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Eurobank and Grivalia Join Forces and Announce Merger

The new group is targeting an NPE ratio of c. 15% by end 2019 and single digit by 2021

Monday, 26 November, 2018

HIGHLIGHTS

- **Creates Strongest Greek Bank Poised for Broader Economic Growth**: The merger creates the best capitalized bank in Greece, with total capital ratio at 19%, ready to serve its clients, return to growth and support economic activity in Greece and Southeastern Europe.

- **De-risking the Balance Sheet**: Eurobank plans to substantially accelerate NPE reduction to a ratio of approximately 15% by the end of 2019 and single digit by 2021 with an NPE deconsolidation of approximately €7 billion in a single transaction with all shareholders keeping potential upside from the NPEs ("Acceleration Plan").

- **Highly Accretive Combination**: The merger is capital and earnings accretive; fully loaded CET1 increases to 13.8% and pre-provision income to €0.28 per share. The combined group is targeting strong sustainable earnings per share and over 10% return on tangible equity in 2020.

- **Combination Unlocks Further Value**: Applying the best-in-class real estate management skills of the Grivalia team led by Mr. George Chryssikos will unlock the value of the existing and future real estate assets of the combined group. Mr. Chryssikos will be proposed for non-executive Vice Chairman of the Board of Directors of Eurobank and will join the Strategic Planning Committee.

- **Unanimous Approval**: The merger is unanimously supported and recommended by both Boards of Directors.

The Boards of Directors ("BoD") of Eurobank Ergasias S.A. ("Eurobank" or "Bank") and Grivalia Properties REIC ("Grivalia") announce that they unanimously decided to commence the merger of the two companies by absorption of Grivalia by Eurobank according to the relevant provisions of the corporate law, l. 2515/1997 and l. 2166/1993 as in force (the "Merger").

A. Key terms of the Merger

The exchange ratio proposed is c. 15.8[1] new Eurobank ordinary shares for every 1 Grivalia ordinary share, while Eurobank shareholders will retain the number of Eurobank ordinary shares they currently hold (the "Exchange Ratio"). Prior to completion of the Merger, Grivalia will proceed with (i) a distribution of approx. €40.5m (€0.42 per Grivalia share[2]) to its shareholders via a share capital reduction (the "Pre-Transaction Distribution") and (ii) a distribution of €13.7m to its employees and BoD members, representing accrued bonus payments and BoD fees for 2018, deferred bonuses from previous years as well as partial vesting of the long term incentive plan.

The Merger will result in a pro forma ownership split of the enlarged share capital of c. 59% owned by existing Eurobank shareholders and c. 41% by existing Grivalia shareholders[3].

The Exchange Ratio plus the Pre-Transaction Distribution represent a premium of 9% over the share price of Grivalia, based on the closing prices as of Friday, 23 November 2018.

The Exchange Ratio is subject to (i) the Boards of Eurobank and Grivalia and (ii) Hellenic Financial Stability Fund ("HFSF"), all three entities, receiving fairness opinions from international investment banks.

The completion of the Merger is subject to (i) no event, fact, occurrence or change having (or reasonably expected to have) a material adverse effect on the business, financial condition or liabilities of either Eurobank or Grivalia (which would include any potentially significant unfavorable financial, legal or administrative outcomes) and (ii) obtaining all necessary approvals from the General Meetings ("GM") of the two companies, the HFSF and relevant regulatory authorities.

The date of the Merger balance sheet will be 31 December 2018.

Fairfax Financial Holdings Limited ("FFH"), which currently holds 18.23% and 51.43%[4] in Eurobank and Grivalia, respectively, will become the largest shareholder in the merged entity with a 32.93% shareholding.

Subject to the relevant legal and regulatory requirements and Eurobank's corporate governance procedures, upon the completion of the Merger, Mr. George Chryssikos, currently non-executive director of Eurobank, will be proposed for non-executive Vice Chairman of the BoD of Eurobank and will join the Strategic Planning Committee. Mr. Nikolaos Bertsos, currently Chairman of the BoD of Grivalia, will be proposed for a non-executive member of the BoD of Eurobank.

B. Transaction key points

- Based on annualized 9-month results for Eurobank and Grivalia, the new group after the merger ("New Group"), on a combined pro-forma basis, will have operating income of €1.9bn (€0.52 per share) and pre-provision income of €1bn (€0.28 per share). Furthermore, it will have a

[1] Every 1 Grivalia ordinary share will be exchanged for 15.8000000041493 new Eurobank shares
[2] After cancellation of the 4,857,273 Grivalia treasury shares ("Grivalia Treasury Shares")
[3] After cancellation of the Grivalia Treasury Shares, corresponding to approx. 4.8% of its share capital. Cancellation to occur prior to the completion of the Merger
[4] Stake before the cancellation of the Grivalia Treasury Shares; 54.02% after the cancellation of such treasury shares

diversified revenue base, as c. 30% of its operating income will be generated from international operations and real estate activities.

- After the completion of the Merger, the New Group will have a total capital ratio of 19.0%, the highest in the Greek market, a phased-in CET1 ratio of 16.6% and a fully loaded CET1 ratio of 13.8% (pro forma based on September 2018 figures).
- The leading capital position of the New Group will enable the acceleration of its NPE reduction plan (the "Acceleration Plan") compared to the current 3-year NPE reduction plan (2019-2021) which is targeting a Group NPE ratio of c. 15% by the end of 2021.[5]
- Furthermore, the New Group will be able:
  a. to focus on its core business of financing the economic growth in the countries where it has strategic presence, taking advantage of future credit growth prospects both in Greece and abroad;
  b. to explore consolidation opportunities in Southeastern Europe – Eurobank has already taken a significant step in this direction with the announced agreement to acquire Piraeus Bank's Bulgarian subsidiary, which will result in Eurobank Bulgaria becoming the 3rd largest bank in the country;
  c. to demonstrate excellence in dedicated management of real estate assets and to accelerate the unlocking of hidden value; and
  d. to pursue further operating efficiency and proceed with further simplification and digitalization of the bank.

The Merger combined with the implementation of the Acceleration Plan will yield significant benefits for the New Group and its shareholders:

- Target an NPE ratio of c. 15% by the end of 2019 and pave the way for a single digit ratio by the end of the plan period (2021);
- Significant balance sheet de-risking following the de-recognition of a significant part of deeply delinquent, denounced NPEs, retaining those that have better curing and recovery potential; and
- Target RoTE in excess of 10% in 2020, based on a fully loaded CET1 ratio in excess of 12%.

C. Acceleration Plan

The New Group will proceed with the execution in 2019 of its already announced 3-year NPE reduction plan. Furthermore, the New Group will initiate the following plan:

I. Securitization of deep delinquency NPEs of gross book value c. €7bn ("Securitized NPEs") according to L. 3156/2003 via their transfer to a special purpose vehicle ("SPV") and the

[5] For more details regarding the Acceleration Plan see section C. "Acceleration Plan"

issuance of senior, mezzanine and junior notes, initially to be fully retained by the New Group.

II. Hive-down all existing assets and liabilities of the New Group, including DTC and excluding the SPV shares, the mezzanine and the junior notes, into a new banking subsidiary ("New" Eurobank).

III. De-recognition of the Securitized NPEs through the distribution to shareholders, or the disposal to third party investors, or any combination thereof of the SPV's mezzanine/junior notes. The structure of the transaction ensures that the New Group shareholders will not be diluted as DTC conversion will not be triggered and, depending on the option chosen, it will provide them with the benefit of any upside on the Securitised NPEs.

IV. In this context, "New" Eurobank may also contemplate the entry into the capital of Financial Planning Services S.A. ("FPS"), the licensed 100% owned loan servicer of "New" Eurobank, of a strategic investor, which may acquire a significant stake. The SPV will enter into a service level agreement ("SLA") with FPS for the professional servicing of its loans and the maximization of the value for all its noteholders. Furthermore, "New" Eurobank will also enter into a SLA with FPS for the professional servicing of its remaining on balance sheet NPEs.

The Acceleration Plan has been presented to the Single Supervisory Mechanism ("SSM") and Bank of Greece and is subject to the approvals of the GM and the relevant regulatory authorities. It is estimated that key approvals may be received by mid-2019 and the plan may be executed by the end of 2019.

D. Real estate management company

After the combination of Grivalia's real estate portfolio and Eurobank's own-use, investment property and repossessed real estate assets, the New Group will have a real estate portfolio of €2.2bn, pro-forma as of 30 September 2018.

The New Group will enter into a 10-year SLA for the management of all its real estate assets with a new company ("Grivalia Management Company"), which will be established prior to the completion of the Merger by key members of Grivalia's management team and will employ the personnel of Grivalia. Mr. Chryssikos will be the Executive Chairman and one of the key founding partners of Grivalia Management Company with a stake of 70%.

The SLA will be proposed for approval to the GM of both Eurobank and Grivalia, as a related party transaction, along with the Merger terms, and become effective upon completion of the Merger.

For the management of the real estate portfolio, Grivalia Management Company will charge market level fees based on cost and performance criteria. Based on the current real estate holdings of the New Group, the net incremental cost expected to be incurred by the combined New Group will be c. €3.5m (before VAT) per annum. The fees paid by the New Group to Grivalia Management Company will be subject to a cap of €12m (before VAT) per annum.

E. HFSF matters

Both before and after the Merger and the Acceleration Plan, the rights of the HFSF, according to Law 3864/2010, as in force, and the Relationship Framework Agreement as well as the public interest will be fully protected as will be evidenced in the hive-down deed. Furthermore, prior to the Merger, an agreement shall be entered into between the Bank and the HFSF ("HFSF Agreement") according to which after the hive-down the obligations of the Bank vis-à-vis the HFSF and the rights of the HFSF under the Law 3864/2010 shall apply both in relation to the existing legal entity of the Bank and New Eurobank.

Both the Merger and the Acceleration Plan are subject to approval by the Bank's General Meetings, the SSM and all other relevant regulatory authorities.

F. Indicative timetable of the Merger

Date	Action
26/11/2018	Announcement of the Merger
22/02/2019	Approval of draft merger agreement, merger balance sheet etc.
08/04/2019	Approval of the Merger by GMs
15/04/2019	Approval of the Merger by Ministry of Economy and Development / Completion of the Merger
24/04/2019	Trading of new shares

G. Advisors

a. For the Merger

i. **Advisors to Eurobank:** Deutsche Bank AG, acting through its London Branch, Eurobank Equities S.A., Euroxx Securities S.A. and Karatzas & Partners Law Firm. Eurobank will also seek a fairness opinion from an international investment bank

ii. **Advisors to Grivalia:** Bank of America Merrill Lynch, AXIA Ventures Group Limited and Potamitis Vekris Law Firm. Grivalia will also seek a fairness opinion from an international investment bank

b. For the Acceleration Plan: PricewaterhouseCoopers Business Solutions S.A., Allen & Overy LLP and Karatzas & Partners Law Firm

c. For FPS Strategic Options: Mediobanca – Banca di Credito Finanziario S.p.A. and PricewaterhouseCoopers Business Solutions S.A.

H. Conference call information

A presentation detailing the transaction will be made available on the websites of Eurobank and Grivalia. Eurobank will hold a conference call to present the Merger and the Acceleration Plan at 11:00 on Monday, 26 November 2018. Grivalia will also hold a conference call to present the Merger at 11:00 on Monday, 26 November 2018.

In relation to the Merger, Mr. Fokion Karavias, CEO of Eurobank, stated:

"The proposed merger with Grivalia is a landmark transaction for Eurobank. It will enable the bank to attain the highest total capital ratio in Greece and to accelerate the reduction of its non-performing exposures (NPEs) through a large scale securitization of approx. €7bn and other initiatives. Having largely addressed our legacy exposures, we will be able to turn our full attention to serving our clients, returning to growth and supporting economic activity in Greece and Southeastern Europe. This will allow us to target an NPE ratio of ca. 15% by the end of 2019, i.e. two years earlier than the plan submitted to SSM, paving the way for a single digit ratio by 2021. As a result, the bank will return to sustainable profitability, targeting a RoTE in excess of 10% in 2020.

With the merger, besides significantly strengthening its financials, Eurobank will be able to deploy Grivalia's best-in class real estate management skills to its real estate assets, in particular to its REOs which is critical for the management of NPEs."

Mr. George Chryssikos, CEO of Grivalia, stated:

"*The proposed transaction represents a unique opportunity for Grivalia and its shareholders.*
Grivalia shareholders will gain a significant stake in the New Group, which will be the undisputed leader in the Greek banking sector by profitability, capital ratios and asset quality, with a strong pre-provision income and capital generation capacity.
The New Group will benefit from an unprecedented re-rating opportunity within the Greek banking system in the medium term.
At the same time the transaction will enhance Grivalia's business positioning, giving immediate access to an enlarged pool of real estate assets and addressing the structural inefficiencies introduced by recent changes in the Greek real estate taxation.
Grivalia shareholders will also benefit from a substantial improvement in the liquidity of their holding.
I am very excited for the prospects that lay ahead for the New Group and for our shareholders and I am committed, alongside our management team, to continue creating value."

This announcement contains forward looking statements. Although forward-looking statements contained in this presentation are based upon what management of Eurobank and management of Grivalia believe are reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Eurobank and Grivalia undertake no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change.