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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Universal Bank Ltd will be held at the Universal Group of Companies headquarters in Nicosia, on 18 June 2003 at 5:30 p.m., to transact the following business:

Agenda

- 1 Submission of the Financial Statements of the Bank for the year ended 31 December 2002 and the Directors' and Auditors' Reports.
- 2 Election of the members of the Board of Directors.
- 3 Fixing the remuneration of the Directors.
- 4 Re-appointment of the Auditors and authorisation of the Board of Directors to fix their remuneration.
- 5 Transaction of any other business, which can be carried out at an Annual General Meeting.

By order of the Board

M.P. Kleopas
Secretary

Nicosia, 27 March 2003.

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Notes:

A member entitled to attend and vote at the above meeting, is entitled to appoint a proxy to attend and vote on his behalf. The instrument appointing the proxy must either be received at P.O.Box 28510, 2080 Nicosia, or deposited at the registered office of the Bank, at 85 Digeni Akrita Avenue, Universal Tower, 6th floor, 1070 Nicosia, at least 48 hours before the time of the meeting.

Chairman's Statement



I present to you the Annual Report for the year 2002, putting forward a few comments about the results, developments and prospects of the Bank.

The Bank's turnover rose from C£11.085.053 for the year 2001 to C£11.205.478 for the year 2002, demonstrating a marginal increase. Net interest income decreased by 22% from C£4.192.912 in 2001 to C£3.276.597 in 2002. This decrease was expected due to the gradual decrease of the basic lending interest rate (Lombard rate) by the Central Bank of Cyprus from 7,0% to 5,5% in the second half of 2001, which had adversely affected interest income for 2002. Additionally, the continuing decline in the Cyprus Stock Exchange and the depression resulted in increasing the provision for bad and doubtful debts, as well as the interest suspended in the Income Statement.

Other income increased from C£1.001.662 in 2001 to C£1.324.305 in 2002, reporting an increase of 32%, due to the expansion in the trade services operations, credit cards and treasury departments. Despite of this, the net income was reduced to C£4.600.902 in comparison to C£5.194.574 in 2001.

Operating expenses rose from C£5.244.969 in 2001 to C£6.576.008 in 2002, showing an increase of 25%. This increase is mainly due to the increase in the operating cost of the staff retirement scheme, which among other things, reflects the provisions of the new employer Collective Agreement, as well as the continuous investment in information technology which contributed to the increase in depreciation. As a result, operating loss before provisions rose from C£50.395 in 2001 to C£1.975.106 for the year 2002.

For the second year in a row, the Bank has applied a strict procedure of providing for bad and doubtful debts, which was the result of the slowing down of the Cyprus economy and the continuing decline of the Cyprus Stock Exchange. As a result, provisions for bad and doubtful debts increased from C£4.579.693 for the year 2001 to C£5.520.744 for the year 2002.

With regards to the remaining financial indicators, deposits increased by 18%, loans and advances by 13%, and total assets reached C£179 million marking an 11% increase in comparison to 2001. These increases, although lower than previous years, are by far greater than the respective increases of the banking sector, indicating the drive and ability depicted by our Bank's staff members in attracting new customers and in improving the services provided to the existing customers.

As a result of the negative results as well as the increase in total assets, the capital adequacy ratio decreased to a level that, even though it still exceeds the minimum ratio set by the Central Bank of Cyprus, requires further improvement. The Board of Directors therefore decided to issue Tier 2 capital for a period of 5 years amounting to C£8.000.000.

Our Banking Centre network today consists of 18 Banking Centres throughout Cyprus.

The points collection scheme for the VISA credit card under the name 'Fun Points' was very successful in its first year of operation increasing both the number of credit cards issued and as a result, the commission income from credit card turnover. The Bank intends to launch a debit card and a 'Platinum' credit card.

It has always been our policy to design new products with the objective to differentiate profitably from the other banks. Our overall objective is to provide products and solutions to our customers that would help in the expansion of their operations. In the year 2003 we will announce new products for young professionals, students (University Plus), and minor accounts.

The implementation of Internet Banking began towards the end of 2002 and will be completed in the year 2003.

The recession in world economy has also affected the Cyprus economy by reducing development, and increasing budget deficit. The war in Iraq will very likely affect the tourist industry, with adverse effects on the Cyprus economy as a whole.

The above economic factors, and the reductions in the basic lending interest rate (Lombard rate) from the Central Bank of Cyprus will exercise pressure on the profitability of the local banks, and render the year 2003 as a year of concentration and restraint. The flexibility advantage of our technological infrastructure will help us contain operating expenses to the lowest possible level to enable investment in the development of more profitable sectors.

Based on the above and the continuous expansion of our operations, the results of the year 2003 are expected to be restrained.

Finally, I would like to thank our customers and our shareholders for their support and for believing in our vision. In addition, I wish to thank the members of the Board of Directors, our Auditors and Legal Advisers, as well as all other associates for their valuable services. Lastly, special thanks to the Executive and General Management and our personnel for the dedication and zeal with which they work for the speedy achievement of our targets and our vision.

George Syrimis
Chairman

Nicosia, 27 March 2003.



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Board of Directors and Executives

Board of Directors

George Syrimis, Chairman

Andreas Georghiou, Executive Vice Chairman

Elias Pantelides

Michalis Michaelides

Iosif Vavitis

Michalis P.Kleopas

Pavlos Photiades

Alexandra Ghalanou (*resigned on 31 December 2002*)

General Manager

Dr Spyros Episkopou

Financial Controller

Demetris Shacallis

Secretary

Michalis P. Kleopas

Registered Office

85 Digenis Akritas Avenue

Universal Tower, 6th Floor

1070 Nicosia

Legal Advisor

Dr Kypros Chrysostomides & Co.

Auditors

Ernst & Young

Chartered Accountants

Report of the Directors

The Board of Directors of Universal Bank Limited ("Bank") submit to the shareholders their report for the year ended 31 December 2002.

Activities

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

Results

The loss before provision for doubtful debts for the year amounts to C£1.975.106 compared to a loss of C£50.395 for the year 2001. After the provision for doubtful debts and taxation, the loss amounts to C£7.475.752 compared to C£4.326.053 for the previous year.

Share Capital

As noted in note 24 to the financial statements, during the year the issued share capital was increased by C£18.631 after an issue of 18.631 new shares at C£1 each to the personnel of the Universal Group of Companies.

Board of directors

The Board of Directors of the Bank consists of the members listed on page 5. All were members of the Board throughout the year 2002.

Mrs Alexandra Ghalanou resigned on 31 December 2002.

According to the Company's Articles of Association Messrs George Syrimis, Andreas Georghiou and Elias Pantelides retire by rotation and, being eligible, offer themselves for re-election.

Corporate Governance

The Board of Directors of the Bank did not implement the Code of Corporate Governance during 2002. The Code is under consideration.

Auditors

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

George Syrimis
Chairman

Nicosia, 27 March 2003.

Profit and loss Account

for the year ended 31 December 2002

	Note	2002 C£	2001 C£
Turnover		11.205.478	11.085.053
Interest income	2	9.802.033	10.018.792
Interest expense	3	(6.525.436)	(5.825.880)
Net interest income		3.276.597	4.192.912
Fee and commission income		917.556	699.584
Fee and commission expense		(79.140)	(64.599)
Foreign exchange income		181.130	150.156
Profit and other income from equity investments	4	1.560	8.339
Other income		303.199	208.182
Total operating income		4.600.902	5.194.574
Staff costs	5	(3.227.668)	(2.360.611)
Depreciation of property and equipment		(1.178.633)	(918.695)
Amortisation of prepaid fees	6	(508.748)	(506.076)
Loss on revaluation and sale of equity investments	4	(44.672)	(168.173)
Other operating expenses		(1.616.287)	(1.291.414)
Total operating expenses		(6.576.008)	(5.244.969)
Loss before provisions		(1.975.106)	(50.395)
Provisions for bad and doubtful debts	13	(5.520.744)	(4.579.693)
Loss before tax	7	(7.495.850)	(4.630.088)
Tax	8	20.098	304.035
Loss for the year		(7.475.752)	(4.326.053)
Loss per share (cents)	9	(49,4)	(28,7)

Balance Sheet

as at 31 December 2002

	Note	2002 C£	2001 C£
ASSETS			
Cash and balances with the Central Bank	10	26.062.917	25.025.791
Government and other debt securities	11	17.253.545	14.263.707
Placements with banks	12	8.817.019	6.724.487
Loans and advances to customers	13	118.654.217	104.808.207
Equity shares	14	125.495	196.235
Investments in subsidiary companies	15	1.156	495
Property and equipment	16	3.557.565	3.456.198
Intangible assets	17	866.977	1.117.866
Other assets	18	2.198.968	3.099.685
Prepayments and accrued income	19	1.752.855	2.531.970
Total assets		179.290.714	161.224.641
LIABILITIES			
Amounts due to banks	20	1.007.700	53.723
Customer deposits	21	158.062.323	134.198.987
Other liabilities	22	510.062	361.428
Accruals	23	3.468.041	2.884.724
Total liabilities		163.048.126	137.498.862
SHAREHOLDERS' FUNDS			
Share capital	24	15.128.151	15.109.520
Share premium		12.399.495	12.399.495
Revaluation reserve		(38.403)	(12.333)
General reserve		26.867	26.867
Accumulated losses		(11.273.522)	(3.797.770)
Total liabilities and shareholders' funds		179.290.714	161.224.641
CONTINGENT LIABILITIES AND COMMITMENTS			
Contingent liabilities	25	9.726.701	10.727.770
Commitments	25	9.199.223	13.551.534

George Syrimis - *Chairman*

Andreas Georghiou - *Executive Vice Chairman*

Dr Spyros Episkopou - *General Manager*

Demetris Shacallis - *Financial Controller*

Statement of changes in equity

for the year ended 31 December 2002

	Share capital	Share premium	Revaluation reserve	General reserve	Accumulated losses	Total shareholders' funds
	£	£	£	£	£	£
YEAR 2001						
1 January 2001	15,000,000	12,399,495	27,603	26,867	528,283	27,982,248
Loss after tax	-	-	-	-	(4,326,053)	(4,326,053)
Issue of shares	109,520	-	-	-	-	109,520
Revaluation of investments available-for-sale	-	-	(116,859)	-	-	(116,859)
Transfer to the Income Statement for the provision of impairment of available-for-sale investments	-	-	76,923	-	-	76,923
31 December 2001	15,109,520	12,399,495	(12,333)	26,867	(3,797,770)	23,725,779
YEAR 2002						
1 January 2002	15,109,520	12,399,495	(12,333)	26,867	(3,797,770)	23,725,779
Loss after tax	-	-	-	-	(7,475,752)	(7,475,752)
Issue of shares	18,631	-	-	-	-	18,631
Revaluation of investments available-for-sale	-	-	(70,742)	-	-	(70,742)
Transfer to the Income Statement for the provision of impairment of available-for-sale investments	-	-	44,672	-	-	44,672
31 December 2002	15,128,151	12,399,495	(38,403)	26,867	(11,273,522)	16,242,588

Cash Flow Statement

for the year ended 31 December 2002

	Note	2002 C£	2001 C£
Net cash flows from operating activities	29	5.222.421	15.538.340
Cash flows from investing activities			
Purchase of property and equipment		(1.072.723)	(1.158.980)
Proceeds from the disposal of property and equipment		950	200
Purchase of equity shares		-	(100.000)
Proceeds from the sale of equity shares		-	167.093
Formation of subsidiary company		(661)	-
Interest received from Government and other debt securities		1.005.504	968.803
Dividend income from equity shares		1.560	3.595
Net cash flows used in investing activities		(65.370)	(119.289)
Cash flows from financing activities			
Proceeds from the issue of share capital		18.631	109.520
Repayment of Government loan		-	(150.000)
Interest paid on Government loan		-	(5.300)
Repayment of liabilities with other banks		-	(8.500.000)
Proceeds from borrowed funds		953.977	53.723
Net cash flows from/(used in) financing activities		972.608	(8.492.057)
Net increase in cash and cash equivalent for the year	30	6.129.659	6.926.994

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Summary of significant accounting policies

for the year ended 31 December 2002

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

Basis of preparation

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

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

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

Turnover

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

Interest income and interest expense

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

Interest income from loans and advances that are considered doubtful and for which specific provision has been made, is not credited to income but is taken to an interest in suspense account and is only released to the Income Statement when its collectability is no longer subject to significant doubt.

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

Fee and commission income

Fee and commission income is recognized on the basis of the completion of the transaction so as to correspond to the cost of providing the service.

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

Foreign currency translation

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

Operating lease expenses

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

Equity shares and debt securities

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

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

Summary of significant accounting policies

for the year ended 31 December 2002

Available-for-sale investments are subsequently remeasured at fair value. The fair value of traded securities is based on quoted prices whereas fair values of unquoted securities are estimated using valuation models and ratios, refined to reflect the particular circumstances of the issuer. Fluctuations in the values of investments available-for-sale are recognised in the revaluation reserve. When the securities are sold or impaired the related gain or loss included in the revaluation reserve is transferred to the Income Statement.

Investments held-to-maturity are carried at amortised cost using the effective yield method, less any provisions for impairment.

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

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

Dividends receivable from equity shares are recorded in dividend income when received.

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

Loans and advances

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

Loans and advances are stated net of specific and general provisions for doubtful debts, which may arise during the ordinary course of business.

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

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

When a loan has been identified as doubtful, its carrying amount is reduced to its estimated recoverable amount, being the present value of its expected future cash flows, including recoverable amounts from guarantees and collateral, discounted at the original effective interest rate of the loan.

The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

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

In addition, general provisions are made to provide for losses which have not been specifically identified but are known to exist in any portfolio of advances of financial institutions. The level of general provisions is made on the basis of past experience, current economic conditions, the customers' creditworthiness and other relevant factors.

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

Summary of significant accounting policies

for the year ended 31 December 2002

Property, equipment and computer software

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

Leasehold property is stated at cost less accumulated depreciation.

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

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

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

The annual depreciation rates for the year were as follows:

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

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

Investments in subsidiary companies

The investments in subsidiary companies are shown at cost.

Cash and cash equivalents

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

Retirement benefits

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

The cost of providing benefits is part of staff costs and is estimated annually using the projected unit credit actuarial valuation method. According to this method, the cost of providing benefits is debited to the Income Statement over the working lives of the employees participating in the scheme according to the guidance and provisions of independent professional actuaries that carry out actuarial reports at least every three years. The calculation of the cost of providing benefits for this scheme is based on the present value of the expected future outflow using as discount rate the average interest rate of the Government debt securities with similar duration as the duration of the liability.

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

Summary of significant accounting policies

for the year ended 31 December 2002

Derivatives

Derivative financial instruments are initially recognised in the Balance Sheet at cost (including transaction costs) and are subsequently remeasured at their fair value. Fair values are estimated using quoted market prices, discounted cash flow models and options pricing models as appropriate.

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

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

Taxation

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

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

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

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

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.



Notes to the financial statements

for the year ended 31 December 2002

1. Corporate information

The Financial Statements of Universal Bank Limited for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the Board of Directors on 27 March 2003.

The Bank was incorporated in Cyprus, and is a public company in accordance with the provisions of the Companies Act and the Cyprus Stock Exchange Law and Regulations. The Bank is not considered to be a public company for the purposes of the Income Tax Law.

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

2. Interest income

	2002 C£	2001 C£
Loans and advances to customers	7.724.491	8.149.582
Placements with other banks	1.072.038	900.407
Government and other debt securities	1.005.504	968.803
	9.802.033	10.018.792

3. Interest expense

	2002 C£	2001 C£
Customer deposit accounts	6.510.417	5.389.424
Deposits by banks	15.019	431.156
Government loan	-	5.300
	6.525.436	5.825.880

4. Profit/(loss) and other income from equity investments

	2002 C£	2001 C£
Profit from the sale of equity investments	-	4.744
Dividends from equity investments	1.560	3.595
	1.560	8.339

	2002 C£	2001 C£
Impairment provision		
Transfer from Revaluation Reserve	44.672	76.923
Loss from the sale of investment	-	91.250
	44.672	168.173

5. Staff costs

	2002 C£	2001 C£
Personnel salaries and wages	2.051.802	1.866.137
Social insurance and other costs	237.382	207.245
Retirement benefit costs	938.484	287.229
	3.227.668	2.360.611

The average number of persons employed by the Bank during the year 2002 was 177 (2001: 166).

Notes to the financial statements

for the year ended 31 December 2002

Retirement benefits - Defined Benefits Scheme

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

The cost of providing benefits is part of staff costs and is estimated annually using the projected unit credit actuarial valuation method. According to this method, the cost of providing benefits is debited to the Income Statement over the working lives of the employees participating in the scheme according to the guidance and provisions of independent professional actuaries that carry out actuarial reports at least every three years. The calculation of the cost of providing benefits for this scheme is based on the present value of the expected future outflow using as discount rate the average interest rate of the Government debt securities with similar duration as the duration of the liability.

According to the actuarial valuation conducted for the year ended 31 December 2002, the amounts appearing in the Balance Sheet of the Bank are as follows:

	2002 C£	2001 C£
Present value of the obligation	(1.664.222)	(712.931)
Fair value of plan assets	514.260	604.879
Deficit	(1.149.962)	(108.052)
Unrecognised actuarial loss	2.825.363	2.688.439
Unrecognised transition obligation	2.086	40.479
Net prepayment recognised in the Balance Sheet (<i>note 18</i>)	1.677.487	2.620.866

The amounts recognised in the Income Statement in respect of the Defined Benefits Scheme are as follows:

	2002 C£	2001 C£
Current service cost	395.580	234.853
Interest cost	40.856	20.686
Expected return on plan assets	(45.830)	(89.250)
Actuarial loss recognised in the year	144.867	107.447
Amortisation of transition obligation	13.493	13.493
Past service costs	389.518	-
Expense recognised in the Income Statement	938.484	287.229

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

	2002 C£	2001 C£
Balance of prepayment at 1 January	2.620.866	2.849.372
Expense recognised in the Income Statement	(938.484)	(287.229)
Employer funding of the retirement fund	10.976	58.723
Prior years' adjustments	(15.871)	-
Net prepayment at 31 December	1.677.487	2.620.866

The principal actuarial assumptions used for the actuarial valuation were:

	2002 %	2001 %
Discount rate	5,6	6,0
Expected return of plan assets	7,0	8,0
Future salary increase	9,0	9,0
Future price inflation	3,0	3,0

Notes to the financial statements

for the year ended 31 December 2002

6. Amortisation of prepaid fees

	2002 C£	2001 C£
Charge for the year	508.748	506.076

The charge for the year is mainly related to the 3-year amortisation period of the premium paid for the option for the creation of the Index Linked Deposit product.

7. Loss before tax

Loss before tax is stated after charging:

	2002 C£	2001 C£
Directors' emoluments	25.839	22.684
Auditors' remuneration	15.000	11.000
Depreciation of property and equipment	1.178.633	918.695
Loss from the sale and write-offs of property and equipment	42.664	760
Operating lease rentals for immovable property	303.803	258.651

8. Tax

	2002 C£	2001 C£
Corporation tax on profit for the year (20% - 25%)	-	-
Special contribution to the defence fund (3%-4%)	-	-
Tax and interest for previous years	(717)	90.907
Deferred tax	20.815	213.128
	20.098	304.035

Analysis of tax (charge)/credit:

	2002 C£	2001 C£
Loss before tax	(7.495.850)	(4.630.088)
Unused tax losses - estimated recoverable amount	101.938	225.000
Temporary differences between wear and tear allowances and depreciation and general provision for bad debts	(81.123)	(11.872)
	20.815	213.128
Prior year taxes and interest	(717)	90.907
	20.098	304.035

At 31 December 2002 the Bank had tax losses carried forward amounting to C£12.167.665 (2001: C£5.289.949) part of which is expected to be set off against future tax liabilities over the next five years.

Notes to the financial statements

for the year ended 31 December 2002

9. Loss per share

	2002 C£	2001 C£
Loss attributable to shareholders	(7,475.752)	(4,326.053)
Weighted average number of shares in issue during the year	15,123,608	15,073,355
Loss per share (cents)	(49,4)	(28,7)

The weighted average number of shares shown above for the year 2001 has been adjusted to reflect the new issue of shares to the staff of the Universal Group of Companies that took place on 31 March 2002 (*note 24*).

10. Cash and balances with the Central Bank

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to C£11,383,013 (2001: C£9,069,756).

11. Government and other debt securities

	2002 C£	2001 C£
Government and other debt securities held-to-maturity:		
Cyprus Government	16,453,545	13,463,707
Cyprus listed companies	800,000	800,000
	17,253,545	14,263,707
Repayable:		
- within one year	3,146,803	197,052
- between two and five years	13,306,742	13,266,655
- over five years	800,000	800,000
	17,253,545	14,263,707
Listed on the Cyprus Stock Exchange	17,253,545	14,263,707
Movement for the year		
1 January	14,263,707	14,303,285
Acquisitions	3,032,089	-
Redemptions	(50,248)	(50,248)
Amortisation of premium	7,997	10,670
31 December	17,253,545	14,263,707

12. Placements with banks

	2002 C£	2001 C£
Repayable:		
- on demand	4,639,937	2,038,602
- within three months	4,177,082	4,685,885
	8,817,019	6,724,487

13. Loans and advances to customers

	2002 C£	2001 C£
Loans and other advances	132,728,807	110,793,825
Provision for bad and doubtful debts	(14,074,590)	(5,985,618)
	118,654,217	104,808,207

Notes to the financial statements

for the year ended 31 December 2002

	2002 C£	2001 C£
Loans and advances are repayable:		
- on demand	62.628.919	56.172.336
- within three months	2.360.410	1.985.005
- between three months and one year	7.524.733	3.333.243
- between one and five years	27.151.124	24.380.784
- over five years	33.063.621	24.922.457
	132.728.807	110.793.825

The spread of loans and advances to the various industry sectors are:

	2002 C£	2001 C£
Trade and industry	13.275.080	9.754.377
Tourism	14.003.545	12.571.168
Property and construction	33.033.267	26.452.565
Personal and professional	68.210.718	55.885.956
Other sectors	4.206.197	6.129.759
	132.728.807	110.793.825

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

	Universal Life Insurance Co. Ltd C£	Universal Investments Ltd C£
Credit limits	-	1.800.000
Lending interest rates as at 31.12.2002	-	Basic plus 1%

Transactions:

Interest receivable and other commissions	1.327	95.896
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Bank balances as at 31.12.2002:

Debit bank balances	-	1.003.023
Credit bank balances (note 21)	10.702.272	-

Provision for bad and doubtful debts:

Year 2002

	Specific C£	Interest in suspense C£	General C£	Total C£
1 January	4.909.840	870.778	205.000	5.985.618
Debts recovered	(74.684)	-	-	(74.684)
Charge for the year	5.475.428	-	120.000	5.595.428
Net charge for the year	5.400.744	-	120.000	5.520.744
Suspended interest for the year	-	2.568.228	-	2.568.228
Total	5.400.744	2.568.228	120.000	8.088.972
31 December	10.310.584	3.439.006	325.000	14.074.590

The increase in the specific provision for bad and doubtful debts is due to the deterioration of the financial position of customers who were adversely affected by the substantial fall in the share prices of companies listed at the Cyprus Stock Exchange, and the continued economic depression.

Notes to the financial statements

for the year ended 31 December 2002

Year 2001

	Specific	Interest in suspense	General	Total
	C£	C£	C£	C£
1 January	435.147	209.878	100.000	745.025
Debts recovered	(3.589)	-	-	(3.589)
Charge for the year	4.478.282	-	105.000	4.583.282
Net charge for the year	4.474.693	-	105.000	4.579.693
Suspended interest for the year	-	660.900	-	660.900
Total	4.474.693	660.900	105.000	5.240.593
31 December	4.909.840	870.778	205.000	5.985.618

The loans and advances for which specific provision is made and interest is suspended amounted to C£34.454.490 (2001: C£10.314.660).

Advances and other accounts before 15 August 1974

These consist of:

	2002 C£	2001 C£
Loans to third parties	578.028	610.806
Provisions for advances and other loan accounts before 15 August 1974	(578.028)	(610.806)
	-	-

14. Equity shares

	2002 C£	2001 C£
Available-for-sale		
Listed on the Cyprus Stock Exchange	125.495	96.235
Unlisted	-	100.000
	125.495	196.235

The reduction reported in the unlisted equity investments category in 2002 is due to the listing of K. Athienitis Developers Limited on the Cyprus Stock Exchange during 2002.

15. Investments in subsidiary companies

	2002 C£	2001 C£
Universal Leasing and Factoring Limited	495	495
Imagetech Limited	661	-
	1.156	495

On 9 May 2002 Imagetech Limited was established to provide management services for client companies of the Bank that face liquidity problems. The above companies, which were dormant to date, are wholly owned subsidiaries of Universal Bank Ltd and are shown at cost.

Notes to the financial statements

for the year ended 31 December 2002

16. Property and equipment

	Immovable property 2002 C£	Equipment 2002 C£	Total 2002 C£	Total 2001 C£
Cost				
1 January	2.136.702	2.599.865	4.736.567	4.032.845
Additions	453.260	324.627	777.887	705.769
Disposals/write-offs	(49.091)	(100.394)	(149.485)	(2.047)
31 December	2.540.871	2.824.098	5.364.969	4.736.567
Depreciation				
1 January	320.956	959.413	1.280.369	784.220
Charge for the year	175.042	465.851	640.893	497.234
Disposals/write offs	(25.811)	(88.047)	(113.858)	(1.085)
31 December	470.187	1.337.217	1.807.404	1.280.369
Net book value	2.070.684	1.486.881	3.557.565	3.456.198

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

17. Intangible assets

	Goodwill on leasehold property 2002 C£	Computer Software 2002 C£	Total 2002 C£	Total 2001 C£
Cost				
1 January	50.000	2.131.967	2.181.967	1.728.756
Additions	-	294.836	294.836	453.211
Disposals	-	(109.587)	(109.587)	-
31 December	50.000	2.317.216	2.367.216	2.181.967
Depreciation				
1 January	1.190	1.062.911	1.064.101	642.640
Charge for the year	7.140	530.600	537.740	421.461
Disposals	-	(101.602)	(101.602)	-
31 December	8.330	1.491.909	1.500.239	1.064.101
Net book value	41.670	825.307	866.977	1.117.866

18. Other assets

	2002 C£	2001 C£
Other debtors	345.066	379.349
Corporation tax receivable	176.415	99.470
Net prepayment to the retirement fund (<i>note 5</i>)	1.677.487	2.620.866
	2.198.968	3.099.685

Other debtors include an amount of C£100.000 (2001: C£100.000), which is receivable from a related company of the Universal Group of Companies, and is a result of the transfer of the Bank's investment in Spidertrade Limited to the that company in 2001.

19. Prepayments and accrued income

	2002 C£	2001 C£
Accrued interest receivable	1.556.219	1.818.589
Prepaid fees	196.636	713.381
	1.752.855	2.531.970

Notes to the financial statements

for the year ended 31 December 2002

Prepaid fees include the following: (a) the cost for membership fees to Visa International which is amortised over 10 years, and (b) the cost associated with the acquisition of the option for the creation of the Index linked deposit/investment product whose performance is linked to that of the indices of foreign Stock Exchanges and is amortised over a period of 3 years from May 2000.

20. Amounts due to banks

The amount of C£1.007.700 (2001: C£53.723) is payable on demand.

21. Customer deposits

	2002 C£	2001 C£
Deposits of parent company	10.702.272	9.459.786
Deposits of fellow subsidiary companies	679.705	1.375.963
Other customer deposits	146.680.346	123.363.238
	158.062.323	134.198.987

	2002 C£	2001 C£
Repayable:		
- on demand	12.376.465	14.303.416
- within three months	57.991.514	53.411.430
- between three months and one year	87.694.344	57.131.271
- between one and five years	-	9.352.870
	158.062.323	134.198.987

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

The following amounts represent interest paid on the balances of the parent and fellow subsidiary companies. Interest is calculated daily at 4,5% (2001: 5,0%) on credit balances.

	2002 C£	2001 C£
Parent company-Universal Life Insurance Company Ltd	352.708	183.936
Fellow subsidiary - Universal Life (ΕΛΛΑΣ) A.A.E.Z	9.732	10.709
Fellow subsidiary - Universal Financial Services Ltd	25.512	21.024
Fellow subsidiary - Universal Investments Ltd (note 13)	-	-
Fellow subsidiary - Universal Nominees Ltd	8	21
Fellow subsidiary - Universal Securities Ltd	1.581	777

The Bank is entitled to legal protection according to the Debtors Relief (Temporary provisions) Laws of 1979 to 1995, as a displaced and affected legal entity. However, on 15 December 1998 the Bank released all pre-15 August frozen 1974 deposits amounting to C£420.846 in favour of the Bank's depositors. The equivalent amount as at 31 December 2002 amounted to C£106.800 (2001: C£116.481). Due to the fact that the above amount consists of a large number of small deposit accounts and the likelihood of demand is minimal, on 24 December 2000 the Board of Directors decided to transfer the amount of C£137.130 to the Income Statement and in case of demand of these deposits to debit the Income Statement accordingly. During the year 2002 the Bank repaid pre-1974 frozen deposit amounting to C£9.681 by debiting the Income Statement.

Notes to the financial statements

for the year ended 31 December 2002

22. Other liabilities

	2002 C£	2001 C£
Sundry creditors	490.925	252.057
Deferred tax	-	20.815
Other liabilities	19.137	88.556
	510.062	361.428

The deferred tax balance is represented by:

	2002 C£	2001 C£
Temporary differences between wear and tear allowances and depreciation	81.123	303.215
General provision for bad and doubtful debts	(32.500)	(57.400)
Tax losses carried forward	(48.623)	(225.000)
	-	20.815

23. Accruals

	2002 C£	2001 C£
Bills payable	675.634	551.387
Accrued interest	2.362.825	2.039.487
Other accruals	429.582	293.850
	3.468.041	2.884.724

24. Share Capital

	2002 No. of shares	2002 C£	2001 No. of shares	2001 C£
AUTHORISED				
Shares £1 each	50.000.000	50.000.000	50.000.000	50.000.000
ISSUED				
Fully paid shares				
Balance at 1 January	15.109.520	15.109.520	15.000.000	15.000.000
Issued during the year	18.631	18.631	109.520	109.520
Balance 31 December	15.128.151	15.128.151	15.109.520	15.109.520
Total issued share capital	15.128.151	15.128.151	15.109.520	15.109.520

Following an Extraordinary General Meeting decision dated 21 June 2000, the Board of Directors was authorised to issue and allot new shares of nominal value C£1 each to the members of staff of the Universal Group of Companies on such terms and conditions that the issue would constitute a motivational tool for their productivity and loyalty to the Group. The second issue took place on 31 March 2002 with the issue of 18.631 new shares.

Notes to the financial statements

for the year ended 31 December 2002

25. Contingent liabilities and commitments

	2002 C£	2001 C£
<i>Contingent liabilities</i>		
Acceptances and endorsements	124.376	23.843
Guarantees	9.602.325	10.703.927
	9.726.701	10.727.770
<i>Commitments</i>		
Documentary credits	1.117.236	296.152
Undrawn formal standby facilities, credit lines and other commitments to lend	8.081.987	13.255.382
	9.199.223	13.551.534

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

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

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

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

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

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

Capital Commitments

Commitments for contracted capital expenditure for the Bank amount to C£518.984 (2001: C£1.992.830).

Pre-15 August 1974 frozen deposits

The Bank has the obligation to repay the pre-15 August 1974 frozen deposits whose balance as at 31 December 2002 amounted to £106.800 (2001: £116.481).

Litigation

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

Notes to the financial statements

for the year ended 31 December 2002

26. Operating Leases

Commitments under operating leases are as follows:

	2002 C£	2001 C£
Operating leases which expire:		
- within one year	303.803	258.562
- between two and five years	327.829	473.559
- after five years	-	24.000
	<u>631.632</u>	<u>756.121</u>

The Bank's commitments under operating leases depend on the provisions of the relevant operating lease agreements. These agreements contain provisions for future adjustments on the lease amounts. In addition to the above, on the expiration of the lease period the Bank has the right for renewal.

27. Risk management

Credit risk

Credit risk is the risk of a person or an organisation defaulting in the repayment of their obligations to the Bank in respect of the credit facilities granted to them by the Bank. The Bank minimises this risk by spreading its loan portfolio over all economic sectors and by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted. The credit risk of connected accounts is monitored on a unified basis. In addition, the effective credit appraisal procedure for examining applications for credit facilities followed by the Bank adopts as the main criteria the repayment capability and obtaining sufficient collateral and the continuous monitoring of credit accounts and the timely preventive action further minimise to a large extent, the exposure to credit risk. In addition, the Bank maintains sufficient provisions for potential losses from doubtful debts, the level of which is evaluated by the Central Bank of Cyprus in its annual inspection.

Notes to the financial statements

for the year ended 31 December 2002

Risk Management (continued)

Interest rate risk - 2002

Analysis of assets and liabilities as at 31 December 2002, according to their repricing or maturity date:

	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	Non-interest bearing	Total
	€	€	€	€	€	€	€
Assets							
Cash and balances with the Central Bank	21.651.542	546.836	2.666.914	-	-	1.197.625	26.062.917
Government and other debt securities	3.146.803	-	-	13.306.742	800.000	-	17.253.545
Placements with banks	8.817.019	-	-	-	-	-	8.817.019
Loans and advances to customers	118.426.973	-	-	227.244	-	-	118.654.217
Equity shares	-	-	-	-	-	125.495	125.495
Investments in subsidiary companies	-	-	-	-	-	1.156	1.156
Property, equipment and intangible assets	-	-	-	-	-	4.424.542	4.424.542
Other assets	-	-	-	-	-	2.198.968	2.198.968
Prepayments and accrued income	-	-	-	-	-	1.752.855	1.752.855
Total Assets	152.042.337	546.836	2.666.914	13.533.986	800.000	9.700.641	179.290.714
Liabilities							
Amounts due to banks	1.007.700	-	-	-	-	-	1.007.700
Customer deposits	43.539.166	26.828.813	78.458.326	-	-	9.236.018	158.062.323
Other liabilities	-	-	-	-	-	510.062	510.062
Accruals	675.634	-	-	-	-	2.792.407	3.468.041
Total liabilities	45.222.500	26.828.813	78.458.326	-	-	12.538.487	163.048.126
Net position	106.819.837	(26.281.977)	(75.791.412)	13.533.986	800.000	(2.837.846)	16.242.588

Interest rate risk is the Bank's exposure to adverse movements in the interest rates. It arises as a result of timing differences on the repricing of assets and liabilities. Interest rate movements are closely monitored by the Bank's management.

Notes to the financial statements

for the year ended 31 December 2002

Risk Management *(continued)*

Interest rate risk - 2001

Analysis of assets and liabilities as at 31 December 2001, according to their repricing or maturity date:

	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	Non-interest bearing	Total
	€	€	€	€	€	€	€
Assets							
Cash and balances with the Central Bank	21.002.226	1.300.390	1.977.970	-	-	745.205	25.025.791
Government and other debt securities	-	-	197.052	13.266.655	800.000	-	14.263.707
Placements with banks	6.724.487	-	-	-	-	-	6.724.487
Loans and advances to customers	103.095.552	-	1.042.461	670.194	-	-	104.808.207
Equity shares	-	-	-	-	-	196.235	196.235
Investments in subsidiary companies	-	-	-	-	-	495	495
Property, equipment and intangible assets	-	-	-	-	-	4.574.064	4.574.064
Other assets	-	-	-	-	-	3.099.685	3.099.685
Prepayments and accrued income	-	-	-	-	-	2.531.970	2.531.970
Total Assets	130.822.265	1.300.390	3.217.483	13.936.849	800.000	11.147.654	161.224.641
Liabilities							
Amounts due to banks	53.723	-	-	-	-	-	53.723
Customer deposits	41.619.876	26.094.970	57.131.271	116.852	-	9.236.018	134.198.987
Other liabilities	-	-	-	-	-	361.428	361.428
Accruals	551.387	-	-	-	-	2.333.337	2.884.724
Total liabilities	42.224.986	26.094.970	57.131.271	116.852	-	11.930.783	137.498.862
Net position	88.597.279	(24.794.580)	(53.913.788)	13.819.997	800.000	(783.129)	23.725.779

Notes to the financial statements

for the year ended 31 December 2002

Risk Management (continued)

Currency risk - 2002

Analysis of assets and liabilities as at 31 December 2002 by currency:

	CYP	EURO	USD	GBP	Other	Total
	€	€	€	€	€	€
Assets						
Cash and balances with the Central Bank	12,574,527	2,245,139	6,479,430	4,751,106	12,715	26,062,917
Government and other debt securities	17,253,545	-	-	-	-	17,253,545
Placements with banks	7,275,338	103,341	1,223,721	185,154	29,465	8,817,019
Loans and advances to customers	118,629,217	-	25,000	-	-	118,654,217
Equity shares	125,495	-	-	-	-	125,495
Investments in subsidiary companies	1,156	-	-	-	-	1,156
Property, equipment and intangible assets	4,424,542	-	-	-	-	4,424,542
Other assets	2,198,968	-	-	-	-	2,198,968
Prepayments and accrued income	1,657,159	-	95,696	-	-	1,752,855
Total Assets	164,139,947	2,348,480	7,823,847	4,936,260	42,180	179,290,714
Liabilities						
Amounts due to banks	404,521	603,179	-	-	-	1,007,700
Customer deposits	143,026,595	2,323,392	7,804,251	4,907,975	110	158,062,323
Other liabilities	510,062	-	-	-	-	510,062
Accruals	3,468,041	-	-	-	-	3,468,041
Total liabilities	147,409,219	2,926,571	7,804,251	4,907,975	110	163,048,126
Net position	16,730,728	(578,091)	19,596	28,285	42,070	16,242,588

This risk is derived from adverse movements in the level of interest rates, in the rates of exchange between currencies and the current prices of securities and other financial contracts. Accordingly, these movements may affect the Bank's profitability.

Currency risk results from the fact that the Bank maintains deposits in foreign currencies. In order to cover this risk the Bank maintains the equivalent foreign currency position, as deposits, with other banks. The net 'open' position in any currency is monitored on a continuous basis by the management of the Bank.

Notes to the financial statements

for the year ended 31 December 2002

Risk Management (continued)

Currency risk - 2001

Analysis of assets and liabilities as at 31 December 2001 by currency:

	CYP	EURO	USD	GBP	Other	Total
	€	€	€	€	€	€
Assets						
Cash and balances with the Central Bank	9,416,869	692,400	11,081,967	3,385,139	449,416	25,025,791
Government and other debt securities	14,263,707	-	-	-	-	14,263,707
Placements with banks	4,759,382	210,341	1,417,226	292,330	45,208	6,724,487
Loans and advances to customers	104,788,702	-	19,505	-	-	104,808,207
Equity shares	196,235	-	-	-	-	196,235
Investments in subsidiary companies	495	-	-	-	-	495
Property, equipment and intangible assets	4,574,064	-	-	-	-	4,574,064
Other assets	3,099,685	-	-	-	-	3,099,685
Prepayments and accrued income	2,531,970	-	-	-	-	2,531,970
Total Assets	143,631,109	902,741	12,518,698	3,677,469	494,624	161,224,641
Liabilities						
Amounts due to banks	53,723	-	-	-	-	53,723
Customer deposits	117,450,332	103,462	12,426,983	3,769,643	448,567	134,198,987
Other liabilities	361,428	-	-	-	-	361,428
Accruals	2,884,724	-	-	-	-	2,884,724
Total liabilities	120,750,207	103,462	12,426,983	3,769,643	448,567	137,498,862
Net position	22,880,902	799,279	91,715	(92,174)	46,057	23,725,779

Notes to the financial statements

for the year ended 31 December 2002

Risk Management (continued)

Liquidity Risk - 2002

Analysis of assets and liabilities as at 31 December 2002 according to their maturity:

	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
	€	€	€	€	€	€
Assets						
Cash and balances with the Central Bank	11.466.154	546.836	2.666.914	-	11.383.013	26.062.917
Government and other debt securities	3.146.803	-	-	13.306.742	800.000	17.253.545
Placements with banks	5.220.196	3.596.823	-	-	-	8.817.019
Loans and advances to customers	48.554.329	2.360.410	7.524.733	27.151.124	33.063.621	118.654.217
Equity shares	125.495	-	-	-	-	125.495
Investments in subsidiary companies	-	-	-	-	1.156	1.156
Property, equipment and intangible assets	-	-	-	-	4.424.542	4.424.542
Other assets	245.727	-	100.000	1.853.241	-	2.198.968
Prepayments and accrued income	120.046	399.031	1.233.778	-	-	1.752.855
Total Assets	68.878.750	6.903.100	11.525.425	42.311.107	49.672.332	179.290.714
Liabilities						
Amounts due to banks	1.007.700	-	-	-	-	1.007.700
Customer deposit	12.376.465	57.991.514	87.694.344	-	-	158.062.323
Other liabilities	317.213	-	192.849	-	-	510.062
Accruals	1.290.228	866.897	1.310.916	-	-	3.468.041
Total liabilities	14.991.606	58.858.411	89.198.109	-	-	163.048.126
Net position	53.887.144	(51.955.311)	(77.672.684)	42.311.107	49.672.332	16.242.588

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

Notes to the financial statements

for the year ended 31 December 2002

Risk Management *(continued)*

Liquidity Risk - 2001

Analysis of assets and liabilities as at 31 December 2001 according to their maturity:

	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
	€	€	€	€	€	€
Assets						
Cash and balances with the Central Bank	12.677.675	1.300.390	1.977.970	-	9.069.756	25.025.791
Government and other debt securities	197.052	-	-	13.266.655	800.000	14.263.707
Placements with banks	2.038.602	4.685.885	-	-	-	6.724.487
Loans and advances to customers	50.186.718	1.985.005	3.333.243	24.380.784	24.922.457	104.808.207
Equity shares	196.235	-	-	-	-	196.235
Investments in subsidiary companies	-	-	-	-	495	495
Property, equipment and intangible assets	-	-	-	-	4.574.064	4.574.064
Other assets	279.349	-	100.000	2.720.336	-	3.099.685
Prepayments and accrued income	150.600	683.467	1.496.046	201.857	-	2.531.970
Total Assets	65.726.231	8.654.747	6.907.259	40.569.632	39.366.772	161.224.641
Liabilities						
Amounts due to banks	53.723	-	-	-	-	53.723
Customer deposits	41.619.876	26.094.970	57.131.271	116.852	9.236.018	134.198.987
Other liabilities	340.613	-	-	-	20.815	361.428
Accruals	2.039.966	749.075	95.683	-	-	2.884.724
Total liabilities	44.054.178	26.844.045	57.226.954	116.852	9.256.833	137.498.862
Net position	21.672.053	(18.189.298)	(50.319.695)	40.452.780	30.109.939	23.725.779

Notes to the financial statements

for the year ended 31 December 2002

28. Derivatives

At 31 December 2002 and 2001 the Bank held an Equity Index Option in order to hedge an Index linked deposit/investment product from positive fluctuations in the indices the product is linked with. The nominal value of the option amounted to 17,300,000 euro. The fair value of the option estimated on the basis of current market prices at the year-end, amounted to zero due to the fall in the index. There were no other derivatives as at 31 December 2002 and 2001.

29. Net cash flows from operating activities

	2002 C£	2001 C£
Loss before tax	(7,495,850)	(4,630,088)
Provision for bad and doubtful debts	5,520,744	4,579,693
Depreciation of property and equipment	1,178,633	918,695
Amortisation of prepaid expenses	508,748	506,076
Loss on the sale and write off of property and equipment	42,664	760
Dividend income	(1,560)	(3,595)
Profit from the disposal of equity shares	-	(4,744)
Interest on Government and other debt securities	(1,005,504)	(968,803)
Interest on Government loan	-	5,300
Loss on the disposal of investment in a related company	-	91,250
Decrease in the market value of equity investments below cost	44,672	76,923
	(1,207,453)	571,467
Decrease in Government and other debt securities held-to-maturity	10,162	39,578
Increase in loans and advances to customers	(19,366,755)	(36,971,357)
Decrease/(increase) in other assets, prepayments and accrued income	1,212,010	(1,186,886)
Increase in customer deposits	23,863,336	51,566,163
Increase in other liabilities	148,634	167,155
Increase in accruals	583,317	1,416,103
	5,243,251	15,602,223
Taxes paid	(20,830)	(63,883)
	5,222,421	15,538,340

30. Cash and cash equivalents

	2002 C£	2001 C£
Deposits with the Central Bank of Cyprus	26,062,917	25,025,790
Government and other debt securities	3,000,000	-
Cash and deposits with other banks repayable within three months	8,817,019	6,724,487
	37,879,936	31,750,277
	2002 C£	2001 C£
Balance at 1 January	31,750,277	39,126,568
Government and other debt securities held-to-maturity	-	(14,303,285)
Net increase in cash and cash equivalents	6,129,659	6,926,994
Balance at 31 December	37,879,936	31,750,277

Notes to the financial statements

for the year ended 31 December 2002

31. Fair value of financial instruments

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

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

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

The beneficial interest in the share capital of the Bank of each of the Directors, their spouses and minor children, and of companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2002 and 11 March 2003, is stated below:

	Percentage 31.12.2002	Percentage 11.3.2003
	%	%
G. Syrimis	0,15	0,15
A. Georghiou	0,65	0,65
E. Pantelides	2,49	2,49
M. Michaelides	0,03	0,03
I. Vavlitis	1,91	1,91
M. Cleopas	0,38	0,38
P. Photiades	0,30	0,30
A. Ghalanou	0,25	N/A

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

The shareholders who held more than 5% of the share capital of the Bank at 11 March 2003 were:

Universal Life Insurance Company Limited	61,06%
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34. Transactions with Directors

The analysis of loans and other advances, unutilised limits, and guarantees to members of the Board of Directors and connected persons during the year 31 December 2002 was as follows:

	Number of Directors	Loans and other advances C£	Unutilised facility limits C£	Guarantees C£
More than 1% of the net assets of the Bank, per Director	3	5.140.480	1.270.854	4.078.007
Less than 1% of the net assets of the Bank, per Director	5	185.829	327.726	1.000
Total	8	5.326.309	1.598.580	4.079.007

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

Notes to the financial statements

for the year ended 31 December 2002

35. Related party transactions

The nature of transactions between the Bank and the related companies are regarded as being at arm's length, and they are analysed as follows:

	Spidertrade Limited C£	Spidertrade Finance Limited C£
Transactions:		
Interest receivable and other commissions	12.266	441.358
Interest payable	20.055	-
Bank balances as at 31.12.2002:		
Debit bank balances	178.364	3.617.311
Credit bank balances	360.449	-

The Bank has granted credit facilities of C£200.000 to Spidertrade Limited and C£3.892.800 to Spidertrade Finance Limited.

Spidertrade Finance Limited is a related company to Spidertrade Limited. The latter is also a related company to the Universal Group of Companies.

36. Agreement with major shareholder

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

Auditors' Report

To the members of Universal Bank Limited

1 We have audited the financial statements on pages 7 to 34 and have obtained all the information and explanations we considered necessary. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Cyprus Companies Law, Cap. 113. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

3 In our opinion, proper books of account have been kept by the Company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of Universal Bank Limited as of 31 December 2002 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Law, Cap. 113.

Ernst & Young
Chartered Accountants

Nicosia, 27 March 2003.

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