

BANK OF GREECE

At its meeting on 19 March 2007, the General Council of the Bank of Greece approved the Bank's audited Annual Accounts for the year ending 31 December 2006.

Net profits in 2006 amounted to €244.6 million, compared with €228.5 million in 2005, thus increasing by 7.10%.

The total dividend per share that will be proposed to the General Meeting of the Bank's shareholders for distribution comes to €2.90, compared with €2.40 for financial year 2005 (+ 20.8%).

On the basis of the closing price of the Bank's share on 29 December 2006 (€96.85), the dividend to be proposed for distribution corresponds to a return of 3%.

An amount of €19 million from the profits of 2006 has been allocated to an extraordinary reserve.

Analysis of the Profit and Loss Account for 2006:

Income:

- The Bank's total net income was significantly higher than in the previous financial year (having increased by 36% to €30.9 million, from €10.8 million in 2005).

This result was primarily due to gains arising from financial operations, which amounted to €362.2 million, compared with €155.2 million in 2005. Of these gains, €204.4 million arose from swap transactions carried out following a prior approval by the ECB in order to increase the special provision for the Bank's future liabilities to its Personnel Social Security Funds.

- Net interest income was slightly lower than in the previous financial year (2006: €305.6 million, 2005: €311.9 million), in spite of higher yields on the Bank's portfolios. This was due to the ECB's increase to 3.50% of its minimum bid rate on main refinancing operations (increase of 1.25 percentage points in the course of 2006), which resulted in the substantial increase in the interest paid by the Bank on its share of intra-Eurosystem liabilities. These liabilities have arisen from the conduct of the single monetary policy in the euro area and more specifically from the transfer of excess liquidity from domestic credit institutions to other EU countries (TARGET account).

- Other income (commissions, participating interests, etc.) came to €163.1 million from €165.4 million in 2005.

It should be noted that this item does not include income arising from the Bank's allotted share in the ECB's income on euro banknotes in circulation and in the ECB's net profits, since the ECB, in 2006 as in previous financial years, retained the full amount of its surplus. This surplus was set aside in a provision against foreign exchange rate, interest rate and gold price risks.

Expenses:

- * The Bank's operating expenses excluding provisions (staff costs, pensions, administrative and other expenses, depreciation) increased by €35.5 million or 11% (2006: €358.6 million, 2005: €323.1 million).

Operating expenses were substantially affected by:

- the higher expenditure for raw materials required for the Banknote Printing Works' production of new Greek passports and a greater number of banknotes than in 2005 (resulting in a corresponding increase in the Bank's income);
- the increase in compensation payments for staff retirement (217 employees retired in 2006, compared with 95 in 2005);
- the increased depreciation of euro banknote printing costs.

It should be noted that expenditure for wages increased by 4.5%, while total staff costs (wages and salaries, other allowances, employer contributions) rose by 6.6% to €214.1 million, from €200.8 million in 2005. As mentioned above, higher staff costs are attributed to the larger number of employees who retired in 2006 (compensation payments, advance payments, etc.).

- * Total provisions made during financial year 2006 came to €227.6 million, up from €59.2 million in 2005. This substantial increase was due to the Bank's higher provisions (€204.4 million in 2006, compared with €45 million in 2005) for future liabilities to Personnel Social Security Funds. This sum of €204.4 million came from gains from swap transactions.

Major developments in the Bank's balance sheet items during financial year 2006:

- * Total reserves in international standard gold (holdings and receivables) at 31 December 2006 amounted to 4.6 million ounces (142.5 tonnes), with a total value of €2.2 billion, up from €1.9 billion on 31 December 2005. This increase was mainly due to the rise in the price of gold and to the fact that a total of 206,000 ounces (6.4 tonnes) of gold coins and non-international standard gold in the Bank's possession was upgraded to international-standard gold bars.

- * The Bank restructured its portfolio so as to minimize risks from exchange rate and interest rate fluctuations. More specifically:

- €1.6 billion in securities, previously listed in the "trading book" item, the value of which is subject to interest rate fluctuations, were reclassified as "securities held to maturity" and thus constitute investment portfolio.

- the outstanding balance (€503.7 million) of a USD-linked government bond loan, extended by the Bank to the Greek State on 31 December 1993, in settlement of the balance of the account "Foreign exchange valuation differences - Law 1083/80" was converted into euro.

The bulk of the Bank's bond portfolio (trading book and securities held to maturity) at 31 December 2006 consisted of Greek government bonds and euro-denominated government paper issued by other euro area countries.

- The Bank's new building in Halandri/Athens, where the Money Handling and Sorting Centre is located, was inaugurated in 2006.