

# **CYPRUS POPULAR BANK PUBLIC CO LTD**

## **ANNOUNCEMENT**

Further to its announcements dated August 16 and August 27, 2012, Cyprus Popular Bank Public Co Ltd announces that during a meeting held today, its Board of Directors approved the Financial Report of the Group for the period January – June 2012.

The Financial Report, as well as a relevant Presentation and Press Release are attached hereto.

Data and information for the Financial Report will be published in the newspaper “Politis” in Cyprus, on Saturday, September 1, 2012.

The Financial Report will also be available at the Group’s website ([www.laiki.com](http://www.laiki.com)), the Cyprus Stock Exchange website ([www.cse.com.cy](http://www.cse.com.cy)), as well as at the Athens Exchange website ([www.ase.gr](http://www.ase.gr)). Copies can also be obtained from the Banking Operations Support & Shares Department of the Group, 124 Strovolos Avenue, 4<sup>th</sup> floor, 2042 Strovolos, Nicosia.

**CYPRUS POPULAR BANK PUBLIC CO LTD**

Jacqueline Loizides-Lambert  
Secretary

Nicosia, 31 August 2012

## **PRESS RELEASE**

### **FIRST HALF 2012 RESULTS**

**31 August 2012**

**- LAIKI BANK GROUP IN ADJUSTMENT PROCESS**  
**- TRANSITION PERIOD TOWARDS PROFITABILITY**  
**- STRENGTHENING THE BALANCE SHEET THROUGH RESERVE BUFFERS**

#### **SUMMARY OF FIRST HALF 2012 RESULTS**

#### **REPUBLIC OF CYPRUS PARTICIPATION IN SHAREHOLDING STRUCTURE**

On 18 May, 2012 via the Decree issued by the Minister of Finance, the Republic of Cyprus underwrote fully the €1,8 billion rights issue of Laiki Bank, from which the arising state participation in the Bank's capital amounted to circa 84% in June 2012.

As provided by the Decree, Laiki Bank in collaboration with the appointed consultants KPMG UK, has completed and submitted to the Central Bank of Cyprus a comprehensive five-year Restructuring Plan of the Group's operations.

As a result of the aforementioned developments, Laiki Bank Group is undergoing a transitional adjustment period which, as per the submitted Restructuring Plan, aims to transform the Group's efficiency, restore profitability, further strengthen the Bank's capital base and enhance the Group's prospects so as to add value to the state investment and attract in the near term private investors.

#### **COMPLETED AND IN PROGRESS ACTIONS**

During first half 2012, the following capital additive initiatives were also completed:

- the sale of the Estonian subsidiary
- the reduction of the Risk-Weighted Assets by €4 billion
- completion of Capital Securities exchange to €177 million of share capital
- completion of the exchange and tender offer of Eurobonds 2016 at a profit of €115,6 million

Significant efforts are also under way to cut costs. These are expected to start delivering results in the second half of 2012. The internal audit and risk management divisions and processes were radically reorganized whilst the employed loan quality diagnostic mechanisms were further improved with updated reviews from independent consultants.

In Greece, the first phase of the scheduled rationalization and branch network reduction has been completed. 23 branches have already closed/merged whilst the network was fully reorganized by sector to ensure sound and more efficient management of the clientele. In Cyprus 10 branches have been closed since the end of 2011.

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**

### **INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS (continued)**

Additionally, at the Group level, major steps have been accomplished with regard to building a sound provisions buffer, with accumulative provisions amounting to €2,8 billion. As a result, the Group's coverage ratio stood at the high level of 48% on 30 June 2012, which compares favorably among the Greek and Cypriot peers.

Finally, the Board of Directors has been strengthened with 7 new knowledgeable, experienced members.

Through these actions and the approval and implementation of the comprehensive Restructuring Plan, the Group targets over the next five years to realign its activities, disengage from identified non-core areas and focus on traditional banking so as to continue playing an important role in supporting and stimulating the Cyprus economy and also creating ground for a state disinvestment to private investors.

#### **SIGNIFICANT MARKET PRESSURES AND STRAINS**

The Cypriot banking system, due to the significant losses arising from the Greek Government Bonds haircut and to a lesser extent from the provisions against future loan losses, is steering through a critical twist experiencing unprecedented escalating pressures and increasing challenges.

In Greece, the continued downturn in the economy and the broader business environment, as well as the evident destabilizing uncertainty which remains evident even post the haircut of the Greek Government Bonds creates significant additional pressures on the Bank's revenues and asset quality in this market.

The broader uncertainty and limited liquidity created further distortions in the funding cost and substantially constrained the business activity with a corresponding negative impact on the banking operations of the Group especially in Greece.

The financial results are also affected by the multileveled and multidimensional internal actions, which are in progress and need time in order to produce positive results.

#### **SUMMARY OF FINANCIAL RESULTS**

In this environment described above Laiki Bank Group announces for the first half 2012 the following:

- **Total operating revenues of €451 million. These when compared to the first half of 2011 have decreased by 22% while the core banking revenues were decreased by 14% for the same period. Contrary to the rest of the Group, it is noted that the total operating revenues from Cyprus have recorded an increase of 14% while the core banking revenues in Cyprus were up 4%. Total operating revenues have been affected negatively by the deleveraging efforts that resulted in a decrease in risk-weighted assets, as well as from the elevated cost of deposits, especially in Greece.**
- **Total operating expenses amounted to €304 million, decreased by 3% versus the corresponding expenses for the first half of 2011. Total operating expenses include non-recurring expenses stemming from the restructuring and the disengagement from agreements and various other legal obligations totaling €11 million. Excluding these exceptional expenses, total operating expenses were lower by 7% on a yearly basis.**
- **Increase in provisions for impairment of advances in order to deliver a consistent continuation of the reformation of the Group's balance sheet in light of developments in the first half of 2012. The overall provisions for the first half amounted to €885 million versus €183 million in the corresponding period of 2011. Provisions for the Cyprus portfolio amounted to €175m whereas for the Greek portfolio they were €706m. The resulting coverage ratio for non-performing loans stands at the high level of 48% for the Group.**
- Total net loans of €23 billion decreased by 10% compared with 30 June 2011.
- Total deposits were €18 billion on 30 June 2012 versus €23 billion on 30 June 2011.

## CYPRUS POPULAR BANK PUBLIC CO LTD GROUP

### INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS (continued)

- The Group recorded a loss of €729 million before impairment of goodwill and other intangible assets, compared with a loss of €202 million during first half 2011. It is worth noting that all the countries that the Group operates were profitable, with the exception of Greece.
- The Group also proceeded to effect an additional impairment of goodwill and other intangible assets of €580 million, mainly from its activities in Greece, due to further deterioration of economic conditions in the country. This impairment has no impact on the Group's regulatory capital position but increases the accounting loss attributable to shareholders to €1.309 million.

#### REVENUES & OPERATING EXPENSES

Total operating revenues for the first half of 2012 stood at €451 million versus €577 million in first half 2011, 22% lower on a yearly basis, while the core banking revenues reported a 14% decrease for the same period.

Net interest income (NII) decreased by 15% on a yearly basis and by 20% on a quarterly basis to €320 million in the first half 2012, reflecting the deleveraging of the loan and bond portfolio in all geographic areas where the Group has a presence, as well as the increased funding cost. Contrary to the rest of the Group, the net interest income in Cyprus recorded a 6% increase on a yearly basis. Net interest margin (NIM) stood at 2,14% in first half 2012, 14 basis points higher on a yearly basis. On a quarterly basis, net interest margin decreased by 41 basis points mainly due to elevated funding cost.

Fee and commission income amounted to €80 million for the first half of 2012, versus €91 million 11% lower against the first half of 2011. Subdued activity in the capital markets and banking activity are the main reasons for the decline in income from fees and commissions.

**The successful implementation of the cost containment program of the Group continues to deliver significant benefits. Total operating expenses for the first half 2012 stood at €304 million, versus €314 million for the first half 2011, 3% lower on a yearly basis. Total operating expenses include non-recurring expenses stemming from the restructuring and the disengagement from agreements and various other legal obligations totaling €11 million. Excluding the above, on a recurring basis, total operating expenses were lower by 7% on a yearly basis.**

Staff costs at Group level amounted to €177 million in first half 2012, compared to €193 million in first half 2011. The effective containment of staff costs translates into an 8% decrease on an annual basis and 1% on a quarterly basis.

Despite the actions to rationalize spending, the cost to income ratio rose from 54,4% in the first half of 2011, to 67,3% in the first half of 2012. The cost income ratio of the operations in Cyprus was 47,9% for the first half of 2012 versus 46,9% for the first half of 2011. The main cause for the increase in the ratio is the reduction in revenues in the first half of 2012. Attempts to reduce costs and extensive cost control is a primary pillar of the Restructuring Plan and the priority of the Group's Management and is expected to deliver improved results in the coming quarters.

#### OPERATING RESULTS

At the end of first half 2012 profit for the Group, before provisions and impairments stood at €147 million versus €263 million in first half 2011, decreased by 44% on a yearly basis. Loss of the Group before the impairment of goodwill and other intangible assets stood at €729 million for first half 2012, versus loss of €202 million in first half 2011.

#### LOANS AND DEPOSITS

The Group's net loan portfolio decreased by 10% on an annual basis and by 5% on a quarterly basis and amounted to €23,1 billion on 30 June 2012.

The Cypriot net loan book stood at €10,6 billion on 30 June 2012, 3% higher on a yearly basis mainly driven by a 9% rise in business loans. On a quarterly basis the loan book increased by 1%.

The Greek net loan book decreased by 21% on a yearly basis and 11% on a quarterly basis and stood at €10,2 billion on 30 June 2012.

On 30 June 2012, the Group's net loan portfolio consisted of 71% business loans and 29% loans to households. Mortgages accounted for 20% of total loan book and consumer loans for 9% on 30 June 2012.

Deposits decreased significantly on 30 June 2012 and amounted to €18 billion, due to the adverse macroeconomic environment that prevailed especially in Greece. On a yearly basis deposits decreased by 22%, mainly due to the reduction in deposits in the Greek market.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS (continued)**

**ASSET QUALITY**

For the second quarter of 2012, the Group NPL ratio stood at 22,3% increased by 630 basis points compared to 31 March 2012.

Non-performing loans in Cyprus, increased by €486 million in second quarter 2012, driving the NPL ratio to 13,6%, 415 basis points higher compared to first quarter 2012.

In Greece due to the ongoing worsening crisis, the NPL ratio rose to 32,6% in second quarter 2012, 989 basis points higher versus first quarter 2012.

With regards to the Group's International Operations, non-performing loans remained stable at €244 million in the second quarter 2012, and the NPL ratio unchanged on a quarterly basis and decreased by 37 basis points on a yearly basis to 10,3%.

In light of the ongoing adverse financial conditions, with a direct impact on the quality of the Group's portfolio, Group's provision of impairment of advances increased by 384% compared to first half 2011. The coverage ratio of the Group stood at 48,3% on 30 June 2012, one of the highest among Greek and Cypriot peers.

| // Consolidated Income Statement (€m)             | 1H12             | 1H11           | 1H12/<br>1H11 (%) |
|---|------------------|----------------|-------------------|
| Net interest income (NII)                         | 319,7            | 376,8          | (15,2)%           |
| Net fee & commission income                       | 80,6             | 90,8           | (11,2)%           |
| Financial & other income                          | 47,7             | 55,9           | (14,6)%           |
| Profit on disposal of subsidiary company          | 2,9              | 53,4           | -                 |
| <b>Total operating income</b>                     | <b>450,9</b>     | <b>576,9</b>   | <b>(21,8)%</b>    |
| Recurring operating expenses                      | (292,7)          | (313,7)        | (6,7)%            |
| Non-recurring operating expenses                  | (11,0)           | -              | -                 |
| <b>Operating expenses</b>                         | <b>(303,7)</b>   | <b>(313,7)</b> | <b>(3,2)%</b>     |
| <b>Profit before provisions &amp; impairments</b> | <b>147,2</b>     | <b>263,2</b>   | <b>(44,1)%</b>    |
| Provision for impairment of advances              | (885,0)          | (182,8)        | 384,2%            |
| Share of profit from associates                   | 5,9              | 6,2            | (4,3)%            |
| Tax   | 160,4            | 28,0           | -                 |
| Non-controlling interests                         | 2,8              | (5,5)          | -                 |
| <b>(Loss)/profit before impairments</b>           | <b>(568,7)</b>   | <b>109,1</b>   | <b>-</b>          |
| Impairment of debt and equity holdings            | (160,0)          | (311,5)        | (48,6)%           |
| Impairment of goodwill & other intangible assets  | (580,1)          | -              | -                 |
| <b>Loss attributable to owners of the Bank</b>    | <b>(1.308,8)</b> | <b>(202,4)</b> | <b>-</b>          |

| // Key balance sheet items (€m) | 1H12   | 1H11   | 1H12/<br>1H11 (%) |
|---------------------------------|--------|--------|-------------------|
| Total assets                    | 31.365 | 39.409 | (20,4)%           |
| Advances to customers (net)     | 23.100 | 25.574 | (9,7)%            |
| Customer deposits               | 17.918 | 23.072 | (22,3)%           |

| // Key ratios | 1H12  | 1H11  |
|---------------|-------|-------|
| Cost/income   | 67,3% | 54,4% |
| NIM           | 2,14% | 2,00% |

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS (continued)**

|                               |          |          |
|-------------------------------|----------|----------|
| Loans/Deposits                | 129%     | 111%     |
| NPLs                          | 22,3%    | 8,4%     |
| Coverage ratio                | 48,3%    | 47,1%    |
| Cost of credit (Provisioning) | 673 bps* | 135 bps* |

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\*bps= basis points



**LAIKI BANK GROUP**

**FINANCIAL REPORT FOR THE SIX MONTHS ENDED**

**30 JUNE 2012**

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**FINANCIAL REPORT**  
**for the six months ended 30 June 2012**

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**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP  
STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS  
AND BY THE GROUP CHIEF FINANCIAL OFFICER**

In accordance with Article 10, sections (3)(c) and (7) of Law 190(I)/2007 on Transparency Requirements in relation to an issuer whose securities are listed for trading on a regulated market, we, the Members of the Board of Directors and the Group Chief Financial Officer of Cyprus Popular Bank Public Co Ltd (the “Bank”) confirm that to the best of our knowledge:

- (a) The condensed interim consolidated financial statements of the Bank for the six months ended 30 June, 2012 have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting”, as adopted by the European Union and Article 10(4) of Law 190(I)/2007 and in general with the applicable Cyprus Legislation and give a true and fair view of the consolidated assets and liabilities, the consolidated financial position and the consolidated results of the Bank and the undertakings included in the consolidated financial statements, as a whole.
- (b) The interim management report of the Board of Directors gives a true and fair overview of information required by Article 10(6) of the Law 190(I)/2007.

**Members of the Board of Directors:**

|                       |   |                                      |       |
|-----------------------|---|--------------------------------------|-------|
| Andreas Philippou     | - | Non Executive Chairman               | ..... |
| Christos Stylianides  | - | Group Chief Executive Officer        | ..... |
| Panayiotis Kounnis    | - | Deputy Group Chief Executive Officer | ..... |
| Spyros Episkopou      | - | Non Executive Director               | ..... |
| Andreas Zachariades   | - | Non Executive Director               | ..... |
| Chris Pavlou          | - | Non Executive Director               | ..... |
| Panikkos Poutziouris  | - | Non Executive Director               | ..... |
| Stelios Stylianou     | - | Non Executive Director               | ..... |
| Andreas Trokkos       | - | Non Executive Director               | ..... |
| Marios Hadjiyiannakis | - | Non Executive Director               | ..... |
| Nicos Hadjinicolaou   | - | Non Executive Director               | ..... |
| Fadel Al Ali          | - | Non Executive Director               | ..... |
| Hesham Al Qassim      | - | Non Executive Director               | ..... |
| Peter Baltussen       | - | Non Executive Director               | ..... |

**Company official responsible for the drafting of the condensed consolidated financial statements:**

|                    |   |                               |       |
|--------------------|---|-------------------------------|-------|
| Annita Philippidou | - | Group Chief Financial Officer | ..... |
|--------------------|---|-------------------------------|-------|

31 August, 2012

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS**

### **FINANCIAL RESULTS**

#### *Republic of Cyprus participation in shareholding structure*

On 18 May, 2012 via the Decree issued by the Minister of Finance, the Republic of Cyprus underwrote fully the € 1,8 bn rights issue of Laiki Bank, from which the arising state participation in the Bank's capital amounted to circa 84% in June 2012.

As provided by the Decree, Laiki Bank in collaboration with the appointed consultants KPMG UK, has completed and submitted to the Central Bank of Cyprus a comprehensive five-year Restructuring Plan of the Group's operations.

As a result of the aforementioned developments, Laiki Bank Group is undergoing a transitional adjustment period which, as per the submitted Restructuring Plan aims to transform the Group's efficiency, restore profitability, further strengthen the Bank's capital base and enhance the Group's prospects so as to add value to the state investment and attract in the near term private investors.

#### *Completed and in progress actions*

During first half 2012, the following capital additive initiatives were also completed:

- the sale of the Estonian subsidiary,
- the reduction of the Risk-Weighted Assets by € 4 bn,
- completion of Capital Securities exchange to € 177 m of share capital,
- completion of the exchange and tender offer of Eurobonds 2016 at a profit of € 115,6 m.

Significant efforts are also under way to cut costs. These are expected to start delivering results in the second half of 2012. The internal audit and risk management divisions and processes were radically reorganised whilst the employed loan quality diagnostic mechanisms were further improved with updated reviews from independent consultants.

In Greece, the first phase of the scheduled rationalization and branch network reduction has been completed. 23 branches have already closed/merged whilst the network was fully reorganised by sector to ensure sound and more efficient management of the clientele. In Cyprus 10 branches have been closed/merged since the end of 2011.

Additionally, at the Group level, major steps have been accomplished with regard to building a sound provisions buffer, with accumulative provisions amounting to € 2,8 bn. As a result, the Group's coverage ratio stood at the high level of 48% on 30 June, 2012 which compares favorably among the Greek and Cypriot peers.

Finally, the Board of Directors has been strengthened with 7 new knowledgeable, experienced members.

Through these actions and the approval and implementation of the comprehensive Restructuring Plan, the Group targets over the next five years to realign its activities, disengage from identified non-core areas and focus on traditional banking so as to continue playing an important role in supporting and stimulating the Cyprus economy and also creating ground for a state disinvestment to private investors.

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**

### **INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS (continued)**

#### **FINANCIAL RESULTS (continued)**

##### *Significant market pressures and strains*

The Cypriot banking system, due to the significant losses arising from the Greek Government Bonds haircut and to a lesser extent from the provisions against future loan losses, is steering through a critical twist experiencing unprecedented escalating pressures and increasing challenges.

In Greece, the continued downturn in the economy and the broader business environment, as well as the evident destabilizing uncertainty which remains evident even post the haircut of the Greek Government Bonds creates significant additional pressures on the Bank's revenues and asset quality in this market.

The broader uncertainty and limited liquidity created further distortions in the funding cost and substantially constrained the business activity with a corresponding negative impact on the banking operations of the Group especially in Greece.

The financial results are also affected by the multileveled and multidimensional internal actions, which are in progress and need time in order to produce positive results.

##### *Summary of financial results*

In this environment described above Laiki Bank Group announces for the first half 2012 the following:

- Total operating revenues of € 451 m. These when compared to the first half of 2011 have decreased by 22% while the core banking revenues were decreased by 14% for the same period. Contrary to the rest of the Group, it is noted that the total operating revenues from Cyprus have recorded an increase of 14% while the core banking revenues in Cyprus were up 4%. Total operating revenues have been affected negatively by the deleveraging efforts that resulted in a decrease in risk-weighted assets, as well as from the elevated cost of deposits, especially in Greece.
- Total operating expenses amounted to € 304 m, decreased by 3% versus the corresponding expenses for the first half of 2011. Total operating expenses include non-recurring expenses stemming from the restructuring and the disengagement from agreements and various other legal obligations totaling € 11 m. Excluding these exceptional expenses, total operating expenses were lower by 7% on a yearly basis.
- Increase in provisions for impairment of advances in order to deliver a consistent continuation of the reformation of the Group's balance sheet in light of developments in the first half of 2012. The overall provisions for the first half amounted to € 885 m versus € 183 m in the corresponding period of 2011. Provisions for the Cyprus portfolio amounted to € 175 m whereas for the Greek portfolio they were € 706 m. The resulting coverage ratio for non-performing loans stood at the high level of 48% for the Group.
- Total net loans of € 23 bn decreased by 10% compared with 30 June, 2011.
- Total deposits were € 18 bn on 30 June, 2012 versus € 23 bn on 30 June, 2011.
- The Group recorded a loss of € 729 m before impairment of goodwill and other intangible assets, compared with loss of € 202 m during first half 2011. It is worth noting that all the countries that the Group operates were profitable, with the exception of Greece.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS**

**FINANCIAL RESULTS** (continued)

*Summary of financial results (continued)*

- The Group also proceeded to effect an additional impairment of goodwill and other intangible assets of € 580 m, mainly from its activities in Greece, due to further deterioration of economic conditions in the country. This impairment has no impact on the Group's regulatory position but increases the accounting loss attributable to shareholders to € 1.309 m.

*Summary of financial results (continued)*

The key financial data and ratios of the Group for the first half of 2012 are presented below:

| <b>Condensed Interim Consolidated Income Statement (€ m)</b> | <b>30.06.12</b>  | <b>30.06.11</b> | <b>Change%</b> |
|--|------------------|-----------------|----------------|
| Net interest income  | <b>319,7</b>     | 376,8           | (15,2)%        |
| Net fee and commission income                                | <b>80,6</b>      | 90,8            | (11,2)%        |
| Financial & other income                                     | <b>50,6</b>      | 109,3           | (53,8)%        |
| <b>Total operating income</b>                                | <b>450,9</b>     | 576,9           | (21,8)%        |
| Recurring operating expenses                                 | <b>(292,7)</b>   | (313,7)         | (6,7)%         |
| Non-recurring operating expenses                             | <b>(11,0)</b>    | -               | -              |
| <b>Profit before provisions and impairments</b>              | <b>147,2</b>     | 263,2           | (44,1)%        |
| Provision for impairment of advances                         | <b>(885,0)</b>   | (182,8)         | 384,2%         |
| Share of profit from associates                              | <b>5,9</b>       | 6,2             | (4,3)%         |
| Tax  | <b>160,4</b>     | 28,0            | -              |
| Non-controlling interests                                    | <b>2,8</b>       | (5,5)           | -              |
| <b>(Loss)/profit before impairments</b>                      | <b>(568,7)</b>   | 109,1           | -              |
| Impairment of debt and equity holdings                       | <b>(160,0)</b>   | (311,5)         | (48,6)%        |
| Impairment of goodwill and other intangible assets           | <b>(580,1)</b>   | -               | -              |
| <b>Loss attributable to the owners of the Bank</b>           | <b>(1.308,8)</b> | (202,4)         | -              |

| <b>Key Balance Sheet Items (€ m)</b> | <b>30.06.12</b> | <b>30.06.11</b> | <b>Change%</b> |
|--------------------------------------|-----------------|-----------------|----------------|
| Total assets                         | <b>31.365</b>   | 39.409          | (20,4)%        |
| Advances to customers                | <b>23.100</b>   | 25.574          | (9,7)%         |
| Deposits                             | <b>17.918</b>   | 23.072          | (22,3)%        |

| <b>Key Ratios</b>                 | <b>30.06.12</b> | <b>30.06.11</b> |
|-----------------------------------|-----------------|-----------------|
| Cost/Income                       | <b>67,3%</b>    | 54,4%           |
| Net Interest Margin (NIM)         | <b>2,14%</b>    | 2,00%           |
| Loans/Deposits                    | <b>129%</b>     | 111%            |
| Non-Performing Loans Ratio (NPLs) | <b>22,3%</b>    | 8,4%            |
| Coverage ratio                    | <b>48,3%</b>    | 47,1%           |
| Cost of credit (Provisioning)     | <b>673 bps*</b> | 135 bps*        |

\* *basis points*

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**

### **INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS**

#### **FINANCIAL RESULTS** (continued)

##### *Revenues & Operating Expenses*

Total operating revenues for the first half of 2012 stood at € 451 m versus € 577 m in first half 2011, 22% lower on a yearly basis, while the core banking revenues reported a 14% decrease for the same period.

Net interest income (NII) decreased by 15% on a yearly basis and by 20% on a quarterly basis to € 320 m in the first half 2012, reflecting the deleveraging of the loan and bond portfolio in all geographic areas where the Group has a presence, as well as the increased funding cost. Contrary to the rest of the Group, the net interest income in Cyprus recorded a 6% increase on a yearly basis. Net interest margin (NIM) stood at 2,14% in first half 2012, 14 basis points higher on a yearly basis. On a quarterly basis, net interest margin decreased by 41 basis points mainly due to elevated funding cost.

Fee and commission income amounted to € 80 m for the first half of 2012, versus € 91 m, 11% lower against the first half of 2011. Subdued activity in the capital markets and banking activity are the main reasons for the decline in income from fees and commissions.

The successful implementation of the cost containment program of the Group continues to deliver significant benefits. Total operating expenses for the first half 2012 stood at € 304 m, versus € 314 m for the first half 2011, 3% lower on a yearly basis. Total operating expenses include non-recurring expenses stemming from the restructuring and the disengagement from agreements and various other legal obligations totaling € 11 m. Excluding the above, on a recurring basis, total operating expenses were lower by 7% on a yearly basis.

Staff costs at Group level amounted to € 177 m in first half 2012, compared to € 193 m in first half 2011. The effective containment of staff costs translates into an 8% decrease on an annual basis and 1% on a quarterly basis.

Despite the actions to rationalise spending, the cost to income ratio rose from 54,4% in the first half of 2011 to 67,3% in the first half of 2012. The cost income ratio of the operations in Cyprus was 47,9% for the first half of 2012 versus 46,9% for the first half of 2011. The main cause for the increase in the ratio is the reduction in revenues in the first half of 2012. Attempts to reduce costs and extensive cost control is a primary pillar of the Restructuring Plan and the priority for Group's Management and is expected to deliver improved results in the coming quarters.

##### *Operating results*

At the end of first half 2012 profit for the Group before provisions and impairments stood at € 147 m versus € 263 m in first half 2011, decreased by 44% on a yearly basis. Loss of the Group before the impairment of goodwill and other intangible assets stood at € 729 m for first half 2012, versus loss of € 202 m in first half 2011.

##### *Loans and deposits*

The Group's net loan portfolio decreased by 10% on an annual basis and by 5% on a quarterly basis and amounted to € 23,1 bn on 30 June, 2012.

The Cypriot net loan book stood at € 10,6 bn on 30 June, 2012, 3% higher on a yearly basis mainly driven by a 9% rise in business loans. On a quarterly basis the loan book increased by 1%.

The Greek net loan book decreased by 21% on a yearly basis and 11% on a quarterly basis and stood at € 10,2 bn on 30 June, 2012.

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**

### **INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS**

#### **FINANCIAL RESULTS** (continued)

##### *Loans and deposits (continued)*

On 30 June, 2012, the Group's net loan portfolio consisted of 71% business loans and 29% loans to households. Mortgages accounted for 20% of total loan book and consumer loans for 9% on 30 June, 2012.

Deposits decreased significantly on 30 June, 2012 and amounted to € 18 bn, due to the adverse macroeconomic environment that prevailed especially in Greece. On a yearly basis deposits decreased by 22%, mainly due to the reduction in deposits in the Greek market.

##### *Asset quality*

For the second quarter of 2012, the Group NPL ratio stood at 22,3% increased by 630 basis points compared to 31 March, 2012.

Non-performing loans in Cyprus, increased by € 486 m in second quarter 2012, driving the NPL ratio to 13,6%, 415 basis points higher compared to first quarter 2012.

In Greece due to the ongoing worsening crisis, the NPL ratio rose to 32,6% in second quarter 2012, 989 basis points higher versus first quarter 2012.

With regards to the Group's International Operations, non-performing loans remained stable at € 244 m in the second quarter 2012, and the NPL ratio unchanged on a quarterly basis and decreased by 37 basis points on a yearly basis to 10,3%.

In light of the ongoing adverse financial conditions, with a direct impact on the quality of the Group's portfolio, Group's provisions for impairment of advances increased by 384% compared to first half 2011. The coverage ratio of the Group stood at 48,3% on 30 June, 2012, one of the highest among Greek and Cypriot peers.

#### **DIVIDEND**

No dividend was declared for the financial year 2011.

#### **RELATED PARTY TRANSACTIONS**

Information regarding related party transactions for the six months ended 30 June, 2012 according to IFRSs are included in Note 24 of the Condensed Interim Consolidated Financial Statements.

#### **RISK MANAGEMENT**

Similar to all other financial institutions, the Group is exposed to risks, the most important being credit risk, liquidity risk, interest rate risk, equity risk and currency risk. For this purpose, in an attempt to minimize the Group's risk exposure, risk management is one of the key functions of the Group. These risks are being continuously managed using common international methodologies, so as to avoid the excessive concentration of risks. The analysis of risks is included in the consolidated financial statements for the year ended 31 December, 2011 in Note 45.

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**

### **INTERIM MANAGEMENT REPORT OF THE BOARD OF DIRECTORS**

#### **RISK MANAGEMENT** (continued)

Following the significant deterioration of the economic conditions in Greece, the Greek Government has announced on 24 February, 2012 the final terms of the PSI+ (Private Sector Involvement) offering for the voluntary exchange of the Greek Government Bonds (GGBs). The Group participated in the PSI+ programme which was implemented in March 2012. Regarding the Group's GGBs portfolio, this has been impaired in accordance with the requirements of International Accounting Standard 39 (Note 8).

#### **SHARE CAPITAL**

On 2 April, 2012 the Extraordinary General meeting of the shareholders of the Bank approved that the authorised share capital of the Bank which was € 2.465.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,85 each, as well as the issued share capital of the Bank which was € 1.369.444.000 divided into 1.611.111.000 ordinary fully paid shares of nominal value € 0,85 each, to be reduced, the authorized share capital into € 290.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,10 each and the issued share capital into € 161.111.000 divided into 1.611.111.000 ordinary fully paid shares of nominal value € 0,10 each, and that this reduction is carried out with the reduction of the nominal value of each ordinary share from € 0,85 each to € 0,10 each, for the purpose of writing off losses and/or losses of capital. Immediately after the above reduction the authorised share capital of the Bank was re-increased to the amount of € 2.465.000.000 divided into 24.650.000.000 ordinary shares of nominal value € 0,10 each.

On 21 June, 2012 the Extraordinary General Meeting of the shareholders of the Bank approved the increase of the authorised nominal share capital of the Bank from € 2.465.000.000 to € 2.800.000.000 by the creation of 3.350.000.000 additional ordinary shares of € 0,10 nominal value each.

On 30 June, 2012 the increase of share capital of the Bank amounting to € 1.799.073.000 was completed through Rights Issue with the Republic of Cyprus as Underwriter according to the Decree for the Underwriting of Rights Issue of the Cyprus Popular Bank Public Co Ltd of 2012 (R.A.A. 182/2012) as amended by (1) the Underwriting of Rights Issue of Cyprus Popular Bank Public Co Ltd (Amending) Decree of 2012 (R.A.A. 213/2012), (2) on 23 July, 2012, the Underwriting of Rights Issue of Cyprus Popular Bank Public Co Ltd (Amending) (No. 2) Decree of 2012 (R.A.A. 274/2012) and (3) on 14 August, 2012 the Underwriting of Rights Issue of Cyprus Popular Bank Public Co Ltd (Amending) (No. 3) Decree of 2012 (R.A.A. 305/2012) (together referred to as "Decree"). The total amount of registrations from the exercise of Rights and the pre registration applications for undisposed shares amounted to € 3.014.000 (30.136.000 new shares of nominal value € 0,10 each). After the granting of the above shares to the beneficiaries and according to the Decree 17.960.599.000 shares remained available to the Republic of Cyprus with an acquisition price of € 0,10 each. In addition, according to the Decree the shares were granted to the Republic of Cyprus with the provision of Cyprus Government Bonds of one year duration which will be automatically renewed on their maturity.

On 30 June, 2012 the offer of the exchange of existing capital securities of issues 2008, 2009 and 2010 was completed. From the voluntary exchange of securities shares amounting to € 176.984.000 arose.

31 August, 2012



**LAIKI BANK GROUP**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED**

**30 JUNE 2012**



**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**for the six months ended 30 June 2012**

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## **Report by the Independent Auditors on Review of Condensed Interim Consolidated Financial Statements to the Board of Directors of Cyprus Popular Bank Public Co Ltd**

### *Introduction*

We have reviewed the condensed interim consolidated financial statements of Cyprus Popular Bank Public Co Ltd (the "Bank") and its subsidiaries (the "Group") on pages 11 to 42 which comprise the condensed interim consolidated balance sheet as at 30 June, 2012, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. Our review was restricted to financial information for the six-month period as a whole and did not include a review of financial information in relation to the Group's financial performance for the three-month period from 1 April, 2012 to 30 June, 2012 as a separate quarter, as presented on pages 12 and 14 in the accompanying condensed interim consolidated financial statements. Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board and adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Emphasis of matter*

Without qualifying our conclusion, we draw attention to the disclosures made in Note 2 to the interim condensed consolidated financial statements, which refer to the factors adversely affecting the Group's regulatory capital due to the impairment losses on Greek Government Bonds and loans and advances during the prior year and current period, the uncertainties in relation to future developments in the Greek and Cyprus economies as well as the actions to restore the capital adequacy of the Group including the readiness of the Republic of Cyprus to provide the necessary support to the Group. The above factors indicate the existence of uncertainty which could affect the going concern assumption without the completion of the Group's re-capitalisation, in relation to which the Republic of Cyprus has stated its readiness to provide the necessary support.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

PricewaterhouseCoopers Limited  
Chartered Accountants

Grant Thornton (Cyprus) Limited  
Chartered Accountants

Nicosia, 31 August, 2012

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT**  
**for the six months ended 30 June 2012**

|   |      | <b>6 months<br/>ended<br/>30.06.2012</b> | 6 months<br>ended<br>30.06.2011 |
|---|------|--|---------------------------------|
|   | Note | <b>€ '000</b>                            | € '000                          |
| Net interest income   |      | <b>319.663</b>                           | 376.760                         |
| Net fee and commission income   |      | <b>80.566</b>                            | 90.754                          |
| (Loss)/profit on disposal and revaluation of securities                 | 6    | <b>(96.066)</b>                          | 75.789                          |
| Foreign exchange and other income                                       | 7    | <b>146.732</b>                           | 33.617                          |
| <b>Operating income</b>   |      | <b>450.895</b>                           | 576.920                         |
| Staff costs   |      | <b>(177.388)</b>                         | (192.744)                       |
| Depreciation and amortisation   |      | <b>(27.252)</b>                          | (27.768)                        |
| Administrative expenses   |      | <b>(99.042)</b>                          | (93.196)                        |
| Profit before impairments   |      | <b>147.213</b>                           | 263.212                         |
| Provision for impairment of advances                                    | 13   | <b>(884.970)</b>                         | (182.785)                       |
| Impairment of debt and equity holdings                                  |      | <b>(160.070)</b>                         | (311.529)                       |
| Impairment of goodwill and other intangible assets                      | 9    | <b>(580.076)</b>                         | -                               |
| Loss before share of profit from associates                             |      | <b>(1.477.903)</b>                       | (231.102)                       |
| Share of profit from associates   |      | <b>5.895</b>                             | 6.161                           |
| <b>Loss before tax</b>  |      | <b>(1.472.008)</b>                       | (224.941)                       |
| Tax   | 10   | <b>160.383</b>                           | 28.082                          |
| <b>Loss for the period</b>  |      | <b>(1.311.625)</b>                       | (196.859)                       |
| <b>Attributable to:</b>   |      |  |                                 |
| Owners of the Bank  |      | <b>(1.308.788)</b>                       | (202.378)                       |
| Non-controlling interests   |      | <b>(2.837)</b>                           | 5.519                           |
|   |      | <b>(1.311.625)</b>                       | (196.859)                       |
| <b>Loss per share – for loss attributable to the owners of the Bank</b> |      |  |                                 |
| Loss per share - cent   | 4    | <b>(76,1)</b>                            | (13,5)                          |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT**  
**for the three months ended 30 June 2012**

|   | 3 months<br>ended<br><b>30.06.2012</b> | 3 months<br>ended<br>30.06.2011 |
|---|--|---------------------------------|
| Note  | € '000                                 | € '000                          |
| Net interest income   | <b>142.376</b>                         | 195.294                         |
| Net fee and commission income   | <b>40.289</b>                          | 44.380                          |
| (Loss)/profit on disposal and revaluation of securities                 | <b>(108.247)</b>                       | 2.146                           |
| Foreign exchange and other income                                       | <b>129.433</b>                         | 17.830                          |
| <b>Operating income</b>   | <b>203.851</b>                         | 259.650                         |
| Staff costs   | <b>(88.336)</b>                        | (95.807)                        |
| Depreciation and amortisation   | <b>(13.715)</b>                        | (13.796)                        |
| Administrative expenses   | <b>(53.491)</b>                        | (46.848)                        |
| Profit before impairments   | <b>48.309</b>                          | 103.199                         |
| Provision for impairment of advances                                    | <b>(766.300)</b>                       | (104.424)                       |
| Impairment of debt and equity holdings                                  | <b>(152.611)</b>                       | (308.322)                       |
| Impairment of goodwill and other intangible assets                      | <b>(580.076)</b>                       | -                               |
| Loss before share of profit from associates                             | <b>(1.450.678)</b>                     | (309.547)                       |
| Share of profit from associates   | <b>2.663</b>                           | 2.874                           |
| <b>Loss before tax</b>  | <b>(1.448.015)</b>                     | (306.673)                       |
| Tax   | <b>81.009</b>                          | 36.349                          |
| <b>Loss for the period</b>  | <b>(1.367.006)</b>                     | (270.324)                       |
| <b>Attributable to:</b>   |  |                                 |
| Owners of the Bank  | <b>(1.363.607)</b>                     | (273.395)                       |
| Non-controlling interests   | <b>(3.399)</b>                         | 3.071                           |
|   | <b>(1.367.006)</b>                     | (270.324)                       |
| <b>Loss per share – for loss attributable to the owners of the Bank</b> |  |                                 |
| Loss per share – cent   | 4                                      | <b>(74,6)</b>                   |
|   |  | (17,0)                          |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the six months ended 30 June 2012**

|  | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 |
|--|---|---|
| <b>Loss for the period</b>   | <b>(1.311.625)</b>                                  | (196.859)                                 |
| <b>Other comprehensive income</b>  |   |   |
| Revaluation and transfer to results on disposal and impairment<br>of available-for-sale financial assets | <b>98.740</b>                                       | 163.969                                   |
| Deferred tax of available-for-sale financial assets  | <b>(18.108)</b>                                     | (15.328)                                  |
|  | <b>80.632</b>                                       | 148.641                                   |
| Amortisation of loss on available-for-sale<br>financial assets reclassified                              | <b>3.280</b>  | 7.478                                     |
| Cash flow hedges, net of tax   | -   | 135                                       |
| Share of other comprehensive income of associates  | <b>1.092</b>  | (1.259)                                   |
| Exchange differences arising in the period   | <b>181</b>  | (14.268)                                  |
| <b>Other comprehensive income for the period, net of tax</b>   | <b>85.185</b>                                       | 140.727                                   |
| <b>Total comprehensive loss for the period</b>   | <b>(1.226.440)</b>                                  | (56.132)                                  |
| <b>Total comprehensive (loss)/income attributable to:</b>  |   |   |
| Owners of the Bank   | <b>(1.224.071)</b>                                  | (61.426)                                  |
| Non-controlling interests  | <b>(2.369)</b>                                      | 5.294                                     |
|  | <b>(1.226.440)</b>                                  | (56.132)                                  |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the three months ended 30 June 2012**

|  | <b>3 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 3 months<br>ended<br>30.06.2011<br>€ '000 |
|--|---|---|
| <b>Loss for the period</b>   | <b>(1.367.006)</b>                                  | (270.324)                                 |
| <b>Other comprehensive income</b>  |   |   |
| Revaluation and transfer to results on disposal and impairment<br>of available-for-sale financial assets | <b>27.331</b>                                       | 148.791                                   |
| Deferred tax of available-for-sale financial assets  | <b>(5.328)</b>                                      | (13.402)                                  |
|  | <b>22.003</b>                                       | 135.389                                   |
| Amortisation of loss on available-for-sale<br>financial assets reclassified                              | <b>506</b>  | 5.033                                     |
| Share of other comprehensive income of associates  | <b>(873)</b>  | (738)                                     |
| Exchange differences arising in the period   | <b>2.056</b>  | (3.877)                                   |
| <b>Other comprehensive income for the period, net of tax</b>   | <b>23.692</b>                                       | 135.807                                   |
| <b>Total comprehensive loss for the period</b>   | <b>(1.343.314)</b>                                  | (134.517)                                 |
| <b>Total comprehensive (loss)/income attributable to:</b>  |   |   |
| Owners of the Bank   | <b>(1.338.334)</b>                                  | (136.767)                                 |
| Non-controlling interests  | <b>(4.980)</b>                                      | 2.250                                     |
|  | <b>(1.343.314)</b>                                  | (134.517)                                 |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEET**  
**30 June 2012**

|  | Note  | 30.06.2012<br>€ '000 | 31.12.2011<br>€ '000 |
|--|-------|----------------------|----------------------|
| <b>Assets</b>  |       |                      |                      |
| Cash and balances with Central Banks                                     |       | 967.837              | 1.034.086            |
| Due from other banks   |       | 1.201.927            | 689.569              |
| Financial assets at fair value through profit or loss                    | 11    | 153.837              | 234.505              |
| Advances to customers  | 12    | 23.099.806           | 24.778.623           |
| Debt securities lending  |       | 663.172              | 1.769.185            |
| Available-for-sale financial assets                                      |       | 597.043              | 1.791.205            |
| Held-to-maturity financial assets  | 14    | 2.736.441            | 889.455              |
| Other assets   | 11    | 1.330.854            | 1.370.597            |
| Investments in associates  |       | 122.654              | 115.741              |
| Intangible assets  |       | 207.798              | 797.780              |
| Property and equipment   | 15    | 283.623              | 291.232              |
| <b>Total assets</b>  |       | <b>31.364.992</b>    | <b>33.761.978</b>    |
| <b>Liabilities</b>   |       |                      |                      |
| Due to other banks   |       | 10.364.424           | 10.301.370           |
| Customer deposits  |       | 17.917.541           | 20.160.804           |
| Senior debt  | 16    | 480.803              | 376.107              |
| Loan capital   | 17    | 842.224              | 1.333.727            |
| Other liabilities  | 11,18 | 454.485              | 989.412              |
| <b>Total liabilities</b>   |       | <b>30.059.477</b>    | <b>33.161.420</b>    |
| <b>Share capital and reserves attributable to the owners of the Bank</b> |       |                      |                      |
| Share capital  | 19    | 2.137.169            | 1.369.444            |
| Share premium  | 19    | 396.172              | 2.334.583            |
| Reserves   | 20    | (1.324.140)          | (3.209.867)          |
| <b>Non-controlling interests</b>   |       | <b>1.209.201</b>     | <b>494.160</b>       |
|  |       | <b>96.314</b>        | <b>106.398</b>       |
| <b>Total equity</b>  |       | <b>1.305.515</b>     | <b>600.558</b>       |
| <b>Total equity and liabilities</b>                                      |       | <b>31.364.992</b>    | <b>33.761.978</b>    |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six months ended 30 June 2012**

|   | Note  | Attributable to the owners<br>of the Bank |                            |   | Revenue<br>reserves<br>€ '000 | Non-<br>controlling<br>interests<br>€ '000 | Total<br>€ '000    |
|---|-------|---|----------------------------|---|-------------------------------|--|--------------------|
|   |       | Share<br>capital<br>€ '000                | Share<br>premium<br>€ '000 | Fair value,<br>currency<br>translation<br>and other<br>reserves<br>€ '000 |                               |  |                    |
| <b>Six months ended 30 June 2012</b>  |       |   |                            |   |                               |  |                    |
| <b>Balance 1 January 2012</b>   |       | <b>1.369.444</b>                          | <b>2.334.583</b>           | <b>(202.033)</b>  | <b>(3.007.834)</b>            | <b>106.398</b>                             | <b>600.558</b>     |
| Shares issued through exercise of rights  | 19    | 1.799.073                                 | -                          | -   | -                             | -  | 1.799.073          |
| Losses written off  | 19,20 | (1.208.332)                               | (1.900.000)                | 70.060  | 3.038.272                     | -  | -                  |
| Shares issued from the voluntary exchange<br>of securities  | 17,19 | 176.984                                   | -                          | -   | -                             | -  | 176.984            |
| Share issue costs   | 19    | -   | (38.411)                   | -   | -                             | -  | (38.411)           |
| Defence tax on deemed distribution  | 20    | -   | -                          | -   | 21                            | -  | 21                 |
| Dividend paid by subsidiary companies   |       | -   | -                          | -   | -                             | (1.799)                                    | (1.799)            |
| Effect of change in non-controlling<br>interests from changes in shareholdings<br>in subsidiary companies | 20    | -   | -                          | -   | 1.445                         | (5.916)                                    | (4.471)            |
|   |       | <b>2.137.169</b>                          | <b>396.172</b>             | <b>(131.973)</b>  | <b>31.904</b>                 | <b>98.683</b>                              | <b>2.531.955</b>   |
| Loss for the period   |       | -   | -                          | -   | (1.308.788)                   | (2.837)                                    | (1.311.625)        |
| Other comprehensive income<br>for the period, net of tax  |       | -   | -                          | 84.717  | -                             | 468  | 85.185             |
| <b>Total comprehensive income/(loss)<br/>for the period</b>   |       | -   | -                          | <b>84.717</b>   | <b>(1.308.788)</b>            | <b>(2.369)</b>                             | <b>(1.226.440)</b> |
| <b>Balance 30 June 2012</b>   |       | <b>2.137.169</b>                          | <b>396.172</b>             | <b>(47.256)</b>   | <b>(1.276.884)</b>            | <b>96.314</b>                              | <b>1.305.515</b>   |
| <b>Six months ended 30 June 2011</b>  |       |   |                            |   |                               |  |                    |
| <b>Balance 1 January 2011</b>   |       | 834.799                                   | 2.252.897                  | (340.786)   | 788.601                       | 105.863                                    | 3.641.374          |
| Shares issued through exercise of rights  | 19    | 414.942                                   | 73.226                     | -   | -                             | -  | 488.168            |
| Share issue costs   | 19    | -   | (10.127)                   | -   | -                             | -  | (10.127)           |
| Script dividend   | 19,20 | 119.703                                   | 21.124                     | -   | (147.028)                     | -  | (6.201)            |
| Defence tax on deemed distribution  | 20    | -   | -                          | -   | (68)                          | -  | (68)               |
| Cost of share-based payments<br>to employees  | 20    | -   | -                          | -   | 698                           | 4  | 702                |
| Dividend paid by subsidiary companies   |       | -   | -                          | -   | -                             | (1.790)                                    | (1.790)            |
| Effect of change in non-controlling<br>interests from changes in shareholdings<br>in subsidiary companies | 20    | -   | -                          | -   | (41)                          | 310  | 269                |
| Other movements   | 20    | -   | -                          | -   | (68)                          | -  | (68)               |
|   |       | 1.369.444                                 | 2.337.120                  | (340.786)   | 642.094                       | 104.387                                    | 4.112.259          |
| (Loss)/profit for the period  |       | -   | -                          | -   | (202.378)                     | 5.519                                      | (196.859)          |
| Other comprehensive income/(loss)<br>for the period, net of tax   |       | -   | -                          | 140.952   | -                             | (225)                                      | 140.727            |
| <b>Total comprehensive income/(loss)<br/>for the period</b>   |       | -   | -                          | <b>140.952</b>  | <b>(202.378)</b>              | <b>5.294</b>                               | <b>(56.132)</b>    |
| <b>Balance 30 June 2011</b>   |       | <b>1.369.444</b>                          | <b>2.337.120</b>           | <b>(199.834)</b>  | <b>439.716</b>                | <b>109.681</b>                             | <b>4.056.127</b>   |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.



**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the six months ended 30 June 2012**

|  |      | <b>6 months<br/>ended<br/>30.06.2012</b> | 6 months<br>ended<br>30.06.2011 |
|--|------|--|---------------------------------|
|  | Note | € '000                                   | € '000                          |
| <b>Cash used in operations</b>   |      | <b>(59.511)</b>                          | (3.238.313)                     |
| Tax paid   |      | <b>(28.500)</b>                          | (47.918)                        |
| <b>Net cash used in operating activities</b>   |      | <b>(88.011)</b>                          | (3.286.231)                     |
| <b>Cash flows from investing activities</b>  |      |  |                                 |
| Purchases less proceeds from disposal of property and equipment                                  |      | <b>(5.376)</b>                           | (11.183)                        |
| Purchases less proceeds from disposal of computer software                                       |      | <b>(2.926)</b>                           | (4.341)                         |
| Purchases less proceeds from disposal of investment property                                     |      | <b>(15)</b>                              | (17.122)                        |
| Proceeds from disposals and redemptions of<br>available-for-sale financial assets less purchases |      | <b>664.630</b>                           | (8.924)                         |
| Proceeds from redemptions of held-to-maturity<br>financial assets less purchases                 |      | <b>203.622</b>                           | 187.979                         |
| Income received from financial assets  |      | <b>102.583</b>                           | 112.833                         |
| Business disposals net of cash and cash equivalents  |      | <b>(6.004)</b>                           | 36.772                          |
| Changes in shareholdings in subsidiary companies   |      | <b>(3.825)</b>                           | -                               |
| <b>Net cash from investing activities</b>  |      | <b>952.689</b>                           | 296.014                         |
| <b>Cash flows from financing activities</b>  |      |  |                                 |
| Proceeds from the exercise of rights   | 19   | <b>3.014</b>                             | 488.168                         |
| Dividend paid  |      | -  | (6.201)                         |
| Share issue costs  | 19   | <b>(38.411)</b>                          | (10.127)                        |
| Proceeds from the issue of senior debt and loan capital  |      | <b>479</b>                               | 2.605                           |
| Repayment of senior debt and loan capital  |      | <b>(103.094)</b>                         | (61.894)                        |
| Interest paid on senior debt and loan capital  |      | <b>(33.496)</b>                          | (30.196)                        |
| Dividend paid by subsidiary companies to holders<br>of non-controlling interests                 |      | <b>(1.799)</b>                           | (1.790)                         |
| <b>Net cash (used in)/from financing activities</b>  |      | <b>(173.307)</b>                         | 380.565                         |
| Effects of exchange rate changes on cash and cash equivalents                                    |      | <b>1.892</b>                             | (4.725)                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                      |      | <b>693.263</b>                           | (2.614.377)                     |
| <b>Cash and cash equivalents at beginning of period</b>  |      | <b>783.567</b>                           | 4.127.458                       |
| <b>Cash and cash equivalents at end of period</b>  |      | <b>1.476.830</b>                         | 1.513.081                       |

The notes on pages 18 to 42 are an integral part of these condensed interim consolidated financial statements.

## **CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. GENERAL INFORMATION**

The condensed interim consolidated financial statements consolidate the financial statements of Cyprus Popular Bank Public Co Ltd (the “Bank”) and its subsidiaries (the “Group”), for the six months ended 30 June, 2012.

The principal activities of the Group, which were unchanged from last year, are the provision of banking and financial services. The Group also offers insurance services through its associate CNP Marfin Insurance Holdings Ltd.

The Bank was established in Cyprus in 1901 under the name “Popular Savings Bank of Limassol”. In 1924 it was registered as the first public company in Cyprus under the name “The Popular Bank of Limassol Ltd”. In 1967 the Bank changed its name to “Cyprus Popular Bank Ltd” and on 26 May, 2004 it was renamed to “Cyprus Popular Bank Public Company Ltd”. An Extraordinary General Meeting held on 31 October, 2006 unanimously approved the change of its name to “Marfin Popular Bank Public Co Ltd”. An Extraordinary General Meeting held on 2 April, 2012 approved the change of its name to “Cyprus Popular Bank Public Co Ltd”. The Bank’s shares are listed on the Cyprus Stock Exchange (CSE) and Athens Exchange (ATHEX). The Bank’s registered office is at 154, Limassol Avenue, 2025 Nicosia, Cyprus.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of preparation**

The condensed interim consolidated financial statements for the six months ended 30 June, 2012 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board and adopted by the European Union (EU).

The condensed interim consolidated financial statements are presented in Euro, which is the functional and presentation currency of the Bank. All amounts are rounded to the nearest thousand, unless where reported otherwise.

The condensed interim consolidated financial statements do not include all the information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December, 2011.

The condensed interim consolidated financial statements for the six months ended 30 June, 2012 have not been audited by the Group’s external independent auditors. The Group’s external independent auditors have conducted a review in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Basis of preparation** (continued)

***Going concern considerations***

The condensed interim consolidated financial statements have been prepared on a going concern basis. In making its assessment of the Group's ability to continue as a going concern, the Board of Directors has taken into consideration the impact of the following factors.

The continued deterioration of the Greek and Cypriot economies, to which the Group is significantly exposed, has adversely affected the Group's operations and presents significant risks and challenges. Currently, there are a number of material economic, political and market risks and uncertainties that impact the Greek and Cyprus banking system. The main risks stem from the adverse macroeconomic environment, the developments on the eurozone sovereign debt crisis and the success, or otherwise, of the significant fiscal adjustment efforts and their impact on the Greek and Cypriot economies. The progress made to date could be compromised by external shocks from the global economy as well as implementation risks, reform fatigue and political instability in Greece. The restoration of confidence after the successful implementation of the PSI+ programme, the attraction of new investments and the revival of economic growth remain the key challenges of the Greek economy.

In 2011 the Group incurred substantial impairment losses as a result of the Hellenic Republic's debt restructuring (PSI+), as well as increased impairment losses on its loans and advances portfolio in Greece. Such losses had a respective impact on the accounting and regulatory capital of the Group as of 31 December, 2011, which has fallen below the minimum capital requirements (Note 45 of the consolidated financial statements for the year ended 31 December, 2011). As at 30 June, 2012 the Group does not fulfill the minimum capital requirements as explained below. With regards to liquidity the Group had increased reliance on Eurosystem financing facilities as at 31 December, 2011, which has increased further as at 30 June, 2012.

On 26 October, 2011, a capital exercise proposed by the European Banking Authority (EBA) and approved by the European Council required banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. Additionally, it required them to establish a buffer such that Core Tier I Capital ratio reaches 9% by the end of June 2012.

The Group participated in the capital exercise of the EBA. The amount of the capital shortfall identified was based on 30 September, 2011 figures, with the estimated capital shortfall for the Group calculated at € 1,97 bn. The Group's aim was to adhere to the 9% Core Tier I Capital ratio by the end of June 2012. On 20 January, 2012, the Group, within the framework of the capital exercise, submitted a comprehensive capital plan to the Central Bank of Cyprus with which the Group aimed to increase the Core Tier I Capital ratio to 9%, after including the Greek Government Bond impairments and loan impairments. The capital plan submitted to the Central Bank of Cyprus had been agreed with the appropriate European regulatory authorities that monitored its implementation.

The capital plan submitted on 20 January, 2012, included a diverse set of targeted initiatives, including exchanging of existing capital securities, asset optimisation and active management of portfolio exposures and raising of new equity. The Board of Directors received authorisation from the Extraordinary General Meeting that was held on 2 April, 2012, to proceed with the implementation of the capital plan (Note 52 of the consolidated financial statements for the year ended 31 December, 2011).

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Basis of preparation** (continued)

**Going concern considerations** (continued)

In assessing the Group's ability to continue as a going concern, the Board of Directors has in addition taken into consideration, the written commitment of the Republic of Cyprus to provide the necessary support to the Bank to address any liquidity, solvency and capital adequacy issues to enable the Bank to continue in business. Following this and on the basis of the provision of the legislation for the support of the financial system, the House of Representatives by issuing the Decree, approved the proposal of the Ministry of Finance, based on which the Republic of Cyprus acted as an underwriter of the € 1,8 bn share capital increase through rights issue. On 30 June, 2012 the Republic of Cyprus, taking into consideration the amount of shares taken up by private investors, acquired 17.960.599.000 shares in the Bank and is now the largest shareholder of the Bank with a shareholding of 84%. This acquisition from the Republic of Cyprus has been settled through Cyprus Government Bonds as explained in Note 19. These bonds are eligible for financing from the Central Bank of Cyprus.

In addition, the offer for the voluntary exchange of existing capital securities with ordinary shares resulted in 1.769.670.000 new ordinary shares. In relation to the offer for the exchange of existing capital securities with Enhanced Capital Securities (ECS), the applications could not be satisfied due to the fact that the provisions and terms of issue, as stipulated in the Prospectus dated 22 May, 2012 and its Supplementary dated 19 June, 2012 were not fulfilled.

Due to the limited number of existing capital securities converted into ordinary shares and to the fact that the applications for voluntary exchange with ECS could not be satisfied, the aim of the Group to meet a capital adequacy ratio of 9% in accordance with the requirements of the European Banking Authority (EBA), has not been achieved. However, EBA has received reassurance that the Group will comply with EBA recommendations, as a result of the decision of the Republic of Cyprus to apply to the European Financial Stability Fund (EFSF) for support. According to an announcement by EBA it is possible that additional capital needs will be required of the Group after assessment by the relevant European authorities and the International Monetary Fund (IMF) within the framework of the support programme.

In accordance with the requirements of the Decree, a Restructuring Plan has been prepared in co-operation with the appointed consultants for this purpose. On 28 August, 2012 the Board of Directors examined the Restructuring Plan and approved its submission to the Central Bank of Cyprus. In accordance with the provisions of the Decree, the Restructuring Plan will then be submitted to the Ministry of Finance, and subsequently submitted by the Ministry to the European Commission for approval, within six months from the date of the Decree. Within the framework of the Restructuring Plan, the Group will also redefine its capital needs.

The Directors, having considered the factors set out above, are satisfied that the condensed interim consolidated financial statements can be prepared on a going concern basis.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Adoption of new and revised IFRS**

The same accounting policies as for the annual consolidated financial statements for the year 2011 have been adopted in the preparation of the condensed interim consolidated financial statements, except for the adoption by the Group of all applicable new and revised International Financial Reporting Standards (IFRSs), all revised International Accounting Standards (IASs) and all revised and new interpretations, which are relevant to its operations and are applicable for accounting periods beginning on 1 January, 2012 as stated below:

**(a) Amendment to IFRS 7, Financial Instruments: Disclosures – Transfers of financial assets**

The amendment aims to enhance the disclosure requirements relating to transfers of financial assets.

**(b) Amendments to IAS 12, Deferred Tax: Recovery of Underlying Assets**

The amendments are subject to endorsement by the EU and address the determination of deferred tax on investment property measured at fair value.

**3. COMPARATIVES**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

**4. LOSS PER SHARE**

|   | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 | <b>3 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 3 months<br>ended<br>30.06.2011<br>€ '000 |
|---|---|---|---|---|
| Loss attributable to the owners of the Bank                           | <b>(1.308.788)</b>                                  | (202.378)                                 | <b>(1.363.607)</b>                                  | (273.395)                                 |
|   | <b>'000</b>   | '000                                      | <b>'000</b>   | '000                                      |
| Weighted average number of ordinary shares in issue during the period | <b>1.719.685</b>                                    | 1.495.574                                 | <b>1.828.260</b>                                    | 1.611.111                                 |
| Loss per share (basic and diluted) – cent                             | <b>(76,1)</b>                                       | (13,5)                                    | <b>(74,6)</b>                                       | (17,0)                                    |

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**5. SEGMENTAL ANALYSIS**

Under IFRS 8, reported segment profits are based on internal management information and is reconciled to the Group's results. The Group has six main business segments on a worldwide basis:

- (a) Corporate and investment banking, which includes all commercial and investment banking business derived from corporate clients.
- (b) Retail banking, which includes all commercial banking business from retail clients.
- (c) Wealth management, which includes all business from high net worth individuals (banking and asset management business).
- (d) International business banking and Asset Optimisation Unit, which includes: (i) all business from services offered to international business banking customers and (ii) as part of its capital enhancement effort and to implement the deleveraging planned in the submitted capital plan, the Group set up the Asset Optimisation Unit in February 2012 in order to coordinate the deleveraging efforts envisaged under the capital plan.
- (e) Treasury and capital markets, which includes all treasury and capital market activity.
- (f) Participations, investments and other segments which includes the various participations and investments of the Group and all other business not falling into any of the other segments, none of which constitutes a separately reportable segment.

The Group's management information is based on a measure of profit before tax and before share of profit from associates comprising of net interest income, net fee and commission income, financial and other income, less operating expenses, impairment of debt and equity holdings and provision for impairment of advances. This measurement basis excludes the effects of non-recurring expenditure of the operating segments such as goodwill impairments when the impairment is the result of an isolated, non-recurring event, as well as amortisation of intangible assets.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**5. SEGMENTAL ANALYSIS (continued)**

|   | Corporate<br>and<br>investment<br>banking<br>€ '000 | Retail<br>banking<br>€ '000 | Wealth<br>management<br>€ '000 | International<br>business<br>banking<br>and<br>asset<br>optimisation<br>unit<br>€ '000 | Treasury<br>and<br>capital<br>markets<br>€ '000 | Participations,<br>investments<br>and other<br>€ '000 | Total<br>€ '000 |
|---|---|-----------------------------|--------------------------------|--|---|---|-----------------|
| <b>Six months ended<br/>30 June 2012</b>    |   |                             |                                |  |   |   |                 |
| Operating income from<br>external customers | 168.666   | 121.699                     | 7.749                          | 54.823   | (82.055)  | 184.128   | 455.010         |
| Segment result                              | (329.044)   | (233.390)                   | (74.471)                       | 20.178   | (204.676)                                       | (65.641)  | (887.044)       |
| <b>As at 30 June 2012</b>                   |   |                             |                                |  |   |   |                 |
| Advances to customers                       | 12.048.175  | 7.660.932                   | 1.113.659                      | 2.277.040  | -   | -   | 23.099.806      |
| Customer deposits                           | 2.926.422   | 10.236.423                  | 874.402                        | 3.880.294  | -   | -   | 17.917.541      |
| <b>Six months ended<br/>30 June 2011</b>    |   |                             |                                |  |   |   |                 |
| Operating income from<br>external customers | 161.200   | 210.764                     | 15.993                         | 53.172   | 61.631  | 77.761  | 580.521         |
| Segment result                              | 93.808  | (111.294)                   | (14.353)                       | 15.492   | (167.472)                                       | (36.032)  | (219.851)       |
| <b>As at 30 June 2011</b>                   |   |                             |                                |  |   |   |                 |
| Advances to customers                       | 10.640.117  | 11.707.588                  | 1.412.443                      | 1.813.436  | -   | -   | 25.573.584      |
| Customer deposits                           | 4.127.025   | 11.777.461                  | 1.263.264                      | 5.904.576  | -   | -   | 23.072.326      |

Operating income from external customers is reconciled to the Group's operating income for the period as follows:

|  | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 |
|--|---|---|
| Operating income from external customers     | <b>455.010</b>                                      | 580.521                                   |
| Consolidation and adjustments                | <b>(4.115)</b>                                      | (3.601)                                   |
| <b>Group operating income for the period</b> | <b>450.895</b>                                      | 576.920                                   |

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**5. SEGMENTAL ANALYSIS (continued)**

**Reconciliation of segment result to the loss for the period**

|  | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 |
|--|---|---|
| Segment result                                     | <b>(887.044)</b>                                    | (219.851)                                 |
| Amortisation of intangible assets                  | <b>(10.783)</b>                                     | (11.251)                                  |
| Impairment of goodwill and other intangible assets | <b>(580.076)</b>                                    | -   |
| Share of profit from associates                    | <b>5.895</b>  | 6.161                                     |
| Tax  | <b>160.383</b>                                      | 28.082                                    |
| <b>Loss for the period</b>                         | <b>(1.311.625)</b>                                  | (196.859)                                 |

**6. (LOSS)/PROFIT ON DISPOSAL AND REVALUATION OF SECURITIES**

|   | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 |
|---|---|---|
| Loss on disposal of financial assets at fair value through<br>profit or loss – held-for-trading | <b>(4.526)</b>                                      | (3.825)                                   |
| (Loss)/profit on disposal of available-for-sale financial assets                                | <b>(57.861)</b>                                     | 11.658                                    |
| Profit on disposal of debt securities lending   | <b>1.406</b>  | 2.901                                     |
| Loss from derecognition of advances to customers  | <b>(5.429)</b>                                      | -   |
| Profit on disposal of subsidiary companies  | <b>2.862</b>  | 53.412                                    |
| (Loss)/profit on redemption and disposal of held-to-maturity financial assets                   | <b>(23.497)</b>                                     | 1.141                                     |
| Profit/(loss) on revaluation of financial assets<br>at fair value through profit or loss:       |   |   |
| Held-for-trading  | <b>11.153</b>                                       | (2.821)                                   |
| Designated at fair value through profit or loss at inception                                    | <b>(2.360)</b>                                      | (1.519)                                   |
| (Loss)/profit on disposal and revaluation of derivative financial instruments                   | <b>(17.814)</b>                                     | 14.842                                    |
|   | <b>(96.066)</b>                                     | 75.789                                    |

Profit on disposal of subsidiary company for the six months ended 30 June, 2012 represents the profit from the disposal of the Bank's holding in Marfin Bank Eesti AS (30 June, 2011: profit from the disposal of Laiki Bank (Australia) Ltd).



**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**7. OTHER INCOME**

“Other income” includes profit of € 115,6 m which arose from the exchange and tender offer for existing callable step up floating rate subordinated notes (Lower Tier II) due 2016, of nominal value € 450 m (Note 17).

**8. GREEK GOVERNMENT BONDS**

On 24 February, 2012 the Hellenic Republic announced the final terms and conditions of the Private Sector Involvement (PSI+) offer for the exchange of Greek Government Bonds (GGBs) which included the following instruments: (a) 31,5% of new GGBs split into 20 new bonds carrying a step-up coupon rate and maturing between 2023 and 2042, (b) Gross Domestic Product (GDP)-linked securities paying up to 1% interest per annum contingent on GDP growth of Greece reaching pre-specified levels, (c) 15% European Financial Stability Fund (EFSF) notes equally split in 1 year and 2 year bonds, carrying a fixed coupon rate and (d) accrued interest notes in the form of 6-monthly EFSF zero coupon bonds to cover accrued interest due on bonds up to 24 February, 2012.

The implementation of PSI+ programme took place in March 2012. The Group recognised an impairment loss of € 2.331 m as explained in Note 45 of the consolidated financial statements for the year ended 31 December, 2011.

Based on the observed prices in the market for the new GGBs which resulted from the exchange, as derived from transactions taken place since the date of the exchange, Management has decided that the carrying value of the GGBs exchanged through PSI+ programme should be further impaired in order to reflect the market prices as at the date of the exchange of the GGBs.

Following the above, the Group has recognised an additional impairment loss of € 85 m in the results for the six months ended 30 June, 2012 and the aggregate impairment of GGBs due to PSI+ programme reached € 2.416 m, representing 79,2% of their nominal value, whereby part of this relates to the hedging cost of the GGBs up to their impairment date, as well as changes in the fair value of derivatives used to hedge their interest rate risk.

The Management has decided to classify the new GGBs which resulted from the exchange, into “Held-to-maturity financial assets” category based on IAS 39 requirements, given that the new GGBs were actively traded.

The nominal value of the new GGBs (after the exchange) as at 30 June, 2012 was € 965 m and the carrying amount was € 278 m.

The Management is monitoring the developments in the Greek market and assesses on a regular basis whether any indicators of impairment are identified which affect the carrying amount of the new GGBs.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**9. IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS**

The continued deterioration of the economic conditions prevailing in Greece and the loss that the Group has suffered as a result of the impairment of Greek Government Bonds by 79,2% of their nominal value, upon implementation of the PSI+ terms, have resulted in additional goodwill and other intangible assets impairment. The impairment recognized for the six months ended 30 June, 2012 was € 557,4 m.

The economic conditions prevailing in the Romanian market have caused the sustainable return on equity holders to deteriorate, resulting in a reduction of goodwill to the recoverable amounts of the respective cash-generating unit. The impairment recognized for the six months ended 30 June, 2012 was € 22,7 m.

**10. TAXATION**

During the six-month period ended 30 June, 2012 the Group has recognised an additional deferred tax asset of € 99,5 m relating to the tax benefit to arise from the tax deductibility of impairment of Greek Government Bonds in the future.

**11. DERIVATIVE FINANCIAL INSTRUMENTS**

Included within financial assets at fair value through profit or loss is an amount of € 61,5 m (31 December, 2011: € 129,2 m) which relates to trading derivatives with positive fair value of derivative financial instruments and within other assets an amount of € 2,9 m (31 December, 2011: € 7,1 m), which relates to the positive fair value of derivative financial instruments, for which hedge accounting is applied. Included within other liabilities is an amount of € 50,0 m (31 December, 2011: € 133,2 m), which relates to trading derivatives with negative fair value and an amount of € 61,5 m (31 December, 2011: € 179,5 m) which relates to the negative fair value of derivative financial instruments, for which hedge accounting is applied.

**12. ADVANCES TO CUSTOMERS**

|  | <b>30.06.2012</b>  | 31.12.2011  |
|--|--------------------|-------------|
|  | <b>€ '000</b>      | € '000      |
| Advances to customers                          | <b>25.125.161</b>  | 25.806.742  |
| Instalment finance and leasing                 | <b>766.088</b>     | 901.727     |
|  | <b>25.891.249</b>  | 26.708.469  |
| Provision for impairment of advances (Note 13) | <b>(2.791.443)</b> | (1.929.846) |
|  | <b>23.099.806</b>  | 24.778.623  |

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**13. PROVISION FOR IMPAIRMENT OF ADVANCES**

Movement in the six months ended 30 June, 2012 and 30 June, 2011:

|  | <b>Individual<br/>impairment<br/>€ '000</b> | <b>Collective<br/>impairment<br/>€ '000</b> | <b>Total<br/>€ '000</b> |
|--|---|---|-------------------------|
| <b>2012</b>  |   |   |                         |
| Balance 1 January  | 1.312.430                                   | 617.416                                     | 1.929.846               |
| Provision for impairment of advances for the period            | 734.629                                     | 247.602                                     | 982.231                 |
| Release of provision and recoveries                            | (89.252)                                    | (8.009)                                     | (97.261)                |
| Advances written-off   | (13.213)                                    | (443)                                       | (13.656)                |
| Provision for impairment of advances from<br>business disposal | (7.713)                                     | (103)                                       | (7.816)                 |
| Exchange differences   | (2.107)                                     | 206   | (1.901)                 |
| <b>Balance 30 June</b>   | <b>1.934.774</b>                            | <b>856.669</b>                              | <b>2.791.443</b>        |
| <b>2011</b>  |   |   |                         |
| Balance 1 January  | 673.937                                     | 340.540                                     | 1.014.477               |
| Provision for impairment of advances for the period            | 139.510                                     | 117.572                                     | 257.082                 |
| Release of provision and recoveries                            | (61.722)                                    | (12.575)                                    | (74.297)                |
| Advances written-off   | (125.730)                                   | (14.098)                                    | (139.828)               |
| Provision for impairment of advances from<br>business disposal | (34)  | (114)                                       | (148)                   |
| Exchange differences   | (1.872)                                     | (360)                                       | (2.232)                 |
| <b>Balance 30 June</b>   | <b>624.089</b>                              | <b>430.965</b>                              | <b>1.055.054</b>        |

**14. HELD-TO-MATURITY FINANCIAL ASSETS**

“Held-to-maturity financial assets” include the Cyprus Government Bonds that were granted for the acquisition of the Bank’s shares (Note 19) by the Republic of Cyprus according to the Decree of nominal value € 1.888,6 m. On 30 June, 2012 the carrying amount of these bonds was € 1.796,6 m. These bonds have a duration of one year, are renewed automatically at their maturity and have an annual return of 5,16%. The credit rating of the Republic of Cyprus as at 30 June, 2012 was Ba3 (Moody’s).

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**15. PROPERTY AND EQUIPMENT**

Movement in the six months ended 30 June, 2012 and 30 June, 2011:

|  | <b>2012</b>     | 2011     |
|--|-----------------|----------|
|  | <b>€ '000</b>   | € '000   |
| Net book value at 1 January                        | <b>291.232</b>  | 291.202  |
| Property and equipment from business disposal      | <b>(168)</b>    | (2.418)  |
| Transfer to the category "Intangible assets"       | <b>(7)</b>      | (1.947)  |
| Transfer to the category "Investment property"     | <b>(866)</b>    | -        |
| Additions less disposals of property and equipment | <b>5.171</b>    | 11.089   |
| Depreciation                                       | <b>(11.883)</b> | (12.136) |
| Exchange differences                               | <b>144</b>      | (1.215)  |
|  | <hr/>           | <hr/>    |
| Net book value at 30 June                          | <b>283.623</b>  | 284.575  |

**16. SENIOR DEBT**

|                           | <b>30.06.2012</b> | 31.12.2011 |
|---------------------------|-------------------|------------|
|                           | <b>€ '000</b>     | € '000     |
| Debentures 2009/2012      | <b>339.922</b>    | 332.194    |
| Debentures 2009/2014      | <b>23.281</b>     | 22.988     |
| Debentures 2009/2013      | <b>20.811</b>     | 20.481     |
| Debentures 2012/2016      | <b>96.323</b>     | -          |
| Promissory Notes due 2012 | <b>466</b>        | 444        |
|                           | <hr/>             | <hr/>      |
|                           | <b>480.803</b>    | 376.107    |

**Debentures 2009/2012**

In February 2012, the Bank repurchased and cancelled bonds of nominal value of € 116,4 m. All of these bonds were held by Group companies.

**Debentures 2012/2016**

In the context of the exchange and tender offer for existing € 450 m callable step up floating rate subordinated notes due 2016 (Note 17), the Bank issued on 12 June, 2012 new debentures of € 96 m euro-denominated fixed rate senior notes due 2016. The debentures have been issued according to the Euro Medium Term Note Programme of € 3 bn. The rate has been set at 8%.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**17. LOAN CAPITAL**

|   | <b>30.06.2012</b> | 31.12.2011 |
|---|-------------------|------------|
|   | <b>€ '000</b>     | € '000     |
| Debentures 2009/2019                    | <b>108.409</b>    | 107.790    |
| Eurobonds due 2016                      | <b>98.239</b>     | 413.598    |
| Capital securities                      | <b>560.769</b>    | 737.872    |
| Convertible enhanced capital securities | <b>65.212</b>     | 65.195     |
| Subordinated debt 2004/2014             | <b>9.595</b>      | 9.272      |
|   | <b>842.224</b>    | 1.333.727  |

**Eurobonds due 2016**

In January 2012 the Bank repurchased and cancelled bonds of nominal value € 13,7 m. All of these bonds were held by Group companies.

In the context of the actions of the capital enhancement plan that was submitted to the Central Bank of Cyprus and was agreed with the appropriate regulatory authorities, the Bank proceeded to the exchange and tender offer for existing € 450 m callable step up floating rate subordinated notes due 2016 as follows: (a) offer to exchange existing notes for euro-denominated fixed rate senior notes due 2016 with exchange ratio 72,5% and (b) tender existing notes for purchase by the Bank for cash at a tender price of 55%. The aggregate nominal amount of existing notes accepted for exchange, pursuant to the exchange offer, was € 132.456.000. The aggregate nominal amount of existing notes accepted for purchase, pursuant to the tender offer, was € 181.820.000 and the aggregate nominal amount of new notes issued on 12 June, 2012, pursuant to the exchange offer, was € 95.996.000 (Note 16). A profit of € 115,6 m arose from the exchange (Note 7).

**Capital Securities**

On 21 June, 2012, the Bank announced the interest payment of the capital securities issued in 2008, 2009 and 2010 for the three months ended 29 June, 2012, following deliberations with the Central Bank of Cyprus and the European Commission via the Ministry of Finance. Additionally, the Bank clarified that for the following quarters, the payment of interests to the above capital securities issues is governed by the terms of the Decree, which prohibits the payment of any interest in securities not compatible with the requirements of the Central Bank of Cyprus.

On 30 June, 2012 the Bank announced that the tender offer for the voluntary exchange of existing capital securities issued in 2008, 2009 and 2010, ("Eligible Capital Securities"), of total value € 737.753.000 with new ordinary shares and/or new Enhanced Capital Securities (ECS) was completed. Holders of Eligible Capital Securities can exchange, at their option, part or all of their capital securities at their nominal value (€ 1.000 each) (i) with ECS of equal nominal value and/or (ii) with new ordinary shares of nominal value of € 0,10 with an issue price of € 0,10 each.

New ordinary shares amounting to € 176.984.000 resulted from the voluntary exchange of Eligible Capital Securities (Note 19). The Bank also received applications for the voluntary exchange of € 147.892.000 Eligible Capital Securities with ECS, without making their exchange and issue feasible based on the terms and conditions of the Prospectus dated 22 May, 2012 and its First Supplementary Prospectus dated 19 June, 2012. As a result, Eligible Capital Securities of the above issues of € 560.769.000 are still in effect.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**17. LOAN CAPITAL** (continued)

**Convertible Enhanced Capital Securities**

On 21 June, 2012 the Bank announced that in relation to the Convertible Enhanced Capital Securities (CECS) and pursuant to the provisions of the relevant prospectus dated 19 May, 2011, it proceeded with the compulsory cancellation of interest payment for the period from 31 March to 29 June, 2012. According to their issue terms, the cancelled interest payment is final and will no longer be payable by the Bank.

**18. OTHER LIABILITIES**

Following the signing of the collective agreement between the Cyprus Union of Bank Employees and the Cyprus Bankers Employer's Association for the years 2011 – 2013, the existing defined benefit plan was converted into a defined contribution plan as from 1 January, 2012. The Group has transferred the retirement benefit liability into a bank account for the benefit of the Provident Fund on 4 May, 2012.

**19. SHARE CAPITAL AND SHARE PREMIUM**

|  | Number<br>of shares<br>'000 | Share<br>capital<br>€ '000 | Share<br>premium<br>€ '000 | Total<br>€ '000  |
|--|-----------------------------|----------------------------|----------------------------|------------------|
| <b>Six months ended 30 June 2012</b>                           |                             |                            |                            |                  |
| Balance 1 January  | 1.611.111                   | 1.369.444                  | 2.334.583                  | 3.704.027        |
| Shares issued through exercise of rights (a)                   | 17.990.734                  | 1.799.073                  | -                          | 1.799.073        |
| Losses written off (b)   | -                           | (1.208.332)                | (1.900.000)                | (3.108.332)      |
| Shares issued from the voluntary<br>exchange of securities (c) | 1.769.840                   | 176.984                    | -                          | 176.984          |
| Share issue costs (d)  | -                           | -                          | (38.411)                   | (38.411)         |
| <b>Balance 30 June</b>   | <b>21.371.685</b>           | <b>2.137.169</b>           | <b>396.172</b>             | <b>2.533.341</b> |
| <b>Six months ended 30 June 2011</b>                           |                             |                            |                            |                  |
| Balance 1 January  | 982.116                     | 834.799                    | 2.252.897                  | 3.087.696        |
| Shares issued through exercise of rights                       | 488.168                     | 414.942                    | 73.226                     | 488.168          |
| Script dividend  | 140.827                     | 119.703                    | 21.124                     | 140.827          |
| Share issue costs  | -                           | -                          | (10.127)                   | (10.127)         |
| <b>Balance 30 June</b>   | <b>1.611.111</b>            | <b>1.369.444</b>           | <b>2.337.120</b>           | <b>3.706.564</b> |

- (a) On 30 June, 2012 the increase of the share capital of the Bank amounting to € 1.799.073.000 was completed through a Rights Issue with the Republic of Cyprus as Underwriter according to the Decree. The Rights were issued to all holders of ordinary shares as at the record date 30 May, 2012, at the ratio of one (1) Right to one (1) ordinary share held. Every six (6) Rights exercised at a total price of € 6,70 were converted into sixty seven (67) new fully paid ordinary shares (that is € 0,10 per share).

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**19. SHARE CAPITAL AND SHARE PREMIUM (continued)**

For the unexercised Rights, Subscription Rights were given to the beneficiary shareholders and to persons who acquired Rights during their trading on the CSE and the ATHEX. Additionally, Subscription Rights were given to interested investors who were not holders of any number of Rights.

The total amount from the exercise of rights issue amounted to € 3.014.000 (30.136.000 new ordinary shares of nominal value € 0,10 each). The trading of the newly issued shares commenced on 24 August, 2012. After the granting of the above new, ordinary shares to the beneficiaries and according to the Decree 17.960.599.000 shares remained available to the Republic of Cyprus with an acquisition price of € 0,10 each. In addition, according to the Decree the shares were granted to the Republic of Cyprus with the provision of Cyprus Government Bonds of one year duration, which will be automatically renewed upon maturity and which have been classified within "Held-to-maturity financial assets".

The new shares acquired by the Republic of Cyprus constitute a special category of shares, that carry the same rights as the ordinary shares of the Bank, additionally and without affecting the rights and obligations of the Republic as holder of the said shares. The new shares of the Republic that constitute such a special category: (a) are not listed on a stock exchange or any other regulated market, unless demanded by the Minister of Finance and in case of their listing this shall be based on the prevailing legislation with respect to the ordinary shares of the Bank, (b) following their transfer to third parties they cease to constitute a special class of shares and are automatically converted into ordinary shares of the Bank and shall be listed based on the prevailing legislation with respect to the ordinary shares of the Bank, and (c) the Minister of Finance, by decision, may convert this special class of shares into ordinary shares of the Bank.

- (b) In April 2012, after the approval of the shareholders of the Bank at the Extraordinary General Meeting on 2 April, 2012, the Bank proceeded with the reduction of the nominal value of the Bank's share from € 0,85 to € 0,10, and with the utilisation of up to € 1,9 bn of the share premium, for writing off losses resulting from the exposure of the Bank in the Greek market and mainly due to the impairment of the Greek Government Bonds. As a result of the reduction of the nominal value of the Bank's share, the issued share capital amounts to € 161.111.000 divided into 1.611.111.000 fully paid ordinary shares of nominal value € 0,10 each. On 12 April, 2012 the Nicosia District Court confirmed the Special Resolutions for the decrease of the nominal capital and the utilisation of the share premium for writing off losses, approved at the Extraordinary General Meeting of the shareholders of the Bank on 2 April, 2012.
- (c) On 30 June, 2012 the Bank proceeded with the issue of the new ordinary shares resulting from the tender offer for the voluntary exchange of existing capital securities issued in 2008, 2009 and 2010, ("Eligible Capital Securities"), of total value € 737.753.000 with new ordinary shares and/or new Enhanced Capital Securities (ECS) at the holders' option. Holders of Eligible Capital Securities could exchange, at their option, part or all of their capital securities at their nominal value (€ 1.000 each) (i) with ECS of equal nominal value and/or (ii) with new ordinary shares of nominal value of € 0,10 with an issue price of € 0,10 each. New ordinary shares amounting to € 176.984.000 resulted from the voluntary exchange of capital securities. The trading of the newly issued shares commenced on 24 August, 2012.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**19. SHARE CAPITAL AND SHARE PREMIUM** (continued)

- (d) The share issue costs include the underwriting fee amounting to € 36 m, 2% of the total amount of the share issue, paid to the Republic of Cyprus, in accordance with the Decree.

At the Extraordinary General Meeting of the shareholders of the Bank which was held on 31 May, 2011 approval was granted for the increase of the authorised nominal share capital of the Bank from € 1.776.500.000 to € 1.870.000.000 with the creation of 110.000.000 additional ordinary shares of € 0,85 nominal value each.

At the Extraordinary General Meeting of the shareholders of the Bank which was held on 28 September, 2011 approval was granted for the increase of the authorised nominal share capital of the Bank from € 1.870.000.000 to € 2.465.000.000 with the creation of 700.000.000 additional ordinary shares of € 0,85 nominal value each.

At the Extraordinary General Meeting of the shareholders of the Bank which was held on 2 April, 2012 it was approved that the authorised share capital of the Bank which amounted to € 2.465.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,85 each, as well as the issued share capital of the Bank which amounted to € 1.369.444.000 divided into 1.611.111.000 ordinary fully paid shares of nominal value € 0,85 each, to be reduced, the authorised share capital into € 290.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,10 each and the issued share capital into € 161.111.000 divided into 1.611.111.000 ordinary fully paid shares of nominal value € 0,10 each, and that this reduction is carried out with the reduction of the nominal value of each ordinary share from € 0,85 each to € 0,10 each, for the purpose of writing off losses and/or losses of capital. Immediately after the above reduction, the authorised share capital of the Bank was re-increased to the amount of € 2.465.000.000 divided into 24.650.000.000 ordinary shares of nominal value € 0,10 each.

At the Extraordinary General Meeting of the shareholders of the Bank which was held on 21 June, 2012 approval was granted for the increase of the authorised nominal share capital of the Bank from € 2.465.000.000 to € 2.800.000.000 with the creation of 3.350.000.000 additional ordinary shares of € 0,10 nominal value each.

As at 30 June, 2012 the authorised nominal share capital of the Bank amounted to € 2.800.000.000 (31 December, 2011: € 2.465.000.000) divided into 28.000.000.000 (31 December, 2011: 2.900.000.000) ordinary shares of nominal value € 0,10 each (31 December, 2011: € 0,85).

The issued share capital of the Bank amounts to € 2.137.169.000 divided into 21.371.685.000 ordinary shares € 0,10 each. According to the provisions of the Decree and the decision of the Minister of Finance, the shares held by the Republic of Cyprus have not been listed in regulated or any other organised market, and as a result, the listed share capital of the Bank amounts to € 341.109.000 divided into 3.411.086.000 ordinary shares with nominal value € 0,10 each.

All issued ordinary shares are fully paid and carry the same rights, except for the shares granted to the Republic of Cyprus, which, according to the provisions of the Decree, comprise a special category of shares, as they constitute a property of the Republic of Cyprus.

The share premium is not available for distribution to equity holders.



**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**20. RESERVES**

Movement in the six months ended 30 June, 2012 and 30 June, 2011:

|   | <b>2012</b>        | 2011      |
|---|--------------------|-----------|
|   | <b>€ '000</b>      | € '000    |
| <b>Revenue reserves</b>   |                    |           |
| Balance 1 January   | <b>(3,007.834)</b> | 788.601   |
| Loss for the period attributable to the owners of the Bank  | <b>(1,308.788)</b> | (202.378) |
| Losses written off (Note 19)  | <b>3,038.272</b>   | -         |
| Dividend  | -                  | (147.028) |
| Cost of share-based payments to employees   | -                  | 698       |
| Defence tax on deemed distribution  | <b>21</b>          | (68)      |
| Effect of change in non-controlling interests from changes in shareholdings in subsidiary companies   | <b>1,445</b>       | (41)      |
| Other movements   | -                  | (68)      |
| <b>Balance 30 June</b>  | <b>(1,276.884)</b> | 439.716   |
| <b>Property fair value reserves</b>   |                    |           |
| Balance 1 January   | <b>48.610</b>      | 47.681    |
| Share of fair value reserves of associates  | <b>(139)</b>       | -         |
| <b>Balance 30 June</b>  | <b>48.471</b>      | 47.681    |
| <b>Available-for-sale financial assets fair value reserves</b>  |                    |           |
| Balance 1 January   | <b>(188.137)</b>   | (326.187) |
| Revaluation for the period and transfer to results on disposal of available-for-sale financial assets | <b>26.259</b>      | (50.261)  |
| Deferred tax  | <b>(18.112)</b>    | (15.275)  |
| Transfer to results due to impairment   | <b>72.369</b>      | 214.607   |
| Amortisation of loss on available-for-sale financial assets reclassified                              | <b>3.280</b>       | 7.478     |
| Share of fair value reserves of associates  | <b>1.231</b>       | (1.259)   |
| Transfer to results due to business disposal  | <b>(43)</b>        | (13)      |
| <b>Balance 30 June</b>  | <b>(103.153)</b>   | (170.910) |
| <b>Currency translation reserves</b>  |                    |           |
| Balance 1 January   | <b>(65.932)</b>    | (65.571)  |
| Exchange differences arising in the period  | <b>(128)</b>       | (8.834)   |
| Transfer to results due to business disposal  | -                  | (5.626)   |
| <b>Balance 30 June</b>  | <b>(66.060)</b>    | (80.031)  |

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**20. RESERVES (continued)**

|  | <b>2012</b>        | 2011    |
|--|--------------------|---------|
|  | <b>€ '000</b>      | € '000  |
| <b>Cash flow hedges reserve</b>                                      |                    |         |
| Balance 1 January  | -                  | (135)   |
| Losses from changes in fair value recognised directly in equity      | -                  | (148)   |
| Deferred tax   | -                  | 44      |
| Transfer to results due to business disposal                         | -                  | 239     |
| <hr/>  |                    |         |
| Balance 30 June  | -                  | -       |
| <hr/>  |                    |         |
| <b>Difference from conversion of share capital into Euro reserve</b> |                    |         |
| Balance 1 January and 30 June  | <b>3.426</b>       | 3.426   |
| <hr/>  |                    |         |
| <b>Reserve from decrease of share capital</b>                        |                    |         |
| Balance 1 January  | -                  | -       |
| Decrease of share capital (Note 19)                                  | <b>70.060</b>      | -       |
| <hr/>  |                    |         |
| Balance 30 June  | <b>70.060</b>      | -       |
| <hr/>  |                    |         |
|  | <b>(1.324.140)</b> | 239.882 |

The reserve from decrease of share capital is not available for distribution to equity holders.

**21. DIVIDEND**

No dividend was declared for the financial year 2011.

**22. CONTINGENCIES AND COMMITMENTS**

Commitments for capital expenditure of the Group at 30 June, 2012 amounted to € 3,7 m (31 December, 2011: € 5,2 m).

As at 30 June, 2012 there were pending litigations against the Group in connection with its activities. Based on legal advice the Board of Directors believes that there is adequate defence against all claims and it is not probable that the Group will suffer any significant damage.

Holder of Capital Securities issued in 2008, 2009, 2010 and 2011 have recently put forward claims, grievances or complaints alleging that they acquired Eligible Capital Securities and/or new shares (exchange) of the Bank, because of false representations or fraud or other illegalities by the Bank. Some holders of Capital Securities issued in 2008, 2009 and 2010 have filed suits to the Nicosia District Court, while others have sent letters to the Bank. The aforementioned holders are requesting cancellation of Capital Securities, and/or cancellation of their exchange with new shares of the Bank and/or return of their capital plus interest and compensations.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**22. CONTINGENCIES AND COMMITMENTS** (continued)

While the Bank accepts no liability, it will examine any alleged claims, grievances or complaints in accordance with the established procedures. The aforementioned claims, grievances or complaints (including the suits already filed) are by nature general and not specific, and, by having in mind the available information and legal advice given to the Bank, it is premature at this stage to assess whether any such claims, grievances or complaints will have any significant impact on the financial position or results of the Group.

Therefore, no provision has been recognised in the condensed interim consolidated financial statements regarding these cases.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**23. INVESTMENTS IN SUBSIDIARY COMPANIES**

The main subsidiary companies of the Group, as at 30 June, 2012 were as follows:

| <b>Company name</b>   | <b>Effective shareholding<sup>(1)</sup></b> | <b>Country of incorporation</b> | <b>Activity sector</b>                                  |
|---|---|---------------------------------|---|
| Investment Bank of Greece S.A. (a)                          | 97%   | Greece                          | Investment banking                                      |
| Marfin Global Asset Management Mutual Funds Management S.A. | 99%   | Greece                          | Portfolio management, investment and brokerage services |
| Laiki Capital Public Co Ltd (b)                             | 67%   | Cyprus                          | Portfolio management, investment and brokerage services |
| Marfin Bank JSC Belgrade                                    | 99%   | Serbia                          | Banking   |
| Marfin Bank (Romania) S.A.                                  | 99%   | Romania                         | Banking   |
| Public Joint-Stock Company Marfin Bank                      | 100%  | Ukraine                         | Banking   |
| Rossiysky Promyishlenny Bank Company Ltd                    | 50%   | Russia                          | Banking   |
| Lombard Bank Malta Plc                                      | 48,9% <sup>(2)</sup>                        | Malta                           | Banking   |
| Laiki Bank (Guernsey) Ltd                                   | 100%  | Guernsey                        | Banking   |
| Marfin Leasing S.A.   | 100%  | Greece                          | Leasing   |
| Marfin Factors & Forfaiters S.A.                            | 100%  | Greece                          | Factoring, invoice discounting                          |
| Laiki Factors Ltd   | 100%  | Cyprus                          | Factoring, invoice discounting                          |
| Closed Joint-Stock Company RPB Holding                      | 50%   | Russia                          | Investment company                                      |
| Panuropean Ltd  | 100%  | Cyprus                          | Investment company                                      |
| Philiki Ltd   | 100%  | Cyprus                          | Investment company                                      |
| Cyprialife Ltd  | 100%  | Cyprus                          | Investment company                                      |
| IBG Investments S.A. (c)                                    | 97%   | British Virgin Islands          | Investment services                                     |
| Marfin Capital Partners Ltd                                 | 70%   | United Kingdom                  | Investment management                                   |
| Synergatis Plc  | -   | United Kingdom                  | Special purpose entity                                  |

<sup>(1)</sup> The effective shareholding includes the direct holding of the Bank and the indirect holding through its subsidiary companies.

<sup>(2)</sup> The Bank exercises control over Lombard Bank Malta Plc because its significant shareholding allows the control of the decisions taken at the Annual General Meeting, including the decisions for the appointment of Directors, and therefore Lombard Bank Malta Plc is accounted for as a subsidiary company of the Bank.

The Bank is registered in Cyprus and operates in Cyprus and through branches in the United Kingdom and Greece (Marfin Egnatia Bank). Following the decision of the Nicosia District Court in accordance to articles 201(xvii) and 201(xix) of the Cyprus Companies Law, 31 March, 2011 time 12:00 p.m. (i.e. 1 April, 2011) had been set as the date of conclusion of the cross-border merger. As of 1 April, 2011 Marfin Egnatia Bank S.A. ceased to exist and was deleted from the Registry of Societes Anonymes of the Ministry of Economy, Competitiveness and Mercantile Marine of Greece.

The full consolidation method is applied to all subsidiary companies of the Group.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**23. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)**

**(a) Increase of shareholding in Investment Bank of Greece S.A.**

In June 2012, the Bank acquired 41.995 shares in its subsidiary Investment Bank of Greece S.A. with a consideration of € 2,5 m. As a result of this acquisition the shareholding of the Bank in its subsidiary increased from 95,8% to 96,9%.

**(b) Change of name and increase of shareholding in Laiki Capital Public Co Ltd**

Marfin CLR Public Co Ltd was renamed to Laiki Capital Public Co Ltd.

In April 2012, the Bank acquired 9,6 m shares in its subsidiary Laiki Capital Public Co Ltd with a consideration of € 1,3 m. As a result of this acquisition the shareholding of the Bank in its subsidiary increased from 63,3% to 66,6%.

**(c) Increase of share capital of IBG Investments S.A.**

In March 2012, an increase of the share capital of IBG Investments S.A. was made for the amount of € 0,3 m, which was fully covered by Investment Bank of Greece S.A. (90%) and IBG Capital S.A. (10%) pro rata based on the respective shareholdings.

**(d) Disposal of shareholding in Marfin Pank Eesti AS**

On 29 March, 2012 the Bank completed its agreement with the Ukrainian company Ukrselhosprom PCF LLC for the sale of its total participation (70,54%) in its subsidiary Marfin Pank Eesti AS for the total amount of € 6,4 m. The profit from the sale reached € 2,9 m (Note 6).

**24. RELATED PARTY TRANSACTIONS**

**Transactions with key management personnel**

|  | <b>30.06.2012</b> | 31.12.2011 |
|--|-------------------|------------|
|  | <b>€ '000</b>     | € '000     |
| Advances to Directors and their connected persons                      | <b>6.078</b>      | 400.370    |
| Advances to other key management personnel and their connected persons | <b>1.390</b>      | 18.238     |
|  | <b>7.468</b>      | 418.608    |
| Commitments for guarantees and letters of credit:                      |                   |            |
| Guarantees to Directors and their connected persons                    | -                 | 32.171     |
| Letters of credit to Directors and their connected persons             | -                 | 678        |
|  | -                 | 32.849     |
| <b>Total advances and commitments</b>                                  | <b>7.468</b>      | 451.457    |
| <b>Tangible securities</b>   | <b>6.091</b>      | 466.610    |
| <b>Deposits</b>  | <b>1.242</b>      | 22.382     |

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**24. RELATED PARTY TRANSACTIONS** (continued)

**Transactions with key management personnel** (continued)

|                  | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 |
|------------------|---|---|
| Interest income  | <b>7.914</b>  | 8.528                                     |
| Interest expense | <b>166</b>  | 335                                       |

There were no commitments relating to other key management personnel of the Group.

The amount of tangible securities is presented aggregately in the preceding table. Therefore, it is possible that some individual facilities are not fully covered with tangible securities. The total amount of facilities that were unsecured at 30 June, 2012 amounted to € 1.389.000 (31 December, 2011: € 95.401.000).

The total advances and commitments, tangible securities, deposits and total amount of facilities that were unsecured at 30 June, 2012 were materially reduced compared to 31 December, 2011 due to resignations of members of the Board of Directors.

Connected persons include the spouse, minor children and companies in which key management personnel hold directly or indirectly at least 20% of the voting rights in a general meeting or act as directors or exercise control of the entities in any way.

**Other transactions with key management personnel**

During the six months ended 30 June, 2012 the Group received commissions on stock exchange transactions from key management personnel and their connected persons amounting to € 7.000 (30 June, 2011: € 10.000), purchased goods and received services amounting to € 268.000 (30 June, 2011: € 80.000) and provided services amounting to € 57.000 from companies connected to the Lanitis group, purchased goods and received services amounting to € 52.000 and provided services amounting to € 3.000 to companies associated with Mr. Vassilis Theocharakis. In addition, during the six months ended 30 June, 2011 the Group received services amounting to € 104.000 from a law firm connected to Mr. Andreas Vgenopoulos.

The above transactions are carried out as part of the normal activities of the Group, on commercial terms.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**24. RELATED PARTY TRANSACTIONS (continued)**

**Compensation of key management personnel**

|  | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> | 6 months<br>ended<br>30.06.2011<br>€ '000 |
|--|---|---|
| <b>Fees paid to Directors as members of the Board</b>                  | <b>78</b>   | 145                                       |
| <b>Remuneration of Directors under executive role</b>                  |   |   |
| Salaries and other short-term benefits                                 | 228   | 711                                       |
| Employer's social insurance contributions                              | 53  | 63  |
| Provident Fund   | 33  | -   |
| Retirement benefits scheme expense                                     | -   | 58  |
|  | <b>314</b>  | 832                                       |
| <b>Remuneration of Directors under non executive role</b>              |   |   |
| Salaries and other short-term benefits                                 | 36  | 34  |
| Employer's social insurance contributions                              | 9   | 9   |
| Provident Fund   | 5   | -   |
| Retirement benefits scheme expense                                     | -   | 9   |
|  | <b>50</b>   | 52  |
| <b>Consultancy services fees of Directors under non executive role</b> | <b>46</b>   | 101                                       |
| <b>Compensation of other key management personnel</b>                  |   |   |
| Salaries and other short-term benefits                                 | 369   | 893                                       |
| Employer's social insurance contributions                              | 45  | 47  |
| Provident Fund   | 26  | -   |
| Retirement benefits scheme expense                                     | -   | 17  |
|  | <b>440</b>  | 957                                       |
| <b>Share-based payment compensation<sup>(1)</sup></b>                  | <b>-</b>  | 259                                       |
|  | <b>928</b>  | 2.346                                     |

<sup>(1)</sup> The share option scheme expense is the amount charged to the condensed interim consolidated income statement for the six months ended 30 June, 2011 per IFRS requirements, however, the expense does not represent value received, since the Share Option Scheme has never been "in-the-money" since its inception in 2007 and therefore no share options have been exercised.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**24. RELATED PARTY TRANSACTIONS** (continued)

**Compensation of key management personnel** (continued)

In addition to the above, the members of the Board of Directors and other key management personnel who retired received:

|   | <b>6 months<br/>ended<br/>30.06.2012<br/>€ '000</b> |
|---|---|
| Fees paid to Directors as members of the Board                  | <b>67</b>   |
| Consultancy services fees of Directors under non executive role | <b>121</b>  |
|   | <b>188</b>  |

Key management personnel as at 30 June, 2012 included the 14 members of the Board of Directors (30 June, 2011: 14), 2 (30 June, 2011: 4) of which had executive duties, the members of the Group Executive Committee and the Group Chief Financial Officer.

**Transactions with other related parties**

On 30 June, 2012 and 30 June, 2011 the balances with other related parties were as follows:

|  | <b>30.06.2012</b>             |                            | <b>31.12.2011</b>     |                    |
|--|-------------------------------|----------------------------|-----------------------|--------------------|
|  | <b>Receivables<br/>€ '000</b> | <b>Payables<br/>€ '000</b> | Receivables<br>€ '000 | Payables<br>€ '000 |
| <b>Consolidated balance sheet</b>                          |                               |                            |                       |                    |
| CNP Marfin Insurance Holdings Ltd group<br>(associate)     | <b>3.544</b>                  | <b>239.055</b>             | 6.925                 | 236.420            |
| JCC Payment Systems Ltd (associate)                        | <b>1.543</b>                  | <b>6.713</b>               | 13.215                | 9.908              |
| Provident Funds of the employees of<br>the Group in Cyprus | <b>2</b>                      | <b>297.917</b>             | 5                     | 21.353             |
|  | <b>5.089</b>                  | <b>543.685</b>             | 20.145                | 267.681            |

Additionally, CNP Marfin Insurance Holdings Ltd held at 30 June, 2012 senior debt and loan capital of the Group of nominal value of € 43,9 m (31 December, 2011: € 44,9 m).

The Republic of Cyprus is the largest shareholder of the Bank with a shareholding of 84% of the total issued share capital. There are no other shareholders with more than 5% of the total issued share capital. On 30 June, 2012 the Group had deposits from Government bodies amounting to € 148 m and advances to Government bodies amounting to € 64 m. In addition, the Group held bonds issued by the Republic of Cyprus with nominal value € 2,2 bn. All transactions are carried out as part of the nominal activities of the Group on commercial terms.

The Group has opted for the exemption from the disclosures of IAS 24 paragraph 18, as the Republic of Cyprus controls the Bank. According to IAS 24 paragraph 26 the name of the government, the nature of their relationship and the balances with other government bodies in aggregate are disclosed.



**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**24. RELATED PARTY TRANSACTIONS** (continued)

**Transactions with other related parties** (continued)

During the period ended 30 June, 2012 and 30 June, 2011 the following transactions were realised with other related parties:

|  | 2012             |                   | 2011             |                   |
|--|------------------|-------------------|------------------|-------------------|
|  | Income<br>€ '000 | Expense<br>€ '000 | Income<br>€ '000 | Expense<br>€ '000 |
| <b>Consolidated income statement</b>                       |                  |                   |                  |                   |
| CNP Marfin Insurance Holdings Ltd group<br>(associate)     | 1.408            | 7.066             | 1.549            | 6.317             |
| JCC Payment Systems Ltd (associate)                        | 1                | 193               | 9                | 143               |
| Provident Funds of the employees of<br>the Group in Cyprus | 2                | 2.138             | 8                | 447               |
|  | <b>1.411</b>     | <b>9.397</b>      | 1.566            | 6.907             |

**25. POST BALANCE SHEET EVENTS**

On 2 July, 2012 the Bank announced, regarding its capital enhancement, that since the applications for the exchange of Eligible Capital Securities with ECS were not satisfied, the holders of the Eligible Capital Securities who had accepted the Bank's offer for voluntary exchange will continue to hold the Eligible Capital Securities, registered in their name before the submission of applications for the exchange with ECS.

On 12 July, 2012 the Bank announced the appointment of two new members to the Board of Directors, Messrs Nicos Hadjinicolaou and Panikkos Poutziouris, by the Minister of Finance with the consent of the Central Bank of Cyprus and the Finance Committee of the House of Representatives, in accordance with the Decree paragraph 11(1).

The Bank also announced the appointment of Mrs. Jacqueline Loizides-Lambert as its new Secretary, in replacement of the outgoing Secretary Mr. Stelios Hadjiosif.

On 24 July, 2012 the Bank announced that following the issue of the Decree (Amending) (No. 2), the Bank was requested to issue a Second Supplementary Prospectus further to the Prospectus dated 22 May, 2012 and the Supplementary Prospectus dated 19 June, 2012 (hereinafter referred to as the "Prospectus") on the listing to the CSE and the ATHEX of the shares resulting from the exercise of Rights and the voluntary exchange of Eligible Capital Securities with ordinary shares.

Taking into account the above, the listing and trading of the new ordinary shares (except for the shares granted to the Republic of Cyprus) resulting from the exercise of Rights and the voluntary exchange of Eligible Capital Securities with shares, did not commence on 25 July, 2012, as had been announced initially, but on 24 August, 2012, after the approval of the Second Supplementary Prospectus dated 17 August, 2012 and relevant announcement of the CSE dated 21 August, 2012, by the Cyprus Securities and Exchange Commission.

**CYPRUS POPULAR BANK PUBLIC CO LTD GROUP**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**25. POST BALANCE SHEET EVENTS** (continued)

On 9 August, 2012, the Bank announced that Mr. Michalis Sarris resigned as Non Executive Chairman and Member of the Board of Directors of the Bank. The Board of Directors unanimously elected as its Non Executive Chairman Mr. Andreas Philippou. Mr. Philippou served for many years as First Senior Manager of the Central Bank of Cyprus.

On 13 August, 2012 the Bank announced that in relation to the shares that resulted from the tender offer for voluntary exchange of capital securities issued in 2008, 2009 and 2010 (“Exchange Shares”), the Bank has fully adhered to the required procedures with respect to the tender offer for voluntary exchange of capital securities with Exchange Shares, which were issued on 30 June, 2012 in accordance with the provisions of the approved Prospectus dated 22 May, 2012 (and supplements) and relevant provisions of the legislation.

The Bank has decided to proceed with the listing of all Exchange Shares issued as part of the offer for the voluntary exchange of capital securities. The listing for trading of the Exchange Shares does not affect any rights of the persons who, for whatever reason, will choose to proceed with legal action in relation to this matter. Moreover, the Bank’s decision ensures amongst others, that there will be no delay in the listing of the Exchange Shares for the benefit of holders who are satisfied with the exchange and who are the vast majority of the holders of such shares.

On 21 August, 2012, the Bank announced that the Board of Directors appointed the Members of the following Committees as follows:

- Audit Committee: Chris Pavlou – Chairman, Spyros Episkopou, Marios Hadjiyiannakis, Panikkos Poutziouris, Andreas Zachariades – Members.
- Compensation Committee: Spyros Episkopou – Chairman, Chris Pavlou, Panikkos Poutziouris, Hesham Al Qassim, Andreas Trokkos – Members.
- Nominations Committee: Andreas Philippou – Chairman, Fadel Al Ali, Andreas Trokkos, Andreas Zachariades – Members.
- Risk Management Committee: Chris Pavlou – Chairman, Nicos Hadjinicolaou, Christos Stylianides, Andreas Trokkos – Members.

**26. APPROVAL OF FINANCIAL STATEMENTS**

The condensed interim consolidated financial statements were approved by the Board of Directors on 31 August, 2012.

.....  
Andreas Philippou  
Chairman

.....  
Christos Stylianides  
Group Chief Executive Officer

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Annita Philippidou  
Group Chief Financial Officer