



Report on Corporate Governance for the year 2004

Part A

The establishment of corporate governance principles and the reinforcement of the supervisory role of the Board of Directors aims mainly at protecting investors through the adoption of transparency and timely information as well as guaranteeing the Board of Directors sufficient independence in decision-making.

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

Part B

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

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

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

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

The Board of Directors consists of the following members:

Symeon Matsis
(Chairman)

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

- Michalis Kleopas
(Secretary)* Born in 1949. He has a law degree from the University of Athens . He has been a member of the Board of Directors of the Bank since 1994 . For many years he has been a member of the Legal Council of the Republic, a member of the Disciplinary Board of the Cyprus Bar Association, and a member and an officer of the Cyprus Bar Association. For many years he has been a member of Sport Supreme Judicial Committee and appointed as President and member of various Legal, Disciplinary and Investigative Committees of Cyprus Sport Organisation, Cyprus Football Association, Cyprus Handball Association and Technical Committee of Reference. He is the Secretary and member of the Board of Directors of a number of Private and Public Companies.
- Michalis Michaelides* Born in 1964. Holds a Bachelor of Engineering in Mechanical Engineering from Kings College and an M.B.A. in Finance from the University of Scotland. Member of the Board of Directors of F.W.Woolworth & Co (Cyprus) Ltd and of L' Union Nationale Ltd. Executive Director of Dinos M. Michaelides (Consultants) Ltd since 1990. Businessman - Business Consultant.
- Iosif Vavlitis* Born in 1950. Managing Director of the Vavlitis group of companies . He is also a member of the Board of Directors of Universal Investments Ltd. He is the Chairman of the Union of Hotel Enterprises, Vice-president of the Association of Cyprus Tourist Enterprises, member of the 'Cyprus Employers and Industrialists Federation and member of various committees of the Cyprus Tourism Organization . He has been a member of the Board of Directors of Universal Bank since 1994. He is a Climate Control engineer and holds a degree in Business Administration. He is a member of the American Society of Heating Refrigerating and Air Conditioning Engineers and a member of the Association of Energy Engineers.
- Socrates Solomides* Born in 1955. He graduated from the London School of Economics where he obtained a B.Sc degree in Economics and a M.Sc in Accounting and Finance. He also holds a MBA degree from the Berkeley University of California. Initially he worked for the Economic Research Department of the Central Bank of Cyprus and then moved to CISCO (part of the Bank of Cyprus Group of companies) where he held the position of the General Manager from 1988 until 1999. For many years he has been a member of the Insurance Advisory Body. He is an executive director at a number of family companies and also holds directorship positions at various private and public companies within the financial sector. He has been a member of the Board of Directors of the Bank since 2004.
- Soteris Kallis* Born in 1945. Executive Director of G. Kallis (Manufacturers) Ltd and the Chairman of the Cyprus Clothing Industry. He is member of the Board of Directors of Universal Life Insurance Public Co. Ltd, member of the Executive Committee of the Board of Directors of the Cyprus Employers and Industrialists Federation. Member of the Board of Directors of Universal Bank since December 2004.

Frixos Soroccos

Born in 1945. He holds a B.Sc Degree in Economics from the London School of Economics and a M.Sc from Leicester University in Economics. He is the Chairman of the Examining Board for Professional Certification of Officers and Employees of Investment Services Firms and also an Acting Member of the Board of Directors of the European Investment Bank. Until recently he held the position of the Director of Finance at the Directorate of Finance and Investment of the Ministry of Finance. Served at the position of the Chairman of the Cyprus Securities & Exchange Committee and as a member of various semi-governmental boards. Member of the Board of Directors of Universal Bank since December 2004.

The Board of Directors held 14 meetings during 2004.

The Board of Directors deals with the following:

- Strategic policies and targets of the Bank
- Annual budget and business planning of the Bank
- Setting of time frames for capital investments
- Important capital expenses
- Supervision of extraordinary transactions
- Mergers, acquisitions and disposals of the company's assets
- Adoption and change of accounting standards
- Substantial transactions by the Company of any kind which is directly or indirectly in the interest of the Chairman, any member of the Board of Directors, the General Manager, the Secretary, the auditors or a shareholder that directly or indirectly controls more than 5% of the issued share capital or the voting rights of the company.
- Selection, appointment and termination of the company's General Manager
- Definition of the Directors' retirement policy
- Appointment of the company's Secretary

For better execution of their duties as members of the Board of Directors, upon approval by the Board of Directors, all members are entitled to receive independent professional advice, with all expenses covered by the company. All directors are aware of the Cyprus Stock Exchange Law and Regulations and Cyprus Company Law, especially the parts relating to their individual position on the Board.

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

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

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

Based on the company's articles of association, all Board members resign at the first annual general meeting. At the forthcoming annual general meetings, one third (1/3) of the appointed Board members will resign and will have the right to re-election at an annual general meeting. If the number of directors is less than 3 (three), or a multiple of

three, then the number of directors expected to resign will be the number closest to the one third. At the annual general meeting held on 16 June 2004 Messrs Iosif Vavlitis, Michalis Michaelides and Michalis Kleopas retired by rotation and were re-elected at the same meeting.

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

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

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

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

The remunerations of the Board members are proportional to their attendance at Board meetings and are approved by the shareholders at the Annual General Meeting. At the Annual General Meeting that took place on 16 June 2004 the shareholders approved an annual remuneration of C£1.000 for each Board member and a C£50 fee for each Board member attending a meeting. These remunerations are revised on a annual basis. Based on the articles of association, the Board members can claim reimbursement for all travelling expenses necessary to attend all Board meetings.

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

Audit Committee

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

During 2004, the Committee consisted of the following members:

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

The Committee met twice during 2004.

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

The duties of the Committee include the following:

- Recommendations to the Board with regards to the appointment, termination, and remuneration of the company's external auditors, the continuous supervision of the extend and effectiveness of the audit, and the independence and objectivity of the auditors.
- Submission to the Board of a report including:
 - (a) Audit and consultancy remunerations paid to the external auditors.
 - (b) The assignment of substantial consultancy duties assigned to the external auditors either based on their importance to the Company and its subsidiaries or based on the level of remuneration.
- Submission of suggestions and proposals by the Manager of Financial Services to the Board on the choice of accounting policies used in the Financial Statements.
- In co-operation with the Corporate Governance Compliance Officer, preparation and submission to the Board of the Corporate Governance Report for inclusion in the company's Annual Report.
- Recommendation to the Board of Directors with regards to compliance issues to the Code in connection with the recommended activities of Corporate Governance Compliance Officer.
- Review of company transactions in which the Chairman, member of the Board of Directors, the Secretary, the General Manager, the external auditors or any shareholder who holds directly or indirectly more than 5% of the issued share capital or the voting rights of the company, has a direct or indirect interest, in order to ensure that these transactions are carried out in the normal course of business and at arm's length.
- Recommendation to the Board on the appointment and/or termination of the Corporate Governance Compliance Officer.
- Evaluation of the adequacy and independence of the Internal Audit Management.
- Review of the terms of reference of the Committee and where necessary, submission to the Board of proposals for validation/approval.

Nominations Committee

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

The members of the Nominations Committee are:

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

The Nominations Committee met once during 2004.

The duties of the Committee include:

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

Remunerations Committee

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

The members of the Remunerations Committee are:

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

The Committee met once during 2004.

The Committee's duties include:

- Review of the employment contracts of the Executive directors.
- Submission to the Board recommendations concerning the framework and level of remuneration of the Executive Directors. The remunerations must be sufficient so as to attract and maintain the Directors' interest in the Company.
- Submission of the Directors remunerations to the shareholders for approval at annual general meetings.
- Comparison of the Directors remuneration policies with those of other companies taking into consideration the market conditions, competition, and the company's financial performance.

The Committee also considers the following:

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

Confirmations of the Board of Directors

System of Internal Controls

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

Accuracy and completeness of information

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

Transactions with members of the Board of Directors

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

Going Concern

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

Investor Relations Officer

All shareholders of the Bank are treated on an equal basis. The Bank, within the framework of providing the shareholders with timely information, announces its results every six months. Besides the Annual General Shareholders Meeting, the Bank organises annual Company Presentation where it presents both the audited financial results of the year and its strategic plans.

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

Corporate Governance Compliance Officer

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

Michalis Kleopas
Secretary

Nicosia, 24 March 2005