehicles trading | 100,00% | Greece |
| Picar S.A. | City Link Areas Management | 100,00% | Greece |
| Bulfina S.A. | Property Management | 100,00% | Bulgaria |
| General Construction and Development Co S.A. | Property development/ holding company | 66,67% | Greece |
| Piraeus Direct Services S.A. | Call center services | 100,00% | Greece |
| Komotini Real Estate Development S.A. | Property Management | 100,00% | Greece |
| Piraeus Real Estate S.A. | Construction Company | 100,00% | Greece |
| ND Development S.A. | Property Management | 100,00% | Greece |
| Property Horizon S.A. | Property Management | 100,00% | Greece |
| ETVA Industrial Estates S.A. | Development/management of Industrial Areas | 65,00% | Greece |
| Piraeus Development S.A. | Property Management | 100,00% | Greece |
| Piraeus Asset Management S.A. | Mutual Funds Management | 100,00% | Greece |
| Piraeus Buildings S.A. | Property Development | 100,00% | Greece |
| Piraeus Leases S.A. | Finance Leases | 100,00% | Greece |

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| Name of Company | Activity | % holding | Country |
|---|---|---|---|
| Euroinvestment & Finance Public LTD | Asset Management, Real Estate Operations | 90,86% | Cyprus |
| Lakkos Mikkelli Real Estate LTD | Property Management | 50,66% | Cyprus |
| Philoktimatiki Public LTD | Land and Property development | 53,29% | Cyprus |
| Philoktimatiki Ergoliptiki LTD | Construction Company | 53,29% | Cyprus |
| New Evolution S.A. | Property, Tourism & Development Company | 100,00% | Greece |
| Imperial Stockbrokers Limited | Stock Exchange Operations | 100,00% | Cyprus |
| Imperial Eurobrokers Limited | Stock Exchange Operations | 100,00% | Cyprus |
| EMF Investors Limited | Investment Company | 100,00% | Cyprus |
| Euroinvestment Mutual Funds Limited | Mutual Funds Management | 100,00% | Cyprus |
| Bull Fund Limited | Investment Company | 100,00% | Cyprus |
| Good Works Energy Photovoltaics S.A. | Construction & Operation PV Solar Projects | 33,15% | Greece |
| Piraeus Green Investments S.A. | Holding Company | 100,00% | Greece |
| New Up Dating Development Real Estate and Tourism S.A. | Property, Tourism & Development Company | 100,00% | Greece |
| Sunholdings Properties Company LTD | Land and Property Development | 26,65% | Cyprus |
| Piraeus Cards S.A. | Financial services and consultancy | 100,00% | Greece |
| Polytropon Properties Limited | Land and Property development | 39,97% | Cyprus |
| Shinefocus Limited | Land and Property Development | 53,29% | Cyprus |
| Capital Investments & Finance S.A. | Investment Company | 100,00% | Liberia |
| Maples Invest & Holding S.A. | Investment Company | 100,00% | British Virgin Islands |
| Margetson Invest & Finance S.A. | Investment company | 100,00% | British Virgin Islands |
| Vitria Investments S.A | Investment Company | 100,00% | Panama |
| Piraeus Insurance Brokerage EOOD | Insurance brokerage | 99,98% | Bulgaria |
| Trieris Real Estate Management LTD | Management of Trieris Real Estate Ltd | 100,00% | British Virgin Islands |
| Piraeus - Egypt Asset Management Co. | Property Administration | 88,35% | Egypt |
| Piraeus Egypt Leasing Co. | Finance Leases | 98,03% | Egypt |
| Piraeus Egypt for Securities Brokerage Co. | Stock Exchange Operations | 98,02% | Egypt |
| Piraeus Insurance - Reinsurance Broker Romania S.R.L. | Insurance and Re-insurance Brokerage | 100,00% | Romania |
| Piraeus Real Estate Consultants S.R.L. | Construction Company | 100,00% | Romania |

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| Name of Company | Activity | % holding | Country |
|---|---|---|---|
| Iapetos Energy Photovoltaics S.A. | PV Solar projects development | 33,16% | Greece |
| Phoebe Energy Photovoltaics S.A. | PV Solar projects development | 33,16% | Greece |
| Orion Energy Photovoltaics S.A. | PV Solar projects development | 33,16% | Greece |
| Astraios Energy Photovoltaics S.A. | PV Solar projects development | 33,16% | Greece |
| Multicollection S.A. | Assessment and collection of commercial debts | 51,00% | Greece |
| Multicollection Romania S.R.L. | Assessment and collection of commercial debts | 51,00% | Romania |
| Olympic Commercial & Tourist Enterprises S.A. | Oper. Leases, Rent-a-car and long term rental of Vehicl. | 94,00% | Greece |
| Piraeus Rent Doo Beograd | Operating Leasing | 100,00% | Serbia |
| Piraeus Leasing Doo Beograd | Financial Leasing | 100,00% | Serbia |
| Piraeus Real Estate Consultants Doo | Construction Company | 100,00% | Serbia |
| Piraeus Real Estate Bulgaria EOOD | Construction Company | 100,00% | Bulgaria |
| Piraeus Real Estate Egypt LLC | Construction Company | 99,80% | Egypt |
| Piraeus Bank Egypt Investment Company | Investment Company | 97,93% | Egypt |
| Piraeus Best Leasing Bulgaria EAD | Auto leasing | 99,98% | Bulgaria |
| Piraeus Insurance Agency S.A. | Insurance - Agency | 100,00% | Greece |
| Piraeus Capital Management S.A. | Venture Capital Fund | 100,00% | Greece |
| Piraeus Insurance Brokerage Egypt | Insurance Brokerage | 96,01% | Egypt |
| Integrated Services Systems Co. | Warehouse & Mail Distribution Management | 96,99% | Egypt |
| Piraeus Wealth Management A.E.P.E.Y. | Wealth Management | 65,00% | Greece |
| PROSPECT N.E.P.A. | Yachting Management | 100,00% | Greece |
| R.E. Anodus LTD | Consultancy Serv. for Real Estate Devel. and Inv. | 100,00% | Cyprus |
| Erechtheas Investments & Holdings S.A. | Property Management | 100,00% | Greece |
| Solum Ltd Liability Co. | Property Management | 100,00% | Ukraine |
| Piraeus (Cyprus) Insurance Brokerage Ltd | Insurance Brokerage | 100,00% | Cyprus |
| O.F. Investments Ltd | Investment company | 100,00% | Cyprus |
| DI.VI.PA.KA S.A | Administrative and Managerial Body of the Kastoria Industrial Park | 60,41% | Greece |
| Piraeus Equity Partners Ltd. | Holding Company | 100,00% | Cyprus |
| Piraeus Equity Advisors Ltd. | Investment Advise | 100,00% | Cyprus |
| Piraeus Equity Investment Management Ltd | Investment Management | 100,00% | Cyprus |
| Piraeus FI Holding Ltd | Holding Company | 100,00% | British Virgin Islands |

| Name of Company | Activity | % holding | Country |
|---|---|---|---|
| Piraeus Master GP Holding Ltd | Investment Advise | 100,00% | British Virgin Islands |
| Piraeus Clean Energy GP Ltd | General partner of Piraeus Clean Energy LP | 100,00% | Cyprus |
| Piraeus Wealth Management (Switzerland) S.A. | Wealth Management | 42,25% | Switzerland |
| Curdart Holding Ltd | Holding Company | 100,00% | Cyprus |
| Tortilus Ltd. | Holding Company | 100,00% | Cyprus |
| Achaia Clauss Estate S.A. | Property Management | 74,36% | Greece |

### 4.2 Associate companies (equity accounting method)

| Name of Company | Activity | % holding | Country |
|---|---|---|---|
| Crete Scient. & Tech Park Manag & Dev. Co. S.A. | Scientific and technology park management | 30,45% | Greece |
| "Evros" Development Company S.A. | European community programs management | 30,00% | Greece |
| Project on Line S.A. | Information technology & software | 40,00% | Greece |
| Alexandria for Development & Investment | Investment Company | 21,57% | Egypt |
| Nike Shoes Company | Footwear Seller – Manufacturer | 38,56% | Egypt |
| APE Commercial Property Real Estate Tourist & develop. S.A. | Real Estate, development/ tourist services | 27,80% | Greece |
| APE Fixed Assets Real Estate Tourist & Development S.A. | Real Estate, development/ tourist services | 27,80% | Greece |
| Trieris Real Estate LTD | Property Management | 22,80% | British Virgin Islands |
| European Reliance Gen. Insurance Co. S.A. | General and life insurance and reinsurance | 30,23% | Greece |
| APE investment Property S.A. | Real Estate, development/ tourist services | 27,20% | Greece |
| Sciens International Investment and Holding S.A. | Holding Company | 28,10% | Greece |
| Ekathariseis Aktoploias S.A. | Ticket Settlements | 49,00% | Greece |
| Trastor Real Estate Investment Company | Real Estate investment property | 33,80% | Greece |
| Euroterra S.A. | Property Management | 29,22% | Greece |
| Rebikat S.A. | Property Management | 30,00% | Greece |
| Abies S.A. | Property Management | 30,00% | Greece |
| Atlantic Insurance Company Public LTD | General Insurances | 21,70% | Cyprus |
| ACT Services S.A. (former PIRAEUS ATFS S.A.) | Accounting and tax consulting | 49,00% | Greece |
| Exodus S.A. | Information technology & software | 50,10% | Greece |