ATEbank Group – 31 December 2005

Board of Directors report

To shareholders

In 2005, the profits of ATEBank Group increased significantly, in comparison with 2004, amounting to €139,4 million. Simultaneously, the Group improved its capital adequacy ratio through the increase of ATEBank's share capital in June 2005, completed loan rescheduling, according to law.3259/2004 ("panotokia law"), penetrated further in retail banking and especially in the market of mortgage and consumer loans, while it effectively controlled its operational cost. Furthermore the introduction of IFRS improved transparency towards shareholders, as far as the economic position of the Group is concerned.

On the other hand, the directives of the Bank of Greece, regarding deferred taxes and pension funds obligations, positively influenced ATEBank Group's regulating capital and capital adequacy ratios. On that ground, the Management tried to exploit surplus capital in the most efficient possible way, taking into consideration:

- The latest developments which regard the quantitative valuation of the Group's loan portfolio, in the framework of Basel II Regulations, using modern methods of risk management.
- The peculiarities of the Group's loan portfolio.
- The need to rehabilitate Financial Statements.
- The increase of provisions for loan losses
- The need to distribute a reasonable dividend to shareholders.
- The pension's contingent liabilities
- The losses from the diminution of investment portfolio

Taking these into consideration, the increase of provisions was considered necessary by € 496 million, which improved the coverage ratio from 59% to 83%, profits by almost 35%, (due to the decrease in the annual provisions of the bank, by 20%) and the Bank's return on equity (ROE) from 7,5% to 10,5%, resulting in the attainment of the Business Plan's 2005-2007 targets.

The need to increase provisions made it necessary for the bank to restate its Financial Statements for the year ending 2003 and 2004. In this way, the comparative analysis below, concerns the reformed Financial Statements of 2004 and 2005, according to IFRS

The ATEBank Group in 2005, significantly improved profitability. The main factors contributing to this were the increase in its net interest income and the deceleration of the rate of increase in its operation expenses, according to the Group's Administration policy for rationalization and curtailment of operating cost. On a consolidated basis, the level of other operating income role, concerning the sales of products by subsidiaries, played a significant role.

In general, the financial results which are incorporated in the level of financial ratios as well as the implementation of the 2005 Budget, are considered also to be satisfactory.

Analytically the most significant variations in balance sheet and income statement accounts are follows:

In 31-12-2005, total assets of ABG Group, according to IFRS, amounted to €20.826 million versus €18.646,5 million, in 31-12-2004, an increase of 11,69%.

This change is due to an increase of loans to credit institutions by 114,7%, loans and advances to customers, less provisions, by 4,74%, the balance of the available for sale portfolio by 26,46%, the held to maturity portfolio by 9,33% and other assets by 7,97%. These positive trends were partially offset, mainly by a decrease in cash and balances in Central Bank by 13, 83% and the deferred tax by 5,32%.

Principal accounts in Group's assets remain "loans and advances to customers" (less provisions) which represent 60,30% of assets (2004: 64,30%) We have to point out the remarkable increase in retail banking and especially in housing credit by € 828,9 million or 40,8%, in consumer credit by € 34,8 million or 9,68% and in credit cards by € 12,7 million or 4,93%.

The caption "due from other banks represents 11,50% of assets (2004: 5,98%), while . "Held to maturity portfolio" and "available for sale portfolio" comprise 6,67% (2004:6,81%) and 6.47% (2004: 5,71%) of assets, respectively.

Total liabilities posted an increase of 3,21% or € 609,7 million due to the increase of due to customers by € 617 million or 3,63% and amounted to € 17.596 million
Total liabilities and specifically due to customers represent 94,13% and 84,49% of total liabilities and shareholders' equity, respectively.

The ratio loans to deposits reached the level of 81,08% versus 84,19%, on.

The loans/deposits ratio amounted to 81,08% versus 84,19% in 2004
In 2005, **profit after taxes and minority interests of ATE group** totaled € 139.420 thousand, posting an increase of 294,02%, as compared to 2004. The increase of profitability is attributed to the rise of operating income by 7,44%, the retained increase of operating expenses by 0,20% and the significant reduction of income tax expense by 80,14%, while the increase of provisions for loan losses by 14,67% didn't particularly affect the final result.

The increase of operating income consists of the increase of net interest income by 8,91%, net trading income by 613,66% and other operating income by 6,66%, due to the sale of insurance contracts and commodities.
These changes were offset by the negative results of income from investments, which declined to € (3.635) thousand

The positive financial results are depicted on financial ratios. Specifically:

- ROA amounted to 0,74%.
- Operating expenses to operating income ratio declined to 61,84%, versus 66,3%, in 2004
- Interest margin was 3,38% as compared to 3,34% in 2004 and ROE amounted to 13,65%

Strategic Targets ATE*bank* Group 2006

The priorities been set by the Group's Administration, for 2006, are:

- The acceleration of the reorganization of the loan's portfolio
- The development of new deposit and loan markets
- The improvement of financial results through the expansion of other interest-bearing activities, such as commissions, derivatives and purchases of bonds in secondary markets.
- Rationalization of processes and curtailment of operating expenses

And consequently the following targets are set for *ATEBank*:

- Expansion of financial products and services in Retail banking, enterprises and the Public sector.
- Efficient financial management of funds
- Improvement of loans yield (decrease of nonperforming loans ratio below 9,5%)
- Minimization of non interest assets ratio
- Attainment of substantial profitability (increase of at least 60%)
- Improvement of operating efficiency (decrease of operating expenses to operating income ratio below 58%)
- Improvement of equity and assets return of the bank (ROE:16%, ROA:0,9%)

To sum up, we give emphasis on the following points:

1) The increase of the share capital of the bank, which took place in June 2005, reinforced the capital adequacy of the bank, and covered its inadequacy for provisions for loan losses, according to "Panotokia Law" as well as the formation of adequate reserves (€ 290,77 million) regarding pension funds obligations. The surplus existing capital will be used to finance the further development of the bank and cover a potential increase of the share capital of the companies of *ATEBank* Group, financial institutions and joint ventures, the cost of upgrading the portfolio quality, the compliance with Basle Accord II and the potential additional insurance obligations, regarding the consolidation of Insurance Funds.

While searching for efficient ways to exploit the surplus capital, ALCO (after the proposal of the Risk Management Division) decided to increase provisions for loan losses by € 450 million.

In this way:

- ATEbank Group is protected by countable and non countable risks and unexpected fluctuations in the financial and credit environment
- The coverage ratio of the loans due over 180 days amounted to 83% from 60% before the increase of provisions, approaching the target which was set for 2007, in the fields of the 2005-2007 business plan.

The suggested reduction of shareholder's equity which will in parallel take place with the increase of provisions for loan losses, is expected to have a positive influence on profitability and consequently the return on equity, due to the reduction of the annual provisions for impairment, while capital adequacy will remain in high levels.

2) The profitability of the Group is improved in 2005, mainly as a result of the increase of its interest income. This is mainly due to the adjustments of restructured loans, according to "Panotokia Law". Beyond the need to continue increasing its interest income, through its expansion in retail and corporate banking, the bank must give a great emphasis on increasing non-interest income. The point is to increase the ratio of non-interest income to gross operating income, which, in 2005, was 14,5%.

3) The high percentage of loans due over 180 days to the total loan portfolio (€ 1.953 million) makes it indispensable for the bank to take radical measures. According to the targets of the business plan, the ratio of overdue loans to the total portfolio of loans must reach the level of 7,5%, in 2007 (from 13,7% in the current year). There can be little doubt that the substantial increase of provisions for bad dept will enable the accomplishment of the recovery of the portfolio of ATEbank.

4) The bank must rearrange its general policy regarding the development of the companies of the Group, so as to improve the return of its invested funds, while trying to accelerate its disengagement from the companies that belong to the non-financial sector.

5) There is an urgent need to accelerate the liquidation of the fixed assets of the bank, especially of estates blocked in auctions.

6) The income/ expenses budget of ATE, for 2005, which is part of the business plan is satisfactorily accomplished.

7) The results of the Group and the corresponding financial ratios are satisfactory. However, it is essential for the Group to improve them. After the reduction of shareholder's equity, due to the formation of additional provisions for loan losses, the levels of financial ratios are significantly improved (ROE and % coverage ratio of overdue loans), approaching those of its competitors and accelerating the implementation of the business plan.

We have to mention that despite of the reduction of shareholders' equity, the capital adequacy ratio remains in higher level than the minimum ratio that Bank of Greece requires. For the fiscal year 2005 the Group's capital adequacy ratio is estimated to reach the level of 13,82%.

8) Efforts must be made so as the Group to increase fee and commission income while there is no doubt about the efficiency of the policy of ATEBank Group to retain and rationalize its operating expenses.

9) There is an urgent need to improve the return of the disposable funds of the bank, which after the increase of the share capital, approach € 4 billion.

10) The suggested (by the General Meeting of the Shareholder's) reduction of the share capital, in an attempt to eliminate losses carried forward, will allow the bank to exert dividend's policy, according Law.2190/20 and distribute dividends which will amount to 40%-50% of the distributed profit.

11) The estimated profits according to the new business plan 2006-2008 are expected to be increased by 60%, comparing to the previous fiscal period while the financial ratios are expected to be improved. Specifically, the return on equity is expected to reach the level of 17,8 (Bank 15%) and the return on assets of 1 (Bank 0,9%).

The President

Dimitrios Miliakos