PIRAEUS
BANK
GROUP

CAPITAL ADEQUACY & RISK MANAGEMENT REGULATORY DISCLOSURES ON CONSOLIDATED BASIS FOR THE YEAR 2008 (PILLAR III)

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 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 31.12.2008 data of Piraeus Group.

Figures 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 31.12.2008 Consolidated Financial Statements are sufficiently reasoned.

This report is available in the Bank's internet site:
http://www.piraeusbank.gr/Documents/internet/Enimerosi_Ependiton/Etairiki_Diakibernisi/pylonas_3.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 constitutes 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

In the Appendix subsidiaries and associates companies of the Group, based on the regulatory consolidation, are quoted as well as with a concise description of their activity.

Major Remarks:

1. The terms and definition of exposure and capital differ between IFRS and the new regulatory, capital adequacy framework.
2. IFRS non-performing loans differ from those imposed by the new regulatory framework as:
    - Materiality rule[1] is implemented in the regulatory framework
    - Non-performing loans for less than 90 days which are classified as "Regulatory High Risk" **are not** considered as non-performing for IFRS purposes.

[1] According to the 2588/20.08.07 Act of Bank of Greece an exposure is material "past due" when **all** the following criteria are met

- The exposure is past due for more than 90 days **and**.
- The amount due exceeds **both** the following thresholds:
    - 5% of the predefined installments have been set, or 2% of the current limit, for overdraft accounts or other revolving exposures not served through predetermined installment, and
    - € 500 for corporate exposures, €100 for exposures covered by real estate collateral and €50 for other type of exposures.

3. Under IFRS, total credit risk exposure of financial derivatives instruments differs from the respective exposure according to the new regulatory framework.
4. There are differences in the methods of consolidation between accounting and regulatory reporting.

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	**31.12.2008**
Share capital	1.571.923
Share premium	927.775
Less: treasury shares	(167.321)
Minority interest	149.051
Available for sale reserve	(162.414)
Legal reserve and other reserves	(15.173)
Retained earnings	721.359
Hybrid capital	201.444
Less: intangible assets	(302.994)
Total regulatory adjustments on Tier I capital	62.255
Total	**2.985.905**
Tier II Capital	
Subordinated debt	762.302
Total regulatory adjustments on Tier II capital	(36.043)
Total	**726.259**
Regulatory Capital	**3.712.164**

2.2 *Capital Adequacy*

2.2.1 Internal Capital Process

Piraeus Group is conducting an Internal Capital Assessment Process (ICAAP). This procedure involves the identification and assessment of the Group's undertaken 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.

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 materiality.

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 31/12/2008 is provided in the following table:

Capital Adequacy Ratios	**31.12.08**
Tier I Capital Adequacy Ratio	8,0%
Total Capital Adequacy Ratio	9,9%

The main objectives of the Group regarding the management of capital adequacy are summarised as follows:

- 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 equityholders.
- Retain a sound capital base to support Senior Management's business plans.

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

P I R A E U S G R O U P

Capital Requirements for Credit, Market and Operational Risk - 31/12/2008

In € '000.

Total Capital Requirements for Credit Risk	31.12.2008
Central Governments/ Central Banks	17.353
Regional Governments, Local Authorities and Public Sector Entities	5.216
Administrative bodies and non-profit organizations	12.240
Financial Institutions	62.673
Corporate customers	1.382.578
Retail customers	495.725
Exposures Secured by real estate property	296.634
UCITS	735
Regulatory High Risk categories	12.525
Past due items	79.570
Equities & Participations in Associate companies	31.591
Other Assets	193.619
Securitisation positions	169.871
Total	**2.760.330**
Total Capital Requirements for Market Risk	
Position Risk	34.753
Counterparty & Settlement Risk	10.850
Foreign Exchange Risk	17.055
Total	**62.658**
Total Capital Requirements for Operational Risk	**177.234**
Total Capital Requirements	**3.000.222**

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

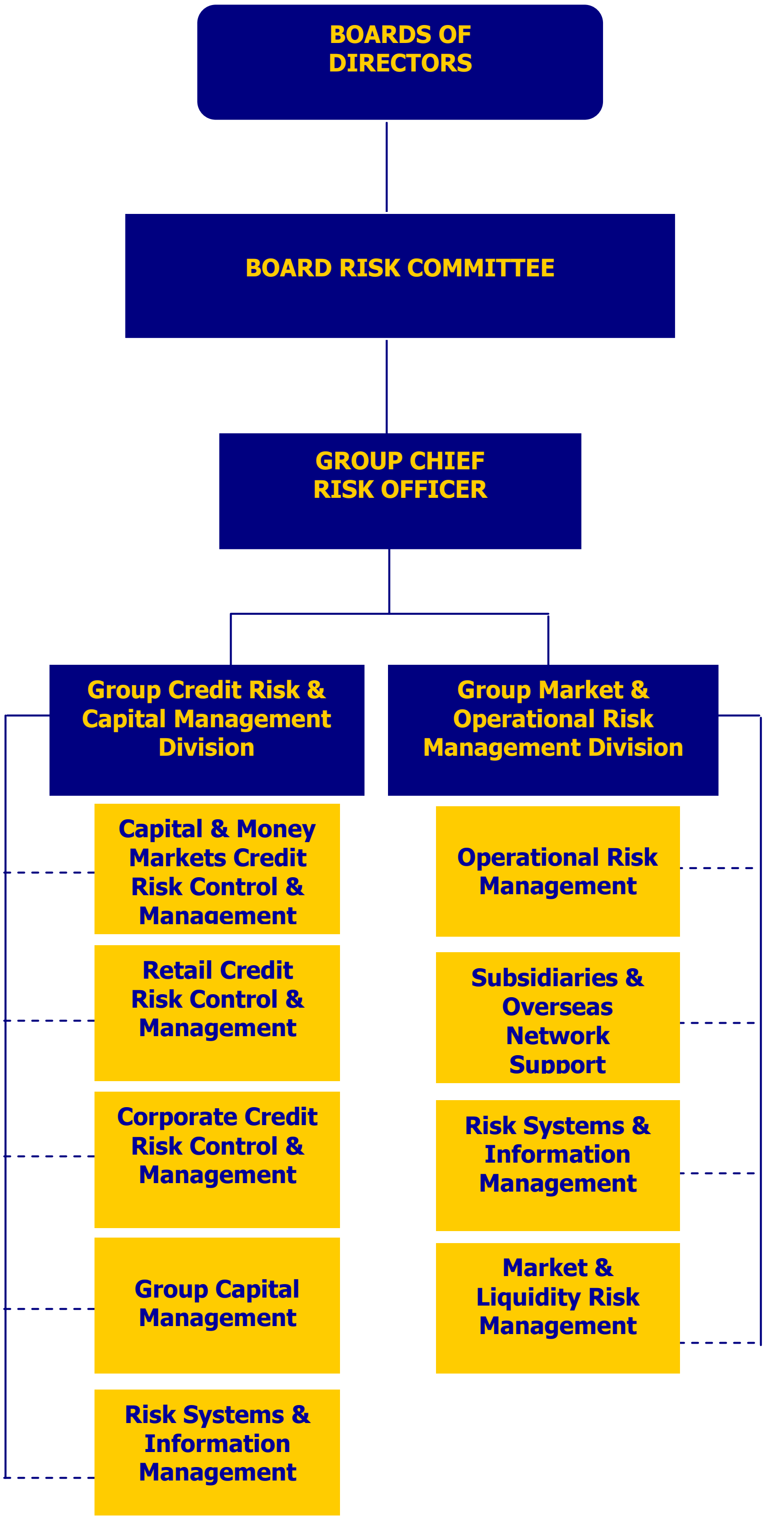
3.1 General Obligations

The Group's business activity is interrelated with the undertaken financial risks. The Management, aiming at Group's sustainable business activities and continuity, has as its priority target the constant development and implementation of an effective risk management framework for the mitigation of possible negative consequences in Group's financial results.

The Bank's Board of Directors has the responsibility to develop and supervise the risk management framework. Aiming at covering all risk types, managing their early and specialized treatment as well as the required coordination, the Board of Directors has appointed the Board Risk Committee (BRC) as responsible for the implementation and supervision not only for the principles but also for the financial risks' management policy. BRC meets at least once every quarter and reports to Board of Directors on its activities.

The existing risk management policies and procedures have been developed for the prompt detection and analysis of the Group's undertaken risks, for the establishment of suitable limits and control systems, as well as for the systematic risk monitoring and the compliance with the approved limits. The Group reviews on an annual basis the sufficiency and the effectiveness of the risk management framework in order to meet the requirements set by the markets' dynamics, in changes in the offered products and in best international practices.

Group Risk Management is operating within Piraeus Group, having the responsibility for planning, specializing and implementing a risk management framework according to the guidelines set by the BRC. Group Risk Management is comprised of the Group Credit Risk and Capital Management Division and the Group Market and Operational Risk Management Division. Internal Audit is responsible for providing an independent review on the integrity of overall risk management activities and ensures the effectiveness of the applied risk management procedures.



The Group monitors in a regular basis the following risks arising from 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 unable to fulfil their contractual/transactional obligations.

Credit risk is considered as the most significant for the Group, and its efficient monitoring and management constitutes a top priority for the Management. The Group's overall exposure to credit risk mainly results from the 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 financial instruments. 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 Group's credit policy that describes credit risk management principles ensures uniform and effective credit risk management. Piraeus Group applies a uniform policy and practice with respect to the credit assessment, approval, renewal and monitoring procedures. All credit limits are revised and/or renewed at least once a year, while the competent approval authorities are defined based on the size and the category of the total credit risk assumed by the Bank Group per debtor or group of associated debtors.

The Bank's Board of Directors has assigned the Board Risk Committee (BRC) the responsibility to enforce risk management practices. The BRC monitors and evaluates the credit risk entailed in daily Group's activities, while at the same time it supervises and controls the appropriate implementation of the credit risk policies.

In Group Risk Management a separate Credit Risk and Capital Management Division operates for the continuous monitoring, controlling and measuring of Group's credit risk exposures against corporates, individuals, financial institutions and central governments as well as the undertaken counterparty credit risk for products traded in capital markets.

Credit Risk Measurement and Monitoring

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 which is an essential condition 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 Receivables***

For credit risk measurement purposes involved in the Group's loans and advances at a counterparty level: (i) a customer's creditworthiness and the probability of defaulting on their contractual obligations is systematically assessed, (ii) the Group's current exposure to credit risk 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. The 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 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 reviewed at least on an annual basis. The ratings are also reviewed 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 arising 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 (MRA) 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 new regulatory framework (Basel II), separate credit rating models have been developed and are implemented for specialized lending.

Within the framework of the continuous improvement of credit rating models, and methodologies, during 2007 the process of optimization, calibration and validation was initiated in order to adjust the MRA model for the special characteristics regarding large, small/medium sized enterprises. Default rates analysis and accuracy ratios results, drove the decision to optimise the MRA system for those borrowers with sales over €2.5 mil. (MRA Corporate) and the implementation of a new credit rating system for borrowers with sales less than €2.5 mil. (MRA SME model).

The process of validation, optimization and calibration of the corporate credit rating model was completed in January 2009. The final approval of the credit rating model by the Bank will take place after the User Acceptance Test (UAT) is completed in March 2009. The development and calibration process of MRA SME model has already been started and its incorporation in the approval process is estimated to be completed in June 2009.

The Corporate Credit borrowers are rated in fourteen (14) grades, which correspond to the different levels of credit risk and relate to different rates of default probability, allowing for the provisioning against specific exposures. Each rating grade is associated with a specific business development/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 shortly going to develop and 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). The above mentioned models are reviewed at least on quarterly basis and constitute the basic components for the estimation of the risk parameters of Piraeus Bank (Probability of Default and Loss Given Default models).

Monitoring the Bank's current credit risk exposure

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

Recovery rates based on the 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. In general, the lower the credit rating of a borrower, the higher the probability of default on their obligations, and therefore the collateral, security and guarantees required should be correspondingly of better quality in order to ensure the highest possible recovery rate.

- ***Securities and other bills***

For the measurement and evaluation of credit risk entailed in debt securities, external ratings from rating agencies are used, such as Moody's, Standard & Poor's or other similar organizations. The amount of the Group's exposure to credit risk from debt securities and other bills is measured based on the market value of on or off balance sheet exposures and/or positions.

- ***Credit risk Limits***

Piraeus Group manages controls and mitigates its credit risk exposure and concentration using the credit limit system. Credit limits define the maximum acceptable undertaken risk per counterparty, per group of counterparties, per product and per country. Additionally, limits are set and implemented against exposures to credit institutions. The Bank's total exposure to debtors' credit risk, including financial institutions, is further controlled by the implementation of sub-limits, which cover on- and off-balance sheet exposures, as well as daily financial positions, such as FX Futures.

In order to set its customer limits, the Group takes into consideration any collaterals or security that reduces the level of credit risk assumed. The Group classifies the risk of its loans and advances in risk categories depending on the type of the relevant collaterals and securities and their potential liquidity. The maximum credit limits that may be approved per risk category are determined by the Board of Directors. In Piraeus Group, no credits may be approved by a single officer and normally the approval by three officers is required, except for consumer loans and credit cards, provided that they are in accordance with the Credit Policy criteria. Approval authorities have been established according to the levels of credit risk, and they have a particularly important role in shaping and safeguarding the overall quality of the Group's credit portfolio.

Piraeus Bank's credit limits are valid for a maximum of twelve months and are subject to annual or earlier revision. The responsible or upper approval levels could under special circumstances set the duration of the credit limit less than twelve months. Approved limits monitoring is performed on a daily basis and any violations are reported and handled timely.

- ***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 economic conditions. Piraeus Bank Group systematically performs 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 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. Within this stress testing framework, loans and claims of the Group to borrowers located in Greece and abroad are examined, as well as bond credit exposures.

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 €5.46 million on 31/12/2008. Total VaR is broken down to € 2.09 million for interest rate risk, € 4.27 million for equity risk, € 2.64 million for foreign exchange risk and € 0.11 million for commodities risk. The diversification effect for the total portfolio amounted to € 3.65 million, which reduces the overall trading book Value at Risk. During 2008 there was a decline in the trading book's total Value at Risk mainly due to the decrease in the size of the equities portfolio.

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 2008, the Group's risk profile did not change significantly compared to the previous year, and the market risks assumed ranged 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 Management

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 considers liquidity risk management as a key priority. During 2008, due to the adverse liquidity conditions that prevailed over the international markets, 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 were 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 and the cost of deposits..

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 2008, the Group managed the adverse market liquidity conditions in an effective manner, maintaining and further expanding its funding sources through: a) issuance of € 800 million (securitisation of mortgage loans) and € 1,750 million (securitization of corporate loans), b) interbank Schuldschein loan of €450 million and c) €50 million long term (12 years) loan from the European Investment Bank.

High 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.

Finally, Piraeus Bank participates in the Greek Government's initiative to enhance the liquidity position of the Greek Banking system. Specifically, funds of € 750 million have already been drawn through the special issue of Greek Government bonds against eligible collateral.

3.1.4 Operational Risk

Piraeus Bank Group acknowledges operational risk as a distinct type of risk and aims to establish and maintain a consistent and integrated approach to the operational risk management across all its business units, as well as its subsidiaries. Group Management has decided to implement and constantly enhance an integrated and effective Operational Risk Management (ORM) framework fully harmonized with best practices and regulatory requirements. This framework relies on the following fundamental principles:

- Operational Risk is assumed and managed at the Business Unit level and as close to its original source as possible. The implementation of the ORM framework and the relevant methodologies at Group level is supervised and coordinated centrally by the Group Market and Operational Risk Management Division.
- The Operational Risk Management framework:
  - is consistent and effective in the identification, assessment, measurement, monitoring and mitigation of this type of risk
  - includes documented methodologies and procedures
  - covers 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 information (including loss data)
  - is regularly reviewed and adjusted according to changes in the Group's activities and risk profile.

By implementing the ORM framework across its activities, the Group aims at achieving business and strategic objectives, including:

- improvement of its operations and its Internal Control System
- minimization of financial losses caused by Operational Risk incidents
- awareness and understanding of Operational Risk management at all levels within the Bank
- 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 human resources
- continuous alignment with best practices and regulatory requirements (qualitative and quantitative).

The ORM framework was successfully implemented in the Bank during 2008. Furthermore, its gradual implementation at Group subsidiaries has started, taking into consideration the individual size and scope of activities of each Subsidiary, as well as any local supervisory requirements.

With regard to the identification, assessment, measurement, monitoring and mitigation of the Operational Risk, the Bank successfully applied the Risk and Control Self-Assessment (RCSA) methodology to all its Units in 2008. Furthermore, in 2008, 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 eight (8) regulatory Business Lines and 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 cover partial or total recovery of the actual losses induced by Operational Risk incidents.

- **Human Resources Training.** The Group provides its people 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 entities, effective management of Operational Risk and full alignment with the regulatory framework.

P I R A E U S G R O U P

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.

In the categories 91 – 180 days in delay and over 180 days are included the claims with **material temporary delay > 90 days and the claims in permanent delay and doubtful debts** which do not have any provisions.

- ***Impaired Loans***

The category includes all the impaired loans. 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

The Group examines on a regular base for the existence of substantial and objective indications that a claim has been impaired. For that purpose, impairment tests are performed every quarter in accordance with the IFRS principles and methodology, and provisions are made accordingly.

A claim is impaired when the accounting value exceeds the expected recovery. Recovery is defined as the total present value of payments and of the potential liquidation of collaterals or securities in case the debtor is incapable to repay. In case there are indications that the Group will not be able to regain the whole amount of claims according to the conventional terms, a provision for the claim's impairment will be taken. The provision's amount is the difference between the accounting and recovery value. The Group, according to IAS 39, examines on a quarterly basis each claim or group of claims to evaluate if there are reasons to perform the impairment test. If such reasons exist, the recovery value of the claim or groups of claims is calculated and a provision for the claim's impairment is taken. The amount of the provision is included in the Bank's profit and loss statement

Objective indications that a loan or groups of loans is impaired or is uncollectible are the following:

- ✓ Substantial financial difficulty of debtor
- ✓ Violation of the terms of the loan contract (e.g. failure or delay of payment of interest)
- ✓ The Group, for financial or legal purposes related to the debtor's financial difficulties, makes an arrangement to restruct its claim, which would not have been considered under different circumstances.
- ✓ There is possibility of debtor's bankruptcy or financial reorganisation.
- ✓ Sufficient evidence that since the initiation date of a certain group of loans, there is a measurable reduction in the expected future repayments, even though this reduction cannot yet be identified, by investigating each loan in the group individually, including:
    - Unfavourable changes in the regular repayment of the rest of the certain Group's debtors (e.g. increase in the number of delayed payments due to problems in the sector),
    - International or local economic conditions which relate to the delays in payment of the loans of the group (e.g. increase in unemployment percentage in the specific geographical region of debtors, depreciation of value of real estate collateral in the same region, or other negative trends in the functioning of the sector, which affect the debtors included in the specific group).

The impairment test and provisions booking is performed at the loan level for all claims considered by the group significant, and collectively for those that are considered of less significance. Impairment is performed on a collective basis for loans with common risk characteristics (loan portfolios), which individually are not considered significant. Also, non- impaired loans are assessed on a collective basis.

To perform the impairment test, claims are grouped according to similar credit risk characteristics (e.g. based on Group's evaluation criteria, which take under consideration the nature of financial figures, the sector and geographical region, as well as the collateral type and other factors). Those characteristics are related to the evaluation of future cash flows for pools of such assets, indicating the debtors' capability to repay the whole amount of past due claims according to the terms of the contract.

The future cash flows of a group of loans, examined on a collective basis in order to perform the impairment test, are estimated based on contractual cash flows of the pool of claims and according to the historical loss of assets with similar credit risk characteristics to the pool. Historical recovery data are adjusted according to current observations, in a way to reflect current circumstances which did not influence the period concerning the historical recovery data as well as to eliminate the impact of the historical period that do not exist today.

If in a later period the provision is reduced and this reduction is related to objective facts that took place after the provision was made, as for example improvement in the debtor's creditworthiness, then the provision is reduced and the difference is entered in the profit and loss statement.

Credit Risk Exposure 31/12/2008[2]

In € '000.

	31.12.2008	Average
Loans (after provisions)		
Loan to individuals:		
Mortgages	6.635.531	6.181.541
Consumer/personal loans	4.280.950	3.938.461
Credit cards	717.586	653.063
Loan to corporate entities:		
Small/Medium entities	18.310.105	15.905.964
Large Corporate entities	8.368.497	7.621.698
Total	**38.312.669**	**34.300.727**
Other Receivables		
Treasury bills and other eligible bills	207.023	210.921
Loans and advances to credit institutions	2.348.289	2.480.090
Derivative financial instruments – assets [3]	366.253	224.735
Bonds of trading portfolio	1.236.441	2.796.080
Bonds at fair value through Profit & Loss	82.709	295.423
Debt securities – receivables	527.699	263.850
Bonds of investment portfolio	4.044.641	2.629.393
Other assets	1.002.172	980.757
Total	**9.815.227**	**9.881.247**
Exposures relating to off-balance sheet assets [3]		
Letters of guarantee	3.320.462	2.957.764
Letters of credit	266.644	255.260
Committed unused limits	12.715.181	12.236.025
Total	**16.302.287**	**15.449.048**
Total Credit Risk exposures	**64.430.182**	**59.631.022**

[2] *Based on the Group's Consolidated Financial Statements as of 31.12.2008 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.*

[3] *Total exposure to derivatives' credit risk based on IFRS as well as off balance sheet items differs from the respective exposure under the new capital adequacy regulatory framework because of the different calculation rules.*

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Geographical distribution[4] of Group's major credit exposures at 31/12/2008

In € '000.

	Greece	Southeast Europe [5]	Other Countries [6]	Total
Treasury bills and other eligible bills	-	40.047	166.977	**207.024**
Loans and advances to credit institutions	2.080.048	32.273	235.968	**2.348.289**
Derivative financial instruments - assets	356.091	10.162	-	**366.253**
Bonds of trading portfolio	1.166.899	69.542	-	**1.236.441**
Bonds at fair value through profit or loss	82.709	-	-	**82.709**
Loans and Advances to Customers				
Loans to individuals				
- Mortgages	5.950.843	569.505	115.183	**6.635.531**
- Consumer – personal loans	2.564.095	1.431.073	285.782	**4.280.950**
- Credit cards	661.789	39.460	16.337	**717.586**
Loans to corporate entities	18.903.509	2.762.022	5.013.071	**26.678.602**
Bonds of investment portfolio	3.809.884	61.221	173.536	**4.044.641**
Debt securities - receivables	489.961	-	37.738	**527.699**
Other assets	876.784	62.117	63.270	**1.002.171**
Total	**36.942.612**	**5.077.422**	**6.107.862**	**48.127.898**

[4] *Based on the Group's Consolidated Financial Statements of 31.12.2008 according to the International Financial Reporting Standards (IFRS).*
[5] *Southeast Europe: Bulgaria, Romania, Ukraine, Serbia, Albania, Cyprus.*

[6] *Other: Egypt, USA, United Kingdom.*

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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	**224.539**	**237.957**	**74.782**	**634.096**	**1.171.374**
> 90 days	107.243	37.123	14.621	249.670	**408.657**
Impaired loans	117.296	200.834	60.161	384.426	**762.717**
Southeast Europe[7]	**25.107**	**85.850**	**7.411**	**177.690**	**296.058**
>90 days	19.026	19.603	497	50.562	**89.688**
Impaired loans	6.082	66.247	6.914	127.127	**206.370**
Other Countries [8]	**774**	**11.223**	**2.974**	**191.441**	**206.412**
>90 days		5.012	754	16.612	**22.378**
Impaired loans	774	6.211	2.220	174.829	**184.034**
Total past due and impaired loans					
>90 days	**126.269**	**61.738**	**15.872**	**316.845**	**520.724**
Impaired loans	**124.152**	**273.293**	**69.295**	**686.382**	**1.153.122**
Total	**250.421**	**335.030**	**85.167**	**1.003.226**	

Impaired loans as of 31/12/2008 include loans of € 284 mil. which are not past due over 90 days

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

[8] *Other: Egypt, USA, United Kingdom.*

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

In € '000.

Loans to individuals	Mortgages	Consumer/ Personal loans	Credit cards	Total
Balance at 01/01/2008	15.519	121.081	30.126	**166.726**
Opening balance of new subsidiaries		1.574	180	**1.754**
Charge of the year	41.650	94.571	27.973	**164.194**
Loans written off	-4	-5.265	-20	**-5.289**
FX Differences	-71	-4.562	-411	**-5.044**
Balance at 31/12/2008	**57.094**	**207.399**	**57.848**	**322.341**

Loans to corporate entities	
Balance at 01/01/2008	249.298
Opening balance of new subsidiaries	10.397
Charge of the year	202.727
Loans written off	-81.432
FX Differences	-345
Balance at 31/12/2008	**380.645**

[9] *Based on the Group's Consolidated Financial Statements of 31.12.2008 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],:

- Cash Collateral
- Greek Government's Guarantees
- Guarantees of the Credit Guarantee Fund for Small and Very Small Enterprises (TEMPME SA)
- Bank Letters of Credit
- Financial collateral including listed shares, mutual funds, treasury bills, bonds
- Cheques
- Residential and commercial real estate
- Ships

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. Exposures include off balance sheet items, derivatives' potential future exposures, as well as the exposures 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 compered 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 in addition to the guarantees of Greek Government. Residential and commercial real estate collateral does not reduce 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 reduce the value of the exposure as occurs in other

[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.

asset classes, but is reflected in a more favorable risk weight against credit risk according to the regulatory framework.

Major exposures of Credit Risk and Counterparty Credit Risk covered by guarantees, collateral or credit derivatives

In € '000.

Asset classification	Asset value before credit risk mitigation techniques and after provisions	Guarantees	Financial Collateral
Central Governments/ Central Banks	6.160.780	0	102
Regional governments and local authorities	155.069	0	1.512
Administrative Bodies & Non-Profit Organisations	289.358	1.963	35.852
Financial Institutions	3.972.147	0	1.247.468
Corporate entities	27.645.831	406.592	469.414
Retail customers	12.071.340	119.457	154.364
Claims secured by real estate property	9.571.306	124.149	0
UCITS	9.190	0	0
Regulatory high risk exposures & past due items.	971.341	23.044	3.711
Equities & Other participations	394.887	0	0
Other items	4.073.926	0	0
Total	**65.315.175**	**675.205**	**1.912.423**

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 Collateral, as described in Bank of Greece Governor's Act 2588/20.08.2007.

The total positive current replacement cost of over the counter derivatives' contracts amounted in €189 million on 31.12.2008. It is noted that, the total exposure according to IFRS of derivatives credit risk may differ from the corresponding exposure amount according to the new regulatory framework of capital adequacy due to different calculation method.

3.2.5 Securitisation

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

During 2008 Piraeus Group successfully completed two more securitization programs, which were utilized for European Central Bank financing. More specifically, the Group completed the first corporate loans' securitization program in November 2008 and the third mortgage loans' securitization program in April 2008. Beyond that, the Piraeus Group has completed two more mortgage loans securitization programs, in June 2005 and in July 2007 by issuing bonds to investors. It is noted that all completed securitization programs are traditional securitisation[11]. It is noted that for the calculation of capital requirements arising from securitization position Standardize Approach is applied.

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 31/12/2008.

The Group's existing securitization programs on 31/12/2008, for accounting objectives, were conducted for financing purposes and consequently securitization profits were not realised. There are no claims related to the existing securitisations on 31/12/2008. Below, information about the existing securitizations is presented:

- The first bond issuance from securitization 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 3 M plus 18 basis points.

[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 second bond issuance of mortgage loans amounted to €1.25 bil. 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 3 M 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 on April 2008. The bonds provide the originator with recall right within 7 years and the average cost amounts to Euribor 3 M plus 45 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from European Central Bank.

- The first bond issuance from securitization of corporate loans amounted to €1.75 bil. was performed by AXIA Finance Plc, which was established for this purpose in the United Kingdom on November 2008. The average cost amounts to Euribor 3 M plus 45 basis points. This issue was retained by Piraeus Bank and can be used for financing purposes from European Central Bank.

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

- The total amount of securitized, doubtful and delinquent over 90 days loans amounts to €28 mil.

P I R A E U S G R O U P

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 31/12/2008
ESTIA I	750.000	Traditional	Mortgage	71.112
ESTIA II	1.250.000	Traditional	Mortgage	316.167
ESTIA III	800.000	Traditional	Mortgage	800.000
AXIA I	1.750.000	Traditional	Corporate	1.750.000

Analysis of the Nominal Value of Retained / Acquired Positions based to 31.12.2008 data

In € '000.

	Rated (Credit quality step from 1 to 4)				1250%		(-) Capital deductive element
	20%	50%	100%	350%	Rated	Unrated	
ESTIA I	47.712	14.100	9.300				
ESTIA II	217.667	91.250	7.250				
ESTIA III	714.000		86.000				
AXIA I		1.408.750				341.250	

3.3 Operational Risk

Piraeus Bank adopts the Standardized Approach for calculating Operational Risk Capital Requirements at solo basis, through the allocation of its Gross Income (GI) into the eight (8) regulatory Business Lines.

At consolidated basis, the Group applies a combination of the Standardised and the Basic Indicator Approaches, while being in the process of fully implementing the Standardized Approach12 across all Subsidiaries.

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.

During the gradual implementation of the Standardized Approach at Group level, the total Gross Income of the Subsidiaries that adopt the Basic Indicator Approach can not exceed the 10% of the total Group Gross Income, according to regulatory instructions. Moreover, the capital requirements calculated for the Subsidiaries under the Basic Indicator Approach are added to the total group capital requirements that result from the Standardized Approach (Building Block Approach).

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.

[12] The adoption of the Standardized Approach at group level will be implemented gradually within the next two (2) years (Bank of Greece Governor's Act 2590/20.08.2007, Chapter D, Section 2 and Paragraph 1).

3.4 Shares: Disclosures for the exposures which are not included in the trading book portfolio.

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 31/12/2008[13]	
Athens stock exchange listed shares	92.030
Foreign stock exchange listed shares	13.117
Unlisted shares	89.119
Mutual funds	9.190
Total	**203.456**

Additionally, the sum of realized profit/ loss from sales and liquidation of available for sale equities amounted to €3,9 mil. in 2008. The total net amount of non realised loss from the above equities' value adjustments amounted to € 101 mil. on 31/12/2008. This amount was included in 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. 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.

[13] *Based on the Group's Consolidated Financial Statements of 31.12.2008 according to the International Financial Reporting Standards (IFRS).*

Indicative estimates of the above described measures per currency as of 31.12.2008 are as follows:

Figures in € 000

	EUR	USD	CHF	Other
PV 100	-27.001	-760	-6.600	-490
EaR	+1.670	-3.340	-3.500	-480

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. IRS, Futures, etc.), aiming to immunise 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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Appendix

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Appendix: Regulatory Consolidation

Subsidiaries companies (full consolidation method)

Name of Company	Activity	% holding	Country
Marathon Banking Corporation	Banking Activities	87,91%	U.S.A
Tirana Bank I.B.C. S.A.	Banking Activities	91,24%	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	95,36%	Egypt
OJSC Piraeus Bank ICB	Banking Activities	99,95%	Ukraine
Piraeus Bank Cyprus Ltd	Banking Activities	100,00%	Cyprus
Piraeus Asset Management Europe S.A.	Mutual Funds Management	100,00%	Luxemburg
Piraeus Leasing SA	Finance Leasing	100,00%	Greece
Piraeus Leasing Romania S.R.L.	Finance Leasing	100,00%	Romania
Piraeus Insurance and Reinsurance Brokerage SA	Insurance & Reinsurance Brokerage	100,00%	Greece
Tirana Leasing S.A.	Finance Leasing	100,00%	Albania
Piraeus Securities SA	Stock Exchange Operations	100,00%	Greece
Piraeus Group Capital LTD	Debt Securities Issue	100,00%	United Kingdom
Piraeus Leasing Bulgaria EAD.	Finance Leasing	100,00%	Bulgaria
Piraeus Auto Leasing Bulgaria EAD.	Auto Leasing	100,00%	Bulgaria
Piraeus Group Finance P.L.C.	Debt Securities Issue	100,00%	United Kingdom
Multicollection S.A.	Assessment and collection of commercial debts	51,00%	Greece
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

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Name of Company	Activity	% holding	Country
Piraeus ATFS S.A.	Accounting and tax consulting	100,00%	Greece
General Construction and Development Co S.A.	Property development/ holding company	66,67%	Greece
Piraeus Best Leasing S.A.	Auto Leasing	48,08%	Greece
Piraeus Direct Services S.A.	Call center services	100,00%	Greece
Exodus S.A.	Information Technology & software	50,10%	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
ETBA Industrial Estates S.A.	Development/management of Industrial Areas	65,00%	Greece
Piraeus Property S.A.	Property Management	100,00%	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 Developer S.A.	Property Management	100,00%	Greece
Euroinvestment & Finance Public LTD	Banking, Asset Management, real estate operations	90,79%	Cyprus
Lakkos Mikkelli Real Estate LTD	Property Management	50,65%	Cyprus
Philoktimatiki Public Ltd	Land and Property development	53,26%	Cyprus
Philoktimatiki Ergoliptiki Ltd	Construction Company	53,26%	Cyprus
AGR Investments S.A.	Securitised Receivable Investments	100,00%	Greece

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Name of Company	Activity	% holding	Country
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	Mutual Funds Management	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	26,63%	Cyprus
Piraeus Cards S.A.	Financial services and consultancy	100,00%	Greece
Polytropon Properties Limited	Land and Property development	39,95%	Cyprus
Shinefocus Limited	Land and Property Development	53,26%	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
SSIF Piraeus Securities Romania S.A.	Stock Exchange Operations	99,33%	Romania

PIRAEUS GROUP

Name of Company	Activity	% holding	Country
Trieris Real Estate Management LTD	Management of Trieris Real Estate Ltd	100,00%	British Virgin Islands
Piraeus Egypt Asset Management S.A.E.	Property Administration	85,71%	Egypt
Piraeus Egypt Leasing Co.	Finance Leasing	95,33%	Egypt
Piraeus Egypt Brokerage Co.	Stock Exchange Operations	95,17%	Egypt
Piraeus Real Estate Consultants S.R.L.	Construction Company	100,00%	Romania
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%	Greece
Piraeus Leases S.A.	Finance Leasing	100,00%	Greece
Iapetos Energy Photovoltaics S.A.	PV Solar projects development	33,16%	Greece
Phoeve 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 Romania S.R.L.	Assessment and collection of commercial Debts	51,00%	Romania
Olympic Commercial & Tourist Enterprises S.A.	Operating Leasing	94,00%	Greece
Piraeus Rent Doo Beograd	Operating Leasing	100,00%	Serbia
Piraeus Leasing Doo Beograd	Finance Leasing	100,00%	Serbia
Piraeus Insurance Agency S.A.	Insurance Agency	100,00%	Greece
Piraeus Real Estate Bulgaria EOOD	Construction Company	100,00%	Bulgaria
Piraeus Real Estate Consultants Doo	Construction Company	100,00%	Serbia
Piraeus Real Estate Egypt LLC	Construction Company	99,80%	Egypt

Name of Company	Activity	% holding	Country
Piraeus Best Leasing Bulgaria EAD	Auto leasing	99,98%	Bulgaria
Piraeus Bank Egypt Investment Company	Investment Company	95,17%	Egypt
Piraeus Capital Management S.A. (former KL REAL ESTATE S.A.)	Venture Capital Fund	100,00%	Greece
Piraeus Insurance Consultant	Insurance Brokerage	93,35%	Egypt
Integrated Storage System Co.	Waterhouse & Mail Distribution Management	89,54%	Egypt

B) Associate companies (equity accounting method)

Name of Company	Activity	% holding	Country
Crete Scient. & Tech Park Manag & Dev S.A.	Scientific and technology park management	30,45%	Greece
"Evros" Development Company S.A.	European community programs management	30,00%	Greece
Stalko S.A.	Electrical equipment production	25,00%	Greece
Delphi Advanced Research Technologies LTD	Information Technology services	25,00%	Cyprus
Project on Line S.A.	Information technology & software	40,00%	Greece
Alexandria for Development & Investment	Investment Company	20,98%	Egypt
Nike Shoes Company	Footwear Seller – Manufacturer	37,51%	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
Borg El Arab Company	Manufacturing vegetable oils & animal foods	26,20%	Egypt
Trieris Real Estate LTD	Property Management	22,80%	British Virgin Islands
APE investment Property S.A.	Real Estate, development/ tourist services	27,20%	Greece
Sciens International S.A.	Holding Company	29,80%	Greece
Ekathariseis Aktoploias S.A.	Ticket Settlements	49,00%	Greece

Name of Company	Activity	% holding	Country
Piraeus Real Estate Investment Property S.A.	Real Estate investment property	33,80%	Greece
Proton Bank S.A.	Banking Activities	31,31%	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