

## **2006 BOARD OF DIRECTORS REPORT**

### ***2006 Market Development***

Developments in the Greek insurance market were radical in 2006, with Ethniki Insurance taking the first position with a 16% market share. This success is mainly attributed to the significant increase in the Life Business by 41%, versus an 18% for the market, while in Property & Casualty business gross written premiums for the Parent Company increased by 2%, versus 5% increase for the market.

The rehabilitation of the insurance market continued during 2006/2007, resulting in the withdrawal of the licenses of 6 insurance companies (4 in 2006 and 2 in 2007). The continuation of this policy, which the Ministry of Development is following steadily, is essential for the further rehabilitation of the market. The concern that this policy has created in the marketplace, especially amongst agents and clients, is to the benefit of the larger insurance companies including Ethniki Insurance, being the leader of the market.

The benefits will become evident, despite the fact that Ethniki Insurance initially only gained a small portion of the contracts from the companies whose licenses were revoked. The company has however succeeded in incorporating the better quality production from those companies, without offering price decreases in order to show temporary and impressive numbers.

Moreover the market evolution, through acquisitions by key international players in the market, such as AXA and Groupama, and the interest from others, without a doubt signals the beginning of a new cycle and potential of the market.

From the institutional framework point of view, the development of the new Independent Supervisory Authority is positive. The slightly strengthened tax incentives for insurance industry, announced at the end of 2006 and expected to take effect from January 1 2007, is another positive development.

Ethniki Insurance:

- having achieved portfolio restructuring
- having almost completed the reorganization of its internal procedures in conformity with its major shareholder
- having significantly reinforced its insurance provisions
- having renewed its human resources after the completion of an early retirement scheme
- having strengthened its broker network
- having activated the sales network through the agency beyond every expectation
- having expanded successfully in the neighboring Balkan countries and also,
- having accomplished a dynamic expansion in bancassurance and assurebanking,

aims at obtaining a significant portion of the new market share that will be created from the development of the market.

### ***2006 results***

The “Ethniki” Insurance Group’s 2006 pre-tax profit amounted to €2.054 thousand and after tax loss of €2.341 thousand, as compared with €25.155 after tax profit for the year ended 31 December 2005.

These results include certain non-recurring costs, which if excluded, the Group's pre-tax profit would amount to €37.621 thousand. These costs include an amount of €11.376 thousand, which relates to the early retirement scheme involving 98 employees and €24.191 thousand, which relates to the reinforcement of outstanding claims reserves for the Motor Third Party Liability.

Developments in the bond market resulted in a reduction of total revenues from investments for the year. Total revenues from investments amounted to €65.816 thousand versus €87.878 thousand in 2005.

It should be noted, that revenues from investments in the Property & Casualty business in 2005 were increased by €7.019 thousand due to the recognition of portfolio capital gains during the first implementation of IFRS and by €6.192 thousand due to the sale of property.

It is evident that there was deterioration in the Property & Casualty business loss ratio in 2006. The loss ratio increased to 62% while the combined ratio increased to 104%. The increase in the above-mentioned ratio is mainly due to the further reinforcement of outstanding claims reserves for the Motor Third Party Liability, which if excluded, the ratios would be 54% and 95% respectively, versus 55% and 96% in 2005.

This reinforcement resulted from the analytical file by file review of the reserves.

This project was launched as a result of monthly analysis of relevant reports by the Motor Branch. Outstanding claims are now at a realistic level and no more reinforcement of provisions will be necessary.

The Parent Company has been audited for tax purposes up until the end of 2005.

Total equity capital for the Parent Company at 31 December 2006 amounted to €155.417 thousand, €5.966,50 thousand lower than 50% of the share capital.

Thus the requirements of note 47 of Law 2190/1920 are met, however, it is estimated that the extraordinarily costs in 2006 were one-off and the Company expects the 2007 results will significantly strengthen total equity capital, thus alleviating the Company from the above-mentioned clause of the Law. Taking the aforementioned into account the Company will not be distributing any dividend for 2006.

### ***Premium Income***

The Group's gross written premiums and related revenue for 2006 amounted to €724.088 thousand, compared to €621,911 thousand in 2005 (excluding DAF contracts), an increase of 16%. Included in the above, is an amount of €343.507 thousand which represents the Life Business, versus €243.572 in 2005, showing an increase of 41%, while the remaining €380.581 thousand represents Property & Casualty, compared to €378.339 in 2005, showing an increase of 1%.

It is worth mentioning, that individual Life new premium income showed a 30% increase in 2006. Group Life premium income increased by 381% compared to 2005. This significant increase is attributed to the Bancassurance products «PROSTHETO+» and «FRONTIZO». The life coverage of respective mortgage borrowers continued with increased success and penetration percentage that reached 62% of new mortgage loans.

The above-mentioned products are exclusively distributed by National Bank of Greece network. Total premium income for Bancassurance Life amounted to €102.621 thousand.

It should be further noted, that the results accomplished by Ethniki Insurance's network were impressive in selling mortgage loans, while Assurebanking in 2007 will expand in other financial products of National Bank of Greece Group, such as Consumer Loans, Credit cards, Mutual Funds and other products of periodical installments.

Property & Casualty group net earned premiums amounted to €314.996 thousand, increasing roughly by 4% from 2005.

Fire net earned premium increased significantly for another consecutive year, by 14% compared to 2005.

### ***Associated Companies***

The Group's activities in Romania showed significant growth, with profits after tax for the subsidiaries GARANTA S.A. and NBG Assigurari S.A. amounting to €3.943 thousand versus €395 thousand in 2005.

The Company's presence in Cyprus remains profitable with profits after tax and dividends reaching €1.392 thousand.

Audatex S.A. reported €329 thousand loss, while National Insurance Brokers S.A. reported €271 thousand profit after tax and before dividends.

The two new insurance companies in Bulgaria, in which the Group participates with 30% achieved profitability only after three months of operations, raising the expectations for the future.

### ***Reorganization of Ethniki Insurance***

Ethniki Insurance in its operation framework inside National Bank of Greece Group adopted successfully the new standards of Operation Administration and Company Control Committee, the New Responsibility Principles and the new standards concerning the independence of external auditors. All the above stem from Sarbanes Oxley Law, that applies to all the listed companies in the USA, given the fact that National Bank of Greece is listed on the NYSE.

Simultaneously the Company with the use of SAP - implementation of which began in 2007- resulted in transactions becoming faster, safer, of better quality and has resulted in a substantial saving of work hours, to achieve Ethniki Insurance's main objective, which is sales.

### ***Outlook for 2007***

The outlook for the Greek insurance market is highly promising, taking into account the expected increase in insurance penetration. The relative percentage for 2006 reached 2.6% for Greece, compared to 8% average for the eurozone countries.

The Group expects a significant increase in gross premium for 2007. The main growth driver remains Bancassurance Life, where 3 new products will be launched. Additional growth is expected in the Life Business, given that all premium income targets of the agency have been exceeded.

Strengthening of the first market position in Property & Casualty is expected in the coming year. The favorable conditions in the Greek insurance market in 2006, after the withdrawal of licenses from 6 insurance companies, have resulted in a more positive outlook for the Motor Branch.

Business growth will be based in the expanding the premium income from the Bancassurance network, in maintaining impressive results in agency and in exploiting synergies through cross-selling in the Company's portfolio, reaching 1 million clients.

Cost control remains an important target, with the planning of optimization of claims management with initiatives such as the cooperation with authorized car workshops. Similarly, a reduction of the expense ratio will be sought after 3 consecutive years of stabilization.