

Chairman's Statement

Dear shareholders,

In year 2008 we were faced with probably the most severe financial crisis since the end of 2nd World War, which undoubtedly has affected the economy and the banking system worldwide. The collapse of large financial institutions, followed by the crash of the stock markets, and the lack of market liquidity, has led to an international economic slowdown.

Although the Cyprus economic growth shows greater resistance to most of the European countries, the aggressive pricing policies especially on the deposits side, and the increased competition from local as well as from foreign European banks operating in Cyprus, has put into trial the profitability of banks and necessitated the review of their objectives and policies.

Our Bank, following the change in the shareholder structure in February 2008 and within the framework of its strategic plan for innovative and efficient redevelopment and growth, has created a new, contemporary and dynamic corporate identity and has been renamed to USB BANK PLC, responding to the new challenges of the continuously changing financial sector.

Within the framework of timely and effective management, the Bank administers, measures and closely monitors its exposure to different risks to ensure a constant value to its shareholders. During the year, the Bank has invested in low risk products and had limited exposure to interbank finance.

The Bank's strong liquidity for the year 2008, with the gross loans to deposits ratio being 80% and the capital adequacy ratio, as per Basel II requirements, being 11,60%, represent important strategic priorities to the Bank for its future development and profitability.

Despite the increased competition, both the deposits and the total advances showed an annual increase of 11% and 44% respectively. The customer deposits and other accounts amounted to €448,4 million in comparison to €403 million in December 2007, while the total advances amounted to €313,2 million in comparison to €217,9 million in December 2007. The further improvement of the quality of the advances portfolio remains a priority. The total provisions for impaired loans and advances amounted to €44,3 million in 2008 relating to €46 million in 2007 representing a decrease of 4%. The loans and advances for which interest is suspended were reduced by 8% in comparison to 2007, due to the efficient monitoring of credit portfolio.

Equity showed an increase of 5% and amounted to €30,9 million in 2008 relating to €29,4 million in 2007. An increase of 4% was achieved in the Bank's total assets, which amounted to €486,1 million in December 2008 in relation to €468,3 million in December 2007.

The net interest income amounted to €11,2 million in relation to €17,6 million in 2007. This decrease was mainly due to the lower compared to the prior year, recovery of interest previously suspended from the Bank's income, as well as to the continuous reductions of the minimum interest rate for the main refinancing operations of the European Central Bank (Repo Rate), during the last quarter of 2008.

Despite the increased competition for attracting deposits, the interest expense showed a marginal increase of 3% in relation to 2007 amounting to €15,4 million.

The total of other income for the year showed a decrease of 9% and reached €3,7 million in comparison to €4,1 million for the year 2007, mainly because of the loss of income from the Euro adoption as the official currency of Cyprus.

The total administration expenses showed a slight increase of 2% and reached €12,6 million, while the staff costs, which represent 66% of the above expenses, showed an increase of 9% due to the application of the employment terms of the collective labour agreement. The total of other operating expenses showed a decrease of 8% and reached €4,3 million for the year 2008 as a result of the cost reduction efforts.

As a result of the above and despite the unfavourable economic conditions, the Bank maintained its profitability, with the profit before provisions amounting to €2,3 million in comparison to €9,3 million in 2007 and the profit for the year to €0,6 million in relation to €7,8 million in 2007.

The year 2009 is expected to be a challenging year for the Cyprus economy and for the financial sector with reduced growth rates. The Management of the Bank takes all the necessary measures to counter act the negative implications of the financial crisis, with primary focus on the long term growth and disciplined expansion of the Bank's operations rather than on the short term profitability.

Chairman's Statement **(continued)**

In a period of economic slowdown, the right pricing, the efficient management of credit risk together with strong liquidity and capital adequacy are key focus areas and are crucial for the Bank's operation and long term prospects.

We continuously upgrade our systems and processes in order to provide quality service and products to our customers but also to improve the Bank's effectiveness.

The Bank's new name, noting our legacy, Universal Savings Bank, communicates a new dynamic era for the Bank. A Bank, which respects its heritage but at the same time glances at the future with drive and professionalism. The Bank is changing to focus more on client's needs and to play an active part in their lives, building relationships based on trust and respect.

The corner stone for the success of the Bank's strategic plan is its human capital that works with dedication for the achievement of the Bank's goals within the current financial environment.

Closing, I would like to thank the former Chairman, Mr. Takis Klerides, the former General Manager Mr. Spyros Episkopou and the members of the Board of Directors who resigned in 2008 for their contribution to the Board and for their services to the Bank. I would like to extend special thanks to our clients and shareholders for their trust and support. Our promise is to apply a reliable and balanced policy aiming always to the creation of additional value to our shareholders and clients.

Pavlos Savvides

Chairman