LAIKI BANK GROUP

CYPRUS POPULAR BANK PUBLIC CO LTD GROUP
SUMMARY EXPLANATORY NOTE FOR FINANCIAL RESULTS
FOR THE NINE MONTHS ENDED 30.09.2012

- **Laiki Bank Group in adjustment process**
- **Transition period towards profitability**
- **Strengthening the Balance Sheet through reserve buffers**

LAIKI BANK GROUP IN ADJUSTMENT PROCESS

Reorganisation of the Group's operations

As part of efforts to reorganize the Group's operations in order to meet the ever changing needs imposed by the markets as well as the provisions of the ongoing restructuring plan which has been submitted to the Central Bank of Cyprus, the Group proceeded with the reorganization of its structure and announced the appointment of a new expanded Executive Committee. The purpose of the reorganization is to provide the necessary stimulus and momentum to the efforts of the Group for the implementation of its broader strategic objectives.

Subsidiarisation of the UK operations

The Group is proceeding with the subsidiarisation of its UK operations (which is currently in the form of branches) and has appointed external advisors, who will assist the Group to complete this project within the next 6 months. This corporate action is subject to the approval of the UK Financial Services Authority and it falls within the context of the submitted Restructuring Plan.

SUMMARY OF FINANCIAL RESULTS

Laiki Bank Group announces for the nine months of 2012 the following:

- Total operating revenues of € 638 million, decreased by 24% compared to the respective period of 2011, while the core banking revenues were decreased by 19% for the same period. It is noted that the total operating revenues from Cyprus have recorded an annual increase of 8%, while the core banking revenues in Cyprus were up 4%. Despite the increase in core banking revenues in Cyprus, total operating revenues of the Group have been affected negatively by the deleveraging efforts, the elevated cost of deposits and the increased NPLs especially in Greece.

- Total operating expenses, excluding non-recurring operating expenses stemming from the restructuring and the disengagement from agreements and various other legal obligations of € 21m, amounted to € 428 million marking a decrease of 9% on a yearly basis. Total operating expenses, including non-recurring operating expenses reached € 449 million, decreasing by 5% versus the corresponding expenses for the nine months of 2011.

- Increase in provisions for impairment of advances in light of the worsening economic conditions in Greece and Cyprus in the nine months of 2012. The overall provisions for the nine months amounted to € 1.285 million versus € 283 million in the corresponding period of 2011 recording an increase of 354%. Provisions for the Cyprus portfolio amounted to € 306 million whereas for the Greek portfolio they reached € 967 million. The resulting coverage ratio of non-performing loans stood at a satisfactory level of 45% for the Group.

- Total net loans of € 22 billion as at 30 September 2012 decreased by 13% compared with 30 September 2011, due to continuous deleveraging.

- Total deposits were € 18 billion as at 30 September 2012 remaining stable on a quarterly basis. On an annual basis deposits decreased by 17%.

- The Group recorded a loss of € 1.091 million before impairment of goodwill and other intangible assets, compared to a loss of € 292 million during the nine months of 2011. After impairment of goodwill and other intangible assets, the Group recorded a loss of € 1. 671 million for the nine months of 2012.

REVENUES & OPERATING EXPENSES

Total operating revenues for the nine months of 2012 stood at € 638 million versus € 839 million in nine months of 2011, 24% lower on a yearly basis, while the core banking revenues reported a 19% decrease for the same period.

Net interest income decreased by 21% on a yearly basis to € 469 million in the nine months of 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 costs and the increased NPL formation. Net interest margin stood at 2,13% in the nine months of 2012, 3 basis points higher on a yearly basis. On a quarterly basis, net interest margin increased by 12 basis points, namely due to the savings on the interest paid on capital securities.

Net fee and commission income amounted to € 119 million for the nine months of 2012, versus € 136 million 12% lower against the nine months 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 nine months of 2012 stood at € 449 million, versus € 472 million for the nine months of 2011, 5% lower on a yearly basis. Total operating expenses include non-recurring operating expenses stemming from the restructuring and the disengagement from agreements and various other legal obligations totaling € 21 million. Excluding the above, on a recurring basis, total operating expenses were lower by 9% on a yearly basis.

In line with the implementation of the Restructuring Plan and the Ministerial Decree, the Bank proceeded with the closure of branches mainly in Greece and Cyprus. The number of branches in Cyprus was reduced by 11 since 30 June 2012 (from 106 to 95) and the number of branches in Greece was reduced by 16 (from 157 to 141).

Further branch closures are planned until the end of the year. Similarly, staff numbers have been going down in the Group as a result of early retirements / resignations in combination with the recruitment freeze.

Staff costs at Group level amounted to € 265 million in the nine months of 2012, versus € 288 million in the nine months of 2011, decreased by 8% on an annual basis. Excluding restructuring and one-off costs, staff costs were lower by 9% on an annual basis.

Despite the actions to rationalise spending, the cost to income ratio rose from 56,3% in the nine months of 2011, to 70,4% in the nine months of 2012. The main cause for the increase in the ratio is the reduction in revenues in the nine months of 2012. Attempts to reduce costs and extensive cost control is a primary pillar of the Restructuring Plan and a priority of the Group's Management and is expected to deliver improved results in the coming quarters.

OPERATING RESULTS

At the end of the nine months of 2012, profit for the Group before impairments stood at € 189 million versus € 367 million in the nine months of 2011, decreased by 48% on a yearly basis. Loss of the Group before the impairment of goodwill and other intangible assets stood at € 1.091 million for the nine months of 2012, versus loss of € 292 million in the nine months of 2011. After impairment of goodwill and other intangibles, the Group recorded a loss of € 1.671 million.

LOANS AND DEPOSITS

The Group's net loan portfolio decreased by 13% on an annual basis and by 3% on a quarterly basis and amounted to € 22,4 billion as at 30 September 2012 due to deleveraging and increased provisions.

The Cypriot net loan book stood at € 10,4 billion as at 30 September 2012, 2% lower on a yearly and quarterly basis.

The Greek net loan book decreased by 23% on a yearly basis and 4% on a quarterly basis and stood at € 9,9 billion as at 30 September 2012.

On 30 September 2012, the Group's loan portfolio consisted of 70% business loans and 30% loans to households. Mortgages accounted for 18% of total loan book and consumer loans for 12% on 30 September 2012.

Deposits remained stable on a quarterly basis amounting to €18 billion on 30 September 2012. On a yearly basis deposits decreased by 17%, mainly due to the reduction in deposits both in the Cypriot and Greek market.

ASSET QUALITY

On 30 September 2012, the Group's NPL ratio stood at 27,4% increased by 510 basis points compared to 30 June 2012.

Non-performing loans in Cyprus increased by € 387 million in the third quarter of 2012, driving the NPL ratio to 17,2%, 360 basis points higher compared to the second quarter of 2012.

In Greece, due to the ongoing worsening economic conditions, the NPL ratio rose to 40,1% in the third quarter of 2012, 750 basis points higher versus the second quarter of 2012.

With regards to the Group's International Operations, non-performing loans were reduced by € 8 million on a quarterly basis and stood at € 236 million in the third quarter of 2012. This slight decrease did not affect the NPL ratio, which remained stable on a quarterly and yearly basis at 10,3%.

In light of the ongoing adverse economic conditions, with a direct impact on the quality of the Group's portfolio, the Group's provision for impairment of advances increased by 354% compared to the corresponding period of 2011. The coverage ratio of the Group stood at 45,2% on 30 September 2012, a satisfactory ratio among peer banks in Greece and Cyprus.

NOTICE OF DISPUTE SERVED UPON THE GREEK GOVERNMENT

The Bank appointed the Law Firm SKADDEN, ARPS, SLATE, MEAGHER & FLOM (UK) LLP, who, acting on its behalf, have prepared and on 21 November, 2012, served upon the Greek Government, a Notice of Dispute under the provisions of the Bilateral Treaty ("the Treaty") of 30 March, 1992 on mutual promotion and protection of investments, between the Republic of Cyprus and the Hellenic Republic.

Based on the provisions of the Bilateral Treaty, the Bank seeks equal treatment in relation to the other banking institutions operating in Greece and related remedies. It is anticipated that access to the mechanisms available for liquidity and capital support of Greek Banks, will contribute significantly to the considerable efforts made by the Bank to address the impact of its operations in Greece, so as to continue pursuing an important role in the Greek economy.

The Treaty provides, that any dispute relating to the investment between a Contracting State and an Investor in its territory who resides in the other Contracting State, is resolved amicably by the parties. In the event that the dispute is not resolved, the Bank intends, in accordance with the provisions of the Treaty, to request the activation of an arbitration process at the International Centre for the Settlement of Investment Disputes (ICSID) having its seat in Washington, DC (USA). The Bank wishes to cooperate with the Greek Authorities for the expeditious resolution of the dispute.

SIGNIFICANT MARKET PRESSURES AND STRAINS

The Cypriot banking system, due to the significant losses arising from the Greek Government Bonds haircut and from the provisions against future loan losses, is steering though 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 destabilising uncertainty which remains evident and the discussions of an additional haircut on the Greek Government Bonds, create significant additional pressures on the Group'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 Group's financial results are also affected by the multi-leveled and multi-dimensional internal actions, which are in progress and need time in order to produce positive results.

Consolidated Income Statement (€m)	9M12	9M11	9M12/ 9M11 (%)
Net interest income	**469,1**	**591,9**	**(20,7)%**
Net fee & commission income	119,4	135,7	(12,0)%
Financial & other income	46,7	58,5	(20,0)%
Profit on disposal of subsidiary company	2,9	53,4	-
Total operating income	**638,1**	**839,5**	**(24,0)%**
Recurring operating expenses	(427,8)	(472,3)	(9,4)%
Restructuring and one-off costs	(21,3)	-	-
Operating expenses	**(449,1)**	**(472,3)**	**(4,9)%**
Profit before impairments	**189,0**	**367,2**	**(48,5)%**
Provision for impairment of advances	(1.284,7)	(282,8)	354,3%
Share of profit from associates	9,0	7,3	22,7%
Tax	159,6	51,1	212,0%
Non-controlling interests	2,4	(7,4)	-
(Loss)/profit before impairments of debt and equity holdings, goodwill and other intangible assets	**(924,7)**	**135,4**	**-**
Impairment of debt and equity holdings	(166,2)	(426,9)	(61,1)%
Impairment of goodwill & other intangible assets	(580,6)	-	-
Loss attributable to the owners of the Bank	**(1.671,5)**	**(291,5)**	**-**

Key balance sheet items (€m)	9M12	9M11	9M12/ 9M11 (%)
Total assets	30.376	39.176	(22,5)%
Advances to customers (net)	22.418	25.719	(12,8)%
Customer deposits	17.865	21.631	(17,4)%

Key ratios	9M12	9M11
Cost/income	70,4%	56,3%
NIM	2,13%	2,10%
Loans/Deposits	126%	119%
NPLs ratio	27,4%	8,7%
Coverage ratio	45,2%	46,0%
Cost of credit (Provisioning)	655 bps*	139 bps*

*bps= basis points