2007

ANNUAL REPORT

UNIVERSAL BANK

ANNUAL REPORT 2007

Contents

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Universal Bank Public Ltd will be held at the Headquarters of Universal Group of Companies in Nicosia, on 24 June 2008 at 5:00 p.m., to transact the following business:

Agenda

1. Submission of the financial statements of the Bank for the year ended 31 December 2007 and the Directors' and Auditors' Reports.

2. Election of the members of the Board of Directors. The curriculum vitae of the members of the Board of Directors submitting themselves for re-election are presented on pages 5 to 7 of the Annual Report.

3. Fix the remuneration of the members of the Board of Directors.

4. Re-appointment of the Independent Auditors and authorisation of 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, 16 May 2008

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, 85 Digeni Akrita Avenue, Universal Tower, 6th floor, 1070 Nicosia, at least 48 hours before the time of the meeting.

Chairman's Statement

Dear shareholders,

The year 2007 was a very competitive one for the banking sector with continuous challenges and rapid changes in the banking map.

The results of the Bank for the year 2007 show a considerable improvement.

Turnover increased by 23% to C£21,7 million (€37,0 million) compared to C£17,7 million (€30,2 million) in 2006.

Net interest income increased by 50% to C£10,3 million (€17,6 million) in comparison to C£6,9 million (€11,8 million) in 2006.

This significant improvement is mainly due to the recovery of interest that was previously suspended from the results of the Bank and the reduction in the amount of interest suspended in the year. The above reduction was a result of the Bank's efforts to improve the quality of its lending book and reduce the amount of non-performing loans. The interest income that was recognized in 2007 from recoveries of non-performing loans reached C£2,9 million (€5,0 million) in comparison to C£1,5 million (€2,5 million) in 2006. The amount of interest suspended for 2007 was C£1,5 million (€2,5 million) indicating a decrease of C£1,6 million (€2,7 million) compared to 2006.

In addition, the significant increase in available funds during 2007 contributed to the increase in net interest income through an increase of 25% in income from investments in government and other bonds and 84% increase in income from placements with other banks.

Despite the intense competition and the aggressive pricing policies in the banking system for new deposits, the Bank maintained the cost of deposits at the same level of 2006.

Net fees and commission income for 2007 increased by 8% in comparison to 2006 whilst income from foreign exchange increased by 9%.

Adjusting for the non-repetitive income of C£96 thousands (€164 thousands) from the sale of investments available for sale and the positive change in the fair value of investments in property by C£86 thousands (€146,9 thousands) during 2006, the total of other operating income for 2007 remained at the same level as the previous year.

As a result of the above, the Bank's net income for 2007 increased by 37% to C£12,7 million (€21,7 million) compared to C£9,3 million (€15,8 million) in 2006.

Staff costs in 2007 were reduced from 65% to 62% in relation to the Bank's operating expenses. Bank's objective is to further reduce the above percentage to be in line with international and local levels.

The total of other operating expenses increased by 19% during the year to C£2,7 million (€4,7 million) mainly due to the increased expenditure for upgrading the Bank's core banking system, Euro adoption and Basel II compliance.

The operating profits of the Bank showed a significant increase of 98% and reached C£5,5 million (€9,3 million) in comparison to C£2,8 million (€4,7 million) in 2006.

The total charge for the year for loan impairment remained at the same level as 2006 amounting to C£889,7 thousands (€1,5 million).

The profits after provisions and tax increased by 145% reaching C£4,6 million (€7,8 million) in comparison to C£1,9 million (€3,2 million) in 2006.

Total assets as at 31 December 2007 increased by 10% and amounted to C£274,1 million (€468,3 million) compared to C£248,8 million (€425,1 million) as at 31 December 2006.

The Bank's deposits as at 31 December 2007 amounted to C£235,9 million (€403,0 million) showing an increase of 7% compared to the deposits as at 31 December 2006. Foreign currency deposits increased significantly by 102% with a positive contribution to interest income and foreign exchange income.

The Bank's credit activity showed a slowdown with a reduction of 1% in credit balances amounting to C£127,1 million (€217,2 million) as a result of the Bank's efforts of improving the quality of its lending portfolio.

The Bank's capital base and capital adequacy ratio as at 31 December 2007 were improved compared to 31 December 2006 position and reached C£17,1 million (€29,2 million) and 13,84% respectively. In accordance with the relevant directive of the Central Bank of Cyprus, the minimum capital adequacy ratio is 10%.

In 2007, the number of the Bank's branches was increased to 19 with the opening of the fourth branch in Limassol and the first branch in Polis Chrysochous.

In 2008 it is expected to be completed, the set up of a specialized unit for the provision of high standard services to the international business companies, a sector that is considered as one of the most profitable business sectors in the banking system and in which the Bank had very little presence so far.

The regularisation of the loan and advances portfolio remains one of the Bank's most important targets. Investments made so far in the area had positive results as shown from the significant increase in the recovery of the impaired loans. In 2007 the Bank has started the set-up of a risk management unit which will be completed in 2008 and which will be responsible for the management and monitoring of all types of risks arising from the banking operations as well as the development of the necessary risk assessment models and systems.

The efforts for the improvement and upgrading of Bank's technology are continuous to ensure the effective, efficient and safe operation of the Bank. In 2007 in addition to the compliance projects with European and other directives, the Bank had upgrade its core banking system, its credit card management system as well as its network infrastructure for meeting the challenges ahead. This effort will continue in 2008 for further process automations and simplifications for increased productivity and cost control.

Taking into account all the above and the up-to-date performance of the Bank, its profitability is expected to continue in 2008.

Closing, I would like to thank our customers and shareholders for their support and faith in our vision. I would like to express my gratitude to the members of the Board of Directors, our Auditors and Legal Advisors, as well as all other associates for their valuable services. I would also like to thank the members of the Board of Directors who resigned during the year and especially the Chairman, Mr. Symeon Matsis, for his contribution to the Bank's activities and operations. Finally, I would like to extend special thanks to the management and the staff of the Bank who despite the difficulties, they work with dedication towards the achievement of our targets.

Christakis Klerides
Chairman

Part A

The establishment of corporate governance principles and the reinforcement of the supervisory role of the Board of Directors aims mainly at protecting investors through the adoption of transparency and timely information as well as guaranteeing the Board of Directors' sufficient independence in decision-making. The Board of Directors recognises the importance of implementing sound corporate governance policies as a basic precondition for the creation of value to the shareholders and the community.

On 9 November 2004, the Board of Directors decided to fully adopt the provisions of the Corporate Governance Code (the "Code"), recognising its importance. However, taking into consideration the new provisions of the revised Code published by the Cyprus Stock Exchange Board, effective from 1 May 2006, and the developments regarding the Bank's shareholder structure, the Board of Directors decided the implementation of the provisions of the revised Corporate Governance Code for 2007.

Part B

The composition of the Board of Directors must ensure that the balance between the independent, non-executive Directors and the remaining Directors is such, that no single Director, or a small group of Directors, can dominate in decision-making and no group has a majority over the other.

The Board of Directors assures that it has complied with the provisions of the Code and considers that there is the required balance on the Board.

On 31 December 2007, the Board of Directors consisted of seven (7) non-executive Directors, one being the Chairman and another being the Secretary.

Following two new appointments on 17/01/2008 and 28/02/2008, the members of the Board of Directors increased to nine (9). In particular, Dr. Spyros Episkopou was appointed as executive member of the Board of Directors, also acting as a General Manager of the Bank, and Mr. Pavlos Savvides as member of the Board of Directors.

The following ex-members of the Board of Directors resigned on 9/07/2007:
Michalis Michaelides, Frixos Sorokos, Socrates Solomides.

The ex-Chairman of the Board of Directors Mr. Symeon Matsis resigned on 11/10/2007. On 17/12/2007 Mr. Athos Papachristoforou and Mr. Demetris Ioannides resigned.

The Board of Directors of the Bank as at 31 December 2007 consisted of the following members:

Non-executive and non-independent members

Michalis Kleopas (Secretary and Member – Appointed on 21/01/1994)
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 an 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 the various Legal, Disciplinary and Investigative Committees of Cyprus Sport Organisation, Cyprus Football Association, Cyprus Handball Association and Technical Committee of Referees. He is the Secretary and member of the Board of Directors of a number of Private and Public Companies. Currently a lawyer.

Kypros Miranthis (Member – Appointed on 9/07/2007)
Born in 1967. Graduated the London School of Economics with a degree in B.Sc (Economics & Computing). Following a scholarship from Fullbright Foundation, he continued his studies in Indiana University where he completed an MBA (Finance). He started his career in 1993 at Hellenic Bank and later on as an Officer in the Central Bank of Cyprus. At the same time, he was working at the Department of Business Management of Cyprus University as a member of specialised trained staff, teaching finance. Since 1995 he has been working at Universal Life Public Company Ltd as an Assistant to the Chief Executive Officer.

Dr. Yiannos Mouzouris (Member – Appointed on 2/05/2007)
Born in 1969. Graduated the University of Wisconcin Madison with degrees in B.Sc 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, with major activities being in investment banking. Later, 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.

Non executive and independent members

Five (5) non-executive Directors having signed the relevant Independence Confirmation are considered independent in accordance with the definition of independent directors as adopted by the Universal Bank Public Ltd.

Christakis Klerides (Non-Executive Chairman – Appointed Member on 9/07/2007, Appointed Chairman on 18/10/2007)
Born in 1951. He is a holder of a degree in Business Studies from the United Kingdom, fellow of the Association of Chartered Certified Accountants in England and Wales and member of the Institute of Certified Public Accountants in Cyprus. He worked in England and Greece before coming to Cyprus in 1977. From 1977 to 1999 he worked at Metaxas, Loizides, Syrimis & Associates KPMG and from 1981 to 1999 was a partner in the same Audit Firm with specialisation in Banking, Finance and Insurance operations. In March 1999 he was appointed as Minister of Finance until February 2003. From 2003 he works as the Chairman at CMK Eurofinance Consultants Ltd whilst at the same time he is a non-executive director in a number of companies.

Garo Keheyan (Member – Appointed on 9/072007)
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 California, 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.

Christos Mavrellis (Member – Appointed on 9/07/2007)
Born in 1946. Graduated from the University of Athens with a degree in Law and from the University College of London with a diploma in Marine Law. From 1982 to 1985 he was a Minister of Communications and Works and from 1985 to 1988 he was a Minister of Finance. He is a Senior Partner at Chrisis Demetriades & Associates Law Office in Limassol and member in a number of Board of Directors of Public and Private Companies.

Christakis Pavlou (Member – Appointed on 9/07/2007)
Born in 1945. Graduated the London Norwood Technical College with a degree in Business Studies. He started his carreer at Barclays Bank in London and later on in New York. He worked at HSBC as the Chief Treasury Manager until 1998 where he retired. Later on, he worked at Popular Bank as Director and Member of the Board of Directors until 2004. Currently, he is the Vice President and Chief Executive Director of TFI Public Company Ltd, honorary member of ACI (Professional Body of Treasury Executives) and member of the Guild of International Bankers.

Pavlos Savvides (Member – Appointed on 28/02/2008)
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 a president of the Cyprus Stock Exchange. Since 2004 he is involved in a number of mergers and acquisitions mainly in the banking sector in Cyprus and in Greece. He is a member of the Board of Directors in a number of companies.

Executive and non-independent member

On the Board of Directors of the Bank, there is representation of one Executive Director as required by the Revised Code.

Dr. Spyros Episkopou (Executive Member – Appointed on 17/01/2008)
Born in 1959. Graduated the University of East Anglia with a degree in B.A Economics. He is a holder of a PhD in Industrial Economics. He started his banking career at Popular Bank where he worked for 13 years in various management positions. He resigned from the General Manager position at Popular Bank United Kingdom in 2001, a position he held for six years. Since March 2001 he works at Universal Bank in the post of General Manager. He is a member of the Board of Directors of the Employers Association in Cyprus.

Currently, there is no Chief Executive Officer position and therefore there is no issue of separation of positions between the Chairman of the Board of Directors and the Chief Executive Officer.

Chief Independent Director

On 23/08/2007, following a Board of Director's decision, it was announced to the Cyprus Stock Exchange and to the Cyprus Securities and Exchange Commission, the appointment of Mr. Christakis Klerides as the Chief Independent Director. On 18/10/2007 with a new decision from the Board of Directors, Mr. Christakis Pavlou was appointed in this position in substitution of Mr. Christakis Klerides.

The Chief Independent Director is available to hear the concerns of shareholders whose problem has not been resolved through the normal channels of communication in accordance with the Code.

The Directors of the Bank are members of the Board of Directors in other companies (listed and non-listed). The members of the Board of Directors inform the Bank of the companies in which they participate as well as their form of participation (executive or non-executive).

The highest executive of the Bank is the General Manager who was appointed on 17/05/2008 as an executive member of the Board of Directors.

The Board of Directors held 14 meetings during 2007.

The issues that the Board of Directors deals with are the following:

- Strategic policies and objectives of the Bank
- Preparation of annual budget and business planning of the Bank
- Determination of framework for capital investments
- Mergers, acquisitions and disposals of the Bank's assets
- Adoption and implementation of new and revised International Financial Reporting Standards
- Monitoring of unusual and or significant transactions by the Bank of any kind which is directly or indirectly in the interest of the Chairman, any member of the Board of Directors, the General Manager, the Secretary, the Auditors or a shareholder that directly or indirectly controls more than 5% of the issued share capital or the voting rights of the Bank
- Selection, appointment and termination of the Bank's General Manager
- Securing smooth succession regarding the chief executive members of the Bank
- Determination of the Directors' retirement policy
- Appointment of the Bank's Secretary

For better execution of their duties as members of the Board of Directors, upon approval by the Board of Directors, all members are entitled to receive 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 Secretary ensures the application of the Board's policies and compliance with existing regulations.

The Board of Directors operates on the basis of collective responsibility and no differentiation exists between groups of Directors with regards to their responsibility.

Based on the Bank's articles of association, all Board members resign at the first annual general meeting. At the forthcoming annual general meetings, one third (1/3) of the appointed Board members will resign and will have the right to re-election at the next annual general meeting. If the number of directors is less than three (3), or a multiple of three (3), then the number of directors expected to resign will be the number closest to the one third (1/3). At the annual general meeting held on 13 June 2007, Mr. Michalis Michaelides and Mr. Michalis Kleopas retired by rotation and were re-elected at the same meeting. Also, Mr Athos Papachristoforou and Dr. Yiannos Mouzouris who were appointed by the Board of Directors on 2/5/2007, retired, offered themselves for re-election and were re-elected.

On 9/07/2007 Mr. Michalis Michaelides, Mr. Frixos Sorokos and Mr. Socrates Solomides were resigned from the Board of Directors and were re-elected.

On 11/10/2007 the ex-Chairman of the Board of Directors Mr. Symeon Matsis resigned from the Board of Directors of the Bank. On 17/12/2007 Mr. Athos Papachristoforou and Mr. Demetris Ioannides resigned.

For the year ended 31 December 2007, and according to the Bank's articles of association, during the next Annual General Meeting, Dr. Yiannos Mouzouris retires but offers himself for re-lection. Mr. Garo Keheyan, Mr. Christos Mavrellis, Mr. Christakis Klerides, Mr. Kypros Miranthis, Mr. Christakis Pavlou who were appointed by the Board of Directors on 9/07/2007, Dr. Spyros Episkopou who was appointed on 17/01/2008 and Mr. Pavlos Savvides who was appointed on 28/02/2008 retire but offer themselves for re-election.

The names of the Directors that are submitted for election or re-election are accompanied by the curriculum vitae of each Director, so that the shareholders can make an informed decision on their election.

Board of Directors Committees

Audit Committee

The Audit Committee members are appointed by the Board. The Committee consists of at least two (2) non-executive Directors, the majority of whom are independent members of the Board. The Audit Committee members elect the Committee's Chairman who has experience in Accounting and Finance.

During 2007, the Committee consisted of the following members:

Chairman:	Christakis Klerides (Since 19/7/07, non-executive, independent)
	Frixos Sorokos (Up to 9/7/07)
Members:	Christos Mavrellis (Since 19/7/07, non-executive, independent)
	Athos Papachristoforou (Since 19/7/07 up to 17/12/07)
	Michalis Michaelides (Up to 9/7/07)
	Socrates Solomides (Up to 9/7/07)
	Frixos Sorokos (Up to 9/7/07)

The Committee met four (4) times during 2007.

The main duties of the Committee include the following:

- Recommendations to the Board with regards to the appointment, termination, and remuneration of the Bank's external auditors, the continuous supervision of the extent and effectiveness of the audit, and the independence and objectivity of the auditors
- Submission to the Board of a report including:
  - (a) Audit and advisory fees paid to the external auditors
  - (b) The assignment of substantial advisory duties assigned to the external auditors either based on their importance to the Bank and its subsidiaries or based on the level of remuneration
- Submission of suggestions and proposals by the Manager of Financial Services to the Board of Directors on the selection of accounting policies used for the preparation of the financial statements of the Bank
- In co-operation with the Corporate Governance Compliance Officer, preparation of the Corporate Governance Report for inclusion in the Bank's Annual Report
- Recommendations to the Board of Directors with regard to compliance with the Code in connection with the recommended activities of the Corporate Governance Compliance Officer

- Review of the Bank's transactions in 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 a direct or indirect interest, in order to ensure that these transactions are carried out in the normal course of business and at arm's length
- Evaluation of the adequacy and independence of the Internal Audit Department

Nominations Committee

The members of the Nominations Committee are appointed by the Board and the majority are non-executive Directors. The Chairman of the Board of Directors is the Chairman of the Committee.

The members of the Nominations Committee are:

Chairman:	Christakis Klerides (Since 18/10/07, non-executive, independent)
	Symeon Matsis (Up to 11/10/07)
Members:	Michalis Kleopas (Since 19/7/07, non-executive, non-independent)
	Kypros Miranthis (Since 19/7/07, non-executive, non-independent)
	Yiannos Mouzouris (Since 19/7/07, non-executive, non-independent)
	Frixos Sorokos (Up to 9/7/07)

The Nominations Committee met three (3) times during 2007.

The main duties of the Nominations Committee includes the following:

- Submission to the Board of recommendations for the appointment of new Directors based on their academic and professional qualifications, as well as their personalities
- Definition of criteria for finding prospective members of the Board
- Evaluation and recommendation to the Board with regards to the composition and structure of the Board of Directors in accordance with the provisions of the Code
- In co-operation with the Secretary, formulation of succession plans of the Board
- Report to the Board of Directors on a timely basis the Committee's activities

Remunerations Committee

The Remunerations Committee members are appointed by the Board. The Committee consists of two independent non-executive Directors. The Committee's Chairman is elected by the members.

The members of the Remuneration Committee are:

Chairman:	Christakis Pavlou (Since 19/7/07, non-executive, independent)
	Frixos Sorokos (Up to 9/7/07)
Members:	Garo Keheyan (Since 19/7/07, non-executive, independent)
	Athos Papachristoforou (Since 19/7/07 up to 17/12/07)
	Michalis Michaelides (Up to 9/7/07)

The Committee has met once during 2007.

The Committee's main duties include:

- Review of the employment contracts of the executive Directors
- Submission to the Board 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
- Submission of the Directors' remuneration to the shareholders for approval at annual general meetings
- Comparison of the Directors remuneration policies with those of other companies taking into consideration the market conditions, competition, and the Bank's financial performance

Risk Committee

On 20/7/2007 the Bank informed the Cyprus Stock Exchange and the Cyprus Securities and Exchange Commission of the new members of each Committee and the creation of a new Committee called Risk Committee.

The members of the Risk Committee are appointed by the Board of Directors. The Committee is made up of four (4) non-executive Directors of which two (2) are independent and one (1) executive, non-independent Director.

The Risk Committee is made up of the following members:

Chairman:	Christakis Pavlou (since 19/7/07, non-executive, independent)
Members:	Garo Keheyan (since 19/7/07, non-executive, independent)
	Kypros Miranthis (since 19/7/07, non-executive, non-independent)
	Giannos Mouzouris (since 19/7/07, non-executive, non-independent)
	Spyros Episkopou (since 28/2/08, executive, non-independent)

During 2007 the Committee has met once.

The main duties of the new Committee include the following:

- Formation of a new 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 level
- Development of an internal system of managing risks and integration of this in the decision making process for all the activities of the Bank and its subsidiaries
- Determine the principles that should be applied in managing risks
- Assessment, every three months, of major issues arising from the Risk Management Unit and updating of the Board of Directors in relation to the major risks that the Bank has taken
- Assessment on an annual basis of the adequacy and effectiveness of the management of risks and the suitability of the limits, the adequacy of the provisions and the adequacy of the equity in relation to the volume and form of the undertaken risks. The above assessment is made based on the annual report of the head of the Risk Management Unit
- Preparation of annual stress tests in relation to market risk, credit risk, liquidity risk and similar techniques for operational risk

Report on Remuneration of Directors

The remuneration of the members of the Board of Directors is set by the Board of Directors based on the recommendations of the Remuneration Committee.

The remuneration is related to the members' attendance at the Board of Directors' meetings and approved by the shareholders in every annual general meeting.

During the shareholders' annual general meeting that was conducted on 13 June 2007, an annual amount of C£2.000 (€3.417,20) was approved for each member and also the amount of C£50 (€85,43) for each meeting of the Board of Directors and Committee meetings. Additionally, the Chairman's remuneration of C£12.000 (€20.503,22) was approved at the same annual general meeting.

There is no remuneration for Executive Directors for 2007 as the appointment of Executive Director was done on the 17/1/2008.

The above remunerations are reviewed annually. The remuneration of the non-executive Directors is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Bank, and for their participation in the Committees of the Board of Directors. Furthermore, based on the Bank's memorandum, the travelling expenses that are necessary for the members of Board of Directors' attendance in all kind of meetings could be reimbursed.

The remuneration of the executive Directors is approved annually by the Board during the budget review for the following year. The reward package comprises salary, adjusted on an annual basis, taking into account the prevailing economic and labour market conditions.

Further details of Director remuneration for the years 2006 and 2007 are set out in Note 35 of the audited financial statements for the year ended 31 December 2007 and they have been prepared based on Appendix 2 of the Code.

Loans to directors and other transactions

Details of loans and other transactions with the Directors are set out in Note 35 of the audited financial statements for the year ended 31 December 2007. All the transactions are conducted in the normal course of the Bank's business, on an arms' length basis and with transparency.

Confirmations by the Board of Directors

System of Internal Controls

The Bank maintains an Internal Audit Department headed by the Chief Inspector Mr. Stelios Alexandrou. The Department currently employs four (4) people.

Stelios Alexandrou – Chief Inspector

Graduated from the London School of Economics in 1986 with a degree in BSc Economics. In 1987 he did an MBA at Stirling University. He started his career in 1987 at Hellenic Bank where he worked in the Credit Department, Internal Audit and International Relations Department. In 1997 he joined Universal Bank as the Credit Manager and later on as the Human Resource Manager. From 2003, he holds the position of the Chief Inspector.

The Board of Directors confirms the review of the effectiveness of the internal control systems of the Bank and confirms its satisfaction. The review covers all control systems, including both financial and operational systems, as well as the risk management systems which address the risks threatening the achievement of the Bank's goals.

Accuracy and completeness of information

The Board confirms that the Company has adopted and complied with processes to verify the accuracy and completeness of the information given to investors. The Board has no reason to believe that such information is inaccurate and incomplete. The Board also confirms that it is not aware of any violation of the Cyprus Stock Exchange Laws and Regulations.

Going concern

The Board confirms that it is satisfied that the Bank has adequate resources to continue in business as a going concern for the next twelve (12) months.

Investor Relations Officer

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 results every six months. Besides the Annual General Meeting of the Shareholders, the Bank organises an annual Company Presentation where it presents both the audited financial results of the year and its strategic plans.

In addition, the Board of Directors provides the opportunity to holders of at least 5% of the Bank's share capital to request the inclusion of items on the agenda of General Meetings up to 5 months after the Bank's year end and at least 10 days prior to the notice of the General Meeting.

The Bank, with an announcement dated 7/5/2007, appointed the Manager Legal Services Mrs. Elli Photiadou as the Investor Relations Officer in substitution of Mr. Demetris Shacallis who left the Bank on the 11/5/2007.

Corporate Governance Compliance Officer

The Bank, with an announcement dated 7/5/2007, appointed the Manager Legal Services Mrs Elli Photiadou, as the Corporate Code Governance Officer in substitution of Mr. Demetris Shacallis who left the Bank on the 11/5/2007. In addition Mrs. Elli Photiadou acts as a Deputy Secretary of the Board of Directors.

The Board of Directors
Universal Bank Public Limited

Nicosia, 31 March 2008

Board of Directors and Executives

Board of Directors

Christakis Klerides	Chairman	
Spyros Episkopou	Executive Director	(Appointed 17/01/2008)
Michalis Kleopas	Non Executive Director	
Yiannos Mouzouris	Non Executive Director	
Garo Keheyan	Non Executive Director	
Kypros Miranthis	Non Executive Director	
Christos Mavrellis	Non Executive Director	
Christakis Pavlou	Non Executive Director	
Pavlos Savvides	Non Executive Director	(Appointed 28/02/2008)

General Manager
Spyros Episkopou

Chief Financial Officer
Andreas Theodorides

Secretary
Michalis Kleopas

Registered Office
85 Digenis Akritas Avenue
Universal Tower, 6th floor
1070 Nicosia

Legal Advisor
Dr. Kypros Chrysostomides & Co

Independent Auditors
Ernst & Young
Chartered Accountants

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

In accordance with article 9, part (3)(c) and (7) and the provisions of the Law 190(I) 2007 on Transparency Requirements, (Moveable values for Negotiation in a Regulating Market), we, the members of the Board of Directors and the Company officials responsible for the drafting of the financial statements of Universal Bank Public Ltd for the year ended 31 December 2007, declare that, to the best of our knowledge:

(a) the annual financial statements which are presented in pages 17-62:
  (i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, and
  (ii) give a true and fair view of the assets, liabilities, financial position and profit of Universal Bank Public Ltd and,

(b) the Directors' report includes a fair review of the developments and performance of the business and the position of Universal Bank Public Ltd, together with a description of the principal risks and uncertainties that they face.

Members of the Board of Directors

Christakis Klerides	Chairman
Spyros Episkopou	Executive Director
Michalis Kleopas	Non Executive Director
Yiannos Mouzouris	Non Executive Director
Garo Keheyan	Non Executive Director
Kypros Miranthis	Non Executive Director
Christos Mavrellis	Non Executive Director
Christakis Pavlou	Non Executive Director
Pavlos Savvides	Non Executive Director

Company Official responsible for the preparation of financial statements
Andreas Theodorides, Chief Financial Officer

Nicosia, 31 March 2008

The Board of Directors of Universal Bank Public Ltd (the "Bank") submit to the shareholders their report and the audited financial statements for the year ended 31 December 2007.

Change in the ownership of the Bank

On 10 January and 6 February 2007, Universal Life Insurance Public Co. Ltd sold a total of 50,99% of the issued share capital of the Bank to Schöeller Holdings Ltd and Path Holdings Ltd, in equal shares. On 27 November 2007, Schöeller Holdings Ltd that owned 25,49% of the issued share capital of the Bank, sold its percentage to Commercial Value A.A.E. (22,41%) and Aspis Providence A.E.G.A. Internal Variable Capital (3,08%). As a result, the total percentage which is controlled by companies of the Aspis Group reached 29,55%. Also during the year, Mr. Pavlos Savvides and the company Tygoonato Coffee Lounge Ltd have acquired 8,75% and 7,46% respectively of the issued share capital of the Bank. The shareholders who own a percentage over 5% of the share capital of the Bank are presented in Note 34.

Activities

The Bank's main activity during the year was the provision of banking and financial services in Cyprus through the operation of 19 branches.

Financial results

Profits before provisions for loan impairment for the year increased by 97,5% as compared to 2006, reaching £5,5 million (€9,3 million). Profit after provisions and taxation, amounted to £4,6 million (€7,8 million) compared to a profit of £1,9 million (€3,2 million) for the year 2006.

Total assets increased by 10% to £274,1 (€468,3 million) compared to £248,8 million (€425,1 million) for year 2006. This is mainly due to the utilisation of available funds from the increase in deposits. As a result of the positive results, the Bank's equity was reinforced by £4,7 million (€8,0 million).

The main financial highlights for the years 2007 and 2006 are as follows:

	2007 **£'000**	2006 £'000	**2007** **Euro** **€'000**	2006 Euro €'000	Change
Turnover	**21.668**	17.668	**37.021**	30.188	+23%
Profit before provisions	**5.466**	2.767	**9.339**	4.728	+98%
Profit before tax	**4.576**	1.872	**7.818**	3.199	+144%
Profit after tax	**4.579**	1.869	**7.823**	3.194	+145%
Profit per share (cent)	**30,3**	12,4	**51,7**	21,1	+145%
Deposits	**235.877**	221.097	**403.020**	377.767	+7%
Loans and advances	**127.132**	127.798	**217.218**	218.356	-0,5%
Total assets	**274.061**	248.804	**468.262**	425.107	+10%
Equity	**17.203**	12.521	**29.393**	21.393	+37%

Board of Directors

The members of the Board of Directors of the Bank are listed on page 15. On 18 October 2007, the Board of Directors of the Bank elected Mr. Christakis Klerides as Chairman in replacement of Mr. Simeon Matsis, who resigned from the position.

During the year the following members resigned:

Michalis Michaelides	(resigned on 09/07/2007)
Frixos Sorokos	(resigned on 09/07/2007)
Sokratis Solomides	(resigned on 09/07/2007)
Symeon Matsis	(resigned on 11/10/2007)
Athos Papachristoforou	(resigned on 17/12/2007)
Demetris Ioannides	(resigned on 09/07/2007- was appointed on 23/8/2007)

For the year ended 31 December 2007 and according with the Company's Articles of Association, at the next annual meeting of the shareholders, Dr. Yiannos Mouzouris will retire and being eligible, offer himself for re-election. Also Mr. Garo Keheyan, Mr. Kypros Mirathis, Mr. Christakis Klerides, Mr. Christos Mavrellis and Mr. Christakis Pavlou who were appointed by the Board of Directors on 9/7/2007, Dr. Spyros Episkopou, who was appointed on 17/1/2008 and Mr. Pavlos Savvides who was appointed on 28/2/2008, will retire and being eligible, offer themselves for re-election.

Future developments

The main short-term goals of the Bank include the following:

- regularisation of the loans and advances portfolio
- launching of new deposit products, as well as credit products
- move away from over reliance on net interest income and concentration on more profitable sources of income, such as the international activities and
- automation and simplification of a major number of systems and procedures to restrain operating and other expenses

Based on the above and the continuous expansion of the Bank's operations, it is expected that the profitability achieved in 2007 will continue in 2008.

Risk management

The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance. The financing risks which are managed and monitored are credit risk, operating risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 32 of the financial statements.

Share capital

During the year, the Bank's share capital remained unchanged.

Events after the balance sheet date

Events after the balance sheet date are described in Note 37 of the financial statements.

Independent Auditors

The independent auditors of the Bank, Messrs Ernst & Young have signified their willingness to continue in office. A resolution fixing their remuneration will be proposed at the shareholders' Annual General Meeting.

Christakis Klerides
Chairman

Nicosia, 31 March 2008

FINANCIAL STATEMENTS

Income Statement

for the year ended 31 December 2007

	Note	2007 £	2006 £
Turnover		**21.667.672**	17.668.182
Interest income	2	**19.097.388**	15.118.947
Interest expense	3	**(8.789.818)**	(8.231.706)
Net interest income		**10.307.570**	6.887.241
Fee and commission income		**2.098.787**	1.930.180
Fee and commission expense		**(195.724)**	(172.553)
Foreign exchange income		**436.989**	401.528
Income from available for sale investments	4	**3.808**	101.055
Other income	5	**30.700**	116.472
Total net income		**12.682.130**	9.263.923
Staff costs	6	**(4.488.598)**	(4.200.799)
Depreciation of property and equipment and amortisation of intangible assets		**(613.235)**	(619.841)
Loss on revaluation, sale and impairment of financial instruments		**(33.847)**	(16.818)
Loss on revaluation and sale of investment property		**(17.671)**	(48.132)
Other operating expenses		**(2.063.191)**	(1.610.983)
Total operating expenses before provisions		**(7.216.542)**	(6.496.573)
Profit before provisions		**5.465.588**	2.767.350
Provisions for loan impairment	12	**(889.773)**	(895.346)
Profit before tax	7	**4.575.815**	1.872.004
Tax	8	**2.813**	(2.644)
Profit for the year		**4.578.628**	1.869.360
Profit per share (cent)	9	**30,3**	12,4

Income Statement
for the year ended 31 December 2007 - In Euro

	Supplementary Information	
	2007	2006
	Euro (€)	Euro (€)
Turnover	**37.021.416**	30.187.881
Interest income	**32.629.825**	25.832.255
Interest expense	**(15.018.296)**	(14.064.705)
Net interest income	**17.611.529**	11.767.550
Fee and commission income	**3.585.990**	3.297.908
Fee and commission expense	**(334.414)**	(294.824)
Foreign exchange income	**746.640**	686.051
Income from available for sale investments	**6.506**	172.663
Other income	**52.455**	199.004
Total net income	**21.668.706**	15.828.352
Staff costs	**(7.669.225)**	(7.177.491)
Depreciation of property and equipment and amortisation of intangible assets	**(1.047.774)**	(1.059.061)
Loss on revaluation, sale and impairment of financial instruments	**(57.831)**	(28.735)
Loss on revaluation and sale of investment property	**(30.193)**	(82.239)
Other operating expenses	**(3.525.171)**	(2.752.528)
Total operating expenses before provisions	**(12.330.194)**	(11.100.054)
Profit before provisions	**9.338.512**	4.728.298
Provisions for loan impairment	**(1.520.267)**	(1.529.789)
Profit before tax	**7.818.245**	3.198.509
Tax	**4.806**	(4.518)
Profit for the year	**7.823.051**	3.193.991
Profit per share (cent)	**51,7**	21,1

Balance Sheet
as at 31 December 2007

	Note	2007	2006
		£	£
ASSETS			
Cash and balances with the Central Bank	10	**69.017.187**	54.564.147
Placements with banks	11	**21.466.629**	10.513.148
Loans and advances to customers	12	**127.132.478**	127.798.246
Investments held-to-maturity	13	**51.611.703**	50.832.230
Investments available for sale	14	**145.634**	43.923
Investment properties	15	**-**	473.000
Investments in subsidiary companies	16	**1.156**	1.156
Property and equipment	17	**2.994.965**	3.120.175
Intangible assets	18	**375.039**	331.327
Other assets	19	**569.732**	652.140
Prepayments and accrued income	20	**747.051**	474.187
Total assets		**274.061.574**	248.803.679
LIABILITIES			
Deposits by banks		**25.391**	4.064.588
Amounts due to banks	10	**8.921.643**	-
Customer deposits and other accounts	21	**235.877.039**	221.096.945
Other liabilities	22	**1.571.977**	812.223
Accrued expenses	23	**1.892.511**	1.738.580
Subordinated loan stock	24	**8.570.000**	8.570.000
Total liabilities		**256.858.561**	236.282.336
EQUITY			
Share capital	25	**15.128.151**	15.128.151
Share premium		**12.399.495**	12.399.495
Property revaluation reserve		**1.078.005**	1.078.005
Investments revaluation reserve		**125.831**	22.789
General reserve		**26.867**	26.867
Accumulated losses		**(11.555.336)**	(16.133.964)
		17.203.013	12.521.343
Total liabilities and equity		**274.061.574**	248.803.679
CONTINGENT LIABILITIES AND COMMITMENTS			
Contingent liabilities	27	**14.062.611**	12.296.134
Commitments	27	**12.405.175**	10.428.629

Christakis Klerides – *Chairman*
Dr. Spyros Episkopou – *General Manager*
Andreas Theodorides – *Chief Financial Officer*

Balance Sheet
as at 31 December 2007 – In Euro

	Supplementary Information	
	2007	2006
	Euro (€)	Euro (€)
ASSETS		
Cash and balances with the Central Bank	**117.922.865**	93.228.380
Placements with banks	**36.677.913**	17.962.780
Loans and advances to customers	**217.218.735**	218.356.267
Investments held-to-maturity	**88.183.830**	86.852.021
Investments available for sale	**248.830**	75.047
Investment properties	**-**	808.168
Investments in subsidiary companies	**1.975**	1.975
Property and equipment	**5.117.202**	5.331.136
Intangible assets	**640.792**	566.106
Other assets	**973.445**	1.114.247
Prepayments and accrued income	**1.276.413**	810.198
Total assets	**468.262.000**	425.106.325
LIABILITIES		
Deposits by banks	**43.383**	6.944.761
Amounts due to banks	**15.243.532**	-
Customer deposits and other accounts	**403.019.849**	377.766.559
Other liabilities	**2.685.882**	1.387.766
Accrued expenses	**3.233.547**	2.970.540
Subordinated loan stock	**14.642.714**	14.642.714
Total liabilities	**438.868.907**	403.712.340
EQUITY		
Share capital	**25.847.981**	25.847.981
Share premium	**21.185.795**	21.185.795
Property revaluation reserve	**1.841.881**	1.841.881
Investments revaluation reserve	**214.995**	38.937
General reserve	**45.905**	45.905
Accumulated losses	**(19.743.464)**	(27.566.514)
	29.393.093	21.393.985
Total liabilities and equity	**468.262.000**	425.106.325
CONTINGENT LIABILITIES AND COMMITMENTS		
Contingent liabilities	**24.027.397**	21.009.192
Commitments	**21.195.500**	17.818.371

Statement of Changes in Equity
for the year ended 31 December 2007

	Share capital	Share premium	Investment revaluation reserve	Property revaluation reserve	General reserve	Accumulated losses	Total
	£	£	£	£	£	£	£
YEAR 2006							
1 January 2006	15.128.151	12.399.495	32.655	1.001.851	26.867	(18.003.324)	10.585.695
Profit after tax	-	-	-	-	-	1.869.360	1.869.360
Property revaluation	-	-	-	79.739	-	-	79.739
Deferred tax	-	-	-	(3.585)	-	-	(3.585)
Transfer to income statement on sale of available for sale investments	-	-	(86.514)	-	-	-	(86.514)
Revaluation of available for sale investments	-	-	76.648	-	-	-	76.648
31 December 2006	**15.128.151**	**12.399.495**	**22.789**	**1.078.005**	**26.867**	**(16.133.964)**	**12.521.343**
YEAR 2007							
1 January 2007	15.128.151	12.399.495	22.789	1.078.005	26.867	(16.133.964)	12.521.343
Profit after tax	-	-	-	-	-	4.578.628	4.578.628
Transfer to income statement on sale of available for sale investments	-	-	(1.070)	-	-	-	(1.070)
Revaluation of available for sale investments	-	-	104.112	-	-	-	104.112
31 December 2007	**15.128.151**	**12.399.495**	**125.831**	**1.078.005**	**26.867**	**(11.555.336)**	**17.203.013**

Statement of Changes in Equity
for the year ended 31 December 2007 – in Euro

	Share capital	Share premium	Investment revaluation reserve	Property revaluation reserve	General reserve	Accumulated losses	Total
	Euro (€)	Euro (€)	Euro (€)	Euro (€)	Euro (€)	Euro (€)	Euro (€)
YEAR 2006							
1 January 2006	25.847.981	21.185.795	55.794	1.711.764	45.905	(30.760.505)	18.086.734
Profit after tax	-	-	-	-	-	3.193.991	3.193.991
Property revaluation	-	-	-	136.242	-	-	136.242
Deferred tax	-	-	-	(6.125)	-	-	(6.125)
Transfer to income statement on sale of available for sale investments	-	-	(147.818)	-	-	-	(147.818)
Revaluation of available for sale investments	-	-	130.961	-	-	-	130.961
31 December 2006	**25.847.981**	**21.185.795**	**38.937**	**1.841.881**	**45.905**	**(27.566.514)**	**21.393.985**
YEAR 2007							
1 January 2007	25.847.981	21.185.795	38.937	1.841.881	45.905	(27.566.514)	21.393.985
Profit after tax	-	-	-	-	-	7.823.050	7.823.050
Transfer to income statement on sale of available for sale investments	-	-	(1.828)	-	-	-	(1.828)
Revaluation of available for sale investment	-	-	177.886	-	-	-	177.886
31 December 2007	**25.847.981**	**21.185.795**	**214.995**	**1.841.881**	**45.905**	**(19.743.464)**	**29.393.093**

Cash flow Statement
for the year ended 31 December 2007

	Note	2007 £	2006 £
Net cash flow from operating activities	30	**10.573.573**	22.324.953
Cash flow from investing activities			
Purchase of property, equipment and software packages		**(533.348)**	(329.722)
Purchase of investment properties		**-**	(387.448)
Purchase of available for sale investments		**-**	(3.332)
Proceeds from the disposal of property and equipment		**3.918**	3.048
Proceeds from the disposal of investment properties		**473.000**	355.000
Proceeds from the disposal of available for sale investments		**2.468**	135.216
Interest received on Government bonds and other debt securities		**2.296.949**	1.837.734
Dividend income from available for sale investments		**2.738**	5.146
Net cash flow from investing activities		**2.245.725**	1.615.642
Cash flow from financing activities			
Interest paid on subordinated loan stock		**(509.750)**	(491.836)
Net cash flow used in financing activities		**(509.750)**	(491.836)
Net increase in cash and cash equivalents for the year		**12.309.548**	23.448.759
Cash and cash equivalents			
At 1 January		**60.056.265**	36.607.506
Net increase in cash and cash equivalents		**12.309.548**	23.448.759
At 31 December	31	**72.365.813**	60.056.265

Cash flow Statement
for the year ended 31 December 2007 – in Euro

	Supplementary Information	
	2007	2006
	Euro (€)	Euro (€)
Net cash flow from operating activities	**18.066.022**	38.144.447
Cash flow from investing activities		
Purchase of property, equipment and software packages	**(911.279)**	(563.363)
Purchase of investment properties	-	(661.994)
Purchase of available for sale investments	-	(5.693)
Proceeds from the disposal of property and equipment	**6.694**	5.208
Proceeds from the disposal of investment properties	**808.168**	606.554
Proceeds from the disposal of available for sale investments	**4.217**	231.030
Interest received on Government bonds and other debt securities	**3.924.570**	3.139.955
Dividend income from available for sale investments	**4.679**	8.791
Net cash flow from investing activities	**3.837.049**	2.760.488
Cash flow from financing activitie		
Interest paid on subordinated loan stock	**(870.960)**	(840.352)
Net cash flow used in financing activities	**(870.960)**	(840.352)
Net increase in cash and cash equivalents for the year	**21.032.111**	40.064.583
Cash and cash equivalents		
At 1 January	**102.612.221**	62.547.638
Net increase in cash and cash equivalents	**21.032.111**	40.064.583
At 31 December	**123.644.332**	102.612.221

The accounting policies followed in respect of items that are considered material or important for the results and the financial position of Universal Bank Public Limited (the "Bank") are stated below:

1. Basis of preparation

The financial statements are presented in Cyprus pounds (£) and are prepared under the historical cost convention, modified to include the revaluation of freehold property, investment property, available for sale investments and derivatives.

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Laws and Regulations.

Information in Euro

For the purposes of providing additional information, the income statement, the balance sheet, the statement of changes in equity and the cash flow statement for the year ended 31 December 2007 are also presented in Euro (€). The translation from Cyprus pounds to Euro (€) for information relating to the year 2007 and the prior year presented, was carried out using the average Euro-Cyprus Pound exchange rate as at 31 December 2007, which was €1 = £0,585274.

2. Changes in Accounting Policies and adoption of new and amended IFRSs

The accounting policies adopted are consistent with those of the prior year, except as set out below.

The Bank has adopted the following new and amended IFRSs and IFRIC Interpretations during the year. Adoption of these Standards and Interpretations did not have any effect on the financial performance or position of the Bank; they did however give rise to additional disclosures.

IFRS 7 'Financial Instruments: Disclosures'
IAS 1 'Amendment – Presentation of Financial Statements – Capital Disclosures'
IFRIC 7 'Applying the Restatement Approach' under IAS 29 'Financial Reporting in Hyperinflationary Economies'
IFRIC 8 'Scope of IFRS 2'
IFRIC 9 'Reassessment of Embedded Derivatives'
IFRIC 10 'Interim Financial Reporting and Impairment'

The principal effects to the financial statements of the Bank are as follows:

IFRS 7 'Financial Instruments: Disclosures' and a complementary amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'

IFRS 7 requires additional disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. In particular, it specifies minimum disclosures about credit risk, liquidity risk and market risk. IFRS 7 replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'.

The particular amendment to IAS 1 introduces disclosures relating to the level of an entity's capital and how it is managed.

The new disclosures are included throughout the financial statements.

3. Standards and interpretations 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 but are not yet effective for the current reporting period and which the Bank has not early adopted, are as follows:

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

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009)

IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Bank is in the process of assessing the impact of this Standard on its financial statements.

IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions' (effective for annual periods beginning on or after 1 March 2007)

This interpretation requires that transactions whereby an employee is granted options to buy equity securities of an entity, to be accounted for as equity-settled schemes by an entity, even if the entity chooses or is required to buy those equity securities from another party, or the shareholders of the entity provide the equity securities granted. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent. IFRIC 11 does not apply to the Bank.

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

Amendment to IAS 23 'Borrowing Costs' (effective for annual periods beginning on or after 1 January 2009)

The option in the current standard to expense borrowing costs to the income statement in case of a qualifying asset has been eliminated. All borrowing costs must be capitalised if they are directly attributable to the acquisition or construction of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 'Service Concession Arrangements' (effective for annual periods beginning on or after 1 January 2008)

IFRIC 12 outlines the way which the operators should apply the effective IFRSs to account for their obligations and rights that arise from particular contractual arrangements. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognise a financial asset or an intangible asset. IFRIC 12 is not relevant to the Bank.

IFRIC 13 'Customer Loyalty Programmes' (effective for annual periods beginning on or after 1 July 2008)

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this Interpretation will not have a material impact on its financial statements at the date of adoption.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective for annual periods beginning on or after 1 January 2008)

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 'Employee Benefits'. It also explains how this limit may be influenced by a legal or contractual minimum funding requirement and aims to standardise current practice. The Bank expects that this amendment will have no impact on its financial statements.

Amendment to IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009)

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The main revisions are the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with other comprehensive income and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Bank will make the necessary changes to the presentation of its financial statements in 2009.

3. Standards and interpretations that are issued but not yet effective - (b) Standards and interpretations issued by the IASB but not yet adopted by the EU (continued)

Amendment to IAS 2 'Share Based Payment – Vesting Conditions and Cancellations' (effective for annual periods beginning on or after 1 January 2009)

The Amendment clarifies two issues. The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than vesting conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or a counterparty. This amendment does not apply to the Bank.

Revisions to IFRS 3 'Business Combinations' and Amendment to IAS 27 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2009)

Main changes to the existing standards refer to: (a) addition of an option to measure minority interests (now called 'non-controlling interests') at fair value; (b) recognition of goodwill for step acquisitions; (c) recognition of acquisition-related costs; (d) recognition of contingent consideration; (e) transactions with non-controlling interests which do not result in loss of control; (f) allocation of subsidiary's losses between controlling and non-controlling interests; (g) re-measurement of retained interest on loss of control of a subsidiary. The Bank does not expect that the application of the revisions will have a material impact on its financial statements at the date of adoption.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009)

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The amendments do 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:

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. The review of credit risk is continuous. The methodology and assumptions used for estimating the provision are reviewed regularly to reduce any differences between estimated and actual losses.

Impairment of available for sale equity investments

Available for sale equity investments are measured at fair value with fair value changes taken to equity. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost (requires estimation). In such a case, the loss recognised in equity is transferred to the income statement.

This determination of what is significant or prolonged requires judgment from the Bank. Factors taken into consideration in making this judgement include the expected volatility in share price. In addition, impairment may be appropriate when there is evidence that significant changes with an adverse effect have taken place in the technological, market, economic or legal environment in which the investee operates.

Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Taxation

The Bank is subject to taxation in Cyprus. 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

4. Significant accounting judgments and estimates - Taxation (continued)

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 Cyprus pounds (£), which is the functional and presentation currency of the Bank.

Transactions in foreign currencies are initially recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet 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 when the fair value was determined.

6. Turnover

Turnover represents interest income, fee and commission income, investment income, foreign exchange income and other income. The Bank does not provide leasing or hire purchase services.

7. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Bank and the 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 and other income from non-performing loans and advances is not recognised in the income statement but is credited to a balance sheet suspense account. Non-performing loans and advances are defined as: (a) loans and advances that are more than three months in arrears and are not fully secured, (b) overdraft accounts that are over 5% in excess of their credit limit on a continuous basis for more than three months and are not fully secured at the date of calculation of the accrued interest, and (c) loans and advances for which a provision for impairment has been made.

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 with regard to 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 match 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 property held for sale

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

8. Operating lease expenses

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

9. Retirement benefits

The 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 lives of the employees to provide for the payment of a lump sum either upon retirement or on death before retirement. The annual cost of providing benefits under this scheme is taken 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. According to this method, the cost of providing benefits is debited to the income statement over the working lives of the employees participating in the scheme according to the guidance and provisions of independent professional actuaries that carry out actuarial reports at least every three years.

Actuarial gains or losses exceeding 10% of the present value of the defined benefit obligation or the fair value of the plan assets of the scheme, whichever is greater, are recognised over the average remaining working lives of the employees participating in the scheme.

10. Financial instruments

(a) Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Derivatives are recognised on a trade date basis. 'Amounts due to banks', '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 the borrowers.

(b) Initial recognition of financial instruments

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

(c) Derivatives

Derivative financial instruments are recognized at fair value in the balance sheet. Fair values are estimated using quoted market prices, discounted cash flow models and options pricing models as appropriate.

Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

All derivatives are treated as derivatives held-for trading with changes in fair value reported in the Income Statement.

(d) Loans and advances to customers

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

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

Loans and advances are stated net of specific and general provisions for doubtful debts, which may arise during the ordinary course of business. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

10. Financial instruments - (d) Loans and advances to customers (continued)

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 impaired when it is probable that the Bank will not be able to collect all amounts 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 impaired, its carrying amount is reduced to its estimated recoverable amount, being the present value of its expected future cash flows, including recoverable amounts from guarantees and collateral, discounted at original effective interest rate. The amount of provision is the difference between the carrying amount and the recoverable amount.

Impaired loans are monitored continuously and are reviewed for provision purposes every six months. Any subsequent changes to the estimated recoverable amounts and timing of the expected future cash flows are compared to the prior estimates and any difference arising results 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 principal and interest according to the original terms of the loan will be collected timely.

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

(e) Investments

Investments in equity shares and Government and other debt securities, 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.

Interest earned on treasury bills and debt securities is included in 'Interest income' in the period in which the investments are held.

Investments held-to-maturity

Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities and 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 account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The 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.

Available for sale investments

Available for sale investments are measured at fair value, based on market prices for listed securities. The fair value of unlisted securities is estimated using appropriate models and valuation methods and/or on the basis of the investee's financial results, conditions and prospects compared to those of similar companies for which quoted market prices are available.

Adjustments to fair values of investments available for sale are included in the 'Investment revaluation reserve'. In case of sale of investments held for sale or impairment of investments, the gains or losses recognised in revaluation reserve are transferred to the 'Income from investments to shares' and 'Losses from revaluation, sale and impairment of financial instruments' and to income statement respectively.

Available for sale investments in equity shares are impaired if the decline in their fair value is significant and prolonged and included to 'Losses from revaluation, sale and impairment of financial instruments' in the income statement. Impairment losses on investments in equity shares are not reversed in the income statement. Potential increases in the fair value following impairment are recognised in the revaluation reserves.

10. Financial instruments (continued)

(f) Deposits and subordinated loan stock

Deposits and subordinated loan stock in issue 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 subordinated loan stock in issue is included in 'Interest expense'.

11. Derecognition of financial assets and financial liabilities

(a) Financial assets

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

(b) Financial liabilities

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

12. Offsetting financial instruments

Financial assets and financial liabilities may be offset and the net amount reported in the balance sheet when the Bank has a 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

The investments in subsidiary companies are shown in Bank's Balance Sheet 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

Owner-occupied property is property held by the Bank for use in the supply of services or for administrative purposes.

Property is stated initially at cost and thereafter at estimated fair value less accumulated depreciation. Valuation occurs periodically by independent qualified valuers. 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 lives 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.

Improvement to leasehold property is stated at cost less accumulated depreciation. 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.

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.

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

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

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.

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 property

Investment property consists of property purchased for the settlement of debts. Investment property is measured at fair value as at the balance sheet date. Gains or losses arising from changes in fair value of investment property 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) there is a present obligation (legal or constructive) arising from past events, (b) 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 Balance Sheet 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 asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the Balance Sheet date.

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

20. Comparative information

Reclassifications to comparative information were made to conform to changes in the presentation in the current year. Such reclassifications relate mainly to the presentation disclosures required by IFRS 7 which has been adopted as of 1 January 2007. These reclassifications had no impact on profit after tax or the equity of the Bank.

1. Corporate information

The financial statements of Universal Bank Public Limited (the "Bank") for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 31 March 2008.

During the year 2007, the Bank was a subsidiary company of Universal Life Insurance Public Co. Ltd. On 10 January and 6 February 2007, Universal Life Insurance Public Co. Ltd sold a total of 50,99% of the issued share capital of the Bank to Schöeller Holdings Ltd and Path Holdings Ltd, in equal shares. On 27 November 2007, Schöeller Holdings Ltd that owns 25,49% of the issued share capital of the Bank, sold its percentage to Commercial Value A.A.E. (22,41%) and Aspis Providence A.E.G.A. Internal Variable Capital (3,08%). As a result, the total percentage which is controlled by companies of the Aspis Group reached 29,55%. Also during the year, Mr. Pavlos Savvides and the company Tygoonato Coffee Lounge Ltd have acquired 8,75% and 7,46% of the issued share capital of the Bank respectively. The shareholders who own a percentage over 5% of the share capital of the Bank are presented in Note 34.

The Bank's main activity during the year was 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 of 1922 and 1923 and is considered a public company under the Company Law and Cyprus Stock Exchange Laws and Regulations.

2. Interest income

	2007	2006
	£	£
Loans and advances to customers	**13.952.970**	11.734.161
Placements with banks	**2.847.469**	1.547.052
Government bonds and other debt securities	**2.296.949**	1.837.734
	19.097.388	15.118.947

3. Interest expense

	2007	2006
	£	£
Customers deposits	**8.250.556**	7.733.773
Amounts due to banks	**29.511**	6.097
Subordinated loan stock	**509.751**	491.836
	8.789.818	8.231.706

4. Income from available for sale investments

	2007	2006
	£	£
Dividends from investments available for sale	**2.738**	5.146
Transfer from the investment revaluation reserve on sale of available for sale investments	**1.070**	86.514
Gains on sale of available for sale investments	**-**	9.395
	3.808	101.055

5. Other income

	2007	2006
	£	£
Gain from change in the fair value of investment properties	-	85.552
Other income	30.700	30.920
	30.700	116.472

6. Staff costs

	2007	2006
	£	£
Staff salaries and wages	3.496.591	3.223.160
Social insurance and other costs	410.021	384.797
Retirement benefit costs	581.986	592.842
	4.488.598	4.200.799

The number of employees as at 31 December 2007 was 190 (2006: 189).

Retirement benefits – Defined benefits scheme

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 lives of the employees to provide for the payment of a lump sum either upon retirement or earlier death. The annual cost of providing benefits under the scheme is taken 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 lives 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 at least every three years. 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 the Government debt securities with similar duration as the duration of the liability.

According to the actuarial valuation conducted for the year ended 31 December 2007, the amounts appearing in the balance sheet of the Bank, relating to the defined benefits scheme, are as follows:

	2007	2006
	£	£
Present value of the obligation	(3.967.007)	(3.542.652)
Fair value of plan assets	2.907.632	2.483.100
Deficit	(1.059.375)	(1.059.552)
Unrecognised actuarial loss	148.404	569.107
Net liability recognised in the balance sheet	(910.971)	(490.445)

6. Staff costs (continued)

The principal actuarial assumptions used for the actuarial valuation were:

	2007	2006
	%	%
Discount rate	**5,25**	5,0
Expected return on plan assets	**6,0**	6,0
Future salary increase	**6,5**	6,5

The amounts recognised in the income statement in respect of the defined benefit scheme are as follows:

	2007	2006
	£	£
Current service cost	**541.772**	494.512
Interest expense on obligations	**174.860**	142.712
Expected return on plan assets	**(146.259)**	(94.900)
Actuarial loss recognised in the year	**11.613**	50.518
Total	**581.986**	592.842

Movement in the liability presented in the balance sheet (Note 22):

	2007	2006
	£	£
Net (liability)/asset at 1 January	**(490.447)**	94.985
Expense recognised in the income statement	**(581.986)**	(592.842)
Employer contributions for the year	**161.462**	7.412
Net liability at 31 December	**(910.971)**	(490.445)

Movement in plan assets:

	2007	2006
	£	£
Fair value of plan assets 1 January	**2.483.100**	1.362.950
Expected Return on Plan Assets	**146.259**	94.900
Employer contributions for the year	**161.462**	7.412
Benefits paid	**(161.462)**	(7.412)
Change in the fair value on plan assets	**278.273**	1.025.250
Fair value of plan assets 31 December	**2.907.632**	2.483.100
Actual return on plan assets	**424.532**	1.120.150

Plan assets do not include securities or/and other financial instruments that have been issued by the Bank.

6. Staff costs (continued)

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

	2007	2006	2005
	£	£	£
Net present value of obligation	**(3.967.007)**	(3.542.652)	(2.634.200)
Fair value of plan assets	**2.907.632**	2.483.100	1.362.950
Deficit	**(1.059.375)**	(1.059.552)	(1.271.250)
Experience adjustments to plan obligations	**130.815**	(278.639)	(17.091)
Experience adjustments to plan assets	**278.273**	1.025.250	316.190

The expense for the defined benefit scheme for 2008 is expected to be £582.550.

7. Profit before tax

Profit before tax is stated after charging:

	2007	2006
	£	£
Directors' emoluments	**34.625**	27.905
Auditors' remuneration	**25.000**	42.250
Depreciation of property and equipment	**613.235**	619.841
Gain on sale and write-off of property and equipment	**2.376**	3.048
Operating lease rentals for buildings	**385.412**	343.178

8. Tax

	2007	2006
	£	£
Previous years' corporation tax	**-**	9.255
Previous years' special contribution to the defence fund	**-**	1.363
Deferred tax	**(2.813)**	(7.974)
	(2.813)	2.644

8. Tax (continued)

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

	2007	2006
	£	£
Profit before tax	**4.575.815**	1.872.004
Corporation tax based on the effective rates	**457.582**	187.200
Tax effect of:		
- Expenses not deductible	**80.380**	79.703
- Income not subject to tax	**(52.128)**	(77.485)
- Tax losses utilised	**(485.834)**	(197.392)
Deferred Tax	**(2.813)**	10.618
	(2.813)	2.644

Corporation tax is calculated at a rate of 10% on taxable income (2006: 10%).

At 31 December 2007, the Bank had tax losses carried forward amounting to £11 million (2006: £15,7 million) on which no deferred tax asset was recognised.

9. Profit per share

	2007	2006
	£	£
Profit attributable to shareholders	**4.575.815**	1.869.360
Weighted average number of shares in issue during the year	**15.128.151**	15.128.151
Profit per share (cent)	**30,3**	12,4

At 31 December 2007 and 2006 respectively, there were no potentially dilutive ordinary shares.

10. Cash and balances with the Central Bank

	2007	2006
	£	£
Cash	**1.943.998**	2.294.861
Balances with the Central Bank of Cyprus	**58.151.546**	52.269.286
Bank notes and coins in Euro	**8.780.866**	-
Euro familiarization packages	**140.777**	-
	69.017.187	54.564.147

10. Cash and balances with the Central Bank (continued)

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to £9.196.360 (2006: 9.355.164).

Bank notes and coins in Euro and Euro familiarization packages were provided to the Bank during 2007 to facilitate the introduction and circulation of Euro on 1 January 2008, the date of transition from the Cyprus pound to the Euro (Note 37). According to the relevant contract between the Bank and the Central Bank of Cyprus (CBC), the circulation of Euro bank notes and coins before 1 January 2008 was prohibited. The relevant obligation to the CBC was debited to the minimum reserves account of the Bank with the CBC after 1 January 2008, and was secured with Cyprus Government bonds (Note 13).

Bank notes and coins in Euro are not included in cash and cash equivalents for the purposes of the Cash Flow Statement.

11. Placements with banks

	2007	2006
	£	£
Repayable:		
- on demand	**5.360.331**	3.108.768
- within three months	**16.106.298**	7.404.380
	21.466.629	10.513.148

The analysis by rating agency designation of balances with banks from independent rating agencies is set out in Note 32. Placements with banks earn interest which is based on the interbank rate of the relevant term and currency.

12. Loans and advances to customers

	2007	2006
	£	£
Loans and other advances	**154.063.773**	158.783.760
Provision for loan impairment	**(26.931.295)**	(30.985.514)
	127.132.478	127.798.246

Provisions for loan impairment and suspended income:

Year 2007

	Provisions	Suspended income	**Total**
	£	£	**£**
1 January	17.162.932	13.822.582	**30.985.514**
Debts recovered	(2.098.602)	(2.949.883)	**(5.048.485)**
Charge for the year	2.988.375	-	**2.988.375**
Net charge for the year	889.773	(2.949.883)	**(2.060.110)**
Write-offs	(1.047.796)	(2.422.186)	**(3.469.982)**
Suspended interest for the year	-	1.475.873	**1.475.873**
Total	(158.023)	(3.896.196)	**(4.054.219)**
31 December	17.004.909	9.926.386	**26.931.295**

12. Loans and advances to customers (continued)

Year 2006

	Provisions	Suspended income	**Total**
	£	£	**£**
1 January	17.459.965	12.920.400	**30.380.365**
Debts recovered	(527.375)	(1.487.306)	**(2.014.681)**
Charge for the year	1.422.721	-	**1.422.721**
Net charge for the year	895.346	(1.487.306)	**(591.960)**
Write-offs	(1.192.379)	(684.859)	**(1.877.238)**
Suspended interest for the year	-	3.074.347	**3.074.347**
Total	(297.033)	902.182	**605.149**
31 December	17.162.932	13.822.582	**30.985.514**

The total amount of loans and advances for which interest is suspended amounts to £41.492.079 (2006: £61.599.903).

The fair value of loans and advances is approximately equal to the amount shown on the balance sheet after the deduction of provisions for loan impairment and suspended income.

Additional analyses and information regarding credit risk are presented in Note 32.

Advances and other accounts before 15 August 1974

	2007	2006
	£	£
Loans and advances to customers	**523.237**	525.635
Provisions for loans and advances to customers before 15 August 1974	**(523.237)**	(525.635)
	-	-

13. Investments held-to-maturity

	2007	2006
	£	£
Debt securities:		
Cyprus Government	**50.291.855**	49.512.566
Cyprus public companies	**1.319.848**	1.319.664
	51.611.703	50.832.230
Movement for the year is as follows:		
1 January	**50.832.230**	26.414.983
Additions	**5.126.681**	25.598.415
Redemptions	**(4.334.133)**	(1.376.403)
Amortisation of premiums/discounts	**(13.075)**	195.235
31 December	**51.611.703**	50.832.230

13. Investments held-to-maturity (continued)

The fair value of held-to-maturity investments as at 31 December 2007 was £50.612.004 (2006: £50.606.996).

Government bonds with a nominal value of £49.489.000 were pledged for the benefit of the Cyprus Central Bank.

14. Investments available for sale

	2007	2006
	£	£
Listed on the Cyprus Stock Exchange	**145.634**	43.923

The movement in available for sale investments is presented below:

	2007	2006
	£	£
1 January	**43.923**	106.582
Additions	**-**	3.332
Sales	**(2.402)**	(126.072)
Change in fair value	**104.113**	76.649
Impairment	**-**	(16.568)
31 December	**145.634**	43.923

15. Investments properties

Investment properties consist of properties purchased for the settlement of debts and are measured at fair value at the balance sheet date.

Movement in investment properties is presented below:

	2007	2006
	£	£
1 January	**473.000**	370.000
Additions	**-**	387.448
Disposals	**(473.000)**	(370.000)
Change in fair value	**-**	85.552
31 December	**-**	473.000

16. Investments in subsidiary companies

	2007	2006
	£	£
Universal Leasing and Factoring Ltd	**495**	495
Imagetech Ltd	**661**	661
	1.156	1.156

The above companies, which have been dormant since their inception, are wholly owned subsidiaries of the Bank and are presented on the balance sheet at cost.

17. Property and equipment

Year 2007

	Immovable property £	Equipment £	**Total £**
Cost or estimated fair value			
1 January	3.376.358	3.247.833	**6.624.191**
Additions	49.824	250.912	**300.736**
Disposals/write-offs	(2.757)	(67.966)	**(70.723)**
31 December	3.423.425	3.430.779	**6.854.204**
Depreciation			
1 January	762.516	2.741.500	**3.504.016**
Charge for the year	212.962	211.372	**424.334**
Disposals/write-offs	(1.145)	(67.966)	**(69.111)**
31 December	974.333	2.884.906	**3.859.239**
Net book value	2.449.092	545.873	**2.994.965**

Year 2006

	Immovable property £	Equipment £	**Total £**
Cost or estimated fair value			
1 January	3.293.348	3.170.896	**6.464.244**
Additions	84.710	92.393	**177.103**
Disposals/write-offs	-	(15.456)	**(15.456)**
Revaluation	79.739	-	**79.739**
Reversal of depreciation due to revaluation	(81.439)	-	**(81.439)**
31 December	3.376.358	3.247.833	**6.624.191**
Depreciation			
1 January	637.064	2.505.082	**3.142.146**
Charge for the year	206.891	251.874	**458.765**
Disposals/write-offs	-	(15.456)	**(15.456)**
Reversal of depreciation due to revaluation	(81.439)	-	**(81.439)**
31 December	762.516	2.741.500	**3.504.016**
Net book value	2.613.842	506.333	**3.120.175**

Provision has been made for the total net book value of immovable property situated in the areas controlled by the Turkish occupation forces amounting to £25.092.

The net book value of immovable property as at 31 December 2007 based on historic cost less accumulated depreciation would be £1.263.234 (2006: £1.408.790).

18. Intangible assets

Year 2007

	Goodwill on Leasehold property £	Computer software £	**Total £**
Cost			
1 January	50.000	2.822.586	**2.872.586**
Additions	-	232.612	**232.612**
31 December	50.000	3.055.198	**3.105.198**
Amortisation			
1 January	36.890	2.504.368	**2.541.258**
Charge for the year	7.140	181.761	**188.901**
31 December	44.030	2.686.129	**2.730.159**
Net book value	5.970	369.069	**375.039**

Year 2006

	Goodwill on Leasehold property £	Computer software £	**Total £**
Cost			
1 January	50.000	2.669.967	**2.719.967**
Additions	-	152.619	**152.619**
31 December	50.000	2.822.586	**2.872.586**
Amortisation			
1 January	29.750	2.350.433	**2.380.183**
Charge for the year	7.140	153.936	**161.076**
31 December	36.890	2.504.369	**2.541.259**
Net book value	13.110	318.217	**331.327**

19. Other assets

	2007 £	2006 £
Other debtors	**535.721**	579.185
Corporation tax receivable	**-**	58.755
Fair value of derivatives *(Note 28)*	**34.011**	14.200
	569.732	652.140

20. Prepayments and accrued income

	2007	2006
	£	£
Accrued interest receivable	**747.051**	468.943
Prepaid fees	-	5.244
	747.051	474.187

21. Customer deposits

	2007	2006
	£	£
Deposits on demand	**29.254.403**	23.753.371
Notice deposits	**65.804.958**	75.688.277
Term deposits	**140.817.678**	121.655.297
	235.877.039	221.096.945

The net book value of deposits repayable on demand represents their fair value. The fair value of term deposits with floating interest rate is equivalent to their net book value and is determined based on the present value of the future cash flows, using interest rates for new deposits with the same maturity date. The fair value of these deposits does not materially differ from their net book value as the majority mature within a year from the balance sheet date (Note 32).

The Bank is entitled to legal protection according to the Debtors Relief (Temporary provisions) Laws of 1979 to 1995, as a displaced and affected legal entity. However, on 15 December 1998 the Bank released all frozen deposits amounting to £420.846 in favour of the Bank's depositors. The equivalent amount as at 31 December 2007 was £93.508 (2006: £93.224). Due to the fact that the above amount consists of a large number of small deposit accounts and the likelihood of demand is minimal, on 24 May 2000 the Board of Directors decided to transfer the amount of £137.130 to the Income Statement and in case of demand of these deposits to debit the Income Statement accordingly. During the year 2007 the Bank repaid frozen deposits amounting to £284 (2006: £1.034) by debiting the Income Statement.

22. Other liabilities

	2007	2006
	£	£
Sundry creditors	**291.212**	184.879
Deferred tax	**30.280**	33.093
Fair value of derivatives *(Note. 28)*	**67.858**	-
Defined benefit obligation *(Note. 6)*	**910.971**	490.445
Other liabilities	**271.656**	103.806
	1.571.977	812.223

22. Other liabilities (continued)

The deferred tax liability consists of the following:

	2007	2006
	£	£
Temporary differences between wear and tear allowances and depreciation	**46.129**	56.139
Property revaluation	**94.905**	86.352
Provision for loan impairment	**(92.500)**	(80.500)
Tax losses carried forward	**(18.254)**	(28.898)
	30.280	33.093

23. Accrued expenses

	2007	2006
	£	£
Bills payable	**1.138.869**	1.186.577
Other accruals	**753.642**	504.000
Provision for stamp duty	**-**	48.003
	1.892.511	1.738.580

24. Subordinated loan stock

	2007	2006
	£	£
Tier I capital		
Capital securities	**570.000**	570.000
Tier II capital		
Debentures 2003/2008	**8.000.000**	8.000.000
Total	**8.570.000**	8.570.000

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, 5 (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 (10) years from their issuance date (ie up to 31 December 2015), then from 1 January 2016, the Capital Securities will bear floating interest rate that will be revised at the beginning of each period in which interest will be charged and will be equal to the base rate ruling at the beginning of each period interest is charged plus 2,25% annually.

24. Subordinated loan stock (continued)

Debentures 2003/2008

On 25 July 2003 the Bank issued debentures amounting to CY £8.000.000 with duration of five (5) years maturing on 25 July 2008. These are non-secured and are included in the direct, non-secured subordinated liabilities of the Bank. Interest is paid twice per annum, on 30 June and 31 December. The debentures carry a variable interest rate equal to the weighted average of the basic interest rate of the Central Bank of Cyprus (Lombard rate) for Cyprus pounds that was in effect during the previous interest rate period (i.e. the previous six month period), plus 1,50%. The Bank can, if it chooses to do so, buy the total amount of debentures back, or it can partially buy them back at their nominal value plus any interest accrued with six months of notice, after approval by the Central Bank of Cyprus.

The fair value of the Subordinated Loan Stock is equivalent to its net book value.

25. Share capital

	2007 No. of shares	**2007 £**	2006 No. of shares	2006 £
AUTHORISED				
Shares of £1 each	**50.000.000**	**50.000.000**	50.000.000	50.000.000
ISSUED				
Fully paid shares	**15.128.151**	**15.128.151**	15.128.151	15.128.151
Total issued share capital	**15.128.151**	**15.128.151**	15.128.151	15.128.151

26. Analysis of assets and liabilities by expected maturity

	2007 Less than one year £	2007 Over one year £	2007 Total £	2006 Less than one year £	2006 Over one year £	2006 Total £
Assets						
Cash and deposits with Central Bank	**22.346.950**	**46.670.237**	**69.017.187**	13.077.350	41.486.797	54.564.147
Placement with banks	**21.466.629**	**-**	**21.466.629**	10.513.148	-	10.513.148
Loans and allowances to customers	**22.845.792**	**104.299.882**	**127.145.674**	23.144.463	104.653.783	127.798.246
Investments held to maturity	**14.521.347**	**37.090.356**	**51.611.703**	4.334.134	46.498.096	50.832.230
Investments available for sale	**145.634**	**-**	**145.634**	43.923	-	43.923
Investments in properties	**-**	**-**	**-**	473.000	-	473.000
Investments in subsidiary companies	**1.156**	**-**	**1.156**	-	1.156	1.156
Property, equipment and intangible assets	**54.057**	**3.315.947**	**3.370.004**	31.551	3.419.951	3.451.502
Other assets	**569.732**	**-**	**569.732**	652.140	-	652.140
Receivables and prepayments	**747.051**	**-**	**747.051**	474.187	-	474.187
	82.698.348	**191.376.422**	**274.074.770**	52.743.896	196.059.783	248.803.679
Liabilities						
Amounts due to banks	**25.391**	**-**	**25.391**	4.064.588	-	4.064.588
Customer deposits	**8.921.643**	**-**	**8.921.643**	-	-	-
Deposits and other customer accounts	**39.671.428**	**196.205.611**	**235.877.039**	46.128.233	174.968.712	221.096.945
Other liabilities	**659.457**	**912.520**	**1.571.977**	321.779	490.444	812.223
Accrued expenses	**1.892.511**	**-**	**1.892.511**	1.738.580	-	1.738.580
Subordinated loan stock	**8.000.000**	**570.000**	**8.570.000**	-	8.570.000	8.570.000
	59.170.430	**197.688.131**	**256.858.561**	52.253.180	184.029.156	236.282.336

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
- 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 the contractual maturity date

27. Contingent liabilities and commitments

	2007	2006
	£	£
Contingent liabilities		
Acceptances and endorsements	**270.767**	35.120
Guarantees	**13.791.844**	12.261.014
	14.062.611	12.296.134
Commitments		
Documentary creditors	**831.573**	579.559
Undrawn formal stand by facilities, credit lines and other commitments to lend	**11.573.602**	9.849.070
	12.405.175	10.428.629

The amounts above include guarantees provided by the Bank prior to 15 August 1974 to third parties on behalf of customers including previous members of the Board of Directors, which amounted to CY £72.125.

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made for fixed period and are cancellable by the Bank subject to notice requirements.

Capital commitments
Commitments for contracted capital expenditures for the Bank amount to CY £85.451 (2006: CY £274.179).

Pre-15 August 1974 frozen deposits
The Bank has the obligation to repay the pre-15 August 1974 frozen deposits whose balance as at 31 December 2007 amounted to CY £93.508 (2006: CY £93.970).

Litigation
There are no claims or assessments against the Bank the outcome of which would have a material effect on the Bank's financial position and operations.

28. Derivatives

The nominal amounts and fair values of derivative financial instruments are summarised below:

	Nominal amount	Fair value	
		Assets *(note 19)*	Liabilities *(note 22)*
	£	£	£
Year 2007			
Derivatives held for trading:			
Currency swaps	2.347.029	34.011	67.858
	2.347.029	**34.011**	**67.858**
Year 2006			
Derivatives held for trading:			
Currency swaps	2.651.985	14.200	-
	2.651.985	**14.200**	**-**

29. Operating leases

Commitments under non-cancellable operating leases are as follows:

	2007	2006
	£	£
Within one year	**150.164**	145.840
Between two and five years	**113.871**	168.590
	264.035	314.430

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 amounts. In addition to the above, on the expiration of the lease period the Bank has the right for renewal.

30. Net cash flows from operating activities

	2007	2006
	£	£
Profit before tax	**4.575.815**	1.872.004
Adjustments:		
Provision for loan impairment	**889.773**	895.346
Depreciation of property and equipment	**613.235**	619.841
Gain on disposal of property and equipment	**(2.376)**	(3.048)
Transfer to the income statement on sale of available-for-sale investments	**-**	(86.514)
Loss on disposal of investment property	**17.671**	48.132
Profit on disposal of available for sale investments	**(66)**	(9.395)
Dividends from investments in equity shares	**(2.738)**	(5.146)
Interest from debt securities	**(2.296.949)**	(1.837.734)
Interest on subordinated loan stock	**509.750**	491.836
Gain from change in the fair value of investment property	**-**	(85.552)
Gain from change in the fair value of derivatives	**-**	(14.200)
Impairment of available for sale investments	**(1.070)**	16.818
	4.303.045	1.902.388
(Increase)/decrease in operating assets:		
Placements with the Central Bank	**158.804**	(105.164)
Investments held to maturity	**(5.113.607)**	(20.083.113)
Loans and advances to customers	**(224.005)**	(5.829.154)
Other assets	**(309.769)**	389.623
Increase/(decrease) in operating liabilities:		
Amounts due to banks	**(4.039.197)**	4.064.588
Customer deposits and other accounts	**14.780.094**	41.880.111
Other liabilities	**986.945**	105.674
	10.542.310	22.324.953
Taxed paid	**31.263**	-
Net cash flows from operating activities	**10.573.573**	22.324.953

31. Cash and cash equivalents

	2007	2006
	£	£
Cash and balances with the Central Bank *(note 10)*	**60.095.544**	54.564.147
Government and other debt securities *(note 13)*	**-**	4.334.134
Placements with other banks *(note 11)*	**21.466.629**	10.513.148
	81.562.173	69.411.429
Less obligatory deposits with the Central Bank	**(9.196.360)**	(9.355.164)
	72.365.813	60.056.265

32. Risk management

In the ordinary course of business, the Bank is exposed to various risks, which are managed and monitored through various control mechanisms in order to prevent undue risk concentrations.
The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance. Each officer is responsible for the risk which is the result of their daily duties.

The nature of those risks and the way in which they are managed are described 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.

Credit risk is monitored by the Bank through various control mechanisms, such as the assessment of credit policies, limits and credit principles.

The Credit Risk Management unit defines the credit dispensing policies and based on these policies the Bank evaluates the granting of credit facilities to customers.

The procedure of approving credit facilities aims to eliminate the credit risk by evaluating the creditworthiness of the third party, the offered collaterals and the type of credit facility. Credit exposures from related accounts are aggregated and monitored on a consolidated basis.

In addition, the Credit Risk Management Unit of the Bank suggests and readjusts the loan limits for the Sanctioning Authorities, when it is necessary, after communication with General Management.

The Bank's portfolio is continuously monitored in order to avoid undertaking high risks when granting credit facilities and during their term. For loans and advances granted to customers, the Bank uses an internal evaluation and grading system based on the clients' historical payment records and their overall relationship with the Bank. In the case of governments and financial institutions, the evaluation is made based on the ratings of international credit rating agencies. The Bank's 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.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, which is presented gross, without taking into account any collateral held and other credit enhancements.

	2007	2006
	£	£
Balances with the Central Bank *(note 10)*	**58.151.546**	54.546.147
Placements with banks *(note 11)*	**21.466.629**	10.513.148
Loans and advances to customers *(note 12)*	**127.132.478**	127.798.246
Investments available-for-sale and held-to-maturity *(note 13)*	**51.611.703**	50.832.230
Other debtors *(note 19)*	**535.721**	579.185
Accrued interest receivable *(note 20)*	**747.051**	468.943
Total on-balance sheet	**259.645.128**	244.737.899
Contingent liabilities	**14.062.611**	12.296.134
Commitments	**12.405.175**	10.428.629
Total off-balance sheet	**26.467.786**	22.724.763
Total credit risk exposure	**286.112.914**	267.462.662

32. Risk management – Credit risk (continued)

Credit portfolio concentration

There are restrictions on credit risk concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks should not lend more than 25% of their capital base to any one 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. Furthermore, according to the directive of the Central Bank of Cyprus, the uncovered risk and the total of loans to directors and any related parties cannot exceed a total of 5% and 40% respectively of the capital base of the bank. The Bank is in compliance with both restrictions, except for a case of a customer group whose total lending exceeds 25% of the Bank's capital base, and the Central Bank of Cyprus is aware of the situation.

The Bank's exposure to credit risk arising from customers who have credit facilities amounting to more than 10% of the Bank's capital base as at 31 December 2007, was C£45.261 thousand (2006: C£50.749 thousand).

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

	2007	2006
	£	£
Trade and manufacturing	**13.832.174**	15.859.505
Tourism	**17.536.802**	18.069.363
Property and construction	**33.963.972**	30.769.489
Personal and professional	**83.782.241**	89.652.273
Other sectors	**4.948.584**	4.433.130
	154.063.773	158.783.760

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, government guarantees, pledges of equity securities and debt instruments of public companies, 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

Collateral held as security for financial assets other than loans and advances 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

	2007	2006
	£	£
Neither past due nor impaired	**62.025.194**	47.274.190
Past due but not impaired	**50.546.500**	49.909.667
Impaired	**41.492.079**	61.599.903
	154.063.773	158.783.760

32. Risk management – Credit risk (continued)

Neither past due nor impaired loans and advances to customers

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

The table below shows the credit quality o loans and advances to customers that were neither past due nor impaired, based on the Bank's credit rating system.

	2007	2006
	£	£
Low Risk – Grade 1	**39.799.134**	31.233.626
Medium Risk – Grade 2 & 3	**21.765.265**	11.625.079
High Risk – Grade 4	**460.795**	1.415.485
	62.025.194	47.274.190

Grade 1- Low Risk

Loans and advances to customers that are within their limits and do not have any indications of repayment difficulties are classified as Grade 1.

Grade 2&3- Medium Risk

Loans and advances to customers which require follow-up in order to avoid future problems. Their repayment ability remains at acceptable levels despite certain problems that they had presented in the past.

Grade 4-High Risk

This grade is given to loans that had shown repayment difficulties in the past but are not in arrears and are not considered to be of doubtful recovery.

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

	2007	2006
In arrears	£	£
Past due up to 30 days	**34.711.612**	33.949.958
Past due to 31-90 days	**6.990.785**	6.197.085
Past due to 91-180 days	**1.573.597**	2.177.316
Past due to 181-365 days	**3.938.448**	5.193.383
Past due over one year	**3.332.058**	2.391.925
	50.546.500	49.909.667

The main reason why past due loans are not considered to be impaired, is that they are secured by tangible collateral the value of which is sufficient to cover both the principal and interest.

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 2007 amounts to £30.755 thousand (2006: £31.713 thousand).

Impaired loans and advances

The fair value of collateral held by the Bank in relation to individually impaired loans as at 31 December 2007 amounts to £22.437 thousand (2006: £21.759 thousand).

32. Risk management – Credit risk (continued)

Renegotiated loans and other advances to customers

There were no material cases of renegotioated loans and advances which were past due and/or impaired during the year.

Analysis by rating agency designation

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

	2007	2006
	£	£
Aaa – Aa3	**75.884.383**	56.742.130
A1 – A3	**249.242**	1.818.516
Baa1 – Baa3	**68.216**	80.051
Items in course of collection from banks	**5.360.331**	3.108.768
	81.562.172	61.749.465

Debt securities and treasury bills are analysed in accordance with their Moody's rating as follows:

	2007	2006
	£	£
Moody's rating:		
Aaa – Aa3	**50.291.855**	49.512.566
A1 – A3	**502.862**	503.065
Baa1 – Baa3	**816.986**	816.599
	51.611.703	50.832.230
Of which they issued:		
- Cyprus Government	**50.291.855**	49.512.566
- Cyprus public companies	**1.319.848**	1.319.664
	51.611.703	50.832.230

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. It arises as a result of timing differences on the reprising of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied by 1% (with 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 find the annual impact on earnings of any changes in interest rates for the next twelve months for each currency.

In order to manage interest rate risk, the Bank's Assets and Liabilities Committee ('ALCO'), has established policies and maximum loss limits by currency.

On 31 December 2007, a parallel increase of market interest rates for all currencies by 1% would have resulted the increase of profits before tax by £46 thousand within one year (31 December 2006: decrease of profits by £37 thousand). A parallel decrease of interest rates by 1% would have resulted in the decrease of profits before taxation by £20 thousands (31 December 2006: increase of profits by £ 9 thousand). The analysis used for the calculation of sensitivity for interest rate changes, differs from that presented in the financial statements, in respect of the reprising time bands in which the assets and liabilities are analysed. Specifically, for the internal analysis, the elasticity of interest rates on loans and advances and deposits is also taken into account.

32. Risk management – Interest rate risk (continued)

Analysis of assets and liabilities as at 31 December 2007 according to their contractual reprising or maturity date:

	Upto one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Non -interest bearing	**Total**
	£	£	£	£	£	£	**£**
Assets							
Cash and balances with Central Bank	60.056.310	1.159.640	7.801.237	-	-	-	**69.017.187**
Placements with banks	5.360.331	16.106.298	-	-	-	-	**21.466.629**
Loans and advances to customers	127.025.918	-	-	106.560	-	-	**127.132.478**
Investments held-to-maturity	502.862	-	14.018.485	35.522.888	1.567.468	-	**51.611.703**
Investments available for sale	-	-	-	-	-	145.634	**145.634**
Investment properties	-	-	-	-	-	-	**-**
Investments in subsidiaries	-	-	-	-	-	1.156	**1.156**
Property, equipment and intangible assets	-	-	-	-	-	3.370.004	**3.370.004**
Other assets	-	-	-	-	-	569.732	**569.732**
Prepayments and accrued income	-	-	-	-	-	747.051	**747.051**
Total assets	**192.945.421**	**17.265.938**	**21.819.722**	**35.629.448**	**1.567.468**	**4.833.577**	**274.061.574**
Liabilities							
Deposit to banks	25.391	-	-	-	-	-	**25.391**
Amounts due to banks	8.921.643	-	-	-	-	-	**8.921.643**
Customer deposits and other accounts	142.820.632	24.794.016	65.468.028	607.000	-	2.187.363	**235.877.039**
Other liabilities	-	-	-	-	-	1.571.977	**1.571.977**
Accrued expenses	-	-	-	-	-	1.892.511	**1.892.511**
Subordinated loans stock	-	-	8.570.000	-	-	-	**8.570.000**
Total liabilities	**151.767.666**	**24.794.016**	**74.038.028**	**607.000**	**-**	**5.651.851**	**256.858.561**
Net position	**41.177.755**	**(7.528.078)**	**(52.218.306)**	**35.022.448**	**1.567.468**	**(818.274)**	**17.203.013**

The average effective interest rate for loans for the year 2007 was 7,97% (2006: 8,34%).

The interest rate for debt securities and treasury bills for the years 2007 and 2006 fluctuated between 4,49% and 3,55%.

The average effective interest rate for deposits for the year 2007 was 3,79% (2006: 3,98%).

32. Risk management – Interest rate risk (continued)

Analysis of assets and liabilities as at 31 December 2006 according to their contractual reprising or maturity date:

	Upto one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Non -interest bearing	**Total**
	£	£	£	£	£	£	**£**
Assets							
Cash and balances with Central Bank	51.236.317	1.518.140	1.809.690	-	-	-	**54.564.147**
Placements with banks	10.513.148	-	-	-	-	-	**10.513.148**
Loans and advances to customers	127.487.352	-	-	310.894	-	-	**127.798.246**
Investments held-to-maturity	3.077.069	1.257.065	-	44.415.142	2.082.954	-	**50.832.230**
Investments available for sale	-	-	-	-	-	43.923	**43.923**
Investment properties	-	-	-	-	-	473.000	**473.000**
Investments in subsidiaries	-	-	-	-	-	1.156	**1.156**
Property, equipment and intangible assets	-	-	-	-	-	3.451.502	**3.451.502**
Other assets	-	-	-	-	-	652.140	**652.140**
Prepayments and accrued income	-	-	-	-	-	474.187	**474.187**
Total assets	**192.313.886**	**2.775.205**	**1.809.690**	**44.726.036**	**2.082.954**	**5.095.908**	**248.803.679**
Liabilities							
Amounts due to banks	4.064.588	-	-	-	-	-	**4.064.588**
Customer deposits and other accounts	132.413.090	23.509.235	62.842.607	160.000	-	2.172.013	**221.096.945**
Other liabilities	-	-	-	-	-	812.223	**812.223**
Accrued expenses	-	-	-	-	-	1.738.580	**1.738.580**
Subordinated loan stock	-	-	8.570.000	-	-	-	**8.570.000**
Total liabilities	**136.477.678**	**23.509.235**	**71.412.607**	**160.000**	-	**4.722.816**	**236.282.336**
Net position	**55.836.208**	**(20.734.030)**	**(69.602.917)**	**44.566.036**	**2.082.954**	**373.092**	**12.521.343**

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 ('ACLO') has approved open position limits for each currency and 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. This policy results in the elimination of material open positions in any currency, and consequently eliminates any potential material impact on net profit and net financial position from possible fluctuations of foreign exchange rates.

32. Risk management (continued)

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to fully meet payment obligations and potential payment obligations as and when they fall due.

The Bank's Market Risk Management Unit is responsible for monitoring the liquidity position of the Bank in order to ensure compliance with both internal policies, and with the limits set by the regulatory authorities.

The Unit monitors 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:

2007	On demand and up one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	£	£	£	£	£	**£**
Amounts due to banks	25.391	-	-	-	-	**25.391**
Placements with banks	8.921.643	-	-	-	-	**8.921.643**
Customer deposits and other accounts	105.374.846	54.732.045	77.343.225	679.952	969.525	**239.099.593**
Derivative financial instrument-contractual amount payable	673.645	1.635.870	-	-	-	**2.309.515**
Derivative financial instrument-contractual amount receivable	(719.166)	(1.628.313)	-	-	-	**(2.347.479)**
Other liabilities	1.701.737	-	-	-	-	**1.701.737**
Subordinated loan stock	-	-	8.257.000	666.000	-	**8.923.000**
Total	**115.978.096**	**54.739.602**	**85.600.225**	**1.345.952**	**969.525**	**258.633.400**

32. Risk Management – Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturity:

2006	On demand and up one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	£	£	£	£	£	**£**
Amounts due to banks	4.065.356	-	-	-	-	**4.065.356**
Customer deposits and other accounts	86.513.215	52.581.756	84.069.106	295.514	779.158	**224.238.749**
Derivative financial instruments-contractual amount payable	2.651.985	-	-	-	-	**2.651.985**
Derivative financial instruments-contractual amount receivable	(2.666.185)	-	-	-	-	**(2.666.185)**
Other receivables	1.475.262	-	-	-	-	**1.475.262**
Subordinate loan stock	-	-	-	9.433.000	-	**9.433.000**
Total	**92.039.633**	**52.581.756**	**84.069.106**	**9.728.514**	**779.158**	**239.198.167**

This table 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 has been given on 31 December. The amounts in this table may not be equal to the balance sheet amounts since the table below presents all cash flows (including interest) on an undiscounted basis.

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.

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 investment in equity securities held by the Bank.

The Bank is not subject to material risk from such changes.

Capital management

The adequacy of the Bank's capital is monitored on a continuous basis in order to comply 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, with the provisions of the CBC instructions "Computation of Capital Requirements" for the duration of the year, the bank has applied and satisfied completely all these requirements ("Basel") with the basis of which it is required by every financial institution to maintain as a limit between the regulatory capital and the weighted assets to 10%.

32. Risk Management – Capital management (continued)

The following table presents the regulatory capital and the bank's total capital ratio as suggested to the Central Bank of Cyprus:

	2007	2006
	£'000	£'000
Original own funds – Tier 1 capital	14.772	11.674
Supplementary own funds – Tier 2 capital	2.343	4.306
Total regulatory capital	17.115	15.980
Risk weighted assets	123.622	132.294
Total Capital Ratio	13,84%	12,08%

Under the Directive, regulatory capital comprises of:

(I) Original own funds: paid up share capital, share premium, retained earnings, other reserves (adjustment reserves are exempted) and minority interest. The book value of goodwill and other intangible assets are deducted from original own funds

(II) Supplementary own funds: subordinated debt, general provisions and revaluation reserves arising from the valuation of immovable properties and financial instruments.

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

(III)The risk weighted assets are classified under their risk nature. The same procedures are used also for the off-balance sheet assets.

33. Directors' interest in the share capital of the Bank

The beneficial interest in the share capital of the Bank of each of the Directors, their spouses and minor children, and of companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2007 and 31 March 2008 are stated below:

	Percentage	Percentage
	31.12.2007	31.3.2008
	%	%
G. Keheyian	4,80	4,80
P. Savvides	8,75	8,75
Total	13,55	13,55

34. Shareholders who hold more than 5% of the share capital of the Bank

The shareholders who held more than 5% of the share capital of the Bank at 31 December 2007 and at 31 March 2008 were:

	Percentage 31.12.2007 %	Percentage 31.3.2008 %
Commercial Value AAE*	25,000	25,000
Path Holdings Ltd	25,495	25,495
Universal Life Insurance Public Co. Ltd	9,990	9,990
P. Savvides	8,750	8,750
Tygoonato Coffee Lounge Ltd	7,460	7,460
Total	76,695	76,695

* The inter-related entities, Aspis Pronoia Internal Floating Capital and Aspis Holdings Public Co Ltd, possess the 4,55% and 0,01% respectively of the Bank's issued share capital.

35. Related party transactions

The analysis of loans and other advances to members of the Board of Directors, key management personnel of the Bank and to related parties as at 31 December 2007 and 2006 were as follows:

	Number of existing Directors of the bank		Loans and other advances	
	2007	2006	**2007** £	2006 £
More than 1% of the net assets of the Bank, per Director	**-**	-	**-**	-
Less than 1% of the net assets of the Bank, per Director	**7**	5	**322.225**	46.471
Total	**7**	5	**322.225**	46.471
Loans and advances to key managing personnel and related parties			**712.140**	497.050
Total loans and other advances			**1.034.365**	543.521
Tangible securities			**1.654.523**	879.802
Interest income for the year			**50.457**	61.149
Related party deposits for the year			**4.131.420**	5.436.249
Interest expense for the year			**120.303**	168.324

The key management personnel of the Bank are the General Manager and seven (7) high-ranking executive members.

35. Related party transactions (continued)

In addition, there were contingent liabilities in respect of members of the Board of Directors of the Bank and the parent company in respect of the year 2006, in the form of documentary credits, guarantees and commitments to lend, amounting to £774.260 (2006: £435.341). Of these, £289.823 (2006: £299.513) relate to Directors and their connected persons.

Connected persons include spouses, minor children and companies in which a Director holds directly or indirectly at least 20% of the voting shares.

All transactions with Directors, key management personnel or/and with their connected persons are made on normal business terms.

Fees and emoluments of Directors and key management personnel

	2007	2006
	£	£
Directors emoluments		
Non executive	**34.625**	27.905
Emoluments in executive capacity	**34.625**	27.905
Key management personnel emoluments		
Salaries and other short-term benefits	**397.193**	350.279
Employer contributions for social insurance etc.	**32.320**	31.333
Retirement benefit plan costs	**68.082**	75.354
Total emoluments of key management personnel	**497.595**	456.966
Total	**532.220**	484.871

Mr. Michalis Kleopas, who is a member and the secretary of the Bank's Board of Directors, is a partner in the Law Office Kleopas & Kleopas, who are the external legal advisors of the Bank, handling court cases and legal proceedings on behalf of the Bank. The total cost of these cases which is charged to the debtors/creditors for 2007 amounted to £2.453 (2006: £32.999).

Mr. Michalis Michaelides, who was member of the Bank's Board of Directors until 9 July 2007, provides advisory services to the Law Office Ntinos Michaelides & Co, which handles law cases and procedures against debtors/creditors of the Bank. The total cost charged to the debtors/creditors for these cases for 2007 amounted to £4.185 (2006: £7.097).

36. Agreements with major shareholder

Except for the disclosures in notes 34 and 35 to the Financial Statements, at the date of the Financial Statements there were no other agreements between the Bank and a major shareholder.

37. Events after the balance sheet date

On 1 January 2008, date of the introduction of the Euro as the new official currency of the Republic of Cyprus, the functional currency of the Bank changed from Cyprus pounds to the Euro. As a result of this change, as from 1 January 2008 all assets and liabilities of the Bank have been converted using the fixed conversion rate of €1 = C£0,585274

Report on the Financial Statements

We have audited the financial statements of Universal Bank Public Limited (the "Company") on pages 17 to 62, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) 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.

Auditors' 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 Universal Bank Public Limited as of 31 December 2007, 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 EU and the requirements of the Cyprus Companies Law, Cap.113.

Report on Other Legal Requirements

Pursuant to the requirements of the 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 Companies Law, Cap. 113, in the manner so required
- In our opinion, the information given in the Director's Report on pages 15 and 16 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 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
Chartered Accountants

Nicosia, 31 March 2008

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