

Speech by the Governor of National Bank of Greece

Mr Theodoros B. Karatzas

to the Annual General Meeting of Shareholders

24 April 2002

Each year, the Annual General Meeting gives me the opportunity to speak on behalf of the Bank's management about the past business year. I shall focus on the main developments of the year and the results of the Bank and its Group of companies. Likewise, I shall outline our thoughts on what the priorities should be in the immediate future as well as the longer term for the largest financial institution of the country, of which you are shareholders.

As of 1 January 2001, Greece adopted the new European currency alongside the eleven other nations of the eurozone, while upon the close of the year euro notes and coins were successfully launched. It is worth noting that in this momentous development for our economy National Bank of Greece played a leading role. It provided substantial assistance in the wider preparation for E-day via its extensive network, its significant infrastructure and expertise in related systems.

Last year, however, was also accompanied by the appearance of new trends across the financial sector as a whole – trends comparable with those that have prevailed in the international markets more generally in recent years. Foreseeing this shift in the position of the Greek economy and markets, National Bank brought its structures, business philosophy and goals into line with those of other European and international banks well in advance of the deadlines.

I believe that National Bank of Greece as well as other Greek banks have entered a new phase of activity and profitability within the framework of Economic and Monetary Union. This adjustment, of course, has been neither a simple process nor painless. In essence, it has compelled us to change our ideas about easy and large-scale returns derived from the stock market and the successful convergence of the Greek economy with the eurozone. It is crucial that Greek banks now prove themselves capable of meeting the challenges that lie ahead. I can assure you that

National Bank of Greece is both capable and determined to do so. Our performance of recent years is evidence of this.

A significant contributing factor in our efforts will be the health and dynamism of the Greek economy. The past year was the sixth consecutive year in which the Greek economy grew at a significantly faster pace than the average of the European Union, at 4.1 per cent. Seen in this light, the Greek economy appears to constitute one of the exceptions to the general international trend, which saw a slowdown in growth for the first time in many years. As was to be expected, these general developments left their mark on various segments of the Greek financial sector that are exposed to fluctuations in the global capital markets.

Within this unfolding economic context, National Bank of Greece stood by its commitment to enhance shareholder value, making every effort to design and realise the best possible strategic goals for the Bank and its Group.

This was the rationale behind the announcement, on 1 November 2001, of our intention to merge with Alpha Bank. It was our conviction that such a move would create a financial group armed with the strength to perform in the increasingly competitive international markets. Unfortunately, despite concerted efforts on the part of management to make the merger plan succeed, we ultimately decided that the process had to be discontinued.

I would like to take this opportunity to make it clear that the outcome was due less to problems concerning the preparations for the merger, and more to developments in the negotiation process. It is notable, for instance, that the merger of Alpha and National Bank had been brought to a more advanced stage of preparation, both at the time of and immediately following the merger announcement, than is often the case in similar plans that are announced in the global arena, and progress had been made in a whole range of crucial issues regarding the union of the two corporations.

No successful merger plan has managed to announce within the first seven weeks the final structure of the Board and senior management; the name and logo of the new organisation; the share exchange ratio of the merging businesses; a detailed

calculation of the synergies that would arise from the merger; or the allocation of responsibilities among the members of the executive committee.

The merger with Alpha Bank would have been a positive business move. It was not, however, essential for our future course, since our ability and determination to carry through our key strategic aims remain unchanged. We shall therefore continue with policies designed to ensure that you will be a shareholder in a larger and stronger institution that leads the domestic market and achieves solid results internationally.

This goal is not only served by strategic moves. It is also served by consistent and productive organic growth of the Bank and its Group. In this light therefore, I should stress that 2001 was a particularly successful year, since the Bank once again saw impressive performance in the retail banking segment.

Thus, the traditional commanding position that National Bank of Greece has enjoyed in segments such as housing credit has been augmented and enhanced by similar performance in consumer credit. In 2001, the NBG Group offered more products to more customers than at any time in the past. The trust that approximately 5 million customers showed in us was reflected in the fact that mortgage and consumer credit represented no less than 46% of our total lending to the private sector in 2001. One of the key pillars of our business remains the strong and growing deposit base, which speaks for the confidence that the major part of the banking public has in us.

We are fully aware that to sustain and strengthen our performance we must endeavour to forge ever more efficient management of the financial needs of our customers. To this end, the Bank accelerated the reorganisation of its branch network: by the end of 2001, no less than 170 new-generation branches were in operation, producing results that promise much for the immediate future, in terms of both quality of service and level of sales.

We could hardly attempt to grow our operations and compete in today's market without placing special emphasis on the constant development and

modernisation of our infrastructures. Over the period 1999-2001, substantial funds were invested in our technology infrastructure. This is one of the reasons why the Bank and its Group switched so smoothly to the euro environment last year. Similarly, a new integrated customer relationship administration platform was launched across the network last year, whose application will be extended to the entire spectrum of the Bank's products and services, thereby improving customer service all round.

In 2001, there was also significant progress in the Bank's policy of divesting itself of non-strategic shareholdings and real estate assets. Indeed, last year the Group disposed of a large number of non-core properties, achieving the best results of the last few years. Although adverse financial conditions did not favour any further divestment of the Group's non-strategic shareholdings in 2001, the Bank nevertheless succeeded, between 1996 and 2001, in disposing of non-strategic assets totalling approximately €1 billion. Our policy has consistently aimed at returning the gains from these assets to the shareholder, by channelling the funds raised through their sale to more productive activities. To achieve this goal, however, conditions should allow divestment at a price which fairly reflects the assets' value.

The Bank consistently places much of its investment focus on its workforce, given that banking activities are a labour-intensive business. National Bank of Greece sees its human resources as a key to successful business growth and therefore attaches particular importance to making sure its staff is equipped with the personal and intellectual skills to enable the Bank to move forward dynamically. To this end, there is systematic provision of staff training, while new recruits to the Bank's workforce are carefully selected to ensure the best possible performance in specific areas of the Bank's business. It may be noted that in 2001 the Bank invested €4.8 million in training and education for its staff.

In addition, the Bank invests in systems that ensure prudent management of the risks undertaken by the Bank and the Group. We attach particular importance to obtaining and enhancing appropriate expertise in this field, as well as to reinforcing a comprehensive infrastructure that supports the crucial sphere of the Bank's internal control systems.

For several years now, the Bank has demonstrated its desire to expand beyond Greek borders and become a strong regional banking force whose range will extend to southeast Europe. This strategic goal is backed by our substantial presence and activity in the major international financial markets. Last year our international presence was significantly enhanced through the acquisition of Yonkers Financial Corporation by our US subsidiary Atlantic Bank of New York, as well as by the launch of our banking operations in Serbia.

It should be pointed out, however, that in spite of any social or political problems experienced in some of the economies of the region wherein we operate, the total contribution of our international units to aggregate Group pre-tax profit was more than double the figure for 2000, reaching 12.3%.

The Bank always aims at selectively expanding its operations in foreign markets and boosting the contribution of these operations to the Bank's profits. To safeguard, however, both the quality of our portfolio and our shareholders' interests, we always ensure that the risks undertaken abroad are strictly monitored.

Ladies and Gentlemen,

In 2001, National Bank's profits before tax totalled €647.5 million compared with €874.6 million in 2000, down 26%. This reduction reflects exclusively the decline in equity trading gains due to the poor stock market climate. For the same reason, Group profits before tax and after minorities amounted to €698.7 million, compared with €980.6 million in 2000. This picture, however, does not do justice to the real performance of the Bank, since if we exclude gains on equity trading from the comparison, the Bank and the Group in fact present profit growth of 24.5% and 18.5% respectively in 2001.

It should be pointed out that this result includes the substantial additional cost incurred by the Bank to secure smooth transition to the euro, a cost which will also burden the results of the current year.

I would like to call your attention to the fact that our aggregate performance is in line with the overall performance of the European banking sector. This may not at first seem obvious, particularly as we have become accustomed to the high levels of profitability that were achieved during the successful period of convergence. Now, however, we need to accept that our basis for comparison should be the mature European banking industry and the large credit institutions that this industry encompasses. I believe that when we compare National Bank of Greece with these institutions, our return on equity and cost/income ratio are higher than the average figure for Europe.

Given these results, the Management proposes to the Annual General Meeting a dividend of €1.10 per share, compared with last year's dividend of €1.09 per share. Total dividends paid out amount to €250.9 million compared with €247.7 million in 2000.

Ladies and Gentlemen,

I think this is an appropriate moment for us to look ahead to decide on the course that the Bank should now follow. If I were asked to identify the distinctive feature which has characterised us so far and will continue to do so in the years to come, I would say that it is our desire to take innovative business risks, and thus implement policies aiming to enhance the Bank's leading role and its future within the increasingly competitive international arena.

This desire motivated the first phase of our strategic plan (1996-1998), which led to the Bank's restructuring and rehabilitation, a target that many considered unattainable. Prior to the implementation of this plan, many would have thought it unlikely that the Bank would go on to be listed on the New York Stock Exchange, and that it would attain its present status. And yet this is what we did.

We followed the same approach during the next three-year phase (1999-2001) of the strategic plan when, on completion of NBG's restructuring, we focused on repositioning the Bank on the domestic and foreign markets. Today, the NBG Group has managed to both establish a leading position in fast-growing segments such as

retail banking and retain its traditional role as the bank of the large Greek corporates and Shipping. National Bank has also reestablished itself on the international financial map as an organisation with a strong regional identity in southeast Europe and a substantial presence in the major international financial centres.

Looking ahead, the Management and I personally, as the Governor of National Bank, are fully aware of our responsibility for the steps to be taken next. The Bank's Management and officers are motivated by the same desire to pursue excellence and success for our organisation that ensured the success of our previous efforts. This same spirit will enable us to take any action necessary to give our current efforts also a successful outcome, no matter how arduous or demanding they may be.

As already mentioned, we remain committed to our belief that it is necessary to provide for further growth in National Bank's size. Although we would never allow such an objective to become an end in itself, as this might undermine the Bank's future status and jeopardise your interests, we cannot ignore the international developments and changes that have transformed the banking sector worldwide. Even if the pace of these developments has been temporarily checked by the recent slowdown of the world economy, the mergers of major financial institutions have radically changed the framework of international competition and imposed more demanding requirements on those seeking to pursue a viable future in the international arena.

This is the future we aspire to secure for National Bank; if we settled for less we would only allow it to lag behind its international competitors and condemn it to decline. We shall therefore remain alert to the opportunities that may arise in the domestic and the international markets. This prospect, however, cannot be secured by a proper knowledge of the economic environment alone; it also requires that the Bank develop an appropriate business structure and operational flexibility.

National Bank shall continue to diagnose the trends prevailing in the international economic environment and take all steps necessary to secure profitability and a robust financial structure. Having capitalised on the convergence process along

with the other Greek banks, National Bank has for some time now focused its efforts on reducing costs, and at the same time on growing its business in various segments.

I hope that we will soon be in a position to announce a series of specific measures aiming at the reduction of expenses in the domestic and international network of the NBG Group. This will not be a hasty move, but rather a necessary precondition for the creation of shareholder value over the long-term and an indication of our determination to effectively adapt to the changing global macroeconomic environment.

Along with the implementation of measures to reduce costs, we shall continue to strengthen NBG's commanding position in the domestic market and its international business activity. In 2002, National Bank shall also seek to further enhance its presence and performance in the retail banking segment.

As part of our retail banking strategy, we recently set up a new Small Enterprises Loans Division. Developing our business relationship with small and medium-size enterprises is a cornerstone of our policy for the current year and will be founded on central risk control procedures and a uniform marketing and sales policy, as has been successfully applied to our products and services in the past.

In 2002, we shall continue to focus on areas such as Bancassurance and Affluent Banking, which are developing a new dynamic in the domestic market, as well as on the new requirements of Asset Management operations. National Bank aspires to establish a commanding position in these areas as well, thus generating new sources of profitability and shareholder value.

Ladies and Gentlemen,

From a certain perspective, the years 2001 and 2002 have been particularly difficult, as they have coincided with the transition of the Greek financial sector to a new state of maturity and more intense competition on the international front. In dealing with the challenges of this difficult period our efforts will be greatly supported by the reaffirmation of our shareholders' confidence. After all, this



constitutes the basis of our long-standing relationship, which is built on the highest possible degree of transparency, flexible management and the systematic and unswerving implementation of a strategic vision for National Bank.

This relationship will continue to be a source of energy and strength for us to implement our strategic plans for the future of the Bank and the Group.

Along with you, our shareholders, the Bank's staff and clientele will also stand by our side as we take our next, critical steps.

In closing, I wish to express my thanks to the Bank's staff and customers for their support and confidence all these years, for it is thanks to their trust and loyalty that National Bank of Greece is able to claim its new place in the international financial arena.

Thank you.