ANNUAL REPORT **2010**

usbbank

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USB BANK PLC

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of USB Bank Plc will be held at the Hilton hotel in Nicosia, on Tuesday 28 June 2011 at 4:30pm to address the following:

Agenda

1 Review and approval of the Directors' Report and the Financial Statements for the year ended 31 December 2010.

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

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

4 Appointment of the Independent Auditors and authorisation to the Board of Directors to fix their remuneration.

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

By order of the Board.

Andreas Theodorides
Secretary

Nicosia, 20 April 2011

Notes:

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

(b) The Annual Report of USB Bank Plc for the year 2010 is available in electronic form on the Bank's internet site **www.usbbank.com.cy**.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The past year marked a series of developments in the shareholding structure of USB Bank. On 7 September 2010, BLC Bank Lebanon acquired 9.90% of the USB Bank's share capital while on 17 February 2011, following the successful completion of the public offer, BLC Bank increased its total participation to 93.85%.

This acquisition is in line with BLC Bank's announced growth strategy resulting from internal as well as external growth, thereby reflecting the Bank's vision of becoming a Bank of reference in the region. As a result, BLC Bank's consolidated balance sheet reached USD 3.8 billion in total assets, USD 3.2 billion in total deposits and USD 1.1 billion in total loans as of 31 December 2010. Furthermore, the Bank continues to post remarkable financial results exceeding the average growth ratios of the Lebanese largest banking group. As at the end of December 2010, the Bank posted a Consolidated Net Income of USD 45.3 million, witnessing a 32% strong increase over 2009. This reflects the strategic success the Bank is attaining, on the retail and corporate levels, in addition to the Bank's success in controlling costs, increasing employee productivity, and introducing innovative products and clients solutions.

USB Bank is expected to gain from the expertise and know-how of BLC Bank, exploit opportunities arising from the international network of their clients and also enjoy the full support of BLC Bank. USB Bank's main objectives include the strengthening of the Bank's capital base, expanding our operations to offer a broad range of banking services to national and international clients, increasing productivity and maintaining strong liquidity. The Group also aims to achieve strategic regional expansion in the Middle East, Africa, Central Europe and Russia.

The year 2010 was challenging for the Cyprus economy and as a result for the banking system. The continuation of the financial crisis impacting several sectors of the economy and the resulting lower GDP growth rate created problems for the banking system.

Within this challenging economic environment, USB Bank managed to maintain strong liquidity with the ratio of advances to deposits being 70% in 2010 in comparison to 69% for the previous year. Despite the intense competitive environment, client deposits increased by 5% to €471 million in 2010 from €448 million in 2009 while the total loan portfolio increased by 6% reaching €327 million at year end 2010 from €308 million in 2009.

We consider it of paramount importance that the Bank maintains strong capital adequacy indicators to allow for growth and at the same time comply with the requirements of the regulatory authorities. In 2010 we initiated the raising of capital through the issuance of pre-emption rights and convertible bond of €1.3 million and in an Extraordinary General Meeting held on 4 May 2011, a resolution was approved to increase the Bank's share capital by €12 million.

The strengthening of the Bank's capital base, the strong liquidity and the continuous support of BLC Bank will safeguard USB Bank from the continuous challenges faced by the Cyprus economy and will also insure its successful growth, guided by our four pillars: Professionalism, Innovation, Excellence and Technology.

I would like to express my appreciation to our clients for their continuous trust and to assure them that our objective is to cater to their needs with integrity and professionalism.

Human capital is the most important factor for a successful course and I would like to thank our employees for their effective work in achieving our goals and growth of the Bank.

Maurice Sehnaoui
Chairman

Part A

The establishment and adoption of corporate governance principles and the reinforcement of the supervisory role of the Board of Directors are aiming to the full transparency over the total administration of USB BANK PLC (the "Bank"), the continuous servicing of corporate interest and investors, the provision of timely information, as well as guaranteeing the Board of Directors' sufficient independence in decision making.

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

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

In March 2011 the C.S.E. published the 3rd Revised Edition of the Code. The Bank has adopted the Code and applies its principles.

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

Part B

The Board of Directors of the Bank confirms that during 2010 it has complied with the relative provisions of the Code.

The new edition of the Code includes new provisions which are effective from 2011 and will be reflected in the Annual Corporate Governance Report of the Bank for the year 2011. The Board of Directors will proceed with all necessary actions to ensure compliance with the new requirements.

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

BOARD OF DIRECTORS

Role of the Board of Directors

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

Operation of the Board of Directors

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

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

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

Board of Directors Main Responsibilities

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

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

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

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

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

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

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

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

Meetings of the Board of Directors

The Board of Directors must convene regularly, at least 6 times in a year. During 2010, the Board of Directors has convened 10 times.

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

Composition of the Board of Directors

On 31 December 2010 the Bank's Board of Directors comprised of two Executive members, Messrs Andreas Theodorides and Despo Polykarpou and of the following eleven non executive members:

Michalis Kleopas (Chairman and Secretary)	- Non Independent
Yiannos Mouzouris	- Non Independent
Yiannos Christofi	- Non independent
George Stylianou	- Independent
Garo Keheyan	- Non Independent
Marios Hannides	- Independent
Philippos Philis	- Independent
Echo Naji	- Non Independent
Georges Tabet	- Non Independent
Raoul Nehme	- Non Independent
Tania Moussallem	- Non Independent

During the year 2010 the following members resigned from the Board of Directors:

On 1 July 2010 Mr. Kyriakos Kyriakides, on 8 October 2010 Mr. Kleanthis Demosthenous and on 21 October 2010 the Chairman of the Board Mr. Pavlos Savvides who was replaced by Mr. Michalis Kleopas on the same date.

Following the resignation of Mr. Kyriakos Kyriakides who held the position as the Managing Director of the Bank, Mr. Andreas Theodorides was appointed as the Deputy Managing Director with effect from 1 July 2010.

With a Board of Directors decision dated 21 October 2010 the following new members were appointed :

Raoul Nehme	- Non Executive member
Tania Moussallem	- Non Executive member
Echo Naji	- Non Executive member
Georges Tabet	- Non Executive member

Following the successful Public Offer which resulted to the acquisition of the majority stake of the Bank by BLC BANK SAL, a reorganization of the Board of Directors was made on 21 March 2011. The following members resigned from the Board of Directors:

Messrs Michalis Kleopas, Yiannos Mouzouris, Yiannos Christofi, Marios Hannides Garo Keheyan, Georges Tabet and Echo Naji while on the same day the following new members were appointed:

Messrs Maurice Sehnaoui, Mansour Bteish, Walid Daouk, Nadim Kassar, Nabil Kassar, Adel Kassar, Walid Ziade, George Galatariotis and Agis Taramides.

Mr. Maurice Sehnaoui was elected as the new Chairman of the Board of Directors, following the resignation of Mr. Michalis Kleopas.

Their appointment will be validated on the next General Meeting of the shareholders.

Also, on 21 March 2011 the Board Member Mr. Andreas Theodorides was appointed as the Secretary of the Board in replacement of Mr. Michalis Kleopas who resigned from his position as the Chairman, Member and the Secretary of the Board of Directors on the same date.

Based on the above, the new structure of the Board of Directors as from 21 March 2011 is the following :

Maurice Sehnaoui – Chairman	Non Independent, Non Executive
Adel Kassar	Non Independent, Non Executive
Nadim Kassar	Non Independent, Non Executive
Nabil Kassar	Non Independent, Non Executive
Walid Daouk	Non Independent, Non Executive
Mansour Bteish	Non Independent, Non Executive
Raoul Nehme	Non Independent, Non Executive
Walid Ziade	Non Independent, Non Executive
Tania Moussallem	Non Independent, Non Executive
Agis Taramides	Independent, Non Executive
George Galatariotis	Independent, Non Executive
George Stylianou	Independent, Non Executive
Philippos Philis	Independent, Non Executive
Andreas Theodorides	Non Independent, Executive
Despo Polykarpou	Non Independent, Executive

Senior Independent Director

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

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

Non executive Directors

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

Classification criteria for determining Independent Directors

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

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

The Bank has proceeded with the revision of the criteria for determining Independent Directors, based on the new guidelines issued by the Central Bank of Cyprus (No.348/2009) which was put into effect from 16 October 2009 and also on the provisions of the revised Corporate Governance Code (3rd edition – March 2011) with the ultimate purpose of compliance with the new requirements.

1. The Directive was issued in accondance to article 41 of the Banking Laws of 1997

On an annual basis, an Assessment Report concerning the non executive and independent members is submitted to the Board of Directors in order to evaluate their compliance with the criteria of Independence.

Based on the above structure of the Board of Directors, the Bank confirms that during the year 2010, it has complied with the Provision A.2.3 of the Code, by the participation of three Independent members in the Board of Directors. Following the new composition of the Board of Directors from 21 March 2011 the number of Independent members was increased to four.

Definition and Division of Responsibilities of the Chairman and Managing Director

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

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

Re-election of Directors

For the year ended 31 December 2010 and according to the Banks' Articles of Association at the next annual general meeting of the shareholders, Mr. George Stylianou and Mr. Philippos Philis will retire but they offer themselves for re-election. Also, Mrs Tania Moussallem and Mr. Raoul Nehme who were appointed on 21 October 2010 as well as Messrs Maourice Sehnaoui, Nadim Kassar, Nabil Kassar, Adel Kassar, Walid Daouk, Walid Ziade, Mansour Bteish, George Galatariotis and Agis Taramides who were appointed by the Board of Directors on 21 March 2011, will resign but they offer themselves for election.

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

Biographical Details of the Members of the Board of Directors

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

Non Executive Members

Maurice Sehnaoui (Chairman of the Board of Directors)

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

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

Non Executive Members (continued)

Adel Kassar

He was born in 1932. He has a degree in Lebanese and French law of the St. Joseph University, Beirut and has thirty years of experience in banking. He is a former Chairman of the Association of Banks in Lebanon and is the Honorary Consul General of the Republic of Hungary in Lebanon. He is the Deputy Chairman of the Board of Directors of Fransabank s.a.l. and the Chairman of the Board of Directors of Fransabank Syria SA. He is also the Chairman of the Board of Directors of Fransabank France SA and the Chairman of the Board of Directors and General Manager of Bancassurance SAL and Lebanese Leasing Company SAL, which are Fransabank subsidiaries and a member of the Board of Directors of BLC Bank s.a.l.

Nadim Kassar

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

Nabil Kassar

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

Walid Ziade

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

Walid Daouk

He was born in 1958. He has a degree in Lebanese and French law of the St. Joseph University Beirut, he is a practionner lawyer member of the Beirut Bar Association since 1982 and is a member of the Board of Directors of various companies, real estate, banks and financial institutions in Lebanon and abroad including Fransabank France, Fransabank El Djazair, BLC Bank and the Lebanese Leasing Company SAL. He is the Government Commissioner at the Beirut Stock Exchange and the Chairman of the Audit Committee and member of the Corporate Governance and Risk Management Committees, he is a former member of the Board of Directors of the Counsel of Development and Reconstruction of Lebanon.

Mansour Bteish

He was born in 1954. He has a degree in Business Administration of the St. Joseph University, Beirut and also a Masters degree in Money & Banking. Currently he holds the position of General Manager at Fransabank s.a.l. He is also General Manager at FRANSA INVEST Bank s.a.l. (FIB), member of the Board of Directors of BLC Bank s.a.l and also he is a member of the Board of Directors of a number of other overseas companies.

Tania Moussallem

She was born in 1972. She is the Assistant General Manager – Head of the Business Development Group in BLC Bank. She holds a Masters degree in Finance & Communication from ESSEC (France) and a degree in Business Administration from the American University of Beirut. Mrs Moussallem joined BLC Bank in 2008. She has over 14 years of banking experience. She previously worked at Société Générale de Banque au Liban where she held several managerial positions and headed Investment Banking, Specialized Financing and SME Departments. In parallel, she acted as Deputy Head of the Corporate and Investment Banking Division. Having extensive experience in privatization, telecommunications and hydraulic resources, Mrs. Moussallem joined the Ministry of Energy and Water as member of the Minister's cabinet between December 2004 and May 2005.

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

Non Executive Members (continued)

Raoul Nehme

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

George Stylianou (Senior Independent Director)

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

Philippos Philis

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

George Galatariotis

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

Agis Taramides

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

Executive members

Andreas Theodorides

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

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

Executive members (continued)

Despo Polykarpou

Born in 1957. She is a Fellow of the Chartered Institute of Bankers (FCIB) and holds the ACIB degree. She is the Secretary General of the Cyprus Institute of Financial Services. She started her career in 1976 in Hellenic Bank. She was employed in USB BANK PLC in 1999 where she held various positions including Manager Banking Operations and Trade Services, Nicosia Regional Manager, Manager Banking Services Development and currently she holds the position of the Manager Retail Sector.

CONFIRMATIONS BY THE BOARD OF DIRECTORS

Going Concern

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

Internal Control Systems

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

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

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

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

BOARD OF DIRECTORS COMMITTEES

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

Audit Committee

Role of the Committee

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

Composition and terms of reference of the Committee

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

Duties and responsibilities of the Committee

- Recommendations to the Board of Directors with regards to the appointment, termination and remuneration of the Bank's external auditors.
- The continuous supervision of the extent and effectiveness of the external audit and the independence and objectivity of the auditors.
- Review and evaluation on an annual basis of the adequacy and effectiveness of the Internal Control System as per the relative information provided by the Internal Audit Department, the findings and observations of the External Auditors, the Central Bank of Cyprus and the Cyprus Securities and Exchange Commission. On the basis of this examination, it recommends the corrective actions to be taken by the Bank's Board of Directors.
- Review of the six monthly, interim statements and the final financial statements before submission to the Board of Directors for approval.
- Guarantees that the Bank appoints every three years external auditors for the evaluation of the Internal Control System according to the Central Bank of Cyprus Directive.
- Review of any significant events or risks that affect the Bank's operations.

Audit Committee (continued)

Duties and responsibilities of the Committee (continued)

- Review the material transactions of the Bank which the Chairman, the Executive Directors, the members of the Board of Directors, the Executive Management, the Secretary, the Auditors or major shareholder of the Bank as well as their related parties who hold directly or indirectly more than 5% of the issued share capital or the voting rights of the Company, have a direct or indirect substantial interest, in order to ensure that these transactions are carried out in he normal course of business and at arm's length.

- The performance of any other related duties, which may be assigned by the Board.

Composition and service of the members of the Committee during 2010 until today

Current composition

Chairman	George Stylianou	from 7/7/2008	Non Executive, Independent
Members:	Philippos Philis	from 21/1/2009	Non Executive, Independent
	Walid Daouk	from 21/3/2011	Non Executive, Non Independent
	Walid Ziade	from 21/3/2011	Non Executive, Non Independent
	Agis Taramides	from 21/3/2011	Non Executive, Independent

As from 25 February 2010 the Bank has proceeded with the replacement of Mr Garo Keheyan by Mr. Marios Hannides in order to comply fully with the provisions of the revised guideline set out by the Central Bank of Cyprus, published on 16 October 2009. On 21 October 2010 Mr. Georges Tabet was appointed in the Audit Committee.

On 21 March 2011 Messrs Walid Daouk, Walid Ziade and Agis Taramides were appointed in replacement of Messrs Marios Hannides, Yiannos Christofi and Georges Tabet who resigned as members of the Board on the same date.

During the year 2010, the Audit Committee has met four times.

Nomination/Internal Governance Committee

Role of the Committee

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

Composition and terms of operation of the Committee

- The Board of Directors appoints the members of the Committee
- The Board of Directors appoints the Chairman of the Committee.
- The Chairman of the Committee may be either the Chairman of the Board of Directors (non executive), or a non executive member.
- The majority of the members of the Committee should be non executive Directors.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of at least three or more members.
- Three members of the Committee comprise a quorum.
- The Committee meets at least three times in a year and when required.
- The Committee keeps minutes for all its decisions and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.

Nomination/Internal Governance Committee (continued)

Composition and terms of operation of the Committee (continued)

- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Banks' shareholders.

Duties and responsibilities of the Committee

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

Composition and service of the members of the Committee during 2010 until today

Current composition

Chairman	Philippos Philis	from 25/2/2010	Non Executive, Independent
Members:	Raoul Nehme	from 21/10/2010	Non Executive, Non Independent
	Nadim Kassar	from 21/3/2011	Non Executive, Non Independent
	Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
	Walid Ziade	from 21/3/2011	Non Executive, Non Independent
	Andreas Theodorides	from 21/3/2011	Executive, Non Independent

As from 25 February 2010 the Bank has proceeded with appointment of Mr Philippos Philis as a new member of the Committee in order to comply fully with the provisions of the revised guideline set out by the Central Bank of Cyprus, published on 16 October 2009.

On 8 October 2010 Mr. Kleanthis Demosthenous resigned as a Board member. On 21 October 2010 Messrs Raoul Nehme and Tania Moussallem were appointed in the Committee. On 21 March 2011 Messrs Nadim Kassar, Nabil Kassar, Walid Ziade and Andreas Theodorides were appointed in replacement of Messrs Michalis Kleopas, Yiannos Mouzouris and Yiannos Christofi who resigned as members of the Board on the same date.

Also, on 21 March 2011 Mrs Tania Moussallem resigned as member of the Committee following the reorganisation of all Committee memberships as a result of resignations and new appointments in the Board of Directors.

During the year 2010, the Committee has met three times.

Remuneration Committee

Role of the Committee

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

Composition and terms of operation of the Committee

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

Duties and responsibilities of the Committee

- Submission to the Board of Directors of recommendations concerning the framework and level of remuneration of the Executive Directors. The remuneration must be sufficient so as to attract and maintain the Directors at the Bank's service.
- Review of employment contracts of the Executive Directors.
- Submission of the Directors' remuneration to the shareholders for approval at an Annual General Meeting.
- Evaluation and approval of the Annual Remuneration Statement in accordance with Annex 2 of the Code, to be included in the Annual Report.
- The Remuneration Committee recommends the Remuneration Policy Report in accordance with Annex 1 of the Code. The Remuneration Policy Report is included in the Bank's Annual Report and is presented to the Annual General Meeting of the shareholders for approval.
- The performance of any other related duties, which may be assigned by the Board.

Remuneration Committee (continued)

Composition and service of the members of the Committee during 2010 until today

Current composition

Chairman	George Galatariotis	from 21/3/2011	Non Executive, Independent
Members:	Philippos Philis	from 21/10/2010	Non Executive, Independent
	Maurice Sehnaoui	from 21/3/2011	Non Executive, Non Independent

As from 25 February 2010 the Bank has proceeded with replacement of Mr. Michalis Kleopas by Mr. George Stylianou as the new Chairman of the Committee in order to comply fully with the provisions of the revised guideline set out by the Central Bank of Cyprus, published on 16 October 2009.

On 21 October 2010 Mrs Tania Moussallem and Mr. Philippos Philis were appointed in the Committee.

On 21 March 2011 Messrs Maurice Sehnaoui and George Galatariotis were appointed in replacement of Messrs Garo Keheyan and Marios Hannides who resigned as members of the Board on the same date.

Also, on 21 March 2011 Messrs Tania Moussallem and George Stylianou resigned as members of the Committee following the reorganisation of all Committee memberships as a result of resignations and new appointments in the Board of Directors.

During the year 2010, the Committee has met once.

Risk Management Committee

Role of the Committee

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

Composition and terms of reference of the Committee

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

Risk Management Committee (continued)

Duties and responsibilities of the Committee

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

Composition and service of the members of the Committee during 2010 until today

Current composition

Chairman	Walid Daouk	from 21/3/2011	Non Executive, Non Independent
Members:	Andreas Theodorides	from 12/7/2010	Executive, Non Independent
	Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
	Walid Ziade	from 21/3/2011	Non Executive, Non Independent
	George Galatariotis	from 21/3/2011	Non Executive, Independent

On 12 July 2010 Mr. Andreas Theodorides has replaced Mr. Kyriakos Kyriakides who resigned as a Board Member.

On 21 October 2010 the Chairman of the Committee Mr. Pavlos Savvides resigned and was replaced by Mr. Yiannos Mouzouris already an existing member of the Committee. Also on 21 October Mr. Georges Tabet was appointed.

On 21 March 2011 Messrs Walid Daouk, Nabil Kassar , Walid Ziade and George Galatariotis were appointed in replacement of Messrs Yiannos Mouzouris, Yiannos Christofi and Georges Tabet who resigned as members of the Board on the same date.

Also, on 21 March 2011 Mr. George Stylianou resigned as member of the Risk Management Committee following the reorganisation of all Committee memberships as a result of resignations and of new appointments in the Board of Directors.

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

REPORT ON REMUNERATION OF BOARD OF DIRECTORS

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

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

The remuneration of the members of the Board of Directors is analysed between remuneration as members of the Board of Directors and remuneration for their executive services. The analysis of the remuneration of the Board of Directors is presented in Note 32 of the audited financial statements for the year ended 31 December 2010. Furthermore the Remuneration of the members of the Board of Directors is analyzed as follows:

Remuneration of the Non Executive Members of the Board

Remuneration of the Non Executive Members of the Board

	2010	2009
	€	€
Pavlos Savvides	**32.891**	40.203
Michalis Kleopas	**17.853**	13.869
Yiannos Mouzouris	**12.418**	11.115
Yiannos Christofi	**13.952**	13.456
George Stylianou	**16.456**	14.982
Garo Keheyan	**8.602**	10.354
Kleanthis Demosthenous	**6.384**	8.269
Marios Hannides	**9.850**	7.996
Philippos Philis	**10.919**	9.820
Georges Tabet	**1.858**	-
Tania Moussallem	**1.352**	-
Echo Naji	**1.268**	-
Raoul Nehme	**1.353**	-
	135.156	130.064

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

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

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

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

Remuneration of Executive Members of the Board

The salaries and other short-term benefits of the Executive Members of the Board totalling €389K (2009 €504K) concern €160K (2009: 287K) for Mr. Kyriakos Kyriakides who resigned on 1 July 2010, €121K (2009: €115K) for Mr. Andreas Theodorides and €108K (2009: 102K) for Mrs. Despo Polykarpou.

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

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

All Executive Members of the Board of Directors are participating in the Staff Retirement Benefits Scheme with the same terms applicable to the personnel of the Bank. The main characteristics of the Scheme are described in Note 6 of the audited financial statements for the year ended 31 December 2009.

LOANS AND OTHER TRANSACTIONS OF THE MEMBERS OF THE BOARD OF DIRECTORS

Details of the loans and other transactions of the members of the Board of Directors and their related parties for the year ended 31 December 2010 are set out in Note 32 of the audited financial statements. It is certified that All the transactions are conducted in the normal course of the Banks' business, on an arms length basis and with transparency.

INVESTOR RELATIONS

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

Pursuant to the Companies Law, the Board of Directors provide the opportunity to shareholders who represent at least 5% of the Bank's share capital to place items on the agenda of the General Meetings of the shareholders.

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

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

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

CORPORATE GOVERNANCE COMPLIANCE OFFICER

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

COMPLIANCE OFFICER OF STOCK MARKET ISSUES

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

Board of Directors

USB BANK PLC

20 April 2010

BOARD OF DIRECTORS AND OTHER EXECUTIVES

Board of Directors

Maurice Sehnaoui, Chairman

Adel Kassar

Nadim Kassar

Nabil Kassar

Walid Daouk

Mansour Bteish

Raoul Nehme

Walid Ziade

Tania Moussallem

Agis Taramides

George Galatariotis

George Stylianou

Philippos Philis

Andreas Theodorides

Despo Polykarpou

Secretary of the Board

Andreas Theodorides

Deputy Managing Director

Andreas Theodorides

Financial Accountant

Paola Ioannou

Registered Office

83 Digenis Akritas Avenue

5th floor

1070 Nicosia

Legal Advisors

Dr. Kypros Chrysostomides & Co

L.Papafilippou and Co

Independent Auditors

Ernst & Young Cyprus Ltd

Certified Public Accountants and Registered Auditors

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE FINANCIAL STATEMENTS

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

In accordance with Article 9, subparagraph (3)(c) and (7) of the Transparency Requirements (Traded securities in a Regulated Market) Act 2007, us, the members of the Board of Directors and the officers responsible for the drafting of the financial statements of USB Bank Plc (the "Bank") for the year ended 31 December 2010, declare that, to the best of our knowledge:

(a) the financial statements which are presented in pages 30 to 76:

(i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Article 9, subparagraph (4) of the Act, and

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

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

Maurice Sehnaoui	Chairman
Adel Kassar	Non Executive Director
Nadim Kassar	Non Executive Director
Nabil Kassar	Non Executive Director
Walid Daouk	Non Executive Director
Mansour Bteish	Non Executive Director
Raoul Nehme	Non Executive Director
Walid Ziade	Non Executive Director
Tania Moussallem	Non Executive Director
Agis Taramides	Non Executive Director
George Galatariotis	Non Executive Director
George Stylianou	Non Executive Director
Philippos Philis	Non Executive Director
Andreas Theodorides	Executive Director
Despo Polykarpou	Executive Director
Paola Ioannou	Financial Accountant

20 April 2011

DIRECTORS' REPORT

The Board of Directors of USB Bank Plc (the 'Bank') submit to the shareholders their report and the audited financial statements for the year ended 31 December 2010.

Activities

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

Financial Results

During 2010, despite the global financial recession which affected the banking system, as well as the intense competition among financial institutions, the Bank maintained a strong liquidity position with a gross loan to deposit ratio of 81% compared with 79% last year, while in an effort to strengthen its capital base proceeded to issue share capital through the issuance of pre-emption rights of €82.399 and convertible bonds of €1.209.060.

Within an intensively competitive environment, customer deposits increased by 5% compared to 2009, from €448 million in 2009 to €471 million in 2010, while the total gross loan portfolio increased by around 9% compared with last year, reaching €383 million at the end of 2010 compared with €352 million in 2009.

The main financial highlights of the Bank for the years 2010 and 2009 are as follows:

	2010	2009
	€000	€000
Turnover	**33.981**	34.446
Profit before provisions	**392**	1.802
(Loss)/profit for the year	**(6.534)**	382
(Losses)/earnings per share (cent)	**(14,4)**	0,8
Customer deposits	**470.571**	447.833
Loans and advances to customers before provisions for impairment	**382.735**	352.065
Total assets	**541.956**	523.560
Equity	**24.042**	30.572

In 2010 and 2009, no dividends were paid or declared since the Bank had accumulated losses.

Board of Directors

The Board of Directors at the date of this report is listed on page 2. On 21 October 2010, the Board of Directors appointed Mr. Michalis Kleopas as Chairman in place of Mr. Pavlos Savvides who resigned from his position as Chairman of the Board of Directors.

On 21 March 2011, Messrs Michalis Kleopas, Yiannos Mouzouris, Yiannos Christofi, Marios Hannides and Garo Keheyan submitted their resignation from their position in the Bank's Board of Directors, with the view of restructuring the Board of Directors following the successful Public Offer by BLC Bank SAL. Also Messrs Georges Tabet and Echo Naji submitted their resignation due to work load, while the Board of Directors appointed Messrs Maurice Sehnaoui, Adel Kassar, Nadim Kassar, Nabil Kassar, Walid Daouk, Mansour Bteish, Walid Ziade, Agis Taramides and George Galatariotis as new Board members with immediate effect from 21 March 2011.

Board of Directors (continued)

At the same meeting, the Board unanimously proposed and elected Mr. Maurice Sehnaoui as the Bank's new Non-Executive Chairman with immediate effect from 21 March 2011. In addition, Mr. Andreas Theodorides was appointed as Secretary of the Board of Directors. The knowledge and experience of the nine new members are expected to positively contribute to the further improvement and development of the Bank. Also during the same meeting the new composition of the Board Committees was decided, which were established based on the Directives of the Corporate Governance Code of the Cyprus Stock Exchange and the related Directives of the Central Bank of Cyprus.

The changes in the composition of the Board of Directors during the year and until the date of this report were:

Kyriacos Kyriakides	(resigned on 1/07/2010)
Kleanthis Demosthenous	(resigned on 8/10/2010)
Pavlos Savvides	(resigned on 21/10/2010)
Michalis Kleopas	(resigned on 21/03/2011)
Marios Hannides	(resigned on 21/03/2011)
Yiannos Mouzouris	(resigned on 21/03/2011)
Yiannos Christofi	(resigned on 21/03/2011)
Garo Keheyan	(resigned on 21/03/2011)
Echo Naji	(appointed on 21/10/2010 and resigned on 21/03/2011)
Georges Tabet	(appointed on 21/10/2010 and resigned on 21/03/2011)
Raoul Nehme	(appointed on 21/10/2010)
Tania Moussallem	(appointed on 21/10/2010)
Maurice Sehnaoui	(appointed on 21/03/2011)
Adel Kassar	(appointed on 21/03/2011)
Nadim Kassar	(appointed on 21/03/2011)
Nabil Kassar	(appointed on 21/03/2011)
Walid Daouk	(appointed on 21/03/2011)
Mansour Bteish	(appointed on 21/03/2011)
Walid Ziade	(appointed on 21/03/2011)
Agis Taramides	(appointed on 21/03/2011)
George Galatariotis	(appointed on 21/03/2011)

For the year ended 31 December 2010 and according to the Bank's Articles of Association,at the next annual general meeting of the shareholders, Messrs George Stylianou, Philippos Philis, Tania Moussallem, Raoul Nehme, Maurice Sehnaoui, Adel Kassar, Nadim Kassar, Nabil Kassar, Walid Daouk, Mansour Bteish, Walid Ziade, George Galatariotis and Agis Taramides will retire but are offered for re-election.

Information relating to share capital

On 31 December 2010 the issued share capital of the Bank was 45.505.628 ordinary shares of a nominal value of €0,57 each. The Bank's shares are listed on the Cyprus Stock Exchange.

Information relating to share capital (continued)

During the year, the Bank's issued share capital was increased by €69.070 from the increase of share capital through pre-emption rights. In particular, following the decision of the Board of Directors dated 8 September 2009 which was approved by the Extraordinary General Meeting (EGM) on 7 December 2009, the Bank proceeded to the issue of pre-emption rights amounting to 45.384.453 which were transferred to the shareholders in a ratio of one pre-emption right for every one existing share on 18 March 2010. As a result, on 8 July 2010, the Bank issued 121.175 new shares with a nominal value of €0,57 each at the price of €0,68 per new share payable in one instalment by exercising 242.347 pre-emption rights.

As a result, the Bank's share capital on 31 December 2010 amounts to €25.938.208 divided to 45.505.628 shares nominal value €0,57 each, while share premium was increased by €13.329 and amounts to €21.177.967.

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

Agreements which are effective upon a change of control of the Company

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

The employment contract of a staff member includes a provision for a notice period in case of non-justified pre-mature termination of contract.

Statement of Corporate Governance

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

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

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

The Bank complies with the relevant provisions of the 3rd Revised Edition of the Corporate Governance Code of the CSE during 2010, as published by the CSE in March 2011. The 3rd edition of the Code includes new provisions which become effective as of 2011 and will be reflected in the Annual Report on Corporate Governance of the Bank for the year 2011. The Board will take all necessary action so as to ensure that the Bank will comply with all such new requirements. The Annual Report on Corporate Governance for 2010 is available on the Bank's website, **www.usbbank.com.cy**.

The operating regulations of the Board of Directors as well as the authorities of the executive and supervisory bodies of the Bank are presented in the Report on Corporate Governance. According to the Bank's Memorandum and Articles of Association, the number of Board members shall not be less than 5 nor more than 15. During the first and each annual general meeting of shareholders, one third (1/3) of the Board members who are appointed, or if their number is not a multiple of three (3), then the number nearest to one third (1/3) will be resigned from the Board of Directors having though the right for re-election at the Annual General Meeting of shareholders. Any changes or additions to the Bank's Memorandum and Articles of Association are considered valid only by a special resolution at a shareholders' meeting.

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

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

Shareholders holding more than 5% of the share capital of the Bank

At 31 December 2010 and 15 April 2011, the following shareholders held directly or indirectly more than 5% of the share capital of the Bank:

	31.12.2010	15.04.2011
	%	%
BLC Bank SAL	**9,90**	93,85
Path Holdings Ltd	**25,43**	-
Universal Life Insurance Public Co. Ltd	**9,96**	-
Ioanna Christofi	**9,55**	-
Yiannos Kasoulides	**8,15**	-
Jupiwind Ltd	**5,69**	-
	68,68	93,85

Directors' interest in the share capital of the Bank

At the date of this report, Messrs. Adel Kassar, Nadim Kassar and Nabil Kassar hold indirectly 93,85% of the share capital of the Bank.

Future Developments

The beginning of a new era for the Bank was initiated after the successful completion of the public offering process for the acquisition of up to 100% of the issued share capital of the Bank and the acquisition by BLC Bank SAL of 93,85% of the issued share capital of the Bank. The new shareholding structure gives a new dynamic to the Bank. The key priorities of the new shareholders are the strengthening of its capital base, the development of business for the provision of services to customers with local and international activities, the increase in productivity and the maintenance of a strong liquidity. The Bank expects to benefit from the expertise, know-how, the international network of clients and support of BLC Bank SAL.

Risk management

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

Preliminary results

The main reason for the variance in the net loss for the year between the final audited figure of €6.533.540 and the preliminary unaudited figure announced on 25 February 2011 of €4.236.508 is the receipt of information indicating that certain loans and advances were further impaired as at the end of the reporting period, and that the amount of a previously recognised impairment loss for a loan needed to be adjusted.

Events after the reporting date

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

Independent auditors

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

Maurice Sehnaoui

Chairman

20 April 2011

INCOME STATEMENT **2010**

USB BANK PLC

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		€	€
Turnover		**33.981.004**	34.446.021
Interest income	3	**29.599.438**	30.242.438
Interest expense	4	**(17.687.494)**	(18.325.532)
Net interest income		**11.911.944**	11.916.906
Fee and commission income		**3.888.836**	3.820.659
Fee and commission expense		**(792.285)**	(567.891)
Foreign exchange income		**413.538**	326.454
Income from available for sale investments	5	**10.020**	6.680
(Loss)/gain on revaluation of investment properties	15	**(485.000)**	164.000
Other income		**69.172**	49.790
Total net income		**15.016.225**	15.716.598
Staff costs	6	**(10.161.932)**	(9.476.154)
Depreciation of property and equipment and amortisation of intangible assets		**(829.593)**	(917.633)
Other operating expenses		**(3.632.819)**	(3.520.838)
Total operating expenses before provisions		**(14.624.344)**	(13.914.625)
Profit before provisions		**391.881**	1.801.973
Provision for impairment of loans and advances	12	**(6.925.421)**	(1.421.803)
(Loss)/profit before tax	7	**(6.533.540)**	380.170
Tax	8	**-**	1.832
(Loss)/profit for the year		**(6.533.540)**	382.002
(Losses)/earnings per share (cent)	9	**(14,4)**	0,8

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		€	€
(Loss)/profit for the year		**(6.533.540)**	382.002
Other comprehensive income			
(Loss)/profit on revaluation of available for sale investments	24	**(240.179)**	41.750
Gain on revaluation of properties	24	**235.505**	-
Taxation on revaluation of properties	24	**(21.369)**	2.667
Other comprehensive (expense)/income for the year after taxation		**(26.043)**	44.417
Total comprehensive (expense)/income for the year		**(6.559.583)**	426.419

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 €	2009 €
ASSETS			
Cash and balances with the Central Bank	10	**22.744.506**	45.254.922
Placements with banks	11	**11.640.310**	11.946.443
Loans and advances to customers	12	**327.021.153**	307.759.453
Investments held-to-maturity	13	**157.922.918**	140.549.739
Investments available for sale	14	**8.896.933**	3.693.725
Investment properties	15	**5.700.000**	6.185.000
Investment in subsidiary company	16	**1.265**	1.265
Property and equipment	17	**6.155.615**	6.341.560
Intangible assets	18	**137.796**	298.612
Other assets	19	**1.735.072**	1.529.169
Total assets		**541.955.568**	523.559.888
LIABILITIES			
Placements by banks and financing from the Central Bank	20	**30.210.721**	29.483.247
Customer deposits	20	**470.570.828**	447.832.762
Other liabilities	21	**6.949.549**	6.697.867
Loan capital	22	**10.182.963**	8.973.903
Total liabilities		**517.914.061**	492.987.779
EQUITY			
Share capital	23	**25.938.208**	25.869.138
Share premium		**21.177.967**	21.164.638
Revaluation reserves	24	**3.330.095**	3.356.138
Accumulated losses		**(26.404.763)**	(19.817.805)
		24.041.507	30.572.109
Total liabilities and equity		**541.955.568**	523.559.888

Maurice Sehnaoui	Chairman
Andreas Theodorides	Deputy Managing Director
Paola Ioannou	Financial Accountant

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Share premium	Revaluation reserves (Note 24)	Accumulated losses (Note 24)	**Total**
YEAR 2010	€	€	€	€	**€**
1 January	25.869.138	21.164.638	3.356.138	(19.817.805)	**30.572.109**
Pre-emption rights	69.070	13.329	-	-	**82.399**
Loss after tax	-	-	-	(6.533.540)	**(6.533.540)**
Other comprehensive expenses for the year after taxation	-	-	(26.043)	-	**(26.043)**
Total comprehensive expense for the year	-	-	(26.043)	(6.533.540)	**(6.559.583)**
Deemed dividend distribution (Note 24)	-	-	-	(53.418)	**(53.418)**
31 December	**25.938.208**	**21.177.967**	**3.330.095**	**(26.404.763)**	**24.041.507**
YEAR 2009					
1 January	25.869.138	21.164.638	3.311.721	(19.424.606)	**30.920.891**
Profit after tax	-	-	-	382.002	**382.002**
Other comprehensive income for the year after taxation	-	-	44.417	-	**44.417**
Total comprehensive income for the year	-	-	44.417	382.002	**426.419**
Deemed dividend distribution (Note 24)	-	-	-	(775.201)	**(775.201)**
31 December	**25.869.138**	**21.164.638**	**3.356.138**	**(19.817.805)**	**30.572.109**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 €	2009 €
Net cash flow (used in)/from operating activities	28	**(7.091.620)**	25.592.343
Cash flow from investing activities			
Purchase of property, equipment and software		**(279.322)**	(577.816)
Proceeds from the disposal of property and equipment		**3.300**	50.900
Purchase of bonds		**(74.634.943)**	(73.961.445)
Proceeds from the disposal and redemption of bonds		**52.916.056**	27.519.747
Interest on government and other debt securities		**5.663.310**	5.441.703
Dividend income from shares		**10.020**	6.680
Net cash flow used in investing activities		**(16.321.579)**	(41.520.231)
Cash flow from financing activities			
Proceeds from the issuance of share capital		**82.399**	-
Interest on subordinated loan stock		**(719.547)**	(83.152)
Proceeds from the issuance of subordinated loan stock		**1.209.060**	8.000.000
Net cash flow from financing activities		**571.912**	7.916.848
Net decrease in cash and cash equivalents for the year		**(22.841.287)**	**(8.011.040)**
Cash and Cash equivalents			
At 1 January		**48.214.639**	56.225.679
Net decrease in cash and cash equivalents		**(22.841.287)**	(8.011.040)
At 31 December	29	**25.373.352**	48.214.639

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

1. Basis of preparation

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

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

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

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

The accounting policies adopted are consistent with those adopted in the prior year, except as set out below. The Bank has adopted the following new and amended IFRSs and IFRIC Interpretations at 1 January 2010:

- IFRS 2 'Group Cash – Settled Share based Payment arrangements' (Amendment)
- IFRS 3 'Business Combinations' (Revised)
- IAS 27 'Consolidated and Separate Financial Statements' (Revised)
- IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items' (Amendments)
- IFRIC 17 'Distribution of Non cash Assets to Owners'
- IFRS1 'First-Time Adoption of International Financial Reporting Standards – Additional Exemptions' (Amendments)
- IFRS1 'First-Time Adoption of International Financial Reporting Standards' (Revised)
- Improvements to International Financial Reporting Standards (issue 2008): IFRS 5 'Non-current assets held for sale and Discontinued Operations'
- Improvements to International Financial Reporting Standards (issue 2009).

Adoption of the above did not have any impact on the Banks' financial statements.

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

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

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

Amendments to IFRS 1 'Limited Exemption from Comparative IFRS7 Disclosures for First-Time Adopters' (effective for annual periods beginning on or after 1 July 2010)
Relief is given to first-time adopters from providing comparative information for the disclosures required by the amendments to IFRS7 'Financial Instruments: Disclosure', in the first year of application. This amendment does not apply to the Bank.

Revised IAS 24 'Related Party Disclosures' (effective for annual periods beginning on or after 1 January 2011)
The IASB has amended IAS 24 in an effort to simplify the identification of related party relationships by clarifying the definition of related parties but without reconsidering the fundamental approach to related party disclosures. The Bank does not expect this Amendment to have a significant impact on the related party disclosures as presented in its financial statements.

Amendment to IAS 32 'Financial Instruments: Presentation - Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)
The Amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants (together, here termed 'rights') as equity instruments. The Amendment is not applicable to the Bank since it has not issued such instruments.

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

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

Improvements to IFRSs' (various effective dates, earliest for annual period beginning on or after 1 July 2010)
In May 2010, the IASB issued the third omnibus of amendments to its standards and the related Basis for Conclusions. There are eleven Amendments to six Standards and one Interpretation. The Bank does not expect that these improvements will have significant impact on its financial statements when will become adopted, except for the presentation of additional disclosures in relation to credit risk as a result of the relevant improvement to IFRS 7.

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

Standards and interpretations issued by the IASB not yet adopted by the EU

IFRS 9 'Financial Instruments: Classification and Measurement' (effective for annual periods beginning on or after 1 January 2013)
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS39 and applies to the classification and measurement of financial assets and liabilities as defined in IAS39. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid-2011. The implementation of the first phase, of IFRS 9 will mainly affect the classification and measurement of financial assets of the Bank. The Bank is currently assessing the impact of adopting the first phase of IFRS 9, which is expected to have a significant effect on the classification and measurement of the Bank's financial assets. However the impact of adoption depends on the assets and liabilities of the Bank at the date of adoption, and it is therefore not practical to quantify the effect.

Amendments to IFRS 7 'Financial Instruments: Disclosures' (effective for accounting periods beginning on or after 1 July 2011)
The IASB issued Amendments to IFRS 7 to enhance the transparency of disclosure requirements for the transfer of financial assets. The Amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor. The Bank is in the process of assessing the impact of these Amendments on its financial statements.

Amendments to IAS 12 'Deferred Tax – Recovery of Underlying Assets' (effective for accounting periods beginning on or after 1 January 2012)
These Amendments address the determination of deferred tax on investment property measured at fair value. The Amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The Amendments also incorporate SIC 21 – 'Income Taxes – Recovery of Revalued Non – Depreciable Assets' into IAS12.
The Bank is in the process of assessing the impact of these amendments on its financial statements.

4. Significant accounting judgments and estimates

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

Going concern

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

4. Significant accounting judgments and estimates (continued)

Provisions for loan impairment

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

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

Impairment of available for sale and held to maturity investments

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

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

Fair value of investments

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

4. Significant accounting judgments and estimates (continued)

Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial assumptions involve making assumptions for discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increase, where necessary. The Bank's management sets these assumptions based on market expectations at the reporting date using the best estimates for each parameter, covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions a certain degree of judgement is required. Future salary increases are based on expected future values of inflation rates of specific countries plus a margin to reflect the best possible estimate relating to parameters such as productivity, maturity and promotions. Expected return on plan assets is based on the composition of each fund's plan assets estimating a different rate of return for each asset class. Estimates of future values of inflation rates on salaries and the expected rates of return of plan assets represent the best management's estimates for these variables. These estimates were derived after consultation with its advisors, and involve a degree of judgment. Due to the long-term nature of these plans, such estimates are inherently uncertain.

Income tax

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

5. Foreign currency translation

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

Transactions in foreign currencies are initially recognized by applying the amount of foreign currency at the current exchange rate between the functional currency and the foreign currency at the transaction date.

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

6. Turnover

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

7. Revenue recognition

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

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

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

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

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

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

8. Operating lease expenses

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

9. Staff retirement benefits

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

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

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

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

10. Financial instruments

(i) Date of recognition

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

(ii) Initial recognition and measurement of financial instruments

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

(iii) Financial derivative instruments

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

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

(iv) Loans and advances to customers

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

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

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

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

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

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

10. Financial instruments (continued)

(iv) Loans and advances to customers (continued)

Doubtful loans are monitored continuously and are reviewed for provisional purposes every three months. Any subsequent changes to the estimated recoverable amounts and the timing they are expected to be collected, are compared to prior estimates and any differences arising result in a corresponding charge/credit in the income statement. A provision for an impaired loan is reversed only when the credit quality of the customer has improved to such an extent that there is reasonable assurance that all the principal amount and interest according to the original terms of the loan will be collected. Provision has been made for the total advances and loan accounts granted prior to 15 August 1974.

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

(v) Investments

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

Investments held-to-maturity

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

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

Impairment of investments held-to-maturity

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

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

10. Financial instruments (continued)

(v) Investments (continued)

Available for sale investments

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

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

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

Impairment of available for sale investments

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

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

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

(vi) Deposits and subordinate loan stock

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

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

11. Derecognition of financial assets and financial liabilities

(i) Financial assets

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

(ii) Financial liabilities

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

12. Offsetting financial instruments

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

13. Investments in subsidiary companies

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

14. Share capital

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

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

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

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

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

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

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

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

The annual depreciation rates for the year were as follows:

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

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

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

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

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

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

16. Investment properties

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

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

17. Provisions for pending litigation or claims

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

18. Taxation

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

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

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

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

19. Cash and cash equivalents

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

20. Financial guarantees

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

1. Corporate information

The financial statements of USB Bank Plc (the 'Bank') for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 20 April 2011.

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

The Bank was incorporated as a limited liability company in 1925 under the Cyprus Companies Law and is considered a public company under the Company Law and Cyprus Stock Exchange Laws and Regulations and under the Cyprus Income Tax Law.

2. Segmental analysis

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

3. Interest income

	2010	2009
	€	€
Loans and other advances to customers	**23.501.959**	24.351.124
Placements with banks and deposits with the Central Bank	**434.169**	449.611
Investments	**5.663.310**	5.441.703
	29.599.438	30.242.438

Interest income from loans and advances to customers includes interest on impaired loans and advances of €1.573.734 (2009: €1.660.070).

4. Interest expense

	2010	2009
	€	€
Deposits and other customer accounts	**16.672.314**	18.225.238
Amounts due to banks	**295.633**	17.142
Subordinated loan stock	**719.547**	83.152
	17.687.494	18.325.532

5. Income from available for sale investments

	2010	2009
	€	€
Dividends from investments available for sale	**10.020**	6.680

6. Staff costs

	2010	2009
	€	€
Staff salaries and other remuneration	**7.857.110**	7.383.728
Social insurance and other contributions	**929.411**	866.529
Retirement benefit costs	**1.375.411**	1.225.897
	10.161.932	9.476.154

The number of persons employed by the Bank as at 31 December 2010 was 195 (2009: 199).

Retirement benefits – Defined benefit scheme

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

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

According to the actuarial valuation carried out for the year ended 31 December 2010, the amounts presented on the statement of financial position of the Bank in relation to the defined benefit scheme are as follows:

	2010	2009
	€	€
Present value of the obligation	**(10.227.359)**	(8.927.886)
Fair value of plan assets	**3.120.809**	3.396.846
	(7.106.550)	(5.531.040)
Unrecognised actuarial loss	**2.821.256**	2.472.533
Net liability recognised in the statement of financial position	**(4.285.294)**	(3.058.507)

The principal actuarial assumptions used for the actuarial valuation were:

	2010	2009
	%	%
Discount rate	**5,41**	5,24
Expected return on plan assets	**5,39**	5,75
Future salary increase	**6,00**	6,00

6. Staff costs (continued)

Retirement benefits – Defined benefit scheme (continued)

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

	2010	2009
	€	€
Current service cost	**1.013.293**	904.506
Interest expense on obligations	**461.492**	400.884
Expected return on plan assets	**(188.374)**	(167.977)
Actuarial loss recognised in the year	**89.000**	88.484
	1.375.411	1.225.897

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

	2010	2009
	€	€
Net liability at 1 January	**(3.058.507)**	(1.858.582)
Expense recognised in the income statement	**(1.375.411)**	(1.225.897)
Employer contributions for the year	**148.624**	25.972
Net liability at 31 December	**(4.285.294)**	(3.058.507)

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

	2010	2009
	€	€
1 January	**8.927.886**	7.077.202
Current service cost	**1.013.293**	904.506
Interest on liabilities	**461.492**	400.884
Benefits paid from the plan	**(148.624)**	(25.972)
Actuarial (gains)/losses	**(26.688)**	571.266
31 December	**10.227.359**	8.927.886

Movement in plan assets:	**2010**	2009
	€	€
Fair value of plan assets on 1 January	**3.396.846**	2.904.919
Expected return on plan assets	**188.374**	167.977
Employer contributions for the year	**148.624**	25.972
Benefits paid for the year	**(148.624)**	(25.972)
(Losses)/gains of plan assets	**(464.411)**	323.950
Fair value of plan assets at 31 December	**3.120.809**	3.396.846
Actual (decrease)/increase in the return on plan assets	**(276.037)**	491.927

6. Staff costs (continued)

Retirement benefits – Defined benefit scheme (continued)

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

	2010	2009	2008	2007	2006
	€	€	€	€	€
Net present value of obligations	**(10.227.359)**	(8.927.886)	(7.077.202)	(6.778.034)	(6.052.980)
Fair value of plan assets	**3.120.809**	3.396.846	2.904.919	4.967.984	4.242.628
Deficit	**(7.106.550)**	(5.531.040)	(4.172.283)	(1.810.050)	(1.810.352)
Experience adjustments to plan obligations	**26.688**	(571.266)	295.403	223.511	(476.083)
Experience adjustments to plan assets	**(464.411)**	323.950	(2.355.541)	475.458	1.751.744

The expense for the defined benefit scheme for 2011 is expected to be €1.540.028.

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

	2010	2009
	%	%
Shares	**24**	31
Bonds	**30**	28
Placements with banks	**46**	41

Plan assets for both years include non-convertible bonds amounting to €173.000 that have been issued by the Bank.

Principal actuarial assumptions used in the actuarial valuations

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

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

7. (Loss)/profit before tax

(Loss)/profit before tax is disclosed after charging the following:

	2010	2009
	€	€
Directors' emoluments (Note 32)	**614.530**	729.593
Loss on sale and write-off of property and equipment	**28.695**	11.303
Operating lease rentals for buildings	**809.309**	819.078
Fees (including tax) to the independent auditors for audit and other professional services:		
- Audit of the financial statements of the Bank	**54.625**	54.625
- Audit-related services	**5.750**	5.750
- Tax services	**13.053**	3.450
- Other services	**1.150**	1.150

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

8. Tax

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

	2010	2009
	€	€
(Loss)/profit before tax	**(6.533.540)**	380.170
Corporation tax based on the applicable rates	**(653.354)**	38.017
Tax effect of:		
- Not deductible expenses	**297.455**	130.629
- Income not subject to tax	**(53.703)**	(97.446)
- Tax losses utilised	**(134.737)**	(73.032)
- Tax losses for the year	**544.339**	-
Deferred tax per the income statement	**-**	(1.832)

Corporation tax is calculated at the rate of 10% on taxable income (2009: 10%).

At 31 December 2010, the Bank had tax losses carried forward amounting to €22,1 million (2009: €17,7 million) for €17,4 million (2009: €14,4 million) of which no deferred tax asset was recognised in the statement of financial position.

The balance of net deferred tax liability represents:

	2010	2009
	€	€
Difference between tax allowances and accounting depreciation	**52.981**	56.769
Revaluation of properties	**390.260**	417.392
Collective impairment	**187.025**	-
Tax losses utilised	**(468.182)**	(333.446)
	162.084	140.715

9. (Losses)/earnings per share

	2010	2009
	€	€
(Loss)/profit attributable to shareholders	**(6.533.540)**	382.002
Weighted average number of shares in issue during the year	**45.445.041**	45.384.453
(Losses)/earnings per share (cent)	**(14,4)**	0,8

At 31 December 2010, there were titles convertible to ordinary shares that were not considered dilutive and consequently diluted losses per share are not presented. As at 31 December 2009, there were no potentially dilutive ordinary shares.

10. Cash and balances with the Central Bank

	2010	2009
	€	€
Cash	**7.733.000**	5.182.125
Balances with the Central Bank of Cyprus	**15.011.506**	40.072.797
	22.744.506	45.254.922

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to €9.011.464 (2009: €8.986.726). As at 31 December 2009, the corresponding amount includes €29 million which represents financing from the Central Bank of Cyprus through the pledging of special government bonds issued by the Cyprus government for this purpose. These funds can only be used for providing housing loans and loans to small and medium-sized enterprises.

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

11. Placements with banks

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

12. Loans and advances to customers

	2010	2009
	€	€
Loans and other advances	**382.735.070**	352.064.732
Provision for impairment of loans and advances	**(55.713.917)**	(44.305.279)
	327.021.153	307.759.453

Provisions for impairment of loans and advances:

	2010	2009
	€	€
1 January	**44.305.279**	44.348.310
Collections/reversals	**(1.576.919)**	(5.097.047)
Charge for the year	**8.502.340**	6.518.850
Net charge for the year	**6.925.421**	1.421.803
Restriction of interest on impaired loans	**5.297.438**	3.101.154
Write-offs	**(814.221)**	(1.691.548)
Interest collected on impaired loans and advances relating to prior years	**-**	(2.874.440)
	11.408.638	(43.031)
31 December	**55.713.917**	44.305.279

Total provisions for impairment as at 31 December 2010 include collective impairment provision of €1.870.252 (2009: €592.889).

The total amount of impaired loans and advances amounts to €83.047.594 (2009: €63.976.958).

Additionally, at 31 December 2010, the Bank had pledged €42.5 million loans and other advances to customers for the benefit of the Republic of Cyprus as collateral for the issue of €30 million special government bonds which can in turn be used as collateral for obtaining financing from the European Central Bank.

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

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

Advances and other accounts prior to 15 August 1974

	2010	2009
	€	€
Loans and advances to customers	**877.200**	878.761
Provisions for loans and advances to customers before 15 August 1974	**(877.200)**	(878.761)
	-	-

13. Investments held-to-maturity

	2010	2009
Government and other bonds:	**€**	€
Cyprus Government	**58.108.839**	53.109.156
Greek Government	**13.284.710**	8.182.154
Foreign banks	**86.529.369**	79.258.429
	157.922.918	140.549.739

	2010	2009
Listed in:	**€**	€
Cyprus stock exchange	**44.706.612**	53.109.156
European stock exchanges	**113.216.306**	87.440.583
	157.922.918	140.549.739

The fair value of held-to-maturity investments as at 31 December 2010 was €151.275.285 (2009: €140.958.437).

14. Investments available for sale

	2010	2009
	€	€
Shares listed on the Cyprus Stock Exchange	**153.640**	126.920
Bonds of Cyprus Public companies	**5.299.272**	3.566.805
Bonds of foreign banks	**3.444.021**	-
	8.896.933	3.693.725

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

	Level 1	Level 2	Total
31 December 2010	**€**	**€**	**€**
Shares listed on the Cyprus Stock Exchange	**153.640**	**-**	**153.640**
Bonds of Cyprus Public Companies	**-**	**5.299.272**	**5.299.272**
Bonds of foreign banks	**-**	**3.444.021**	**3.444.021**
	153.640	**8.743.293**	**8.896.933**
31 December 2009			
Shares listed on the Cyprus Stock Exchange	126.920	-	126.920
Bonds of Cyprus Public companies	-	3.566.805	3.566.805
	126.920	3.566.805	3.693.725

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

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

15. Investment properties

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

	2010	2009
	€	€
1 January	**6.185.000**	-
Additions for the year	**-**	6.021.000
Change in fair value	**(485.000)**	164.000
31 December	**5.700.000**	6.185.000

16. Investment in subsidiary company

	2010	2009
At cost:	€	€
Imagetech Ltd	**1.265**	1.265

Imagetech Ltd was incorporated in Cyprus on 9 May 2002, is wholly owned by the Bank and from the date of incorporation to the present day, has remained dormant.

17. Property and equipment

	Property	Equipment	Total
	€	€	€
Year 2010			
Cost or estimated fair value			
1 January	7.449.582	5.846.371	**13.295.953**
Additions	136.335	128.284	**264.619**
Disposals/write-offs	(64.570)	(528.492)	**(593.062)**
Revaluation for the year	235.504	-	**235.504**
Reversal of depreciation due to revaluation	(230.504)	-	**(230.504)**
31 December	7.526.347	5.446.163	**12.972.510**
Depreciation			
1 January	2.053.878	4.900.515	**6.954.393**
Charge for the year	379.134	274.938	**654.072**
Disposals/write-offs	(39.594)	(521.472)	**(561.066)**
Reversal of depreciation due to revaluation	(230.504)	-	**(230.504)**
31 December	2.162.914	4.653.981	**6.816.895**
Net book value	5.363.433	792.182	**6.155.615**

17. Property and equipment (continued)

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

Properties are presented at fair value based on a valuation carried out in 2010 by independent qualified surveyors. The net book value of own properties at 31 December 2010 based on cost less accumulated depreciation would be €2.148.063 (2009: €2.339.259). Land is not depreciated and its book value at 31 December 2010 and 31 December 2008 was €1.433.695.

18. Intangible assets

Year 2010	**Computer Software €**
Cost	
1 January	**5.343.250**
Additions	**14.705**
Write-offs	**(112.065)**
31 December	**5.245.890**
Amortisation	
1 January	**5.044.638**
Charge for the year	**175.521**
Write-offs	**(112.065)**
31 December	**5.108.094**
Net book value	**137.796**

18. Intangible assets (continued)

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

19. Other assets

	2010 €	2009 €
Sundry debtors	**835.689**	787.974
Collateral amount with Visa International	**899.383**	741.195
	1.735.072	1.529.169

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

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

Placements by banks and financing from the Central Bank

Placements by banks and funding from Central Bank in 2010 include funding from the European Central Bank of €30m (2009: €29m), which the Bank has secured through credit operations in the context of monetary policy in the euro zone. This funding is fully secured by the pledge of special government securities (Notes 10 and 12) and bear annual interest at the rate of 1%.

	2010	2009
Customer deposits:	€	€
Demand deposits	**56.140.053**	53.897.737
Notice deposits	**55.052.982**	63.206.828
Term deposits	**359.377.793**	330.728.197
	470.570.828	447.832.762

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

The book value of deposits repayable on demand represents their fair value. The fair value of deposits with variable interest rate is equivalent to their book value. The fair value of deposits with fixed interest rate is based on the present value of future cash flows, using interest rates of new deposits with the same remaining maturity. The fair value of these deposits does not materially differ from their book value as the majority mature within one year from the reporting date (Note 30).

Although the Bank is entitled to legal protection according to the Debtors Relief (Temporary Provision) Laws of 1979 until 1995, as an affected and displaced legal entity, however, on 15 December 1998 the bank released all frozen deposits amounting to €719.058 in favour of the Bank's depositors. The equivalent balance as at 31 December 2010 was €156.105 (2009: €156.226).

Due to the fact that the amount above consists of a large number of small deposit accounts and the likelihood of repayment is minimal, on 24 May 2000 the Board of Directors decided to transfer the amount of €234.301 to the income statement and in case of repayment of these deposits to debit the income statement accordingly. During the year 2010, the Bank repaid deposits amounting to €121 (2009: €393) by debiting the income statement.

21. Other liabilities

	2010	2009
	€	€
Sundry creditors	**454.807**	564.031
Financial guarantees	**125.136**	192.691
Net deferred tax liability (Note 8)	**162.084**	140.715
Net liability for staff retirement plan (Note 6)	**4.285.294**	3.058.507
Bills payable	**491.681**	822.000
Deemed dividend distribution (Note 24)	**53.418**	775.201
Other liabilities	**1.098.205**	486.314
Accrued expenses	**278.924**	658.408
	6.949.549	6.697.867

22. Subordinated loan stock

	2010	2009
	€	€
Tier I capital		
Capital securities	**973.903**	973.903
Tier II capital		
Non-convertible bonds	**8.000.000**	8.000.000
Convertible bonds	**1.209.060**	-
	9.209.060	8.000.000
	10.182.963	8.973.903

22. Subordinated loan stock (continued)

Capital Securities

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

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

Non-convertible bonds

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

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

Convertible bonds

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

The convertible bonds may, at the option of the holder, be converted into ordinary shares of the Bank in the year 2012 until 2014 as follows:

- 15-30 March and 15-30 September for 2012
- 15-30 March and 15-30 September for 2013
- 15-30 March and 15-30 September for 2014

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

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

23. Share capital

	2010 Number of shares	2010 €	2009 Number of shares	2009 €
Authorised				
Ordinary shares of €0,57 each	150.000.000	85.500.000	150.000.000	85.500.000
Issued and fully paid				
1 January	**45.384.453**	**25.869.138**	15.128.151	25.869.138
Share split	**-**	**-**	30.256.302	-
Share issue	**121.175**	**69.070**	-	-
31 December	**45.505.628**	**25.938.208**	45.384.453	25.869.138

24. Revaluation reserves and retained earnings

Revaluation Reserves

	Investments revaluation reserve €	Property revaluation reserve €	Total €
Year 2010			
1 January	**93.085**	**3.263.053**	**3.356.138**
Property revaluation	**-**	**235.505**	**235.505**
Deferred tax	**-**	**(21.369)**	**(21.369)**
Revaluation of available-for-sale investments	**(240.179)**	**-**	**(240.179)**
31 December	**(147.094)**	**3.477.189**	**3.330.095**
Year 2009			
1 January	51.335	3.260.386	3.311.721
Deferred tax	-	2.667	2.667
Revaluation of available-for-sale investments	41.750	-	41.750
31 December	93.085	3.263.053	3.356.138

24. Revaluation reserves and retained earnings (continued)

Retained earnings

Retained earnings are the only distributable reserve. In 2010 and 2009 no dividends were paid nor declared to be paid since the Bank had accumulated losses.

As from 1 January 2003, companies which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 15% will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders. The amount of €53.418 presented in Note 21 of the financial statements represents the special defence contribution for deemed dividend distribution for the profits of 2008, whilst in 2009 special defence contribution for deemed dividend distribution amounting to €775.201 was paid for the profits of 2007.

25. Contingent liabilities and commitments

	2010	2009
Contingent liabilities	**€**	€
Acceptances and endorsements	**211.448**	220.815
Guarantees	**20.910.539**	28.957.583
	21.121.987	29.178.398
Commitments		
Documentary credits and certified export credits	**1.147.743**	1.103.168
Unutilised limits	**34.773.454**	40.658.266
	35.921.197	41.761.434

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

Capital commitments

There were no commitments for contracted capital expenditure of the Bank as at 31 December 2010 (2009: €51.645).

Pre-15 August 1974 deposits

The Bank has the obligation to repay the pre-15 August 1974 deposits €156.105 as at 31 December 2010 (2009: €156.226).

Litigation

As at 31 December 2010, in the ordinary course of business, the Bank is involved in lawsuits, which the management of the Bank does not expect to have a significant effect on the financial positions and operations of the Bank. At the same time, there are no pending claims or/and assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

26. Analysis of assets and liabilities by expected maturity

	2010			2009		
	Less than one year	Over one year	Total	Less than one year	Over one Year	Total
	€	€	€	€	€	€
Assets						
Cash and deposits with the Central Bank	**14.391.074**	**8.353.432**	**22.744.506**	37.667.820	7.587.102	45.254.922
Placements with banks	**11.640.310**	**-**	**11.640.310**	11.946.443	-	11.946.443
Loans and advances to customers	**36.390.038**	**290.631.115**	**327.021.153**	55.217.910	252.541.543	307.759.453
Investments held to maturity	**59.412.169**	**98.510.749**	**157.922.918**	42.187.439	98.362.300	140.549.739
Investments available for sale	**8.896.933**	**-**	**8.896.933**	3.693.725	-	3.693.725
Investment properties	**-**	**5.700.000**	**5.700.000**	-	6.185.000	6.185.000
Investment in subsidiary company	**-**	**1.265**	**1.265**	-	1.265	1.265
Property, equipment and intangible assets	**88.784**	**6.204.627**	**6.293.411**	115.605	6.524.567	6.640.172
Other assets	**835.689**	**899.383**	**1.735.072**	787.974	741.195	1.529.169
	131.654.997	**410.300.571**	**541.955.568**	151.616.916	371.942.972	523.559.888
Liabilities						
Deposits by banks	**203.221**	**30.007.500**	**30.210.721**	483.247	29.000.000	29.483.247
Customer deposits	**52.899.249**	**417.671.579**	**470.570.828**	68.477.679	379.355.083	447.832.762
Other liabilities	**2.664.255**	**4.285.294**	**6.949.549**	3.639.360	3.058.507	6.697.867
Subordinated loan stock	**-**	**10.182.963**	**10.182.963**	-	8.973.903	8.973.903
	55.766.725	**462.147.336**	**517.914.061**	72.600.286	420.387.493	492.987.779

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

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

27. Operating leases

Commitments under non-cancellable operating leases are as follows:

	2010	2009
	€	€
Within one year	**480.473**	657.733
Between two and five years	**41.163**	271.124
	521.636	928.857

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

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

	2010	2009
	€	€
(Loss)/profit before tax	**(6.533.540)**	380.170
Adjustments:		
Provision for impairment of loans and advances	**6.925.421**	1.421.803
Depreciation of property and equipment and amortisation of intangible assets	**829.593**	917.633
Loss on disposal of property and equipment	**28.695**	11.303
Loss/(profit) on revaluation of investment property	**485.000**	(164.000)
Dividend income	**(10.020)**	(6.680)
Interest on government and other bonds	**(5.663.310)**	(5.441.703)
Interest on subordinated loan stock	**719.547**	83.152
	(3.218.614)	(2.798.322)
(Increase)/decrease in operating assets:		
Obligatory deposits with the Central Bank	**(24.738)**	(65.735)
Investments held-to-maturity	**(1.097.679)**	1.763.584
Investments in subsidiary companies	**-**	846
Loans and advances to customers	**(26.187.121)**	(2.025.212)
Other assets	**(205.903)**	(387.738)
Increase/(decrease) in operating liabilities:		
Deposits by banks	**727.474**	28.644.101
Customer deposits	**22.738.066**	(529.512)
Other liabilities and other accounts	**176.895**	990.331
Net cash flow (used in)/from operating activities	**(7.091.620)**	25.592.343

29. Cash and cash equivalents

	2010	2009
	€	€
Cash and balances with the Central Bank (Note 10)	**22.744.506**	45.254.922
Placements with banks (Note 11)	**11.640.310**	11.946.443
	34.384.816	57.201.365
Less obligatory deposits with the Central Bank (Note 10)	**(9.011.464)**	(8.986.726)
	25.373.352	48.214.639

30. Risk management

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

Credit risk

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

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

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

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

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

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

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

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

30. Risk management (continued)

Credit risk (continued)

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

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

Maximum exposure to credit risk

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

	2010	2009
	€	€
Balances with the Central Bank (Note 10)	**15.011.506**	40.072.797
Placements with banks (Note 11)	**11.640.310**	11.946.443
Loans and advances to customers (Note 12)	**327.021.153**	307.759.453
Investments held-to-maturity (Note 13)	**157.922.918**	140.549.739
Investments available for sale (Note 14)	**8.743.293**	3.566.805
Other assets (Note 19)	**1.735.072**	1.529.169
Total on-statement of financial position	**522.074.252**	505.424.406
Contingent liabilities (Note 25)	**21.121.987**	29.178.398
Commitments (Note 25)	**35.921.197**	41.761.434
Total off-statement of financial position	**57.043.184**	70.939.832
Total credit risk exposure	**579.117.436**	576.364.238

Credit risk concentration

There are restrictions on credit risk concentrations which are imposed by the Banking Law and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group. In addition, total lending to customers whose borrowings exceed 10% of a bank's capital base, should not in aggregate exceed eight times its capital base. In addition, according to the directive of the Central Bank of Cyprus, the uncovered risk and the total of loans granted to directors and any related parties cannot exceed the total of 5% and 40% respectively of capital base of the bank. The Bank is in total compliance with all restrictions.

The Bank's exposure to credit risk arising from customer groups, who have credit facilities amounting to more than 10% of the Bank's capital base as at 31 December 2010, was €154,2 million (2009: €98,2 million).

30. Risk management (continued)

Credit risk (continued)

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

	2010	2009
	€	€
Trade and manufacturing	**65.343.061**	46.592.208
Tourism	**37.638.047**	31.283.837
Property and construction	**87.192.474**	91.695.435
Personal and professional	**173.774.878**	167.971.560
Other sectors	**18.786.610**	14.521.692
	382.735.070	352.064.732

Collateral and other credit enhancements

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

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

Analysis of loans and advances to customers

	2010	2009
	€	€
Neither past due nor impaired	**222.103.546**	229.400.565
Past due but not impaired	**77.583.930**	58.687.209
Impaired	**83.047.594**	63.976.958
	382.735.070	352.064.732

Neither past due nor impaired loans and advances to customers

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

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

	2010	2009
	€	€
Grade 1	**160.673.498**	170.709.346
Grade 2 & 3	**58.777.761**	54.071.808
Grate 4	**2.652.287**	4.619.411
	222.103.546	229.400.565

30. Risk management (continued)

Credit risk (continued)

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

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

Grade 4
This grade is given to loans that had repayment difficulties in the past but are not in arrears and are no longer considered of doubtful recovery.

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

	2010	2009
In arrears:	€	€
Up to 30 days	**21.175.128**	25.197.964
From 31 to 90 days	**17.278.664**	10.426.986
From 91 to 180 days	**10.511.957**	2.155.533
From 181 to 365 days	**14.952.725**	9.018.536
Over one year	**13.665.456**	11.888.190
	77.583.930	58.687.209

The fair value of collateral held by the Bank in respect of loans and advances to customers that are past due but not impaired as at 31 December 2010 amounted to €53,4 million (2009: €41,3 million).

Collateral on impaired loans and advances
The fair value of collateral held by the Bank in relation to individually impaired loans as at 31 December 2010, amounted to €28,7 million (2009: €33,8 million).

Renegotiated loans and other advances to customers
During the year, total loans amounting to €45,9 million (2009: €31,4 million) were restructured.

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

	2010	2009
	€	€
Aaa – Aa3	**15.728.164**	43.363.064
A1 – A3	**1.083.844**	6.836.620
Baa1 – Baa3	**8.453.054**	-
Items in the course of collection	**1.386.754**	1.819.556
	26.651.816	52.019.240

30. Risk management (continued)

Credit risk (continued)

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

	2010	2009
	€	€
Aaa – Aa3	**99.697.270**	85.583.369
A1 – A3	**47.530.137**	58.533.175
Baa1 – Baa3	**19.438.804**	-
Unrated	**153.640**	126.920
	166.819.851	144.243.464

Issued by:		
Cyprus government	**58.108.839**	53.109.156
Greek Government	**13.284.710**	8.182.154
Cyprus public companies	**5.452.912**	3.693.725
Foreign banks	**89.973.390**	79.258.429
	166.819.851	144.243.464

Classified as:		
Investments held to maturity	**157.922.918**	140.549.739
Investments available for sale	**8.896.933**	3.693.725
	166.819.851	144.243.464

Interest rate risk

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

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

30. Risk management (continued)

Interest rate risk (continued)

Sensitivity analysis

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

Change in interest rates	Euro €	US Dollars €	British Pounds €	Other currencies €	Total €
2010					
+0,5% for all currencies	489.742	51.615	19.922	6.199	**567.478**
-0,25% for US Dollars and -0,5% for all other currencies	(482.616)	(25.807)	(19.922)	(6.199)	**(534.544)**
2009					
+0,5% for all currencies	745.674	67.042	26.358	5.498	**844.572**
-0,25% for US Dollars and -0,5% for all other currencies	(732.332)	(33.521)	(26.358)	(5.498)	**(797.709)**

Currency risk

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

The Assets and Liabilities Committee (ALCO) has approved open position limits for each currency and for total foreign exchange position limits. These limits are monitored by the Market Risk Management Unit.

The Bank uses foreign exchange swaps for foreign exchange risk hedging, for which it does not apply hedge accounting.

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

Liquidity Risk

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

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

The Unit monitors closely incompatibility indices between assets and liabilities for periods up to one month as well as the index of highly liquid assets for each of the basic currencies.

30. Risk management (continued)

Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturity:

2010	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€	€	€	€	€	**€**
Deposits by banks	202.646	-	30.081.667	-	-	**30.284.313**
Deposits and other customer accounts	156.583.013	118.343.239	199.956.025	306.617	627.763	**475.816.657**
Other liabilities	1.443.813	-	-	-	-	**1.443.813**
Subordinated loan stock	-	-	1.728.272	11.675.859	-	**13.404.131**
	158.229.472	118.343.239	231.765.964	11.982.476	627.763	**520.948.914**
2009						
Deposits by banks	483.247	-	29.000.000	-	-	**29.483.247**
Deposits and other customer accounts	144.473.329	120.357.025	187.208.772	363.355	698.250	**453.100.731**
Other liabilities	2.673.845	-	-	-	-	**2.673.845**
Subordinated loan stock	-	-	1.639.712	2.400.000	8.300.000	**12.339.712**
	147.630.421	120.357.025	217.848.484	2.763.355	8.998.250	**497.597.535**

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

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

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

30. Risk management (continued)

Liquidity Risk (continued)

The liquidity ratio in Euro was as follows:

	2010	2009
	%	%
31 December	**34,97**	42,33
Average	**36,71**	39,43
Maximum ratio	**37,80**	42,33
Minimum ratio	**34,97**	35,30

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

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

Financial assets are presented in these statements as follows:

Cash and deposits with Central Bank

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

Placements with banks

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

Loans and advances to customers

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

Investments held-to-maturity and available for sale

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

30. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events.

The Bank manages operational risk through procedures and controls. Controls include segregation of duties, controllable access, reconciliation of accounts and balances. In addition, the Bank's General Inspection Unit, performs periodic reviews and evaluates the efficiency of these controls and procedures. Additionally, an insurance coverage exists in order to cover unanticipated operating losses.

Equity securities price risk

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

Regulatory risk

The Bank's operations are supervised by the Central Bank of Cyprus. In carrying out is regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework, as well as the regulatory framework of Central Bank of Cyprus. Future changes in the legal or regulatory duties as a result of arrangements either by European Union or Central Bank of Cyprus, may have impact on the Bank's operations. The most recent proposed revision of Basel framework (Basel III) aims to promote a more resilient banking sector. These proposals focus on capital, liquidity and provisions and are expected to increase their defences and reduce the pro-cyclical leverage in the sector. Basel III is in the process of adoption by the EU and it will then need to be transposed into national legislation in Cyprus.

Intensity of competition

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

Litigation risk

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

31. Capital management

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

For compliance purposes with the Central Bank of Cyprus (CBC) requirements for the computation of capital adequacy, the Bank has implemented and has fully complied with the provisions of the CBC's Directive "Computation of Capital Requirements" ("Basel II") throughout the year, on the basis of which it is required by every financial institution to maintain a minimum capital adequacy ratio of 8% (2009: 8%).

31. Capital management (continued)

During the years 2010 and 2009, the Bank complied fully with all regulatory capital adequacy requirements:

	2010	2009
	€000	€000
Original own funds	21.548	27.890
Additional own funds	12.539	11.356
Total own funds	34.087	39.246
Risk weighted assets - credit risk	334.935	301.894
Risk weighted assets - operational risk	28.513	32.712
Total risk weighted assets	363.448	334.606
Capital Adequacy Ratio	9,38%	11,73%

The total own funds of the Bank comprise of original own funds and additional own funds:

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

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

(iii) The Risk-weighted assets for credit and market risk are calculated using the standardised approach. For operational risk the capital requirements are calculated in accordance with the Basic Indicator approach.

32. Related party transactions

	2010	2009	2010	2009
	Number of Directors of the Bank		€	€
Loans and advances:				
To members of the Board of Directors and related parties:				
Less than 1% of the net assets per director	**13**	**12**	**3.718.069**	4.215.509
	13	**12**	**3.718.069**	4.215.509
To key management personnel and related parties			**808.055**	751.422
To shareholder who owns more than 20% of the share capital and its connected persons			**3.760.813**	3.785.902
Total loans and other advances			**8.286.937**	8.752.833
Tangible securities			**9.600.665**	9.537.198
Interest income			**610.116**	348.582
Deposits:				
- members of the Board of Directors and key management personnel			**878.023**	1.349.339
- connected persons of the above			**691.368**	13.021.207
- shareholder who owns more than 20% of the share capital and its connected parties			**47.062**	44.064
			1.616.453	14.414.610
Interest expense			**47.747**	178.090
Subordinated loan stock issued to connected person of a member of the Board of Directors			**70.000**	500.000
Interest expense on subordinated loan stock			**3.045**	1.027

In addition, there were contingent liabilities and commitments to the members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €268.854 (2009: €347.584), of which €163.410 (2009: €258.564) relate to Directors and their connected persons.

No credit facilities were given to the new members of the Board of Directors who were appointed on 21 March 2011, while there are deposits of €1,5 million relating the new Board members and their connected persons.

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

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

32. Related party transactions (continued)

Fees and emoluments of Directors and key management personnel

Directors' emoluments	**2010**	2009
	€	€
Member Fees:		
Non executives	**135.156**	130.064
Executives	**-**	-
Total member fees	**135.156**	130.064
Executive directors' emoluments:		
Salaries and other short-term benefits	**388.778**	503.611
Employer's contributions	**24.391**	27.618
Retirement benefit plan costs	**66.205**	68.300
Total executive directors' emoluments	**479.374**	599.529
Total Board of Directors emoluments	**614.530**	**729.593**

Key management personnel emoluments		
Salaries and other short-term benefits	**377.102**	352.704
Employer's contributions	**34.585**	32.541
Retirement benefit plan costs	**91.599**	92.337
Total key management personnel emoluments	**503.286**	477.582
Total emoluments	**1.117.816**	1.207.175

Other transactions with related parties

Mr. Michalis Kleopas, who resigned as Chairman of the Board of Directors on 21 March 2011, is a partner in the Law Office Kleopas & Kleopas, who are handling court cases and legal proceedings on behalf of the Bank. The total cost of these cases which is charged to the debtors/borrowers for 2010 amounted to €17.848 (2009: €300).

33. Agreements with a major shareholder

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

34. Events after the reporting date

- On 7 September 2010, BLC Bank SAL acquired 9,90% of the Bank's share capital and an agreement was signed with the Bank's shareholders, subject to the approval by the Central Bank of Cyprus and other Authorities, for the purchase of additional 62,94% and not less than 43,16% of USB Bank's Plc share capital at the price of €0,80 per share as well as the public offer by BLC Bank SAL. On 25 January 2011 the Central Bank of Cyprus approved the acquisition of more than 50% of the share capital of USB Bank Plc by BLC Bank SAL.
- On 17 February 2011, following the successful completion of the public offer for the acquisition of up to 100% of the Bank's issued share capital, BLC Bank SAL has a total participation of 93,85% in the Bank's share capital. BLC Bank SAL operates in Lebanon with 34 branches across the country and is a member of the Financial Group FRANSBANK.
- On 22 February 2011 the public offer for the acquisition of up to 100% of the Convertible Bonds 2010/2020 ("Convertible Bonds") of the Bank ("Public Offer") was completed. The total percentage of acceptance of the Public Offer from the holders of Convertible Bonds amounted to 23,4%, after submission of acceptance of 282.350 of the Bank's Convertible Bonds.
- On 31 March 2011, the Board of the Cyprus Stock Exchange announced the transfer of Bank's securities from the Parallel market to the Special Characteristics market after the results of the public offer by BLC Bank SAL to the Bank's shareholders for the acquisition of up to 100% of the issued share capital of the Bank, based on the Paragraph 2.2.3(a) of the Regulatory Administrative Acts 326/2009 (as amended) concerning non-compliance with the continuing obligations in the market that the company is listed and particularly the minimum dispersion to the Public. The trading of the titles of the Company on the Special Characteristics market started on Thursday 31 March 2011.
- In a meeting held on 31 March 2011, the Board of Directors decided to proceed to an increase of the Bank's capital with the increase of the issued share capital by €12.134.834 (the "Issue") aiming to boost the Bank's capital base. The proposed issue relates to the issue of 15.168.543 new shares with a nominal value of €0,57 each at the price of €0,80 per share. Upon the successful completion of the issue, the Bank's issued share capital will be €34.584.277 divided into 60.674.171 ordinary shares with a nominal value of €0,57 each.

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

Report on the financial statements

We have audited the accompanying financial statements of USB Bank Plc (the "Company") on pages 30 to 76, which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of USB Bank Plc as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Report on other legal and regulatory requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 24 to 27, is consistent with the financial statements.

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

Other matter

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

George Kourris

Certified Public Accountant and Registered Auditor

for and on behalf of

Ernst & Young Cyprus Limited

Certified Public Accountants and Registered Auditors

20 April 2011

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HEAD OFFICE
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ORGANISATION AND METHODS
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Fax: 22 762942

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Makedonitissa
2415 Engomi
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Fax: 22 730410

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LIMASSOL RETAIL BANKING

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4103 Ayios Athanasios
Telephone: 25 430222
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3052 Limassol
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PAPHOS RETAIL BANKING

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8010 Paphos
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Polis Chrysochous
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AMMOCHOSTOS RETAIL BANKING

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5330 Ayia Napa
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