# PIRAEUS BANK S.A.

# Financial Statements

31 December 2006

In accordance with the International Financial Reporting Standards

The attached financial statements have been approved by Piraeus Bank S.A. Board of Directors on January 30th, 2007 and they are available in the web site of Piraeus Bank at www.piraeusbank.gr

These financial statements have been translated from the original statutory financial statements that have been prepared in the Greek language. In the event that differences exist between this translation and the original Greek language financial statements, the Greek language financial statements will prevail over this document.

## Index to the Financial Statements

**Amounts in thousand euros** (Unless otherwise stated)

## INCOME STATEMENT

| | Note | Year ended 31 December 2006 | 31 December 2005 |
|---|---|---|---|
| Interest and similar income | 6 | 1,480,475 | 982,048 |
| Other interest expense and similar charges | 6 | (872,839) | (508,718) |
| **NET INTEREST INCOME** | | **607,636** | **473,330** |
| Fee and commission income | 7 | 120,152 | 114,114 |
| Fee and commission expense | 7 | (31,472) | (25,901) |
| **NET FEE AND COMMISSION INCOME** | | **88,680** | **88,213** |
| Dividend income | 8 | 37,640 | 71,182 |
| Net trading income | 9 | 16,063 | 34,565 |
| Gains/ (Losses) from investment securities | 10 | 127,503 | 43,537 |
| Other operating income | 11 | 30,621 | 24,265 |
| **TOTAL NET INCOME** | | **908,143** | **735,092** |
| Staff costs | 12 | (217,171) | (199,187) |
| Administrative expenses | 13 | (193,098) | (183,781) |
| Depreciation and amortisation | 23, 24 | (30,460) | (28,229) |
| Gains/ (Losses) from sale of fixed assets | | (1,475) | (288) |
| Impairment losses on loans and advances | 20 | (59,631) | (51,762) |
| Other provisions | | (1,922) | (5,867) |
| **TOTAL OPERATING EXPENSES** | | **(503,757)** | **(469,114)** |
| **PROFIT BEFORE INCOME TAX** | | **404,386** | **265,978** |
| Current tax | 14 | (33,716) | (20,168) |
| Deferred tax | 14 | (30,586) | 15,787 |
| **PROFIT FOR THE YEAR** | | **340,084** | **261,597** |
| **Earnings per share (in euro):** | | | |
| - Basic | 15 | 1.30 | 1.04 |
| - Diluted | 15 | 1.29 | 1.04 |

The notes on pages 7 to 41 are an integral part of these financial statements.

**Amounts in thousand euros** (Unless otherwise stated)

## BALANCE SHEET

| | Note | 31 December 2006 | 31 December 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Banks | 16 | 1,361,547 | 1,218,081 |
| Loans and advances to credit institutions | 17 | 2,938,923 | 2,138,356 |
| Derivative financial instruments - assets | 18 | 52,978 | 18,979 |
| Financial instruments at fair value through profit or loss | 19 | 1,952,900 | 1,132,300 |
| Loans and advances to customers (less allowances) | 20 | 18,728,736 | 14,587,170 |
| Investment securities | | | |
| -Available for sale securities | 21 | 1,111,713 | 415,790 |
| Investments in subsidiaries | 22 | 1,027,930 | 959,450 |
| Investments in associated undertakings | 22 | 13,976 | 46,426 |
| Intangible assets | 23 | 14,498 | 10,174 |
| Property, plant and equipment | 24 | 201,206 | 163,553 |
| Investment property | 25 | 17,384 | 29,362 |
| Deferred tax assets | 33 | 80,013 | 115,871 |
| Inventories - property | 26 | 45,733 | 28,403 |
| Other assets | 26 | 394,072 | 290,186 |
| **TOTAL ASSETS** | | **27,941,609** | **21,154,101** |
| **LIABILITIES** | | | |
| Due to banks | 27 | 4,709,542 | 3,422,407 |
| Derivative financial instruments - liabilities | 18 | 61,069 | 35,515 |
| Due to customers | 28 | 14,606,019 | 11,451,453 |
| Debt securities in issue | 29 | 5,221,365 | 3,725,139 |
| Hybrid capital and other borrowed funds | 30 | 1,000,884 | 599,857 |
| Retirement benefit obligations | 34 | 148,724 | 151,446 |
| Other provisions | 32 | 16,481 | 24,087 |
| Current income tax liabilities | | 32,944 | 20,168 |
| Deferred tax liabilities | 33 | 42,347 | 33,280 |
| Other liabilities | 31 | 474,139 | 231,751 |
| **TOTAL LIABILITIES** | | **26,313,514** | **19,695,103** |
| **EQUITY** | | | |
| Ordinary shares | 36 | 1,288,830 | 1,024,932 |
| Share premium | 36 | 88,146 | 330,643 |
| Less: treasury shares | 36 | (97,300) | (17,590) |
| Other reserves | 37 | 144,265 | 75,885 |
| Retained earnings | 37 | 204,154 | 45,128 |
| **TOTAL EQUITY** | | **1,628,095** | **1,458,998** |
| **TOTAL LIABILITIES AND EQUITY** | | **27,941,609** | **21,154,101** |

**Amounts in thousand euros** (Unless otherwise stated)

## STATEMENT OF CHANGES IN EQUITY

| | Note | Share Capital | Share Premium | Treasury shares | Other reserves | Valuation of securities at 1st time adoption of IFRS (art. 38, Law 2238/ 1994) | Other retained earnings | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1st January 2005** | | **831,067** | **365,733** | **(16,050)** | **54,800** | **(230,148)** | **(32,523)** | **972,879** |
| Absorption of companies - cancellation of treasury shares | | 193,865 | (35,090) | | 280 | | 76,279 | **235,334** |
| Purchases of treasury shares | 36 | | | (97,162) | | | | **(97,162)** |
| Sales of treasury shares | 36 | | | 95,622 | | | 11,438 | **107,060** |
| Available for sale reserve | 37 | | | | 59,193 | | | **59,193** |
| Prior year dividends | | | | | | | (80,103) | **(80,103)** |
| Reserve for stock option plan | | | | | 200 | | | **200** |
| Utilization of the reserve formed according to article 38, Law 2238/ 1994 | | | | | | 118,933 | (118,933) | **0** |
| Utilization of legal reserve against the 1st time adoption adjustments | | | | | (51,667) | | 51,667 | **0** |
| Profit after tax for the year 2005 | 37 | | | | 13,080 | | 248,517 | **261,597** |
| **Balance as at 31st December 2005** | | **1,024,932** | **330,643** | **(17,590)** | **75,886** | **(111,215)** | **156,342** | **1,458,998** |
| **Opening balance as at 1st January 2006** | | **1,024,932** | **330,643** | **(17,590)** | **75,886** | **(111,215)** | **156,342** | **1,458,998** |
| Capitalization of share premium reserve | 36 | 256,233 | (259,200) | | | | | **(2,967)** |
| Issue of share capital due to the exercise of share options | | 7,665 | 16,703 | | (4,981) | | | **19,387** |
| Purchases of treasury shares | 36 | | | (353,368) | | | | **(353,368)** |
| Sales of treasury shares | 36 | | | 273,658 | | | 29,119 | **302,777** |
| Available for sale reserve | 37 | | | | 48,756 | | | **48,756** |
| Prior year dividends | | | | | | | (107,435) | **(107,435)** |
| Interim dividend for year 2006 | | | | | | | (85,948) | **(85,948)** |
| Offset of the reserve formed according to article 38, with current year's profit (article 38) | | | | | | 111,215 | (111,215) | **0** |
| Reserve for stock option plans | | | | | 8,360 | | | **8,360** |
| Profit after tax for the year 2006 | 37 | | | | 17,004 | | 323,080 | **340,084** |
| Absorption of companies and other movements | | | | | (760) | | 211 | **(549)** |
| **Balance as at 31st December 2006** | | **1,288,830** | **88,146** | **(97,300)** | **144,265** | **0** | **204,154** | **1,628,095** |

**Amounts in thousand euros** (unless otherwise stated)

## CASH FLOW STATEMENT

| | Note | Year ended 31 December 2006 | Year ended 31 December 2005 |
|---|---|---|---|
| *Cash flows from operating activities* | | | |
| Profit before tax | | 404,386 | 265,978 |
| Adjustments to profit before tax: | | | |
| Add: impairment for loans | | 59,631 | 51,762 |
| Add: depreciation and amortisation charge | 23, 24 | 30,460 | 28,229 |
| Add: retirement benefits | 34 | 21,901 | 24,113 |
| (Gains)/ losses from valuation of trading securities | | (12,149) | 237 |
| (Gains)/ losses from investing activities | | (164,751) | (107,865) |
| *Cash flows from operating profits before changes in operating assets and liabilities* | | 339,478 | 262,454 |
| *Changes in operating assets and liabilities:* | | | |
| Net (increase)/ decrease in cash and balances with Central Bank | | (1,944) | (57,144) |
| Net (increase)/ decrease in trading securities | | (782,235) | 211,449 |
| Net (increase)/ decrease in loans and advances to credit Institutions | | 79,607 | 74,837 |
| Net (increase)/ decrease in loans and advances to customers | | (4,526,361) | (3,223,735) |
| Net (increase)/ decrease in other assets | | (123,456) | (9,735) |
| Net increase/ (decrease) in due to banks | | 1,363,641 | 1,920,941 |
| Net increase/ (decrease) in amounts due to customers | | 3,273,273 | 1,190,724 |
| Net increase/ (decrease) in other liabilities | | 233,958 | (201,173) |
| *Net cash flow from operating activities before income tax payment* | | (144,039) | 168,618 |
| Income tax paid | | (716) | (12,337) |
| **Net cash inflow/ (outflow) from operating activities** | | **(144,755)** | **156,281** |
| *Cash flows from investing activities* | | | |
| Purchases of property, plant and equipment | | (81,978) | (49,545) |
| Sales of property, plant and equipment | | 13,025 | 22,802 |
| Purchases of intangible assets | | (11,197) | (6,390) |
| Purchases of available-for-sale securities | | (858,619) | (72,877) |
| Sales of available-for-sale securities | | 364,626 | 109,804 |
| Acquisition of subsidiaries | 22 | (77,116) | (352,031) |
| Disposal of subsidiaries | | 11 | 75,672 |
| Acquisition of associates | 22 | (4,150) | (16,299) |
| Disposal of associates | | 8,507 | - |
| Dividends from subsidiaries | | 21,535 | 56,097 |
| Dividends from associates | | 144 | - |
| Dividends from available for sale securities | | 6,217 | 15,085 |
| Dividends from trading securities | | 1,906 | - |
| **Net cash inflow/ (outflow) from investing activities** | | **(617,089)** | **(217,682)** |
| *Cash flows from financing activities* | | | |
| Net proceeds from issue/ (repayment) of debt securities and other borrowed funds | | 1,897,253 | 2,054,075 |
| Net proceeds from issue of share capital | | 19,732 | - |
| Dividends paid for the year 2005 and interim dividend for the year 2006 | | (192,090) | (80,103) |
| Purchases of treasury shares | 36 | (353,368) | (97,162) |
| Sales of treasury shares | | 302,252 | 104,142 |
| Other cash flows from financing activities | | (3,311) | - |
| **Net cash inflow/ (outflow) from financing activities** | | **1,670,468** | **1,980,952** |
| Effect of exchange rate changes on cash and cash equivalents | | 604 | 2,327 |
| **Net increase/ (decrease) in cash and cash equivalents** | | **909,228** | **1,921,878** |
| **Cash and cash equivalents at beginning of year** | 39 | **3,189,817** | **1,267,064** |
| **Adjustment of opening balances of branch network in Bulgaria** | | **166,156** | **-** |
| **Cash and cash equivalents at beginning of year of merged companies** | | - | **98,499** |
| **Eliminations of cash and cash equivalents at beginning of year of merged companies** | | - | **(97,625)** |
| **Cash and cash equivalents at beginning of year after adjustments** | | **3,355,973** | **1,267,938** |
| **Cash and cash equivalents at end of year** | 39 | **4,265,201** | **3,189,817** |

## 1 General Infromation about the Bank

Piraeus Bank S.A. is a banking institute operating in accordance with the provisions of Laws 2190/1920 on societés anonymes, 2076/1992 on credit institutions, and other relevant laws.

According to article 2 of its Statute, the scope of the company is to execute, on its behalf or on behalf of third parties, any and every operation acknowledged or delegated by law to banks.

Piraeus Bank is incorporated and domiciled in Greece. The address of the registered office is 4 Amerikis st., Athens. Piraeus Bank operates in Greece and in London (U.K.). The Bank employs 4,596 people.

Apart from the A.S.E. General Index, the Piraeus Bank share is included in a series of other indices, such as FTSE/ATHEX–20, Standard MSCI Greece, MSCI Europe, MSCI EAFE, DJ Euro Stoxx, DJ Euro Stoxx Banks, DJ Euro Stoxx Economic Sector Financial, FTSE4 Good Europe, FTSE4 Good Global and FTSE/ Med - 100.

## 2 Summary of general accounting policies of the Bank

The principal accounting policies applied by Piraeus Bank in the preparation of the financial statements are set out below. These policies have been consistently applied to all the reporting periods presented. The financial statements of Piraeus Bank are prepared in euro.

The amounts of the Financial Statements attached are expressed in thousand Euros.

### 2.1 Basis of presentation of the Bank's financial statements

These financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

(a) Amendments to published standards effective in 2006

IAS 19 (Amendment) "Employee Benefits" is mandatory for the accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

(b) The following new standards, amendments to standards and interpretations have been issued, but are not effective for 2006 and have not been early adopted:

- IFRS 7, "Financial Instruments: Disclosures" and a complementary amendment to IAS 1, "Presentation of Financial Statements Capital Disclosures", (effective from 1/1/2007). IFRS 7 introduces new disclosures relating to financial instruments.

- IFRIC 7, "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Bank’s operations.

- IFRIC 8, "IFRS 2 Share Based Payments" (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Bank applies IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Bank’s accounts.

- IFRIC 9, "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not expected to have any impact on the Bank’s accounts.

- IFRIC 10, "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). The Bank will apply the new IFRIC from 2007. IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost, to be reversed at a subsequent balance sheet date. The Bank applies IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Bank’s accounts.

The main principle for the preparation of the financial statements is the historical cost convention, as modified by the revaluation of the available for sale portfolio, financial assets and liabilities of the trading portfolio, derivative financial instruments, as well as fixed assets held for investment. The preparation of the financial statements in conformity with IFRS requires the use of estimates, accounting policies and assumptions which affect the valuation of reported assets and liabilities, the recognition of contingent liabilities, as well as the recognition of income and expenses in the financial statements.

#### 2.2 Foreign currencies

a) Functional and presentation currency
The financial statements are presented in euros, which is Piraeus Bank's functional and presentation currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**2.3 Derivative financial instruments**

The Bank holds derivative financial instruments both for profit-making and hedging purposes and for the service of its clients needs. Derivative financial instruments held by Piraeus Bank include Interest Rate Swaps, Futures, Credit Derivatives, Options, Asset Swaps, Forward Rate Agreements, as well as FX Forwards.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair values on a daily basis. Fair values are obtained from quoted market prices in active markets and option pricing models, where market prices are not available. Changes in the fair values of derivative financial instruments are included in net trading income. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

*Hedge accounting*

The Bank has adopted a hedge accounting policy according to the requirements of the revised IAS 39.

The following, according to the requirements of the revised IAS 39, must be met in order for a hedge relationship to qualify for hedge accounting:

- The hedge should be effective at initiation.

- Ability to calculate the hedge effectiveness during the hedge relationship.The hedge effectiveness should be between 80% - 125% at all times.

- Detailed documentation must be in place for all recognised hedging relationships.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Bank also controls, both at hedge inception and on an ongoing basis the hedge effectiveness of the hedging transaction.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, that cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign subsidiaries are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign subsidiary is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of such derivative instruments that does not qualify for hedge accounting are recognised immediately in the income statement.

**2.4 Recognition of deferred day one profit and loss**

The best evidence of fair value at initial recognition is the transaction price (ie, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Bank has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as ‘day one profit and loss’, is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

### 2.5 Interest income and expense

Interest income and expense is recognised on an accrual basis in the income statement for all interest bearing balance sheet items, according to the «effective interest rate». The effective interest rate exactly discounts any estimated future payment or receipt throughout the expected life of a financial instrument or until the next date of interest reset, in order for the present value of all future cash flows to be equal to the carrying amount of the financial instrument, including any fees or transaction costs incurred.

More specifically, interest income includes interest on fixed income securities and trading securities, the accrued premium/ discount on treasury bills and other eligible bills, as well as interest income on loans and advances. Impaired loans are recorded at their recoverable amounts and therefore the interest income is recognised according to the effective interest rate applied on the carrying amount.

### 2.6 Fees and commission income and expense

Commission income and expense is recognised on an accrual basis when the relevant services are provided to the Bank’s clients or to the Bank.

Fees, either income or expense, relating to financial instruments at amortized cost, such as loans, are deferred (together with related direct costs) and recognized in the Income Statement, as interest income, throughout the life of the instrument using the effective interest rate method.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part on the loan package for itself or retained part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction.

### 2.7 Dividend income

Dividend income is recognised when the right to receive payment is established.

### 2.8 Financial assets at fair value through Profit or Loss

This category includes trading portfolio securities which were acquired for the purpose of profit-making from short-term price changes, as well as other financial assets at fair value through profit or loss. These securities are initially recognised at fair value and they are subsequently measured at fair value according to current market prices. All the realised gains / losses from the sale of securities, as well as the non–realised gains and losses from the measurement at fair value, are included in the net trading income. Asset Swaps are also included in this category.

The purchase/ sale of trading securities is recognised on a trade date basis, that is on the date on which the Bank is committed to the purchase or sale of those securities. The Bank derecognises the financial assets when the existence of the control of the contractual rights related to these financial assets ceases. The cessation of the control of the contractual rights occurs when the financial asset is sold, expired or written-off, or when all related cash flows are transferred to a third party.

Interest income from the maintenance of trading securities is recorded to Interest Income. Dividends received are included in Dividend Income.

### 2.9 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferree has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks or customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to credit institutions or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded at fair value as a trading liability.

### 2.10 Investment portfolio

Management determines the classification of its securities on the date of their acquisition.

#### A. Held to Maturity portfolio

The held to maturity portfolio is the portfolio that the Bank’s Management has the positive intent and ability to hold until maturity.

Held to maturity investments are initially recognized at fair value (plus any transaction costs) and subsequently carried at amortised cost using the effective yield method, less any provision for impairment. Moreover, held to maturity investments are reviewed for impairment, that is, whether their carrying amount is greater than their estimated recoverable amount. The amount for the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's initial effective interest rate. The impairment loss is charged to the Income Statement.

If part of the Held to Maturity portfolio is sold or reclassified before maturity date (unless IAS 39 criteria are met), then the entire held to maturity portfolio must be transferred to the available for sale portfolio at its fair value. In such case, the Bank will not be able to classify any financial assets as held to maturity for the next 2 years. Held to maturity investments are derecognized when either the ability to receive cash flows has ceased or the Bank has transferred substantially the risks and rewards to third parties.

**B. Available for Sale portfolio**

Available for sale portfolio includes those investments intended to be held for an indefinite period of time and which may be sold in response to needs of liquidity or changes in interest rates, exchange rates or equity prices. The classification of investments as available for sale is not binding and it is subject to Management intentions as to subsequent reclassification to the held to maturity portfolio.

Securities of the available for sale portfolio are initially recognised at fair value (plus transaction costs) and subsequently are carried at fair value according to current bid prices or valuation pricing models, where the market prices are is not available (in accordance with IAS 39 provisions). The non realised gains or losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity (available for sale reserve). When securities of the available for sale portfolio are disposed of, all cumulative gains/ losses previously recognised in equity are recognised in the Income Statement.

When there is objective evidence that an available for sale asset is impaired (refer to 2.11), the cumulative loss that has been recognised directly in equity is removed from equity and recognised in profit or loss. This cumulative loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale cannot be reversed through profit or loss. Impairment losses for a debt instrument classified as available for sale can be reversed in profit or loss when the increase in fair value of this debt instrument can be objectively related to an event occured after the initial recognition of impairment loss in profit or loss.

**2.11 Investments in subsidiaries and associates**

Investments in associates are recognised in the Financial Statements initially at cost (including transaction costs).

The Asset Liability Committee (ALCO) of Piraeus Bank reviews on each reporting date whether there is an indication of permanent impairment (significant or persistent decreases in fair value) for these securities based on several pricing models. Such models include the Price-to-Book Value ratio (P/BV) where a coefficient of 2.5 is used and the Price-to-Earnings per share ratio (P/E) where a coefficient of 15 or deviation of 25% from market value is used, in case of listed securities. Apart from the above mentioned pricing models and in order to assess the fair value of investments in subsidiaries and associates for impairment test reasons, the Committee takes also into account rapid sector fluctuations and Management decisions as to disposal, discontinuance or absorption of these companies.

In case where there is a permanent indication of impairment, the loss is charged to the Income Statement. More specifically, on the transition date (1/1/2004), the resulting losses were recorded as "1st time adoption adjustments" in Retained earnings.

**2.12 Loans and advances to customers**

Loans drawn down by the Bank are initially recognized at fair value (plus any transaction costs) and subsequently are carried at amortised cost. If there is objective evidence that the Bank will not be in a position to receive all payments due, as defined by the contract of the loan, an impairment loss is recognised. The amount of the impairment loss is the difference between the carrying amount and the recoverable amount of the loan. A receivable is subject to impairment when its carrying amount is greater than the expected recoverable amount.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the recoverable amount of the financial asset or group of financial assets is estimated and an impairment loss is recognised. The amount of the loss is recognised in the Income Statement. Objective evidence that a financial asset or group of assets is impaired or it is not collectable are the following events:

I. Significant financial difficulty of the issuer or the obligor.

II. A breach of contract (i.e. default or delinquency in interest or principal payments).

III. The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider.

IV. It is becoming probable that the borrower will enter bankruptcy or financial reorganisation.

V. Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- Adverse changes in the payment status of borrowers in the group (i.e. increase in the number of delayed payments due to sector problems), or
- National or local economic conditions that correlate with defaults on the assets in the group (i.e. increase in the unemployment rate for a geographical area of borrowers, decrease in the value of property placed as guarantee for the same geographical area, or unfavourable changes in the operating conditions of a sector, which affect the borrowers of this specific group).

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectivelly for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assesment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are viewed regularly by the Bank.

When a loan is considered to be uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occuring after the impairment was recognised, such as an improvement in the debtor's credit rating, the previously recognised impairment loss is reduced and the difference is recognised in the Income Statement.

Loans and advances to customers are derecognized when either the ability to receive cash flows has ceased or the Bank has transferred substantially the risks and rewards to third parties.

**2.13 Software**

Costs associated with the acquisition of software programs, which will probably generate economic benefits to the Bank, are recognised as intangible assets. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications or software upgrade expenses are recognised as capital improvement and they are added to the original cost of the software, as long as they can be measured reliably. Computer software is amortised over a period of 3-4 years.

**2.14 Own property, plant and equipment**

Own property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Property, plant and equipment is reviewed for impairment loss whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

The Bank applies the allowed alternative treatment of IAS 23 ''Borrowing costs'', according to which borrowing costs are capitalised as part of the cost of a qualifying asset, as long as the requirements of IAS 23 are fulfilled (the borrowing costs can be directly attributable to the acquisition, construction or production of a qualifying asset).

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on own property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Computer hardware: 3-4 years
- Leasehold improvements: the shorter of useful life and lease term
- Furniture and other equipment: 5 years
- Means of transportation: 6-7 years
- Own Buildings: 25-50 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**2.15 Investment property**

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value, as this is estimated by an external independent valuer. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property reflects, among other things, rental income from current leases, as well as assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair value are recorded in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under IFRS 5.

**2.16 Assets held for sale**

This category includes fixed assets that will be sold within 12 months and their carrying amount will be recovered principally through the sale transaction.

Assets held for sale, according to IFRS 5 "Non current assets held for sale and discontinued operations", are valued at the lower of their carrying amount and fair value less costs to sell. Assets held for sale are not depreciated.

Gains/ losses from sale of these assets are recognized in the income statement.

**2.17 Inventories property**

Inventories property include fixed assets acquired through auctions, which do not fulfill the requirements of IAS 40. These fixed assets are recognised according to the requirements of IAS 2 as inventory and they are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. It excludes borrowing costs. Net realisable value is the estimated selling price, less any expenses necessary to conclude the sale.

**2.18 Leased assets**

In case the Bank is the lessee under an operating lease, the lease payments are recognised as an expense in the Income Statement of the lessee on a straight-line basis over the lease term.

In case the Bank is the lessee under a finance lease, fixed assets under the finance lease are recognised as assets and the respective obligation for the lease payments as a liability on the balance sheet. At the inception of the lease, fixed assets leased under finance leases are recognised on the balance sheet at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Leased assets are depreciated over their useful life, if it is longer than the lease term, only if it is expected that the ownership of the leased assets will pass to the Bank at the end of the lease term. Finance lease payments are apportioned between the capital element and the finance charge. The capital element is used as a reduction of the outstanding liability and the finance charge at the income statement is allocated to periods during the lease term.

**2.19 Cash and cash equivalents**

Cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition, such as: cash, cash and balances with Central Banks, treasury bills, bonds and loans and advances to credit institutions.

**2.20 Provisions**

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2.21 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

**2.22 Employee benefits**

**A. Pension obligations**

The pension schemes adopted by Piraeus Bank are funded through payments to insurance companies or social security foundations.

Piraeus Bank pension obligations, relate both to defined contribution plans as well as defined benefit plans.

For defined contribution plans, the Bank pays contributions to publicly administered pension insurance funds (i.e. Social Security Foundation) and therefore the Bank has no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to pension obligations. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such they are included in line 'staff costs' of the Income Statement.

Defined benefit plans are pension plans that define an amount of pension benefit to be provided, usually as a function of one or more factors such as years of service, age and compensation. The difference between the defined contribution plans and the defined benefit plans is that in the defined benefit plans the employer is liable for the payment of the agreed benefits to the employee in case that the insurance funds - organizations do not undertake this obligation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Past - service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past - service costs are amortised on a straight - line basis over the vesting period.

Actuarial gains and losses
Piraeus Bank has elected to use the "10% corridor" for gains/ losses and recognise the net cumulative actuarial gains/ losses which exceeded the greater of a) 10% of the net present value of the defined benefit obligation and b) 10% of the fair value of the plan assets.

**B. Other post-retirement benefit obligations.**

The Bank provides post-retirement benefits to its retirees.The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employement, using a methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

**C. Share based compensation**
The fair value of the employee services received in exchange for the grant of the options under a share option scheme is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Bank revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received, net of any directly attributable transaction cost, are credited to share capital and share premium when the options are exercised.

**2.23 Deferred tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from recognition of commission according to the effective interest rate, valuation of securities at fair value through profit or loss or equity, revaluation of certain financial assets (such as investment property) and retirement benefit obligations according to IAS 19. Deferred tax assets are recognised to the extend that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to the valuation of available for sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged to equity and is subsequently recognised in the Income statement together with the deferred gain or loss.

Income tax payable on profits, based on the applicable tax rate, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset, when it is probable that future taxable profits will be available so that these tax losses can be utilised against. The Bank offsets deferred tax assets and liabilities only when the relevant requirements of IAS 12 are fulfilled.

### 2.24 Share capital

a) Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of share capital are shown as a deduction in equity, net of tax.

b) Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Annual General Meeting of the Bank's Shareholders. Interim dividends are recognised as a deduction in the Bank's equity when approved by the Board of Directors.

c) The cost of acquisition of treasury shares (including any attributable incremental external costs net of income taxes), is presented as a reduction in equity, until the treasury shares are cancelled or disposed of. The gains or losses from the sale of treasury shares are included in equity.

### 2.25 Borrowed funds

Liabilities from the issuance of the debt securities, hybrid capital and other borrowed funds are recognised initially, according to the requirements of IAS 39, at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Bank's borrowed funds include: euro medium term note (EMTN), euro commercial paper (ECP), ETBA bonds, securitisation of mortgage loans, hybrid capital and subordinated loans.

Preference shares, which carry a mandatory coupon, or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non - convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguised on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

If the Bank purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

### 2.26 Related party transactions

Related parties include a) members of the Bank's Board of Directors and key management personnel of the Bank b) close family & financially dependants (husbands,children etc) of the Board of Directors and key management personnel c) companies having transactions with Piraeus Bank when the total cumulative participating interest in them (of members of Board of Directors and their dependants or first degree relatives) exceeds 20%. Transactions of similar nature are disclosed together. All Bank transactions with related parties are between knowledgeable, willing parties in an arm's length transaction.

### 2.27 Fiduciary activities

The Bank provides custody services to third parties for a wide range of financial instruments. These services include procedures such as safekeeping of securities, clearing and settlement of securities transactions in the Greek market and abroad, execution of corporate actions, income collection etc, on behalf of individuals and companies. Those assets and income arising thereon are not included in the Bank's financial statements.

### 2.28 Segment reporting

The definition of primary and secondary segments is based on the nature and origin of Piraeus Bank revenues. Therefore, business segments were defined as primary segments, while geographical segments were defined as secondary segments.

The Bank's activities relate to four main business segments: Retail Banking, Corporate Banking, Investment Banking, Asset Management & Treasury.

For the identification of reportable segments the Bank applies the 10% threshold on Bank profits or Bank assets. The Bank reportable segments account for more than 75% of total Piraeus Bank revenues.

### 2.29 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 2.30 Comparatives

Certain accounts of the previous period's financial statements have been adjusted in order to become comparable to the corresponding accounts of the current period.

## 3 Financial Risk Management

### 3.1 Credit risk

Credit risk is the risk of default of a counterparty, regarding its contractual obligations. Specifically in the case of loans, it is the risk of a counterparty to default on a part, or all of its debt.

The Management of Piraeus Bank gives great consideration to the proper management of credit risk, as this type of risk is connected with the majority of the activities undertaken by the Bank units. More specifically, credit risk is maintained at controlled levels, by defining a strategy of growth activities with corresponding limits, at counterparty level, at geographic or activity sector level.

The evaluation of counterparty's creditworthiness plays key role in establishing the corresponding limit. This evaluation is based on both quantitative and qualitative characteristics of the counterparty. At the same time, the state of the general economy of the countries in which the Bank is involved is also examined, as well as the trends of the economic sub-sectors. Across all Bank Units, there are consistent procedures for the evaluation of the creditworthiness of counterparties and for setting up the respective credit limits.

The methods of evaluation of counterparty creditworthiness are differentiated according to whether they apply to central governments, banks, corporations or individuals. More specifically, there are different methods for the evaluation of creditworthiness of corporations, depending on the size and type of the corporate entity. For larger corporations, the evaluation is based mainly on the economic aspects and an analysis of the sector to which the corporations belong, while for smaller businesses emphasis is given on their qualitative characteristics.
During the approval process, total credit risk is assessed per debtor or group of associated debtors (One Obligor Concept), taking into consideration the total credit limit that the client was assigned at Bank level. In establishing credit limits, any guarantees or collaterals that may reduce the total exposure to credit risk, are also taken into account.

The counterparty creditworthiness as well as the credit exposures in line with the approved limits are monitored on a consistent basis. Derivative financial instruments and credit exposure due to settlement risk is also taken into account, when calculating credit exposures.

Specifically for derivatives, the potential future credit exposure is taken into account, by estimating the current net position and applying appropriate factors on the notional amounts of the transactions, according to type, maturity etc. Even though the credit exposures due to derivatives are limited in comparison to credit exposures due to loans, these are taken into account during the credit approval process and are part of the limits that have been approved for a given counterparty.

With regard to personal loans, Piraeus Bank places emphasis on the implementation of modern credit risk management methods, such as credit scoring models, portfolio structure and population distribution of debtors. Historical data regarding the evolution of overdue accounts in combination with debtor characteristics are also utilised, so that the procedures for the evaluation of creditworthiness are adjusted and controlled.

**Amounts in thousand euros** (Unless otherwise stated)

### 3.2 Geographical concentrations

The following note incorporates geographical concentrations (secondary segment analysis) of assets, liabilites and revenues of the Bank, as required by IAS 14. The allocation is based on the location of the assets, liabilities or revenues.

| As at 31 December 2006 | Total assets | Total liabilities | Revenues | Net Revenues | Credit commitments | Capital expenditure |
|---|---|---|---|---|---|---|
| Greece | 26,799,124 | 20,037,658 | 1,760,089 | 1,052,631 | 10,242,255 | 73,434 |
| United Kindom | 1,142,485 | 6,275,856 | 52,365 | (144,488) | 24,477 | 5 |
| **Total** | **27,941,609** | **26,313,514** | **1,812,454** | **908,143** | **10,266,732** | **73,439** |

| As at 31 December 2005 | Total assets | Total liabilities | Revenues | Net Revenues | Credit commitments | Capital expenditure |
|---|---|---|---|---|---|---|
| Greece | 20,233,838 | 15,822,432 | 1,214,033 | 770,316 | 7,690,427 | 39,508 |
| Bulgaria | 495,771 | 218,390 | 24,652 | 20,757 | 51,379 | 2,689 |
| United Kindom | 424,492 | 3,654,280 | 31,026 | (55,981) | 17,718 | 67 |
| **Total** | **21,154,101** | **19,695,102** | **1,269,711** | **735,092** | **7,759,524** | **42,264** |

The negative net result in the geografical segment "United Kindom" derives from the cost of increasing Piraeus Bank equity through the issue of debt securities (ECP, EMTN), subordinated loans (TIER II) and hybrid capital (TIER I). Without taking into consideration the aformentioned cost, the net revenues of the specific geographical segment would amount to € 12.5 million for the year 2006 (2005: € 9.9 million). On 24/3/2006, Piraeus Bank Bulgaria A.D. absorbed Piraeus Bank branch network in Bulgaria.

The Bank operates in 4 main business segments (note 5) and in 2 countries. Greece is the main country of operations of Piraeus Bank. In Greece the areas of operation include all the primary business segments, while in the United Kingdom, the main business segments of operation are Corporate Banking, Investment Banking and Asset Management.

Geographic sector risk concentrations within the loans and advances to customers (after allowances for losses) is analysed as follows:

| | As at 31 December 2006 | | As at 31 December 2005 | |
|---|---|---|---|---|
| | Total loans | Percentage | Total loans | Percentage |
| Greece | 17,788,922 | 94.98% | 13,909,393 | 95.35% |
| Bulgaria | - | - | 325,686 | 2.23% |
| United Kindom | 939,814 | 5.02% | 352,091 | 2.41% |
| **Total** | **18,728,736** | **100.00%** | **14,587,170** | **100.00%** |

### 3.3 Market risk

Market risk is the risk of loss due to adverse changes in the level or the volatility of market prices and rates, including interest rates, equity prices, foreign exchange rates and commodity prices. Piraeus Bank applies up to date, generally accepted techniques for the measurement of market risk, such as Value-at-Risk (VaR), Earnings at Risk and Sensitivity Indicators.

The board of the Directors of the bank has approved a Market Risk management policy that applies to the bank since the beginning of 2003. This policy outlines the basic definitions of market risk management and defines the roles and the responsibilities of the units and executives involved. Every risk taking unit of Piraeus Bank has been assigned specific market risk limits, which are monitored on a consistent basis. Limits are established for items both in the trading and the banking book. Limits are set on the Value-at-Risk and Earnings-at-Risk level, and on Sensitivity Indicators.

The Value-at-Risk measure is an estimate of the potential loss in the net present value of a portfolio, over a specified period (holding period) and with a specified confidence level. Piraeus Bank implements the RiskMetrics parametric Value-at-Risk methodology, assuming a one-day holding period and utilising a 99% confidence level. As the Value-at-Risk methodology does not evaluate risk attributable to extraordinary financial, or other occurrences, the risk assessment process includes a number of stress scenarios. The stress scenarios are based on the primary risk factors that can change the value of the balance sheet's figures.

The bank tests the validity of the Value-at-Risk estimates, by conducting a back-testing program for the trading book VaR of the bank. The Value-at-Risk estimate is compared on a daily basis against the actual change in the value of the portfolio, due to the changes in market prices. In 2004 there was one case, where the actual change in the value of the portfolio, was larger than the Value-at-Risk estimate, while in 2005 and 2006 three and four instances have been observed, respectively.

The Bank trading book includes positions in bonds, stocks, foreign exchange and exchange traded derivatives.

The Value-at-Risk estimate for 29/12/2006 was € 2.25 million, for the total trading book. This estimate consists of € 0.22 million interest rate risk, € 0.74 million equity risk and € 2.09 million foreign exchange risk. There is a reduction in the Value-at-Risk estimate of € 0.81 million due to the diversification effect of the portfolio.

The Value-at-Risk estimate for the fixed income desk on 29/12/2006, was € 0.26 million, and the maximum, minimum and average price for the year 1/1-29/12/2006 were € 1.36 million, € 0.08 million and € 0.26 million respectively.

**Amounts in thousand euros** (Unless otherwise stated)

### 3.4 Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits on the level of exposure by currency, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31/12/2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency:

| | EUR | USD | GBP | JPY | CHF | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | | | |
| **Foreign exchange risk of Assets** | | | | | | | |
| Cash and Balances with Central Banks | 1,327,391 | 22,418 | 3,020 | 824 | 1,420 | 6,474 | 1,361,547 |
| Loans and advances to credit institutions | 2,192,541 | 675,223 | 30 | - | 2,930 | 68,199 | 2,938,923 |
| Derivative financial instruments - assets | (59,333) | 24,060 | 5 | 88,246 | - | - | 52,978 |
| Financial instruments at fair value through Profit or Loss | 1,936,693 | 3,881 | - | 12,326 | - | - | 1,952,900 |
| Loans and advances to customers (less allowances) | 17,494,441 | 690,045 | 61,220 | 37,755 | 445,195 | 80 | 18,728,736 |
| Investment securities | 1,000,442 | 111,271 | - | - | - | - | 1,111,713 |
| Investments in associated undertakings | 13,976 | - | - | - | - | - | 13,976 |
| Goodwill and other intangible assets | 14,498 | - | - | - | - | - | 14,498 |
| Property, plant and equipment | 218,590 | - | - | - | - | - | 218,590 |
| Other assets | 1,570,747 | (68,257) | 9,402 | 2,058 | (5,879) | 39,677 | 1,547,748 |
| **Total assets** | **25,709,986** | **1,458,641** | **73,677** | **141,209** | **443,666** | **114,430** | **27,941,609** |
| **Foreign exchange risk of liabilities** | | | | | | | |
| Due to Banks | 3,193,659 | 1,153,092 | 150,843 | 2,565 | 137,499 | 71,884 | 4,709,542 |
| Derivative financial instruments - liabilities | (43,947) | 24,509 | - | 80,507 | - | - | 61,069 |
| Due to customers | 12,252,538 | 1,191,521 | 135,497 | 953,553 | 6,420 | 66,490 | 14,606,019 |
| Debt securities in issue | 4,866,745 | 255,366 | 89,061 | 10,193 | - | - | 5,221,365 |
| Other borrowed funds | 1,000,884 | - | - | - | - | - | 1,000,884 |
| Retirement benefit obligations | 148,724 | - | - | - | - | - | 148,724 |
| Other liabilities | 2,666,402 | (1,166,684) | (301,725) | (905,593) | 299,747 | (26,236) | 565,911 |
| **Total liabilities** | **24,085,005** | **1,457,804** | **73,676** | **141,225** | **443,666** | **112,138** | **26,313,514** |
| **Net on-balance sheet position** | **1,624,981** | **837** | **1** | **(16)** | **0** | **2,292** | **1,628,095** |
| **At 31 December 2005** | | | | | | | |
| Total assets | 19,046,976 | 1,649,111 | 24,959 | 184,622 | 110,409 | 138,024 | 21,154,101 |
| Total liabilities | 17,606,016 | 1,648,994 | 24,305 | 184,638 | 110,334 | 120,815 | 19,695,102 |
| **Net on-balance sheet position** | **1,440,960** | **117** | **654** | **(16)** | **75** | **17,209** | **1,458,999** |

Other liabilities include currency equivalents of asset swaps, as well as synthetic deposits.

**Amounts in thousand euros** (Unless otherwise stated)

### 3.5 Interest rate risk

Interest rate risk is the risk of loss to the bank due to adverse movements in interest rates. Changes in interest rates affect the bank's earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the bank's assets and liabilities because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change.

Piraeus Bank applies an Interest Rate Risk Management Policy, which provides for a variety of techniques such as calculations that rely on simple maturity and repricing schedules (Interest Rate Gap analysis), or sophisticated dynamic modeling techniques (Dynamic Simulation) that results in useful conclusions about the development of the Organization’s profitability in response to changes in interest rates.

Interest Rate Gap, the simplest technique for measuring the bank's interest rate risk exposure, is a maturity/repricing schedule that distributes interest-sensitive assets and liabilities, into a certain number of predefined time bands, according to their maturity (fixed-rate instruments) or time remaining to their next repricing (floating-rate instruments).

The table below summarises the Bank’s exposure to Interest Rate Risk according to an Interest Rate Gap. Those assets and liabilities lacking definitive repricing intervals (e.g. sight deposits or savings accounts) or actual maturities (e.g. Open Accounts) are assigned to the time band up to one month.

In particular, the sight deposits, savings and current accounts assigned to the time band up to one month, are estimated at 6.7 billion EUR and represent 57% of the total “Due to customers”, which have been assigned in this particular time band.

In the table, assets and liabilities in foreign currency are converted into EUR using spot FX rates and only principal amounts are included; the Interest Payments are excluded from the calculations.

The positive fair value of derivative financial instruments is included in “Other Assets” under the heading “Non interest Bearing”, while the negative fair value of derivative financial instruments is included in “Other Liabilities”.

Line “Net Notional Amounts of Derivative Financial Instruments” represents the net notional amounts of all interest-rate sensitive derivative financial instruments. The latter have been assigned in time bands, according to their repricing or maturity date.

| | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 1,361,547 | - | - | - | - | - | 1,361,547 |
| Loans and advances to credit institutions | 2,812,295 | 72,624 | 54,004 | - | - | - | 2,938,923 |
| Financial instruments at fair value through Profit or Loss | 1,467,163 | 132,766 | 132,997 | 77,686 | 73,132 | 69,156 | 1,952,900 |
| Loans and advances to customers (less allowances) | 7,816,001 | 8,461,791 | 1,922,359 | 769,936 | 73,368 | (314,719) | 18,728,736 |
| Investment securities | 376,261 | 14,445 | 2,278 | 87,944 | 34,169 | 596,616 | 1,111,713 |
| Other assets | - | - | - | - | - | 1,847,790 | 1,847,790 |
| **Total assets** | **13,833,267** | **8,681,626** | **2,111,638** | **935,566** | **180,669** | **2,198,843** | **27,941,609** |
| | **Up to 1 month** | **1 - 3 months** | **3 - 12 months** | **1 - 5 years** | **Over 5 years** | **Non interest bearing** | **Total** |
| **Liabilities** | | | | | | | |
| Due to Banks | 3,110,616 | 1,092,380 | 503,713 | 2,833 | - | - | 4,709,542 |
| Due to customers | 11,791,365 | 1,521,305 | 1,123,040 | 54,369 | - | 115,940 | 14,606,019 |
| Debt securities in issue | 1,844,873 | 2,476,505 | 475,739 | 423,925 | 323 | - | 5,221,365 |
| Other borrowed funds | 602,392 | 398,492 | - | - | - | - | 1,000,884 |
| Other liabilities | - | - | - | - | - | 775,704 | 775,704 |
| **Total liabilities** | **17,349,246** | **5,488,682** | **2,102,492** | **481,127** | **323** | **891,644** | **26,313,514** |
| **Net notional amounts of derivative financial instruments** | (103,809) | 292,920 | 220,426 | (352,692) | (85,565) | - | |
| **Total interest rate sensitivity gap** | **(3,619,788)** | **3,485,864** | **229,572** | **101,747** | **94,781** | **1,307,199** | |

**Amounts in thousand euros** (Unless otherwise stated)

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

| **At 31 December 2006** | **EUR** % | **USD** % | **Other** % |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Banks | 0.97 | 1.20 | 0.03 |
| Treasury bills and other eligible bills | 3.11 | - | - |
| Loans and advances to credit institutions | 3.70 | 5.44 | 5.59 |
| Loans and advances to customers | 6.32 | 6.42 | 3.70 |
| Investment securities | 6.12 | 7.36 | - |
| **Liabilities** | | | |
| Due to banks | 3.67 | 5.33 | 3.99 |
| Due to customers | 2.47 | 4.86 | 4.35 |
| Debt securities in issue | 3.59 | 5.41 | 4.68 |
| Other borrowed funds | 4.39 | - | - |

The following tables include figures of the comparative year:

| | **Up to 1 month** | **1 - 3 months** | **3 - 12 months** | **1 - 5 years** | **Over 5 years** | **Non interest bearing** | **Total** |
|---|---|---|---|---|---|---|---|
| **At 31 December 2005** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with Central Banks | 1,218,081 | - | - | - | - | - | 1,218,081 |
| Loans and advances to credit institutions | 1,931,671 | 174,039 | 32,646 | - | - | - | 2,138,356 |
| Financial instruments at fair value through Profit or Loss | 912,516 | (23,698) | 98,510 | 57,597 | 66,633 | 20,742 | 1,132,300 |
| Loans and advances to customers (less allowances) | 10,197,718 | 3,325,468 | 958,219 | 431,380 | 35,792 | (361,407) | 14,587,170 |
| Investment securities | 44,927 | 1,271 | 8,881 | 54,541 | 7,500 | 298,670 | 415,790 |
| Other assets | - | - | - | - | - | 1,662,404 | 1,662,404 |
| **Total assets** | **14,304,913** | **3,477,080** | **1,098,256** | **543,518** | **109,925** | **1,620,409** | **21,154,101** |

| | **Up to 1 month** | **1 - 3 months** | **3 - 12 months** | **1 - 5 years** | **Over 5 years** | **Non interest bearing** | **Total** |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Due to banks | 2,144,776 | 753,820 | 517,385 | 6,426 | - | - | 3,422,407 |
| Due to customers | 9,847,915 | 839,215 | 540,031 | 115,322 | - | 108,970 | 11,451,453 |
| Debt securities in issue | 1,866,285 | 1,445,752 | 410,185 | 2,710 | 207 | - | 3,725,139 |
| Other borrowed funds | 201,260 | 398,597 | - | - | - | - | 599,857 |
| Other liabilities | - | - | - | - | - | 496,246 | 496,246 |
| **Total liabilities** | **14,060,236** | **3,437,384** | **1,467,601** | **124,458** | **207** | **605,216** | **19,695,102** |
| **Net notional amounts of derivative financial instruments** | 701,160 | (385,098) | (154,069) | (96,302) | (70,711) | - | |
| **Total interest rate sensitivity gap** | **945,837** | **(345,402)** | **(523,414)** | **322,758** | **39,007** | **1,015,193** | |

| **At 31 December 2005** | **EUR** % | **USD** % | **Other** % |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Banks | 1.55 | 0.01 | - |
| Treasury bills and other eligible bills | 2.16 | - | - |
| Loans and advances to credit institutions | 2.43 | 4.33 | 2.46 |
| Loans and advances to customers | 4.87 | 5.20 | 4.28 |
| Investment securities | 4.26 | 6.27 | - |
| **Liabilities** | | | |
| Due to banks | 2.44 | 4.29 | 1.80 |
| Due to customers | 1.46 | 3.48 | 3.46 |
| Debt securities in issue | 2.39 | 4.22 | 4.55 |
| Other borrowed funds | 3.02 | - | - |

The negative amount which is stated in line "Financial instruments at fair value through Profit or Loss", concerns sales and purchases of Greek government bonds with settlement date after 31/12/2006.

Interest Rate Gap enables the evaluation of interest rate risk using the ‘Earnings-at-Risk’ measure, which denotes the negative effect on the expected annual interest income, as a result of a parallel shift in interest rates for all currencies considered.

In addition, Piraeus Bank applies “Modified Duration”, a sensitivity measure, which denotes the change in the net present value of balance-sheet and off-balance-sheet items in response to a change in interest rates, assuming parallel yield curve shifts. In particular, a parallel shift of 100bp in yield curves would reduce the Bank’s net present value by 60 million EUR.

**Amounts in thousand euros** (Unless otherwise stated)

Piraeus Bank also evaluates potential losses under stressful market conditions. Possible stress scenarios include abrupt changes in the level of interest rates, changes in the slope and the shape of the yield curves, or changes in the volatility of market rates.

These scenarios, where changes in the factors take place instantaneously, may be interpreted as a special case of “Dynamic Scenarios”.

“Dynamic Scenarios” are used in the implementation of “Dynamic Simulation”, which assesses the sensitivity of the net interest income stream to movements in the yield curves and include several time intervals and market factors change for each of them. The “Dynamic Simulation” approach includes not only possible market developments, but also the planned future actions of the Bank. According to the “Dynamic Simulation” results, the positive impact on the annual interest income of the Bank against a +50 basis points change of interest rates, is estimated at +9.6 million EUR.

### 3.6 Liquidity risk

Piraeus Bank acknowledges that, in order to be able to meet liabilities promptly and without losses, it is essential to effectively manage Liquidity Risk.

Liquidity Risk is the risk that a financial institution will not be able to meet its obligations as they become due, because of a lack of the required liquidity.

In general, liquidity management is a matter of balancing cash flows within forward rolling time bands, so that under normal conditions, the Bank is comfortably placed to meet all its payment obligations as they fall due.

Liquidity Gap Analysis provides an overview of the expected cash flows, which arise from all balance sheet items. The cash flows are assigned and aggregated to time-bands according to when they occur.

The table below analyses assets and liabilities into relevant time periods based on the remaining period at balance sheet date to the contractual maturity date. The interest payments of contracts, whose cash flow profile consists of periodical amortizations, are not included in the table. The principal amounts are included in the calculations. Assets and liabilities in foreign currency are converted into EUR using forward FX rates.

The assumptions made are that scheduled payments to the bank are honoured in full and on time and in addition, all contractual payments are discharged in full – e.g. that depositors will withdraw their money rather than roll it over on maturity. Those assets and liabilities lacking actual maturities (e.g. open accounts, sight deposits, or savings accounts) are assigned to the time band up to one month.

Shares, Fixed Assets and Other Assets and Liabilities are included under the heading “over 5 years”.

Net notional amounts of all derivative financial instruments have been assigned in time bands according to their maturity date. The arising result is presented in line "net notional amounts of derivative financial instruments".

| | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | | |
| **Assets liquidity** | | | | | | |
| Cash and balances with central banks | 1,361,547 | - | - | - | - | 1,361,547 |
| Loans and advances to Credit Institutions | 2,802,085 | 66,133 | 59,087 | 11,618 | - | 2,938,923 |
| Derivative financial instruments - assets | 11 | 1,275 | 3,346 | 41,554 | 6,792 | 52,978 |
| Financial instruments at fair value through Profit or Loss | 948,098 | 110,819 | 179,634 | 100,746 | 613,603 | 1,952,900 |
| Loans and advances to customers (less allowances) | 4,920,774 | 1,543,373 | 1,617,964 | 5,123,561 | 5,523,064 | 18,728,736 |
| Investment securities | - | 6,838 | 386,624 | 94,164 | 624,087 | 1,111,713 |
| Other assets | - | - | - | - | 1,794,812 | 1,794,812 |
| **Total assets** | **10,032,515** | **1,728,438** | **2,246,655** | **5,371,643** | **8,562,358** | **27,941,609** |
| **Liabilities liquidity** | | | | | | |
| Due to Banks | 3,142,253 | 563,029 | 501,427 | 502,833 | - | 4,709,542 |
| Derivative financial instruments - liabilities | 14 | 652 | 6,006 | 41,225 | 13,172 | 61,069 |
| Due to customers | 11,909,726 | 1,520,312 | 1,121,706 | 54,275 | - | 14,606,019 |
| Debt securities in issue | 309,521 | 1,379,323 | 805,098 | 2,592,914 | 134,509 | 5,221,365 |
| Other borrowed funds | - | - | - | - | 1,000,884 | 1,000,884 |
| Other liabilities | - | - | - | - | 714,635 | 714,635 |
| **Total liabilities** | **15,361,514** | **3,463,316** | **2,434,237** | **3,191,247** | **1,863,200** | **26,313,514** |
| **Net notional amounts of derivative financial instruments** | (26,883) | 19,050 | (25,368) | 1,415 | (2,628) | |
| **Net Liquidity Gap** | **(5,355,882)** | **(1,715,828)** | **(212,950)** | **2,181,811** | **6,696,530** | |

**Amounts in thousand euros** (Unless otherwise stated)

| | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2005** | | | | | | |
| Total assets | 7,713,634 | 1,606,132 | 1,823,940 | 4,192,538 | 5,817,857 | 21,154,101 |
| Total liabilities | 12,839,201 | 2,221,840 | 1,347,388 | 2,162,181 | 1,124,492 | 19,695,102 |
| **Net notional amounts of derivative financial instruments** | (2,652) | 3,946 | (8,148) | (59) | (3,861) | |
| **Net Liquidity Gap** | **(5,128,219)** | **(611,762)** | **468,404** | **2,030,298** | **4,689,504** | |

A Liquidity Risk Management Policy has been applied in all Bank units since the end of 2003. This policy is adjusted to internationally applied practices and regulatory environments and adapted to the specific activities and organisational structure of Piraeus Bank.

The policy specifies the principal liquidity risk assessment definitions and methods, defines the roles and responsibilities of the units and staff involved and sets out the guidelines for liquidity crisis management. The policy is focused on the liquidity needs expected to emerge, in a week's or month's time, on the basis of hypothetical liquidity crisis scenarios.

Furthermore, the Policy defines a contingency funding plan to be used in the case of a liquidity crisis. Such a crisis can take place either due to a Piraeus Bank specific event or a general market event. Triggers and warning signals serve as indicators of when the contingency plan should be put into operation.

In addition, Piraeus Bank calculates and monitors the Liquidity ratios, "Liquid Assets/Total Liabilities" and "Net Current Assets/Total Liabilities", as they are defined in the Bank of Greece Directive, which refers to the control framework of banks' liquidity adequacy, by the Bank of Greece.

The levels of these particular ratios are daily communicated to the responsible business units, and comments, as well as respective assessments, are included in the reporting package to the members of Asset-Liability Committee.

The Liquidity Ratios are also calculated at the end of the year, taking into account the budget of the following year and are communicated to the Bank of Greece.

In addition, Piraeus Bank applies liquidity crisis scenarios and estimates their impact on the Liquidity Ratios. Liquidity Risk Factors are assigned to each Balance Sheet item, both in the assets (reflecting the ability of each item to generate liquidity) and the liabilities side (reflecting each item's liquidity outflow under a liquidity crisis scenario).

The maintenance of liquid securities portfolios, expansion of "large diversion" deposit accounts (savings accounts), enrichment of time deposit products of over one month, expansion of alternative financing sources (European Commercial Paper) and prolongation of Liabilities' maturity through the issues of bonded loans (issue of Euro Medium Term Notes, issue of Subordinated notes Tier II, issue of Hybrid Capital Tier I) are measures, which are taken to minimize liquidity risk.

Piraeus Bank has issued a securitisation program based on mortgage pools with nominal amount of € 750 million. The liquidity benefits of the securitisation process derive from the conversion of illiquid assets into liquid funds.

### 3.7 Fair values of financial assets and liabilities

The following table summarises the fair values and the carrying amounts of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

| | Carrying amounts | | Fair value | |
|---|---|---|---|---|
| | 31 December 2006 | 31 December 2005 | 31 December 2006 | 31 December 2005 |
| **Financial assets** | | | | |
| Loans and advances to Credit Institutions | 2,938,923 | 2,138,356 | 2,939,286 | 2,139,396 |
| Loans and advances to customers (less allowances) | 18,728,736 | 14,587,170 | 19,336,375 | 15,240,507 |
| **Financial liabilities** | | | | |
| Due to banks | 4,709,542 | 3,422,407 | 4,714,497 | 3,419,525 |
| Due to customers | 14,606,019 | 11,451,453 | 14,598,775 | 11,443,755 |
| Debt securities in issue | 5,221,365 | 3,725,139 | 5,251,375 | 3,746,262 |
| Other borrowed funds and hybrid capital | 1,000,884 | 599,857 | 1,008,765 | 604,195 |

a) The estimated fair value of loans and advances to credit institutions is based on discounting cash flows using money market rates for debts with similar remaining maturity.

b) The fair value of loans and advances to customers is estimated by discounting expected future cash flows using suitable interest rates for instruments with similar credit risk and maturity.

c) Investment securities include interest-bearing assets held to maturity. Fair value for held to maturity items is estimated using quoted market prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or by discounting cash flows.

d) The estimated fair value of amounts due to banks is based on discounted cash flows using money market interest rates, appropriate for the remaining term to maturity.

e) The estimated fair value of amounts due to customers is based on discounted cash flows using appropriate interest rates (money market) for instruments with similar maturity.

f) The fair value of debt securities in issue is calculated based on quoted prices. Where quoted market prices are not available, the estimated fair value is based on other debt securities with similar credit, yield and maturity characteristics or by discounting cash flows.

g) The fair value of other borrowed funds and hybrid capital is based on quoted market prices. When quoted market prices are not reliable, the fair value is estimated by discounting cash flows with appropriate yield curves.

### 3.8 Fiduciary activities

The Bank provides custody services to third parties for a wide range of financial instruments. These services include procedures such as safekeeping of securities, clearing and settlement of securities transactions in the Greek market and abroad, execution of corporate actions, income collection etc, on behalf of individuals and companies. Those assets and income arising thereon are not included in the Bank's financial statements. The above mentioned services give rise only to operational risk. At the balance sheet date, the Bank had custody accounts amounting to approximately € 6.87 billion (2005: € 5.25 billion).

## 4 Critical accounting estimates and judgements

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*1. Impairment losses on loans and advances*

The bank reviews its loan portfolios to assess impairment in every reporting period. In determining whether an impairment loss should be recorded in the income statement, the bank has set a methodology (described in note 2.12) and uses various assumptions as to whether there is any indication of impairment of the loan portfolio. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*2. Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. All models use observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Assumptions that affect the reported fair values of financial instruments are examined regularly.

*3. Impairment of Available for-sale portfolio*

The Available for sale portfolio is recorded at fair value. Changes of fair value are recorded in the AFS reserve. The Bank determines that Available-for-sale portfolio is impaired when there has been a significant or prolonged decline in the fair value below its cost. When this occur the AFS reserve is transferred to the income statement of the period. This determination of what is significant or prolonged requires judgement. The determination of the fair value of the Available for sale portfolio, when quoted market prices are not available, is based on several valuation pricing models, which also requires judgement. In making these judgements, the Bank evaluates among other factors, evidence of deterioration in the financial health of the investee, industry and sector performance.

*4. Held to maturity investments*

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be remeasured at fair value.

5. *Income taxes*

The bank is subject to income taxes in the countries in which it operates. This requires estimates in determining the provision for income taxes and therefore the final income tax determination is uncertain during the fiscal year. Where the final income tax expense is different from the amounts that were initially recorded, differences will impact the income tax and deferred tax provisions in the period in which the tax computation is finalised.

## 5 Business segments

Piraeus Bank has defined the following business segments:

**Retail Banking** - This segment includes the retail banking facilities of the Bank, which are addressed to retail customers as well as to small - medium companies (deposits, loans, working capital, imports – exports, letters of guarantees, etc.)

**Corporate Banking** - This segment includes facilities related to retail banking addressed to large and maritime companies, which due to their specific needs are serviced by the headquarters (deposits, loans, syndicated loans, project financing, working capital, imports – exports, letters of guarantees, etc.).

**Investment Banking** - This segment includes activities related to investment banking facilities of the Bank (investment and advisory services, underwriting services and public listings, stock exchange services etc.).

**Asset Management and Treasury** – This segment includes asset management facilities for clients and for the Bank (wealth management facilities, mutual funds management, treasury).

**Other** – Includes other facilities of the bank that are not included in the above segments (Bank's administration etc.).

**Amounts in thousand euros** (Unless otherwise stated)

An analysis of income and other financial figures per business segment is presented below:

| **1/1-31/12/2006** | **Retail Banking** | **Corporate Banking** | **Investment Banking** | **Asset Management & Treasury** | **Other business segments** | **Total** |
|---|---|---|---|---|---|---|
| Revenues | 894,499 | 258,348 | 14,356 | 409,645 | 235,606 | 1,812,454 |
| Net revenues | 584,269 | 91,302 | 13,549 | 37,004 | 182,019 | 908,143 |
| Segment results | 217,587 | 31,004 | 12,419 | 14,076 | 129,300 | 404,386 |
| **Profit before tax** | | | | | | **404,386** |
| Income tax expense | | | | | | (64,302) |
| **Profit after tax** | | | | | | **340,084** |
| **Other segment items** | | | | | | |
| Capital expenditure | 24,817 | 42 | 174 | 215 | 59,388 | 84,636 |
| Depreciation and amortisation | 12,835 | 280 | 3 | 723 | 16,619 | 30,460 |
| Impairment charge - loans | 43,314 | 16,150 | - | - | 167 | 59,631 |

Results of other business segments include amount of € 129.8 million which relates to the sale of ING GROEP N.V. (note 10).

| **1/1-31/12/2005** | **Retail Banking** | **Corporate Banking** | **Investment Banking** | **Asset Management & Treasury** | **Other business segments** | **Total** |
|---|---|---|---|---|---|---|
| Revenues | 641,912 | 203,876 | 1,473 | 290,245 | 132,205 | 1,269,711 |
| Net revenues | 480,211 | 78,755 | 1,464 | 70,636 | 104,026 | 735,092 |
| Segment results | 120,962 | 32,648 | 545 | 48,342 | 63,481 | 265,978 |
| **Profit before tax** | | | | | | **265,978** |
| Income tax expense | | | | | | (4,381) |
| **Profit after tax** | | | | | | **261,597** |
| **Other segment items** | | | | | | |
| Capital expenditure | 16,546 | 1,486 | 435 | 266 | 29,921 | 48,654 |
| Depreciation and amortisation | 10,087 | 589 | 3 | 589 | 16,961 | 28,229 |
| Impairment charge - loans | 38,028 | 13,661 | - | 1 | 72 | 51,762 |
| **At 31 December 2006** | | | | | | |
| Segment assets | 13,157,489 | 5,214,103 | - | 6,209,986 | 3,360,031 | **27,941,609** |
| Segment liabilities | 14,261,838 | 534,826 | - | 10,984,566 | 532,284 | **26,313,514** |
| **At 31 December 2005** | | | | | | |
| Segment assets | 10,211,962 | 4,625,644 | - | 3,847,168 | 2,469,327 | **21,154,101** |
| Segment liabilities | 11,287,737 | 640,951 | - | 6,497,173 | 1,269,242 | **19,695,103** |

Capital expenditure includes additions of intangible and tangible assets that took place in the year by each business segment.

Revenues and net revenues from other business segments include revenues and net revenues derived from transactions, governed by normal commercial terms and conditions, between business segments.

Geographical concentrations are analysed in note 3.2.

**Amounts in thousand euros** (Unless otherwise stated)

## 6 Net Interest income

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| **Interest income** | | |
| Interest on fixed income securities | 152,419 | 90,890 |
| Interest income on loans and advances | 977,844 | 713,326 |
| Interest on loans and advances to credit institutions | 132,675 | 61,836 |
| Interest rate swaps | 202,867 | 108,345 |
| Other interest income | 14,670 | 7,651 |
| **Total interest income** | **1,480,475** | **982,048** |
| **Interest expense** | | |
| Interest on customer deposits and repos | (278,821) | (173,869) |
| Interest on debt securities in issue and on other borrowed funds | (195,668) | (94,944) |
| Interest on due to Banks | (121,838) | (58,803) |
| Interest rate swaps | (208,349) | (122,962) |
| Other interest expense | (68,163) | (58,140) |
| **Total interest expense** | **(872,839)** | **(508,718)** |
| **Net Interest Income** | **607,636** | **473,330** |

Accrued interest for impaired loans is € 12,492 thousand (2005: € 1,214 thousand).

## 7 Net fees and commission income

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| **Fees and commission income** | | |
| Commercial banking | 87,078 | 93,128 |
| Investment banking | 16,985 | 5,425 |
| Asset management | 16,089 | 15,561 |
| **Total fees and commission income** | **120,152** | **114,114** |
| **Fees and commission expense** | | |
| Commercial banking | (22,734) | (20,210) |
| Investment banking | (3,109) | (2,404) |
| Asset management | (5,629) | (3,287) |
| **Total fees and commission expense** | **(31,472)** | **(25,901)** |
| **Net fees and commission income** | **88,680** | **88,213** |

## 8 Dividend income

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Dividend from subsidiaries | 21,535 | 54,457 |
| Dividend from associates | 144 | 1,640 |
| Dividend from AFS securities | 14,055 | 8,028 |
| Dividend from trading securities | 1,906 | 7,057 |
| | **37,640** | **71,182** |

## 9 Net trading income

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Gains less losses on FX dealing | 7,815 | 7,434 |
| Gains less losses on shares and mutual funds transactions | 2,363 | 26,677 |
| Gains less losses on derivatives transactions | (3,283) | (5,634) |
| Gains less losses on bonds transactions | (2,364) | 6,326 |
| Gains less losses on FX valuation | (617) | 830 |
| Gains less losses on shares and mutual funds valuation | 9,352 | 560 |
| Gains less losses on derivatives valuation | 7,411 | 16,833 |
| Gains less losses on bonds valuation | (4,614) | (18,461) |
| | **16,063** | **34,565** |

## 10 Gains less losses from investment securities

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Gains less losses on shares and mutual funds (Available for sale portfolio) | 133,980 | 36,628 |
| Gains less losses on bonds (Available for sale portfolio) | (9) | 375 |
| Gains less losses from sale of subsidiaries | 631 | 6,534 |
| Impairment on subsidiaries | (7,099) | - |
| | **127,503** | **43,537** |

Gains from sale of subsidiaries for the year 2005 resulted from sales through the Athens stock exchange of the subsidiary Piraeus Real Estate Investment Property S.A.

In compliance with the Strategic Alliance Agreement dated 18/1/2002 of Piraeus Bank and the companies "ING Greek Life Insurance Company S.A." and "ING Greek General Insurance Company S.A" on the liquidation of their respective cross-shareholdings, the following events took place during the first quarter of 2006: a) the sale to institutional investors via an accelerated bookbuilding process of the entire number of Piraeus Bank's shares which were held by the companies "ING Greek Life Insurance Company S.A." and "ING Greek General Insurance Company S.A" and b) the sale of Piraeus Bank's entire holding of certificates of ING Groep N.V. shares through a series of moderated sales on Euronext Amsterdam.

**Amounts in thousand euros** (Unless otherwise stated)

The gain before tax and after tax from the above transactions was € 129.8 million and € 97.4 miilion respectively and it was recorded in Piraeus Bank's books.

## 11 Other operating income

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Rental income | 1,308 | 1,719 |
| Other income from banking operations | 178 | 6,079 |
| Receipt of written off loans | 6,133 | - |
| Income from services to Group subsidiaries | 2,032 | 1,420 |
| Gains/ (losses) from valuation of investment property | 3,004 | 840 |
| Return of taxes - contributions | 5,785 | 7,368 |
| Other operating income | 12,181 | 6,839 |
| | **30,621** | **24,265** |

Other operating income include non-recurring income and that, explains the significant fluctuations from year to year.

## 12 Staff costs

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Wages & salaries | (153,080) | (133,361) |
| Social insurance contributions | (32,863) | (29,200) |
| Other staff costs | (9,327) | (12,513) |
| Retirement benefit charges (note 34) | (21,901) | (24,113) |
| | **(217,171)** | **(199,187)** |

Wages and salaries include amount of € 8,360 thousand which relates to the total cost of the stock option plans (note 36) for the year 2006. The respective amount for the year 2005 is € 200 thousand. The total cost for the stock option plans includes the cost of the share options granted to the members of the Board of Directors and key management personnel (note 40).

The number of staff employed by Piraeus Bank as at 31 December 2006 was 4,596 compared to 4,545 at the end of 2005. The number of staff employed by Piraeus Bank at the end of 2005, adjusted for the number of staff of Piraeus Bank's branch network in Bulgaria which was absorbed by Piraeus Bank's subsidiary, Piraeus Bank Bulgaria as at 24/3/2006, is 4,342. The average number of staff employed by the Bank during the year 1/1-31/12/2006, taking into account the above adjustment, is 4,469.

## 13 Administrative expenses

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Rental expense | (35,674) | (32,333) |
| Taxes & duties | (27,633) | (24,166) |
| Promotion and advertising expenses | (23,086) | (21,542) |
| Servicing - promotion of banking products | (39,025) | (39,461) |
| Fees and third parties expenses | (20,106) | (18,371) |
| Other administrative expenses | (47,574) | (47,908) |
| | **(193,098)** | **(183,781)** |

## 14 Income tax expense

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Current Tax | (33,716) | (20,168) |
| Deferred Tax (Note 33) | (30,586) | 15,787 |
| | **(64,302)** | **(4,381)** |

Tax authorities have audited Piraeus Bank's tax position for the years up to and including 2003. For the unaudited tax years, a provision has been raised according to International Financial Reporting Standards (IFRS).

The tax rate for Greek legal entities, in accordance with the provisions in force of article 109, par. 1 of Law 2238/94, amounts to 32% for the year 2005 and 29% for the year 2006.

However, upon completion of the merger with the Hellenic Investment Company on 31/12/2005, in accordance with the provisions of article 9, par. 2 and 3 of Law 2992/2002, the Bank defined the amount of the income tax for the year 2005 according to a tax rate, on its taxable profits, reduced by five (5) percentage points, namely 27% (32% minus 5%). For the year 2006, income tax was defined according to a tax rate, on the Bank’s taxable profits, similarly reduced by five (5) percentage points, namely 24% (29% minus 5%). Furthermore, it should be noted that the article 7 of Law 3470/2006 (Government Gazette Issue 132A'/28.6.2006) “National Board of Imports, tax arrangements and other provisions” specifies that the tax benefit of companies which are entitled to a reduced tax rate, based on the provisions of Law 2992/2002 (article 9, par. 1, 2 and 3), is allocated in equal sums in three consecutive accounting periods, starting with the accounting period within which the change was completed, and it concerns only the cash management of the specific tax amount.

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the bank as follows:

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| Profit before tax | 404,386 | 265,978 |
| Tax calculated (24% and 27% respectively) | (97,053) | (71,814) |
| Income not subject to tax (corresponding tax) | 33,024 | 15,026 |
| Non deductible expenses (corresponding tax) | (234) | (161) |
| Deferred tax credit in profit or loss | - | 52,619 |
| Supplementary tax 3% on real estate income | (39) | (51) |
| **Income Tax** | **(64,302)** | **(4,381)** |

**Amounts in thousand euros** (Unless otherwise stated)

During 2005, deferred tax asset on the impairment of securities was recorded in profit or loss in order to be offset against future profits from stock exchange transactions, according to article 38, Law 2238.

## 15 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares in issue during the year, excluding the average number of ordinary shares purchased by Piraeus Bank and held as treasury shares. For the calculation of the diluted earnings per share, all the dillutive potential ordinary shares are taken into consideration. The two share option schemes currently in force (note 36) is the only case of dilutive potential ordinary shares for the Bank. Specifically, the difference in the number of shares that arises from the comparison of a) the number of shares that would have been issued at fair value based on the consideration received from the exercise of the share options and b) the number of shares issued due to the exercise of the share options is added on the weighted average number of ordinary shares used for the calculation of the basic earnings per share.

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| **Basic earnings per share** | | |
| Profit after tax | 340,084 | 261,597 |
| Weighted average number of shares in issue | 262,261,485 | 250,307,188 |
| Basic earnings per share (in euros) | 1.30 | 1.04 |

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| **Diluted earnings per share** | | |
| Profit after tax | 340,084 | 261,597 |
| Weighted average number of shares in issue | 262,261,485 | 250,307,188 |
| Adjustment for share options | 1,590,742 | 191,953 |
| Weighted average number of shares in issue for the diluted earnings per share calculation | 263,852,227 | 250,499,141 |
| Diluted earnings per share (in euros) | 1.29 | 1.04 |

The weighted average number of shares for the calculation of the basic and diluted EPS has been adjusted in accordance with the requirements of IAS 33 proportionaly from 1/1/2005, in order to take into account the bonus issue (1 free new share for every 4 old shares) which was decided by the 2nd Iterative General Meeting on 15/5/2006.

## 16 Cash and balances with the Central Bank

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Cash in hand | 254,381 | 162,153 |
| Nostros and sight accounts with other banks | 50,562 | 38,393 |
| Balances with central banks | 679,272 | 614,932 |
| Cheques clearing system - central bank | 373,430 | 333,145 |
| **Included in cash and cash equivalents less than 90 days (Note 39)** | **1,357,645** | **1,148,623** |
| Mandatory reserves with central banks | 3,902 | 69,458 |
| | **1,361,547** | **1,218,081** |

Mandatory reserves with central banks are not available for everyday use by Piraeus Bank. The interest rates for nostros and sight accounts are floating.

## 17 Loans and advances to credit institutions

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Placements with banks | 2,902,271 | 1,896,353 |
| Reverse repurchase agreements | - | 143,744 |
| **Included in cash and cash equivalents less than 90 days (Note 39)** | **2,902,271** | **2,040,097** |
| Placements with banks (above 90 days) | 36,652 | 98,259 |
| | **2,938,923** | **2,138,356** |

The interest rates for the total of loans and advances to credit institutions are floating.

## 18 Derivative financial instruments

Derivative financial instruments held by the Bank include Currency Forwards, Interest Rate Futures, Interest rate or/and Currency Swaps, Call / Put Options on interest and/or currency, which are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured on a daily basis at their fair value. Fair values are obtained from quoted markets prices in active markets and option pricing models as appropriate. Derivative financial instruments with positive fair values are recognised as assets and derivative financial instruments with negative fair values are recognised as liabilities.

| **At 31 December 2006** | | **Fair values** | |
|---|---|---|---|
| | **Contract/Notional Amount** | **Assets** | **Liabilities** |
| **Derivatives held for trading** | | | |
| Futures | 23,200 | - | - |
| Asset swaps | 100,915 | - | 8,796 |
| Interest rate swaps | 8,583,769 | 42,250 | 42,176 |
| FX forwards | 136,889 | 919 | - |
| Forward rate agreements | 6,000,000 | 1,104 | - |
| Other derivative instruments | 118,983 | 343 | 1,001 |
| | | **44,616** | **51,973** |

**Amounts in thousand euros** (Unless otherwise stated)

| | Contract/Notional Amount | Assets | Liabilities |
|---|---|---|---|
| **Derivatives held for trading** | | | |
| **Embedded equity derivatives** | | | |
| Customer deposits/ loans linked to options | 273,644 | 8,085 | 7,936 |
| **Derivatives held for fair value hedging** | | | |
| Interest rate swaps | 129,122 | 277 | 1,160 |
| **Total recognised derivative assets / liabilities** | | **52,978** | **61,069** |

| **At 31 December 2005** | | Fair values | |
|---|---|---|---|
| | Contract/Notional Amount | Assets | Liabilities |
| **Derivatives held for trading** | | | |
| Futures | 7,600 | - | - |
| Asset swaps | 104,701 | - | 15,274 |
| Interest rate swaps | 4,579,519 | 12,136 | 15,562 |
| FX forwards | 68,589 | - | 23 |
| Currency swaps | 2,683,996 | (640) | - |
| Other derivative instruments | 154,175 | 1,352 | (1,229) |
| | | **12,848** | **29,630** |
| **Embedded equity derivatives** | | | |
| Customer deposits/ loans linked to options | 286,356 | 5,640 | 3,883 |
| **Derivatives held for fair value hedging** | | | |
| Interest rate swaps | 69,246 | 491 | 2,002 |
| **Total recognised derivative assets / liabilities** | | **18,979** | **35,515** |

Piraeus Bank undertakes most of its transactions in foreign exchange and interest rate contracts with other financial institutions. Specifically for interest rate swaps, approximately 91% of its transactions are with financial institutions (notional amount). These transactions are taken with a diversified portfolio of counterparties. The top three counterparties account for 75% of the total outstanding notional amount of interest rate swaps. The remaining 25% is executed through a number of counterparties. The ratio of the fair value of all derivatives (assets) to loans and advances to credit institutions is 1.72%.

## 19 Financial assets at fair value through Profit or Loss

| **Trading securities** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Corporate entities bonds | 5,285 | - |
| Foreign Government bonds | - | 1,097 |
| **Included in cash and cash equivalents less than 90 days (Note 39)** | **5,285** | **1,097** |
| Greek Government bonds | 1,749,419 | 941,824 |
| Greek Government treasury bills | 29,749 | 40,103 |
| Foreign Government bonds | 13,972 | - |
| Corporate entities bonds | 28,870 | 35,555 |
| | **1,822,010** | **1,017,482** |
| Athens stock exchange listed shares | 69,156 | 20,742 |
| **Total trading securities** | **1,896,451** | **1,039,321** |
| **Other financial assets at fair value through profit or loss** | **56,449** | **92,979** |
| **Total** | **1,952,900** | **1,132,300** |

Other financial assets at fair value through profit and loss include asset swap bonds.

From the above mentioned bonds as at 31/12/2006, amount of € 1,680 million relates to fixed income securities, amount of € 184 million relates to floating rate securities (FRN) and finally amount of € 20 million relates to zero-coupons. The respective amounts as at 31/12/2005 are 961 million (fixed), € 76 million (FRN) and € 74 million (zero-coupon).

Securities pledged to third parties are € 188,016 thousand (2005: € 84,016 thousand).

Following the completion of the merger of Sciens International Investment & Holding S.A. with the company Diolkos Closed-End Fund S.A., and the introduction into the Athens Stock Exchange of the new shares on 12/12/2006, Piraeus Bank participation in Sciens International Investment & Holding S.A. was reduced from 36.75% to 25.80%. Based on a) the above mentioned reduction in the percentage held, b) the Bank's intention to further reduce the participation in Sciens International Investment & Holding S.A. in the near future and c) the Bank's representation on the board of directors of Sciens SA with two non executive members out of total seven members that do not participate in policy making processes, including participation in dividend distribution decision, Sciens International Investment & Holding S.A. was transferred to the trading portfolio (included in Athens Stock Exchange listed shares).

**Amounts in thousand euros** (Unless otherwise stated)

## 20 Loans and advances to customers

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Loans to individuals** | | |
| Mortgages | 4,214,628 | 3,304,962 |
| Consumer/ personal loans | 1,830,040 | 1,403,349 |
| Credit cards | 405,831 | 336,430 |
| Other | 77,718 | 124,995 |
| | **6,528,217** | **5,169,736** |
| **Loans to corporate entities** | **12,513,409** | **9,778,902** |
| **Total loans and advances to customers** | **19,041,626** | **14,948,638** |
| Less: Allowance for losses (impairment) on loans and advances to customers | 312,890 | 361,468 |
| **Total loans and advances to customers (after allowance for losses)** | **18,728,736** | **14,587,170** |

Out of the total loans and advances to customers, the amount € 1,652 million (2005: € 1,615 million) relates to fixed rate loans, whereas the amount of € 17,390 million (2005: € 13,334 million) relates to floating rate loans.

### Movement in allowance (impairment) for losses on loans and advances to customers:

| | | |
|---|---|---|
| **Balance at 1 January (1/1/2006 and 1/1/2005 respectively)** | **361,468** | **442,938** |
| Less: Opening balance of branch network in Bulgaria | (996) | - |
| Charge for the year | 59,631 | 50,431 |
| Loans written-off | (106,691) | (134,125) |
| Foreign exchange differences | (522) | 2,224 |
| **Balance at end of the year (31/12/2006 and 31/12/2005 respectively)** | **312,890** | **361,468** |

The charge for the year 2005 (€ 51,762 thousand) in the Income Statement includes amount of € 1,331 thousand which relates to write - offs of loans with direct charge to the Income Statement for the year. Reversals of loan impairment for the year 2006 amount to € 57,892 th. (2005: € 44,523 th.).

## 21 Investment securities

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Available for sale securities - fair values** | | |
| **Bonds and other fixed income securities** | | |
| Greek Government bonds | 355,826 | - |
| Foreign Government bonds | - | 540 |
| Corporate entities bonds | 121,976 | 80,235 |
| Bank bonds | 37,295 | 36,346 |
| | **515,097** | **117,121** |
| **Shares and other variable Income securities** | | |
| Listed shares | 472,457 | 172,763 |
| Unlisted shares | 124,159 | 125,906 |
| | **596,616** | **298,669** |
| **Total available for sale securities** | **1,111,713** | **415,790** |

From the above bonds as at 31/12/2006, amount of € 139 million is fixed rate, € 376 million is floating rate (FRN). The respective amounts for 31/12/2005 are € 13 million (fixed) and € 104 million (FRN).

During 2006, Piraeus Bank acquired 44,686,753 shares which corresponds to 8.08% of the share capital of “Bank of Cyprus Public Company Ltd”. The shares of Bank of Cyprus of total value € 462,954,761.08, are included in Athens Stock exchange listed shares in the available for sale portfolio.

The movement for the available for sale portfolio is as follows:

| | | |
|---|---|---|
| **Opening balance (1/1/2006 and 1/1/2005 respectively)** | **415,790** | **317,165** |
| Additions | 863,649 | 100,578 |
| Disposals | (364,626) | (106,328) |
| Transfers from associates (note 22) | - | 19,152 |
| Transfers from subsidiaries (note 22) | 4,915 | - |
| Changes in fair value (note 37) | 197,325 | 84,180 |
| Foreign exchange differences | (5,340) | 1,043 |
| **Closing balance (31/12/2006 and 31/12/2005 respectively)** | **1,111,713** | **415,790** |

Note 10 is related to the sale of ING GROEP N.V. 's shares.

**Amounts in thousand euros** (Unless otherwise stated)

## 22 Investments in subsidiaries and associates

The investments of Piraeus Bank in subsidiaries and associates are:

| | Company | Activity | % holding | Country |
|---|---|---|---|---|
| | **A. Subsidiaries** | | | |
| 1 | MARATHON BANKING CORPORATION | Banking Activities | 82.52% | USA |
| 2 | TIRANA BANK I.B.C. | Banking Activities | 90.72% | Albania |
| 3 | PIRAEUS BANK ROMANIA S.A. | Banking Activities | 99.99% | Romania |
| 4 | PIRAEUS BANK BEOGRAD A.D. | Banking Activities | 100.00% | Serbia |
| 5 | PIRAEUS BANK BULGARIA A.D. | Banking Activities | 99.92% | Bulgaria |
| 6 | PIRAEUS BANK EGYPT S.A.E. | Banking Activities | 95.34% | Egypt |
| 7 | PIRAEUS ASSET MANAGEMENT EUROPE S.A. | Mutual Funds Management | 99.94% | Luxemburg |
| 8 | PIRAEUS LEASING S.A. | Finance Leasing | 86.76% | Greece |
| 9 | PIRAEUS LEASING ROMANIA SRL | Finance Leasing | 99.80% | Romania |
| 10 | PIRAEUS INSURANCE AND REINSURANCE BROKERAGE S.A. | Insurance and Reinsurance Brokerage | 100.00% | Greece |
| 11 | TIRANA LEASING S.A. | Finance Leasing | 100.00% | Albania |
| 12 | PIRAEUS SECURITIES S.A. | Stock Exchange Operations | 80.00% | Greece |
| 13 | PIRAEUS CARDS S.A. | Financial services and consultancy | 59.16% | Greece |
| 14 | PIRAEUS GROUP CAPITAL LTD | Debt Securities Issue | 100.00% | United Kingdom |
| 15 | PIRAEUS LEASING BULGARIA | Finance Leasing | 100.00% | Bulgaria |
| 16 | PIRAEUS ENTERPRISERS 4 LTD | Holding company | 100.00% | Cyprus |
| 17 | PIRAEUS GROUP FINANCE P.L.C. | Debt Securities Issue | 100.00% | United Kingdom |
| 18 | MULTI COLLECTION S.A. | Assessment and collection of commercial debts | 51.00% | Greece |
| 19 | PIRAEUS FACTORING S.A. | Corporate factoring | 100.00% | Greece |
| 20 | PIRAEUS MULTIFIN S.A. | Financing for motor vehicles | 100.00% | Greece |
| 21 | ETBA FINANCE S.A. | Special liquidations | 100.00% | Greece |
| 22 | PIRAEUS BOTIFIN S.A. | Kosmopolis Areas Management | 100.00% | Greece |
| 23 | PICAR S.A. | City Link Areas Management | 100.00% | Greece |
| 24 | PIRAEUS REAL ESTATE INVESTMENT PROPERTY S.A. | Real estate investment property | 38.17% | Greece |
| 25 | BULFINA S.A. | Property Management | 100.00% | Bulgaria |
| 26 | PIRAEUS ATFS S.A. | Accounting and tax consulting | 100.00% | Greece |
| 27 | GENERAL CONSTRUCTION AND DEVELOPMENT CO.SA | Property development / holding company | 66.67% | Greece |
| 28 | PIRAEUS DIRECT SERVICES S.A. | Call center services | 100.00% | Greece |
| 29 | KOMOTINI REAL ESTATE DEVELOPMENT S.A. | Property Management | 100.00% | Greece |
| 30 | PIRAEUS REAL ESTATE S.A. | Construction company | 100.00% | Greece |
| 31 | ND DEVELOPMENT S.A. | Property Management | 100.00% | Greece |
| 32 | PROPERTY HORIZON S.A. | Property Management | 100.00% | Greece |
| 33 | ETBA INDUSTRIAL ESTATES S.A. | Development / Management of Industrial Areas | 65.00% | Greece |
| 34 | PIRAEUS PROPERTY S.A. | Property Management | 100.00% | Greece |
| 35 | PIRAEUS DEVELOPMENT S.A. | Property Management | 100.00% | Greece |
| 36 | PIRAEUS MUTUAL FUNDS S.A. | Mutual Funds Management | 100.00% | Greece |
| 37 | PIRAEUS DEVELOPER S.A. | Property Management | 100.00% | Greece |
| 38 | EUROINVESTMENT & FINANCE PUBLIC LTD | Banking, Asset Management, real estate operations | 85.10% | Cyprus |
| 39 | LAKKOS MIKELLI REAL ESTATE LTD | Property Management | 40.00% | Cyprus |
| 40 | PHILOKTIMATIKI PUBLIC LTD | Land and property development | 6.39% | Cyprus |
| 41 | CAPITAL INVESTMENTS & FINANCE S.A. | Investment company | 100.00% | Liberia |
| 42 | MAPLES INVEST & HOLDING S.A. | Investment company | 100.00% | British Virgin Islands |
| 43 | MARGETSON INVEST & FINANCE S.A. | Investment company | 100.00% | British Virgin Islands |
| 44 | VITRIA INVESTMENTS S.A. | Investment company | 100.00% | Panama |
| 45 | ESTIA MORTAGE FINANCE P.L.C. | Special purpose entity for securitisation of mortage loans | - | United Kingdom |
| 46 | SSIE PIRAEUS SECURITIES ROMANIA S.A. (former EUROPEAN SECURITIES S.A.) | Stock Exchange Operations | 78.25% | Romania |
| 47 | EXODUS S.A. | Information technology & software | 50.10% | Greece |
| 48 | PIRAEUS INSURANCE REINSURANCE BROKER ROMANIA SRL | Insurance and Reinsurance Brokerage | 95.00% | Romania |
| 49 | TRIERIS REAL ESTATE MANAGEMENT LTD | Management of Trieris Real Estate Ltd | 100.00% | British Virgin Islands |
| | **B. Associates** | **Activity** | **% holding** | **Country** |
| 1 | ING - PIRAEUS LIFE INSURANCE COMPANY | Life and health insurance | 49.90% | Greece |
| 2 | 'VIOTIKI" REGIONAL DEVELOPMENT & INVESTMENT COMPANY S.A. | European community programs management | 37.00% | Greece |
| 3 | CRETE SCIENTIFIC AND TECHNOLOGICAL PARK MANAGEMENT & DEVELOPMENT COMPANY S.A. | Scientific and technology park management | 30.45% | Greece |
| 4 | ETANAL S.A. | Management of Fish Trading Center | 25.00% | Greece |
| 5 | STALKO S.A. | Electrical equipment production | 25.00% | Greece |
| 6 | 'EVROS" DEVELOPMENT COMPANY S.A. | European community programs management | 30.00% | Greece |
| 7 | REBICAT | Property Management | 10.00% | Greece |
| 8 | ABIES | Property Management | 10.00% | Greece |
| 9 | EUROTERRA | Property Management | 9.22% | Greece |
| 10 | PROJECT ON LINE S.A. | Information technology & software | 40.00% | Greece |
| 11 | APE COMMERCIAL PROPERTY REAL ESTATE TOURIST AND DEVELOPMENT S.A | Real estate, development/ tourist services | 27.80% | Greece |

**Amounts in thousand euros** (Unless otherwise stated)

| | B. Associates | Activity | % holding | Country |
|---|---|---|---|---|
| 12 | APE FIXED ASSETS REAL ESTATE TOURIST AND DEVELOPMENT S.A. | Real estate, development/ tourist services | 27.80% | Greece |
| 13 | TRIERIS REAL ESTATE LTD | Property Management | 24.13% | British Virgin Islands |

Note 19 is related to the transfer of the partiicipation in Sciens International Investment & Holding S.A to the trading portfolio.

The movement for investments in subsidiaries is analysed as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Opening Balance** | 959,450 | 882,351 |
| Additions | 14,762 | 222,911 |
| Participation in share capital increases of subsidiaries | 62,354 | 129,120 |
| Absorptions | 5,444 | (194,983) |
| Transfers to available for sale portfolio (note 21) | (4,915) | - |
| Transfers from associates | - | 9,011 |
| Transfers to associates | - | (32,554) |
| Disposals | (11) | (61,118) |
| Impairment charge | (7,098) | (225) |
| Foreign exchange differences | (2,056) | 4,937 |
| **Closing balance** | **1,027,930** | **959,450** |

The movement for investments in associates is analysed as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Opening Balance** | 46,426 | 25,819 |
| Additions | 4,150 | 16,299 |
| Addition of associate company due to absorption of subsidiary | 726 | - |
| Disposals | (7,888) | - |
| Transfers to trading portfolio | (29,438) | - |
| Transfers to available for sale portfolio (note 21) | - | (19,152) |
| Transfers to subsidiaries portfolio | - | (9,011) |
| Transfers from subsidiaries portfolio | - | 32,554 |
| Impairment charge | - | (120) |
| Foreign exchange differences | - | 37 |
| **Closing balance** | **13,976** | **46,426** |

## 23 Intangible assets

| **2005** | **Software** | **Other intangible** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2005 | 42,568 | 1,629 | 44,197 |
| Additions | 5,972 | 418 | 6,390 |
| **At 31 December 2005** | **48,540** | **2,047** | **50,587** |
| | | | |
| **Accumulated depreciation at 1st January 2005** | | | |
| Opening balance | (34,010) | (1,412) | (35,422) |
| Charge for the year | (4,870) | (121) | (4,991) |
| **Accumulated depreciation at 31 December 2005** | **(38,880)** | **(1,533)** | **(40,413)** |
| | | | |
| **Net book value 31/12/2005** | **9,660** | **514** | **10,174** |

| **2006** | **Software** | **Other intangible** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 48,540 | 2,047 | 50,587 |
| Less: Opening balance of Piraeus Bank branch network in Bulgaria | (1,011) | (433) | (1,444) |
| Additions | 11,183 | 14 | 11,197 |
| Write - offs | (9) | - | (9) |
| **At 31 December 2006** | **58,703** | **1,628** | **60,331** |
| | | | |
| **Accumulated depreciation at 1st January 2006** | | | |
| Opening balance | (38,880) | (1,533) | (40,413) |
| Opening balance of Piraeus Bank branch network in Bulgaria | 755 | 72 | 827 |
| Charge for the year | (6,198) | (56) | (6,254) |
| Write - offs | 7 | - | 7 |
| **Accumulated depreciation at 31 December 2006** | **(44,316)** | **(1,517)** | **(45,833)** |
| | | | |
| **Net book value 31/12/2006** | **14,387** | **111** | **14,498** |

**Amounts in thousand euros** (Unless otherwise stated)

## 24 Property, plant and equipment

| **2005** | **Land and buildings** | **Furniture, electronic and other equipment** | **Assets under construction** | **Other tangible assets** | **Leasehold improvements** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January 2005 | 70,346 | 132,829 | 12,655 | 6,617 | 97,831 | 320,278 |
| Additions | 6,608 | 18,013 | 4,946 | 256 | 12,441 | 42,264 |
| Transfers | - | (3) | (2,927) | - | - | (2,930) |
| Disposals | (15,703) | (4,042) | - | (89) | (8,694) | (28,528) |
| Write - offs | - | (63) | - | - | - | (63) |
| **As at 31 December 2005** | **61,251** | **146,734** | **14,674** | **6,784** | **101,578** | **331,021** |
| **Accumulated depreciation as at 1st January 2005** | | | | | | |
| Opening balance | (1,307) | (101,412) | 0 | (5,286) | (45,306) | (153,311) |
| Charge for the year | (1,719) | (13,913) | - | (458) | (7,151) | (23,241) |
| Disposals | 363 | 3,907 | - | 69 | 4,739 | 9,078 |
| Write - offs | - | 6 | - | - | - | 6 |
| **Accumulated depreciation as at 31 December 2005** | **(2,663)** | **(111,412)** | **0** | **(5,675)** | **(47,718)** | **(167,468)** |
| **Net book value 31/12/2005** | **58,588** | **35,322** | **14,674** | **1,109** | **53,860** | **163,553** |

| **2006** | **Land and buildings** | **Furniture, electronic and other equipment** | **Assets under construction** | **Other tangible assets** | **Leasehold improvements** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January 2006 | 61,251 | 146,734 | 14,674 | 6,784 | 101,578 | 331,021 |
| Less: Opening balance of Piraeus Bank branch network in Bulgaria | - | (2,404) | (535) | (475) | (1,651) | (5,065) |
| Additions | 11,871 | 19,978 | 19,759 | 159 | 21,672 | 73,439 |
| Transfers | 13,133 | 1,738 | (20,830) | - | 7,303 | 1,344 |
| Disposals | (8,386) | (1,658) | - | (152) | (209) | (10,405) |
| Write - offs | - | - | - | (31) | (3,869) | (3,900) |
| **As at 31 December 2006** | **77,869** | **164,388** | **13,068** | **6,285** | **124,824** | **386,434** |
| **Accumulated depreciation as at 1st January 2006** | | | | | | |
| Opening balance | (2,663) | (111,412) | 0 | (5,675) | (47,718) | (167,468) |
| Opening balance of Piraeus Bank branch network in Bulgaria | - | 994 | - | 147 | 649 | 1,790 |
| Charge for the year | (1,822) | (14,213) | - | (354) | (7,816) | (24,205) |
| Transfers | 299 | - | - | - | - | 299 |
| Disposals | 439 | 1,658 | - | 153 | 91 | 2,341 |
| Write - offs | - | - | - | 31 | 1,984 | 2,015 |
| **Accumulated depreciation as at 31 December 2006** | **(3,747)** | **(122,973)** | **0** | **(5,698)** | **(52,810)** | **(185,228)** |
| **Net book value 31/12/2006** | **74,122** | **41,415** | **13,068** | **587** | **72,014** | **201,206** |

## 25 Investment property

| | |
|---|---|
| **2005** | |
| Opening balance | 22,789 |
| Additions | 8,741 |
| Revaluation | 839 |
| Disposals | (3,007) |
| **As at 31 December 2005** | **29,362** |
| | |
| **2006** | |
| Opening balance | 29,362 |
| Additions | 8,539 |
| Revaluation | 3,004 |
| Transfers | (19,238) |
| Disposals | (4,283) |
| **As at 31 December 2006** | **17,384** |

Investment property rental income for the year 2006 is € 1,301 thousand (2005: € 62 thousand).

Out of the total transfers during 2006, amount € 17,329 thousand was transferred from investment property to inventories property and relates to property that does not meet any more the IFRS investment property requirements due to change in its use.

Investment property is presented at fair value, as this is estimated by a certified independent valuer (Lambert Smith Hampton) on an annual basis. Fair value is determined by the market prices or if market prices are not available, valuation models are used.

**Amounts in thousand euros** (Unless otherwise stated)

## 26 Other assets

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Inventory property | 45,733 | 28,403 |
| Prepaid expenses and accrued income | 151,780 | 91,748 |
| Prepaid taxes & taxes withheld | 36,820 | 28,584 |
| Claims from tax authorities and the Greek State | 51,426 | 48,506 |
| Dividends receivable | - | 3,313 |
| Other items | 154,046 | 118,035 |
| | **439,805** | **318,589** |
| Current other assets | - | - |
| Non current other assets | 439,805 | 318,589 |
| | **439,805** | **318,589** |

Other items mainly comprise of: due from subsidiaries (2006: € 7.7 million, 2005: €8.5 million), outstanding balances relating to the clearance of share transactions (2006: € 6.4 million, 2005:€ 19.3 million), receivables from credit card transactions (2006: € 54.4 million, 2005: €29.7 million), receivables from third parties (2006: € 25.9 million, 2005:€ 19.09 million) and other accounts that relate to the ordinary activity of the Bank.

## 27 Due to Banks

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Deposits from other banks | 4,057,737 | 2,810,964 |
| Other obligations to banks | 651,805 | 467,699 |
| Repurchase agreement - credit institutions | - | 143,744 |
| | **4,709,542** | **3,422,407** |

Balances due to banks bear floating rates.

Other obligations to Banks include the balance of the Schuldschein loan. Piraeus Bank has entered into a new Schuldschein loan (September 2006) of € 200 million with a maturity of 5 years and a coupon of 3 month Euribor plus 20 basis points, therefore increasing the outstanding balance of the Schuildschein to € 650 million as at 31/12/2006 against € 450 million as at 31/12/2005.

## 28 Due to customers

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Corporate customers** | | |
| Sight deposits | 2,050,788 | 1,884,638 |
| Term deposits | 2,951,476 | 1,877,054 |
| Other deposits | 35,525 | 45,175 |
| **Retail** | | |
| Savings account | 3,440,952 | 3,236,218 |
| Sight deposits | 1,209,874 | 1,068,116 |
| Term deposits | 4,679,263 | 3,014,798 |
| Other deposits | 16,702 | 15,141 |
| **Repurchase agreements** | | |
| Corporate | 99,387 | 188,098 |
| Retail | 6,112 | 13,245 |
| **Cheques payable and remittances** | 115,940 | 108,970 |
| | **14,606,019** | **11,451,453** |

Due to customers include blocked deposits of € 37,017 million (2005: € 366,977 million).

Customer deposits (corporate and retail) with floating rates are € 13,323 million (2005: € 10,514 million) and fixed rates are € 1,062 million (2005: € 627 million).

## 29 Debt securities in issue

| | Currency | Average interest rate (%) 2006 | 2005 | 31 December 2006 | 31 December 2005 |
|---|---|---|---|---|---|
| ETBA bonds | EUR | 2.87% | 2.26% | 791,606 | 438,139 |
| Euro Commercial Paper | EUR | 3.00% | 2.22% | 1,558,883 | 1,528,820 |
| | USD | 5.13% | 3.62% | 227,783 | 80,939 |
| | GBP | 4.75% | 4.72% | 89,061 | 31,955 |
| | JPY | 0.39% | - | 10,193 | - |
| | | | | 1,885,920 | 1,641,714 |
| Euro Medium Term Note | EUR | 3.30% | 2.53% | 1,940,322 | 932,285 |
| | USD | 5.21% | 3.73% | 27,583 | 16,784 |
| | | | | 1,967,905 | 949,069 |
| Securitisation of mortgage loans | EUR | 3.09% | 2.32% | 575,934 | 696,217 |
| | | | | **5,221,365** | **3,725,139** |

**Amounts in thousand euros** (Unless otherwise stated)

The Euro Commercial Paper (ECP) short term securities in issue amounted to € 2 billion without significant change in the level of average maturity or the interest spread.

Securities issuance activity through the Euro Medium Term Note Program (EMTN), from the beginning of 2006, included local investors through private placements. Issues under Euro Commercial Paper and Euro Medium Term Note programs are undertaken throught the subsidiary Piraeus Group Finance PLC and they are included in Debt securities in issue instead of Due to customers for presentation purposes.

In January 2006, the reissue of € 50 million of the 5 year benchmark bond was completed. The Bank issued (March 2006) a new 3 year € 500 million benchmark senior debt with a nominal coupon of 3 month Euribor plus 20 basis points. Also, the Bank issued (October 2006) a new 5 year € 500 million benchmark senior debt with a nominal coupon of 3 month Euribor plus 25 basis points.

In 2005, the issue of bonds for the Residential Mortgage Backed Securitisation (RMBS) of € 750 million was undertaken through UK based Estia Mortgage Finance PLC. The bonds are callable by the issuer after 9 years and have an average cost of 3 month Euribor plus by 18 basis points.

## 30 Hybrid capital and other borrowed funds

| | Currency | Average interest rate (%) 2006 | 2005 | 31 December 2006 | 31 December 2005 |
|---|---|---|---|---|---|
| Hybrid Capital (TIER I) | EUR | 4.15% | 3.39% | 201,163 | 201,260 |
| Subordinated debt (TIER II) | EUR | 3.62% | 2.74% | 799,721 | 398,597 |
| | | | | **1,000,884** | **599,857** |

Hybrid capital (TIER I) has beed issued by Piraeus Group Capital PLC on 27/10/2004. Tier I has a call option within 10 years. The nominal coupon is 3 month Euribor increased by 125 basis points.

Subordinated debt (TIER II) has been issued by Piraeus Group Finance PLC. Initially, on 29/9/2004, an amount of € 400 million was issued, with a 10 year maturity, which is callable by the issuer after 5 years and bears a 3 month Euribor nominal coupon increased by 60 basis points. Subsequently, on 20/7/2006, an amount of € 400 million was issued, with a 10 year maturity, which is callable after 5 years and bears a 3 month Euribor nominal coupon increased by 55 basis points.

The accrued interest of hybrid capital and other borrowed funds is included in the related borrowed funds. The Bank has not any defaults of principal, interest or redemption amounts of hybrid capital and other borrowed funds during the year.

## 31 Other liabilities

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Prepaid income and accrued expenses | 139,893 | 89,675 |
| Witheld tax and contributions | 25,837 | 16,659 |
| Other liabilities | 308,409 | 125,417 |
| | **474,139** | **231,751** |
| Current other liabilities | - | - |
| Non current other liabilities | 474,139 | 231,751 |
| | **474,139** | **231,751** |

Other liabilities include € 189.5 million (2005: € 58 million) that relates to transactions with interbank systems (DIAS) and other accounts with credit balances that result from the daily transactions of the Bank.

As at 31/12/2005 and 31/12/2006, there are no liabilities arising from finance leasing.

## 32 Other provisions

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Opening balance | 24,087 | 67,532 |
| P&L charge for the year | 1,922 | 5,866 |
| Utilization of provisions | (9,528) | (49,311) |
| **Closing balance** | **16,481** | **24,087** |

Other provisions relate mainly to provisions for unaudited tax years.

**Amounts in thousand euros** (Unless otherwise stated)

## 33 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a nominal tax rate of 29% less a 5% discount due to the merger with Hellenic Investment Company S.A., that is 24% (2005: 27%).

Deferred income tax assets and liabilites are attributable to the following items:

| **Deferred tax liabilities** | **31 December 2006** | **31 December 2005** |
|---|---|---|
| Adjustment for depreciation of property, plant and equipment | 1,750 | 1,313 |
| Derivative financial instruments valuation | 3,928 | 7,486 |
| Impairment of loans | - | 1,936 |
| Securities valuation | 34,699 | 17,380 |
| Recognition of commision according to effective interest rate calculation | 953 | 581 |
| Valuation of investment property | 1,017 | 227 |
| Other deferred tax liabilities | - | 4,357 |
| | **42,347** | **33,280** |
| Less: Deferred tax liability of branch network in Bulgaria | | (770) |
| | | **32,510** |

| **Deferred tax assets** | **31 December 2006** | **31 December 2005** |
|---|---|---|
| Pensions and other post retirement benefits | 38,173 | 40,846 |
| Intangible assets derecognition | 1,376 | 3,518 |
| Derivative financial instruments valuation | 4,814 | 9,470 |
| Securities valuation | 10,639 | 7,226 |
| Impairment of securities portfolio | 13,620 | 44,171 |
| Recognition of commision according to effective interest rate calculation | 9,300 | 9,698 |
| Other deferred tax assets | 2,091 | 942 |
| | **80,013** | **115,871** |
| Less: Deferred tax asset of branch network in Bulgaria | | (12) |
| | | **115,859** |
| | | |
| **Net deferred tax asset** | **37,666** | **83,349** |

The amount of € 32.5 million, that relates to the gain from the sale of ING GROEP N.V. shares, formed a reserve according to Law 2238 (article 38) and was offset against the deferred tax asset (impairment of securities) due to the existence of the reserve (with a debit balance) according to Law 2238 (article 38) as at 31/12/2005.

The movement of the net deferred tax asset is as follows:

| | **2006** | **2005** |
|---|---|---|
| **Net deferred tax asset as at 1 January** | **83,349** | **86,413** |
| Effect of deferred tax in profit or loss | (30,586) | 15,787 |
| Sale/ valuation of the available for sale portfolio | (15,097) | (20,538) |
| Other temporary differences | - | 929 |
| Net deferred tax asset of branch network in Bulgaria | - | 758 |
| **Net deferred tax asset as at 31 December** | **37,666** | **83,349** |

The deferred tax charge in the Income Statement is analysed as follows:

| | **1/1-31/12/2006** | **1/1-31/12/2005** |
|---|---|---|
| **Deferred tax (Income Statement)** | | |
| Pensions and other post retirement benefits | (2,673) | (2,341) |
| Loan impairment | 1,936 | (14,601) |
| Recognition of commision according to effective interest rate calculation | (770) | (243) |
| Derivative financial instruments valuation | (1,098) | (698) |
| Adjustment of depreciation of property, plant and equipment | (437) | (579) |
| Valuation of investment property | (790) | (227) |
| Intangible assets derecognition | (2,142) | (2,483) |
| Impairment of securities | 1,901 | 44,171 |
| Deferred tax on the profit realized from the sale of ING GROEP N.V. | (32,452) | - |
| Securities valuation | 393 | (4,931) |
| Other deferred tax charges | 5,546 | (2,281) |
| | **(30,586)** | **15,787** |

During the year 2006, deferred tax of amount € 15,097 th relating to sales and valuation of the available for sale securities did not affect the profit and loss for the year, but instead decreased the available for sale reserve (note 37) according to the relevant IFRS regulations.

**Amounts in thousand euros** (Unless otherwise stated)

## 34 Retirement benefit obligations

The defined benefit obligation is calculated based on legal advisors opinions and independent actuaries using the 'projected unit credit method', according to which, the charge for pension plans to the Income Statement is allocated over the service lives of the related employees. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

The actuarial study has been carried out as at 31/12/2006. The estimation of the liability at this date was based on the results of this study and is as follows:

| **Amounts recognised in the balance sheet** | **31 December 2006** | **31 December 2005** |
|---|---|---|
| Pension schemes-funded | 70,226 | 83,080 |
| Other post retirement benefits - not funded | 76,634 | 61,758 |
| | **146,860** | **144,838** |
| Provision for outstanding annual leaves | 1,864 | 6,445 |
| Provision for voluntary leave plan 12/2003 | - | 163 |
| **Total obligation** | **148,724** | **151,446** |

| **Income statement** | **1/1-31/12/2006** | **1/1-31/12/2005** |
|---|---|---|
| Pension schemes-funded | (3,270) | (10,222) |
| Other post retirement benefits - not funded | (18,631) | (13,891) |
| | **(21,901)** | **(24,113)** |

### *A) Pension schemes - funded*

The amounts recognised in the balance sheet are determined as follows:

| | **31 December 2006** | **31 December 2005** |
|---|---|---|
| Present value of funded obligations | 91,441 | 161,644 |
| Fair value of plan assets | (12,061) | (34,382) |
| | **79,380** | **127,262** |
| Unrecognised actuarial (losses)/ gains | (9,154) | (44,182) |
| **Liability in the balance sheet** | **70,226** | **83,080** |

The Bank made use of the provisions of Law 3371/05 in order to transfer the insured and the retired of TEAPETE into the Special Auxiliary Pension Fund for the Salaried (ETEAM) and the Pension Fund for Bank Employees (ETAT). The total cost amounts to € 59.6 million (€ 9.7 million shall be paid to ETEAM and € 49.9 million shall be paid to ETAT). Such cost was specified on the basis of a special financial study stipulated by law, was ratified by the Parliament with Law 3455/2006, article 26, and was published in the Official Gazette 84, bulletin A (18/4/2006). This amount shall be paid in 10 equal instalments of € 7.1 million each. Out of these instalments, the 2 instalments of amount € 14.2 million were paid during 2006. On April 1, 2006 the current value of these instalments amounted to € 58.6 million. On April 1, 2006, the accumulated provision of the Bank for TEAPETE benefits amounted to € 66.2 million. Due to the above estimation of the liability, the difference on the provision amount was recorded in the profit or loss for the year. Although TEAPETE is no longer among funded benefits, it is featured as part of funded benefits on 31/12/2006 for comparison purpose.

The amounts recognised in the income statement are as follows:

| **Pension schemes - Income statement** | **1/1-31/12/2006** | **1/1-31/12/2005** |
|---|---|---|
| Current service cost | (4,091) | (4,206) |
| Interest cost | (4,533) | (6,365) |
| Expected return on plan assets | 561 | 1,118 |
| Net actuarial gains/ (losses) recognised in year | (38,009) | (606) |
| Additional gains/ (cost) | 42,802 | (163) |
| **Total, included in staff costs** | **(3,270)** | **(10,222)** |

The movement in the defined benefit obligation for the year 2006 is analysed as follows:

| | **31 December 2006** | **31 December 2005** |
|---|---|---|
| **Beginning of year** | **161,644** | **130,746** |
| Current service cost | 4,091 | 4,206 |
| Interest cost | 4,532 | 6,365 |
| Contributions by plan participants | 1,932 | 3,951 |
| Benefits paid from the fund | (1,693) | (7,085) |
| Benefits paid directly by the employer | (14,268) | - |
| Expenses | (43) | (36) |
| Additional (gains)/ cost | (67,579) | 163 |
| Net actuarial (gains)/ losses recognised in year | 2,825 | 23,334 |
| **End of year** | **91,441** | **161,644** |

**Amounts in thousand euros** (Unless otherwise stated)

The movement in the fair value of plan assets of the year 2006 is analysed as follows:

| | 2006 | 2005 |
|---|---|---|
| **Opening balance** | **34,382** | **34,023** |
| Expected return on plan assets | 561 | 1,118 |
| Employer contributions | 1,856 | 2,884 |
| Employee contributions | 1,932 | 3,952 |
| Benefits paid | (1,693) | (7,085) |
| Expenses | (43) | (36) |
| Assets gains/ (losses) | (198) | (474) |
| Additional gains/ (cost) | (24,736) | - |
| **End of year** | **12,061** | **34,382** |

The pension funds in which the Bank's personnel is insured in, apart from TAPILTAT which is of union nature, are Public Legal Entities and are being supervised by the Ministry of Employment and Social Security. The responsibility of managing their assets is upon their Board of Directors and their structure is determined by Laws 2976/99, 2992/02 and 8849/78 (23% in real estate and shares, 77% in cash deposited to Bank of Greece, as well as Greek and Foreign Bank Bonds).

The movement in the liability recognized in the balance sheet is analysed as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Opening balance** | **83,080** | **75,743** |
| Movement for the year | 3,270 | 10,222 |
| Contributions paid by the employer | (1,856) | (2,885) |
| Benefits paid directly by the employer | (14,268) | - |
| **Closing balance** | **70,226** | **83,080** |

***B) Other post retirement benefits - not funded***

The amounts recognised in the balance sheet are as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Present value of unfunded obligations | 91,819 | 79,152 |
| Unrecognised actuarial (losses)/ gains | (13,262) | (17,394) |
| Unrecognized past service cost | (1,923) | - |
| **Liability in the balance sheet** | **76,634** | **61,758** |

In accordance with the resolution dated 12/4/2006 of the Annual General Meeting, the Bank decided that the amount of compensations to senior executives shall be determined on the basis of their vested pension rights.

The movement in the defined benefit obligation for the year 2006 is analysed as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Beginning of year** | **79,152** | **69,834** |
| Current service cost | 4,413 | 4,509 |
| Interest cost | 2,816 | 3,336 |
| Benefits paid by the employer | (3,755) | (14,457) |
| Additional (gains)/ cost | (3,720) | 5,967 |
| Past service cost | 12,147 | - |
| Actuarial (gains)/ losses recognised in year | 766 | 9,963 |
| **End of year** | **91,819** | **79,152** |

The amounts recognised in the income statement are as follows:

| | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|---|---|
| **Income statement** | | |
| Current service cost | (4,413) | (4,509) |
| Interest cost | (2,816) | (3,336) |
| Net actuarial gains/ (losses) recognised in year | (3,935) | (79) |
| Past service cost recognized | (10,224) | - |
| Additional gains/ (cost) | 2,757 | (5,967) |
| **Total included in staff costs** | **(18,631)** | **(13,891)** |

The movement in the liability recognised in the balance sheet is as follows:

| | |
|---|---|
| **Opening balance as at 1/1/2005** | **62,324** |
| Movement for the year | 13,891 |
| Benefits paid by the employer | (14,457) |
| **Closing balance as at 31/12/2005** | **61,758** |
| | |
| **Opening balance as at 1/1/2006** | **61,758** |
| Movement for the year | 18,631 |
| Benefits paid by the employer | (3,755) |
| **Closing balance as at 31/12/2006** | **76,634** |

**Amounts in thousand euros** (Unless otherwise stated)

The main actuarial assumptions used are as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Discount rate | 4.50% | 4.25% |
| Expected return on plan assets | 4.00% | 4.25% |
| Future increase of salaries | 4.00% | 4.00% |
| Future increase of pensions | 2.50% | 2.50% |

## 35 Contingent liabilities and commitments

A) Legal procedures
For the legal proceedings outstanding against the Bank as at 31/12/2006, no provision has been made, as according to the opinion of the Bank's legal affairs division no significant loss will arise.

B) Credit commitments
As at 31/12/2006 the Bank had the following capital commitments:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Letters of guarantee | 1,839,005 | 1,680,419 |
| Letters of credit | 116,457 | 96,529 |
| Commitments to extent credit | 8,311,270 | 5,982,576 |
| | **10,266,732** | **7,759,524** |

C) Assets pledged

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Trading securities | 188,016 | 84,016 |

D) Operating lease commitments
The future minimum lease payments under non-cancellable operating leases are analysed as follows:

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Up to 1 year | 38,595 | 37,375 |
| From 1 to 5 years | 165,829 | 162,352 |
| More than 5 years | 344,394 | 335,490 |
| | **548,818** | **535,217** |

## 36 Share capital

| | Ordinary shares | Share premium | Treasury shares | Total |
|---|---|---|---|---|
| At 1 January 2005 | 831,067 | 365,733 | (16,050) | 1,180,750 |
| Absorption of companies - cancellation of treasury shares | 193,865 | (35,090) | - | 158,775 |
| Purchases of treasury shares | - | - | (97,162) | (97,162) |
| Sales of treasury shares | - | - | 95,622 | 95,622 |
| **At 31 December 2005** | **1,024,932** | **330,643** | **(17,590)** | **1,337,985** |
| | | | | |
| At 1 January 2006 | 1,024,932 | 330,643 | (17,590) | 1,337,985 |
| Capitalization of share premium | 256,233 | (259,200) | - | (2,967) |
| Issue of share capital from the exercise of share options of the 2nd and 3rd share option plans | 7,665 | 16,703 | - | 24,368 |
| Purchases of treasury shares | - | - | (353,368) | (353,368) |
| Sales of treasury shares | - | - | 273,658 | 273,658 |
| **At 31 December 2006** | **1,288,830** | **88,146** | **(97,300)** | **1,279,676** |

Changes to the number of Bank's shares are analysed to the table below:

| | Number of shares | | |
|---|---|---|---|
| | Issued shares | Treasury shares | Net number of shares |
| **Opening balance at 1st January 2005** | **200,257,006** | **(1,384,425)** | **198,872,581** |
| Issue of shares due to absorption | 16,653,425 | - | 16,653,425 |
| Cancellation of shares | (2,039,997) | - | (2,039,997) |
| Purchases of treasury shares | - | (6,197,161) | (6,197,161) |
| Sales of treasury shares | - | 6,560,125 | 6,560,125 |
| **Balance at 31st December 2005** | **214,870,434** | **(1,021,461)** | **213,848,973** |

| | Number of shares | | |
|---|---|---|---|
| | Issued shares | Treasury shares | Net number of shares |
| **Opening balance at 1st January 2006** | **214,870,434** | **(1,021,461)** | **213,848,973** |
| Issue of shares due to distribution of free shares | 53,717,609 | (1,158,257) | 52,559,352 |
| Issue of shares due to the exercise of share options | 1,606,988 | - | 1,606,988 |
| Purchases of treasury shares | - | (16,578,359) | (16,578,359) |
| Sales of treasury shares | - | 14,000,000 | 14,000,000 |
| **Balance at 31st December 2006** | **270,195,031** | **(4,758,077)** | **265,436,954** |

**Amounts in thousand euros** (Unless otherwise stated)

The share capital is fully paid. During the Annual General Meeting of shareholders of the Bank at 12/4/2006 it was decided, according to the article 16 par. 5 -14 of codified Law 2190/1920, the purchase of treasury shares in order to support the Bank's share price at the stock exchange, up to a total number of 26,858,804 shares (taking into consideration of the share capital increase of the Bank by € 256,232,994.93 by the Iterative General Meeting), which is 10% of the total number of the Bank's issued shares, as this has finally resulted from the share capital increase decided by the 2nd Iterative General Meeting of Piraeus Bank shareholders held on 15/5/2006. The minimum and maximum purchase price for the shares is between € 5 and € 50, while the purchase must take place the latest by 12/4/2007. If these shares are not sold within the period of three years or not distributed to staff, they must be cancelled according to the special procedure provided by Law 2190 and the decisions made by the Athens Stock Exchange.

The 2nd Iterative General Meeting of Piraeus Bank shareholders, held on 15/05/2006, decided to increase the share capital by € 256,232,994.93 by capitalization of part of the share premium reserve account, and issue 53,717,609 new common registered shares to be distributed to shareholders one (1) free new share for every four (4) old shares.

In the Board of Directors' meeting on 27/12/2006 it was decided to proceed to an increase in the Bank's share capital by € 7,665,332.76, issuing 1,606,988 new registered voting shares at a par value of € 4.77 each. The above increase was paid cash by the holders of the 2nd and 3rd stock option plans, who exercised their stock options, according to the relevant decisions of the General Meeting of Shareholders and the executing resolutions issued by the Board of Directors. The amount payable by the holders for the purchase of the shares amounts to €19,731,798.88 million in total, of which € 7,665,332.76 accounts for the share capital and the remaining € 12,066,466.12 accounts for the above par value. In addition, amount € 4.980.856 that relates to the cost of the exercised share options was transferred to the share premium from the reserve for share option plans, according to the IFRS regulations. Following the above increase, the Bank's total share capital rises to € 1,288,830,297.87 divided into 270,195,031 registered voting shares, each at a par value of € 4.77.

***Share option plans***

***2nd share option plan***

The 2nd Iterative General Meeting of Piraeus Bank shareholders that took place on 16/5/2005 decided upon the initiation of a 4 year share option plan for the Board members and the executives and senior management of the Bank and its related (according to the article 42e of Law 2190/1920) companies. The above plan is in force and being implemented during the years 2005, 2006, 2007 and 2008. According to the above plan no more than 2,000,000 new ordinary shares of the Bank can be issued, which corresponds to less than 1% of the total number of Piraeus Bank shares at the time the decision was taken, according to the article 13 par. 9 of Law 2190/1920.

On the 30th of November of each year,1/4 of the total number of granted share options vests, and each holder is able to exercise in total or in part the vested share options, beginning from December 2006, provided that the percentage increase of the share price of the Bank for the period January 1st - November 30th for each of the years of the stock option plan is not lower than the percentage increase of the Athens Stock Exchange Bank Index for the equivalent period. The excercise price is €12.20 per share.

Share options obtained but not exercised in a previous year will be exercisable in a following year along with the share options vested at that time, until the expiry date of the plan in December 2008.

The 2nd Iterative General Meeting of the Bank's Shareholders, which was held on 15/5/2006, resolved the related adjustment of the above mentioned share option plan. Specifically, it was decided a) the total number of shares issued according to the above mentioned share option plan increased from 2,000,000 to 2,500,000 so that their percentage over the Bank's total shares remains stable following the adjustment of the percentage due to the resolved share capital increase by the same General Meeting and b) the corresponding adjustment of the exercise price for each share from € 12.20 to € 9.76.

The adjusted data of the above mentioned share option plan is presented below:

| Exercise date | Exercise price | Fair value of options | Number of share options |
|---|---|---|---|
| 30/11/2006 | 9.76 | 2.98 | 1,250,000 |
| 30/11/2007 | 9.76 | 2.88 | 625,000 |
| 30/11/2008 | 9.76 | 2.76 | 625,000 |
| | | | **2,500,000** |

The fair value of options granted, at each exercise date, has been determined using the Black-Scholes valuation model. The significant inputs into the model are: share price at the grant date (€ 15.98), exercise price (€ 9.76), dividend yield, discount interest rate and volatility of the share price (17.5%).

In December 2006, 1,066,588 share options of the 2nd share option scheme were exercised. The total amount paid by the holders of the share options for the purchase of the shares was € 10,409,898.88.

***3rd share option plan***

Also, the same General Meeting (15/5/2006) resolved, in accordance with article 13, par. 9, Law 2190/1920, to establish a five-year share option plan for the Directors and executives of the Bank and its affiliated companies for maximum 4,028,820 new shares, corresponding to 1.5% of the Bank's total shares, after the share capital increase resolved by the same General Meeting, namely 0.3% for every year of the Plan and at an issue price of € 17.25. The above price resulted from the average share market price of the six-month period prior to the General Meeting, i.e. € 21.56, adjusted to the resolution of the same General Meeting to distribute the free shares.

This share option plan will be implemented during the year 2006, 2007, 2008, 2009 and 2010, parallel and independently from the plan resolved by the General Meeting of Piraeus Bank's shareholders on 16/5/2005. On the 30th of November of each year that the plan will be in force, 1/5 of the total number of granted share options will vest and each holder will be able to exercise the vested options. Share options obtained but not exercised in a previous year will be exercisable in a following year along with the share options vested at that time, until the expiry date of the plan in December 2010.

**Amounts in thousand euros** (Unless otherwise stated)

The adjusted data of the 3rd plan of distribution of shares is presented below:

| Exercise date | Exercise price | Fair value of options | Number of share options |
|---|---|---|---|
| 30/11/2006 | 17.25 | 3.33 | 805,764 |
| 30/11/2007 | 17.25 | 3.33 | 805,764 |
| 30/11/2008 | 17.25 | 3.33 | 805,764 |
| 30/11/2009 | 17.25 | 3.32 | 805,764 |
| 30/11/2010 | 17.25 | 3.24 | 805,764 |
| | | | **4,028,820** |

The fair value of options granted has been determined using the Black-Scholes valuation model. The significant inputs into the model are: share price at the grant date (€ 17.26), exercise price (€ 17.25), dividend yield (annual increase 20%), discount interest rate (3.63%) and volatility of the share price (25%).

In December 2006, 540,400 share options of the 3rd share option scheme were exercised. The total amount paid by the holders of the share options for the purchase of the shares was € 9,321,900.00.

## 37 Other reserves and retained earnings

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Legal reserve | 30,103 | 13,080 |
| Available for sale reserve | 111,029 | 62,273 |
| Other reserves | 3,133 | 532 |
| Retained earnings | 204,154 | 45,128 |
| **Total other reserves and retained earnings** | **348,419** | **121,013** |

Movements in reserves for the year were as follows:

| **Legal reserve** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Opening balance | 13,080 | 51,653 |
| Transfer from retained earnings | 17,004 | 13,080 |
| Absorption of companies and other movements | 19 | 14 |
| Utilization of legal reserve to cover the 1st time adoption adjustments | - | (51,667) |
| **Closing balance** | **30,103** | **13,080** |

Legal reserve is mandatory (article 44, Law 2190/1920), non-distributtable and it is formed by transferring at least 5% of net profits until this reserve represents one third of the Bank's share capital.

| **Available for sale reserve** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Opening balance | 62,273 | 3,080 |
| Gains/ (losses) from the valuation of AFS bonds (note 21) | (438) | 2,757 |
| Gains/ (losses) from the valuation of AFS shares (note 21) | 197,763 | 81,423 |
| Deferred income taxes (note 33) | (15,097) | (20,538) |
| Recycling of the accumulated valuation for AFS securities | (133,971) | (3,819) |
| Foreign exchange differences and other adjustments | 499 | (630) |
| **Closing balance** | **111,029** | **62,273** |

| **Retained earnings** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Opening balance | 45,128 | (262,671) |
| Mergers - cancellation of treasury shares | 211 | 76,279 |
| Profit after tax for the year | 340,084 | 261,597 |
| Transfer to legal reserve | (17,004) | (13,080) |
| Dividend for prior year | (107,435) | (80,103) |
| Interim dividend for year 2006 | (85,948) | - |
| Profit/ (losses) from sales of treasury shares | 29,118 | 11,438 |
| Utilization of legal reserve to cover the 1st time adoption adjustments | - | 51,667 |
| **Closing balance** | **204,154** | **45,128** |

## 38 Dividend per share

The Board of Directors decided and will propose, at the General Meeting of Piraeus Bank which will be held on April 3, 2007, € 0.64 dividend per share for the year 2006 in comparison to € 0.50 for the year 2005 (€ 0.40 adjusted for the new number of shares issued after the distribution to shareholders of one new free share for every four old shares). Out of the total amount of dividend per share (€ 0.64), an interim dividend of € 0.32 per share was paid in December 2006 in accordance with the decision of the Board of Directors of 8/11/2006. The interim dividend (€ 0.32 per share) was recognised as a deduction in the Bank's equity during 2006.

**Amounts in thousand euros** (Unless otherwise stated)

## 39 Cash and cash equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents comprises the following balances with less than 3 months maturity from the date of their acquisition.

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Cash and balances with Central Banks (Note 16) | 1,357,645 | 1,148,623 |
| Loans and advances to credit institutions (Note 17) | 2,902,271 | 2,040,097 |
| Trading securities (Note 18) | 5,285 | 1,097 |
| | **4,265,201** | **3,189,817** |

## 40 Related parties transactions

Related parties include a) Members of the Bank Board of Directors and key management personnel of the Bank b) close family and financially dependants (husbands, wives, children etc) of Board of Directors members and key management personnel c) companies having transactions with Piraeus Bank, when the total cumulative participating interest in them (of members of Board of Directors, key management personnel and their dependants / close family) exceeds 20%.

| | Board of Directors members and key management personnel | |
|---|---|---|
| | 31 December 2006 | 31 December 2005 |
| Loans | 82,536 | 83,785 |
| Deposits | 56,048 | 34,326 |

Letters of guarantees and letters of credits to the members of the board of directors and to the key management personnel as at 31/12/2006 are € 9.5 million (2005: € 10.1 million). Letters of guarantees to subsidiaries as at 31/12/2006 are € 121.2 million. The total income and expense on loans and deposits to/ from members of the board of directors and the key management personnel for the year 2006 is € 3.7 million and € 0.4 million respectively.

Loans and letters of guarantees issued to related parties represent an insignificant part of total loans and letters of guarantees issued by the Bank, respectively. Loans and letters of guarantees have been issued to related parties in the normal course of business, within the approved credit policies and Bank procedures, adequately collateralized.

**Director's remuneration**

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Salaries and other remuneration | 11,310 | 8,140 |
| Post employment benefits | - | 1,596 |
| | **11,310** | **9,736** |

The total cost for the share options granted to Board of Directors members and key management personnel is € 3.3 million (2005: € 164 thousand) (note 12). The total amount of provisions for Board of Directors members and key management personnel is € 31.5 million as at 31/12/2006. This amount has been included in retirement benefit obligation (note 34).

Bank's balances from transactions to subsidiaries and associates and the relevant results are as follows:

| **I. Subsidiaries** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| **Assets** | | |
| Cash and Balances with Central Bank | 1,728 | 3,036 |
| Loans and advances to credit institutions | 489,982 | 96,230 |
| Trading securities | - | 13,396 |
| Loans and advances to customers | 1,758,666 | 1,540,604 |
| Other assets | 41,187 | 21,090 |
| **Total** | **2,291,563** | **1,674,356** |

| **Liabilities** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Due to banks | 144,713 | 37,898 |
| Due to customers | 195,651 | 187,250 |
| Debt securities in issue | 4,432,996 | 3,287,064 |
| Other borrowed funds | 1,002,412 | 599,857 |
| Other liabilities | 23,271 | 28,830 |
| **Total** | **5,799,043** | **4,140,899** |

| **Revenues** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Interest and similar income | 81,963 | 61,520 |
| Fee and commission income | 20,082 | 6,431 |
| Net trading income | - | 7 |
| Other operating income | 2,691 | 2,764 |
| **Total** | **104,736** | **70,722** |

| **Expenses** | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Interest expense and similar charges | (186,613) | (87,663) |
| Fee and commission expense | (17,593) | (13,550) |
| Administrative expenses | (43,523) | (34,125) |
| **Total** | **(247,729)** | **(135,338)** |

**Amounts in thousand euros** (Unless otherwise stated)

**II. Associates**

| | 31 December 2006 | 31 December 2005 |
|---|---|---|
| Deposits | 21,624 | 10,964 |
| Interest / expense | (205) | (159) |
| Loans | 4,252 | 22,214 |
| Interest / income | 227 | 730 |

## 41 Post Balance Sheet events

The Board of Directors of Piraeus Bank on an extraordinary meeting held on January 11th, 2007 resolved to proceed with the submission of a voluntary public offer to the shareholders of Marfin Popular Bank Public Co Ltd. The aforementioned voluntary public offer will aim at the acquisition of at least 40% and up to 100% of the share capital of Marfin Popular Bank Public Co Ltd and the consideration will consist of one share of Piraeus Bank S.A. for every 5.70 shares of Marfin Popular Bank Public Co Ltd, as determined by the fair and reasonable value of the two companies. Piraeus Bank shares offered on consideration will derive from a share capital increase of Piraeus Bank S.A. in favor of the shareholders of Marfin Popular Bank Public Co Ltd. The aforementioned voluntary public offer will be subject to the approval of the share capital increase by the Piraeus Bank S.A. Shareholders Extra-ordinary General Assembly, which will be convened for this purpose on February 12th, 2007, as well as to obtaining all necessary approvals by the competent regulatory authorities both in Cyprus and Greece.

Athens, January 30th 2007

| CHAIRMAN OF THE BOARD OF DIRECTORS and MANAGING DIRECTOR | VICE-CHAIRMAN OF THE BOARD OF DIRECTORS and DEPUTY MANAGING DIRECTOR | ASSISTANT GENERAL MANAGER |
|---|---|---|
| MICHALIS G. SALLAS | MICHALIS I. COLAKIDES | CONSTANTINOS I. LIAPIS |

## Independent auditor's report

**To the Shareholders of "Piraeus Bank S.A"**

### Report on the Financial Statements

We have audited the accompanying financial statements of "Piraeus Bank S.A." (the "Bank"), which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as endorsed by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Greek Auditing Standards which are harmonized with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as endorsed by the European Union.

PRICEWATERHOUSECOOPERS

268 Kifissias Avenue
152 32 Chalandri
Soel Reg No 113

Athens, 14 February 2007
The Certified Auditor Accountant

Vassilios Goutis
SOEL Reg No 10411

The auditors report has been translated to the English language from the Greek Language original.