



annual report 2004



UNIVERSAL BANK

Contents

Notice of Annual General Meeting	2
Chairman's Statement	3-5
Report on Corporate Governance	6-11
Board of Directors and Executives	12
Report of the Directors	13
Income Statement	14
Balance Sheet	15
Statement of Changes in Equity	16
Cash Flow Statement	17
Summary of Significant Accounting Policies	18-21
Notes to the Financial Statements	22-45
Auditors' Report	46
Main Offices, Addresses/Services and Banking Centres	47-51

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Universal Bank Public Ltd will be held at the Universal Group of Companies headquarters in Nicosia, on 8 June 2005 at 5:30 p.m., to transact the following business:

Agenda

1. Submission of the financial statements of the Bank for the year ended 31 December 2004 and the Directors' and Auditors' Reports.
2. Election of the members of the Board of Directors.
3. Fixing the remuneration of the Directors.
4. Reappointment of the Auditors and authorisation of the Board of Directors to fix their remuneration.
5. Transaction of any other business, which can be carried out at an Annual General Meeting.

By order of the Board

M.P. Kleopas
Secretary

Nicosia, 24 March 2005.

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

I present to you the Annual Report for the year 2004, putting forward a few comments about the results, developments and prospects of the Bank.

The Bank's results for the year 2004 show a considerable improvement.

Net interest income rose to C€5,1 million, demonstrating an increase of 15% in comparison to 2003, mainly due to the expansion of the interest rate margin of loans to deposits as a result of a successful pricing policy, the increase in the basic interest rate for the Cyprus pound by 1%, the recovery of past due debts, and the increase in income from investments in government and other bonds.

The above result was achieved despite the Central Bank of Cyprus imposing stricter regulations regarding suspension of interest and other related income. Specifically, all interest and other income from loans and advances showing delays in payments of over 6 months, instead of 9 months in 2003, are suspended and not recognised as interest income in the Income Statement.

Other income increased by 14% from C€1,7 million in 2003 to C€1,9 million in 2004, mainly due to the development of trade services and the successful operation of credit card and treasury services.

As a result, net income increased by 15% from C€6,1 million in 2003 to C€7 million in 2004.

Operating expenses increased from C€6,2 million in 2003 to C€6,4 million in 2004, showing a marginal increase of 3%, mainly due to the increase in staff costs by 11% as a result of the Bank's contractual collective agreement obligations. Other operating expenses increased by 4% while depreciation decreased significantly by 21%.

The Bank returned to operating profits after a period of three years of operating losses. The operating profits before provisions for the year 2004 amount to C€616 thousand. The restated operating losses figure for the year 2003 was C€75 thousand. Further increase in operating profits is expected in 2005.

The strengthening of the procedures regarding the supervision of the quality of our lending portfolio led to a decrease in the amount of provisions for bad and doubtful debts for the second year in a row. Specifically, provisions for bad and doubtful debts amount to C€2,7 million reporting a decrease of 19% in comparison to the year 2003.

We expect further improvements in the quality of our lending portfolio, as well as in the recovery of non-performing loans and advances with the additional strengthening and investment in credit risk management systems and procedures.

Losses for the year decreased by 38% from C€3,3 million in 2003 to C€2 million in 2004.

Total assets amounted to C€195,2 million reporting a 3% decrease against year 2003.

Taking into account the effect of the adoption of stricter criteria for loan evaluations, the new legislation with regards to guarantors and consumer lending, and the revised regulations by the Central Bank of Cyprus, the increase in net loans and advances in 2004 was limited to 1%. However, the amount of gross and average loans and advances for 2004 increased by 4,4% and 6,2% respectively. Under the above-mentioned circumstances we consider our credit expansion to be satisfactory and is in accordance with our continuous efforts for the improvement of the quality of our lending portfolio.

One of the major targets of our Bank's development policy is the restraining the cost of deposits. Taking into account our targeted conservative credit expansion during 2004 as well as the intense competition for new deposits in the banking sector during the last three months of the year, the Bank decided not to follow the aggressive policy of the competition offering higher than normal deposit interest rates. As a result, the total amount of deposits for the year 2004 decreased by 6% to C£166,1 million, while the average amount of deposits throughout 2004 reported a 8% increase.

As a result of the losses for the year the Bank's Capital Base decreased to C£16,9 million as compared to C£19,5 million for 2003. The Capital Adequacy Ratio was 11,6% and is favourably compared to the minimum capital adequacy ratio of 10% set by the Central Bank of Cyprus and of 8% set by the European Union Directive.

The Bank's continuous investment in credit risk management systems and procedures have brought encouraging results. We expect additional improvements with regards to the monitoring procedures and systems for both credit and operating risks of the Bank as a result of the Basel II and Capital Adequacy Directive (CAD3) compliance.

The Bank's credit card business continues to expand at an encouraging rate, increasing both the number of credit cards in operation as well as the Bank's revenues with regards to commission income. With the forthcoming introduction of the 'Platinum' credit card and 'Electron' card at the beginning of the second quarter of 2005, we expect additional increase in the turnover.

During 2004, the Bank successfully offered new deposit products with a maturity of six months, two years, and three years, as well as a specific pension product. It is our policy to continuously design new products in order to profitably differentiate ourselves from other banks and to provide our customers with products and solutions that help the development of their operations.

Our Internet Banking service under the name **ibank** has been available to all our customers since November 2004 with satisfactory success. Within the current year we plan to enrich further the products and services offered by **ibank** constituting it as one of the primary factors of success in the development of the Bank's operations.

For the last two years, the rate of growth of the world economy is on a rising track, with positive impact on the Cyprus economy reflected among other things the encouraging performance of the banking sector for the year 2004. The Cyprus capital market is showing an encouraging activity since the beginning of 2005 and is expected to continue doing so.

After three years of operating losses, the Bank returned to operating profits. The Board of Directors is optimistic about the Bank's future operations.

Our basic targets for 2005 include the implementation of both simplified and automated procedures in order to restrain our operating expenses to the lowest possible level, the improvement of the quality of our lending portfolio so that to further decrease provisions for bad and doubtful debts and suspension of interest and other income, and the further development of the more profitable operations of the banking sector.

Based on the above and the continuous expansion of our operations, we expect the results for the year 2005 to demonstrate further improvement to those reported in 2004.

In closing, I would like to thank our customers and our shareholders for their support and belief in our vision. In addition, I would like to thank the members of the Board of Directors, our Auditors and Legal Advisors, as well as all other associates for their valuable services. Last but not least, I would like to extend special thanks to the General Management and our personnel for their dedication and zeal with which they work for the achievement of our targets and vision.

Symeon Matsis
Chairman

Nicosia, 24 March 2005.

Report on Corporate Governance

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.

On 4 August 2004 the Board of Directors decided to apply the Corporate Governance Code (the 'Code'), recognising its importance. The initial implementation of the Code was on a 'partial' basis until the Board had strengthened in number. Specifically, on 9 November 2004 the Board decided to fully adopt the provisions of the Code.

Part B

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

At least one third of the members of the Board of Directors must at all times be non-executive. On 31 December 2004 all the members of the Board of Directors were non-executive.

All the non-executive directors are considered 'independent' members of the Board and are not involved in the management of the Bank or have any direct or indirect control over the majority of share capital or voting rights of the Bank. No member has any kind of business relation that could substantially influence his independent and impartial judgement.

On 31 December 2004, the Board of Directors consisted of 7 (seven) non-executive directors, one being the Chairman and another being the Secretary.

The Board of Directors consists of the following members:

Symeon Matsis (Chairman) Born in 1944. Holds a B.Sc degree in Economics from the London School of Economics and a M.Sc from the Queen Mary College in Labour Economics. Held the position of Director General of Ministries and the Planning Bureau. He was first appointed as Director General at the Planning Bureau and subsequently served at the Ministries of Agriculture, Defence, Health and Communications and Works. Held chairmanship positions as well as member of various semi-governmental boards. Served as a member of the Board of the Cyprus Development Bank and the Housing Finance Agency. Member of the Board of Directors of Universal Bank since November 2004. Currently, a business consultant.

Michalis Kleopas (Secretary) Born in 1949. He has 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 various Legal, Disciplinary and Investigative Committees of Cyprus Sport Organisation, Cyprus Football Association, Cyprus Handball Association and Technical Committee of Reference. He is the Secretary and member of the Board of Directors of a number of Private and Public Companies.

Michalis Michaelides Born in 1964. Holds a Bachelor of Engineering in Mechanical Engineering from Kings College and an M.B.A. in Finance from the University of Scotland. Member of the Board of Directors of F.W.Woolworth & Co (Cyprus) Ltd and of L' Union Nationale Ltd. Executive Director of Dinos M. Michaelides (Consultants) Ltd since 1990. Businessman - Business Consultant.

- Iosif Vavlitis* Born in 1950. Managing Director of the Vavlitis group of companies . He is also a member of the Board of Directors of Universal Investments Ltd. He is the Chairman of the Union of Hotel Enterprises, Vice-president of the Association of Cyprus Tourist Enterprises, member of the Cyprus Employers and Industrialists Federation and member of various committees of the Cyprus Tourism Organization . He has been a member of the Board of Directors of Universal Bank since 1994. He is a Climate Control engineer and holds a degree in Business Administration. He is a member of the American Society of Heating Refrigerating and Air Conditioning Engineers and a member of the Association of Energy Engineers.
- Socrates Solomides* Born in 1955. He graduated from the London School of Economics where he obtained a B.Sc degree in Economics and a M.Sc in Accounting and Finance. He also holds a MBA degree from the Berkeley University of California. Initially he worked for the Economic Research Department of the Central Bank of Cyprus and then moved to CISCO (part of the Bank of Cyprus Group of companies) where he held the position of the General Manager from 1988 until 1999. For many years he has been a member of the Insurance Advisory Body. He is an executive director at a number of family companies and also holds directorship positions at various private and public companies within the financial sector. He has been a member of the Board of Directors of the Bank since 2004.
- Soteris Kallis* Born in 1945. Executive Director of G. Kallis (Manufacturers) Ltd and the Chairman of the Cyprus Clothing Industry. He is member of the Board of Directors of Universal Life Insurance Public Co. Ltd, member of the Executive Committee of the Board of Directors of the Cyprus Employers and Industrialists Federation. Member of the Board of Directors of Universal Bank since December 2004.
- Frixos Soroccos* Born in 1945. He holds a B.Sc Degree in Economics from the London School of Economics and a M.Sc in Economics from Leicester University. He is the Chairman of the Examining Board for Professional Certification of Officers and Employees of Investment Services Firms and also an Acting Member of the Board of Directors of the European investment Bank. Until recently he held the position of the Director of Finance at the Directorate of Finance and Investment of the Ministry of Finance. Served at the position of the Chairman of the Cyprus Securities & Exchange Committee and as a member of various semi-governmental boards. Member of the Board of Directors of Universal Bank since December 2004.

The Board of Directors held 14 meetings in 2004.

The Board of Directors deals with the following:

- Strategic policies and targets of the Bank
- Annual budget and business planning of the Bank
- Setting of time frames for capital investments
- Important capital expenses
- Supervision of extraordinary transactions
- Mergers, acquisitions and disposals of the company's assets
- Adoption and change of accounting standards
- Substantial transactions by the Company 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 company.
- Selection, appointment and termination of the company's General Manager
- Definition of the Directors' retirement policy
- Appointment of the company'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 company. All directors are aware of the Cyprus Stock Exchange Law and Regulations and Cyprus Company Law, especially the parts relating to their individual position on the Board.

All Board members may receive advice and other services by the company's Secretary. The Secretary ensures the application of the Board's policies and compliance with existing regulations.

All Board members exercise impartial and independent judgement in executing their duties.

The Board of Directors operates on the basis of collective responsibility and no differentiation exists between groups of Directors with regards to their responsibility. In addition the Board also ensures the smooth succession procedures with regards to the company's management.

Based on the company'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 an annual general meeting. If the number of directors is less than 3 (three), or a multiple of three, then the number of directors expected to resign will be the number closest to the one third. At the annual general meeting held on 16 June 2004 Messrs. Iosif Vavlitis, Michalis Michaelides and Michalis Kleopas retired by rotation and were re-elected at the same meeting.

For the year 2005, and according to the company's Articles of Association, Messrs Iosif Vavlitis, Michalis Michaelides and Michalis Kleopas retire by rotation, and being eligible offer themselves for re-election. Messrs Symeon Matsis, Soteris Kallis and Frixos Soroccos that were appointed by the Board during 2004 retire but offer themselves for election.

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

In 2004 the composition of the Board of Directors underwent the following changes:

- On 16 June 2004 Mr George Syrimis resigned from the position of Board Chairman and Mr Elias Pantelides resigned from the Board of Directors. Mr Andreas Georghiou was appointed on the same date as Executive Chairman of the Board.
- On 22 October 2004 Mr Pavlos Photiades resigned from the Board of Directors.
- On 8 November 2004 Mr Andreas Georghiou resigned from his executive duties and on 12 November 2004 he resigned from his position as Chairman of the Board.
- On 16 November 2004 Mr Symeon Matsis was appointed to the Board of Directors and on 23 November 2004 he was elected Chairman of the Board.
- On 14 December 2004 Messrs Soteris Kallis and Frixos Soroccos were appointed to the Board of Directors.

The remunerations of the Board members are proportional to their attendance at Board meetings and are approved by the shareholders at the Annual General Meeting. At the Annual General Meeting that took place on 16 June 2004 the shareholders approved an annual remuneration of €1,000 for each Board member and a €50 fee for each Board member attending a meeting. These remunerations are revised on an annual basis. Based on the articles of association, the Board members can claim reimbursement for all travelling expenses necessary to attend all Board meetings.

The remuneration of the Executive Directors is approved on a year-by-year basis by the Board as part of the next year's budget. These consist of a salary that is adjusted each year based on the prevailing economic conditions and the state of the labour market. The Executive Directors are not included in the Bank's staff retirement fund. The remuneration of the Executive Chairman for the year 2004 (up to 12 November 2004, his retirement date) is shown in Note 7 of the audited Financial Statements.

Audit Committee

The Audit Committee members are appointed by the Board and consists of 3 (three) independent non-executive Directors, that elect the Committee's Chairman.

In 2004, the Committee consisted of the following members:

<i>Chairman:</i>	Symeon Matsis (since 22/11/04) Andreas Georghiou (from 4/8/04 up to 12/11/04)
<i>Members:</i>	Michalis Michaelides (since 4/8/04) Socrates Solomides (since 4/8/04)

The Committee met twice during 2004.

Before the establishment of the above committee, an Audit Committee was in operation consisting of three members, the Chairman who was an executive Director and two (2) independent non-executive Directors. This Committee met once in the first six months of 2004.

The duties of the Committee include the following:

- Recommendations to the Board with regards to the appointment, termination, and remuneration of the company's external auditors, the continuous supervision of the extend and effectiveness of the audit, and the independence and objectivity of the auditors.
- Submission to the Board of a report including:
 - (a) Audit and consultancy remunerations paid to the external auditors.
 - (b) The assignment of substantial consultancy duties assigned to the external auditors either based on their importance to the Company and its subsidiaries or based on the level of remuneration.
- Submission of suggestions and proposals by the Manager of Financial Services to the Board on the choice of accounting policies used in the Financial Statements.
- In co-operation with the Corporate Governance Compliance Officer, preparation and submission to the Board of the Corporate Governance Report for inclusion in the company's Annual Report.
- Recommendation to the Board of Directors with regards to compliance issues to the Code in connection with the recommended activities of Corporate Governance Compliance Officer.
- Review of company 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.
- Recommendation to the Board on the appointment and/or termination of the Corporate Governance Compliance Officer.
- Evaluation of the adequacy and independence of the Internal Audit Management.
- Review of the terms of reference of the Committee and where necessary, submission to the Board of proposals for validation/approval.

Nominations Committee

The members of the Nominations Committee are appointed by the Board and consists of 3 (three) independent non-executive directors. The Chairman of the Board of Directors is the Chairman of the Committee.

The members of the Nominations Committee are:

Chairman: Symeon Matsis (since 22/11/04)
Andreas Georghiou (from 9/11/04 to 12/11/04)
Members: Michalis Kleopas (since 9/11/04)
Iosif Vavlitis (since 9/11/04)

The Nominations Committee met once during 2004.

The duties of the Committee include:

- Submission to the Board of proposals for the nomination 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 Company Secretary, the planning with regards to the re-appointment of retiring Board members.
- 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 and consists of (3) three independent non-executive Directors, that elect the Committee's Chairman.

The members of the Remunerations Committee are:

Chairman: Iosif Vavlitis (since 9/11/04)
Members: Michalis Michaelides (since 9/11/04)
Socrates Solomides (since 9/11/04)

The Committee met once in 2004.

The Committee's duties include:

- Review of the employment contracts of the Executive directors.
- Submission to the Board recommendations concerning the framework and level of remuneration of the Executive Directors. The remunerations must be sufficient so as to attract and maintain the Directors' interest in the Company.
- Submission of the Directors remunerations 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 company's financial performance.

The Committee also considers the following:

- Allow the Chairman and the Chief Executive Officer to express their opinions with regards to the Committee's proposed remuneration of the Executive Directors.
- The remuneration of all the Board members that take part in the Board Committees is determined by the Board and is based on the time that they allocate to the management of the company.
- The remuneration of the non-executive members of the Board is not connected to the company's profitability.
- Where the remuneration of the executive directors is connected to the company's performance, it should be in line of the best interests of the shareholders so as to act as incentives for performance improvement.
- Share options granted to Executive Directors should be priced at an amount higher than the average closing price of the last 30 stock exchange session meetings, before the date of the granting of options.

Confirmations of the Board of Directors

System of Internal Controls

The Board of Directors confirms the review of the effectiveness of the internal controls system of the Bank and confirms its satisfaction. The review covers all control systems, including both financial and operational systems, as well as risk management systems.

Accuracy and completeness of information

The Board confirms that the company has set in effect, 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 Law and Regulations.

Transactions with members of the Board of Directors

Details of the transactions with members of the Board and their connected persons are set out on note 34 of the audited Financial Statements. All transactions are carried out in the normal course of business and are considered to have taken place at arm's length and with transparency.

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 Shareholders Meeting, the Bank organises annual Company Presentation where it presents both the audited financial results of the year and its strategic plans.

The Board has appointed the Manager of Financial Services as the Investor Relations Officer.

Corporate Governance Compliance Officer

The Board has appointed the Manager of Financial Services as the Corporate Governance Code Compliance Officer.

The Board of Directors

Universal Bank Public Limited

Board of Directors and Executives

Board of Directors

Symeon Matsis, *Chairman*

Michalis Michaelides

Iosif Vavlitis

Michalis Kleopas

Socrates Solomides

Soteris Kallis

Frixos Soroccos

General Manager

Dr Spyros Episkopou

Manager, Financial Services

Demetris Shacallis

Secretary

Michalis Kleopas

Registered Office

85 Digenis Akritas Avenue

Universal Tower, 6th floor

1070 Nicosia

Legal Advisor

Dr Kypros Chrysostomides & Co.

Auditors

Ernst & Young

Chartered Accountants

Report of the Directors

The Board of Directors of Universal Bank Public Limited ("Bank") submits to the shareholders its report for the year ended 31 December 2004.

Activities

The Bank is a subsidiary company of the Universal Group of Companies. The Bank's activities during the year were the provision of banking and financial services in Cyprus.

Change of Name

At an Extraordinary General Meeting held on 16 June 2004 the shareholders approved the change of the name of the Bank from Universal Bank Limited to Universal Bank Public Limited. The change of name was registered at the Registrar of Companies on 28 June 2004.

Results

Operating profits before provisions for doubtful debts for the year amount to C£616.355 as compared to a restated operating loss of C£75.094 for 2003. After the provision for doubtful debts and taxation, the loss amounted to C£2.038.001, compared to C£3.307.399 for the previous year.

Board of Directors

The Board of Directors of the Bank consists of the members listed on page 12. The following changes in the composition of the Board took place in 2004:

- On 16 June 2004 Mr George Syrimis resigned from his position of Chairman of the Board and Mr Elias Pantelides resigned from the Board. Mr Andreas Georghiou was appointed on the same date as the Executive Chairman of the Board.
- On 22 October 2004 Mr Pavlos Photiades resigned from the Board.
- On 8 November 2004 the Executive Chairman Mr Andreas Georghiou resigned from his executive duties and on 12 November 2004 from his position as Chairman of the Board.
- On 16 November 2004 Mr Symeon Matsis was appointed on the Board of Directors and on 23 November 2004 he was elected Chairman of the Board.

According to the Company's Articles of Association Messrs Iosif Vavlitis, Michalis Michaelides and Michalis P. Kleopas retire by rotation, and being eligible, offer themselves to re-election.

Messrs Symeon Matsis, Soteris Kallis and Frixos Soroccos, appointed on the Board during 2004, resign but offer themselves for election.

Corporate Governance Code

The Board of Directors of the Bank implement the Code of Corporate Governance in full.

Auditors

The 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 Annual General Meeting.

Symeon Matsis
Chairman

Nicosia, 24 March 2005

Income Statement

for the year ended 31 December 2004

	Note.	2004 C£	2003 Restated C£
Turnover		14.827.278	12.707.651
Interest income	3	12.816.479	10.929.819
Interest expense	4	(7.760.205)	(6.531.227)
Net Interest income		5.056.274	4.398.592
Fee and commission income		1.319.487	1.193.065
Fee and commission expense		(77.288)	(81.969)
Foreign exchange income		316.634	237.890
Income from equity investments	5	7.201	1.566
Other income		367.477	345.311
Total operating income		6.989.785	6.094.455
Staff costs	6	(3.798.334)	(3.434.633)
Depreciation of property, plant and equipment		(879.563)	(1.108.862)
Provision for impairment of available-for-sale investments	5	(4.485)	(3.650)
Other operating expenses		(1.691.048)	(1.622.404)
Total operating expenses		(6.373.430)	(6.169.549)
Profit/(loss) before provisions		616.355	(75.094)
Provisions for bad and doubtful debts	13	(2.654.356)	(3.281.817)
Loss before tax	7	(2.038.001)	(3.356.911)
Tax	8	-	49.512
Loss for the year		(2.038.001)	(3.307.399)
Loss per share (cent)	9	(13,5)	(21,9)

Balance Sheet

as at 31 December 2004

	Note.	2004 C£	2003 Restated C£
ASSETS			
Cash and balances with the Central Bank of Cyprus	10	21,509,361	29,048,560
Placements with banks	11	6,711,810	15,567,423
Government and other debt securities	12	33,159,501	22,899,008
Loans and advances to customers	13	127,815,266	127,080,663
Equity shares	14	82,744	132,449
Investments in subsidiary companies	15	1,156	1,156
Property, plant and equipment	16	3,292,567	3,729,365
Intangible assets	17	428,766	656,626
Other assets	18	921,429	1,428,696
Prepayments and accrued income	19	1,267,695	1,222,218
Total Assets		195,190,295	201,766,164
LIABILITIES			
Amounts due to banks	20	5,800,000	-
Customer deposits	21	166,097,609	176,014,507
Other liabilities	22	284,798	246,778
Accruals	23	3,472,339	3,938,761
Total Liabilities		175,654,746	180,200,046
Subordinated loan stock	24	8,000,000	8,000,000
EQUITY			
Share capital	25	15,128,151	15,128,151
Share Premium		12,399,495	12,399,495
Revaluation reserve		525,796	518,364
General reserve		26,867	26,867
Accumulated losses		(16,544,760)	(14,506,759)
		11,535,549	13,566,118
Total Liabilities and Equity		195,190,295	201,766,164
CONTINGENT LIABILITIES AND COMMITMENTS			
Contingent Liabilities	26	11,743,332	9,745,430
Commitments	26	7,215,615	7,181,411

Symeon Matsis - *Chairman*

Dr Spyros Episkopou - *General Manager*

Demetris Shacallis - *Manager, Financial Services*

Statement of Changes in Equity

for the year ended 31 December 2004

	Share capital	Share premium	Investments Revaluation reserve	Property Revaluation reserve	General reserve	Accumulated losses	Total equity
	CE	CE	CE	CE	CE	CE	CE
YEAR 2003							
1 January 2003	15,128,151	12,399,495	(38,403)	-	26,867	(11,273,522)	16,242,588
Adjustment (note 2)	-	-	-	-	-	74,162	74,162
As restated	15,128,151	12,399,495	(38,403)	-	26,867	(11,199,360)	16,316,750
Loss after tax	-	-	-	-	-	(3,307,399)	(3,307,399)
Property revaluation	-	-	-	669,879	-	-	669,879
Deferred taxation	-	-	-	(73,546)	-	-	(73,546)
Revaluation of investments available-for-sale	-	-	(43,216)	-	-	-	(43,216)
Transfer to the Income Statement for the provision of impairment of available-for-sale investments	-	-	3,650	-	-	-	3,650
31 December 2003	15,128,151	12,399,495	(77,969)	596,333	26,867	(14,506,759)	13,566,118
YEAR 2004							
1 January 2004	15,128,151	12,399,495	(77,969)	596,333	26,867	(14,506,759)	13,566,118
Loss after tax	-	-	-	-	-	(2,038,001)	(2,038,001)
Property revaluation	-	-	-	-	-	-	-
Deferred taxation	-	-	-	2,788	-	-	2,788
Revaluation of investments available-for-sale	-	-	1,497	-	-	-	1,497
Transfer to the Income Statement for the provision of impairment of available-for-sale investments	-	-	3,147	-	-	-	3,147
31 December 2004	15,128,151	12,399,495	(73,325)	599,121	26,867	(16,544,760)	11,535,549

Cash Flow Statement

for the year ended 31 December 2004

	Note.	2004 C£	2003 C£
Net cash flows (used in)/from operating activities	29	(21.282.889)	5.613.580
Cash flows from investing activities			
Purchase of property, plant and equipment		(220.038)	(458.084)
Proceeds from the disposal of property, plant and equipment		8.337	80
Sale/(purchase) of equity shares		55.320	(49.864)
Interest received on Government and other debt securities		1.484.480	1.137.833
Dividend income from equity shares		1.745	1.566
Net cash flows from investing activities		1.329.844	631.531
Cash flows from financing activities			
Issue of subordinated loan stock		-	8.000.000
Interest paid on subordinated loan stock		(494.878)	(220.433)
Proceeds from borrowed funds		5.800.000	(1.007.700)
Net cash flows from financing activities		5.305.122	6.771.867
Net (decrease)/increase in cash and cash equivalents for the year	30	(14.647.923)	13.016.978

Summary of Significant Accounting Policies

as at 31 December 2004

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

Basis of preparation

The Financial Statements are drawn up in accordance with the provisions of the Cyprus Companies Law, the Cyprus Stock Exchange Law and Regulations and International Financial Reporting Standards, which comprise standards and interpretations approved by International Accounting Standards Board, and International Accounting Standards (IAS) and Standing Interpretations Committee interpretations, approved by the International Accounting Standards Committee that remain in effect.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The Financial Statements are expressed in Cyprus pounds (C£) and are prepared under the historical cost convention, modified to include the revaluation of property and investments available-for-sale.

Where necessary, comparative amounts were reclassified to conform to the presentation adopted in the current year.

Due to an amendment on the basis of calculation of interest suspended, which was verified by the Central Bank of Cyprus, the Income statement and the Accumulated Losses on the Balance Sheet for the year 2003 were restated (note 2).

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.

Interest income and interest expense

Interest income and interest expense are recognized in the Income Statement on an accrual basis other than what is stated in the following paragraph.

According to the new regulations of the Central Bank of Cyprus effected as at 1 January 2004, interest and other income from the following sources is not recognised in the income statement but is credited to a suspense account: (a) loans that are more than six months in arrears and are not fully secured, (b) overdraft accounts which are not fully secured and are in excess of their credit limit at the date of calculation of the accrued interest, to the extent that accrued interest or other income is not covered by the total amount credited in the account during the previous six months, and (c) advances for which a provision for impairment loss has been made. In 2003 interest was suspended in the same way as in 2004, but with a period of arrears/excesses of nine months and not six months as in 2004.

Interest and other income credited to a suspense account is transferred to the income statement only when collected.

Interest income and interest expense on balances before 15 August 1974, was calculated up to 15 August 1974, the day on which the Bank suspended its operations due to the Turkish invasion. All interest with regard to these balances is accounted for when paid or received.

Fee and commission income

Fee and commission income is recognized on the basis of work done to match the cost of providing the service.

Fee income in respect of the undertaking of credit risk is recognized on the date of undertaking the credit risk.

Summary of Significant Accounting Policies

as at 31 December 2004

Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated in Cyprus Pounds at the rate of exchange ruling at the Balance Sheet date. All exchange differences are taken to the Income Statement.

Operating lease expenses

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

Equity shares and debt securities

All investments are initially recorded at cost on a transaction date basis, being the fair value of the consideration given and including acquisition charges associated with the investment.

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

Held-to-maturity investments are carried at amortised cost, which is calculated by taking into account the acquisition cost, any unamortised discount or premium and any provision for impairment.

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

Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity. In case of sale or impairment, the profit or loss recognised in equity is transferred to the income statement.

An investment is considered impaired if its carrying amount exceeds the recoverable amount. Available-for-sale investments are considered as impaired if the decline in the fair value below cost is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future. The amount of impairment loss for available-for-sale investments listed at the Cyprus Stock Exchange is the difference between the acquisition cost and the current market value.

The amount of impairment loss for investments held-to-maturity is calculated as the difference between the carrying amount of the investment and the present value of its expected future cash flows, discounted at the investment's original effective interest rate.

Interest earned on government and other debt securities is reported as interest income. Dividend income from equity shares is recognised when received.

All regular way purchases and sales of investment securities are recognised at trade date, which is the date the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward contracts until settlement.

Loans and advances

Loans and advances to customers originate when money is provided directly to the borrowers and are valued initially at cost, being the fair value of the consideration given for the creation of the loan including transaction costs. Loans and advances are subsequently valued at the amortised cost using the effective yield method.

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.

Summary of Significant Accounting Policies

as at 31 December 2004

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

A loan is considered doubtful when it is probable that the Bank will not be able to collect 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 doubtful, 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.

For certain homogeneous loan portfolios, such as consumer credit and the credit card portfolio, the amount of provision is calculated after a collective assessment of the whole portfolio, having regard to a number of factors such as the level of watchlist or potential problem debts, the time period for which amounts are overdue, the economic climate that prevails at the time and prior period loss rates.

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

Loans and advances are written off to the extent that there is no realistic prospect of recovery.

Property, plant and equipment and computer software

Property is stated initially at cost and after at estimated fair value less accumulated depreciation. Valuation occurs periodically by independent qualified valuers. The amount of depreciation is calculated on the basis of estimated 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.

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

Leasehold property is stated at cost less accumulated depreciation.

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

All property, plant and 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 and motor vehicles is calculated on the basis of cost less estimated residual value on a straight-line basis over the expected useful economic lives of the assets, commencing from the month of acquisition.

The annual depreciation rates for the year were as follows:

	%
Buildings	4
Furniture and Fittings	10
Office and Information Technology equipment	20-25
Motor Vehicles	15-20

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.

Summary of Significant Accounting Policies

as at 31 December 2004

Investments in subsidiary companies

The investments in subsidiary companies are shown at cost.

Cash and cash equivalents

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

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. 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.

Actuarial gains or losses exceeding the 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.

Derivatives

Derivative financial instruments are initially recognised in the Balance Sheet at cost (including transaction costs) and are subsequently measured at their fair value. 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.

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 bases 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 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.

Notes to the Financial Statements

for the year ended 31 December 2004

1. Corporate information

The Financial Statements of Universal Bank Public Limited (the 'Bank') for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the Board of Directors on 24 March 2005.

At an Extraordinary General Meeting held on 16 June 2004 the shareholders approved the change the name of the Bank from Universal Bank Limited to Universal Bank Public Limited. The change of name was filed at the Companies Registrar on 28 June 2004.

The Bank was incorporated in Cyprus, and is a public company in accordance with the provisions of the Companies Act and the Cyprus Stock Exchange Law and Regulations.

The Bank's main activities during the year were the provision of banking and financial services.

2. Restatement of 2003 results

Due to an amendment on the basis of calculation of interest suspended, which was verified by the Central Bank of Cyprus, the Income Statement and the Accumulated Losses on the Balance Sheet for the year 2003 were positively adjusted by C£157.564 and C£231.726 respectively. The adjustment relating to accounting periods prior to the year 2003, amounts to C£74.162 and is included as an adjustment in the accumulated losses as at 1 January 2003, on the Statement of Changes in Equity. Specifically, the loss for the year 2003 decreased from C£3.464.963 to C£3.307.399 and the Accumulated Losses as at 31 December 2003 decreased from C£14.738.485 to C£14.506.759.

3. Interest income

	2004 C£	2003 C£
Loans and advances to customers	10.153.695	8.914.507
Placements with other banks	1.178.304	877.479
Government and other debt securities	1.484.480	1.137.833
	12.816.479	10.929.819

4. Interest expense

	2004 C£	2003 C£
Customer Deposits	7.214.570	6.240.677
Deposits by banks	50.757	70.117
Subordinated loan stock	494.878	220.433
	7.760.205	6.531.227

5. Income from equity investments

	2004 C£	2003 C£
Dividends from equity investments	1.745	1.566
Gains on sale of available-for-sale investments	5.456	-
	7.201	1.566

	2004 C£	2003 C£
Impairment provision - Transfer from the Revaluation Reserve	4.485	3.650

Notes to the Financial Statements

for the year ended 31 December 2004

6. Staff costs

	2004 C£	2003 C£
Personnel salaries and wages	2.763.820	2.465.882
Social insurance and other costs	318.575	271.256
Retirement benefit costs	715.939	697.495
	3.798.334	3.434.633

The number of persons employed by the Bank as at 31 December 2004 was 195 (2003: 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 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. 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 2004, the amounts appearing in the Balance Sheet of the Bank are as follows:

	2004 C£	2003 C£
Present value of the obligation	(2.295.685)	(2.051.145)
Fair value of plan assets	513.501	467.953
Deficit	(1.782.184)	(1.583.192)
Unrecognised actuarial loss	2.070.760	2.568.778
Unrecognised transition obligation	-	1.043
Net prepayment recognised in the Balance Sheet (<i>note 18</i>)	288.576	986.629

The principal actuarial assumptions used for the actuarial valuation were:

	2004 %	2003 %
Discount rate	6,5	6,0
Expected return of plan assets	7,0	7,0
Future salary increase	8,5	8,5
Future price inflation	3,0	3,0

Notes to the Financial Statements

for the year ended 31 December 2004

The amounts recognised in the Income Statement in respect of the defined benefits scheme are as follows:

	2004 C£	2003 C£
Current service cost	495.687	492.707
Interest cost	121.630	92.861
Expected return on plan assets	(31.078)	(35.579)
Actuarial loss recognised in the year	128.657	146.463
Amortisation of transition obligation	1.043	1.043
Expense recognised in the Income Statement	<u>715.939</u>	<u>697.495</u>
Positive/(negative) return on plan assets	<u>45.548</u>	<u>(46.307)</u>

Movement in the net prepayment as shown in the Balance Sheet (*note 18*):

	2004 C£	2003 C£
Balance of prepayment at 1 January	986.629	1.677.487
Expense recognised in the Income Statement	(715.939)	(697.495)
Employer funding of the retirement fund	17.886	6.637
Net prepayment at 31 December	<u>288.576</u>	<u>986.629</u>

The plan assets do not include shares and/or other financial instruments issued by the Bank.

7. Loss before tax

Loss before tax is stated after charging:

	2004 C£	2003 C£
Directors' emoluments	31.493	24.870
Auditors' remuneration	20.000	18.000
Depreciation of property, plant and equipment	879.563	1.108.862
Gains/(loss) from the sale and write-offs of property, plant and equipment	3.205	(57.572)
Operating lease rentals for immovable property	315.947	318.425

The emoluments of the Executive Chairman for the period 1 January – 12 November 2004 was C£14.460 (in 2003 as Executive Vice Chairman: C£14.825)

8. Tax

	2004 C£	2003 C£
Corporation tax	-	-
Previous year's special contribution to the defence fund	-	2.292
Deferred tax	-	(51.804)
	<u>-</u>	<u>(49.512)</u>

Notes to the Financial Statements

for the year ended 31 December 2004

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

	2004 C£	2003 C£
Loss before tax	<u>(2.038.001)</u>	<u>(3.307.399)</u>
Corporation tax based on the effective rates	(203.800)	(330.740)
Tax effect of:		
- Disallowable expenses	74.219	157.843
- Non-taxable income	(72.868)	(112.406)
- Unused tax losses	202.449	233.499
Defence contribution on debenture interest	-	2.292
	<u>-</u>	<u>(49.512)</u>

As from 1 January 2003, corporation tax is calculated at a rate of 10% on taxable income up to C£1 million and 15% on taxable income over C£1 million. For the years 2003 and 2004, profits over C£1 million are subject to an additional tax of 5%.

As from 1 January 2003, the defence contribution on profits has been abolished.

At 31 December 2004, the Bank had tax losses carried forward amounting to C\$17,6 million (2003: C£14,8 million) on which no deferred tax asset was recognised.

9. Loss per share

	2004 C£	2003 C£
Loss attributable to shareholders	<u>(2.038.001)</u>	<u>(3.307.399)</u>
Weighted average number of shares in issue during the year	<u>15.128.151</u>	<u>15.128.151</u>
Loss per share (cent)	<u>(13,5)</u>	<u>(21,9)</u>

At 31 December 2004 and 2003 respectively, there were no potentially dilutive ordinary shares. Loss per share for the year 2003 was adjusted from 22,9 cent to 21,9 cent (*note 2*).

10. Cash and balances with the Central Bank

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to C£11.287.000 (2003: C£10.498.637).

11. Placements with banks

	2004 C£	2003 C£
Repayable:		
- on demand	1.993.613	4.210.988
- within three months	4.718.197	11.356.435
	<u>6.711.810</u>	<u>15.567.423</u>

Notes to the Financial Statements

for the year ended 31 December 2004

12. Government and other debt securities

	2004 C£	2003 C£
Government and other debt securities held-to-maturity:		
Cyprus Government	31.656.501	21.396.008
Cyprus listed companies	1.503.000	1.503.000
	33.159.501	22.899.008
Repayable:		
- within one year	8.883.047	5.396.555
- between two and five years	23.776.454	15.999.453
- over five years	500.000	1.503.000
	33.159.501	22.899.008
Listed on the Cyprus Stock Exchange	33.159.501	22.899.008
Movement for the year:		
1 January	22.899.008	17.253.545
Acquisitions	15.579.645	8.685.255
Redemptions	(5.350.248)	(3.050.248)
Amortisation of premium	31.096	10.456
31 December	33.159.501	22.899.008

13. Loans and advances to customers

	2004 C£	2003 C£
Loans and other advances	153.969.326	147.496.375
Provision for bad and doubtful debts	(26.154.060)	(20.415.712)
	127.815.266	127.080.663
Loans and advances are repayable:		
- on demand	67.067.852	64.450.649
- within three months	6.116.029	4.402.396
- between three months and one year	4.049.868	5.580.571
- between one and five years	35.789.764	27.325.835
- over five years	40.945.813	45.736.924
	153.969.326	147.496.375

Notes to the Financial Statements

for the year ended 31 December 2004

The analysis of loans and advances to the various industry sectors is presented below:

	2004 C£	2003 C£
Trade and industry	12.319.451	14.188.392
Tourism	20.467.467	20.561.357
Property and construction	36.141.764	34.618.755
Personal and professional	78.669.508	73.498.461
Other sectors	6.371.136	4.629.410
	153.969.326	147.496.375

Loans and credit facilities granted to Directors are stated in note 34. Credit facilities granted to the parent and fellow subsidiary company are as follows:

	Universal Life Insurance Public Co. Ltd C£	Universal Investments Ltd C£
Lending interest rates as at 31.12.2004	Base rate plus 1,50%	Base rate plus 1%

Transactions:

Interest receivable and other commissions	2.384	-
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Bank balances as at 31.12.2004:

Debit bank balances	-	-
Credit bank balances (note 21)	5.028.176	113.290

Provision for bad and doubtful debts:

Year 2004

	Provision C£	Suspension of income C£	Total C£
1 January	13.886.401	6.529.311	20.415.712
Debts recovered	(103.271)	(175.207)	(278.478)
Charge for the year	2.757.627	-	2.757.627
Net charge for the year	2.654.356	(175.207)	2.479.149
Write-offs	(141.616)	(38.431)	(180.047)
Suspended interest for the year	-	3.439.246	3.439.246
Total	2.512.740	3.225.608	5.738.348
31 December	16.399.141	9.754.919	26.154.060

Notes to the Financial Statements

for the year ended 31 December 2004

Year 2003

	Provision C£	Suspension of income C£	Total C£
1 January	10.635.584	3.364.844	14.000.428
Debits recovered	(381.762)	(203.536)	(585.298)
Charge for the year	3.663.579	-	3.663.579
Net charge for the year	3.281.817	(203.536)	3.078.281
Write offs	(31.000)	-	(31.000)
Suspended interest for the year	-	3.368.003	3.368.003
Total	3.250.817	3.164.467	6.415.284
31 December	13.886.401	6.529.311	20.415.712

The loans and advances for which specific provision is made and interest is suspended amounted to C£50.746.764 (2003: C£46.797.153).

Total credit facilities granted to connected companies as at 31 December 2004 amounted to C£3.285.466 (2003: C£3.813.076). The total amount of provisions for bad and doubtful debts and interest suspension for credit facilities to connected companies as at 31 December 2003 and 2004 amounted to C£2.831.863.

Advances and other accounts before 15 August 1974

These consist of:

	2004 C£	2003 C£
Loans to third parties	544.908	578.028
Provisions for advances and other loan accounts before 15 August 1974	(544.908)	(578.028)
	-	-

14. Equity shares

	2004 C£	2003 £
Available-for-sale		
Listed on the Cyprus Stock Exchange	82.744	132.449

Notes to the Financial Statements

for the year ended 31 December 2004

Movement for the year 2004 for the available-for-sale investments is as follows:

	Cost less impairment	Revaluation	Book value
	£	£	£
1 January	210.418	(77.969)	132.449
Additions	-	-	-
Disposals	(49.864)	1.497	(48.367)
Revaluation	-	3.147	3.147
Provision for impairment	(4.485)	-	(4.485)
31 December	156.069	(73.325)	82.744

15. Investments in subsidiary companies

	2004	2003
	£	£
Universal Leasing and Factoring Ltd	495	495
Imagetech Ltd	661	661
	1.156	1.156

The above companies, which were dormant to date, are wholly owned subsidiaries of Universal Bank Public Ltd and are shown at cost.

16. Property, plant and equipment

	Immovable Property 2004	Equipment 2004	Total 2004	Total 2003
	£	£	£	£
Cost or estimated fair value				
1 January	2.966.276	3.010.554	5.976.830	5.364.969
Additions	25.402	130.717	156.119	249.650
Disposals/write-offs	-	(24.991)	(24.991)	(93.065)
Revaluation	-	-	-	669.879
Reversal of depreciation due to revaluation	-	-	-	(214.603)
31 December	2.991.678	3.116.280	6.107.958	5.976.830
Depreciation				
1 January	411.069	1.836.396	2.247.465	1.807.404
Charge for the year	195.932	391.852	587.784	690.077
Disposals/write-offs	-	(19.858)	(19.858)	(35.413)
Reversal of depreciation due to revaluation	-	-	-	(214.603)
31 December	607.001	2.208.390	2.815.391	2.247.465
Net Book Value	2.384.677	907.890	3.292.567	3.729.365

Notes to the Financial Statements

for the year ended 31 December 2004

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

The last valuation by an independent qualified surveyor took place in 2003.

The net book value of immovable property as at 31 December 2003 based on historic cost less accumulated depreciation would be C£1.726.936 (2003: C£1.920.277).

17. Intangible assets

	Goodwill on leasehold property 2004 C£	Computer Software 2004 C£	Total 2004 C£	Total 2003 C£
Cost				
1 January	50.000	2.525.650	2.575.650	2.367.216
Additions	-	63.919	63.919	208.434
Disposals	-	-	-	-
31 December	50.000	2.589.569	2.639.569	2.575.650
Depreciation				
1 January	15.470	1.903.554	1.919.024	1.500.239
Charge for the year	7.140	284.639	291.779	418.785
Disposals	-	-	-	-
31 December	22.610	2.188.193	2.210.803	1.919.024
Net book value	27.390	401.376	428.766	656.626

18. Other assets

	2004 C£	2003 C£
Other debtors	456.438	265.652
Corporation tax receivable	176.415	176.415
Net prepayment to retirement fund (note 6)	288.576	986.629
	921.429	1.428.696

19. Prepayments and accrued income

	2004 C£	2003 C£
Accrued interest receivable	1.252.007	1.201.309
Prepaid fees	15.688	20.909
	1.267.695	1.222.218

20. Amounts due to banks

The amount of C£5.800.000 (2003: C£0) is payable within one month.

Notes to the Financial Statements

for the year ended 31 December 2004

21. Customer deposits

	2004 C£	2003 C£
Deposits of parent company	5.028.176	8.300.957
Deposits of fellow subsidiary companies	1.025.336	356.917
Deposits of related companies	114.432	188.206
Other customer deposits	159.929.665	167.168.427
	166.097.609	176.014.507

	2004 C£	2003 C£
Repayable:		
- on demand	51.300.186	52.161.747
- within three months	41.122.568	41.209.812
- between three months and one year	64.276.006	80.596.948
- between one and five years	9.398.849	2.046.000
	166.097.609	176.014.507

Except for the deposits of the parent and subsidiary companies shown above, there were no other material transactions between the Bank and the above-mentioned companies.

The following amounts represent interest paid on the balances of the parent, fellow subsidiary and related companies. Interest is calculated daily at 5,35% (2003: 4,0%).

	2004 C£	2003 C£
Parent company – Universal Life Insurance Public Co. Ltd	142.284	199.697
Fellow subsidiary – Universal Life (HELLAS) A.A.E.Z.	5.591	7.914
Fellow subsidiary – Universal Financial Services Ltd	12.702	14.495
Fellow subsidiary – Universal Investments Ltd (note.13)	4.178	97
Fellow subsidiary – Universal Nominees Ltd	3.095	69
Fellow subsidiary – Universal Securities Ltd	448	143
Related company – Spidertrade Ltd	8.468	14.395

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 pre-15 August frozen 1974 deposits amounting to C£420.846 in favour of the Bank's depositors. The equivalent amount as at 31 December 2004 was C£98.499 (2003: C£105.232). 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 December 2000 the Board of Directors decided to transfer the amount of C£137.130 to the Income Statement and in case of demand of these deposits to debit the Income Statement accordingly. During the year 2004 the Bank repaid pre-1974 frozen deposits amounting to C£6.733 (2003: C£1.568) by debiting the Income Statement.

Notes to the Financial Statements

for the year ended 31 December 2004

22. Other liabilities

	2004 C£	2003 C£
Sundry creditors	222.822	195.163
Deferred tax	18.955	21.742
Other liabilities	43.021	29.873
	284.798	246.778

The deferred taxation liability consists of the following:

	2004 C£	2003 C£
Temporary differences between wear and tear allowances and depreciation	63.659	66.471
Property revaluation	51.803	73.546
Provision for bad and doubtful debts	(56.500)	(44.500)
Tax losses carried forward	(40.007)	(73.775)
	18.955	21.742

23. Accruals

	2004 C£	2003 C£
Bills payable	976.285	1.287.796
Accrued interest	1.697.396	2.200.177
Other accruals	798.658	450.788
	3.472.339	3.938.761

24. Subordinated loan stock

	2004 C£	2003 C£
Debentures 2003/2008	8.000.000	8.000.000

On 25 July 2003 the Bank issued debentures amounting to C£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-secure subordinated liabilities of the Bank. Interest is paid twice per year, 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.

Notes to the Financial Statements

for the year ended 31 December 2004

25. Share capital

	2004 No. of Shares	2004 C£	2003 No. of Shares	2003 C£
AUTHORISED				
Fully paid shares	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. Contingent liabilities and commitments

	2004 C£	2003 C£
<i>Contingent liabilities</i>		
Acceptances and endorsements	29.072	191.188
Guarantees	11.714.260	9.554.242
	11.743.332	9.745.430
<i>Commitments</i>		
Documentary credits	395.770	506.885
Undrawn formal standby facilities, credit lines and other commitments to lend	6.819.845	6.674.526
	7.215.615	7.181.411

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer in the event that the customer does not honour payment. Most acceptances are expected to be presented for payment, but reimbursement by the customer is normally immediate.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by a bank and subsequently rediscounted.

Guarantees are generally written by a bank to support the performance of a customer to third parties. As the bank will only be required to meet obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Prior to 15 August 1974, the Bank provided guarantees to third parties on behalf of customers including previous members of the Board of Directors, which amounted to C£72.125. In the event of this liability being crystallised, the Bank will be entitled to protection under the provisions of the Debtors Relief (Temporary Provisions) Laws of 1979.

Documentary credits commit the bank to make payments to third parties on production of documents and provided that the terms of the documentary credits are satisfied. The repayment by the customer is usually immediate.

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.

Notes to the Financial Statements

for the year ended 31 December 2004

Capital commitments

Commitments for contracted capital expenditures for the Bank amount to C£84.933 (2003: C£86.100).

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 2004 amounted to C£98.499 (2003: C£105.232).

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.

27 Operating Leases

Commitments under operating leases are as follows:

	2004 C£	2003 C£
Operating leases which expire:		
- within one year	315.947	318.340
- between one and five years	131.284	328.761
	<u>447.231</u>	<u>647.101</u>

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.

28 Risk management

Credit risk

Credit risk is the risk of a person or an organisation defaulting in the repayment of their obligations to the Bank in respect of the credit facilities granted to them by the Bank.

The Bank minimises this risk by spreading its loan portfolio over all economic sectors (note 13) and by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.

The credit risk of connected accounts is monitored on a unified basis. In addition, the effective credit appraisal procedure for examining applications for credit facilities followed by the Bank adopts as the main criteria the repayment capability and obtaining sufficient collateral and the continuous monitoring of credit accounts and the timely preventive action further minimise to a large extent, the exposure to credit risk. In addition, the Bank maintains sufficient provisions for potential losses from doubtful debts, the level of which is evaluated by the Central Bank of Cyprus in its annual inspection.

Notes to the Financial Statements

for the year ended 31 December 2004

Risk management (continued)

Interest rate risk – 2004

Analysis of assets and liabilities as at 31 December 2004, according to their repricing or maturity date:

	On demand and up to one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	Non-interest bearing C£	Total C£
Assets							
Cash and balances with the Central Bank of Cyprus	19,227,373	434,640	1,847,348	-	-	-	21,509,361
Placements with banks	6,711,810	-	-	-	-	-	6,711,810
Government and other debt securities	2,931,807	5,000,000	951,240	23,776,454	500,000	-	33,159,501
Loans and advances to customers	127,262,345	-	-	552,921	-	-	127,815,266
Equity shares	-	-	-	-	-	82,744	82,744
Investments in subsidiary companies	-	-	-	-	-	1,156	1,156
Property, plant and equipment and intangible assets	-	-	-	-	-	3,721,333	3,721,333
Other assets	-	-	-	-	-	921,429	921,429
Prepayments and accrued income	-	-	-	-	-	1,267,695	1,267,695
Total assets	156,133,335	5,434,640	2,798,588	24,329,375	500,000	5,994,357	195,190,295
Liabilities							
Amounts due to banks	5,800,000	-	-	-	-	-	5,800,000
Customer deposits	99,862,144	15,495,626	41,340,990	9,398,849	-	-	166,097,609
Other liabilities	-	-	-	-	-	284,798	284,798
Accruals	976,285	-	-	-	-	2,496,054	3,472,339
Total liabilities	106,638,429	15,495,626	41,340,990	9,398,849	-	2,780,852	175,654,746
Subordinated loan stock	-	-	8,000,000	-	-	-	8,000,000
Net position	49,494,906	(10,060,986)	(46,542,402)	14,930,526	500,000	3,213,505	11,535,549

Notes to the Financial Statements

for the year ended 31 December 2004

Interest rate risk is the Bank's exposure to adverse movements in the interest rates. It arises as a result of timing differences on the repricing of assets and liabilities. The Bank's management closely monitors interest rate movements through the existence of ALCO.

The investment portfolio's interest rate risk is the risk of decreasing the net interest income by unfavourable movements of the market interest rate. This risk is measured by gap analysis, which calculates the difference between assets and liabilities for which the interest rates are adapted to each time zone and for each currency. The difference is then multiplied by 1% (alleged change in interest rates) for the period from the adjustment of the interest rate up to twelve months after the gap analysis date to calculate the effect of the annual change in interest rates on interest income for each currency. The total annual change for all currencies is calculated using the correlation coefficients between the various currencies' interest rates.

On 31 December 2004, a comparative increase of market interest rates for all currencies by 1% would lead to a decrease of profit before tax of C£243 thousand within one year. On the other hand, a comparative decrease of interest rates by 1% would lead to an increase in profit after tax of C£243 thousand. The gap analysis used for the sensitivity analysis of the Bank's results to interest rate changes differs from the table presented in the financial statements as to the length of the time periods and the assumptions used to analyse the assets and liabilities. Specifically, for the internal analysis, the elasticity of loan and deposit interest rates to changes in the market rates is used as well.

Notes to the Financial Statements

for the year ended 31 December 2004

Risk management (continued)

Interest rate risk – 2003

Analysis of assets and liabilities as at 31 December 2003, according to their repricing or maturity date:

	On demand and up to one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	Non-interest bearing C£	Total C£
Assets							
Cash and balances with the Central Bank of Cyprus	24.450.326	-	2.400.332	-	-	2.197.902	29.048.560
Placements with banks	15.567.423	-	-	-	-	-	15.567.423
Government and other debt securities	5.396.555	-	-	15.999.453	1.503.000	-	22.899.008
Loans and advances to customers	126.546.823	-	-	533.840	-	-	127.080.663
Equity shares	-	-	-	-	-	132.449	132.449
Investments in subsidiary companies	-	-	-	-	-	1.156	1.156
Property, plant and equipment and intangible assets	-	-	-	-	-	4.385.991	4.385.991
Other assets	-	-	-	-	-	1.428.696	1.428.696
Prepayments and accrued income	-	-	-	-	-	1.222.218	1.222.218
Total assets	171.961.127	-	2.400.332	16.533.293	1.503.000	9.368.412	201.766.164
Liabilities							
Amounts due to banks	-	-	-	-	-	-	-
Customer deposits	96.159.099	23.345.439	54.463.969	2.046.000	-	-	176.014.507
Other liabilities	-	-	-	-	-	246.778	246.778
Accruals	1.287.796	-	-	-	-	2.650.965	3.938.761
Total liabilities	97.446.895	23.345.439	54.463.969	2.046.000	-	2.897.743	180.200.046
Subordinated loan stock	-	-	8.000.000	-	-	-	8.000.000
Net position	74.514.232	(23.345.439)	(60.063.637)	14.487.293	1.503.000	6.470.669	13.566.118

Notes to the Financial Statements

for the year ended 31 December 2004

Risk management (continued)

Currency risk - 2004

Analysis of assets and liabilities as at 31 December 2004 by currency:

	CYP C£	EURO C£	USD C£	GBP C£	Other C£	Total C£
Assets						
Cash and balances with the Central Bank of Cyprus	12.210.921	1.911.709	1.948.504	5.425.576	12.651	21.509.361
Placements with banks	2.223.828	805.051	2.443.511	1.115.649	123.771	6.711.810
Government and other debt securities	33.159.501	-	-	-	-	33.159.501
Loans and advances to customers	127.170.078	-	178.647	87.951	378.590	127.815.266
Equity shares	82.744	-	-	-	-	82.744
Investments in subsidiary companies	1.156	-	-	-	-	1.156
Property, plant and equipment and intangible assets	3.721.333	-	-	-	-	3.721.333
Other assets	921.429	-	-	-	-	921.429
Prepayments and accrued income	1.252.007	-	15.688	-	-	1.267.695
Total assets	180.742.997	2.716.760	4.586.350	6.629.176	515.012	195.190.295
Liabilities						
Amounts due to banks	5.800.000	-	-	-	-	5.800.000
Customer deposits	151.485.043	2.503.404	5.344.443	6.690.942	73.777	166.097.609
Other liabilities	284.798	-	-	-	-	284.798
Accruals	3.313.113	36.234	24.445	98.547	-	3.472.339
Total liabilities	160.882.954	2.539.638	5.368.888	6.789.489	73.777	175.654.746
Subordinated loan stock	8.000.000	-	-	-	-	8.000.000
Net position	11.860.043	177.122	(782.538)	(160.313)	441.235	11.535.549

This risk is derived from adverse movements in the level of interest rates, in the rates of exchange between currencies and the current prices of securities and other financial contracts. Accordingly, these movements may affect the Bank's profitability. Currency risk results from the fact that the Bank maintains deposits in foreign currencies. In order to hedge against this risk the Bank maintains the equivalent foreign currency position, as deposits, with other banks. The net 'open' position in any currency is monitored on a continuous basis by the management of the Bank.

Notes to the Financial Statements

for the year ended 31 December 2004

Risk management (continued)

Currency risk - 2003

Analysis of assets and liabilities as at 31 December 2003 by currency:

	CYP	EURO	USD	GBP	Other	Total
	€	€	€	€	€	€
Assets						
Cash and balances						
with the Central Bank of Cyprus	13.562.252	2.779.831	6.713.665	5.974.584	18.228	29.048.560
Placements with banks	12.455.835	974.872	1.277.910	731.047	127.759	15.567.423
Government and other debt securities	22.899.008	-	-	-	-	22.899.008
Loans and advances to customers	126.965.706	-	-	114.957	-	127.080.663
Equity shares	132.449	-	-	-	-	132.449
Investments in subsidiary companies	1.156	-	-	-	-	1.156
Property, plant and equipment						
and intangible assets	4.385.991	-	-	-	-	4.385.991
Other assets	1.428.696	-	-	-	-	1.428.696
Prepayments and accrued income	1.201.309	-	20.909	-	-	1.222.218
Total assets	183.032.402	3.754.703	8.012.484	6.820.588	145.987	201.766.164
Liabilities						
Amounts due to banks	-	-	-	-	-	-
Customer deposits	157.628.822	3.570.650	7.889.911	6.844.476	80.648	176.014.507
Other liabilities	246.778	-	-	-	-	246.778
Accruals	3.902.983	325	416	35.037	-	3.938.761
Total liabilities	161.778.583	3.570.975	7.890.327	6.879.513	80.648	180.200.046
Subordinated loan stock	8.000.000	-	-	-	-	8.000.000
Net position	13.253.819	183.728	122.157	(58.925)	65.339	13.566.118

Notes to the Financial Statements

for the year ended 31 December 2004

Risk management (continued)

Liquidity risk – 2004

Analysis of assets and liabilities as at 31 December 2004 according to their maturity:

	On demand and up to one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	Total C£
Assets						
Cash and balances with the Central Bank of Cyprus	7.940.373	434.640	1.847.348	-	11.287.000	21.509.361
Placements with banks	6.672.896	38.914	-	-	-	6.711.810
Government and other debt securities	2.931.807	5.000.000	951.240	23.776.454	500.000	33.159.501
Loans and advances to customers	40.913.792	6.116.029	4.049.868	35.789.764	40.945.813	127.815.266
Equity shares	82.744	-	-	-	-	82.744
Investments in subsidiary companies	-	-	-	-	1.156	1.156
Property, plant and equipment and intangible assets	-	-	-	-	3.721.333	3.721.333
Other assets	456.437	-	-	464.992	-	921.429
Prepayments and accrued income	-	-	1.257.232	10.463	-	1.267.695
Total assets	58.998.049	11.589.583	8.105.688	60.041.673	56.455.302	195.190.295
Liabilities						
Amounts due to banks	5.800.000	-	-	-	-	5.800.000
Customer deposits	51.300.186	41.122.568	64.276.006	9.398.849	-	166.097.609
Other liabilities	82.510	-	183.333	18.955	-	284.798
Accruals	1.297.119	951.536	1.223.684	-	-	3.472.339
Total liabilities	58.479.815	42.074.104	65.683.023	9.417.804	-	175.654.746
Subordinated loan stock	-	-	-	8.000.000	-	8.000.000
Net position	518.234	(30.484.521)	(57.577.335)	42.623.869	56.455.302	11.535.549

Notes to the Financial Statements

for the year ended 31 December 2004

Liquidity risk is the risk that the required deposits may not cover current cash obligations of the Bank. In order to adequately cover these obligations as well as to be able to provide finance to its customers, continuous cash inflow is essential for the Bank. For the improvement of such inflows the Bank closely monitors its deposits as well as the approved credit facilities not drawn by its customers. The Bank's objective is to provide banking services to a wide range of customers in order to avoid its dependence on a small number of customers as well as the risk of mass withdrawals.

The correlation of the maturities of the Bank's assets to its liabilities is very important to the Bank's management. Full correlation is very unlikely for banking organisations due to the variety of products offered and the terms of lending facilities granted and deposits.

The maturity dates of assets and liabilities and the ability to replace, at an acceptable cost, the interest-bearing liabilities upon their maturity are important factors for the Bank's liquidity risk management.

The Bank closely monitors the rate of repayment and replacement of its interest-bearing liabilities, as well as the approved credit facilities not drawn by its customers, so as to avoid the risk that arises from the simultaneous maturity of a high amount of deposits not replaced.

Notes to the Financial Statements

for the year ended 31 December 2004

Risk management (continued)

Liquidity risk – 2003

Analysis of assets and liabilities as at 31 December 2003 according to their maturity:

	On demand and up to one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	Total C£
Assets						
Cash and balances with the Central Bank of Cyprus	16.149.591	-	2.400.332	-	10.498.637	29.048.560
Placements with banks	15.529.997	37.426	-	-	-	15.567.423
Government and other debt securities	5.396.555	-	-	15.999.453	1.503.000	22.899.008
Loans and advances to customers	44.034.937	4.402.396	5.580.571	27.325.835	45.736.924	127.080.663
Equity shares	132.449	-	-	-	-	132.449
Investments in subsidiary companies	-	-	-	-	1.156	1.156
Property, plant and equipment and intangible assets	-	-	-	-	4.385.991	4.385.991
Other assets	195.652	-	70.000	1.163.044	-	1.428.696
Prepayments and accrued income	-	-	1.206.534	15.684	-	1.222.218
Total assets	81.439.181	4.439.822	9.257.437	44.504.016	62.125.708	201.766.164
Liabilities						
Amounts due to banks	-	-	-	-	-	-
Customer deposits	52.161.747	41.209.812	80.596.948	2.046.000	-	176.014.507
Other liabilities	41.050	-	183.986	21.742	-	246.778
Accruals	1.459.951	1.084.340	1.394.470	-	-	3.938.761
Total liabilities	53.662.748	42.294.152	82.175.404	2.067.742	-	180.200.046
Subordinated loan stock	-	-	-	8.000.000	-	8.000.000
Net position	27.776.433	(37.854.330)	(72.917.967)	34.436.274	62.125.708	13.566.118

Notes to the Financial Statements

for the year ended 31 December 2004

29. Net cash flows from operating activities

	2004 C£	2003 C£
Loss before tax	(2.038.001)	(3.356.911)
Provisions for bad and doubtful debts	2.654.356	3.281.817
Depreciation of property, plant and equipment	879.563	1.108.862
Amortisation of prepaid expenses	3.456	165.266
(Gains)/losses on the sale and write-off of property, plant and equipment	(3.205)	57.572
Gain on disposal of investments available-for-sale	(5.456)	-
Dividend income	(1.745)	(1.566)
Interest on Government and other debt securities	(1.484.480)	(1.137.833)
Interest on subordinated loan stock	494.878	220.433
Impairment of investments available-for-sale	4.485	3.650
	503.851	341.290
(Increase)/decrease in deposits with the Central Bank of Cyprus	(788.363)	884.376
Increase in Government and other debt securities held-to-maturity	(7.725.241)	(3.248.908)
Increase in loans and advances to customers	(3.388.959)	(11.634.100)
Decrease in other assets, prepayments and accrued interest	458.335	1.135.642
(Decrease)/increase in customer deposits	(9.916.898)	17.952.184
Increase/(decrease) in other liabilities	40.808	(287.624)
(Decrease)/increase in accruals	(466.422)	470.720
	(21.282.889)	5.613.580

30. Cash and cash equivalents

	2004 C£	2003 C£
Deposits with the Central Bank of Cyprus	10.222.361	18.549.923
Government and other debt securities	7.931.807	5.396.555
Cash and deposits with other banks repayable within three months	6.711.810	15.567.423
	24.865.978	39.513.901
	2004 C£	2003 C£
Balance at 1 January	39.513.901	26.496.923
Net (decrease)/increase in cash and cash equivalents	(14.647.923)	13.016.978
Balance at 31 December	24.865.978	39.513.901

Notes to the Financial Statements

for the year ended 31 December 2004

31. Fair value of financial instruments

The Management of the Bank is of the opinion that the fair value of financial instruments is equal to their carrying value. Most of the assets and liabilities are short-term or are stated at current market values and therefore, their fair value is equal to their carrying value as shown in the Balance Sheet.

The fair value of loans and advances to customers is equal to the value shown in the Balance Sheet net of provisions for bad and doubtful debts.

32. 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 2004 and 23 March 2005, is stated below:

	Percentage 31.12.2004 %	Percentage 23.3.2005 %
S. Matsis	0,15	0,15
M. Michaelides	0,03	0,03
I. Vavlitis	1,91	1,91
M. Kleopas	0,38	0,38
S. Solomides	-	-
S. Kallis	-	-
F. Soroccos	-	-

33. Shareholders who hold more that 5% of the share capital of the Bank

The shareholders who held more that 5% of the share capital of the Bank at 23 March 2005 were:

Universal Life Insurance Public Co. Limited	61,06%
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Notes to the Financial Statements

for the year ended 31 December 2004

34. Transactions with Directors

The analysis of loans and other advances, unutilised limits, and guarantees to members of the Board of Directors of the Bank and the parent company and their connected persons as at 31 December 2004 was as follows:

	Number of existing Directors of the Bank £	Number of Directors of the parent company £	Loans and other advances £	Unutilised facility limits £	Guarantees £
More than 1% of the net assets of the Bank, per Director	1	2	10,064,898	51,755	84,483
Less than 1% of the net assets of the Bank, per Director	6	8	178,853	68,546	1,500
Total	7	10	10,243,751	120,301	85,983

On 31 December 2004, loans and advances, unutilised facility limits and guarantees of the Board of Directors that resigned during 2004 and their connected persons were as follows:

	Number of Directors that resigned during 2004 £	Loans and advance £	Unutilised facility limit £	Guarantees £
More than 1% of the net assets of the Bank, per Director	-	-	-	-
Less than 1% of the net assets of the Bank, per Director	2	94,156	249,446	500
Total	2	94,156	249,446	500

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 members of the Board of Directors and/or their connected persons are based on normal commercial terms.

35. Agreements with major shareholder

Except for the disclosures in notes 13 and 21 to the Financial Statements, at the date of the Annual Report there were no other agreements between the Bank and its major shareholder.

Auditors' Report

to the members of Universal Bank Public Limited

Report on the financial statements

1 We have audited the financial statements of Universal Bank Public Limited on pages 14 to 45, which comprise the balance sheet as at 31 December 2004, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the related notes. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Cyprus Companies Law, Cap. 113. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the financial statements give a true and fair view of the financial position of Universal Bank Public Limited as at 31 December 2004 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with Companies Law, Cap. 113.

Report on other legal requirements

4 Pursuant to the requirements of Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we have considered necessary for the purposes of our audit.
- In our opinion, the Company has kept proper books of account.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by Companies Law, Cap. 113 in the manner so required.
- In our opinion, the information given by the Board of Directors in its report on page 13 is consistent with the financial statements.

Ernst & Young

Chartered Accountants

Nicosia, 24 March 2005

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Fax: 22-358702

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CENTRAL SERVICES:

CORRESPONDENT BANKING UNIT

SWIFT DEPARTMENT

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