ANNUAL REPORT 2009

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ANNUAL REPORT **2009**

USB BANK PLC

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NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of USB Bank Plc will be held at the Hilton Park in Nicosia, on Thursday 29 July 2010 at 5:00pm.

Agenda

1 Review and approval of the Directors' Report and the Financial Statements for the year ended 31 December 2009.

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

3 Approval of the Remuneration Policy and determination of the remuneration of the members of the Board of Directors

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

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

By order of the Board

Michalis Kleopas

Secretary

Nicosia, 12 April 2010

Notes:

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 deposited at the registered office of the Bank, 83 Digeni Akrita Avenue, 5th floor, 1070 Nicosia, at least 48 hours before the time of the meeting.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The international financial crisis of the last two years and the consequent recession was unprecedented for the international economic environment and more specifically for the financial system.

The consequences resulting from the crisis were apparent in the cyprus economy especially in the second half of 2009.

Despite the unfavourable economic environment, the Bank managed to increase its turnover by 12% and to retain its profitability.

We maintained a high capital adequacy ratio which according to the principles of Basel II this is calculated at 11,73% and increased our capital base with the successful issue of €8 million non-convertible bonds, ensuring the Bank has the resources for growth and expansion of its operations.

The loans to deposit ratio was 79% in relation to 80% of last year, retaining high liquidity, while the quality of the loans portfolio presented an improvement as a consequence of the effective management of credit risk resulting to a decrease of 2% in non-performing loans in relation to the previous year. The provisions for impairment of loans and advances amounted to €1,4 million for the year 2009 in relation to €1,7 million in year 2008.

The net interest income amounted to €11,9 million in relation to €11,2 million in 2008, illustrating an increase of 7% despite the high cost in attracting deposits as a result of the intense competition and the decreased income from investments and interbank placements, mainly because of recoveries of interest and other income which was written off in previous years.

Other income illustrates a small increase of 3% from €3,7 million in 2008 to €3,8 million in 2009.

The total expenses of the Bank presented a 10% increase in relation to 2008 mainly due to the staff cost which illustrates an annual increase of 12% due to the application of the employment terms of the collective labour agreement of the Cyprus Union of Bank Employees.

The profit before tax amounted to €1,8 million in relation to €2,2 million in 2008 while the Banks' profit after tax amounted to €382 thousand for 2009 in relation to €573 thousand in 2008.

The total assets of the Bank increased by €38 million amounting to €524 million in relation to €486 million in the previous year.

The customer deposits as at 31 December 2009 remained at same levels to the year 2008 that is €448 million, while the total loan portfolio showed a marginal decrease of 1,7% in relation to 2008 amounting to €352 million by the end of 2009 in relation to €358 million in 2008.

We expect the year 2010 to be a difficult year as well with an intense feeling of uncertainty. The Bank continuous through an effective risk management to focus primarily on maintaining adequate liquidity, the further enhancement of its capital base as well as increasing its efficiency for further cost control.

I would like to extend special thanks to the Banks' employees who work with dedication for achieving our goals within these difficult conditions.

I would also like to extend my special thanks to the shareholders and clients of the Bank for their trust and support. Our continuous promise is to create additional value for our shareholders and clients through the application of a reliable and balanced policy.

Pavlos Savvides

Chairman

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, the provision of timely information, as well as guaranteeing the Board of Directors' sufficient independence in 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 November 2004 all the necessary measures were taken to comply with the provisions of the Corporate Governance Code of the Cyprus Stock Exchange. Following the issue of the revised Code in January 2007 (the "Code"), the Bank has taken all the necessary actions and fully adopted all of its provisions.

In September 2009 the CSE issued the 3rd edition of the Corporate Governance Code. The Board of Directors proceeded with all necessary actions to ensure compliance with the new requirements.

Part B

The Board of Directors of the Bank confirms that during 2009 has complied with the relative provisions of the Code.

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

Board of Directors

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 Executive Management actions and output as well as its conformity with the policies issued.

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.

At the first Annual General Meeting of the Bank, one third of the appointed Directors, 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 having though the right for re-election.

Areas the Board of Directors is dealing with

- Target setting and strategic policy of the Bank.
- Preparation 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 Managing Director, member of the Board of Directors, Executive Management, the Secretary, the Auditors, or major shareholder of the Bank as well as their related parties that 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.

Board of Directors (continued)

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 Cap.113, the Cyprus Stock Exchange and the Cyprus Securities and Exchange Commission.

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 and its position and duties are separated from the position and duties of Executive Management.

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 (listed and non listed). The members of the Board of Directors notify to the Bank the companies in which they take part and 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.

Meetings of the Board of Directors

The Board of Directors must meet regularly, at least six (6) times in a year. During 2009, the Board of Directors has met eight (8) times.

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

Composition of the Board of Directors

With a Board of Directors decision dated 21/01/2009, the members of the Board of Directors were increased to twelve (12). Specifically, the following new members were appointed and their appointment was validated during the Annual General Meeting on 8/7/2009.

Andreas Theodorides	- Executive member
Despo Polycarpou	- Executive member
Philippos Philis	- Non Executive member
Marios Hannides	- Non Executive member

On 31 December 2009 the Bank's Board of Directors comprised of three (3) Executive members, Messrs Kyriakos Kyriakides, Andreas Theodorides and Despo Polykarpou and of the following nine (9) non executive Directors:

Pavlos Savvides (Chairman)
Michalis Kleopas (Secretary)
Yiannos Mouzouris
Yiannos Christofi
George Stylianou
Garo Keheyan
Kleanthis Demosthenous
Marios Hannides
Philippos Philis

Senior Independent Director

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

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

Board of Directors (continued)

Non executive Directors

The nine non executive Directors, represent 75% of the total members of the Board of Directors, which is line with the provisions of the Code, which states that the non executive Directors should not be less than 1/3 of the Board of Directors.

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").

The Bank has drawn up the "Director's Declaration of Independence", which is submitted to the Bank by the Board of Directors in accordance with its internal policies.

On an annual basis an assessment is submitted to the Board of Directors concerning the non executive and independent members.

On 31/12/2009 the structure of the Board of Directors was the following :

Pavlos Savvides (Chairman)	-	Non Independent
Kyriakos Kyriakides	-	Non Independent
Michalis Kleopas	-	Non Independent
Yiannos Mouzouris	-	Non Independent
Yiannos Christofi	-	Non Independent
George Stylianou	-	Independent
Garo Keheyan	-	Independent
Kleanthis Demosthenous	-	Non Independent
Marios Hannides	-	Independent
Philippos Philis	-	Independent
Andreas Theodorides	-	Non Independent
Despo Polykarpou	-	Non Independent

Based on the above structure, the Bank confirms that it complies with the Provision A.2.3 of the Code, with the participation of the four independent Board members.

The Bank has proceeded with the revision of the criteria concerning Directors independence, based on the new guidelines issued by the Central Bank of Cyprus (No.348/2009) which were put into effect on 16 October 2009, in order to comply with the new requirements.

Specifically, the Bank based on the revised guidelines of the Central Bank of Cyprus and having completed an assessment to all the members of the Board of Directors, has proceeded with the revision of the independence of its member Mr. Garo Keheyan with effect from the 26th of February 2010, who is classified as a non independent Director based on the new independence criteria.

Following the above assessment, from 26/2/2010, three independent non Executive members, Messrs George Stylianou, Philippos Philis and Marios Hannides, participate in the Banks' Board of Directors while the non independent and non Executive members of the Board of Directors are six (6), complying with the provision A.2.3 of the Code which requires majority of the non Executive Board members or at least 2 members to be independent.

Definition and Division of Responsibilities of the Chairman and Managing Director

The Chairman responsibilities are performed by Mr. Pavlos Savvides and the responsibilities of the Managing Director by Mr. Kikis Kyriakides. 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 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] The Directive was issued according to article 41 of the Banking Laws of 1997.

Board of Directors (continued)

Re-election of Directors

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 (1/3) of the appointed Directors, or if their number is not a multiple of three (3), then the number nearest to the one third (rounded up), shall retire from their position having the right of re-election at the Annual General Meeting of the shareholders.

For the year ended 31 December 2009 and according to the Banks' Articles of Association at the next Annual General Meeting of the shareholders, Messrs Pavlos Savvides, Yiannos Mouzouris, Garo Keheyan and Yiannos Christofi will retire but 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.

Member resignations during the year 2009

There was no resignation by member of the Board of Directors during the year 2009.

According to the Banks' Articles of Association at the Annual General Meeting of the shareholders which took place on 8/7/2009, Mr. Michalis Kleopas, Mr. George Stylianou and Mr. Kleanthis Demosthenous retired but offered themselves for re-election.

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 2009 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.

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:

<u>Non Executive Members</u>

Pavlos Savvides (Chairman of the Board of Directors)

Born in 1949. He is a Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales. In 1989 he was appointed Minister of Communication and Works until 1991. From 2002 to 2004, he was president of the Cyprus Stock Exchange. Since 2004, he has been involved in a number of mergers and acquisitions mainly in the banking sector in Cyprus and Greece and he is a member of the Board of Directors in a number of other companies.

Michalis Kleopas (Secretary)

Born in 1949. He holds a Law degree from the University of Athens. He has been a member of the Board of Directors of the Bank since 1994. For many years he has been a member of the Legal Council of the Republic, a member of the Disciplinary Board of the Cyprus Bar Association and a member and officer of the Cyprus Bar Association. For many years he has been a member of Sport Supreme Judicial Committee and appointed as President and member of various Legal, Disciplinary and Investigative Committees of the Cyprus Sport Organization, the Cyprus Football Association, the Cyprus Handball Association and the Technical Committee of Referees. He is a Secretary and member of the Board of Directors of a number of other companies.

Yiannos Christofi

Born in 1969. He graduated from the University of Wisconcin Madison with degrees in Bsc Electrical and Computer Engineering and Mathematics, M.Sc. Electrical and Computer Engineering and M.Sc. Investment and Banking. Later on, he completed his PhD Electrical and Computer Engineering at the same university. He started his career in 1999 in Prudential Securities Inc. in New York. In 2000 he moved to CLR Financial Services Ltd, where he was mainly involved in investment banking. Later on, he worked for 3 years in Tufton Oceanic Finance Group Ltd as Business Development Officer. From 2004, he works in Interorient Navigation Co. Ltd as the Business Development Officer. He is a member of the Board of Directors of a number of other companies.

Board of Directors (continued)

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

Non Executive Members (continued)

Kleanthis Demosthenous

Born in 1964. He has a degree in Business Management and a Law degree by the Aristotle University of Thessaloniki. He started his career in 1992 in the Cyprus Trading Corporation until 1998. Later on he worked as a Lawyer in the Legal office of Kallis & Kallis and from 2001 until today he works as a partner in the Legal office Argyrou & Demosthenous. He is a member of the Board of Directors of a number of other companies.

Yiannos Christofi

Born in 1964. He has a Bsc degree in Economics with specialization in Finance. During his studies he took part in several surveys relating to the Cyprus Stock Exchange. From 1991 to 1995 he worked in several departmentsof retail banking in Bank of Cyprus. From 1995 to 1997 he worked as a Manager/Marketing Officer in the private individuals sector in the Limassol region. From 1997 to 2000 he worked as Manager/General Representative of the four representative offices of Bank of Cyprus in Australia, where he took over the responsibility for the set up of a local bank, Bank of Cyprus Australia Ltd. From 2000 to 2002 he worked in Marketrends Financial Services Ltd as the General Manager for Business Development. Today he is the Executive Director of Liberty Life Insurance Public Co. Ltd. He is a member of the Board of Directors of a number of other companies.

Garo Keyehan

Born in 1953. Graduated from Oxford University with a degree in English Language and Literature. He obtained a post-graduate degree in International Relations from the University of Southern California (USC) and an MBA from the University of Callifornia, Los Angeles (UCLA). In 1981 he returned to Cyprus as an Executive Director of Stella Holdings Ltd, an investment company and also as Chairman of Pharos Consultants Ltd a business and management consulting company. He is the founder and president of the non-profit making organization "Pharos". From 1986 until 2000, he was a member of the Board of Directors of Lombard Natwest Bank Ltd (later on Alpha Bank Ltd). He is the Honouring Ambassador of Brazil in Cyprus. He is a member of the Board of Directors of a number of other companies.

George Stylianou (Senior Independent Director)

Born in 1966. He has a Bsc (Honours) degree in Economics from Ealing College of United Kingdom. He is a member 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

Born in 1961. He has a Dipl.Ing.(MSc)Mechanical Engineering Rwth Aachen, Germany ELP (Executive Leadership) CIIIM. He specialized in the construction sector and to the application of expert software systems for rationalized production, ship management and logistics. From 1989 to 1997 he worked in the family printing company Aristos Philis Printers Ltd. As a Production Manager he developed software systems for review and planning of the production, cost accounting and set up of a data warehouse, covering all the products and services of the Company. 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 Kuveit, in Bahrain, 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.

Marios Hannides

Born in 1975. He studied Law in the University of Hull in England followed by post graduate studies in European Intercultural Management in Brussels. He worked in the European Union Press and Information Office in Brussels. He worked as a consultant in the European Press and Information Organization in Brussels participating in missions and representing the Organization in several European countries. Today he is the General Manager of the Cyprus Heart Foundation with intense interest in research, prevention and information for the heart diseases in Cyprus and overseas. He represents the Cyprus Heart Foundation as a permanent member in the European Heart Disease Organization, which is situated in Brussels, but also to the World Heart Organization in Geneva. He is a member of the Board of Directors of a number of other companies.

Board of Directors (continued)

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

Executive members

Kyriakos Kyriakides (Managing Director)

Born in 1948. He graduated the Economics Department of the Law School of the University of Athens. He specialized in Banking in a special program in the United Kingdom from Bank of America and throughout his career he took part in a number of seminars relating to Business Administration and Banking services. He worked for five years in a public company in Glasgow Scotland as an Administrator/Auditor. In 1980 he was employed by Hellenic Bank in Cyprus where he reached the position of Nicosia Regional Manager. In 1994 he took the position of the General Manager in the National Bank of Greece (Cyprus) Ltd where he worked until 1995. Today he holds the position of the Banks' Managing Director. He is a member of the Board of Directors of a number of other companies.

Andreas Theodorides

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 Certified 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. He then worked for Lombard Natwest Bank Ltd as an internal auditor until the end of 1998 when he was employed at USB Bank Plc. At USB Bank Plc, he worked as a Manager of Internal Audit, Manager of Management Services, Manager for Banking Operations and Information Technology, Chief Financial Officer and from 31/7/2009 he holds the position of the Chief Financial Officer and Chief Operations Officer of the Bank.

Despo Polycarpou

Born in 1957. She has the Chartered Institute of Bankers (FCIB) degree. She is a member of the Executive Committee of the Institute of Financial Services in Cyprus from 1995. She started her career in 1976 in Hellenic Bank and resigned in 1999 when she had the position of Trade Services Manager. She was employed in USB BANK PLC in 1999 in the position of Manager Banking Operations and Trade Services. Since 2003 she holds the position of Nicosia Regional Manager and as from 31/7/2009 she holds the position of the Manager, Banking Services Development.

Confirmations by the Board of Directors

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.

Internal Control Systems

The Board of Directors confirms that the Bank has set in effect and complied with an effective internal control system, which is annually reviewed and assessed for its effectiveness both from the Directors but also from the Audit Committee of the Board of Directors. In this way the procedures for the accuracy and validity of the information provided to the shareholders of the Bank 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 review of the correctness and completeness of the information which are provided to the investors and states its satisfaction. The audit 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 in the Stock Exchange Legislation and Regulations has occurred.

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:

Board of Directors Committees (continued)

Audit Committee

Role of the Committee

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

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 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, member of the Board of Directors, the Secretary, the General Manager, the External Auditors or any shareholder who holds directly or indirectly more than 5% of the issued share capital or the voting rights of the Company, has directly or indirectly any material interest, in order to ensure that these transactions are carried out in the normal course of business and at arm's length.
- Prepare, with the guidance of the Compliance Officer, the Board of Directors' Report for the Corporate Governance, to be included in the Banks' Annual Report.
- The performance of any other related duties, which may be assigned by the Board.

Composition and service of the Audit Committee during 2009

Chairman:	George Stylianou (since 7/7/2008,	-	non executive, independent)
Members:	Garo Keheyan (since 7/7/2008,	-	non executive, independent)
	Philippos Philis (since 21/1/2009,	-	non executive, independent)
	Yiannos Christofi (since 21/1/2009,	-	non executive, non independent)

With effect from 26/2/2010 the Bank has replaced Mr. Garo Keheyan with Mr. Marios Hannides in order to comply fully with the provisions of the revised guideline set out by the Central Bank of Cyprus, published on 16/10/2009.

During the year 2009, the Audit Committee met four times.

Nomination Committee/Internal Governance

Role of the Committee

The Committee has the responsibility to ensure Bank's compliance with the internal governance policy. 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.

Board of Directors Committees (continued)

Nomination Committee/Internal Governance (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 Nomination 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 with the Bank internal governance policy.
- The performance of any other related duties, which may be assigned by the Board.

Composition and service of the Nomination Committee during 2009

Chairman:	Michalis Kleopas (since 21/1/2009,	-	non executive, non independent)
Members:	Kleanthis Demosthenous (since 7/7/2008,	-	non executive, non independent)
	Yiannos Mouzouris (since 19/7/2007,	-	non executive, non independent)
	Yiannos Christofi (since 7/7/2008,	-	non executive, non independent)

With effect from 26/2/2010 the Bank proceeded with appointment of Mr. Philippos Philis as a new member of the Nomination Committee in order to comply fully with the provisions of the revised guideline set out by the Central Bank of Cyprus.

During the year 2009, the Nomination Committee met once.

Remuneration Committee

Role of the Committee

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

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.
- Submission of the Directors' remuneration to the shareholders for approval at an Annual General Meeting.
- Evaluation and approval of the Annual 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 and is part of the Bank's Annual Report. The Remuneration Policy Report will be presented to the Annual General Meeting of the shareholders for approval.
- The performance of any other related duties, which may be assigned by the Board.

Board of Directors Committees (continued)

Remuneration Committee (continued)

Composition and service of the Remuneration Committee during 2009

Chairman:	Michalis Kleopas (since 21/1/2009,	- non executive, non independent)
Members:	Garo Keyehan (since 19/7/2007,	- non executive, independent)
	Marios Hannides (since 21/1/2009,	- non executive, independent)

With effect from 26/2/2010 the Bank replaced Mr. Michalis Kleopas by Mr. George Stylianou as the new Chairman of the Remuneration Committee in order to comply fully with the provisions of the revised guideline set out by the Central Bank of Cyprus.

During the year 2009, the Remuneration Committee has met once.

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.

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 system of managing risks and integration of this in 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 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 Risk Committee during 2009

Chairman:	Pavlos Savvides (since 21/1/2009,	- non executive, non independent)
Members:	Kyriacos Kyriakides (since 7/7/2008,	- executive, non independent)
	Yiannos Mouzouris (since 19/7/2007,	- non executive, non independent)
	Yiannos Christofi (since 7/7/2008,	- non executive, non independent)
	George Stylianou (since 21/1/2009,	- non executive, independent)

During the year 2009, the Risk Committee met twice.

Report on Remuneration of Board of Directors

The Remuneration Committee proposes to the Board of Directors, the Remuneration policy that was prepared according to Annex 1 of the Corporate Governance Code. This Report is included in the Annual Report of the Bank and 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 2009. In addition, the remuneration of the members of the Board of Directors are as follows:

Remuneration of Non Executive Members of the Board

	2009	2008
	€	€
Pavlos Savvides	**40.203**	31.576
Michalis Kleopas	**13.869**	8.372
Yiannos Mouzouris	**11.115**	5.357
Yiannos Christofi	**13.456**	2.842
George Stylianou	**14.982**	2.620
Garo Keheyan	**10.354**	4.186
Kleanthis Demosthenous	**8.269**	2.278
Marios Hannides	**7.996**	-
Philippos Philis	**9.820**	-
Christakis Klerides	**-**	12.659
Kypros Miranthis	**-**	2.164
Christos Mavrellis	**-**	2.096
Christakis Pavlou	**-**	3.545
Spyros Episkopou	**-**	2.017
Demetris Vidalis	**-**	2.259
Christodoulos Ellinas	**-**	587
	130.064	82.558

The remuneration of the non executive Directors includes participation rights as members of the Board of Directors of the Bank and as members of the Board of Directors Committees.

Remuneration of Executive Members of the Board

The salaries and other short-term benefits of the Executive Directors totalling €504k (2008: €293k) concern €287k (2008: €77k) for Mr. Kyriakos Kyriakides, €115k (2008: €119k inclusive of bonus in form of cash, totalling €9k) for Mr. Andreas Theodorides and €102k (2008: €97k) for Mrs. Despo Polykarpou. As mentioned above, Mr. Andreas Theodorides and Mrs. Despo Polykarpou were assigned as Executive Members of the Board on 21/1/2009.

Remuneration Policy for the Non Executive Directors

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 remuneration of the non executive Directors has been revised at the Extraordinary General Meeting of the Banks' shareholders at 21/1/2009, taking into account the above and also the respective remuneration of Directors in other comparable organisations.

Remuneration Policy for the Non Executive Directors (continued)

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.

Remuneration policy for the Executive Directors

The remuneration of the Executive Directors in case this is out of the scales of the collective agreements, is determined by the Board of Directors after recommendation by the Remuneration Committee.

All members of the Board of Directors except of the Managing Director participate in the Staff Retirement Benefits Scheme with the same terms applied 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 2009.

Any other benefits allocated to the members of the Board are based on the prevailing regulations applied to the personnel of the Bank.

The contract of the Managing Director is for five years and includes a provision for a six month notice in case of an early and non-justified termination. The remuneration package includes an annual salary payable monthly, taking into account the duties, responsibilities, experience and comparable positions in the banking sector. It also includes out of pocket expenses and car allowance.

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

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. In addition to 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 provides also 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, up to 5 months after the Bank's year end and not later than 10 days prior to the fixed date of the General Meeting.

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 Bank appointed the Chief Financial Officer and Chief Operations Officer of the Bank Mr. Andreas Theodorides as the Investor Relations Officer.

Corporate Governance Compliance Officer

The Bank, appointed the Chief Financial Officer and Chief Operations Officer of the Bank Mr. Andreas Theodorides as the Corporate Governance Compliance Officer of the Bank.

Compliance Officer of Brokerage Questions

The Bank, appointed the Chief Financial Officer and Chief Operations Officer of the Bank Mr. Andreas Theodorides as the Compliance Officer for stock exchange issues of the Bank.

Board of Directors
USB Bank Plc

Nicosia, 12 April 2010

BOARD OF DIRECTORS AND OTHER EXECUTIVES

Board of Directors

Pavlos Savvides - Chairman

Kyriakos Kyriakides

Michalis Kleopas

Yiannos Mouzouris

Yiannos Christofi

George Stylianou

Garo Keheyan

Kleanthis Demosthenous

Marios Hannides

Philippos Philis

Andreas Theodorides

Despo Polykarpou

Chief Executive Officer

Kyriakos Kyriakides

Chief Financial Officer

Andreas Theodorides

Secretary

Michalis Kleopas

Registered Office

83 Digenis Akritas Avenue

5th floor

1070 Nicosia

Legal Advisor

L.Papafilippou and Co

Dr. Kypros Chrysostomides & Co

Independent Auditors

Ernst & Young Cyprus Ltd

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(1)/2007 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, us, 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 2009, declare that, to the best of our knowledge:

(a) the financial statements which are presented in pages 26 to 67:

(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 of USB Bank Plc and,

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

Pavlos Savvides	Chairman
Kyriakos Kyriakides	Executive Director
Michalis Kleopas	Non Executive Director
Yiannos Mouzouris	Non Executive Director
Yiannos Christofi	Non Executive Director
George Stylianou	Non Executive Director
Garo Keheyan	Non Executive Director
Kleanthis Demosthenous	Non Executive Director
Marios Hannides	Non Executive Director
Philippos Philis	Non Executive Director
Andreas Theodorides	Executive Director
Despo Polykarpou	Executive Director

Nicosia, 12 April 2010

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 2009.

Activities

The Bank's main activity during the year continued to be the provision of banking and financial services in Cyprus through the operations of 19 branches.

Financial Results

Despite the unfavourable economic environment and the intense competition in deposit rates among financial institutions, the Bank has succeeded to increase its turnover by 12% during 2009, to retain its profitability, to increase its total assets by 8% while maintaining strong liquidity and strengthening its capital base by €8 million, through the issue of 8 million non-convertible bonds of €1 each.

The capital adequacy ratio at 31 December 2009 amounted to 11,73% (2008: 11,60%) and the gross loans to deposits ratio amounted to 79% (2008: 80%).

The main financial highlights of the Bank for the year 2009 and 2008 are as follows:

	2009	2008
	€	€
Turnover	**34.446**	30.694
Profit before provisions	**1.802**	2.228
Profit before tax	**380**	536
Profit after tax	**382**	573
Earnings per share (cent)*	**0,8**	1,3
Customer deposits	**447.833**	448.362
Loans and advances to customers before provisions for impairment	**352.065**	357.525
Total assets	**523.560**	486.075
Equity	**30.572**	30.921

*The weighted average number of shares for 2008 has been adjusted after the share split of the nominal value of the shares from €1,71 to €0,57.

In 2009 and 2008, no dividends were paid or declared since the Bank had accumulated losses.

Board of Directors

The Board of Directors at the date of this report are listed on page 18.

The Board of Directors' appointments during the year and to the date of this report were:

Marios Hannides	(appointed on 21/01/2009)
Philippos Philis	(appointed on 21/01/2009)
Andreas Theodorides	(appointed on 21/01/2009)
Despo Polykarpou	(appointed on 21/01/2009)

Board of Directors (continued)

According to the Bank's Articles of Association, at the next annual general meeting of the shareholders, Messrs. Pavlos Savvides, Yiannos Mouzouris, Garo Keheyan and Yiannos Christofi will retire but are offered for re-election.

Directors' interest in the share capital of the Bank

The beneficial interest in the Bank's share capital held by members of the Board of Directors, their spouses, minor children and companies in which they hold directly or indirectly at least 20% of voting rights in a general meeting, on 31 December 2009 and 31 March 2010 were:

	%
Kleanthis Demosthenous (indirect participation through Kaleta Services Ltd)	9,58
Garo Keheyan (indirect participation through Stella Holdings Ltd)	3,29
	12,87

Information relating to share capital

On 31 December 2009 the issued share capital of the Bank was 45.384.453 ordinary shares of a nominal value of €0,57 each. The Bank's shares are listed on the Cyprus Stock Exchange.

In an Extraordinary General Meeting of shareholders which was held on 21 January 2009, it was decided that:

i. The nominal share capital of the Company amounting to €85.500.000 and divided into 50.000.000 ordinary shares of a nominal value of €1,71 each, to be subdivided into 150.000.000 ordinary shares of a nominal value of €0,57 each.

ii. The issued share capital of the Company amounting to €25.869.138 and divided into 15.128.151 ordinary shares of €1,71 each, to be subdivided into 45.384.453 ordinary shares of €0,57 each. The new 45.384.453 ordinary shares of a nominal value of €0,57 each that arise from the above share split, will be given to the shareholders of the Company in the ratio of 3 (three) new ordinary shares for each 1 (one) old ordinary share.

There are no restrictions on the transfer of Bank's ordinary shares, other than the provisions of the Banking Law of Cyprus, which requires Central Bank of Cyprus approval prior to acquiring 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.

Note that in the event of a public takeover bid or merger or acquisition, the provisions of the Law To Make Provision For Public Takeover Bids For The Acquisition of Securities of Companies of 2007 apply, which contain 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.

The employment contracts of the Chief Executive Officer and other personnel include a provision for a notice period in case of non-justified pre-mature termination of contract.

Statement of Corporate Governance

The Bank aims to provide full transparency in its overall management and seeks to serve its own 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.

The Company as quoted on the Parallel Market of the Cyprus Stock Exchange (CSE), has adopted the CSE Corporate Governance Code and applies it's principles. The CSE's Corporate Governance Code is available on the CSE website (www.cse.com.cy).

Statement of Corporate Governance (continued)

The Bank complies with the relevant provisions of the 2nd Revised Edition of the Corporate Governance Code of the CSE during 2009. Additionally, the Board of Directors has taken all necessary actions to ensure compliance with the new requirements of the 3rd Edition of the Corporate Governance code which was published by the CSE during September 2009.

The Annual Report on Corporate Governance for 2009 is available on the Bank's website, www.usbbank.com.cy.

The operating regulations of the Board of Directors as well as the authorities 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. During the first and each annual general meeting of 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 be resigned from the Board of directors having though the right for re-election at the annual general meeting of shareholders. 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 non issued shares of the Bank as it considers appropriate, provided the new shares to be issued are offered first to the existing shareholders, pro-rata to their percentage holding. Otherwise, the shareholders' approval at a General Meeting is required.

In the event that an increase in the authorised share capital is required, the approval of the shareholders in a General Meeting must be obtained. Any share repurchase plan also requires the approval of a General Meeting of shareholders. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme. The existing shares of the Bank are ordinary shares, are not divided into classes and have equal voting and control rights.

At 31 December 2009 and 31 March 2010, the following shareholders held directly or indirectly more than 5% of the share capital of the Bank.

	31.12.2009	31.03.2010
	%	%
Path Holdings Ltd	25,49	25,49
Universal Life Insurance Public Co. Ltd	9,99	9,99
Kaleta Services Ltd	9,58	9,58
Ioanna Christofi	9,57	9,57
Yiannos Kasoulides	8,16	8,16
Jupiwind Ltd	5,71	5,71
Advantage Capital Holdings Plc	0,35	5,31
	68,85	73,81

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. Therefore, verification procedures are controlled and proper and accurate information is provided to the shareholders of the Bank.

Future Developments

The Bank continues to have as its priority to maintain sufficient liquidity, to further strengthen its capital base for expanding its operations and for facing challenges, as well as increasing its efficiency by further cost reduction.

The automation and simplification of a large number of methods and procedures, as well as the launching of new deposit and loan products, including bank assurance products for better customer service and increase in customer base, constitute important objectives of the Bank.

Risk management

The Bank considers risk management to be a major process and a significant factor contributing towards safeguarding a stable return to its shareholders. The financial risks the Bank is exposed to are mainly credit risk, operating 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

Events after the reporting date are disclosed in Note 34 of the financial statements.

Independent auditors

The independent auditors of the Bank, Messrs Ernst & Young Cyprus Ltd, have signified their willingness to continue in office. A resolution for their re-election and their remuneration will be proposed at the Shareholders' Annual General Meeting.

Pavlos Savvides

Chairman

Nicosia, 12 April 2010

FINANCIAL STATEMENTS **2009**

USB BANK PLC

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €	2008 €
Turnover		**34.446.021**	30.693.699
Interest income	3	**30.242.438**	26.592.503
Interest expense	4	**(18.325.532)**	(15.431.125)
Net interest income		**11.916.906**	11.161.378
Fee and commission income		**3.820.659**	3.411.414
Fee and commission expense		**(567.891)**	(410.049)
Foreign exchange income		**326.454**	652.170
Gain on revaluation of investment properties	15	**164.000**	-
Income from available for sale investments	5	**6.680**	5.177
Other income		**49.790**	32.435
Total net income		**15.716.598**	14.852.525
Staff costs	6	**(9.476.154)**	(8.429.311)
Depreciation of property and equipment and amortisation of intangible assets		**(917.633)**	(931.706)
Other operating expenses		**(3.520.838)**	(3.263.842)
Total operating expenses before provisions		**(13.914.625)**	(12.624.859)
Profit before provisions		**1.801.973**	2.227.666
Provision for impairment of loans and advances	12	**(1.421.803)**	(1.691.265)
Profit before tax	7	**380.170**	536.401
Tax	8	**1.832**	37.002
Profit for the year		**382.002**	573.403
Earnings per share (cent)	9	**0,8**	1,3

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €	2008 €
Profit for the year		**382.002**	573.403
Other comprehensive income			
Surplus/(deficit) on revaluation of available for sale investments	24	**41.750**	(163.660)
Gain on revaluation of properties	24	**-**	1.608.275
Taxation on revaluation of properties	24	**2.667**	(189.770)
Other comprehensive income for the year after taxation		**44.417**	1.254.845
Total comprehensive income for the year		**426.419**	1.828.248

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Note	2009	2008
		€	€
ASSETS			
Cash and balances with the Central Bank	10	**45.254.922**	21.738.899
Placements with banks	11	**11.946.443**	43.407.771
Loans and advances to customers	12	**307.759.453**	313.177.044
Investments held-to-maturity	13	**140.549.739**	99.438.430
Investments available for sale	14	**3.693.725**	85.170
Investment properties	15	**6.185.000**	-
Investments in subsidiary companies	16	**1.265**	2.111
Property and equipment	17	**6.341.560**	6.523.181
Intangible assets	18	**298.612**	519.011
Other assets	19	**1.529.169**	1.183.181
Total assets		**523.559.888**	486.074.798
LIABILITIES			
Placements by banks and financing from the Central Bank	20	**29.483.247**	839.146
Customer deposits	20	**447.832.762**	448.362.274
Other liabilities	21	**6.697.867**	4.978.584
Subordinated loan stock	22	**8.973.903**	973.903
Total liabilities		**492.987.779**	455.153.907
EQUITY			
Share capital	23	**25.869.138**	25.869.138
Share premium		**21.164.638**	21.164.638
Revaluation reserves	24	**3.356.138**	3.311.721
Accumulated losses		**(19.817.805)**	(19.424.606)
		30.572.109	30.920.891
Total liabilities and equity		**523.559.888**	486.074.798

Pavlos Savvides Chairman

Kyriakos Kyriakides Chief Executive Officer

Andreas Theodorides Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium	Revaluation reserves (Note 24)	Accumulated losses (Note 24)	**Total**
	€	€	€	€	€
YEAR 2009					
1 January	25.869.138	21.164.638	3.311.721	(19.424.606)	**30.920.891**
Profit after tax	-	-	-	382.002	**382.002**
Other comprehensive income for the year after taxation	-	-	44.417	-	**44.417**
Total comprehensive income for the year	-	-	44.417	382.002	**426.419**
Deemed dividend distribution (Note 24)	-	-	-	(775.201)	**(775.201)**
31 December	**25.869.138**	**21.164.638**	**3.356.138**	**(19.817.805)**	**30.572.109**
YEAR 2008					
1 January	25.847.981	21.185.795	2.056.876	(19.697.559)	**29.393.093**
Profit after tax	-	-	-	573.403	**573.403**
Other comprehensive income for the year after taxation	-	-	1.254.845	-	**1.254.845**
Total comprehensive income for the year	-	-	1.254.845	573.403	**1.828.248**
Capitalisation of share premium reserve due to the conversion of £1 nominal value shares to €1,71 each	21.157	(21.157)	-	-	**-**
Deemed dividend distribution (Note 24)	-	-	-	(300.450)	**(300.450)**
31 December	**25.869.138**	**21.164.638**	**3.311.721**	**(19.424.606)**	**30.920.891**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €	2008 €
Net cash flow from/(used in) operating activities	28	**25.592.343**	(46.234.353)
Cash flow from investing activities			
Purchase of property, equipment and software		**(577.816)**	(642.673)
Proceeds from the disposal of property and equipment		**50.900**	1.600
Purchase of bonds		**(73.961.445)**	(34.310.216)
Proceeds from the disposal and redemption of bonds		**27.519.747**	23.055.616
Interest on government and other debt securities		**5.441.703**	4.299.559
Dividend income from shares		**6.680**	5.177
Net cash flow used in investing activities		**(41.520.231)**	(7.590.937)
Cash flow from financing activities			
Interest on subordinated loan stock		**(83.152)**	(515.783)
Subordinated loan stock		**8.000.000**	-
Repayment of subordinated loan stock		**-**	(13.668.811)
Net cash flow from/(used in) financing activities		**7.916.848**	(14.184.594)
Net decrease in cash and cash equivalents for the year		**(8.011.040)**	(68.009.884)
Cash and cash equivalents			
At 1 January		**56.225.679**	124.235.563
Net decrease in cash and cash equivalents		**(8.011.040)**	(68.009.884)
At 31 December	29	**48.214.639**	56.225.679

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 it's 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.

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 as set out below. The Bank has adopted the following new and amended IFRSs and IFRIC Interpretations at 1 January 2009:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards' (Amendment) and IAS 27 'Consolidated and Separate Financial Statements' (Amendment) (effective 1 January 2009)
- IFRS 2 'Share Based Payment' (Amendment) (effective 1 January 2009)
- IFRS 8 'Operating Segments' (effective 1 January 2009)
- IFRS 7 'Financial Instruments: Disclosures (Amendment) (effective 1 January 2009)
- IAS 1 'Presentation of Financial Statements' (Amendment) (effective 1 January 2009)
- IAS 32 'Financial Instruments: Presentation' (Amendment) and IAS 1 Amendment to Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009)
- Improvements to IFRSs (effective 1 January 2009)
- IAS 23 'Borrowing costs' (Amendment) (effective 1 January 2009)
- Improvements to IFRS (May 2008)
- IFRIC 13 'Customer Loyalty Programmes' (effective 1 July 2008)
- IFRIC 15 'Agreements for the Construction of Real Estate' (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)
- IFRIC 18 'Transfer of assets from customers' (for transfers after 1 July 2009)
- IFRIC 9 'Reassessment of embedded derivatives' (Amendment) and IAS 39 'Financial Instruments: Recognition and Measurement (Amendment)' (effective 30 June 2009)

The adoption of the above did not have any significant impact on the financial statements of the Bank, except the presentation of additional disclosures as stated below:

- IAS 1 (Revised) 'Presentation of Financial Statements'

  The revised standard requires that the statement of changes in equity only includes transactions with shareholders. It introduces a new statement of comprehensive income that combines all the income and expenses recognized in the income statement with "other comprehensive income". The presentation can be shown in a single statement or in two related statements. Also the balance sheet has been renamed to the statement of financial position. The Bank made all necessary changes in the presentation of financial statements for 2009 and has elected to present two related statements in the statement of comprehensive income.

2. Changes in accounting policies and adoption of new and amended IFRSs (continued)

- *Amendments to IFRS 7 "Financial Instruments: Disclosures"*
  This amendment requires additional disclosures about the measurement of fair value and liquidity risk. According to this amendment disclosure of fair value measurements based on data sources is required, using a hierarchy of three levels for all assets measured at fair value. Furthermore, it requires agreement between the initial and final balance to measure the fair value of the Level 3, as well as significant levels of transfers between the levels of fair value measurement. This amendment also clarified the requirements for disclosure of liquidity risk with respect to derivative transactions and assets that are used for liquidity management. The additional disclosures about fair value are presented in Note 14, and in relation to liquidity risk in Note 30 of the financial statements.

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:

Standards and interpretations issued by the IASB and adopted by the EU

Revised IFRS 3 "Business Combinations" and Amended IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009)
IFRS 3 (revised) introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor they will give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 "Statement of Cash Flows", IAS 12 "Income Taxes", IAS 21 "The Effects of Changes in Foreign Exchange Rates", IAS 28 'Investment in Associates' and IAS 31 "Interests in Joint Ventures". The changes of the revised IFRS 3 and amended IAS 27 are expected to affect future transactions of the Bank, such as acquisitions.

Revised IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 July 2009)
The revision of IFRS 1 issued in November 2008 retains the substance of the previous version, but within a changed structure. It replaces the previous version and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 July 2009. There is no impact on the financial statements of the Bank as a result of this revision.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement - Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009)
The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Bank does not expect this Amendment to impact its financial statements.

IFRIC 17 "Distribution of Non cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009)
IFRIC 17 applies to all non-reciprocal distributions of non-cash assets, including those giving the shareholders a choice of receiving non-cash assets or cash, provided that all owners of the same class of equity instruments are treated equally and the non-cash assets are not ultimately controlled by the same parties both before and after the distribution, and as such, excluding transactions under common control. The Bank does not expect that this interpretation will have any impact on its financial statements.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of rights issues (effective for accounting periods beginning on or after 1 February 2010)
The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants (together, here termed rights) as equity instruments. This amendment does not apply to the Bank as it does not have such instruments in issue.

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

Standards and Interpretations issued by the IASB but not yet adopted by the EU

Improvements to IFRSs (effective for different annual periods, the earliest beginning on or after 1 January 2009)
In April 2009, the IASB issued its second omnibus of amendments to its standards and the related basis for conclusions. This document contains 15 amendments to 12 standards. Effective dates range from 1 January 2009 to 1 January 2010. The Bank is in the process of assessing the impact of these amendments on its financial statements.

Amendments to IFRS 1 "Additional Exemptions for First-time Adopters" (effective for accounting periods beginning on or after 1 January 2010)
These amendments provide relief from the full retrospective application of IFRS for the measurement of oil and gas assets and leases. This amendment does not apply to the Bank.

Amendments to IFRS 2 Share-based Payment "Group Cash-settled Share-based Payment Arrangements" (effective for accounting periods beginning on or after 1 January 2010).
The amendment provides guidance on how to account for cash-settled share based payment transactions in the separate financial statements of an entity. This amendment does not apply to the Bank.

Revised IAS 24 Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011)
The IASB has amended IAS 24 in an effort to simplify the identification of related party relationships by clarifying the definition of related parties but without reconsidering the fundamental approach to related party disclosures. The Bank is in the process of assessing the impact of this revision on its financial statements.

IFRS 9 Financial Instruments: Classification and Measurement (effective for accounting periods beginning on or after 1 January 2013)
On 12 November 2009 the IASB published the first phase of IFRS 9 Financial Instruments, the accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. The aim is to replace IAS 39 in its entirety by the end of 2010. The Bank is currently in the process of assessing the impact of the new Standard on its financial statements.

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011)
The amendment was made to remove an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. It requires entities to treat such early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. The Bank does not currently have any plans with minimum funding requirements and is in the process of assessing the impact of this amendment in its financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)
IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Bank does not currently have any transactions within the scope of the Interpretation.

Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010).
Relief is given to first-time adopters from providing comparative information for the disclosures required by the amendments to IFRS 7 Financial Instruments: Disclosure in the first year of application. This amendment does not apply to the Bank.

4. Significant accounting judgments and estimates

During the preparation of the financial statements the Bank's management is required to make judgments and estimates that can significantly affect the amounts recognised in the financial statements, the most significant of which are presented below:

Going concern

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 resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. The financial statements continue to be prepared on the going concern basis.

Provisions for loan impairment

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 provision for impairment in value of loans on a collective basis. The percentage of damages are based on estimates, historical data and experience of the Bank's management.

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 judgement 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 company, the Bank has invested in, operates.

Available for sale bonds 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.

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 observable 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 comparable.

Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations, that use assumptions for discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases, where necessary. The Bank's management makes these assumptions based on market expectations at the reporting date, using the best estimates for each parameter, covering the period during which the liability is settled. In determining the appropriate discount rate, management considers the interest rate curve based on high rating corporate bonds. The choice of parameters requires some other judgements.

4. Significant accounting judgments and estimates (continued)

Retirement benefits (continued)

Future salary increases are based on expected future values of inflation plus a margin that reflects the best estimate of the firm for increases in relation to productivity, maturation and promotions. The long-term rates of return on plan assets are based on the composition of investment, taking into consideration the different rate of return for each class of assets. The estimates of future values of inflation of wage increases and the expected return on assets reflect the best estimates of management for these variables, after consulting with its advisers and require significant judgments. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Income tax

The Bank is subject to Cyprus income tax. Significant estimates are required in determining the provision for taxes at the balance sheet 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.

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 above.

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.

Interest income and interest expense on loans and deposit balances that existed in the Bank's books on 15 August 1974, are not recognised due to the Turkish invasion. All interest regarding these balances is accounted for when paid or received.

(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. Staff retirement benefits

The Bank operates a defined benefits scheme, which is fully funded. All contributions to the scheme are made on an annual basis with the purpose of creating enough reserves during the working life of the employees to provide for payment of a lump sum either upon retirement or on death prior to retirement. The annual cost of providing benefits under this scheme is taken to the income statement.

The cost of providing benefits is estimated using the projected unit credit actuarial valuation method.

Actuarial gains or losses are recognized as income or expense when the net accumulated unrealized gains or losses at the end of the previous reporting period exceeded 10% of the present value of plan liabilities or 10% of the fair value of plan assets on that date.

The ratio of actuarial gains or losses that are realized is determined by the amount provided above divided by the expected average of the remaining working lives of employees participating in the program. The asset or defined benefit obligation is the net total of the fair value of defined benefit obligation (using a discount rate based on high quality corporate bonds) minus any past service cost not yet realized less the fair value of the assets of which liabilities will be settled. The assets of a plan are the assets held by a fund which is legally independent or insurance policies that meet the requirements. The fair value is based on current market prices and in the case of investments traded in an active market it is the publicized market price.

10. Financial instruments

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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".

10. Financial instruments (continued)

(iv) Loans and advances to customers

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.

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 six 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. Provision has been made for the total advances and loan accounts granted prior to 15 August 1974.

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, taking into account loans and advances which were not considered individually for impairment.

(v) 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 'Net gains on sale and change in fair value of financial instruments' in the income statement.

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 "Loss from revaluation, disposal and impairment of financial instruments" 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 on revaluation, disposal and impairment of financial instruments", in the income statement.

10. Financial instruments (continued)

(v) Investments (continued)

Available for sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as "Investments at fair value through profit or loss", "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 Group 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 include 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.

(vi) Deposits and subordinate loan stock

Deposits and subordinate loan stock 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. Interest on deposits and subordinate loan stock is included in "Interest expense".

11. Derecognition of financial assets and financial liabilities

(i) 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.

(ii) 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. Investments in subsidiary companies

Subsidiary companies which are not consolidated are recognised in the Bank's statement of financial position at cost less any impairment in value.

14. 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.

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

Property held by the Bank for use 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 valuers so 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.

All property, equipment and computer software, with the exception of immovable property, which remained in the Turkish occupied area, were written off in 1974. In addition, provision has been made for the total value of immovable property situated in the Turkish occupied area.

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.

16. Investment properties

Investment properties consist of properties purchased for the settlement of debts. Investment properties are measured at fair value as at the reporting date. Gains or losses arising from changes in fair value of investment properties are recorded in the income statement. Valuations are performed by independent qualified valuers.

17. 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.

18. 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.

19. 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.

20. 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.

21. Comparative information

Reclassifications to comparative information were made to conform to changes in the presentation in the current year. These reclassifications relate to the presentation of Directors' remuneration which is now included in 'Staff costs' rather than in 'Other operating expenses'. This reclassification did not have any impact on this year's results or the equity of the Bank. The comparative information presented on the income statement is also reclassified as a result of the change in the presentation of the restriction of interest recognised on impaired loans and advances to customers in the current year. These reclassifications had no impact on the results or the equity of the Bank.

1. Corporate information

The financial statements of USB Bank Plc (the 'Bank') for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 12 April 2010.

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

The Bank was incorporated as a limited liability company 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.

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

	2009	2008
	€	€
Loans and other advances to customers	**24.351.124**	18.410.506
Placements with banks and deposits with the Central Bank	**449.611**	3.882.438
Government and other bonds	**5.441.703**	4.299.559
	30.242.438	26.592.503

Interest income from loans and advances to customers includes interest on impaired loans and advances of €1.660.070 (2008: €1.992.309).

4. Interest expense

	2009	2008
	€	€
Deposits and other customer accounts	**18.225.238**	14.910.917
Amounts due to banks	**17.142**	4.425
Subordinated loan stock	**83.152**	515.783
	18.325.532	15.431.125

5. Income from available for sale investments

	2009	2008
	€	€
Dividends from investments available for sale	**6.680**	5.177

6. Staff costs

	2009	2008
	€	€
Staff salaries and other remuneration	**7.383.728**	6.663.639
Social insurance and other contributions	**866.529**	770.326
Retirement benefit costs	**1.225.897**	995.346
	9.476.154	8.429.311

The number of persons employed by the Bank as at 31 December 2009 was 199 (2008: 199).

Retirement benefits – Defined benefit scheme

The Bank operates a defined benefit scheme, which is fully funded. All contributions to the scheme are made on an annual basis with the purpose of creating enough reserves during the working life of the employees to provide for the payment of a lump sum either upon retirement or early death. The annual cost of providing benefits under the scheme is charged to the income statement.

The cost of providing benefits is part of staff costs and is estimated annually using the projected unit credit actuarial valuation method by independent actuaries. According to this method, the cost of providing retirement benefits is debited to the income statement over the working life of the employees participating in the scheme according to the guidance and provisions of independent professional actuaries that carry out actuarial valuation of the plan every year. The calculation of the cost of providing benefits for this scheme is based on the present value of the expected future outflow using as discount rate the average interest rate of Government bonds with similar duration as the duration of the liability.

According to the actuarial valuation carried out for the year ended 31 December 2009, the amounts presented on the statement of financial position of the Bank in relation to the defined benefit scheme are as follows:

	2009	2008
	€	€
Present value of the obligation	**(8.927.886)**	(7.077.202)
Fair value of plan assets	**3.396.846**	2.904.919
Deficit	**(5.531.040)**	(4.172.283)
Unrecognised actuarial loss	**2.472.533**	2.313.701
Net liability recognised in the statement of financial position	**(3.058.507)**	(1.858.582)

The principal actuarial assumptions used for the actuarial valuation were:

	2009	2008
	%	%
Discount rate	**5,24**	5,75
Expected return on plan assets	**5,75**	6,00
Future salary increase	**6,00**	6,25

6. Staff costs (continued)

Retirement benefits - Defined benefit scheme (continued)

The expense recognised in the income statement in respect of the defined benefit scheme is as follows:

	2009	2008
	€	€
Current service cost	**904.506**	936.878
Interest expense on obligations	**400.884**	350.944
Expected return on plan assets	**(167.977)**	(292.476)
Actuarial loss recognised in the year	**88.484**	-
	1.225.897	995.346

Movement in the liability presented on the statement of financial position (Note 21):

	2009	2008
	€	€
Net liability at 1 January	**(1.858.582)**	(1.556.487)
Expense recognised in the income statement	**(1.225.897)**	(995.346)
Employer contributions for the year	**25.972**	693.251
Net liability at 31 December	**(3.058.507)**	(1.858.582)

The movement in the present value of obligations of the plan is:

	2009	2008
	€	€
1 January	**7.077.202**	6.778.034
Current service cost	**904.506**	936.878
Interest on liabilities	**400.884**	350.944
Benefits paid from the plan	**(25.972)**	(693.251)
Actuarial losses/(gains)	**571.266**	(295.403)
31 December	**8.927.886**	7.077.202

Movement in plan assets:

	2009	2008
	€	€
Fair value of plan assets on 1 January	**2.904.919**	4.967.984
Expected return on plan assets	**167.977**	292.476
Employer contributions for the year	**25.972**	693.251
Benefits paid for the year	**(25.972)**	(693.251)
Actuarial gains/(losses)	**323.950**	(2.355.541)
Fair value of plan assets at 31 December	**3.396.846**	2.904.919
Actual increase/(decrease) in the return on plan assets	**491.927**	**(2.063.065)**

6. Staff costs (continued)

Retirement benefits - Defined benefit scheme (continued)

Experience adjustments and their effect on the net present value of obligations and the fair value of plan assets are as follows:

	2009	2008	2007	2006
	€	€	€	€
Net present value of obligations	**(8.927.886)**	(7.077.202)	(6.778.034)	(6.052.980)
Fair value of plan assets	**3.396.846**	2.904.919	4.967.984	4.242.628
Deficit	**(5.531.040)**	(4.172.283)	(1.810.050)	(1.810.352)
Experience adjustments to plan obligations	**(571.266)**	295.403	223.511	(476.083)
Experience adjustments to plan assets	**323.950**	(2.355.541)	475.458	1.751.744

The expense for the defined benefit scheme for 2010 is expected to be €1.375.411.

The main categories of plan assets as a percentage of total plan assets are:

	2009	2008
Shares	**31%**	23%
Bonds	**28%**	13%
Placements with banks	**41%**	64%
	100%	100%

Plan assets include non-convertible bonds amounting to €173.000 that have been issued by the Bank (2008: nil).

Principal actuarial assumptions used in the actuarial valuations

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. The Bank considered the international index iBoxx Euro Corporates AAA 10+ Bond index to take into consideration the longer duration of liabilities.

To develop the assumptions relating to the expected rates of return on plan assets, the Bank, in consultation with its advisers, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based upon revised expectations of future investment performance of asset classes, changes to local laws that may affect investment strategy as well as changes to target strategic asset allocation.

7. Profit before tax

Profit before tax is disclosed after charging the following:

	2009	2008
	€	€
Directors' emoluments (Note 32)	**729.593**	266.733
Auditors' remuneration	**47.500**	47.000
Loss on sale and write-off of property and equipment	**11.303**	33.445
Operating lease rentals for buildings	**819.078**	710.258

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

8. Tax

The reconciliation of corporation tax on profit before tax based on the applicable rates and the tax credit is as follows:

	2009	2008
	€	€
Profit before tax	**380.170**	536.401
Corporation tax based on the applicable rates	**38.017**	53.640
Tax effect of:		
- Not deductible expenses	**130.629**	347.944
- Income not subject to tax	**(97.446)**	(87.458)
- Tax losses utilised	**(73.032)**	(351.128)
Taxation in the income statement (deferred)	**(1.832)**	(37.002)

Corporation tax is calculated at the rate of 10% on taxable income (2008: 10%).

At 31 December 2009, the Bank had tax losses carried forward amounting to €17,7 million (2008: €18,3 million) and for €14,4 million (2008: €15,1 million) of which no deferred tax asset was recognised in the statement of financial position.

The balance of net deferred tax liability represents:

	2009	2008
	€	€
Difference between tax allowances and accounting depreciation	**56.769**	55.607
Revaluation of properties	**417.392**	403.660
Tax losses carried forward	**(333.446)**	(315.885)
	140.715	143.382

9. Earnings per share

	2009	2008
	€	€
Profit attributable to shareholders	**382.002**	573.403
Weighted average number of shares in issue during the year	**45.384.453**	45.384.453
Earnings per share (cent)	**0,8**	1,3

At 31 December 2009 and 2008 respectively, there were no potentially dilutive ordinary shares.

The weighted average number of shares for 2008 has been adjusted after the share split of the nominal value of the shares from €1,71 to €0,57.

10. Cash and balances with the Central Bank

	2009	2008
	€	€
Cash	**5.182.125**	5.621.047
Balances with the Central Bank of Cyprus	**40.072.797**	16.117.852
	45.254.922	21.738.899

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to €8.986.726 (2008: €8.920.991) and €29.000.000 (2008: nil) which represents financing from the Central Bank of Cyprus through the pledging of special government bonds issued by the Cyprus government for this purpose. These funds can only be used for providing housing loans and loans to small and medium-sized enterprises.

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

11. Placements with banks

	2009	2008
	€	€
Repayable:		
- on demand	**1.766.157**	6.017.929
- within three months	**10.180.286**	37.389.842
	11.946.443	43.407.771

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.

12. Loans and advances to customers

	2009	2008
	€	€
Loans and other advances	**352.064.732**	357.525.354
Provision for impairment of loans and advances	**(44.305.279)**	(44.348.310)
	307.759.453	313.177.044

Provisions for impairment of loans and advances:

	2009	2008
	€	€
1 January	**44.348.310**	46.014.849
Collections/reversals	**(5.097.047)**	(2.433.830)
Charge for the year	**6.518.850**	4.125.095
Net charge for the year	**1.421.803**	1.691.265
Restriction of interest on impaired loans	**3.101.154**	3.360.951
Write-offs	**(1.691.548)**	(5.387.329)
Interest collected on impaired loans and advances relating to prior years	**(2.874.440)**	(1.331.426)
	(43.031)	(1.666.539)
31 December	**44.305.279**	44.348.310

12. Loans and advances to customers (continued)

Total provisions for impairment as at 31 December 2009 include collective impairment provision of €592.889 (2008: €611.211).

The total amount of impaired loans and advances amounts to €63.976.958 (2008: €65.099.190).

Additionally, at 31 December 2009, the Bank had pledged €42.000 thousand loans and other advances to customers for the benefit of the Republic of Cyprus as collateral for the issue of €29.000 thousand special government bonds which can in turn be used as collateral for obtaining financing from Central Bank of Cyprus.

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 and suspended income.

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

Advances and other accounts prior to 15 August 1974

	2009	2008
	€	€
Loans and advances to customers	**878.761**	885.108
Provisions for loans and advances to customers before 15 August 1974	**(878.761)**	(885.108)
	-	-

13. Investments held-to-maturity

	2009	2008
	€	€
Government and other bonds:		
Cyprus Government	**53.109.156**	63.723.079
Cyprus public companies	**-**	1.405.135
Foreign banks	**87.440.583**	34.310.216
	140.549.739	99.438.430

	2009	2008
	€	€
Listed in:		
Cyprus stock exchange	**53.109.156**	65.128.214
European stock exchanges	**87.440.583**	32.463.100
Not listed	**-**	1.847.116
	140.549.739	99.438.430

The fair value of held-to-maturity investments as at 31 December 2009 was €140.958.437 (2008: €98.171.637).

14. Investments available for sale

	2009	2008
	€	€
Shares listed on the Cyprus Stock Exchange	**126.920**	85.170
Bonds of Cyprus Public companies	**3.566.805**	-
	3.693.725	85.170

14. Investments available for sale (continued)

The movement in available for sale investments is presented below:

	2009	2008
	€	€
1 January	**85.170**	248.830
Purchase of corporate bonds	**3.566.805**	-
Change in fair value	**41.750**	(163.660)
31 December	**3.693.725**	85.170

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

	Level 1	Level 2	Total
	€	€	€
31 December 2009			
Shares listed on the Cyprus Stock Exchange	**126.920**	**-**	**126.920**
Bonds of Cyprus Public companies	**-**	**3.566.805**	**3.566.805**
	126.920	**3.566.805**	**3.693.725**
31 December 2008			
Shares listed on the Cyprus Stock Exchange	85.170	-	85.170

In category Level 1, investments are valued using quoted prices in active markets.

In category Level 2, investments are valued using models for which all inputs which have a significant effect on fair value are observable.

15. Investment properties

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

	2009	2008
	€	€
1 January	**-**	-
Additions for the year	**6.021.000**	-
Change in fair value	**164.000**	-
31 December	**6.185.000**	-

16. Investments in subsidiary companies

	2009	2008
	€	€
At cost:		
Universal Leasing and Factoring Ltd	**-**	846
Imagetech Ltd	**1.265**	1.265
	1.265	2.111

On 18 November 2009, Universal Leasing and Factoring Ltd was deregistered by the Registrar of Companies. Imagetech Ltd was incorporated in Cyprus on 9 May 2002, is wholly owned by the Bank and from the date of incorporation to the present day, has remained dormant.

17. Property and equipment

Year 2009	Property	Equipment	Total
	€	€	**€**
Cost or estimated fair value			
1 January	7.408.401	6.174.487	**13.582.888**
Additions	223.035	354.781	**577.816**
Disposals/write-offs	(181.854)	(682.897)	**(864.751)**
31 December	7.449.582	5.846.371	**13.295.953**
Depreciation			
1 January	1.860.504	5.199.203	**7.059.707**
Charge for the year	375.228	322.006	**697.234**
Disposals/write-offs	(181.854)	(620.694)	**(802.548)**
31 December	2.053.878	4.900.515	**6.954.393**
Net book value	5.395.704	945.856	**6.341.560**

Year 2008	Property	Equipment	Total
	€	€	**€**
Cost or estimated fair value			
1 January	5.849.269	5.861.834	**11.711.103**
Additions	106.279	413.260	**519.539**
Disposals/write-offs	-	(100.607)	**(100.607)**
Revaluation for the year	1.608.276	-	**1.608.276**
Reversal of depreciation due to revaluation	(155.423)	-	**(155.423)**
31 December	7.408.401	6.174.487	**13.582.888**
Depreciation			
1 January	1.664.747	4.929.154	**6.593.901**
Charge for the year	351.180	335.611	**686.791**
Disposals/write-offs	-	(65.562)	**(65.562)**
Reversal of depreciation due to revaluation	(155.423)	-	**(155.423)**
31 December	1.860.504	5.199.203	**7.059.707**
Net book value	5.547.897	975.284	**6.523.181**

Properties are presented at fair value based on a valuation carried out in 2008 by independent qualified surveyors. The net book value of own properties at 31 December 2009 based on cost less accumulated depreciation would be €2.339.259 (2008: €2.417.775). Land is not depreciated and its book value at 31 December 2009 and 31 December 2008 was €1.433.695.

18. Intangible assets

Year 2009	Computer software €
Cost	
1 January	**5.343.250**
Additions/ Write-offs	**-**
31 December	**5.343.250**
Amortisation	
1 January	**4.824.239**
Charge for the year	**220.399**
31 December	**5.044.638**
Net book value	**298.612**

Year 2008	Goodwill on leasehold property	Computer software	Total
	€	€	**€**
Cost			
1 January	85.430	5.220.116	**5.305.546**
Additions	-	123.134	**123.134**
Write-offs	(85.430)	-	**(85.430)**
31 December	-	5.343.250	**5.343.250**
Amortisation			
1 January	75.230	4.589.524	**4.664.754**
Charge for the year	10.200	234.715	**244.915**
Write-offs	(85.430)	-	**(85.430)**
31 December	-	4.824.239	**4.824.239**
Net book value	-	519.011	**519.011**

19. Other assets

	2009	2008
	€	€
Sundry debtors	**787.974**	434.180
Collateral amount with Visa International	**741.195**	749.001
	1.529.169	1.183.181

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 funding from Central Bank in 2009 include funding from the European Central Bank amounted to €29.000 thousand, which the Bank has secured through credit operations in the context of monetary policy in the euro zone. This funding is fully secured by the pledge of special government securities (Notes 10 and 12) and bear annual interest at the rate of 1%.

	2009	2008
	€	€
Customer deposits:		
Demand deposits	**53.897.737**	54.223.474
Notice deposits	**63.206.828**	79.430.252
Term deposits	**330.728.197**	314.708.548
	447.832.762	448.362.274

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 deposits with fixed interest rate is based on 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 materially differ from their book value as the majority mature within one year from the reporting date (Note 30).

Although the Bank is entitled to legal protection according to the Debtors Relief (Temporary Provision) Laws of 1979 until 1995, as an affected and displaced legal entity, however, on 15 December 1998 the bank released all frozen deposits amounting to €719.058 in favour of the Bank's depositors. The equivalent balance as at 31 December 2009 was €156.226 (2008: €156.619).

Due to the fact that the amount above consists of a large number of small deposit accounts and the likelihood of repayment is minimal, on 24 May 2000 the Board of Directors decided to transfer the amount of €234.301 to the income statement and in case of repayment of these deposits to debit the income statement accordingly. During the year 2009, the Bank repaid deposits amounting to €393 (2008: €3.022) by debiting the income statement.

21. Other liabilities

	2009	2008
	€	€
Sundry creditors	**564.031**	534.289
Financial guarantees	**192.691**	85.700
Net deferred tax liability (Note 8)	**140.715**	143.382
Net liability for staff retirement plan (Note 6)	**3.058.507**	1.858.582
Bills payable	**822.000**	709.940
Deemed dividend distribution (Note 24)	**775.201**	300.450
Other liabilities	**486.314**	519.586
Accrued expenses	**658.408**	826.655
	6.697.867	4.978.584

22. Subordinated loan stock

	2009	2008
	€	€
Tier I Capital		
Capital securities	**973.903**	973.903
Tier II Capital		
Non-convertible bonds	**8.000.000**	-
	8.973.903	973.903

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 I 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 be bearing 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.

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.

23. Share capital

	2009	**2009**	2008	2008
	Number of shares	**€**	Number of shares	€
Authurised				
Ordinary shares of €0,57 each (31 December 2008 €1,71 each)	**150.000.000**	**85.500.000**	50.000.000	85.500.000
Issued and fully paid				
1 January	**15.128.151**	**25.869.138**	15.128.151	25.847.981
Share split	**30.256.302**	**-**	-	-
Capitalisation of share premium due to change in the nominal value of shares from £1 to €1,71 each	**-**	**-**	-	21.157
31 December	**45.384.453**	**25.869.138**	15.128.151	25.869.138

In the extraordinary shareholders' General Meeting which was held on 21 January 2009 it was decided that:

i. The nominal share capital of the Company amounted to €85.500.000 and divided into 50.000.000 ordinary shares of nominal value €1,71 each, to be subdivided into 150.000.000 ordinary shares of nominal value €0,57 each.

ii. The issued share capital of the Company amounted to €25.869.138 and divided into 15.128.151 ordinary shares of €1,71 each, to be subdivided into 45.384.453 ordinary shares of €0,57 each. The new 45.384.453 ordinary shares of nominal value €0,57 each that arise from the above share split, will be given to the shareholders of the company in the ratio of 3 (three) new ordinary shares for each 1 (one) old ordinary share.

24. Revaluation reserves and retained earnings

	Investments revaluation reserve	Property revaluation reserve	**Total**
	€	€	**€**
Year 2009			
1 January	51.335	3.260.386	**3.311.721**
Deferred tax	-	2.667	**2.667**
Revaluation of available-for-sale investments	41.750	-	**41.750**
31 December	93.085	3.263.053	**3.356.138**
Year 2008			
1 January	214.995	1.841.881	**2.056.876**
Property revaluation	-	1.608.275	**1.608.275**
Deferred tax	-	(189.770)	**(189.770)**
Revaluation of available-for-sale investments	(163.660)	**-**	**(163.660)**
31 December	51.335	**3.260.386**	**3.311.721**

24. Revaluation reserves and retained earnings (continued)

Retained earnings

Retained earnings are the only distributable reserve. In 2009 and 2008 no dividends were paid nor declared to be paid since the Bank had accumulated losses.

As from 1 January 2003, 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 15% 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 amount of €775.201 presented in Note 21 of the financial statements represents the special defence contribution for deemed dividend distribution for the profits of 2007, whilst in 2008 special defence contribution for deemed dividend distribution amounting to €300.450 was paid for the profits of 2006.

25. Contingent liabilities and commitments

	2009	2008
	€	€
Contingent liabilities		
Acceptances and endorsements	**220.815**	352.089
Guarantees	**28.957.583**	25.615.793
	29.178.398	25.967.882
Commitments		
Documentary credits and certified export credits	**1.103.168**	1.131.211
Unutilised limits	**40.658.266**	35.714.086
	41.761.434	36.845.297

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

Commitments for contracted capital expenditure of the Bank as at 31 December 2009 amounted to €51.645 (2008: €134.312).

Pre-15 August 1974 deposits

The Bank has the obligation to repay the pre-15 August 1974 deposits which amounted to €156.226 as at 31 December 2009 €156.226 (2008: €156.619).

Litigation

There are no pending litigation or claims against the Bank as well as any decisions of judicial or arbitration bodies that could have a significant impact on the financial position or operations of the Bank.

26. Analysis of assets and liabilities by expected maturity

	2009			2008		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and deposits with the Central Bank	**37.667.820**	**7.587.102**	**45.254.922**	15.245.735	6.493.164	21.738.899
Placements with banks	**11.946.443**	**-**	**11.946.443**	43.407.771	-	43.407.771
Loans and advances to customers	**55.217.910**	**252.541.543**	**307.759.453**	117.055.632	196.121.412	313.177.044
Investments held to maturity	**42.187.439**	**98.362.300**	**140.549.739**	25.754.841	73.683.589	99.438.430
Investments available for sale	**3.693.725**	**-**	**3.693.725**	85.170	-	85.170
Investment properties	**-**	**6.185.000**	**6.185.000**	-	-	-
Investments in subsidiary companies	**-**	**1.265**	**1.265**	-	2.111	2.111
Property, equipment and intangible assets	**115.605**	**6.524.567**	**6.640.172**	113.069	6.929.123	7.042.192
Other assets	**787.974**	**741.195**	**1.529.169**	1.183.181	-	1.183.181
	151.616.916	**371.942.972**	**523.559.888**	202.845.399	283.229.399	486.074.798
Liabilities						
Deposits by banks	**483.247**	**29.000.000**	**29.483.247**	839.146	-	839.146
Customer deposits	**68.477.679**	**379.355.083**	**447.832.762**	123.704.091	324.658.183	448.362.274
Other liabilities	**3.639.360**	**3.058.507**	**6.697.867**	3.120.002	1.858.582	4.978.584
Subordinated loan stock	**-**	**8.973.903**	**8.973.903**	-	973.903	973.903
	72.600.286	**420.387.493**	**492.987.779**	127.663.239	327.490.668	455.153.907

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 with expected maturity of more than one year.
- 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:

	2009	2008
	€	€
Within one year	**657.733**	634.225
Between two and five years	**271.124**	403.340
	928.857	1.037.565

The Bank's commitments under operating leases 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.

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

	2009	2008
	€	€
Profit before tax	**380.170**	536.401
Adjustments:		
Provision for impairment of loans and advances	**1.421.803**	1.691.265
Depreciation of property and equipment and amortisation of intangible assets	**917.633**	931.706
Loss on disposal of property and equipment	**11.303**	33.445
Dividend income	**(6.680)**	(5.177)
Interest on government and other bonds	**(5.441.703)**	(4.299.559)
Interest on subordinated loan stock	**83.152**	515.783
	(2.634.322)	(596.136)
Increase)/decrease in operating assets:		
Obligatory deposits with the Central Bank	**(65.735)**	6.791.923
Investments held-to-maturity	**1.763.584**	-
Investments in subsidiary companies	**846**	(136)
Loans and advances to customers	**(2.189.212)**	(96.964.392)
Other assets	**(387.738)**	(209.736)
Increase/(decrease) in operating liabilities:		
Deposits by banks	**28.644.101**	795.763
Customer deposits	**(529.512)**	45.342.425
Other liabilities and other accounts	**990.331**	(1.394.064)
	25.592.343	(46.234.353)
Tax paid	**-**	-
Net cash flows from/(used in) operating activities	**25.592.343**	(46.234.353)

29. Cash and cash equivalents

	2009	2008
	€	€
Cash and balances with the Central Bank (Note 10)	**45.254.922**	21.738.899
Placements with banks (Note 11)	**11.946.443**	43.407.771
	57.201.365	65.146.670
Less obligatory deposits with the Central Bank (Note 10)	**(8.986.726)**	(8.920.991)
	48.214.639	56.225.679

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.

In order to implement the European directive of Basel II for calculating capital requirements and large exposures, credit risk arising from Pillar I, is calculated in accordance with the standard method. Meanwhile, the Bank in order to implement the Directive of Pillar II, submits an annual report to the Central Bank of Cyprus regarding the Internal Capital Adequacy Assessment Process in which it describes in detail the calculation of additional capital requirements relating to credit risk.

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 the 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 on fixed intervals, and sends them to the Board of Directors and the Department of Regulatory Banking Supervision of the 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.

30. Risk management (continued)

Credit risk (continued)

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.

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 General Inspection 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.

	2009	2008
	€	€
Balances with the Central Bank (Note 10)	**40.072.797**	16.117.852
Placements with banks (Note 11)	**11.946.443**	43.407.771
Loans and advances to customers (Note 12)	**307.759.453**	313.177.044
Investments held-to-maturity (Note 13)	**140.549.739**	99.438.430
Investments available for sale (Note 14)	**3.693.725**	85.170
Other assets (Note 19)	**1.529.169**	1.183.181
Total on-statement of financial position	**505.551.326**	473.409.448
Contingent liabilities (Note 25)	**29.178.398**	25.967.882
Commitments (Note 25)	**41.761.434**	36.845.297
Total off-statement of financial position	**70.939.832**	62.813.179
Total credit risk exposure	**576.491.158**	536.222.627

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. In addition, total lending to customers whose borrowings exceed 10% of a bank's capital base, should not in aggregate exceed eight times its capital base. In addition, according to the directive of the Central Bank of Cyprus, the uncovered risk and the total of loans granted to directors and any related parties cannot exceed the total of 5% and 40% 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 2009, was €98.202 thousand (2008: €71.912 thousand).

30. Risk management (continued)

Credit risk (continued)

The allocation of advances in the various sectors of the economy is as follows:

	2009	2008
	€	€
Trade and manufacturing	**46.592.208**	32.786.733
Tourism	**31.283.837**	28.060.652
Property and construction	**91.695.435**	73.940.318
Personal and professional	**167.971.560**	210.037.548
Other sectors	**14.521.692**	12.700.103
	352.064.732	357.525.354

Collateral and other credit enhancements

Loans and advances to customers

The main types of collateral obtained by the Bank are mortgages of properties, cash collateral/ blocked deposits, 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

	2009	2008
	€	€
Neither past due nor impaired	**229.400.565**	206.236.804
Past due but not impaired	**58.687.209**	86.189.360
Impaired	**63.976.958**	65.099.190
	352.064.732	357.525.354

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.

	2009	2008
	€	€
Grade 1	**170.709.346**	171.294.659
Grade 2 & 3	**54.071.808**	34.834.189
Grade 4	**4.619.411**	107.956
	229.400.565	206.236.804

30. Risk management (continued)

Credit risk (continued)

Grade 1

Loans and advances to customers that are within their limits and 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 despite the occurrence of problems in the past.

Grade 4

This grade is given to loans that had repayment difficulties in the past but are not in arrears and are no longer considered of doubtful recovery.

Loans and advances to customers which were past due but not impaired

	2009	2008
In arrears:	**€**	€
Up to 30 days	**25.197.964**	48.954.114
From 31 to 90 days	**10.426.986**	15.795.409
From 91 to 180 days	**2.155.533**	7.235.367
From 181 to 365 days	**9.018.536**	5.970.611
Over one year	**11.888.190**	8.233.859
	58.687.209	86.189.360

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 2009 amounted to €41.273 thousand (2008: €71.798 thousand).

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 2009, amounted to €33.842 thousand (2008: €24.027 thousand).

Renegotiated loans and other advances to customers

During the year, total loans amounting to €31.438 thousand were restructured, while last year there was no significant rescheduling of loans and advances to customers which were delayed or impaired.

Analysis by rating agency designation

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

	2009	2008
	€	€
Aaa – Aa3	**43.363.064**	18.456.690
A1 – A3	**6.836.620**	34.983.565
Items in the course of collection	**1.819.556**	6.085.368
	52.019.240	59.525.623

30. Risk management (continued)

Credit risk (continued)

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

	2009	2008
	€	€
Aaa – Aa3	**85.583.369**	87.365.052
A1 – A3	**58.533.175**	10.668.243
Baa1 –Baa3	**-**	1.405.135
Unrated	**126.920**	85.170
	144.243.464	99.523.600
Issued by:		
Cyprus government	**53.109.156**	63.723.079
Cyprus public companies	**3.693.725**	1.490.305
Foreign banks	**87.440.583**	34.310.216
	144.243.464	99.523.600
Classified as:		
Investments held to maturity	**140.549.739**	99.438.430
Investments available for sale	**3.693.725**	85.170
	144.243.464	99.523.600

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	**Euro**	**US Dollars**	**British Pounds**	**Other currencies**	**Total**
	€	**€**	**€**	**€**	**€**
2009					
+0,5% for all currencies	745.674	67.042	26.358	5.498	**844.572**
-0,25% for US Dollars and -0,5% for all other currencies	(732.332)	(33.521)	(26.358)	(5.498)	**(797.709)**
2008					
+0,5% for all currencies	261.030	17.580	15.190	1.400	**295.200**
-0,25% for US Dollars and -0,5% for all other currencies	(248.850)	(8.790)	(15.190)	(1.400)	**(274.230)**

30. Risk management (continued)

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.

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**
	€	€	€	€	€	**€**
2009						
Deposits by banks	483.247	-	29.000.000	-	-	**29.483.247**
Deposits and other customer accounts	144.473.329	120.357.025	187.208.772	363.355	698.250	**453.100.731**
Other liabilities	2.673.845	-	-	-	-	**2.673.845**
Subordinated loan stock	-	-	1.639.712	2.400.000	8.300.000	**12.339.712**
	147.630.421	**120.357.025**	**217.848.484**	**2.763.355**	**8.998.250**	**497.597.535**

	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**
	€	€	€	€	€	**€**
2008						
Deposits by banks	839.146	-	-	-	-	**839.146**
Deposits and other customer accounts	139.622.011	83.097.989	231.734.652	289.945	1.582.960	**456.327.557**
Other liabilities	1.879.170	-	-	-	-	**1.879.170**
Subordinated loan stock	-	-	66.712	1.040.615	-	**1.107.327**
	142.340.327	**83.097.989**	**231.801.364**	**1.330.560**	**1.582.960**	**460.153.200**

30. Risk management (continued)

Liquidity Risk (continued)

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 prudential 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 assets' immediate liquidity is 20% of total deposits while the respective percentage for foreign currencies is 70%.

The liquidity ratio is calculated daily on the basis of available liquid assets to total liabilities. Liquid assets are defined as cash, bank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities. Liabilities included in the calculation of liquidity ratio consist of total customer deposits excluding interbank deposits and liabilities payable within one year.

The liquidity ratio in Euro was as follows:

	2009	2008
	%	%
31 December	**42,33**	31,70
Average	**39,43**	35,91
Maximum ratio	**42,33**	40,56
Minimum ratio	**35,30**	31,70

The Bank uses financial assets to manage liquidity risk on the basis of the directives of the Central Bank of Cyprus (CBC). Relevant information is presented in the liquidity reports prepared for the CBC, which management uses to obtain information for the Bank's liquidity ratios.

Financial liabilities presented in the liquidity reports include all deposits irrespective of maturity which are analyzed in time bands based on the time remaining from the reporting date until the earliest date at which they become repayable.

Financial assets are presented in these statements as follows:

Cash and deposits with Central Bank

Cash in euro are included in the time band 'on demand up to 7 days', while deposits with Central Bank are analyzed in different time bands according to their maturity. The balance on the minimum reserve is included in time bands on the basis of residual maturity of the obligations for which minimum reserves are kept.

Placements with banks

Local and foreign bank balances are included in different time bands according to their maturity.

Loans and advances to customers

Loans are analyzed in different time bands based on their residual maturity while overdrafts from current and other related accounts are presented in the first time band, "on demand up to 7 days" because it reflects their contractual maturity.

Investments held-to-maturity and available for sale

Investments which are highly liquided and can be accepted by other banks as collateral for the provision of lending facilities, are part of the first band 'on demand up to 7 days' after adjusting for the appropriate discount by the Central Bank of Cyprus. Other investments not covered by the above definition are disclosed depending on the time remaining to maturity while investments in shares are classified in the time band of more than twelve months.

30. Risk management (continued)

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. Controls include segregation of duties, controllable access, reconciliation of accounts and balances. In addition, the Bank's General Inspection Unit, 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 loss from changes in 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 operations of the Bank are supervised by the Central Bank of Cyprus, which has to comply with the requirements of both the European Union and Cyprus legislation, as well as with the regulatory framework of the Central Bank of Cyprus. Legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may have significant effect on the operations and financial position of the Bank.

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.

31. Capital management

The adequacy of the Bank's capital is monitored on a continuous basis in order to ensure compliance with the requirements of supervisory authorities, to maintain a base for support and growth of its activities and to protect the shareholder's interests.

For compliance purposes with the Central Bank of Cyprus (CBC) requirements for the computation of capital adequacy, the Bank has implemented and has fully complied with the provisions of the CBC's Directive "Computation of Capital Requirements" ("Basel II") throughout the year, on the basis of which it is required by every financial institution to maintain a minimum capital adequacy ratio of 8% (2008: 8%).

During the years 2009 and 2008, the Bank complied fully with all regulatory capital adequacy requirements:

	2009	2008
	€000	€000
Original own funds	27.890	28.064
Additional own funds	11.356	4.021
Total own funds	39.246	32.085
Risk weighted assets - credit risk	301.894	243.873
Risk weighted assets - operational risk	32.712	32.687
	334.606	276.560
Capital Adequacy Ratio	11,73%	11,60%

31. Capital management (continued)

Under the Directive, regulatory capital comprise of:

(i) Original own funds which mainly include share capital, share premium reserve, retained earnings minus proposed dividends and hybrid capital (up to 15% of total equity), after regulatory adjustments related to fair value reserves. The book value of goodwill and other intangible assets are deducted from original own funds.

(ii) Additional own funds mainly include subordinated debt, general provisions and revaluation reserves arising from the revaluation of properties and financial instruments.

Investments in associated companies are deducted equally form original own funds and additional own funds.

(iii) The risk weighted assets are classified according to their risk nature. The same treatment applies for instruments not recognised in the statement of financial position.

32. Related party transactions

	2009	2008	2009	2008
	Number of Directors of the Bank		€	€
Loans and advances:				
To members of the Board of Directors and related parties:				
Less than 1% of the net assets per director	**12**	**8**	**4.215.509**	3.172.663
	12	**8**	**4.215.509**	3.172.663
To key managing personnel and related parties			**751.422**	1.133.741
To shareholder who owns more than 20% of the share capital and its connected persons			**3.785.902**	-
Total loans and other advances			**8.752.833**	4.306.404
Tangible securities			**9.537.198**	3.877.381
Interest income			**348.582**	93.586
Deposits:				
- members of the Board of Directors and key management personnel			**1.349.339**	775.788
- connected persons of the above			**13.021.207**	16.339.658
- shareholder who owns more than 20% of the share capital and its connected parties			**44.064**	123.165
			14.414.610	17.238.611
Interest expense			**178.090**	254.910
Subordinated loan stock issued to connected person of a member of the Board of Directors			**500.000**	-
Interest expense on subordinated loan stock			**1.027**	-

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 €347.584 (2008: €344.704), of which €258.564 (2008: €225.967) 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.

Fees and emoluments of Directors and key management personnel

	2009	2008
	€	€
Directors' emoluments		
Member Fees:		
Non executives	**130.064**	82.558
Executives	**-**	2.017
Total member fees	**130.064**	84.575
Executive directors' emoluments:		
Salaries and other short-term benefits	**503.611**	174.759
Employer's contributions	**27.618**	7.399
Retirement benefit plan costs	**68.300**	-
Total executive directors' emoluments	**599.529**	182.158
Total Board of Directors emoluments	**729.593**	266.733
Key management personnel emoluments		
Salaries and other short-term benefits	**352.704**	624.187
Employer's contributions	**32.541**	51.539
Retirement benefit plan costs	**92.337**	124.855
Total key management personnel emoluments	**477.582**	800.581
Total emoluments	**1.207.175**	1.067.314

On 31 December 2009 there were three (3) Executive Directors, while for the corresponding period of 2008 there was one (1) Executive Director. The key management personnel of the Bank on 31 December 2009, consisted of four (4) senior executives. In the corresponding period of 2008 there were six (6) key management personnel of the Bank of which two (2) were appointed as Executive Directors during 2009.

32. Related party transactions (continued)

Other transactions with related persons

Mr.Pavlos Savvides, President of the Board of Directors, holds a direct and indirect interest and is Chairman of the Board of the company Options Cassoulides PLC, which supplies the Bank with stationery. The total amount of services paid for the year ended 31 December 2009 was €17.467. For the year ended 31 December 2008 no transactions were made.

Mr.Michalis Kleopas, who is a member and the Secretary of the Board of Directors, is a partner in the Law Office Kleopas & Kleopas, who are handling court cases and legal proceedings on behalf of the Bank. The total cost of these cases which is charged to the debtors/borrowers for 2009 amounted to €300 (2008: €31.696).

Mr.George Stylianou, a member of the Board of Directors, is a partner in the audit firm Moore Stephens Stylianou & Co. During the year 2009, the audit firm mentioned above, provided consulting services to the Bank amounted to €34.500. For the year ended 31 December 2008 no transactions were made.

Mr.Yiannos Christofi, a member of the Board of Directors, is the CEO of Liberty Life Insurance Public Company Ltd (formerly Aspis Liberty Life Insurance Public Company Ltd). During the year, the Bank paid insurance premiums to the insurance company of €70.083 on staff insurance policies, as required under the collective agreement. There were no transactions for the year ended 31 December 2008.

33. Agreements with major shareholder

Except for the disclosures in Note 32, at the 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

By decision of the Extraordinary General Meeting held on 7 December 2009 the issue and listing on the Cyprus Stock Exchange (CSE) of Convertible Bonds with total nominal value of €9.984.580 with right to extend to €14.976.869 was approved, as well as the allocation of shares at nominal value of €0,57 each at a price of €0,68 per share, in the form of rights in the ratio 1 to 1, that is 1 right for every 1 existing share, which will be offered pro-rata to all shareholders who are registered in the Bank's register at the record date. Each shareholder is entitled to purchase for every 2 rights, 1 new share of the Bank for €0,68. On 26 February 2010, the Cyprus Securities and Exchange Commission approved the Prospectus, which has been prepared in accordance with the "Law Providing for the Conditions for Making an Offer to the Public of Securities, on the Propsectus to be Published when Securities are Offered to the Public or Admitted to Trading on a Regulated Market and Other Incidental Matters" of 2005 , which is relevant to the above issues as well as the listing on the CSE of 8,000,000 issued non-convertible debentures (Note 22).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF USB BANK PLC

Report on the Financial Statements

We have audited the financial statements of USB Bank Plc (the ''Company'') on pages 26 to 67, which comprise the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes

Board of Directors' Responsibility for the Financial Statements

The Company's 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of USB Bank Plc as at 31 December 2009, 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, 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 Company.
- The Company'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 on pages 19 to 22 is consistent with the financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 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.

Ernst & Young Cyprus Ltd

Certified Public Accountants and Registered Auditors

Nicosia

12 April 2010

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205 Arch. Makarios III Avenue
3030 Limassol
Telephone: 25 822877
Fax: 25 822879

CREDIT SERVICES LIMASSOL
205 Arch. Makarios III Avenue
3030 Limassol
Telephone: 25 822878
Fax: 25 822879

MAIN OFFICES, SERVICES AND BANKING CENTRES

LIMASSOL BANKING CENTRES

MAKARIOU & LEONTIOU BRANCH
Corner Makariou and Leontiou street
3020 Limassol
Telephone: 25 822929
Fax: 25 822882

OMONIAS BRANCH
11 Omonias Avenue
3052 Limassol
Telephone: 25 819724
Fax: 25 819730

KOLONAKIOU BRANCH
12 Kolonakiou street, Shop D
4103 Ayios Athanasios
Telephone: 25 430222
Fax: 25 430305

VICTORY BRANCH
205 Arch. Makarios III Avenue
3030 Limassol
Telephone: 25 822770
Fax: 25 822875

PAPHOS REGIONAL MANAGEMENT
20 Griva Digeni Avenue
8047 Paphos
Telephone: 26 818550
Fax: 26 818552

CREDIT SERVICES PAPHOS
20 Griva Digeni Avenue
8047 Paphos
Telephone: 26 818548
Fax: 26 818553

PAPHOS BANKING CENTRES

GRIVA DIGENI BRANCH
20 Griva Digeni Branch
8047 Paphos
Telephone: 26 811301
Fax: 26 944120

TOMBS OF KINGS BRANCH
21 Tombs of Kings
Princess Vera complex, Shop 8
8046 Paphos
Telephone: 26 811866
Fax: 26 811871

EV. PALLIKARIDES BRANCH
121 Evagora Pallikarides street
8010 Paphos
Telephone: 26 819111
Fax: 26 911450

POLYS CHRYSOCHOUS BRANCH
3 Mariou Avenue, Block A, No.1
Polis Chrysochous
8820 Paphos
Telephone: 26 815781
Fax: 26 815782

AMMOCHOSTOS REGIONAL MANAGER
129 1st April Avenue
5280 Paralimni
Telephone: 23 812266
Fax: 23 812261

CREDIT SERVICES AMMOCHOSTOS
129 1st April Avenue
5280 Paralimni
Telephone: 23 812266
Fax: 23 812261

AMMOCHOSTOS BANKING CENTRES

PARALIMNI BRANCH
129 1st April Avenue
5280 Paralimni
Telephone: 23 812255
Fax: 23 812260

AYIA NAPA BRANCH
21 Ayia Mavri street
5330 Ayia Napa
Telephone: 23 819260
Fax: 23 724055

PROTARAS BRANCH
13 Protaras street
5296 Paralimni
Telephone: 23 819442
Fax: 23 833577

LARNACA REGIONAL MANAGER

1 Gladstonos Avenue, Panayiotio Megaro
6023 Larnaca
Telephone: 24 664255
Fax: 24 665140

CREDIT SERVICES LARNACA

1 Gladstonos Avenue, Panayiotio Megaro
6023 Larnaca
Telephone: 24 664932
Fax: 24 664279

LARNACA BANKING CENTRES

GLADSTONOS BRANCH
1 Gladstonos Avenue, Panayiotio Megaro
6023 Larnaca
Telephone: 24 665141
Fax: 24 664279

DROSIA BRANCH
20 Griva Digeni Avenue
6045 Larnaca
Telephone: 24 822530
Fax: 24 822535

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