

DIRECTORS' REPORT**2005****ATHENS, MARCH 2006**

EMPORIKI BANK SA DIRECTORS' REPORT

2005 HIGHLIGHTS

The main positive aspects of 2005 performance are:

- **Continuous progress in retail banking**
Following a period of strikes, growth in the fourth quarter recovered at satisfactory levels, where disbursements of mortgages and consumer loans rose to €402.9m and €273.8m respectively. Meanwhile, Credicom's disbursements surged to €215.6m, while 8,445 bancassurance contracts were sold.
- **Significant decrease of operating expenses**
Actions to reduce operating expenses bear fruits, as total operating expenses dropped by 19.9% versus 2004 at group level.
- **Group restructuring**
During 2005 the disposal of the subsidiaries in Armenia and Georgia was completed, while in first quarter of 2006 the participation in Mediafon was disposed of and the merger of Ermis Mutual Funds and Emporiki Asset Management was decided.
- **Resolution of pension issue**
The completion of all the relevant steps towards the resolution of the pension issue and the confirmation of pension deficit for the inclusion to the Law 3371/2005 at €1,156m has the following impact to consolidated results:
 - Shareholders' equity
The shareholders' equity is reduced by €786,3m (pre-tax) and subsequently enhanced by deferred tax assets of €196.6m. Hence, shareholders' equity stands at €1,087.2m.
 - Income Statement
Emporiki will cease contributing the annual extraordinary contribution to TEAPETE (€65m for 2005). Instead, the Bank will pay a contribution, which is estimated at €25m in the first year of application. Moreover, for the outstanding amount towards the state-sponsored pension funds (€786.3m), Emporiki will bear an interest charge of €27.8m for 2005, as it was not possible to make the relevant payments during the year.

Earnings before tax of the Group have been negatively affected by:

- **Phoenix has a €10.7m adverse impact**
In spite of the significant progress in Phoenix restructuring programme, which mainly focuses on a selective underwriting policy and cost cutting, the insurance company posted losses of €11.9m in 2005, compared with €42.2m losses in 2004. Taking into account the subsidiary's restructuring efforts, and the industry's positive prospects, Emporiki retained an international financial advisor to consider alternative plans.
- **Phosphoric Fertilizer Industry (VFL) has a €6.5m adverse impact**
VFL is a non-core asset, where Emporiki holds a 44% stake. At the 10.01.2006 extraordinary general assembly a restructuring plan was approved to restructure the asset in the medium term.
- **Emporiki Cyprus has a €3.9m adverse impact**
During 2005, negotiations to sell the Cypriot subsidiary did not conclude.
- **Additional €6.2m taxes were charged due to tax assessments of previous years**
Tax audits in Ermis Mutual Funds and Emporiki Leasing led to additional tax charges.

All the above led consolidated earnings before tax to €114.6m, i.e. close to the Bank's level of earnings before tax (115.3m), evidently affected by the negative development in the aforementioned subsidiaries.

FINAL RESOLUTION OF THE PENSION ISSUE

Following the enactment of Law 3371/2005 covering the banking sector pension plans, Emporiki expressed its interest in including the Bank's personnel into the provisions of the Law. Pursuant to a request by the Public Enterprise of Transferable Securities (DEKA), Emporiki's 9% shareholder, an extraordinary general meeting was called on August 16, 2005 that decided the termination on behalf of the Bank of the agreement with TEAPETE (Emporiki's auxiliary pension fund) and the application to ETAT (state-run auxiliary fund for bank employees) for inclusion of Emporiki's employees.

We note that the Bank, making use of the relevant provisions of Law 3371/2005, recognised in its interim financial statements the estimated cost of the inclusion of its personnel to the provisions of the Law. The initial estimate was €1.108 m., of which €712m was charged against shareholders' equity.

Subsequently, the Ministry of Economy and Finance commissioned the compilation of a special economic study by an international independent actuary to finalise the cost from the inclusion of Emporiki's personnel to ETAT. According to the study, that has been recently confirmed by Law, the cost amounts to **€1,156m**, with €778.6m referring to ETEAM, and €377.3m referring to ETAT.

Pursuant to the above, and considering that the final cost for the inclusion of Emporiki's personnel in the provisions of Law 3371/2005 was higher than the initial estimate, a restatement of the IFRS transition balance sheet was conducted resulting in a reduction of shareholders' equity of €107.5m. The reduction of shareholders' equity represents a €75m reduction, net of taxes, in relation to the pension fund and a further €32.5m referring to past years, mainly for loans and advances to customers.

PRIVATISATION: THE FINAL STEP

Following the relevant decision of the Government Committee for the commencement of Emporiki's privatisation process, and the appointment of Citigroup as advisor to the State, Emporiki intends to hire an international financial advisor to assist the Management in its effort to maximise the value for all its shareholders.

DIVIDEND

The Board of Directors will propose to the Annual General Assembly to distribute no dividend for the fiscal year 2005. Thereupon, the recently voted legislative amendment for the pension issue, €786.3m will burden net asset value, i.e. approximately €75m more than initially calculated, shaping Tier I ratio at 8.6%. The Management has as priority to maintain its shareholders' funds at current levels, so as to have an adequate base to increase its capital through hybrid capital and subordinate debt. Moreover, the management will propose the cancellation of losses, derived due to the first time application of IFRS, against reserves in order to be in a position to distribute dividend for the fiscal year 2006 and secure relevant tax benefits.

RESULTS 2005

In 2005, **earnings after tax** rose to €76m compared with €104m losses in 2004. Despite the obstructions related with strikes for the pension issue, profitability significantly improved, due to the gradual increase of the main categories of operating income and the noticeable decrease of operating expenses. Earnings before tax stood at €114.6m from €94m losses a year earlier.

Net interest income increased by 6.6% to €609.9m, where €27.8m represented an interest expense relating to the €786.3m amount due towards pension funds. Adjusted for this expense, net interest income would stand at €637.7m, 11.4% higher compared to 2004, reflecting the shift in the composition of the loan book towards consumer and mortgages, which represent 40% of the Bank's total loan book versus 38% in December 2004.

Fee and commission income increased by 6.4% to €146m reflecting mainly the increase in loan disbursements.

Net income from insurance operations was shaped at €16.9m, showing a 44.9% decrease. This decline is mainly attributed to the restructuring efforts of Phoenix in the motor business, where its selective underwriting policy led to a decrease in production but also to a rise in claims in motor third party liability. Meaningful progress was also evident in renegotiating terms of investment contracts (DAF).

Trading results stood at €13.6m in 2005 versus €32.8m in 2004. **Net gains from investment securities** increased to €7.1m from €25.7m losses a year earlier.

The 19.9% decrease in **operating expenses**, is mainly attributed to the successful implementation of the Group's restructuring programme. Cost to income improved significantly as it was shaped at 71% compared with 93.1% in 2004.

Staff expenses decreased by 21.6% as a result of the voluntary retirement schemes applied to the Group, as also the voluntary retirement of Bank employees that had reached TEAPETE's retirement age. Group's personnel stood at 7,657 in December 2005, 5% (392 employees) lower than December 2004. The resolution of the pension issue has significantly contributed to the decrease of staff expenses, as the Bank has ceased paying the extraordinary payment to TEAPETE, which has been replaced by annual contributions of €25m.

Other operating expenses recorded a 17.6% decrease on an annual basis, reflecting the materialisation of specific actions, introduced in the last 18 months, to rationalise the cost base in the entire Group, despite that production related expenses continued to grow.

BALANCE SHEET 2005

The **Bank loan book** reached €15.4bn in December 2005 compared with €13.5bn in December 2004, marking a 14.5% increase. This performance is satisfactory, taking into account the adverse effect of the strikes, but also the mass exit of personnel during the year. Mortgages and consumer loans, jointly representing approximately 40% of the Bank's loan portfolio, constitute the main growth driving areas.

In 2005, the annual increase of **mortgages** in the Bank stood at 24.7%, while new disbursements rose to €1,239.1m, of which €402.9m was generated during fourth-quarter 2005. In **consumer lending** the annual growth rate for the Bank stood at 13.7%, with new disbursements at €669.1m, shaping total consumer loans at €1.9bn. Consumer loans with pre-notations, branded under Cash 4U, rose to €248.6m. Credicom demonstrated significant expansion in 2005, as its loan outstandings reached €287.2m at the end of 2005. Credicom operates exclusively through retailers' networks covering in that way one of the fastest growing segments in the consumer credit market. Taking under consideration consumer loans of the Bank and Credicom, Emporiki increased its market share in consumer lending.

Loans to small and medium enterprises (SMEs) increased by 10.6% in 2005, with their outstandings reaching €4.8bn. The growth of this loan category accelerated in the fourth quarter of 2005, as the Bank applied a sales performance program in its network for the promotion of "Easy Business", a new category of standardized loans to SMEs.

Non-performing loans represented 5.7% of the total loans in December 2005, showing an improvement compared with September 2005 (5.9%), as the application of "early collection" to SMEs has properly rolled out. Provisions covered 74% of non-performing loans at the end of December 2005.

Bank deposits were shaped at €14.7bn, increasing marginally on an annual basis. Time deposits rose by 14%, offsetting the decrease of €1.1bn (-98.9%) noted in repos, and represent 35.4% of total. Sight and savings deposits, 64.5% of the total deposit base, showed a 6.9% increase to €9.5bn. The successful launching of the new salary account and the acquisition of new SME clients based on the "Easy Business" products enhanced sight accounts. Assets under management approached €2.3bn, showing a net increase of €245m year-on-year, which is expected to be further enhanced, as the Bank launched its new investment product "Advantage". Loans exceeded deposits, as the loan to deposit ratio was formed at 104.6% in December 2005 versus 92.3% last year.

Shareholders' funds reached €1,087.2m in 2005, following the €397m share capital increase completed by the year-end, and the disposal of the Bank's treasury shares in July 2005, which added approximately €145m to shareholders' funds. Tier I and total capital adequacy ratios are estimated at 8.6% and 8.9% respectively at end of December 2005.

Athens, 30 March 2006

Chairman,
Board of Directors

GEORGE PROVOPOULOS

It is certified that the above Directors' report, which consists of five pages, is the one mentioned in our review report dated 30 March 2006.

Athens, 30 March 2006

THE CERTIFIED AUDITORS ACCOUNTANTS

PriceWaterhouseCoopers S.A.

Goutis X. Vassilios
AM SOEL 10411

Papageorgiou P. Antonios
AM SOEL 11691