**PIRAEUS BANK S.A.**
**EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**

on Friday, December, 19th, 2014 at 10:00 a.m., in Athens at the Grande Bretagne Hotel, "Grand Ballroom" Hall (1 Vas. Georgiou A' Str., 105 63, Athens)

**EXPLANATORY NOTES AND MOTION**
**OF THE BOARD OF DIRECTORS ON THE ITEMS OF THE AGENDA**

The Piraeus Bank shareholders are hereby invited by the Board of Directors (BoD) to discuss and resolve upon the following items of the agenda:

**1st Item: To resolve on the Bank's opting into the special regime enacted by article 27A of Law 4172/2013, as in force, regarding the voluntary conversion of deferred tax assets arising from temporary differences into final and –specific claims against the Greek State through the creation of a special reserve and the issuance and allocation to the Greek State of securities (conversion rights) representing the right to acquire ordinary shares without payment of a consideration. Granting of authorisation to the Board of Directors of the Bank to proceed with all actions required for the implementation of the provisions of article 27A of Law 4172/2013.**

| | Quorum | Majority |
|---|---|---|
| **Extraordinary GM** | 2/3 of share capital | 2/3 of represented votes |
| **1st Iterative GM** | 1/2 of share capital | 2/3 of represented votes |
| **2nd Iterative GM** | 1/5 of share capital | 2/3 of represented votes |

## A. Provisions of Regulation (EU) No 575/2013 with respect to the Regulatory Framework on Common Equity Tier 1.

Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June 2013 (the "Regulation"), establishes in Article 36, paragraph 1, point (c) a general rule pursuant to which credit institutions shall deduct from the Common Equity Tier 1 (CET1) deferred tax assets that rely on future profitability, i.e. the deferred tax assets which may only be realized in the event the institution generates taxable profits in the future.

Moreover, in accordance with Article 39.2 of the same Regulation, deferred tax assets that do not rely on future profitability cannot be deducted form own funds, stipulating, however, that these "shall be limited to deferred tax assets arising from temporary differences, provided that all the following conditions are met:

(a) they are automatically and mandatorily replaced without delay with a receivable tax credit in the event that the institution reports a loss during the formal approval of the annual financial statements of the institution, or in the event of liquidation or insolvency of the institution;

(b) an institution shall be able pursuant to applicable national tax law to offset a receivable tax credit referred to in point (a) against any tax liability of the institution or any other undertaking included in the same consolidation as the institution for tax purposesin accordance with said that law, or with

any other undertaking which is subject to supervision on a consolidated basis in accordance with Chapter 2 of Title II of Part One;

(c) where the amount of receivable tax credits referred to in point (b) exceeds the tax liabilities referred to in the same point, any such excess is replaced without delay with a direct claim on the central government of the Member State in which the institution is incorporated."

**B. Mitigating Legislative Initiatives Implemented in other EU countries**

Taking into Consideration the matters set out in under A above, and in order to safeguard the solvency of credit institutions from negative effects, some EU Member States (namely Italy, Spain and Portugal) have already adjusted their respective national laws establishing mechanisms that enable the credit institutions to maintain the recognition of certain deferred tax assets on their regulatory capital and therefore mitigate the respective negative effects of the implementation of CRR (Capital Requirements Regulation) and CRD IV (Capital Requirements Directive IV).

The mechanism envisaged in these countries effectively allows the conversion of deferred tax assets (DTAs) into deferred tax credits (DTCs) as against the State, in specific situations, such as the occurrence of accounting losses (conversion by the proportion of losses vs. total equity), liquidation or insolvency of the credit institution (conversion of all eligible assets).

**C. Current Greek legislation framework on DTAs following the approved amendment on the reformulation of Article 27A of the Income Tax Code**

Following enactment of the original Article 27A of Greek Law 4172/2013, which allowed for the conversion of deferred tax assets to deferred tax credits against the Hellenic Republic under certain conditions, the Ministry of Finance deemed it expedient for the purposes further substantiating the fulfilment of the requirements set by the new regulatory framework (Basel III and CRR), to introduce certain amendments to the aforesaid Article 27A, replacing it with Article 5 of Law 4303/2014 (promulgated in Government Gazette A 231/17.10.2014), as now in effect.

In this new framework, under certain conditions (e.g. for the conversion of DTAs to DTCs) the precondition is that there are accounting losses for the respective year, commencing as of tax year 2015), DTAs related to:

(a) unamortized losses (according to the tax legislation) resulting from the participation in PSI+ and

(b) cumulative provisions for impairment of loans (excluding those concerning Group Companies or related parties) existing on 31 December 2014 and included in the Financial Statements of the respective year, may be converted into deferred tax credits (DTCs) as against the Hellenic Republic, according to the following formula:

$$\text{DTC} = \text{Eligible DTA} \times \frac{\text{Net loss of year}}{\text{Equity (excl. net loss of year)}}$$

As a result of the above conversion mechanism of DTAs to DTCs ("the conversion mechanism" or "the mechanism"), the DTAs can be converted into DTCs from fiscal year 2016 onwards, and accrue to tax year 2015 onwards, allowing the Bank to set off these DTCs against its corporate income tax liability (including income tax liabilities of its Greek subsidiaries, once provisions on taxation of profits at group level have been introduced into Greek legislation) of the respective year.

In the event that the corresponding income tax liability for the fiscal year where the accounting loss arose is not sufficient to offset the DTC in full, the remaining non-offsetable DTCs held by the Bank give rise to a direct refund claim from the Greek State. In such a case, the Bank shall issue, without a consideration, conversion rights for common shares in favour of the Greek State.

These conversion rights issued in favour of the Greek State correspond to common shares of total market value representing 110% of the non-offsetable DTCs against the Hellenic Republic. For the purpose of the conversion, the market value of the shares of the Bank is the weighted average stock exchange price over the last 30 working days prior to the date when the above tax credit becomes due and owing.

To implement the above, in the event such conversion arises, the Bank should form a special reserve (corresponding to 110% of non-offsetable DTCs), set aside exclusively for the share capital increase and the issuance of conversion rights representing the right to acquire common shares in favour of the Hellenic Republic. Conversion rights shall be exercised without a consideration; such exercise shall not constitute a public offer.

These conversion rights are convertible into common shares and may be issued above par. These conversion rights are also freely transferable by their holders. Within a reasonable time after the issue date, the existing shareholders have a call option, in line with their percentage participation in the Bank's share capital at the time of issue of the conversion rights.

The conversion mechanism (of DTAs to DTCs) is also triggered in the event of a Bank's bankruptcy, restructuring, liquidation or special liquidation, as provided for in Greek legislation, or European legislation as transposed into Greek legislation. Any amount of deferred tax credits not offset with the Bank's corresponding annual corporate income tax liability gives rise to a direct refund claim against the Hellenic Republic.

The new legislative provision also provides for the issuance of a Cabinet Act to address issues related to implementation of the mechanism, such as the monitoring and certification of the yearly non-offsetable deferred tax credit, its collection method, which would be either in cash or cash equivalents as defined in IAS 7, governing the conversion rights, the transfer details, the transfer value, the time and the procedure for the exercise of the call options by the shareholders, and the time at which they become tradable on a regulated market etc. The Cabinet Act has not yet been issued.

Finally, according to the new legal framework, in order for the Bank to opt in to the said Conversion Mechanism regime, the relevant resolutions of the General Meeting are required. These resolutions should address the accession to the said regime, the formation of the special reserve, the (free) issuance of conversion rights, and capitalization of the said special reserve. Special authorization should be granted to the Board of Directors to take the steps required to implement the decision reached by the General Meeting. The said resolutions are duly communicated to the regulatory and tax authorities.

A similar decision-making process is required for the Bank to opt out of the Conversion Mechanism regime. In addition, for the opt-out, pre-approval by the relevant regulatory authority is required.

The aforesaid resolutions of the General Meeting must be reached by the enhanced quorum and the majority required under Company Law 2190/1920 for share capital increases (2/3 of share capital and 2/3 of voting rights represented, respectively). The above resolutions are subject to the approvals each time required by law.

**Clarification of the purpose of the recent approved amendment of Article 27A of Law 4172/2013 as reflected to the explanatory note**

With regard to the foregoing, the explanatory memorandum of the new Article 27A of Law 4172/2013, as replaced by the recently enacted Article 5 of Law 4303/2014 (Government Gazette A 231/17.10.2014), states the following:

"The proposed reformulation of Article 27A of the Income Tax Code was deemed expedient so as to ensure full substantiation of fulfilment of the requirements of the regulatory framework (under Basel III and CRR), and for the purposes of full alignment with the special Greek regulatory framework regarding the conversion of deferred tax assets to deferred tax credits, as has already been done in other countries of southern Europe — Portugal being the most recent example — to enable credit institutions to address the problem of regulatory capital shortfalls. The said Article concerns income tax corresponding to temporary differences attributable to the debit difference arising from participation in the PSI, and cumulative provisions and other losses in general due to credit risk, being losses arising from the write-down of asset impairments (without provisions having been made beforehand) regarding assets existing through to 31 December 2014.

Paragraph 1 allows the legal entity to opt-in to the special regime provided for by Article 27A as well as opt-out, by virtue of relevant decisions of the General Meeting of shareholders. Inclusion in the special framework of this Article ends by virtue of a decision of the legal entity's General Meeting of Shareholders, following a relevant motion put forward by the Board, which shall be taken by the end of the year prior to that which the decision concerns, i.e. that in which the tax asset under paragraph 2 is generated.

The legal entity notifies the Tax and Regulatory Authorities of its decision to opt in to the regime, while to opt out prior approval by the Regulatory Authority is required because of the impact this decision may have on the legal entity's regulatory capital.

In addition, by virtue of paragraphs 2, 3, 4, 5 and 6 it is established that the legal entity is obliged to carry out a free issue of titles representing rights of ownership of common shares ("conversion rights"), in line with the provisions of Company Law 2190/1920, which are held by the Hellenic Republic and correspond to common shares of total market value equal to one hundred and ten percent (110%) of the amount of the tax asset collectable. To this effect, this legal entity forms an equivalent reserve intended for capitalisation. Both the acquisition of titles by the Hellenic Republic and their conversion is carried out without payment of a consideration. Within a reasonable time, the shareholders of the legal entity (except shareholders subject to special provisions, such as law 3864/2010, which impose restrictions) are entitled to exercise call options on the conversion rights.

Accordingly, existing shareholders are able to maintain their percentage participation in the legal entity, paying the relevant cost to the Hellenic Republic. If this right is not exercised, the Hellenic Republic may transfer the rights as well as the acquired shares arising from their conversion at any time and to anyone against a consideration. The acquisition and exercise of conversion rights, and the exercise and transfer of call options do not constitute a public offer. It is noted that such rights shall be negotiable in regulated markets.

As regards the reference to offsetting at the level of companies of the same corporate group ("associated companies" as defined by the present law) for the tax year that the approved financial statements concern, this provision shall apply to the part to which group taxation is possible.

In line with the mechanism described hereinabove, the immediate fulfillment of the claim of the legal entity against the Hellenic Republic shall generate a counter-claim of the Hellenic Republic against the legal entity. Such counter-claim is in excess of its liability as it is equal to 110% of the amount of the claim payable, and it shall be fulfilled through the free provision to the Hellenic Republic, initially, of such legal entity's conversion rights. This is considered to offset sufficiently any likelihood of financial or fiscal loss to the state, which, it should be noted, may transfer the conversion rights either to existing shareholders, provided that they exercise their call option, or to any third party in exchange for cash.

## D. The importance and consequences of the Bank's opting-into the special regime.

The Bank's opting-into in the aforesaid legislative framework is expected to have a positive impact on the Group's regulatory capital (CET1), with the full implementation of Basel III, since it enables the regulatory capital to recognize the total DTAs that may be converted into DTCs.

It is mentioned, on an indicative basis, that according to the Bank' s financials on 30.09.2014, the DTAs of the Bank satisfying the features required by the provisions of article 27A of Law 4172/2013, (including those of the recently merged Geniki Bank), amounted to **3.448.377.708** euros, **1.281.586.676** of which corresponded to unamortized losses resulting from the debit difference arising from participation in the PSI+ and **2.166.791.032** euros corresponded to cumulative provisions for impairment of loans.

| | **DTA Provisions of impairment of loans** | **DTA Unamortized losses resulting from PSI** | **TOTAL** |
|---|---|---|---|
| Piraeus Bank | 2.082.696.839 | 1.281.586.676 | 3.364.283.515 |
| Geniki Bank | 84.094.193 | 0 | 84.094.193 |
| **Total** | **2.166.791.032** | **1.281.586.676** | **3.448.377.708** |

Based on the abovementioned amount of DTAs on 30.09.2014, the opting-into of the Bank to the special regime of article 27A of Law 4172/2013 on 1/1/2015 and the following non-deduction of that amount from the Common Equity Tier One will allow an increase of the Fully Loaded CET-1 of Piraeus Bank's Group by 4,8 percentage points, e.g. from 7,6% to 12,4%.

**Benefits and possible risks arising from the opting-into the special regime of the provisions of article 27A of Law 4172/2013.**

**Benefits**

- Significant increase, of the pro-forma 9month results (30/09/2014), of the Group' s capital adequacy ratio, following full implementation of Basel III by 4.8 percentage points to 12.4%.
- Opting-into the mechanism has an impact on Common Equity Tier One equivalent to a capital increase of 2,7 billion euros.

**Possible Risks**

- In the event that the corresponding income tax liability for the fiscal year where the annual loss which has arisen is not sufficient to offset the DTC in full, and for the remaining non off-settable DTCs, the Bank has an immediate claim against the Hellenic Republic, however, this generates a counter- claim of the Hellenic Republic against the Bank which exceeds the Bank's liability given that it is equal to 110% of the amount of the claim payable and which will be fulfilled with the prima facie free provision to the Hellenic Republic, of conversion rights to common shares of the legal entity. The number of shares to be issued in the event the aforesaid situation arises cannot be predicted.
- On the date of the Bank's opting-into the regime/ mechanism, the Cabinet Act which will address and resolve all issues related to the implementation of the mechanism has not yet been issued.
- The opting-out of the mechanism by the Bank is possible under conditions and is subject to the prior approval of the Regulatory Authority due to the possible impact this decision may have on the Bank's regulatory capital, and as such, is therefore conditional to external factors.

**Clarifications and notices to be taken into account for the evaluation of the above:**

1. The conversion into DTCs is carried out solely as a proportion of the Equity and in the event of annual losses (as a percentage of the annual loss to Equity)
2. DTC is transferable, in whole or in part, to profitable Greek subsidiaries (this is nevertheless conditional on future changes to Greek legislation)
3. DTC may be set off against corresponding corporate income tax for the respective year
4. Shareholders have the call-option to acquire the conversion rights for the Greek State for a limited period of time.
5. Possible reduction of the DTC, following audit of the Tax Authority, implies the issue of a tax corrective act but such a case does not imply any claim of the Bank or anyone else against any holder in respect of the conversion rights or on any other grounds. That means that, in case the DTC is reduced or increased following tax audit, the number of the conversion rights or the corresponding shares is not accordingly readjusted.
6. The Bank's business plan does not provide for the possibility of the creation of a special reserve and capital raise for the purposes of the issuance of the conversion rights in favor of the Hellenic Republic. Nevertheless, such possibility cannot be excluded due to external economic and regulatory risks in addition to other risks deriving from the bank's activities.
7. According to the Bank's restructuring plan which was approved by the DG Competition and the Bank of Greece, the Bank is expected to report earnings for the year 2015 and onwards and therefore the risk of any conversion appears to be limited.

## E. Procedure of the opting-into the special regime of article 27A of Law 4172/2013.

The opting-into the special regime is voluntary. For the purposes of opting-into the regime, a Shareholders General Meeting's resolution, following a relevant motion of the Board of Directors is required, with respect to the special reserve formation, the free issuance of conversion rights in favor of the Greek State, the share capital increase for the purpose of capitalization of the relevant special reserve and the granting of the authorizations to the Board of Directors to proceed with all the necessary actions for the implementation of the General Meeting's decisions. The resolution of the GM is reached by enhanced quorum and majority, e.g. by the quorum of the 2/3 of the share capital and by the majority of the 2/3 of the represented votes and is subject to the approvals each

time required by law. The abovementioned resolution is notified to the TAX and Regulatory Authorities.

In view of all of the foregoing and taking into consideration that the benefits of opting-into the regime of article 27A of Law 4172/2013, and especially the immediate positive impact the opting-into will have to the Bank's regulatory capital, surpass the possible risks, the Board of Directors suggests that the General Meeting decides in favour of the opting-into the regime, as in force, and that it grants the authorization to the Board of Directors to proceed with all the necessary actions for the implementation of the matters set out above. The respective motion of the Board of Directors is available here (*link).*

**2nd Item : Miscellaneous announcements**

This item usually includes announcements regarding issues that the Board of Directors wishes to disclose to the General Meeting, but do not require voting or resolution (e.g. announcement of the resignation or replacement of a member of the Board of Directors, the course of the Bank's operations since the beginning of the fiscal year, etc.).