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ANNUAL REPORT 2012

Contents

Notice of Annual General Meeting

The Annual General Meeting of USB Bank PLC will be held at the Hilton Hotel in Nicosia, on **Friday 26 July 2013 at 4.00 p.m.** to address the following:

Agenda

1. Review and approval of the Board of Directors' Report for the year ended 31 December 2012.

2. Review and approval of the Financial Statements and the Independent Auditors' Report for the year ended 31 December 2012.

3. Election of the members of the Board of Directors in place of those who retire.

4. Approval of the Remuneration Policy Report and determination of the remuneration of the members of the Board of Directors.

5. Re-appointment of the Independent Auditors and authorisation to the Board of Directors to fix their remuneration.

6. Any other business, which can be carried out at an Annual General Meeting.

By order of the Board.

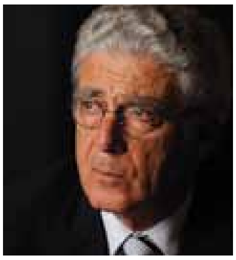
Andreas Theodorides
Secretary

Nicosia, 1 July 2013

Notes:
(a) A member entitled to attend and vote at the above meeting, is entitled to appoint a proxy to attend and vote on his behalf. The instrument appointing the proxy must either be received at P.O. Box 28510, 2080 Nicosia, or by Fax at +35722458367 or deposited at the registered office of the Bank, 83 Digenis Akritas Avenue, 5th floor, 1070 Nicosia, at least 48 hours before the time of the meeting or adjourned meeting.

(b) The Annual Report of USB Bank PLC for the year 2012 is available in electronic form on the Bank's website at **www.usbbank.com.cy**

Chairman's Statement



Dear Stakeholders,

In 2012, USB Bank operated in a very uncertain and recessionary environment where the Cypriot economy and the Banking sector were subject to unprecedented developments. Still, USB Bank managed during 2012 to expand its customer base by increasing its deposits by 26% compared to the prior year and its lending portfolio by 12% while maintaining a healthy liquidity.

To enforce the Bank's capital base, two share issues totaling €22 million were made in year 2012. As at 31 December 2012, USB Bank is in compliance with all minimum regulatory requirements with a total capital adequacy ratio of 12,5%.

For the year ended 31 December 2012, the Bank made operational profits of €4,8 million compared to €4,2 million last year, indicating a substantial increase of 14%. Our results were adversely affected by the prices of property and shares and also following a consistent and prudent approach we booked €3,7 million for provisions of impairment of loans and advances.

Following the finalization and exchange of the Greek Government Bonds on 12 March 2012, an additional impairment of €504 thousand on the newly issued Greek bonds was recognized by the Bank. These bonds were sold in December 2012 releasing as such any investment issued by the Greek Government.

As a result of the above, the net loss for the year 2012 is €824 thousand compared to a loss of €9m for the year 2011.

2013 will be without doubt a challenging year for the Cypriot economy, with intense recession, reduction in spending and increased unemployment. However, we monitor closely the developments within the economy and especially in the financial sector, aiming to take all necessary measures and actions against the risks arising from the Bank's operations.

Our values remain persistent over time as we are focused on delivering on our mission to provide a wide range of innovative and competitive financial products and services, in a simple and efficient way in order to deliver what matters to our stakeholders, employees and the community.

To conclude, I would like to express my sincere appreciation to all the members of the Board of Directors for their productive cooperation and I warmly thank our associates and customers for their continuous trust. I would like to thank the Bank's Management and staff for their devotion, hard work and commitment to the objectives of the Group.

Maurice Sehnaoui
Chairman

Report on Corporate Governance

Part A

The establishment and adoption of corporate governance principles and the reinforcement of the supervisory role of the Board of Directors are aiming to the full transparency over the total administration of USB Bank Plc (the "Bank"), the continuous servicing of corporate interest and investors' interest, the provision of timely information, as well as the guarantee that the Board of Directors is sufficiently independent in its decision making.

The Board of Directors recognizes the importance of implementing sound corporate governance policies as a basic precondition for the creation of value to the shareholders and the community.

The Bank declares that from 9 November 2004, the Board of Directors decided to fully adopt all the provisions of the Corporate Governance Code of the Cyprus Stock Exchange ("C.S.E.").

In September 2012, the C.S.E. published the 3rd (Amended) Edition of the Corporate Governance Code (the "Code"). The Board of Directors of the Bank has adopted the Code and applies its principles.

Following the successful Public Offer by BLC Bank SAL to the shareholders of the Bank for the acquisition of up to 100% of the issued share capital, the dispersion of the Bank has dropped below 10%. As a result of this and in view of the failure to abide by the obligations of the parallel market that the Bank was listed in, the C.S.E. Council decided to transfer the titles of the Bank from the parallel market to the Special Characteristics Market for an additional six months period which expires on June 27 2013, during which time the Bank is to become compliant to the relevant C.S.E. regulations for the minimum dispersion of 10%.

Voting rights which correspond to 53.765.035 new shares acquired by BLC Bank SAL during the years 2011 to 2012, are suspended temporarily so that the Bank complies with the required dispersion criteria of at least one of the regulated markets of the Cyprus Stock Exchange, as stated above.

Part B

The Board of Directors of the Bank confirms that during 2012 it has complied with the relative provisions of the Code.

The new edition of the Code includes new provisions which are put into immediate effect and are reflected in the Annual Corporate Governance Report of the Bank for the year 2012. The Board of Directors has proceeded with all necessary actions and ensured compliance with the new requirements.

Information relating to the application of the principles and provisions of the Code, is given below:

1. Board of Directors

1.1 Role of the Board of Directors

The Bank is governed and controlled by the Board of Directors as per the provisions of its Memorandum and Articles of Association. The Board of Directors has mainly the role of setting the strategic objectives and ensuring that these objectives are achieved, through the application of adequate internal administration and internal control system. The Board of Directors is responsible for the monitoring and evaluation of the actions and output of the Executive Management as well as to its conformity with the policies issued.

1.2 Operation of the Board of Directors

According to the Bank's Memorandum and Articles of Association, the number of Board members shall not be less than 5 and no more than 15.

According to the Banks' Articles of Association, at the first annual general meeting of the Bank, all directors shall retire and at the annual general meeting of each consecutive year, one third of the directors or a multiple of three or if their number is not three or a number multiplied by three, then the number nearest to the one third (rounded up), shall retire from their position but they have the right of re-election at the Annual General Meeting of the shareholders.

1. Board of Directors (continued)

1.2 Operation of the Board of Directors (continued)

The Directors to retire in every year shall be those who have been longest in office since their last election. The Board of Directors has power at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association. Any Director so appointed shall hold office only until the next Annual General Meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

1.3 Board of Directors Main Responsibilities

- Target setting and strategic policy of the Bank.
- Approval of the annual budget and the operational plan of the Bank.
- Setting the framework for capital investments and expenditure, mergers, acquisitions, and sale of Bank's assets.
- Adoption and application of amendments to the International Financial Reporting Standards.
- Monitoring of the substantial transactions of the Bank of any nature, in which the Chairman, the Executive Directors, the members of the Board of Directors, the Executive Management, the Secretary, the Auditors, or major shareholder of the Bank as well as their related parties who hold directly or indirectly more than 5% of the issued share capital of the Bank or voting rights, have a direct or indirect substantial interest.
- Selection, appointment and termination of the services of the Bank's Managing Director.
- Smooth succession of the Bank's Top Management.
- Directors' retirement policy.
- Selection and appointment of Bank's Secretary.

The members of the Board of Directors are appropriately informed by the Bank about their responsibilities as well as the responsibilities of their related parties in accordance to the Cyprus Stock Exchange Laws and Regulations, and the laws, regulations and guidelines of the Cyprus Securities and Exchange Commission. They are also informed about the responsibilities of the Bank in accordance to the Cyprus Companies Law Chapt.113, the Cyprus Stock Exchange, the Cyprus Securities and Exchange Commission and the Central Bank of Cyprus.

For the best implementation of the responsibilities of the members of the Board of Directors, all the members, after approval by the Board of Directors, can take independent professional advice with all expenses covered by the Bank.

All Board members may receive advice and other services by the Bank's Secretary.

The Bank's Board of Directors operates in accordance with the principles of collective responsibility and no differentiation exists between groups of Directors with regards to their responsibility.

The Chairman of the Board of Directors is a non Executive member. There is a division of responsibilities between the Chairman and the Deputy Managing Director.

The Secretary ensures the application of the Board of Directors procedures and its compliance with the applicable regulations.

The Bank's Directors hold positions in other companies' Boards of Directors. The members of the Board of Directors notify to the Bank the companies in which they take part and also their role in these companies (executive or non executive). Their participation in other Boards of Directors does not prevent them from dedicating the required time and attention in carrying out their duties as part of their role in the Bank's Board of Directors.

1.4 Meetings of the Board of Directors
The Board of Directors must convene regularly, at least 6 times in a year. During 2012, the Board of Directors has convened seven times.

The Directors receive prompt written notice together with all essential documentation before any Board of Directors meeting, so that they are appropriately prepared during the meeting.

1.5 Composition of the Board of Directors
On 31 December 2012 the Bank's Board of Directors comprised of fifteen members as follows:

Chairman:		
Mr. Maurice Sehnaoui	Non Independent,	Non Executive
Members:		
Fransabank SAL represented by Mr. Adel Kassar	Non Independent,	Non Executive
Mr. Nadim Kassar	Non Independent,	Non Executive
Mr. Nabil Kassar	Non Independent,	Non Executive
Mr. Walid Daouk	Non Independent,	Non Executive
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	Non Independent,	Non Executive
Mr. Raoul Nehme	Non Independent,	Non Executive
BLC Bank SAL represented by Mr. Walid Ziade	Non Independent,	Non Executive
Mrs. Tania Moussallem	Non Independent,	Non Executive
Mr. Agis Taramides	Independent,	Non Executive
Mr. George Galatariotis	Independent	Non Executive
Mr. George Stylianou	Independent,	Non Executive
Mr. Philippos Philis	Independent,	Non Executive
Mr. Andreas Theodorides	Non Independent,	Executive
Mrs. Despo Polycarpou	Non Independent,	Executive
Secretary		
Mr. Andreas Theodorides		

Changes in the composition during 2012
During the year 2012 no member retired from the Board of Directors, nor a new member's appointment has taken place.

According to the Banks' Articles of Association, at the Annual General Meeting of the shareholders of the Bank which was held on July 20 2012, Messrs Raoul Nehme, Tania Moussallem, George Galatariotis, Andreas Theodorides and Despo Polycarpou retired but they were re-elected by the shareholders of the Bank.

Structure of the Board of Directors as at 31.12.2012
Total Board Members, fifteen out of which:

Executive and Non-Independent Members: two
Non-Executive and Independent Members: four
Non-Executive and Non-Independent Members: nine

Replacement of the representative of BLC Bank SAL at the Board of Directors of the Bank
The Board of Directors of the Bank, at its meeting held on February 27, 2013 approved the replacement of the representative of BLC Bank SAL Mr. Walid Ziade, by Mr. Youssef Eid.

1.6 Senior Independent Director
With a Board of Directors decision, dated 12 December 2008, Mr. George Stylianou was appointed as Senior Independent Director.

The Senior Independent Director is available to listen to the concerns of the shareholders, that have not been resolved through the normal communication channels

1.7 Non executive Directors
The thirteen non executive Directors, represent over 86% of the total members of the Board of Directors, which is line with the provisions of the Corporate Governance Code, that requires that the non executive Directors should not be less than 1/3 of the Board of Directors with regards to Companies which are listed on markets other than the C.S.E's Main Market or the Major Projects Market or the Shipping Companies Market.

1.8 Classification criteria for determining Independent Directors
The Bank has adopted classification criteria for the Independent Directors, which were determined in accordance to the Code of the Cyprus Stock Exchange and the Directive[1] of the Central Bank of Cyprus for the Framework of Principles of Operation and Criteria of Assessment of Banks' Organizational Structure, Internal Governance and Internal Control Systems (the "Directive").

Based on an internal policy, the Bank, has drawn up the "Director's Declaration of Independence", which is completed and submitted to the Bank by the Members of the Board of Directors. This Declaration is submitted to the C.S.E. in compliance with the provisions of the Code.

The Bank has proceeded with the revision of the criteria for determining Independent Directors, based on the new guidelines issued by the Central Bank of Cyprus (No.348/2009) which was put into effect from 16 October 2009 and also on the provisions of the revised Corporate Governance Code (3rd edition – (Amended) September 2012) with the ultimate purpose of compliance with the new requirements.

On an annual basis, an Assessment Report concerning the non executive and independent members is submitted to the Board of Directors in order to evaluate their compliance with the criteria of Independence.
Based on the structure of the Board of Directors, the Bank confirms that during the year 2012, it has complied with the Provision A.2.3 of the Code, by the participation of four Independent members in the Board of Directors.

[1] The Directive was issued according to article 41 of the Banking Laws of 1997.

1.9 Definition and Division of Responsibilities of the Chairman and Managing Director
The Chairman responsibilities are performed by Mr. Maurice Sehnaoui and the responsibilities of the Managing Director by Mr. Andreas Theodorides – Deputy Managing Director. The Chairman is responsible for the proper running of the Board of Directors meetings and the General Meetings of the Bank, guides the Board of Directors and deals with strategic issues of the Bank. The Deputy Managing Director has the responsibility for the daily operations of the Bank and deals with the management and the effective monitoring of the activities and operations of the Bank.

The division of the Chairman position and the Managing Director position satisfies the relative provision A.2.6 of the Code.

1.10 Re-election of Directors
At the next Annual General Meeting of the shareholders of the Bank, and according to the Banks' Articles of Association, Mr. Maurice Sehnaoui, BLC Bank SAL (represented by Mr. Youssef Eid), Fransa Invest Bank SAL (represented by Mr. Mansour Bteish), Mr. Walid Daouk, and Mr. Agis Taramides will retire but they offer themselves for re-election.

The names of the Directors who are submitted for election or re-election are accompanied by their biographical details, so that the shareholders can make an informed decision on their election.

Biographical Details of the Members of the Board of Directors
Short biographical details of the members of the Banks' Board of Directors as at the date of this report are set out below:

Maurice Sehnaoui (Chairman of the Board of Directors)
He was born in 1943. Mr. Maurice Sehnaoui is the Chairman of the Board of Directors and General Manager of BLC Bank since 2008. He holds a degree in Economics (June 1967) from Saint Joseph University of Beirut. He was a former Minister of Energy and Water from 2004 to 2005. Mr. Sehnaoui was the Chairman–General Manager of Société Générale de Banque au Liban from 1984 to 2007, the Chairman of Societe General Cyprus Ltd from 1990 to 2008 and the Vice Chairman of Societe Generale Jordan from 2000 and until 2008. He is a Board member and holds participations in a number of companies and owns a large real estate portfolio including prestigious buildings in the Beirut city center. He is Chevalier of the French "Légion d'Honneur" and Officer of the French "Ordre National du Mérite".

Adel Kassar (representing Fransabank SAL)
He was born in Beirut in 1932. He has a degree in Lebanese and French law from St. Joseph University- Beirut and has thirty years of experience in banking. He is a former Chairman of the Association of Banks in Lebanon and is the Honorary Consul General of the Republic of Hungary in Lebanon. He is Founder and Co-Owner of A.A. Kassar Sal, and Board Member of " Chateau Ksara", a leading wine spirit in Lebanon. He is the Deputy Chairman of the Board of Directors of Fransabank SAL and of Fransa Holding. He is also the Chairman of the Board of Directors of Fransabank (France) SA and Fransabank(Syria) SA. He is also the Chairman of the Board of Directors and General Manager of Bancassurance SAL and of the Lebanese Leasing Company SAL. He is a Member of the Supervisory Board of Fransabank OJSC and Member of the Board of Directors of BLC Bank SAL.

Nadim Kassar
He was born in 1964. He has a degree in Business Administration from the American University of Beirut. He is a board member of the Banking Association in Lebanon since 2001 where he actually heads the AML Committee. General Manager of Fransabank SAL, Chairman of Fransa Invest Bank "FIB", Chairman of Fransabank Al Djazair and Vice-Chairman of BLC Bank SAL, he also is a board member of MasterCard Incorporated South Asia, Middle East & Africa Region, SAMEA Regional Board of Directors since 2005. He is a member of the Board of Directors of a number of other affiliated companies.

Biographical Details of the Members of the Board of Directors (continued)

Nabil Kassar
He was born in 1970. He holds a bachelor degree in Law from the St. Joseph University, Beirut, Lebanon. Currently he is the Secretary General of Fransabank SAL. He is also a member of the Board of Directors of BLC Bank SAL and of a number of other overseas companies.

Walid Ziade (representing BLC Bank SAL until 27.2.2013)
He was born in 1971. He has a degree in Business Administration and Management of the Ecole Superieure de Commerce de Paris, France and also a degree in Law and Political Sciences of the St. Joseph University, Beirut. Currently he is a partner in Boutros, Ziade & Associates, Beirut. He is a member of the Board of Directors of BLC Bank SAL.

Youssef Eid (representing BLC Bank SAL as from 27.2.2013)
He was born in 1959. He has a degree in Business Administration from the American University of Beirut and also a Masters degree in International Business Studies from the University of South Carolina. He is an Assistant General Manager and also the Head of Retail Banking Group of BLC Bank SAL, Lebanon. He has held the position of Vice President and Regional Manager of Wachovia Bank Cooperation, Dubai during the period 1998 – 2003 and of Vice President and Regional Manager of First Union National Bank, London during the period 1994 – 1998. He has held executive positions at First Fidelity Bank, U.S.A. and London, at Fidelity Bank, London as well as other organizations in other countries.

Walid Daouk Esq.
He was born in 1958. He has a degree in Lebanese and French law from St. Joseph University Beirut. He is a practionner lawyer member of the Beirut Bar Association since 1982 and is a member of the Board of Directors of various companies, real estate, banks and financial institutions in Lebanon and abroad including Fransabank (France) SA, Fransabank El Djazair SPA, BLC Bank SAL, Bankassurance SAL and the Lebanese Leasing Company SAL. He is the Government Commissioner at the Beirut Stock Exchange and a former member of the Board of Directors of the Counsel of Development and Reconstruction of Lebanon. Since June 2011 he is the Minister of Information of the Republic of Lebanon.

Mansour Bteish (representing Fransa Invest Bank SAL)
He was born in 1954. He has a degree in Business Administration of the St. Joseph University, Beirut and also a Master's degree in Money & Banking. Currently he holds the position of General Manager at Fransabank SAL. He is also Member of the Board of Directors of Fransa Invest Bank SAL (FIB) , BLC Bank SAL and also he is a Member of the Board of Directors of a number of other overseas companies.

Tania Moussallem
She was born in 1972. She has over 16 years of banking experience and is currently Assistant General Manager heading the Strategic Development and Financial Management Group at BLC bank. She joined BLC Bank in 2008 where she initiated, headed and implemented several strategic and innovative development projects involving external and organic growth for the bank. Areas covered include acquisitions, finance, insurance, factoring, investment banking, technology, corporate social responsibility, etc. She had started her career with Société Générale de Banque au Liban where she held several managerial positions and headed among others Investment Banking, Specialized Financing and SME's Departments. In parallel, she acted as Deputy Head of the Corporate and Investment Banking Division. She developed as well an extensive experience in privatization of the energy and water and waste water sectors including a 6 months period as member of the Minister of Energy and Water Cabinet. She holds a Masters degree in Finance & Communication from Ecole Superieure des Sciences Economiques et Commerciales ESSEC, France and a degree in Business Administration from the American University of Beirut.

Biographical Details of the Members of the Board of Directors (continued)

Raoul Nehme
He was born in 1956. Mr. Raoul Nehme is the General Manager of BLC Bank SAL and a Board member. He graduated from Ecole Polytechnique de Paris and Ecole des Mines de Paris (France). He was previously the Advisor to the Chairman and Head of Corporate and Investment Banking at Société Générale de Banque au Liban. He has been working in the banking sector since 2001.

George Stylianou (Senior Independent Director)
He was born in 1966. He has a BA (Honours) degree in Economics from Ealing College of United Kingdom. He is a Fellow of the Association of Chartered Certified Accountants and the Association of Certified Public Accountants of Cyprus. From 1990 to 1993 he worked in London for Moore Stephens Chartered Accountants and from 1994 until today he works as a partner in Moore Stephens/Panayiotis Stylianou & Co. Accountants and Consultants in Cyprus. He is a member of the Board of Directors of a number of other companies.

Philippos Philis
He was born in 1961. He has a Dipl. Ing.(MSc) Mechanical Engineering Rwth Aachen, Germany ELP (Executive Leadership) CIIIM. In 1996 he founded Lemissoler Shipping Group with activities in international shipping. From the date of the Company's set up he is acting as a an Executive Director for the Group, which has offices in Limassol, in Hamburg Germany, in Gdynia Polland, in Kiev and Odyssos Ukraine, in New Delhi India, in Kuwait, in Bahrain and in Riga Latvia. He is a member of the Cyprus Professional Engineers Association, the Cyprus Scientific and Technical Chamber and the Institute of Marine Engineering, Science & Technology (IMAREST). He is also a member of the Executive Board and President of the Technical Committee of the Cyprus Shipping Chamber. He is a member of the Board of Directors of a number of other companies.

George Galatariotis
He was born in 1948. He has a B.Sc Economics degree of the University of London and also an MBA of City University. Since 1986 he is the Managing Director of Galatariotis Technical Ltd.

Agis Taramides
He was born in 1971. He has a Bachelors degree in Mathematics, Statistics and Operational Research and also a Masters Degree in Statistics. He is a Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales and the Institute of Certified Public Accountants of Cyprus. He started his career in 1997 with Hallidays (Chartered Accountants) Limited in the United Kingdom. As from April 2010 he is the Managing Director of COR Limited.

Andreas Theodorides
He was born in 1970. He has a BA Economics with specialization in Accounting and Finance of the University of Manchester, United Kingdom. He is a Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales, the Association of Certified Public Accountants of Cyprus and the Association of Internal Auditors Cyprus. He started his career in 1992 in the audit firm of Arthur Andersen Manchester and then in Lombard Natwest Bank Ltd. He has been employed by USB Bank Plc since 1998 where he held various managerial positions. In 2009 he was appointed as Chief Financial Officer and as from 1 July 2010 he holds the position of Deputy Managing Director of the Bank.

Biographical Details of the Members of the Board of Directors (continued)

Despo Polycarpou
She was born in 1957. She is a Fellow of the Chartered Institute of Bankers (FCIB) and holds the ACIB degree. She is the Secretary General of the Cyprus Institute of Financial Services. She started her career in 1976 in Hellenic Bank. She has been employed by USB Bank Plc since 1999 where she held various positions including Manager Banking Operations and Trade Services, Nicosia Regional Manager, Manager Banking Services Development, Manager Retail Sector and currently holds the position of the Assistant General Manager, Manager of Compliance & Projects and also the position of the Manager of Human Resources.

2. Confirmations by the Board of Directors

2.1 Going Concern

The Board of Directors confirms that it is satisfied that the Bank has adequate resources to continue in business as a going concern for the next twelve months.

The Bank has proceeded with increase of its issued share capital on 18 October 2012 and on 28 December 2012, by issuing new shares to its major shareholder BLC Bank SAL, in an effort to strengthen its capital base.

2.2 Internal Control Systems

The Board of Directors confirms that the Bank maintains an effective internal control system, designed to manage and minimize risks which is annually reviewed and assessed for its effectiveness from both the Directors as well as the Audit Committee of the Board of Directors. In this way the procedures for the accuracy and validity of the information provided to investors are reviewed.

The Bank maintains an Internal Audit Department headed by the Manager of Internal Audit Mr. Stelios Alexandrou. The Department currently employs four people.

According to the provision C.2.1. of the Code, the Board of Directors confirms that it has conducted a review of the effectiveness of the Bank's internal control systems and the procedures for verifying the correctness and completeness of the information which are provided to the investors and states its satisfaction. The review covers all the systems of controls, including the financial and operational systems as well as the risk management systems.

Additionally the Board of Directors confirms that, to its knowledge, no violation of the Cyprus Stock Exchange Legislation and Regulations has occurred.

The role of the Audit Committee is to establish specific and transparent procedures relating to the implementation of the Banks' internal control audit system, the preparation of its financial statements, the implementation of the Corporate Governance principles and the maintenance of appropriate relationship with the Banks' External Auditors.

3. Board of Directors Committees

According to the Code of the Cyprus Stock Exchange but also in accordance to the Central Bank of Cyprus Directive, the following Board of Directors Committees have been set up.

3.1 Audit Committee

Composition and terms of reference of the Committee

The role of the Audit Committee is to establish specific and transparent procedures relating to the implementation of the Bank's internal control audit system, the preparation of its financial statements, the implementation of the Corporate Governance principles and the maintenance of appropriate relationship with the Bank's External Auditors.

Role of the Committee

- The Board of Directors appoints the members of the Committee.
- The Committee Chairman is appointed by the Board of Directors and either him or any other member of the Committee should have experience in the area of Accounting or Audit.
- The majority of the Audit Committee should have experience and knowledge in the wider operations of the Bank and to the information technology systems.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should have at least three non executive Directors, with the majority being independent.
- Three members of the Committee comprise a quorum.
- The Committee meets regularly and at least once every three months.
- The Committee keeps minutes for its decisions, and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Bank's shareholders.

Duties and responsibilities of the Committee

- Recommendations to the Board of Directors with regards to the appointment, termination and remuneration of the Bank's external auditors.
- The continuous supervision of the extent and effectiveness of the external audit and the independence and objectivity of the auditors.
- Review in cooperation with the Risk Management Committee the implementation of the Basel II framework.
- Review and evaluation on an annual basis of the adequacy and effectiveness of the Internal Control System as per the relative information provided by the Internal Audit Department, the findings and observations of the External Auditors, the Central Bank of Cyprus and the Cyprus Securities and Exchange Commission. On the basis of this examination, it recommends the corrective actions to be taken by the Bank's Board of Directors.
- Review of the six monthly, interim statements and the final financial statements before submission to the Board of Directors for approval.
- Guarantees that the Bank appoints every three years external auditors for the evaluation of the Internal Control System according to the Central Bank of Cyprus Directive.
- Review of any significant events or risks that affect the Bank's operations.
- Review the material transactions of the Bank which the Chairman, the Executive Directors, the members of the Board of Directors, the Executive Management, the Secretary, the Auditors or major shareholder of the Bank as well as their related parties who hold directly or indirectly more than 5% of the issued share capital or the voting rights of the Company, have a direct or indirect substantial interest, in order to ensure that these transactions are carried out in he normal course of business and at arm's length.
- Drafting with the assistance of the Corporate Governance Compliance Officer, of a report on Corporate Governance on behalf of the Board of Directors.
- The performance of any other related duties, which may be assigned by the Board.

3.1 Audit Committee (continued)

Composition and service of the members of the Committee during 2012 until today

Current composition

Chairman:		
George Stylianou	from 7/7/2008	Non Executive, Independent
Members:		
Philippos Philis	from 21/1/2009	Non Executive, Independent
Walid Daouk	from 21/3/2011	Non Executive, Non Independent
BLC Bank SAL (represented by Mr. Youssef Eid)	from 21/3/2011	Non Executive, Non Independet
Agis Taramides	from 21/3/2011	Non Executive, Independent

The Board of Directors of the Bank, at its meeting held on February 27, 2013 approved the replacement of the representative of BLC Bank SAL Mr. Walid Ziade, by Mr. Youssef Eid. Mr Walid Ziade was representing BLC Bank SAL from 21 March 2011 until the above date.

During the year 2012, the Audit Committee met four times.

3.2 Nominations/Internal Governance Committee

Role of the Committee

The Committee has the responsibility to ensure the application by the Bank of corporate governance principles. It also has the responsibility of overseeing the selection and appointment process to ensure that competent and suitable individuals participate in the Bank's Board of Directors.

Composition and terms of reference of the Committee

- The Board of Directors appoints the members of the Committee
- The Board of Directors appoints the Chairman of the Committee.
- The Chairman of the Committee may be either the Chairman of the Board of Directors (non executive), or a non executive member.
- The majority of the members of the Committee should be non executive Directors.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of at least three or more members.
- Three members of the Committee comprise a quorum.
- The Committee meets when required.
- The Committee keeps minutes for all its decisions and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice when ever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Banks' shareholders.

3.2 Nominations/Internal Governance Committee (continued)

Duties and responsibilities of the Committee

- Determining the selection criteria for the members of the Board of Directors. The minimum criteria set by the Committee are:
    1. The specific qualifications that are required as per the Central Bank Directive concerning the "Ability and Suitability (Criteria of Evaluation) of Board Members and Executives of Banks Directive of 2006 and 2007.
    2. Availability of time to perform the duties of a Board member at the Bank.
    3. Appropriate knowledge, experience and abilities.
    4. Integrity and objective judgement.
- Submission to the Board of Directors of recommendations for the appointment of new Directors based on their academic and professional qualifications, as well as their personalities.
- Evaluation and recommendation to the Board of Directors regarding the composition and structure of the Board in accordance with the provisions of the Code.
- Planning the succession of the resigned members in cooperation with the Secretary of the Board of Directors.
- The evaluation of the effectiveness of the Board of Directors, members' knowledge and experience.
- The evaluation of the compliance achieved by the Bank in terms of corporate governance.
- The performance of any other related duties, which may be assigned by the Board.

Composition and service of the members of the Committee during 2012 until today

Current composition

Chairman:		
Philippos Philis	from 25/2/2010	Non Executive, Independent
Members:		
Raoul Nehme	from 21/10/2010	Non Executive, Non Independent
Nadim Kassar	from 21/3/2011	Non Executive, Non Independent
Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
BLC Bank SAL (represented by Mr. Youssef Eid)	from 21/3/2011	Non Executive, Non Independent
Andreas Theodorides	from 21/3/2011	Executive, Non Independent

The Board of Directors of the Bank, at its meeting held on February 27, 2013 approved the replacement of the representative of BLC BANK SAL Mr. Walid Ziade, by Mr. Youssef Eid. Mr Walid Ziade was representing BLC BANK SAL from 21 March 2011 until the above date.

During the year 2012, the Committee met once.

3.3 Remuneration Committee

Role of the Committee

The Committee reviews the remuneration of the Executive and Non Executive Directors as well as Senior Management and ensures that these are in line with the culture, the strategic plans and objectives and the regulatory environment of the Bank.

3.3 Remuneration Committee (continued)

Composition and terms of reference of the Committee

- The Board of Directors appoints the members of the Remuneration Committee.
- Only non executive Directors comprise the Committee with the majority being independent.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of minimum three or more members.
- Three members of the Committee comprise a quorum.
- The Committee should include at least one member with knowledge and experience in remuneration policy.
- The Committee meets when required.
- The Committee keeps minutes for its decisions, and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Banks' shareholders.

Duties and responsibilities of the Committee

- Submission to the Board of Directors of recommendations concerning the framework and level of remuneration of the Executive Directors. The remuneration must be sufficient so as to attract and maintain the Directors at the Bank's service.
- Review of employment contracts of the Executive Directors.
- Periodic review of the Remuneration Policy for the Executive Directors or the Managing Directors, including the policy regarding remuneration, based on shares and its application.
- Submission of the Directors' remuneration Policy to the shareholders for approval at an Annual General Meeting.
- Evaluation and approval of the Annual Directors' Remuneration Statement in accordance with Annex 2 of the Code, to be included in the Annual Report.
- The Remuneration Committee recommends the Remuneration Policy Report in accordance with Annex 1 of the Code. The Remuneration Policy Report is included in the Bank's Annual Report and is presented to the Annual General Meeting of the shareholders for approval.
- The Remuneration Committee shall, when using the services of a consultant to obtain information on market standards for remuneration systems, ensure that this consultant is not also giving advice to the human resources department or the Executive or Managing Directors of the Bank.
- The performance of any other related duties, which may be assigned by the Board.

3.3 Remuneration Committee (continued)

Composition and service of the members of the Committee during 2012 until today

Current composition

Chairman:

George Galatariotis	from 21/3/2011	Non Executive, Independent

Members:

Philippos Philis	from 21/10/2010	Non Executive, Independent
Maurice Sehnaoui	from 21/3/2011	Non Executive, Non Independent

All the members of the Remuneration Committee have sufficient knowledge and experience in the remuneration policy sector.

During the year 2012, the Committee met once.

3.4 Risk Management Committee

Role of the Committee

The main role of the Committee is to assist the Board of Directors in the process of establishing a policy for handling risks and managing of funds that reflect the business goals of the Bank.

Composition and terms of reference of the Committee

- The Board of Directors appoints the members of the Committee.
- The Board of Directors appoints the Chairman of the Committee.
- The Committee shall be composed of Directors with sufficient knowledge and experience in the field of risk management and according to the Directive of the Central Bank of Cyprus for the Framework of Principles of Operation and Criteria of Assessment of Banks' Organizational Structure, Internal Governance and Internal Control Systems, at least one of its members is Executive and one member is Independent and Non Executive.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of minimum three or more members.
- Three members of the Committee comprise a quorum.
- The Committee meets regularly and at least once every three months.
- The Committee keeps minutes for its decisions, and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice when ever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Bank's shareholders.

According to the provisions of the 3rd Edition (Amended) of the Code – September 2012, the Companies which are listed in the Main Market, the Shipping Companies Market and the Large Projects Market of C.S.E. must have a Risk Management Committee which shall be composed of only Non Executive Directors. The Bank is not listed in any of the above markets and therefore, this provision does not apply.

3.4 Risk Management Committee (continued)

Duties and responsibilities of the Committee

- Formation of strategy for handling all kinds of risks and the management of funds relating to the business goals of the Bank on an individual but also group basis.
- Development of an internal risk management system of managing risks and integration of this in the decision making process for all the activities/departments of the Bank.
- Annual assessment of the adequacy and effectiveness of the risk management policy.
- Assessment of the issues that are raised by the Risk Management Department and inform the Board of Directors regarding the most important risks that the Bank has assumed.
- Performance of annual stress test and other scenarios to assess market risk, credit risk, liquidity risk, and operational risk.
- Overall review in cooperation with the Audit Committee of the implementation of the Basel II Directive.
- Review and assessment of the relevant reports relating to management of risk and submission of proposals for corrective measures to the Board of Directors.
- The assessment of the various risks involved in the participation of the Bank in new markets, new companies or new operations and submission of a proposal to the Board of Directors.
- The performance of any other related duties, which may be assigned by the Board.

Composition and service of the members of the Committee during 2012 until today

Current composition

Chairman:		
Walid Daouk	from 21/3/2011	Non Executive, Non Independent
Members:		
Andreas Theodorides	from 12/7/2010	Executive, Non Independent
Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
BLC Bank SAL (represented by Mr. Youssef Eid)	from 21/3/2011	Non Executive, Non Independent
George Galatariotis	from 21/3/2011	Non Executive, Independent
Raoul Nehme	from 4/11/2011	Non Executive, Non Independent
Fransa Invest Bank SAL (represented by Mr. Mansour Bteish	from 4/11/2011	Non Executive, Non Independent

The Board of Directors of the Bank, at its meeting held on February 27, 2013 approved the replacement of the representative of BLC BANK SAL Mr. Walid Ziade, by Mr. Youssef Eid. Mr Walid Ziade was representing BLC BANK SAL from 21 March 2011 until the above date.

During the year 2012, the Committee met four times.

4. Report on Remuneration of Board of Directors

The Bank applies the provisions regarding the Remuneration of the Directors that are included in the Cyprus Stock Exchange Corporate Governance Code as well as the High-level Guidelines for Remuneration Policies issued by the Central Bank of Cyprus.

The Remuneration Committee proposes to the Board of Directors, the Remuneration policy that is prepared in accordance with the above. The Directors' Remuneration Report is submitted for approval at the Annual General Meeting of the shareholders.

The remuneration of the members of the Board of Directors is analysed between remuneration as members of the Board of Directors and remuneration for their executive services. The analysis of the remuneration of the Board of Directors is presented in Note 32 of the audited financial statements for the year ended 31 December 2012. Furthermore the Remuneration of the members of the Board of Directors is analyzed as follows:

4.1 Remuneration of the Non Executive Members of the Board

	2012 €	2011 €
Maurice Sehnaoui (appointed on 21.3.2011)	31.226	24.677
Fransabank SAL represented by Mr. Adel Kassar (appointed on 21/03/2011)	7.171	5.609
Nadim Kassar (appointed on 21/03/2011)	7.671	6.082
Nabil Kassar (appointed on 21/03/2011)	10.098	7.978
Walid Daouk (appointed on 21/03/2011)	14.982	11.773
Fransa Invest Bank SAL represented by Mr. Mansour Bteish (appointed on 21/03/2011)	9.769	6.090
Raoul Nehme	10.269	8.665
Tania Moussallem	7.342	7.906
Agis Taramides (appointed on 21/03/2011)	9.769	8.102
George Galatariotis (appointed on 21/03/2011)	10.867	8.922
George Stylianou	12.940	14.178
Philippos Philis	11.243	12.336
BLC Bank SAL represented by Mr. Walid Ziade (appointed on 21/03/2011)	12.525	10.136
Michalis Kleopas (retired on 21.3.2011)	-	8.362
Yiannos Mouzouris (retired 21.3.2011)	-	3.276
Yiannos Christofi (retired 21.3.2011)	-	3.198
Garo Keheyan (retired 21.3.2011)	-	1.844
Marios Hannides (retired 21.3.2011)	-	2.146
	155.872	**151.280**

The Remuneration of the Non Executive Members of the Board includes fees for their participation as Members in the Board of Directors of the Bank and also as Members in the Committees of the Board of Directors.

Based on the existing policy of the Bank, the remuneration of the non executive Directors is based on their responsibilities, time spent on meetings and their participation to the various Committees of the Board of Directors. The last time the remuneration of the Non Executive Directors was revised, was at the Extraordinary General Meeting of the Bank's shareholders at 21 January 2009, taking into account the above and also the respective remuneration of Directors in other comparable organisations.

Also, as per the Bank's Articles of Association, the members of the Board of Directors can claim the travelling expenses incurred for attendance in meetings.

The revision of the remuneration of the non executive Directors is authorised by the shareholders at the General Meeting of the Bank.

4.2 Remuneration of Executive Members of the Board

The salaries and other short-term benefits of the Executive Members of the Board totalling €251K (2011 €245K) concern €128K (2011:126K) for Mr. Andreas Theodorides and €123K (2010:119K) for Mrs. Despo Polycarpou.

The employment and remuneration of the Executive Directors are governed by the collective agreements as applied to all other staff members of the Bank.

The Executive members of the Board of Directors are also entitled to any other benefits that are offered to the management and personnel of the Bank as part of its overall employment policy and collective agreements.

As far as the remuneration of the Executive Directors is concerned, no Remuneration Policy is provided, under which variable remuneration components are included, nor were any schemes adopted under which share options are granted.

All Executive Members of the Board of Directors are participating in the Staff Retirement Benefits Scheme with the same terms applicable to the personnel of the Bank. The main characteristics of the Scheme are described in Note 6 of the audited financial statements for the year ended 31 December 2012.

5. Loans and other transactions of the members of the Board of Directors

Details of the loans and other transactions of the members of the Board of Directors and their related parties for the year ended 31 December 2012 are set out in Note 32 of the audited financial statements. It is certified that all the transactions are conducted in the normal course of the Banks' business, on an arms length basis and with transparency.

6. Investor Relations

All shareholders of the Bank are treated on an equal basis. The Bank, within the framework of providing the shareholders with timely information announces its financial results. Besides the Annual General Meeting of the shareholders, the Bank organises from time to time Company Presentations where the audited financial results of the prior year and its short-term strategic plans are presented.

The Board of Directors provide the opportunity to shareholders who represent at least 5% of the Bank's share capital to place items on the agenda of the General Meetings of the shareholders in accordance with the procedures provided for by the Companies Act.

Any amendments or additions to the Bank's Memorandum and Articles of Association are considered valid only by a special resolution at a shareholders' meeting.

The Bank, has appointed the Deputy Managing Director of the Bank Mr. Andreas Theodorides, as the Investor Relations Officer.

The Senior Independent Director Mr. George Stylianou is available to shareholders if they have concerns that have not been resolved through the normal communication channels.

7. Corporate Governance Compliance Officer
The Bank, has appointed the Deputy Managing Director of the Bank Mr. Andreas Theodorides, as the Corporate Governance Compliance Officer of the Bank.

8. Compliance Officer of Stock Market Issues
The Bank, has appointed the Deputy Managing Director of the Bank Mr. Andreas Theodorides, as the Compliance Officer of Stock Market Issues of the Bank.

Board of Directors
USB BANK PLC

Nicosia 29 April 2013

Board of Directors and Other Executives

Board of Directors
Maurice Sehnaoui, Non Executive Chairman
Fransabank SAL represented by Mr. Adel Kassar
Nadim Kassar
Nabil Kassar
Walid Daouk
Fransa Invest Bank SAL represented by Mr. Mansour Bteish
Raoul Nehme
BLC Bank SAL represented by Mr.Youssef Eid
Tania Moussallem
Agis Taramides
George Galatariotis
George Stylianou
Philippos Philis
Andreas Theodorides
Despo Polykarpou

Secretary
Andreas Theodorides

Deputy Managing Director
Andreas Theodorides

Finance Manager
Paola Ioannou

Registered Office
83 Digenis Akritas Avenue, 5th floor, 1070 Nicosia

Legal Advisors
Dr. Kypros Chrysostomides & Co
L.Papafilippou and Co

Independent Auditors
Deloitte Limited
Certified Public Accountants and Registered Auditors

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements

(In accordance with the provisions of the Law 190(I)/2007 & 72(I)/2009 on Transparency Requirements)

In accordance with Article 9, subparagraph (3)(c) and (7) of the Transparency Requirements (Traded securities in a Regulated Market) Act 2007 and 2009, we, the members of the Board of Directors and the officers responsible for the drafting of the financial statements of USB Bank Plc (the "Bank") for the year ended 31 December 2012, declare that, to the best of our knowledge:

(α) the financial statements which are presented in pages 30 to 79:
(i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Article 9, subparagraph (4) of the Act, and

(ii) give a true and fair view of the assets and liabilities, financial position and profit or loss of the Bank and

(β) the Directors' report provides a fair overview of the developments and performance of the Bank as well as of the financial position of the Bank, along with a description of the principal risks and uncertainties that they face.

Members of the Board of Directors:

Maurice Sehnaoui	Non Executive Chairman
Fransabank SAL represented by Mr.Adel Kassar	Non Executive Director
Nadim Kassar	Non Executive Director
Nabil Kassar	Non Executive Director
Walid Daouk	Non Executive Director
Fransa Invest Bank SAL represented by Mr.Mansour Bteish	Non Executive Director
Raoul Nehme	Non Executive Director
BLC Bank SAL represented by Mr.Youssef Eid	Non Executive Director
Tania Moussallem	Non Executive Director
Agis Taramides	Independent, Non Executive Director
George Galatariotis	Independent, Non Executive Director
George Stylianou	Independent, Non Executive Director
Philippos Philis	Independent, Non Executive Director
Andreas Theodorides	Executive Director
Despo Polykarpou	Executive Director

Person responsible for the preparation of the financial statements:

Paola Ioannou	Finance Manager

Board of Directors' Report

The Board of Directors of USB Bank Plc (the 'Bank') submit to the shareholders their report and the audited financial statements for the year ended 31 December 2012.

Activities
The Bank's main activities during the year continued to be the provision of banking and financial services in Cyprus through the operation of 16 branches.

Financial Results
In the midst of the economic recession and uncertainty with unprecedented developments for the Cyprus economy, USB Bank increased significantly its turnover by 20% from last year, its customer base by 26% and its loans and advances by 9%. The Bank maintains its liquidity at high levels, with the ratio of gross loans to deposits being 74% as at 31 December 2012 in comparison to 86% as at 31 December 2011.

The primary objective of the Bank is to maintain a satisfactory capital base and healthy liquidity, and for this purpose two share issues were made during the current year amounting to €22 million, from its major shareholder, BLC Bank SAL. As a result, the issued share capital of the Bank as at 31 December 2012 amounted to €56.584.278 divided into 99.270.663 ordinary shares of nominal value €0,57 each.

The Bank fully complies with all the regulatory capital requirements as at 31 December 2012. Specifically, according to Pillar 1 of Basel II, the Bank's core tier 1 ratio was 9,5%, the original own funds ratio was 9,7% and the capital adequacy ratio was 12,5%.

Subject to the transitional period as described by the directive relating to the calculation of capital requirements and large exposures, banks shall maintain Core Tier 1 capital which, at any time, is equal to or exceeds the minimum ratio of 8% of their risk weighted assets plus an increment which is calculated as a percentage of the total assets of the bank to the Gross Domestic Product of the Republic of Cyprus. Taking into account the Gross Domestic Product of the Republic of Cyprus for 2012 which was based on the latest available information obtained from the Statistical Service of Cyprus, the Bank's minimum required ratios as at 31 December 2012, are as follows: Core Tier 1 ratio of 8,02%, the original own funds ratio at 9,52% and the capital adequacy ratio at 11,52%.

The main financial highlights of the Bank for the years 2012 and 2011 are as follows:

	2012	2011
	€000	€000
Turnover	**47.733**	39.806
Profit before provisions for impairment of loans and advances	**4.049**	4.287
Loss for the year after tax	**(824)**	(8.961)
Loss per share (cent)	**(1,2)**	(16,1)
Customer deposits	**657.121**	522.291
Loans and advances to customers (gross)	**489.267**	449.421
Total assets	**761.007**	704.959
Equity	**46.958**	26.295

In 2012 and 2011,no dividends were paid or declared since the Bank had accumulated losses.

Board of Directors' Report

Financial Results (continued)
The Bank's interest income increased by 21% as a result of the credit expansion achieved during the current year, with the gross loans and advances increasing by 9% compared to the end of 2011 reaching €489 million as at 31 December 2012. Respectively the interest expense increased by 28% mainly due to the increase of customer deposits from €522 million in 2011 to €657 million in 2012.

Other income increased by 22% as a result of the expansion in the Bank's operations and as a consequence of the increase in fee and commission income. The Bank's operating expenses increased by 14% in relation to last year, mainly due to the increase in staff costs incurred as part of the Bank's plan for the enhancement of its human capital which was undertaken in order to support the Bank's growth course.

The economic conditions affected adversely the prices of immovable property and shares and as a result the Bank recognized a loss of €358 thousand in the income statement relating to sales of trading securities, while a loss of €355 thousand was recognized from the revaluation of investment properties which were acquired by the Bank in settlement of customer debts. The investment properties are presented at the reporting date at their estimated fair value. In addition, the Bank recognized a loss of €290 thousand relating to the impairment of available for sale investments.

Due to the deterioration of the economic conditions, the provisions for impairment of loans and advances increased in relation to last year and amount to €3,7 million compared to €2,9 million in 2011.

The Bank, following the finalization of the terms and the final exchange of the Greek Government Bonds on 12 March 2012, recognized an additional impairment of €504 thousand on the new Greek bonds, which represents the difference between the market value and the present value of the new securities. The new bonds were recognized at their fair value of €849 thousand. The Bank disposed the new Greek government bonds in December 2012 and as a result as at 31 December 2012 the Bank does not hold any investments issued by the Greek government.

As a result of the above, the loss for the year 2012 amounts to €824 thousand in relation to a loss of €8,9 million in the previous year.

Board of Directors
The Board of Directors at the date of this report is listed on page 2.

The Bank's Board of Directors in a meeting held on 27 February 2013 approved the replacement of Mr. Walid Ziade representing BLC Bank SAL by Mr. Youssed Eid representing BLC Bank SAL as a non executive and a non independent member of the Bank's Board of Directors.

For the year ended 31 December 2012 and according to the Bank's Articles of Association, at the next Annual General Meeting of the Bank's shareholders, Mr. Maurice Sehnaoui, BLC Bank SAL represented by Mr. Youssef Eid, Fransa Invest Bank SAL represented by Mr. Mansour Bteish, Mr. Walid Daouk and Mr. Agis Taramides will retire but are offered for re-election.

Information relating to share capital
As at 31 December 2012 the issued share capital of the Bank was 99.270.663 ordinary shares of nominal value €0,57 each from which 90.498.733 shares trade in the Cyprus Stock Exchange (CSE) while for the remaining 8.771.930 shares that are not currently trading, all the necessary actions are being taken so that their submission is achieved no later than six months after their issue date which was on the 28 December 2012.

Information relating to share capital (continued)
During the year, the issued share capital of the Bank increased by €22.000.001 by the parent company BLC Bank SAL. Specifically during the year 2012 there were 2 increases of the Banks' share capital. Initially at a Special General Meeting held on 25 May 2012, 29.824.562 new shares of nominal value of €0,57 and at the issue price of €0,57 each were approved and issued. Furthermore, at a Special General Meeting held on 29 November 2012 the Bank issued to BLC Bank SAL 8.771.930 new shares of nominal value of €0,57 and at the issue price of €0,57 each.

As a result, the Bank's share capital on 31 December 2012 amounted to €56.584.278 divided into 99.270.663 shares of a nominal value of €0,57 each, while the share premium reserve remained at same level of the previous year and as at 31 December 2012 amounted to €24.666.732.

There are no restrictions on the transfer of the Bank's ordinary shares, other than the provisions of the Banking Law of Cyprus, which requires Central Bank of Cyprus approval prior to the acquiring of shares of the Bank in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

Agreements with the members the Board of Directors or the Banks' staff members
For contracts involving probationary hiring of personnel who are governed by the agreement with the Cyprus Union of Bank Employees ("ETYK"), the Bank has the right to terminate the services of the employee at any time during his probationary service, without any notice. If for any reason an employee wishes to terminate his employment with the Bank, one months' notice must be given. The employment contracts of staff members, whose employment terms are not governed by the agreement with ETYK, include provisions for a notice period in case of non-justified pre-mature termination of contract.

Compliance with the CSE regulations on dispersion
Following the successful Public Offer by BLC Bank SAL to the shareholders of the Bank to acquire up to 100% of the issued share capital, the minority interest decreased below 10% and as a consequence of failure to comply with the requirements for minimum dispersion to the public for companies traded in the Parallel Market, the Board of the CSE has decided to transfer the shares of the Bank in the Special Characteristics Market for a grace period which expires on the 27 June 2013 during which the Bank will have the opportunity to comply with the relevant compliance regulations.

Note that in the event of a public takeover bid or merger or acquisition, the provisions of the Takeover Bids Law of 2007 apply, which contains provisions on the equal treatment of shareholders. Also the relevant provisions of the Cyprus Companies Law are valid in the case of acquiring more than 90% as a result of a public offer, where they can be activated for compulsory acquisition of the remaining percentage.

Statement of Corporate Governance
The Bank implements a sound internal control system which is supervised and evaluated annually for its effectiveness, both by the Directors and the Audit Committee of the Board of Directors. Therefore, verification procedures are controlled and proper and accurate information is provided to the Bank's shareholders.

The Bank aims to provide full transparency in its overall management and seeks to serve its own corporate and investors' interest. The Board of Directors considers proper and responsible corporate governance as a prerequisite for creating value for its shareholders and the wider community.

Statement of Corporate Governance (continued)
The Bank being quoted on the Special Characteristics Market of the CSE. has voluntarily decided to fully adopt and apply the CSE Corporate Governance Code.The Corporate Governance Code is available on the CSE website, **www.cse.com.cy.** The Bank complies with the relevant provisions of the 3rd revised edition of the Corporate Governance Code of the CSE during the year 2012, as published by the CSE in September 2012. The 3rd edition of the Code includes new provisions which became effective immediately and are reflected in the Annual Report on Corporate Governance of the Bank for the year 2012.

The Board has taken all necessary action so as to ensure that the Bank will comply with all such new requirements. The Annual Report on Corporate Governance for 2012 is available on the Bank's website, **www.usbbank.com.cy**.

The operating regulations of the Board of Directors as well as the powers of the executive and supervisory bodies of the Bank are presented in the Report on Corporate Governance.

According to the Bank's Memorandum and Articles of Association, the number of Board members shall not be less than 5 nor more than 15. At each Annual General Meeting of the shareholders, one third (1/3) of the Board members who are appointed, or if their number is not a multiple of three (3), then the number nearest to one third (1/3) will resign from the Board of Directors, having however the right for re-election. Any changes or additions to the Bank's Memorandum and Articles of Association are considered valid only by a special resolution at a shareholders' meeting.

The Board of Directors has the power to distribute and place any of the Bank's unissued shares as it considers appropriate, provided the new shares to be issued are offered first to the existing shareholders, pro-rata to their existing shareholding. Otherwise, the shareholders' approval at a General Meeting is required.

In addition, in the event that an increase in the authorized share capital is required, the approval of the shareholders at a General Meeting must be obtained. Any share repurchase plan also requires shareholder approval at General Meeting. The existing Bank's shares are ordinary shares, and are not divided into classes. Voting rights attributable to 53.765.035 new shares that were acquired by BLC Bank SAL during the years 2011 and 2012 have been temporarily suspended.

Shareholders holding more than 5% of the share capital of the Bank
At 22 April 2013 and 31 December 2012, the following shareholders held directly or indirectly more than 5% of the share capital of the Bank:

	22.04.2013 %	31.12.2012 %
BLC Bank SAL	97,31	97,31

Directors' interest in the share capital of the Bank
At the date of this report, Messrs. Adel Kassar, Nadim Kassar and Nabil Kassar hold indirectly 97,31% of the share capital of the Bank, through their participation in Fransabank SAL.

Board of Directors' Report

Operating environment of the Bank and Future developments
The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, the Republic of Cyprus was unable to borrow from the international markets following its credit downgrades. Cyprus and the Eurogroup (together with the International Monetary Fund) reached an agreement on 25 March 2013 which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion.

The Bank's management anticipates that year 2013 will be without doubt a difficult year for the Cyprus economy, with intense recession, reduction in spending and increased unemployment.

The Management of the Bank monitors closely the developments within the economy and especially in the financial sector with the aim of taking all necessary measures and actions for managing the negative implications that could arise in its operations.

Despite recent developments in the economic environment of the Cyprus economy as mentioned in Note 34 to the Financial Statements, the Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the financial resources to continue its business operations in the foreseeable future.

The primary objectives of the management of the Bank are to maintain a strong capital base as well as strong liquidity. At the same time, the Bank intensifies its efforts to upgrade its systems and procedures with the aim of improving effectiveness and for safeguarding it against future challenges.

Risk management
The Bank considers risk management to be a major process and a significant factor contributing towards the safeguarding of a stable return to its shareholders. The financial risks the Bank is exposed to are mainly credit risk, operational risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 30 of the financial statements.

Events after the reporting date
Any significant events that occurred after the reporting date are described in Note 34 to the Financial Statements.

Independent auditors
The independent auditors of the Bank, Deloitte Limited, have expressed their willingness to continue in office. A resolution for the election of the Bank's independent auditors and their remuneration will be proposed at the shareholders' Annual General Meeting.

Maurice Sehnaoui
Chairman

29 April 2013

FINANCIAL STATEMENTS 2012

Income Statement
for the year ended 31 December 2012

	Note	2012 €	2011 €
Turnover		**47.733.208**	39.805.737
Interest income	3	**42.983.991**	35.631.941
Interest expense	4	**(24.556.194)**	(19.249.854)
Net interest income		**18.427.797**	16.382.087
Fee and commission income		**4.283.270**	3.718.940
Fee and commission expense		**(755.270)**	(901.615)
Foreign exchange income		**373.325**	411.507
Income from available of sale investments	5	**-**	11.690
Loss from the sale of investments		**(358.242)**	-
(Loss)/gain on revaluation of investment properties	16	**(355.000)**	90.194
Other income		**92.622**	31.659
Total net income		**21.708.502**	19.744.462
Staff costs	6	**(12.813.428)**	(10.981.603)
Depreciation of property, equipment and intangible assets	17,18	**(779.113)**	(731.330)
Other operating expenses		**(4.067.120)**	(3.744.872)
Total operating expenses before provisions		**(17.659.661)**	(15.457.805)
Profit before provisions		**4.048.841**	4.286.657
Provision for impairment of loans and advances	13	**(3.663.973)**	(2.887.927)
Profit before impairment of bonds		**384.868**	1.398.730
Provision for impairment of Greek government bonds	7	**(503.570)**	(9.455.741)
Provision for impairment of investments available for sale	15	**(289.853)**	(469.863)
Loss before tax	8	**(408.555)**	(8.526.874)
Special Taxation for Credit Institutions	9	**(488.332)**	(434.391)
Deferred tax	9	**72.395**	-
Loss for the year		**(824.492)**	(8.961.265)
Loss per share (cent)	10	**(1,2)**	(16,1)

Statement of Comprehensive Income
for the year ended 31 December 2012

	Note	2012 €	2011 €
Loss for the year		**(824.492)**	(8.961.265)
Other comprehensive income			
Loss on revaluation of investments available for sale	15,24	**(676.000)**	(1.388.730)
Transfer to the income statement due to impairment of available for sale investments	15,24	**60.405**	469.863
Loss on revaluation of properties	24	**(165.096)**	-
Transfer to the income statement due to disposal of available for sale investments	15,24	**249.705**	-
Taxation on revaluation of properties	24	**18.164**	-
Other comprehensive income for the year after taxation		**(512.822)**	(918.867)
Total comprehensive income for the year		**(1.337.314)**	(9.880.132)

Statement of Financial Position
as at 31 December 2012

	Note	**2012**	2011
		€	€
ASSETS			
Cash and balances with the Central Bank	11	**121.936.274**	16.803.076
Placements with banks	12	**28.370.592**	25.118.640
Loans and advances to customers	13	**432.167.329**	385.107.013
Investments held-to-maturity	14	**142.508.707**	252.915.264
Investments available for sale	15	**739.697**	7.875.011
Investment properties	16	**26.876.000**	9.030.000
Property and equipment	17	**5.860.791**	6.126.140
Intangible assets	18	**558.611**	297.119
Other assets	19	**1.988.791**	1.686.821
Total assets		**761.006.792**	704.959.084
LIABILITIES			
Placements by banks and financing from the Central Bank	20	**42.306.250**	136.602.389
Customer deposits	20	**657.121.241**	522.291.069
Other liabilities	21	**4.438.637**	9.587.649
Loan capital	22	**10.182.963**	10.182.963
Total liabilities		**714.049.091**	678.664.070
EQUITY			
Share capital	23	**56.584.278**	34.584.277
Share premium	23	**24.666.732**	24.666.732
Revaluation reserves	24	**1.898.406**	2.411.228
Accumulated losses		**(36.191.715)**	(35.367.223)
Total equity		**46.957.701**	26.295.014
Total liabilities and equity		**761.006.792**	704.959.084

Maurice Sehnaoui — Chairman

Andreas Theodorides — Deputy Managing Director

Paola Ioannou — Finance Manager

Statement of Changes in Equity
for the year ended 31 December 2012

	Share capital	Share Premium	Revaluation reserves (Note 24)	Accumulated losses (Note 24)	Total
	€	€	€	€	€
YEAR 2012					
1 January	34.584.277	24.666.732	2.411.228	(35.367.223)	**26.295.014**
Issue of share capital	22.000.001	-	-	-	**22.000.001**
Loss after tax	-	-	-	(824.492)	**(824.492)**
Other comprehensive income for the year after taxation	-	-	(512.822)	**-**	**(512.822)**
Total comprehensive income for the year	-	-	(512.822)	(824.492)	**(1.337.314)**
31 December	**56.584.278**	**24.666.732**	**1.898.406**	**(36.191.715)**	**46.957.701**
YEAR 2011					
1 January	25.938.208	21.177.967	3.330.095	(26.404.763)	**24.041.507**
Issue of share capital	8.646.069	3.488.765	-	-	**12.134.834**
Loss after tax	-	-	-	(8.961.265)	**(8.961.265)**
Other comprehensive income for the year after taxation	-	-	(918.867)	-	**(918.867)**
Total comprehensive income for the year	-	-	(918.867)	(8.961.265)	**(9.880.132)**
Deemed dividend distribution (Note 24)	-	-	-	(1.195)	**(1.195)**
31 December	**34.584.277**	**24.666.732**	**2.411.228**	**(35.367.223)**	**26.295.014**

Statement of Cash Flows
for the year ended 31 December 2012

	Note	**2012 €**	2011 €
Net cash flow (used in)/from operating activities	28	**(41.188.258)**	85.670.995
Cash flow from investing activities			
Purchase of property, equipment and software		**(940.352)**	(861.178)
Proceeds from the disposal of property and equipment		**1.600**	4.900
Purchase of bonds		**(100.124.080)**	(157.493.148)
Proceeds from the disposal and redemption of bonds		**222.202.894**	58.706.603
Interest on government and other debt securities		**10.772.597**	9.239.842
Dividends from investments available for sale		**-**	11.690
Net cash flows from/(used in) investing activities		**131.912.659**	(90.391.291)
Cash flow from financing activities			
Proceeds from the issue of share capital		**22.000.001**	12.134.834
Interest on loan capital		**(761.332)**	(756.824)
Net cash flow from financing activities		**21.238.669**	11.378.010
Net increase in cash and cash equivalents for the year		**111.963.070**	6.657.714
Cash and cash equivalents			
At 1 January		**32.031.066**	25.373.352
Net increase in cash and cash equivalents		**111.963.070**	6.657.714
At 31 December	29	**143.994.136**	32.031.066

Summary of Significant Accounting Policies
at 31 December 2012

The main accounting policies adopted in the preparation of the financial statements are stated below. These policies have been consistently applied to all years presented in these financial statements, unless otherwise stated.

1. Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union ("EU"), and the requirements of the Cyprus Companies Law, Cap.113.

The financial statements are presented in Euro (€) and have been prepared on a historical cost basis, except for freehold properties, investment properties, available-for-sale investments and financial derivative instruments which are measured at fair value.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding the expected recovery or settlement of any asset and liability within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 26.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Bank's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2. Changes in accounting policies and adoption of new and amended IFRSs
The accounting policies adopted are consistent with those adopted in the prior year, except for the adoption by the Bank of the following new and amended Standards and Interpretations as these were issued by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Union and which are applicable for periods starting from 1 January 2012:

- Amendments to IFRS 1: 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters' (effective for accounting periods beginning on or after 1 July 2011).
- Amendment to IFRS 7: 'Financial Instruments: Disclosures' - Transfers of Financial Assets (effective for accounting periods beginning on or after 1 July 2011)..
- Amendments to IAS 12 'Deferred tax' - Recovery of Underlying Assets (effective for accounting periods beginning on or after 1 January 2012).

The adoption of the above did not have any material impact on the Bank's financial statements.

Summary of Significant Accounting Policies
at 31 December 2012

3. Standards, Interpretations and Amendments that are issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published, the adoption of which is not mandatory for the current reporting period and which the Bank has not adopted early, as follows:

(a) Standards and interpretations issued by the IASB and adopted by the EU

- Amendments to IFRS 7:'Financial Instruments: Disclosures'- Offsetting financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2013).
- Amendments to IAS 32:'Offsetting of financial assets and financial liabilities' (effective for accounting periods beginning on or after 1 January 2014).
- IFRS 10:'Consolidated Financial Statements' (effective for accounting periods beginning on or after 1 January 2013).
- IFRS 11:'Joint Arrangements' (effective for accounting periods beginning on or after 1 January 2013).
- IFRS 12:'Disclosure of Interests in Other Entities' (effective for accounting periods beginning on or after 1 January 2013).
- IFRS 13:'Fair Value Measurement' (effective for accounting periods beginning on or after 1 January 2013).
- IAS 27 (Revised):'Consolidated and Separate Financial Statements' (effective for accounting periods beginning on or after 1 January 2013).
- IAS 28 (Revised):'Investments in Associates and Joint Ventures' (effective for accounting periods beginning on or after 1 January 2013).
- IFRIC 20:'Stripping Costs in the Production Phase of a Surface Mine' (effective for accounting periods beginning on or after 1 January 2013).
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' (effective for accounting periods beginning on or after 1 July 2012).
- Amendments to IAS 19 'Employee Benefits' (effective for accounting periods beginning on or after 1 January 2013).
- Amendments to IFRS 1 'Government Loans' (effective for accounting periods beginning on or after 1 January 2013).
- Improvements in IFRS 2009-2011 issued on May 2012 (effective for accounting periods beginning on or after 1 January 2013).
- Transitional guidelines for IFRS 10, 11 & 12 (effective for accounting periods beginning on or after 1 January 2013).

(b) Standards and interpretations issued by the IASB not yet adopted by the EU

- IFRS 9 'Financial Instruments' (Issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued in December 2011) (effective for accounting periods beginning on or after 1 January 2015).
- Investment Entities: Amendments to IFRS 10, IFRS 12 and IAS 27 (effective for accounting periods beginning on or after 1 January 2014).

When the above will be applicable, it is not expected to impact the Company's financial statements, except:

3. Standards, Interpretations and Amendments that are issued but not yet effective (continued)

IFRS 9 'Financial Instruments'

IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities as well as for derecognition.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' to be measured subsequently at amortized cost or fair value. Specifically, investments in bonds, detained as part of a business model whose objective is to collect the contractual cash flows and which has contractual cash flows that relate solely payments of principal amount and interest on the original amount outstanding, generally measured at amortized cost at the end of subsequent accounting periods. All other investments in debt and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (determined at fair value through profit or loss) due to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated at fair value through profit or loss, the amount of change in fair value of the financial liability that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless recognition of the effects of changes in credit risk of liability in other comprehensive income would create or enlarge an accounting mismatch in the results. Changes in fair value attributable to credit risk of a financial liability are not subsequently reclassified to results. Previously, based on IAS 39, the entire amount of the change in fair value of the financial liability, which had been designated as at fair value through profit or loss are recognized in the results.

The Board of Directors expects that IFRS 9 will be adopted in the financial statements for the accounting period beginning 1 January 2015 and that the application of the new standards will have a material effect on the reported amounts associated with financial assets and financial liabilities of the Bank. However, it is impractical to make a reasonable estimate of this effect until the completion of a detailed review.

IFRS 13 'Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use in IFRS. These requirements do not extend the use of the calculus of fair value and provide guidance on how it should be applied where its use is already required or permitted by other standards. The standard is effective for accounting periods beginning on or after 1 January 2013 and has been adopted by the European Union.

The Board of Directors expects that IFRS 13 will be adopted in the financial statements for the accounting period beginning 1 January 2013 and that the application of the new standards will affect reported amounts as well as certain detailed disclosures in the financial statements.

4. Significant accounting judgments and estimates

Going concern

Despite recent developments in the economic environment of the Cyprus economy as mentioned in Note 34 to the Financial Statements, the Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the financial resources to continue its business operations in the foreseeable future. Accordingly, the financial statements continue to be prepared on the going concern basis.

Provision for impairment of loans and advances

The Bank reviews its loan portfolio for evidence that it will not be able to collect all amounts due from an individual loan or a portfolio of homogeneous loans. Evidence includes the customer's payment record, his overall financial position and the realisable value of any collateral. If such evidence exists, the recoverable amount is estimated and a provision is made for loan impairment and is charged to the income statement. Credit risk review is continuous. The methodology and assumptions used for estimating the provision are reviewed regularly to reduce any differences between estimated and actual losses.

In addition to provisions on an individual basis, the Bank also makes collective impairment provisions for loans. The percentages of losses are based on estimates, historical data and experience of the Bank's management. The use of historical data is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience. Where there have been changes in economic, regulatory or behavioural conditions such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

Impairment of available for sale and held to maturity investments

Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. In such a case, the total loss previously recognised in equity is recognised in the income statement. This determination of what is significant or prolonged requires judgment by management. Factors taken into consideration in making this judgment include the expected volatility in share price. In addition, impairment may occur when there is evidence that significant adverse changes in technology, market, economic or legal environment in which the investee operates.

Available for sale bonds and bonds held to maturity are impaired when there is objective evidence of impairment in one or more events that occurred after initial recognition of the investment and the loss making event (or events) affect the expected future cash flows of the investment. The assessment takes into account a number of factors such as economic condition of the issuer, a breach of the terms of the contract, the likelihood that the issuer will file for bankruptcy or make a financial reorganization, and therefore significant judgments are required.

Fair value of investments

The best evidence of fair value is the trading price in an active market. If the market in which a financial instrument is negotiated is not active then a method of valuation is used. The valuation methods used by the Bank are solely based on published market data so that the valuation of fair value is quite reliable. The valuation methods involve assumptions that would be used by other market participants as well as assumptions about the yield curve interest rates, exchange rates, volatilities and the rate of non-payment of debts. When valuing instruments by the method of comparison with other similar instruments, management takes into account the maturity structure and the assessment instrument used as comparative.

4. Significant accounting judgments and estimates (continued)

Income Tax

The Bank is subject to Cyprus income tax. Significant estimates are required in determining the provision for taxes at the reporting date, and therefore the tax determination is uncertain. Where the final tax is different from the amounts that were initially recorded, such differences will affect the income tax expense, the tax liabilities and deferred tax liabilities of the period in which the final tax is agreed with the tax authorities.

The Bank recognizes a deferred tax asset in relation to tax losses, to the extent there may be future taxable profits against which the losses may be utilised. The determination of the amount of deferred tax assets that can be recognized is based on the timing and level of future taxable profits, in combination with future tax planning strategies. These variables are determined based on significant estimates and assumptions, and are by definition uncertain. It is possible that the actual conditions in the future will be different from the assumptions used, resulting in material adjustments to the carrying value of deferred tax assets.

5. Foreign currency translation

The financial statements are presented in Euro (€), which is the functional and presentation currency of the Bank as outlined in Accounting Policy 1 of the financial statements.

Transactions in foreign currencies are initially recognized by applying the amount of foreign currency at the current exchange rate between the functional currency and the foreign currency at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to 'Foreign exchange income' in the income statement. Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date the fair value was determined.

6. Turnover

Turnover consists of interest income, fee and commission income, investment income, foreign exchange income and other income.

7. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Bank and the amount of revenue can be reliably measured.

(a) Interest income

For all financial assets and financial liabilities measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income and expenses are recognised using the effective interest rate method. Once the recorded amount of a loan has been reduced due to an impairment loss, interest income continues to be recognised on the impaired balance using the original effective rate of the loan.

(b) Fee and commission income

Fee and commission income is recognised on the basis of work done so as to associate the cost of providing the service.

(c) Dividend income

Dividend income is recognised in income statement when the Bank's right to receive payment is established.

(d) Income from the disposal of investment properties

Income from the disposal of these properties is recognised in the income statement under 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

8. Operating lease expenses

Operating lease expenses represent accrued lease rentals for the year and are included in 'Other operating expenses'.

9. Retirement benefits

The Company and its employees contribute to the Government Social Insurance Fund based on employees' salaries. In addition the Bank and its employees make contributions to a defined contribution scheme, the assets of which are held in a separate trustee-administered fund (the "Provident fund of the Employees of USB Bank Plc"). The scheme is funded by payments from employees and by the Bank. The Bank's contributions are expensed as incurred and are included in staff costs. The Bank has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

10. Financial Instruments

(a) Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Derivatives are recognised on a trade date basis. 'Deposits with Central Bank', 'Amounts due to banks', 'Placements from banks and funding from Central Bank', 'Customer deposits and other accounts', Placements with Banks', and 'Loans and advances to customers' are recognised when cash is received by the Bank or advanced to counterparties.

(b) Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(c) Financial derivative instruments

Derivative financial instruments are recognized at fair value in the statement of financial position. Fair values are estimated using quoted market prices, discounted cash flow models and option pricing models as appropriate.

Derivatives are classified as assets when fair value is positive and as liabilities when fair value is negative. All derivatives are treated as derivatives held-for trading and any changes in fair value are reported in the Income Statement.

(d) Loans and advances to customers

Loans and advances to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortised cost is calculated taking into consideration the difference between the initial amount and the payable amount at maturity and all emoluments that comprise integral part of the effective interest. Amortisation is included in 'Interest Income' in Income Statement. The losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances'.

Loans and advances to customers are presented net of provisions for impairment of loans resulting in the ordinary course of business. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

The collectability of loans and advances to customers is evaluated based on the individual customer's overall financial position, resources, and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

10. Financial Instruments (continued)

(d) Loans and advances to customers (continued)

A loan is considered doubtful when it is probable that the Bank will not be able to collect the full amount due according to the original contractual terms of the loan, unless such loans are secured, or other factors exist where the Bank expects that all amounts due will be received.

When a loan has been classified as doubtful, its carrying amount is reduced to its estimated recoverable amount, which is determined as the present value of its expected future cash flows, including recoverable amounts from guarantees and collaterals, discounted at the original effective interest rate. The amount of provision for impairment is the difference between the carrying amount and the recoverable amount of the loan.

Doubtful loans are monitored continuously and are reviewed for provisional purposes every three months. Any subsequent changes to the estimated recoverable amounts and the timing they are expected to be collected, are compared to prior estimates and any differences arising result in a corresponding charge/credit in the income statement. A provision for an impaired loan is reversed only when the credit quality of the customer has improved to such an extent that there is reasonable assurance that all the principal amount and interest according to the original terms of the loan will be collected.

In addition to the estimates on an individual basis, the Bank also makes provision for impairment in the value of loans on a collective basis. To calculate the collective forecast, we take into account loans and advances which were not considered individually for impairment.

(e) Investments

Investments in equity shares and Government and other bonds, have been classified into investments available-for-sale and into investments held-to-maturity respectively. Management determines the appropriate classification of investments at the time of the purchase.

Investments held-to-maturity

Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into consideration the difference between the original amount and the amount payable on maturity, and all fees that are an integral part of the effective interest rate. Amortisation is included in 'Interest income' in the income statement. Losses arising from impairment of such investments are recognised in 'Losses from revaluation, sale and impairment of financial instruments' in the income statement.

10.Financial Instruments (continued)

(e) Investments (continued)

Impairment of investments held-to-maturity

For investments classified as held-to-maturity or loans and receivables, the Bank assesses at each reporting date whether there is objective evidence that they have suffered an impairment loss. If there is objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the book value of the asset and the present value of estimated future cash flows (excluding future credit losses that have occurred). The book value of the asset is reduced and the amount of loss is recognized in the income statement.

If at a later period, the amount of impairment loss decreases and the decrease can be objectively related to an event occurring after the recognition of impairment, the impairment loss previously recognized is reversed, and the amount of the reversal is credited to 'Loss from revaluation, disposal and impairment of financial instruments', in the income statement.

Available for sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments held-to-maturity' or 'Loans and receivables'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in equity in the 'Revaluation reserve of available-for-sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net gains on available for sale investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the consolidated income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the income statement in 'Losses on sale, revaluation and impairment of financial instruments'.

Available for sale investments are measured at fair value, based on market prices for listed securities.

Impairment of available for sale investments

For investments available for sale, the Bank assess at each reporting date whether there is objective evidence that they have suffered an impairment loss.

For shares classified as available for sale, objective evidence includes a significant or prolonged decline in fair value below cost. Where there is objective evidence that an impairment loss exists, the amount of total loss - measured as the difference between the acquisition cost and current fair value less the impairment loss of investment, previously recognized in profit or loss - is removed from the 'investment revaluation reserve' and recognized in the 'Income from available for sale investments' in the income statement. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment, are recognized in the 'investment revaluation reserve' in equity.

For bonds classified as available for sale, the assessment for impairment is based on the same criteria as those applicable to investments held-to maturity carried at amortized cost. If at a later period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the recognition of impairment, the impairment loss previously recognized is reversed in 'Loss from revaluation, sale and impairment of financial instruments' through the income statement.

10.Financial Instruments (continued)

(f) Deposits and loan capital

Deposits and subordinate loan capital are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective yield method.

Loan capital and convertible bonds are classified as financial liabilities when the Bank is obliged to pay its contractual obligations with cash or other assets other than the exchange of a fixed amount of cash to a specific number of treasure shares. Loan capital and convertible bonds are measured at fair value of consideration received, net of issuance costs. Subsequently, they are measured at amortised cost using the effective interest method. The value of embedded derivative financial instruments is included in the amount of the liabilities in the statement of financial position. Interest on deposits, loan capital and convertible bonds is included in 'Interest Income'.

11. Derecognition of financial assets and financial liabilities

(a) Financial assets

A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party and has either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

12.Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a current legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

13. Share capital

The difference between the nominal value and the issue price of the share capital is included within share premium. Issue costs incurred in the process of share capital increase are deducted from equity.

14. Property, equipment, computer software and goodwill on leasehold property

Property held by the Bank for uses in providing services or for administrative purposes are classified as property used in the Bank's operations.

Property used in the Bank's operations is initially stated at cost and thereafter at estimated fair value less accumulated depreciation. Revaluation occurs periodically by independent qualified valuersso that the carrying amount does not materially differ from fair value. The amount of depreciation is calculated on the basis of fair value less estimated residual value on a straight-line basis over the expected useful economic life of the assets. Gains or losses arising from changes in the estimated fair value of the assets are recognised in the 'Revaluation reserve'.

Upon disposal, the relevant amount in the revaluation reserve is transferred to 'Retained earnings reserve'.

Equipment and computer software are stated at historic cost less accumulated depreciation.

Depreciation on furniture and fittings, equipment, computer software and hardware and motor vehicles is calculated on the basis of cost less estimated residual value on a straight-line basis over the expected useful economic lives of the assets, commencing from the month of acquisition.

The annual depreciation rates for the year were as follows:

	%
Buildings	4
Furniture and fittings	10
Office equipment	20
Computer hardware	20-33
Computer software	25
Motor Vehicles	20

Land is not depreciated. Improvement to leasehold property is stated at cost less accumulated depreciation.

Leasehold improvements and goodwill on leasehold property are amortised over a period of 10 years or over the lease period if this period is less than 10 years.

Any profits or losses arising from the disposal of property, plant and equipment are transferred to the Income Statement in the year of disposal.

The carrying values of property, equipment, computer software and goodwill on leasehold property are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If there is such an indication and the carrying value exceeds the recoverable amount, the assets are written down to their recoverable amount through the income statement

15. Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gain or losses arising from changes in the fair values of investment properties are included in the income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The Bank in its normal course of business, acquires properties in debt satisfaction, which are held directly by the Bank or by special purpose entities for the sole purpose of managing these properties. To reflect the substance of transactions, these are classified as investment properties and are consolidated without the entities being explicitly disclosed as subsidiaries.

16. Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Bank are made when: (a) the Bank has a present obligation (legal or constructive) arising from past events, (b) it is probable that the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

17. Taxation

Taxation on income is provided in accordance with the provisions of the Income Tax Law and is recognised as an expense in the period in which the income arises. Deferred tax is calculated using the liability method.

Deferred income tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax assets to be utilised.

Deferred income tax assets and liabilities are measured at the amount expected to be paid to the tax authorities (or recovered from them), using tax rates expected to apply in the period in which the requirement will be realized or the liability will be settled. Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

18. Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows represent cash in hand, short term deposits repayable within three months as well as non-obligatory deposits with the Central Bank of Cyprus.

19. Financial guarantees

The Bank issues financial guarantees to its customers, consisting of letters of credit, other letters of guarantee and revenue guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in ‘Other liabilities’ in the statement of financial position. Subsequently, the Bank’s liabilities under each financial guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortized premium which is periodically recognized in the income statement in ‘Fee and commission income’ in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

1. Corporate information

The financial statements of USB Bank Plc (the 'Bank') for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 29 April 2013.

The Bank's main activity during the year continued to be the provision of banking and financial services in Cyprus.

The Bank was incorporated in Cyprus as a limited liability company with registration number 10 in 1925 under the Cyprus Companies Law and is considered a public company under the Company Law and Cyprus Stock Exchange Laws and Regulations and under the Cyprus Income Tax Law. The registered office of the Bank is at 83, Digenis Akritas Avenue, 1070 Nicosia.

2. Segmental analysis

According to IFRS 8, the analysis per segment is based on the information used for internal reporting to management. The Bank operates in a single segment as it only provides banking services, its activities are provided in Cyprus and information is provided to management on this basis. Therefore, the information provided in the financial statements relates to the overall operations of the Bank.

3. Interest income

	2012 €	2011 €
Loans and advances to customers	**31.245.871**	25.859.424
Placements with banks and with the Central Bank	**965.523**	532.675
Investments	**10.772.597**	9.239.842
	42.983.991	35.631.941

Interest income from loans and advances to customers includes interest on impaired loans and advances of €2.410.156 (2011: €2.376.017).

4. Interest expense

	2012 €	2011 €
Customer deposits	**23.276.751**	17.487.230
Placements by banks	**518.111**	1.005.800
Loan capital	**761.332**	756.824
	24.556.194	19.249.854

5. Income from available for sale investments

	2012 €	2011 €
Dividends from investments available for sale	**-**	11.690

6. Staff costs

	2012 €	2011 €
Staff salaries and other remuneration	**9.555.689**	8.299.054
Social insurance and other contributions	**1.116.150**	988.563
Retirement benefit costs	**2.141.589**	1.693.986
	12.813.428	10.981.603

The number of persons employed by the Bank as at 31 December 2012 was 233 (2011: 215).

6. Staff costs (continued)

Retirement benefits – Defined benefit scheme

Under the new collective agreement between the Cyprus Bankers Employers' Association and the Cyprus Union of Bank Employees in Cyprus ("ETYK"), signed on 12 January 2012 and effective from 1 January 2012, the staff defined benefit retirement plan which applied to all employees whose retirement benefits were governed by the provisions of the collective agreements, was terminated as of 31 December 2011 and all affected employees participate into a defined contribution scheme, the "Provident Fund of the Employees of USB Bank Plc", which is funded separately and prepares separate financial statements, from which employees are entitled to certain benefits upon retirement or early termination of service. The Bank paid into the Fund, for each eligible member of staff, the accumulated rights to their retirement gratuity as at 31 December 2011. During the year an amount of €927 thousand was charged to the income statement and relates to the defined benefit plan. Based on the above changes the employer will pay a monthly contribution to the provident fund amounting to 14% of the employee salary and each employee an amount of 3%-10% of their salary.

Contracts with employees

For contracts involving probationary hiring of personnel which are governed by the agreement with the Cyprus Union of Bank Employees ("ETYK"), the bank has the right to terminate the services of the employee at any time during his probationary service, without any notice. If for any reason an employee wishes to terminate his employment with the Bank, one months' notice must be given. The employment contracts of staff members whose employment terms are not governed by the agreement with ETYK include a provision for a notice period in case of non-justified pre-mature termination of contract.

7. Impairment of Greek Government Bonds

The Bank following the finalization of the terms and the final exchange of existing Greek Government Bonds on 12 March 2012 has recognised an additional impairment loss amounting to €504 thousand on the new bonds received, which represents the difference between the fair value and the present value of the consideration to be received using a discount rate of 12% on the future cash flows. The new Greek government bonds were initially recognized at their fair value of €849 thousand. The Bank disposed its entire investment in new Greek government bonds during December 2012 with a profit of €701 thousand and as a result as at 31 December 2012 the Bank did not hold any investments issued by the Greek government.

8. Loss before tax

Loss before tax is stated after charging/(crediting) the following items:

	2012 €	2011 €
Directors' emoluments (Note 32)	**458.521**	474.986
Gain on sale and write-off of fixed assets	**(1.600)**	(4.900)
Operating lease rentals for buildings	**704.331**	686.754
Independent auditors' remuneration for audit and other professional services provided to the Bank:		
- Statutory audit of the financial statements of the Bank	**56.050**	54.625
- Other assurance services	**20.060**	5.175
- Tax advice	**3.540**	3.450
- Other non-audit services	**50.129**	59.600

The above amounts are included in the category "Other operating expenses", except for Directors' emoluments, which is presented in the category "Staff costs".

9. Tax

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2012 €	2011 €
Loss before tax	**(408.555)**	(8.526.874)
Corporation tax based on the applicable rates	**(40.856)**	(852.687)
Tax effect of:		
- Not deductible expenses	**386.429**	1.312.795
- Income not subject to tax	**(403.823)**	(67.437)
- Tax losses utilised	**(5.919)**	21.922
- Tax losses for the year	**64.169**	(414.593)
Tax per the income statement	**-**	-

Corporation tax is calculated at the rate of 10% on taxable income (2011: 10%). As per the terms of the Memorandum agreed between Cyprus and the Eurogroup the Income Tax Law has been amended via legislation enacted on 18 April 2013 such that the corporation tax rate is increased from 10% to 12,5% retrospectively from 1 January 2013. Furthermore, the Special Contribution for Defence Law has been also amended such that the special contribution for defence on interest income is increased from 15% to 30%.

On 21 December 2012, the House of Representatives enacted amendments to the Income Tax law, according to which the loss of any tax year shall not be carried forward and shall not be offset against any income of any tax year further than five years from the end of the tax year in which the loss arose. As a result, brought forward tax losses amounting to €14,2 million cannot be carried forward for future use. The Board of Directors estimates that on 31 December 2012 the Bank's tax losses to be carried forward amounted to €6,1 million (2011: €17,9 million) in connection with which the Bank recognized a deferred tax asset in the statement of financial position corresponding to the future utilisation of €4,5 million (2011: €4,4 million) of tax losses.

9. Tax (continued)

	2012	2011
	€	€
Balance at 1 January	**162.084**	162.084
Reversal of charge to the Income Statement	**(72.395)**	-
Reversal of charge to the Statement of Comprehensive Income	**(18.164)**	-
Balance at 31 December	**71.525**	162.084

The balance of net deferred tax liability (Note 21) represents:

	2012	2011
	€	€
Difference between tax allowances and accounting depreciation	**94.727**	76.175
Revaluation of property	**272.307**	376.199
Collective provisions	**156.671**	155.971
Tax losses utilised	**(452.180)**	(446.261)
	71.525	162.084

Special Levy and Restructuring of Credit and Other Institutions Laws

According to the "Special Levy on Credit Institutions Law of 2011" which was enacted on 14 April 2011 a special tax on credit institutions was imposed for the years 2011 and 2012 at a rate of 0,095% on customer deposits of every credit institution as at 31 December of the previous year. Amendments enacted on 21 December 2012, and for the purpose of applying the terms of the Memorandum between the Republic of Cyprus and its lenders, the effective dates of the law were indefinitely extended, the special levy was increased to a rate of 0,11% and the 20% limit to the special levy on the taxable income as established by the Director of the Department of Inland Revenue for each institution was abolished as of the date of first application of the law.

The total proceeds from the Special Levy shall be deposited in a special account with the Central Bank at a rate of 25/60. Furthermore and under the terms of the Memorandum on 18 April 2013 the special levy tax was amended and the rate was increased from 0,11% to 0,15% with retrospective effect from 1 January 2013.

On 22 March 2013 the "Establishment and Operation of the Deposit Protection and Restructuring of Credit and Other Institutions Act of 2013" was enacted, according to which the Deposit Protection Fund and the Restructuring of Credit and Other institutions Fund were created with the purpose of paying through the Deposit Protection Fund compensation to depositors of covered institutions and the funding through the Restructuring of Credit and Other institutions fund of the restructuring as per the provisions of the Restructuring of Credit and Other Institutions Law. The accumulated balance in the special account maintained in the Central Bank of Cyprus under the Special Levy on Credit Institutions Law of 2011 shall be transferred to the Restructuring of Credit and Other institutions Fund. The current law revokes the "Establishment and Operation of Independent Financial Stability Law of 2011".

The effect on the Bank's results relating to the Special Levy on Credit Institutions in Cyprus for the year ended 31 December 2012 amounted to a charge of €488.332 (2011: €434.391).

10. Loss per share

	2012 €	2011 €
Loss attributable to shareholders	**(824.492)**	(8.961.265)
Weighted average number of shares in issue during the year	**66.792.893**	55.521.022
Loss per share (cent)	**(1,2)**	(16,1)

At 31 December 2012, there were titles convertible to ordinary shares that are not considered dilutive and consequently diluted losses per share are not presented.

11.Cash and balances with the Central Bank

	2012 €	2011 €
Cash	**5.217.239**	5.044.744
Balances with the Central Bank of Cyprus	**116.719.035**	11.758.332
	121.936.274	16.803.076

Deposits with the Central Bank of Cyprus include obligatory deposits for liquidity purposes which amount to €6.312.730 (2011: €9.890.650). Moreover, balances with the Central Bank of Cyprus included an interbank placement of €42.000.000, which is pledged to secure funding from the European Central Bank.

The analysis of credit ratings for deposits with the Central Bank of Cyprus by independent rating agencies is presented in Note 30.

12. Placements with banks

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 30. Placements with banks earn interest which is based on the interbank rate of the relevant term and currency.

13. Loans and advances to customers

	2012 €	2011 €
Loans and other advances	**489.266.967**	449.421.026
Provision for impairment of loans and advances	**(57.099.638)**	(64.314.013)
	432.167.329	385.107.013

Provision for impairment of loans and advances:

	2012 €	2011 €
1 January	**64.314.013**	55.713.917
Collections/reversals	**(3.059.206)**	(4.435.524)
Charge for the year	**6.723.179**	7.323.451
Net charge for the year	**3.663.973**	2.887.927
Restriction of interest on impaired loans	**9.084.077**	6.040.322
Write offs	**(19.962.425)**	(328.153)
	(7.214.375)	8.600.096
31 December	**57.099.638**	64.314.013

13. Loans and advances to customers (continued)

Total provisions for impairment as at 31 December 2012 include collective impairment provision of €1.566.708 (2011: €1.559.707).

The total amount of impaired loans and advances amounts to €91.983.853 (2011: €94.440.979).

Based on the decision of the Board of Directors of the Bank, loan balances amounting to €16.667.289 which were fully impaired, and for which all legal measures have been exhausted were fully written off. The respective amount of provision was also written off.

The fair value of loans and advances is approximately equal to the amount shown on the statement of financial position, after the deduction of provisions for loan impairment.

Additional analyses and information regarding credit risk are presented in Note 30 of the financial statements.

14. Investments held-to-maturity

	2012	2011
	€	€
Government and other bonds:		
Cyprus Government	**103.723.235**	185.043.469
Greek Government (Note 7)	**-**	3.568.639
Foreign banks	**38.785.472**	64.303.156
	142.508.707	252.915.264

	2012	2011
	€	€
Listed in:		
Cyprus stock exchange	**15.199.650**	69.326.408
European stock exchanges	**125.027.999**	183.588.856
Other stock exchanges	**2.281.058**	-
	142.508.707	252.915.264

The movement of investments held-to-maturity for the year analysed as follows:

	2012	2011
	€	€
1 January	**252.915.264**	157.922.918
Purchase of bonds	**100.124.080**	157.221.722
Sale/maturity of bonds	**(215.548.914)**	(58.706.603)
Impairment charge (Note 7)	**(503.570)**	(9.455.741)
Effect of changes in exchange rates	**19.840**	(24.906)
Amortisation	**5.502.007**	5.957.874
31 December	**142.508.707**	252.915.264

The fair value of held-to-maturity investments as at 31 December 2012 was €116.342.727 (2011: €221.616.972).

15.Investments available for sale

	2012	2011
	€	€
Shares listed on the Cyprus Stock Exchange	**175.350**	248.180
Bonds of Cyprus public companies	**564.347**	4.055.265
Bonds of foreign banks	**-**	3.571.566
	739.697	7.875.011

Determination of fair value and analysis of investments measured at fair value based on hierarchy level:

	Level 1	**Total**
	€	**€**
31 December 2012		
Shares listed on the Cyprus Stock Exchange	**175.350**	**175.350**
Bonds of Cyprus public companies	**564.347**	**564.347**
	739.697	**739.697**

	Level 1	Total
	€	€
31 December 2011		
Shares listed on the Cyprus Stock Exchange	248.180	248.180
Bonds of Cyprus public companies	4.055.265	4.055.265
Bonds of foreign banks	3.571.566	3.571.566
	7.875.011	7.875.011

The category Level 1 includes investments that are valued using quoted prices in active markets.

The movement in the available for sale investments during the year is analysed as follows:

	2012	2011
	€	€
1 January	**7.875.011**	8.896.933
Purchase of bonds	**-**	271.426
Sale/maturity of bonds	**(6.404.275)**	-
Change in fair value	**(676.000)**	(1.388.730)
Impairment charge	**(229.447)**	-
Amortisation	**174.408**	95.382
31 December	**739.697**	7.875.011

On 31 December 2012, the Bank recognized a loss of €289.853 (2011: €469.863) in the Income Statement, relating to the impairment of investments available for sale, including an amount of €60.405 (2011: €469.863) which relates to the transfer of revaluation of investments available for sale through other comprehensive income.

16. Investment properties

Investment properties consist of properties acquired in settlement of customer debts and are presented at the reporting date at their estimated fair value.

	2012 €	2011 €
1 January	**9.030.000**	5.700.000
Additions for the year	**18.201.000**	3.239.806
Change in fair value	**(355.000)**	90.194
31 December	**26.876.000**	9.030.000

The Bank as part of its normal operations, acquires property from customers in settlement of their obligations, which are held directly or through companies controlled by the Bank whose sole business activity is the management of these properties. The properties are recognized in the financial statements of the Bank as investment property and are included without presenting the subsidiary companies separately, reflecting the substance of these transactions.

The companies which are included in the individual accounts of the Bank as at 31 December 2012 are as follows:

Name	**Country of incorporation**	**Participation**	
		2012	2011
Imagetech Limited	Cyprus	100%	100%
Averrhoa Limited	Cyprus	100%	100%
Rowington Ventures Limited	Cyprus	100%	100%
Lardonia Limited	Cyprus	100%	-
Sabatia Limited	Cyprus	100%	-
Serenoa Limited	Cyprus	100%	-
Shortia Limited	Cyprus	100%	-
Delaway Limited	Cyprus	100%	-
Cotidie Ventures Limited	Cyprus	100%	-
Olcinia Holdings Limited	Cyprus	100%	-
Crantenia Ventures Limited	Cyprus	100%	-
Osperus Holdings Limited	Cyprus	100%	-
Kantadia Ventures Limited	Cyprus	100%	-
Dusanic Holdings Limited	Cyprus	100%	-
Macerio Limited	Cyprus	100%	-
Perekin Holdings Limited	Cyprus	100%	-
Azulito Ventures Limited	Cyprus	100%	-
Perequito Holdings Limited	Cyprus	100%	-
Bequelia Ventures Limited	Cyprus	100%	-

17. Property and equipment

Year 2012	Property €	Equipment €	Total €
Cost or estimated fair value			
1 January	7.845.080	5.550.632	**13.395.712**
Additions	167.919	350.324	**518.243**
Disposals/write-offs	(61.228)	(22.264)	**(83.492)**
Revaluation	(165.096)	-	**(165.096)**
Reversal of depreciation due to revaluation	(230.904)	-	**(230.904)**
31 December	7.555.771	5.878.692	**13.434.463**
Depreciation			
1 January	2.502.406	4.767.166	**7.269.572**
Charge for the year	334.634	283.862	**618.496**
Disposals/write-offs	(61.228)	(22.264)	**(83.492)**
Reversal of depreciation due to revaluation	(230.904)	-	**(230.904)**
31 December	2.544.908	5.028.764	**7.573.672**
Net Book Value	5.010.863	849.928	**5.860.791**

Year 2011	Property €	Equipment €	Total €
Cost or estimated fair value			
1 January	7.526.347	5.446.163	**12.972.510**
Additions	318.733	252.595	**571.328**
Disposals/write-offs	-	(148.126)	**(148.126)**
31 December	**7.845.080**	**5.550.632**	**13.395.712**
Depreciation			
1 January	2.162.914	4.653.981	**6.816.895**
Charge for the year	339.492	261.311	**600.803**
Disposals/write-offs	-	(148.126)	**(148.126)**
31 December	2.502.406	4.767.166	**7.296.572**
Net Book Value	5.342.674	783.466	**6.126.140**

Properties are presented at fair value based on valuation carried out in December 2012 by independent qualified surveyors. The net book value of own properties at 31 December 2012 based on cost less accumulated depreciation is €2.107.525 (2011: €2.200.481). Land is not depreciated and its book value at 31 December 2012 and 31 December 2011 was €1.433.695.

Notes to the Financial Statements
for the year ended 31 December 2012

18. Intangible assets

Year 2012	Computer software €
Cost	
1 January	5.535.740
Additions	422.109
Disposals/write-offs	(849.787)
31 December	**5.108.062**
Amortisation	
1 January	5.238.621
Charge for the year	160.617
Disposals	(849.787)
31 December	**4.549.451**
Net Book Value	**558.611**

Year 2011	Computer software €
Cost	
1 January	5.245.890
Additions	289.850
Disposals/write-offs	-
31 December	**5.535.740**
Amortisation	
1 January	5.108.094
Charge for the year	130.527
Disposals	-
31 December	**5.238.621**
Net Book Value	**297.119**

19. Other assets

	2012	2011
	€	€
Sundry debtors and other assets	**1.080.508**	760.885
Collateral amount with Visa International	**908.283**	925.936
	1.988.791	1.686.821

The collateral amount with Visa International represents a blocked deposit account of the Bank in US dollars which is placed as security for the purposes of its cooperation with the organisation.

20.Placements by banks, financing from the Central Bank and customer deposits

Placements by banks and financing from the Central Bank:
Placements by banks and financing from Central Bank as at 31 December 2012 was €42.306.250 (2011: €136.602.389) and relate exclusively to funding from the European Central Bank (2011: €112,5 million). This funding is fully secured through the pledge of an interbank placement with the European Central Bank (Note 11). The Bank has secured this funding through credit operations of the monetary policy in the euro zone.

	2012	2011
	€	€
Customer deposits:		
Demand deposits	**143.224.834**	88.468.110
Notice deposits	**81.801.331**	51.641.480
Term deposits	**432.095.076**	382.181.479
	657.121.241	522.291.069

The book value of deposits repayable on demand represents their fair value. The fair value of deposits with variable interest rate is equivalent to their book value. The fair value of notice/term deposits is determined using the present value of future cash flows, using interest rates of new deposits with the same remaining maturity.

The fair value of these deposits does not differ significantly from their book value as the majority mature within one year from the reporting date (Note 30).

21.Other liabilities

	2012	2011
	€	€
Sundry creditors	**478.030**	739.805
Financial guarantees	**66.331**	100.821
Net deferred tax liability (Note 9)	**71.525**	162.084
Net liability for staff retirement plan (Note 6)	**-**	6.081.630
Bills payable	**1.406.579**	491.118
Deemed dividend distribution (Note 24)	**-**	1.195
Other liabilities	**1.338.350**	966.236
Accrued expenses	**427.980**	580.850
Special defence contribution	**649.842**	463.910
	4.438.637	9.587.649

22. Loan capital

	2012	2011
	€	€
Tier I capital		
Capital securities	**973.903**	973.903
Tier II capital		
Non-convertible bonds	**8.000.000**	8.000.000
Convertible bonds	**1.209.060**	1.209.060
	9.209.060	9.209.060
	10.182.963	10.182.963

Capital Securities

The Capital Securities were issued on 30 December 2005 and were offered to professional investors and to a specific number of non-professional investors in Cyprus. The Capital Securities rank as Tier 1 capital and have no maturity date, however, they may be redeemed in whole at the option of the Bank subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter, and provided that they will be replaced with capital of equivalent or senior ranking unless the Central Bank of Cyprus concludes that the Bank's capital is at a satisfactory level.

The Capital Securities bear floating interest rate, which is revised at the beginning of each period interest is charged and will be valid for that specific period. Interest rate is equal to the base rate of the Bank at the beginning of each period interest is charged plus 1,60% annually. Interest is payable every six (6) months, on 30 June and 31 December. According to the terms of issue, if the Bank does not proceed with the repurchase of Capital Securities within ten years from their issuance date (ie up to 31 December 2015), then from 1 January 2016, the Capital Securities will bear floating interest rate that will be revised at the beginning of each period in which interest will be charged and will be equal to the base rate ruling at the beginning of each period interest is charged plus 2,25% annually.

22. Loan capital (continued)

Non-convertible bonds

On 30 December 2009 the Bank issued bonds amounting to €8.000.000 with a maturity date of 31 December 2019. The bonds constitute direct, unsecured, subordinated securities of the Bank and bear a fixed interest rate of 7,50% on the nominal value for the period from the issue date to 31 December 2014. From 31 December 2014 to their maturity, the bonds will bear a fixed annual interest rate of 9% on the nominal value. Excluding the first interest rate period commencing on (and including) the 22 of December 2009 and maturing on 30 June 2010 (not included), all subsequent interest periods will cover six months.

The Bank has the right to redeem wholly the bonds at any time before their maturity date, in cash at their nominal value, along with any accrued interest relating to the current interest rate period, on 30 June 2015, or on any following interest payment date, upon approval from the Central Bank.

Convertible bonds

On 14 June 2010, the Bank issued €1.209.060 convertible bonds maturing on 30 June 2020. The convertible debentures are direct, unsecured and subordinated obligations of the Bank and carry a fixed rate of 7,25% on the nominal value for the period from the date of issue until 30 June 2015. From 1 July 2015 until their maturity the convertible bonds will carry fixed interest rate 8,75% on the nominal value. Except the first interest period commencing on (included) 26 May 2010 and matures on 30 June 2010 (not included), each interest period will be 6 months.

The convertible bonds may, at the option of the holder, be converted into ordinary shares of the Bank in the year 2013 until 2014 as follows:

• 15-30 March and 15-30 September for 2013
• 15-30 March and 15-30 September for 2014

The conversion price is set at the average closing price of the share of the Bank on the CSE for a period of 30 days prior to the beginning of each conversion period. For the conversion periods of the years 2013 and 2014, the conversion prices is as described above, less 5% and 15% respectively.

The Bank has a right of early redemption of convertible bonds in whole, but not part of a cash at par plus accrued interest of the current interest period on 30 June 2015 or any interest payment date, after approval from the Central Bank.

23. Share capital and share premium reserve

	2012 Number of shares	**2012 €**	2011 Number of shares	2011 €
Authorised				
Ordinary shares of €0,57 each	**150.000.000**	**85.500.000**	150.000.000	85.500.000
Issued and fully paid				
1 January	**60.674.171**	**34.584.277**	45.505.628	25.938.208
Share issue	**38.596.492**	**22.000.001**	15.168.543	8.646.069
31 December	**99.270.663**	**56.584.278**	60.674.171	34.584.277

During the year, the issued share capital of the Bank increased by €22.000.001 through a capital increase from the parent company BLC Bank SAL. More specifically, during 2012 there were two increases of the Bank's share capital. Initially, at an Extraordinary General Meeting held on 25 May 2012, the Bank proceeded with the issue to BLC Bank SAL of 29.824.562 new shares of nominal value of €0,57 each at the price of €0,57 each, and at an Extraordinary General Meeting held on 29 November 2012, the Bank proceeded to a further issue to BLC Bank SAL of 8.771.930 new shares of nominal value of €0,57 each at the price of €0,57 each.

As a result, the share capital of the Bank at 31 December 2012 amounted to €56.584.278 divided into 99.270.663 shares of nominal value of €0,57 each, while the share premium reserve remained at same levels of prior year and amounts to €24.666.732 at 31 December 2012.

24. Revaluation reserves and retained earnings

Revaluation Reserves	**Investments revaluation reserve €**	**Property revaluation reserve €**	**Total €**
Year 2012			
1 January	**(1.065.961)**	**3.477.189**	**2.411.228**
Revaluation of available for sale investments	**(676.000)**	**-**	**(676.000)**
Revaluation of property	**-**	**(165.096)**	**(165.096)**
Deferred tax	**-**	**18.164**	**18.164**
Transfer to statement of comprehensive income due to disposal	**249.705**	**-**	**249.705**
Transfer to the statement of comprehensive income due to impairment	**60.405**	**-**	**60.405**
31 December	**(1.431.851)**	**3.330.257**	**1.898.406**

24. Revaluation reserves and retained earnings (continued)

Revaluation Reserves	Investments revaluation reserve €	Property revaluation reserve €	Total €
Year 2011			
1 January	(147.094)	3.477.189	3.330.095
Revaluation of available for sale investments	(1.388.730)	-	(1.388.730)
Transfer to the statement of comprehensive income due to impairment	469.863	-	469.863
31 December	**(1.065.961)**	**3.477.189**	**2.411.228**

Retained earnings
The only reserves available for distribution as dividend are retained earnings. In 2012 and 2011 no dividends were paid nor declared to be paid since the Bank had accumulated losses.

Companies which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% (15% until 30 August 2011) will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders. The Bank for the year 2010 incurred losses and as a result the amount payable for special defence in year 2012 is €Nil (Note 21), while in 2011 special defence contribution for deemed dividend distribution amounting €1.195 was paid for the profits of 2009.

25. Contingent liabilities and commitments

	2012	2011
	€	€
Contingent liabilities		
Acceptances and endorsements	**211.590**	36.030
Guarantees	**20.307.773**	21.867.305
	20.519.363	21.903.335
Commitments		
Documentary credits and certified export credits	**1.621.481**	1.483.825
Unutilised limits	**35.976.537**	40.233.887
	37.598.018	41.717.712

Unutilised limits are commitments for the provision of facilities to customers. The limits are provided for a fixed period and are cancellable by the Bank after specific notice to the client.

Capital commitments
There were no commitments for contracted capital expenditure of the Bank as at 31 December 2012 and 2011.

Litigation
As at 31 December 2012, in the ordinary course of business, the Bank is involved in lawsuits, which the management of the Bank does not expect to have a significant effect on the financial position and operations of the Bank. At the same time, there are no pending claims or/and assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

26. Analysis of assets and liabilities by expected maturity

	2012			2011		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and deposits with the Central Bank	**69.578.468**	**52.357.806**	**121.936.274**	7.969.332	8.833.744	16.803.076
Placements with banks	**28.370.592**	**-**	**28.370.592**	25.118.640	-	25.118.640
Loans and advances to customers	**56.862.483**	**375.304.846**	**432.167.329**	55.044.978	330.062.035	385.107.013
Investments held -to-maturity	**39.611.002**	**102.897.705**	**142.508.707**	132.996.332	119.918.932	252.915.264
Investments available for sale	**739.697**	**-**	**739.697**	7.875.011	-	7.875.011
Investment properties	**-**	**26.876.000**	**26.876.000**	-	9.030.000	9.030.000
Property, equipment and intangible assets	**-**	**6.419.402**	**6.419.402**	93.526	6.329.733	6.423.259
Other assets	**1.080.507**	**908.284**	**1.988.791**	760.885	925.936	1.686.821
	196.242.749	**564.764.043**	**761.006.792**	229.858.704	475.100.380	704.959.084
Liabilities						
Deposits by banks	**-**	**42.306.250**	**42.306.250**	136.602.389	-	136.602.389
Customer deposits	**139.230.953**	**517.890.288**	**657.121.241**	80.603.865	441.687.204	522.291.069
Other liabilities	**4.438.637**	**-**	**4.438.637**	3.506.020	6.081.629	9.587.649
Loan capital	**-**	**10.182.963**	**10.182.963**	-	10.182.963	10.182.963
	143.669.590	**570.379.501**	**714.049.091**	220.712.274	457.951.796	678.664.070

The main assumptions used in determining the expected maturity of assets and liabilities are set out below:

- Loans and advances to customers are classified based on their expected repayment schedule and their expected collectability.
- Deposits from Banks include funding from the European Central Bank.
- Customer deposits and other accounts are classified based on historical behavioural data.
- Investments available for sale are classified with maturity date within one year.
- Other assets and liabilities are classified based on their contractual maturity date.

27. Operating leases

Commitments under non-cancellable operating leases are as follows:

	2012	2011
	€	€
Within one year	**618.492**	340.569
Between two and five years	**735.441**	631.272
Over five years	**34.027**	-
	1.387.960	971.841

The Bank's commitments for leases of buildings depend on the provisions of the relevant operating lease agreements. These agreements contain provisions for future adjustments on the lease payments, and allow the renewal of the agreements upon expiry by the Bank.

28. Net cash flow (used in)/from operating activities

	2012	2011
	€	€
Loss before tax	**(408.555)**	(8.526.874)
Adjustments:		
Provision for impairment of loans and advances	**3.663.973**	2.887.927
Charge for impairment of the value of financial assets	**793.423**	9.925.604
Depreciation of property and equipment and amortisation of intangible assets	**779.113**	731.330
Profit on disposal of property and equipment	**(1.600)**	(4.900)
Loss/(profit) on revaluation of investment property	**355.000**	(90.194)
Dividend income from available for sale investments	**-**	(11.690)
Interest on government and other bonds	**(10.772.597)**	(9.239.842)
Interest on loan capital	**761.332**	756.824
	(4.829.911)	(3.571.815)
(Increase)/decrease in operating assets:		
Obligatory deposits with the Central Bank	**3.577.920**	(879.186)
Investments in bonds	**(5.696.255)**	(6.028.350)
Loans and advances to customers	**(68.925.289)**	(64.213.593)
Other assets	**(301.970)**	49.516
	(71.345.594)	(71.071.613)
Increase/(decrease) in operating liabilities:		
Deposits by banks	**(94.296.139)**	106.391.668
Customer deposits	**134.830.172**	51.720.241
Other liabilities and other accounts	**(5.058.454)**	2.636.905
	35.475.579	160.748.814
Special levy paid	**(488.332)**	(434.391)
	34.987.247	160.314.423
Net cash flow (used in)/from operating activities	**(41.188.258)**	85.670.995

29. Cash and cash equivalents

	2012	2011
	€	€
Cash and balances with the Central Bank (Note 11)	**121.936.274**	16.803.076
Placements with banks (Note 12)	**28.370.592**	25.118.640
	150.306.866	41.921.716
Less obligatory deposits with the Central Bank (Note 11)	**(6.312.730)**	(9.890.650)
	143.994.136	32.031.066

30. Risk management

In the ordinary course of the business, the Bank is exposed to various risks, which are managed and monitored through a continuous process of identification, measurement, and monitoring to prevent undue risk concentrations. The Bank's management considers risk management to be a major process and a major factor in ensuring sustainable return to its shareholders. Each manager is responsible for the risks arising from their daily duties. A description of the nature of those risks and the way they are managed is provided below:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The risk is created primarily from loans, trading and treasury management.

The Credit Risk Management Department has the responsibility to evaluate and assess the credit risk of the Bank and the responsibility to manage and control credit risk through various mechanisms on the basis of the strategic goals as determined by the Board of Directors. It recommends establishing and developing credit policies and procedures, limits and principles of financing and adjusts when appropriate, in consultation with the General Management, the loan limits for the various Approval Authorities.

The Credit Risk Management Department evaluates the granting of credit facilities to customers of the Bank under the credit policy and procedures, limits and principles of financing.

The approval process of credit facilities aims in minimizing credit risk by evaluating the creditworthiness of the counterparty, the collateral offered and the type of credit facility. Credit risks from related accounts are consolidated and monitored on a uniform basis.

The Bank's portfolio is continuously monitored in order to avoid undertaking high risks when granting credit facilities and in their subsequent duration. When granting loans and advances to customers, the Bank uses an internal evaluation and grading system on the clients' historical payment records and their overall relationship with the Bank. In the case of governments and financial institutions, the evaluation is made based on the ratings of international credit rating agencies. The Banks' policy regarding the identification of impaired loans and advances and the methodology employed to determining the impairment provisions is set out in the Summary of Significant Accounting Policies.

The Bank prepares all statements relating to the control of credit risk at fixed intervals, and sends them to the Board of Directors and the Department of Regulatory Banking Supervision of the Central Bank of Cyprus (CBC). On individual cases where there is a breach of the supervisory rates, the Bank takes all appropriate measures to reduce them within the directives of the CBC.

The principles of the Bank's collateral policy are based on the instructions of the CBC and include the definition of the realizable value of each collateral type, the type of collaterals accepted and that reassessments should be performed at regular intervals by external certified surveyors/associates of the Bank. The concentrations of each type of facility are monitored on a constant basis, taking all appropriate measures.

30. Risk management (continued)

Credit risk (continued)

The Bank uses Internal Rating Systems so as the customer's rating is representative of the credit risk involved. The evaluation process is supported by periodic audits by the Internal Audit Department.

The Credit Risk Department also publishes guidelines and policies aimed at improving credit risk management in various departments of the Bank and also assesses the new banking products and new banking activities of the Bank.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held as well as other credit enhancements.

	2012	2011
	€	€
Balances with the Central Bank (Note 11)	**116.719.035**	11.758.332
Placements with banks (Note 12)	**28.370.592**	25.118.640
Loans and advances to customers (Note 13)	**432.167.329**	385.107.013
Investments held-to-maturity (Note 14)	**142.508.707**	252.915.264
Investments available for sale (Note 15)	**564.347**	7.626.831
Other assets (Note 19)	**1.988.791**	1.686.821
Total on-statement of financial position	**722.318.801**	684.212.901
Contingent liabilities (Note 25)	**20.519.363**	21.903.335
Commitments (Note 25)	**37.598.018**	41.717.712
Total on-statement of financial position	**58.117.381**	63.621.047
Total credit exposure	**780.436.182**	747.833.948

Credit risk concentration

There are restrictions on credit risk concentrations which are imposed by the Banking Law and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group after taking into account the effect of credit risk reduction techniques as they are defined in the Directive of the Central Bank of Cyprus regarding the calculation of Capital Requirements and Large Exposures. There is also a directive from the Central Bank of Cyprus in relation to uncovered risk and the total of loans granted to directors and any related parties cannot exceed the total of 2% and 20% respectively of capital base of the bank. The Bank is in total compliance with all restrictions.

The Bank's exposure to credit risk arising from customer groups, who have credit facilities amounting to more than 10% of the Bank's capital base as at 31 December 2012, was €110,2 million (2011: €194,5 million), before any provision and credit risk reduction techniques.

30. Risk management (continued)

Credit risk (continued)

The allocation of loans and advances relating to the clients' sector in the economy is as follows:

	2012	2011
	€	€
Trade and manufacturing	**101.479.491**	74.821.031
Tourism	**41.544.014**	38.807.529
Property and construction	**120.918.656**	109.064.701
Personal and professional	**195.136.094**	187.787.335
Other sectors	**30.188.712**	38.940.430
	489.266.967	449.421.026

Collateral and other credit enhancements

Loans and advances to customers

The main types of collateral obtained by the Bank are mortgages of properties, cash collaterals, bank guarantees, pledges of equity securities, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

Other financial instruments other than loans and advances to customers

Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the instrument. Debt securities, treasury bills and other eligible bills are generally unsecured.

Analysis of loans and advances to customers

	2011	2010
	€	€
Neither past due nor impaired	**331.319.917**	258.477.097
Past due but not impaired	**65.963.197**	96.502.950
Impaired	**91.983.853**	94.440.979
	489.266.967	449.421.026

30. Risk management (continued)
Credit risk (continued)

Neither past due nor impaired loans and advances to customers
The credit quality of loans and advances to customers that were neither past due nor impaired is managed by the Bank using internal credit ratings.

The table below shows the credit quality of loans and advances to customers that were neither past due nor impaired based on this credit rating system.

	2012	2011
	€	€
Grade 1	**233.846.205**	182.579.463
Grade 2 & 3	**96.622.433**	67.770.508
Grade 4	**851.279**	8.127.126
	331.319.917	258.477.097

Grade 1
Loans and advances to customers that do not display negative indications are classified as Grade 1.

Grade 2 & 3
Loans and advances to customers that require monitoring for the prevention of future problems. Repayment ability remains within acceptable levels.

Grade 4
This grade is given to loans that had repayment difficulties in the past and are under close supervision.

Loans and advances to customers which are past due but not impaired:

	2012	2011
	€	€
In arrears:		
Up to 30 days	**18.767.689**	36.790.781
From 31 to 90 days	**13.134.212**	17.697.526
From 91 to 180 days	**2.541.007**	6.021.050
From 181 to 365 days	**3.111.401**	15.092.556
Over one year	**28.408.888**	20.901.037
	65.963.197	96.502.950

The fair value of collateral held by the Bank in respect of loans and advances to customers that are past due but not impaired as at 31 December 2012 amounted to €75,4 million (2010: €110,6 million).

30. Risk management (continued)

Credit risk (continued)

Collateral on impaired loans and advances

The fair value of collateral held by the Bank in relation to individually impaired loans as at 31 December 2012 amounted to €33,9 million (2011: €33,3 million).

Renegotiated loans and other advances to customers

During the year, the Bank proceeded in a number of negotiations with customers concerning the restructuring of their facilities.

Due to the adverse economic conditions prevailing in the Cyprus economy, a number of borrowers were or became apparent that they would be unable to repay their facilities in accordance with the original terms of the agreement with the Bank. The Bank, in collaboration with its customers proceeded to amend the original terms by offering more favourable terms to its borrowers such as the extension of the grace period (with or without payment of interest), deferring the payment of one or more loan instalments, reducing the amount of each instalment while extending the duration of the loan so that customers could facilitate the repayment of their obligations. At the same time, through the restructuring of loans, the Bank managed to improve the quality of collaterals (tangible and intangible) according to the abilities of each customer and as a result to limit its losses.

Despite the various ways in which the Bank proceeded with restructurings, in all cases, these facilities are shown as restructured and remain as such irrespectively of whether following the restructuring, they may not present any problems in the future.

The facilities restructured during the year, are analysed below by the loan industry sector:

	2012	2011
	€	€
Trade and manufacturing	**16.125.184**	5.668.474
Tourism	**16.220.467**	2.445.395
Property and construction	**27.307.199**	26.787.472
Personal and professional	**22.261.877**	18.388.199
Other sectors	**241.151**	-
	82.155.878	53.289.540

30. Risk management (continued)

Credit risk (continued)

Credit ratings from independent rating agencies

Balances with the Central Bank of Cyprus and placements with banks are analysed in accordance with their Moody's rating as follows:

	2012	2011
	€	€
Items in the course of collection	**1.628.795**	3.642.965
Aaa – Aa3	**287.560**	10.864.448
A1 – A3	**14.145.494**	3.927.947
Baa1 – Baa3	**26.979**	11.758.332
B1 – B3	**116.719.035**	-
Caa1 – Caa3	**39.479**	14.443
Unrated	**12.242.285**	6.668.837
	145.089.627	36.876.972

Government and other bonds are analysed in accordance with their Moody's rating as follows:

	2012	2011
	€	€
Aaa – Aa3	**2.424.486**	7.527.308
A1 – A3	**27.058.121**	48.578.980
Baa1 – Baa3	**9.302.865**	200.867.168
B1 – B3	**104.287.582**	-
Ca	**3.568.639**	-
Unrated	**175.350**	248.180
	143.248.404	260.790.275
Issued by:		
Cyprus government	**103.723.235**	185.043.469
Greek Government	**-**	3.568.639
Cyprus public companies	**739.697**	4.303.445
Foreign banks	**38.785.472**	67.874.722
	143.248.404	260.790.275
Classified as:		
Investments held to maturity	**142.508.707**	252.915.264
Investments available for sale	**739.697**	7.875.011
	143.248.404	260.790.275

30. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing interest rates of assets and liabilities.

Interest rate risk is measured, monitored and controlled using interest rate sensitivity gap analysis estimating the difference between assets and liabilities for which interest rates are repriced in each time band, separately for each currency. This difference is multiplied by 1% (the assumed change in interest rates) for the period from the repricing date until twelve months from the date of the analysis, in order to estimate the impact on annual revenues of any changes in interest rates for the next twelve months for each currency.

Sensitivity analysis

The table below indicates the effect on the Bank's net interest income and profit before tax, for one-year period, from reasonably possible changes in the interest rate of the main currencies:

Change in interest rates 2012	**Euro**	**US Dollars**	**Japanese Yen**	**Other currencies**	**Total**
	€	**€**	**€**	**€**	**€**
+0,5% for all currencies	**296.822**	**8.099**	**844**	**504**	**306.269**
-0,25% for US Dollars and -0,5% for all other currencies	**(289.343)**	**(4.049)**	**(844)**	**(504)**	**(294.740)**

Change in interest rates 2011	**Euro**	**US Dollars**	**Japanese Yen**	**Other currencies**	**Total**
	€	**€**	**€**	**€**	**€**
+0,5% for all currencies	429.408	105.017	250	30.160	564.835
-0,25% for US Dollars and -0,5% for all other currencies	(423.792)	(52.509)	(250)	(30.160)	(506.711)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Assets and Liabilities Committee (ALCO) has approved open position limits for each currency and for total foreign exchange position limits. These limits are monitored by the Market Risk Management Unit. The Bank uses foreign exchange swaps for foreign exchange risk hedging, for which it does not apply hedge accounting.

As a result, there are no materially open positions in any currency, and consequently the impact on net profit and equity of reasonably possible changes in exchange rates is not expected to be significant.

30. Risk management (continued)

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to fully meet payment obligations and potential payment obligations as and when they fall due.The Bank's Market Risk Management Unit is responsible for the daily monitoring of the Bank's liquidity in order to ensure compliance with both internal policies, and the limits set by the regulatory authorities.The Unit monitors closely incompatibility indices between assets and liabilities for periods up to one month as well as the index of highly liquid assets for each of the basic currencies.

Analysis of financial liabilities by remaining contractual maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2012	€	€	€	€	€	€
Deposits by banks	-	-	-	42.984.375	-	**42.984.375**
Deposits and other customer accounts	267.363.330	150.543.772	244.432.178	226.549	543.639	**663.109.468**
Other liabilities	2.756.448	-	-	-	-	**2.756.448**
Loan capital	-	-	1.738.011	10.300.545	-	**12.038.556**
	270.119.778	**150.543.772**	**246.170.189**	**53.511.469**	**543.639**	**720.888.847**

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2011	€	€	€	€	€	€
Deposits by banks	87.037.278	-	49.754.458	-	-	**136.791.736**
Deposits and other customer accounts	198.537.843	118.978.682	200.804.614	9.235.387	776.704	**528.333.230**
Other liabilities	1.911.401	-	-	-	-	**1.911.401**
Loan capital	-	-	1.733.142	11.708.202	-	**13.441.344**
	287.486.521	**118.978.682**	**252.292.214**	**20.943.589**	**776.704**	**680.477.711**

The table above presents the Bank's financial liabilities based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date. Repayments for which notice should be given, have been placed in the relevant time bands, as if notice had been given on 31 December. The amounts in this table may not be equal to the amounts in the statement of financial position since the table above presents all cash flows (including interest) on an undiscounted basis.

The calculation of protective liquidity in euro and other currencies for supervisory purposes is submitted to the Central Bank of Cyprus every quarter, while on a weekly basis additional information in relation to liquidity is submitted. These statements are monitored by management. The minimum percentage of liquid assets is 20% of total deposits while the respective percentage for foreign currencies is 70%.

30. Risk management (continued)

Liquidity Risk (continued)

Due to the downgrading of the Cyprus Government Bonds in June 2012 in the category of "junk status" these bonds ceased to be considered acceptable assets for liquidity purposes in Eurosystem transactions as well as in the calculation of prudential liquidity in Euro. With the signing of the Memorandum between the Republic of Cyprus and the Troika, Cyprus Government Bonds will automatically be eligible for Eurosystem transactions and will be included in the calculation of prudential liquidity. Indicatively on 31 December 2012, the liquidity ratio for the euro would have been approximately 31,36% instead of 17,80%.

The liquidity ratio in Euro was as follows:

	2012	2011
	%	%
31 December	**17,80**	25,41
Average for the year	**16,74**	33,28
Maximum ratio for the year	**24,49**	38,56
Minimum ratio for the year	**7,06**	25,41

The liquidity ratio in foreign currencies was as follows:

	2012	2011
	%	%
31 December	**83,02**	84,53
Average for the year	**85,31**	78,43
Maximum ratio for the year	**90,46**	84,53
Minimum ratio for the year	**82,90**	73,43

The liquidity ratio is calculated using data denominated in foreign currencies other than euro.

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The Bank manages operational risk through procedures and controls it implements.Controls include segregation of duties, controllable access, reconciliation of accounts and balances. In addition, the Bank's Internal Audit department performs periodic reviews and evaluates the efficiency of these controls and procedures. Additionally, an insurance coverage exists in order to cover unanticipated operating losses.

Equity securities price risk

The risk of the price of equity shares arises when there is an unfavourable change in the price of investments in equity securities held by the Bank. The Bank is not subject to significant risk from such changes.

Regulatory risk

The Bank's operations are supervised by the Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework, as well as the regulatory framework of Central Bank of Cyprus. Future changes in the legal or regulatory duties as a result of arrangements either by European Union or Central Bank of Cyprus, may impact the Bank's operations.

30. Risk management (continued)

Intensity of competition

The operational environment of the Bank is highly competitive. Competition arises from commercial banks, cooperative credit institutions, and international banking units. Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Bank, may create pressure on the Bank's profitability.

Litigation risk

The Bank may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results .Litigation risk arises from pending or potential legal proceedings against the Bank and in the event that legal issues are not properly dealt with by the Bank, resulting in the cancellation of contracts with customers thus exposing the Bank to legal actions against it.

31. Capital management

The main regulator that sets and monitors capital requirements for the Bank is the Central Bank of Cyprus. The Central Bank of Cyprus adopts in its supervisory role by the recommendations of the Basel Committee and the European Union Directives on banking issues.

In December 2006 the Central Bank of Cyprus issued a Directive to the Banks for the purposes of harmonisation with the European Union Directives in regards to the calculation of the capital requirements and large exposures of banks (Basel II). The Bank has elected to comply with Basel II as from January 2008.

Basel II comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory review process
- Pillar 3 – Market discipline

Pillar 1 – Minimum capital requirements

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Bank has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighed using specific weights, depending on the class the exposures belong to and their credit rating. Also, Basel II suggests two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Bank has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Bank's collateral.

Regarding market risk, the Bank has adopted the Standardized Approach, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models.

The Bank uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a specific percentage on the average sum of gross income on a three year basis.

31. Capital management (continued)

Pillar 2 – Supervisory review process

Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures of the Bank and requires appropriate risk management, reporting and governance policies. The Bank applied the Minimum Capital Approach to determine the additional capital required to cover credit risks which are not sufficiently covered by Pillar 1 requirements, such as Residual Risk, as well as risks not recognised by Pillar 1, such as Credit Concentration Risk, Interest Rate Risk in the Banking Book, Business and Strategy Risk and any external factors affecting the Bank.

Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process (ICAAP), while at the same time maintaining communication with supervisors on a continuous basis. This procedure is monitored and evaluated by the Central Bank of Cyprus

Pillar 3 – Market discipline

Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on the Central Bank Directive, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders.

- **Core Tier 1**, comprising share capital, share premium reserve to share premium, retained earnings minus any proposed dividends and currency translation reserves. Core Tier I capital excludes the carrying value of intangible assets as well as other regulatory adjustments

- **Original own funds**, which include, Core Tier I equity, capital securities and non-cumulative convertible securities funds.

- **Supplementary own funds**, include subordinated debt and revaluation reserves

At 31 December 2012, the Bank fully meets all regulatory capital ratios. Specifically, the Capital Adequacy ratio of the Bank in accordance with Pillar 1 of Basel II on 31 December 2012 amounted to 12,5% (December 2011: 8,6%), the original own funds ratio was 9,7% (December 2011: 5,6%), and the Core Tier 1 ratio amounted to 9,5% (December 2011: 5,3%).

Similarly, based the European Union Directive in regards to the calculation of the capital requirements and large exposures of banks (Basel II) which came into effect from 31 December 2012, the minimum required prudential capital ratios for the Bank taking into account an increment which is calculated based on the percentage of assets of the Bank against the Gross Domestic Product of the Republic, were calculated using the latest information available from the Statistical Service of the Ministry of Finance for real GDP are as follows 11,52% (capital adequacy ratio), 9,52% (original own funds ratio) and 8,02% (Core Tier I ratio).

31. Capital management (continued)

The table below presents the position of the Bank's regulatory capital, in accordance with the principles of Basel II, at 31 December:

	2012	2011
	€000	€000
Regulatory capital		
Core Tier 1	**43.068**	22.521
Original own funds	**44.042**	23.495
Supplementary own funds	**12.539**	12.686
Total own funds	**56.581**	36.181
Risk weighted assets - credit risk	**415.547**	390.751
Risk weighted assets - operational risk	**35.761**	31.688
Risk weighted assets - market risk	**351**	500
Total risk weighted assets	**451.659**	422.939
Core Tier 1 ratio	**9,5%**	5,3%
Original Own Funds ratio	**9,7%**	5,6%
Supplementary own funds ratio	**2,8%**	3,0%
Capital Adequacy ratio	**12,5%**	8,6%

32. Related party transactions

	2012	2011	2012	2011
	Number of Directors of the Bank		€	€
Loans and advances:				
To members of the Board of Directors and related parties:				
Less than 1% of net assets per Director	**15**	15	**478.275**	542.474
	15	15	**478.275**	542.474
To key management personnel and related parties			**1.203.085**	824.095
Total loans and other advances			**1.681.360**	1.366.569
Tangible securities			**2.287.990**	1.958.795
Interest income			**60.030**	23.279
Deposits:				
- members of the Board of Directors and key management personnel			**1.153.973**	872.726
- connected persons of the above			**1.160.847**	1.842.411
			2.314.820	2.715.137
Interest expense			**94.231**	26.403
Loan capital issued to shareholder who owns more than 20% of the share capital			**282.350**	282.350
Interest expense on loan capital			**20.526**	20.470

32. Related party transactions (continued)

In addition, there were contingent liabilities and commitments to the members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €453.469 (2011: €374.231), of which €192.839 (2011: €140.027) relate to Directors and their connected persons.

Connected persons include spouses, minor children and companies in which directors or key management personnel hold directly or indirectly at least 20% of the voting rights in a general meeting.

All transaction with non-executive members of the Board of Directors, the Bank's shareholders and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of credit facilities have been extended to key management personnel and their connected persons on the same terms as those applicable to the rest of the Bank's employees.

Furthermore, on 31 December 2012 there were interbank deposits amounting to €12.242.285 (2011: €6.668.837) to the parent company BLC Bank SAL, as part of the ordinary operations of the Bank while there was no interbank lending from BLC Bank SAL (2011: €25.077.306).

Fees and emoluments of Directors and key management personnel

Directors' emoluments	**2012**	2011
	€	€
Member Fees:		
Non executives	**155.872**	151.280
Executives	**-**	-
Total member fees	**155.872**	151.280
Executive directors' emoluments:		
Salaries and other short-term benefits	**250.897**	244.807
Employer's contributions	**18.268**	19.845
Retirement benefit plan costs	**33.484**	59.054
Total executive directors' emoluments	**302.649**	323.706
Total Board of Directors emoluments	**458.521**	474.986
Key management personnel emoluments:		
Salaries and other short-term benefits	**804.895**	406.841
Employer's contributions	**75.918**	36.162
Retirement benefit plan costs	**97.900**	93.126
Total key management personnel emoluments	**978.713**	536.129
Total emoluments	**1.437.235**	1.011.115

Due to a change in the Bank's organizational structure, the salaries and other short term benefits for key management personnel as stated above, include emoluments for 8 managers of the Bank for year 2012 (2011: 4) and does not refer to any salary increments from prior year.

33. Agreements with a major shareholder

Except for the disclosures in Note 32, at the reporting date and at the approval date of the Financial Statements there were no other agreements between the Bank and its major shareholder who owns more than 20% of share capital.

34. Events after the reporting date

Operating environment of the Bank

The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected. The Cyprus government entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund, in order to obtain financial support.

Cyprus and the Eurogroup (together with the International Monetary Fund) reached an agreement on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion. The programme aims to address the exceptional economic challenges that Cyprus is facing and to restore the viability of the financial sector, with the view of restoring sustainable economic growth and sound public finances over the coming years.

The Eurogroup decision on Cyprus includes plans for the restructuring of the financial sector and safeguards deposits below €100.000 in accordance with EU legislation. In addition, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatizations. The Eurogroup requested the Cypriot authorities and the European Commission, in liaison with the European Central Bank, and the International Monetary Fund to finalize the Memorandum of Understanding in April 2013 which will then be followed by the formal approval of the Board of Directors of the European Stability Mechanism as well as by the ratification by Eurozone member states through national parliamentary (or equivalent) approvals.

On 12 April 2013 the Eurogroup welcomed the agreement that has been reached between Cyprus and the Troika institutions regarding the macroeconomic adjustment programme for Cyprus and stated that the necessary elements were in place to launch the relevant national procedures required for the formal approval of the European Stability Mechanism financial assistance facility agreement.

On 22 March 2013 the House of Representatives voted legislation relating to capital controls affecting transactions executed through banking institutions operating in Cyprus. The extent of the capital controls are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and were enforced on 28 March 2013. The Bank's management is monitoring the developments in relation to these capital controls and is assessing the implications on the Bank's operations.

On 29 March 2013 the Central Bank of Cyprus has issued Decrees relating to Laiki Bank and Bank of Cyprus implementing measures for these two banks under the Resolution of Credit and Other Institutions Law of 2013. The Bank is not directly affected by the above Decrees as it does not have any interbank deposits or investments with the above banks.

The uncertain economic conditions in Cyprus, the unavailability of financing, the impairment loss incurred on bank deposits and the imposition of the above mentioned capital controls together with the current instability of the banking system and the anticipated overall economic recession, could affect the ability of the Bank's customers to repay the amounts due to the Bank, the ability of the Bank to dispose its investment properties and the cash flow forecasts of the Bank's management in relation to the impairment assessment for financial and non-financial assets.

The Bank's management has assessed whether any impairment allowances are deemed necessary for the Bank's financial assets carried at amortized cost by considering the economic situation and outlook at the end of the reporting period. Impairment of loans and advances is determined using the "incurred loss" model required by International Accounting Standard (IAS) 39. This standard requires recognition of impairment losses for receivables that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those future events are.

34. Events after the reporting date (continued)

Operating environment of the Bank (continued)

The Bank's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Bank.

The Bank's management believes that it is taking all the necessary measures to maintain the viability of the Bank and the development of its business in the current business and economic environment. In parallel, the Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the financial resources to continue its business operations in the foreseeable future. Accordingly, the financial statements continue to be prepared on the going concern basis.

Changes in tax rates

As per the terms of the Memorandum agreed between Cyprus and the Eurogroup the Income Tax Law has been amended via legislation enacted on 18 April 2013 such that the corporation tax rate is increased from 10% to 12,5% retrospectively from 1 January 2013. Furthermore, the Special Contribution for Defence Law has been also amended such that the special contribution for defence on interest income is increased from 15% to 30%.

The Bank's Management does not expect that the above change will have a material impact in the Bank's financial statements.

There were no other significant events after the end of the financial year, which have a bearing on the understanding of the financial statements.

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Independent auditor's report

To the Members of USB BANK PLC

Report on the financial statements

We have audited the accompanying financial statements of **USB BANK PLC** (the "Bank") on pages 30 to 79, which comprise the statement of financial position as at 31 December 2012, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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Independent auditor's report (continued)

To the Members of USB BANK PLC

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Emphasis of matter

We draw attention to the disclosures in Note 34 to the financial statements, which describe the existing significant uncertainties of the Cyprus economy and the developments that followed the political agreement reached between the Cyprus government and the Eurogroup on 25 March 2013. In light of the above, there could be adverse economic consequences that may impact the Bank, a matter of uncertainty that cannot be determined and quantified at present. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank.
- The Bank's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Pursuant to the requirements of the Directive DI190/2007/04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of the said Directive, and it forms a special part of the Report of the Board of Directors.

Other matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
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Limassol, 29 April 2013

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