ANNUAL REPORT 2006

UNIVERSAL BANK

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Notice is hereby given that the Annual General Meeting of Universal Bank Public Ltd will be held at the Universal Group of Companies headquarters in Nicosia, on 13 June 2007 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 2006 and the Directors' and Auditors' Reports.

2 Election of the members of the Board of Directors. The biographies of the members of the Board submitting themselves for re-election are presented on page 8 of the Annual Report.

3 Approving the remuneration of the Directors.

4 Re-appointment of the Independent Auditors and authorisation of the Board of Directors to agree their remuneration.

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

By order of the Board

M.P. Kleopas
Secretary

Nicosia, 28 March 2007

Notes:

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

Dear shareholders

I present to you the annual report for the financial year 2006, together with the following comments about the results, developments and prospects of the Bank.

The Bank's results for the year 2006 show a considerable improvement.

Turnover increased by 18% to C£17,7 million (€30,6 million) compared to C£15 million (€25,9 million) in 2005.

Net interest income increased by 38% to C£6,9 million (€11,9 million) in 2006 compared to C£5 million (€8,6 million) for the previous year.

The significant improvement noted above is mainly attributable to the recovery of doubtful debts and the recognition of income that had been previously suspended, as a result of the increase in the value of tangible securities for non performing loans and advances. Total interest income recognised during the year 2006 from the collection of non performing loans amounted to C£1,5 million (€2,6 million) compared to C£311 thousand (€538 thousand) for 2005. It should be noted that these results were achieved despite the implementation, as of 1 January 2006, of new, more strict rules for the suspension of income, as directed by the Central Bank of Cyprus.

At the same time, the significant increase in available funds during 2006 contributed to the increase in net interest income through an increase of 30% in income from investments in government and other bonds, and 50% increase in income from placements with other banks.

However, the cost of deposits was maintained at relatively high levels, as a result of the Bank's efforts to remain competitive in the market for new deposits, which applied pressure on the net interest margin. It is a stated objective of the Bank to maintain a healthy net interest margin.

Total operating income amounted to C£2,4 million (€4,1 million) for 2006 compared to C£2,1 million (€3,7 million) for 2005, showing an increase of 12%.

Net fees and commissions income for 2006 increased marginally by 1% compared to 2005. Income from administration fees which are directly linked to the Bank's credit expansion and income from credit card fees increased by 17% and 13% respectively, whereas income from trade finance showed a marginal decrease of 2%.

Despite the fact that during the first six months of 2006 foreign exchange income decreased marginally compared to the same period in 2005, the improvement noted in the second half of the year resulted in an overall annual increase of 13% compared to the previous year.

Other operating income amounted to C£589 thousand (€1 million) showing a significant increase of 47% compared to the previous year. This was mainly the result of gains from the sale of investments available for sale of C£96 thousand (€166 thousand) and a gain from the change in the fair value of investment properties of C£86 thousand (€148 thousand). Without taking into account the above non recurring gains, other operating income remained at the same levels as in 2005.

As a result of the above, the Bank's net income for 2006 increased by 30% and amounted to C£9,3 million (€16 million) compared to C£7,1 million (€12,3 million) in the previous year.

Total operating expenses decreased by 3% compared to 2005 and amounted to C£6,5 million (€11,2 million).

Staff costs, which comprise approximately 65% of the Bank's operating expenses, increased marginally by 4% compared to 2005, mainly as a result of the decrease in the charge for the defined benefit plan operated by the Bank caused by a change in the actuarial assumptions. Without taking into account the charge for the plan, the increase in staff costs would be 9%, mainly the result of implementing the new collective labour agreement.

Total other operating expenses decreased by 12% compared to the previous year and amounted to C£2,2 million (€3,9 million). This is mainly due to the decrease in the depreciation charge for the year by 12%, as there was no capital expenditure during the year, as well as the confinement of other operating expenses.

However, it is expected that operating expenses will show a significant increase in 2007, mainly due to planned investments in risk management systems and processes. These activities are part of the Bank's efforts to adopt the new European Directive on capital adequacy. Increased spending is also expected for the acquisition of consultancy services in relation to the strengthening of the Bank's capital base and the adoption of the Euro. Furthermore, the planned set up of two new branches is also expected to impact the Bank's operating expenses.

As a result of the developments affecting income and expenses, the Bank's operating profits showed a significant increase to C£2,8 million (€4,8 million), compared to C£454 thousand (€785 thousands) in 2005.

The strengthening of the procedures regarding the supervision of the quality of our lending portfolio had a positive outcome for yet another year, leading to a decrease in the amount of provisions for loan impairment by 33%. In particular, provisions reached C£895 thousand (€1,5 million) compared to C£1,3 million (€2,3 million) in 2005. In view of the planned additional investment in credit risk management systems and processes, it is expected that this trend will continue.

The Bank showed a profit after impairment provisions and tax of C£1,9 million (€3,2 million) compared to a loss for the previous year of C£989 thousand (€1,7 million).

Total assets as at 31 December 2006 increased by 24% and amounted to C£248,8 million (€430,3 million) compared to C£200,8 million (€347,3 million) as at 31 December 2005.

The Bank's deposits as at 31 December 2006 amounted to C£218,9 million (€378,6 million) showing an increase of 24% compared to the deposits as at 31 December 2005, which outperformed the overall industry rate of increase in deposits for the corresponding period of 20%. New deposit products offered by the Bank during the year had a positive contribution to this. Foreign currency deposits increased dramatically by 93%, with a positive contribution to the increase in interest income and foreign exchange income. The Bank will offer additional deposit products in foreign currency, particularly Euro.

The Bank's credit expansion resulted in an increase in loans and advances of 4%, to C£127,8 million (€221 million). The biggest increase was achieved by the trade and industry and property development sectors. The Bank plans to achieve higher rates of credit expansion by offering new loan products, particularly mortgage loans.

The Bank's capital base and capital adequacy ratio as at 31 December 2006 were improved compared to the respective position as at 31 December 2005 and reached C£16 million (€27,6 million) and 12% respectively. In accordance with the relevant directive of the Central Bank of Cyprus the minimum capital adequacy ratio is 10%, whereas the respective ratio set by the European Union is 8%.

Within the first half of 2007, the number of the Bank's branches is expected to increase to 19 with the operation of the fourth branch in Limassol and the first branch in Polis Chrysochous.

The "Platinum" credit card and the "Electron" card had a positive contribution to the increase of the Bank's credit card turnover which resulted in increased commission income. It is expected that the upgrading of the Bank's credit card management system which will be completed in 2007, will have a further positive contribution to the successful expansion of the credit card business.

International business companies are considered one of the most profitable business sectors in the banking system. The Bank had very little presence in this sector so far, and has made a significant investment in human capital and processes in order to further develop this business sector, with positive results.

The Bank has offered new and competitive products through its successful Internet Banking Service, "ibank". New services have also been offered to clients such as SMS alerts, SWIFT transfers, money transfers to other banks etc. The Bank aims to offer additional important and flexible internet services in order to upgrade the quality of services it offers to its clients. At the same time, the automation of procedures for the completion of the "day-to-day" routine operations is expected to result to a further reduction in operating expenses.

The regularization of the loans and advances portfolio remains one of the Bank's most important targets. Investments made so far for enhancements to the credit risk management systems and processes of the Bank have had positive results. This is demonstrated by the increase in the recoveries from doubtful advances and the decrease in the amount of the charge for loan impairment. As part of its efforts to improve its loan monitoring systems and reduce non-performing loans, the Bank has completed the automation of its collateral system. Further strengthening of the overall risk management systems and processes will be achieved through the implementation process of the new European Union Directive on capital adequacy by 1 January 2008.

As soon as all the necessary actions for the acquisition of the majority shareholding of the Bank are completed, the Board of Directors will finalise the strategic plan of the Bank, having regard to securing the interests of its shareholders, its employees and its clients.

Based on the above and the continuous expansion of our operations, we expect that the profitability achieved in 2006 will continue in 2007.

In closing, I would like to express our gratitude to our clients and shareholders for their support and faith in our vision. I would like to thank the members of the Board of Directors, our Auditors and Legal Advisors, as well as all other associates for their valuable services. Finally, I would like to extend special thanks to the management and our personnel for the dedication and commitment with which they work towards the achievement of our targets and vision.

Symeon Matsis
Chairman

Nicosia, 28 March 2007

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

On 9 November 2004, the Board of Directors decided to fully adopt the provisions of the Corporate Governance Code (the 'Code'), recognising its importance. However, taking into consideration the new provisions of the revised Code published by the Cyprus Stock Exchange Board, effective from 1st May 2006, and the developments regarding the Bank's shareholder structure, the Board of Directors decided the partial implementation of the provisions of the revised Corporate Governance Code for 2006.

The Board of Directors intends to fully implement the provisions of the Revised Corporate Governance Code during 2007, as soon as all actions regarding the acquisition of the majority shareholding of the Bank are completed.

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 dominate 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. During 2006, all the members of the Board of Directors were non-executive.

On 31 December 2006, the Board of Directors consisted of 5 (five) non-executive directors, one being the Chairman and another being the Secretary.

During 2006, all members including the Chairman of the Board of Directors were non-executive.

The Board of Directors of the Bank as at 31 December 2006 consisted of the following members:

Non-executive and not-independent 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 in a number of Ministries and the Planning Bureau. Held chairmanship positions as well as membership of various semi-governmental boards. Served as a member of the Board of the Cyprus Development Bank and the Housing Finance Corporation. Member of the Board of Directors of Universal Life Insurance Public Co. Ltd since 16 November 2004. Was appointed Chairman of the Board of Directors of the Bank on 23 November 2004. Currently, a business consultant.

Michalis Kleopas *(Secretary)*

Born in 1949. He holds 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 the various Legal, Disciplinary and Investigative Committees of Cyprus Sport Organisation, Cyprus Football Association, Cyprus Handball Association and Technical Committee of Referees. He is the Secretary and member of the Board of Directors of a number of Private and Public Companies. Currently, a lawyer.

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 Stirling of Scotland. Member of the Board of Directors of L'Union Nationale Ltd. Executive Director of Dinos M. Michaelides (Consultants) Ltd since 1990. Member of the Board of Directors of the Bank since 1993. Businessman – Business Consultant.

Non executive and independent members

Socrates Solomides

Born in 1955. He graduated from the London School of Economics where he obtained a B.Sc degree in Economics and an M.Sc in Accounting & Finance. He also holds an MBA degree from 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 of a number of family companies and also holds directorship positions at various private and public companies within the financial services sector. He has been a member of the Board of Directors of the Bank since 2004.

Frixos Sorokos

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 a deputy Member of the Board of Directors of the European Investment Bank. Until recently he held the position of the Chairman of the Examining Board of Professional Certification of Officers and Employees of Investment Services Firms and 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 14 December 2004.

The most senior executive member of management is the General Manager of the Bank, who is not a member of the Board of Directors but attends the Board of Directors' meetings in order to provide timely information to the Board of Directors. The Board of Directors decided that the appointment of a Chief Executive Officer is to be finalised during 2007, with the completion of the procedures for the acquisition of the majority shareholding of the Bank.

The Board of Directors held 14 meetings during 2006.

The Board of Directors deals with the following:
- Strategic policies and objectives of the Bank
- Annual budget and business planning of the Bank
- Determination of framework for capital investments
- Mergers, acquisitions and disposals of the Bank's assets
- Adoption and implementation of new and revised International Financial Reporting Standards
- Monitoring of unusual and or significant transactions by the Bank 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 Bank.
- Selection, appointment and termination of the Bank's General Manager
- Securing smooth succession regarding the chief executive members of the Bank
- Determination of the Directors' retirement policy
- Appointment of the Bank'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 Bank. All Board members may receive advice and other services by the Bank's Secretary.

The Secretary ensures the application of the Board's policies and compliance with existing regulations.

The Board of Directors operates on the basis of collective responsibility and no differentiation exists between groups of Directors with regards to their responsibility.

Based on the Bank'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 the next 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 7 June 2006, Mr Socrates Solomides, Mr Symeon Matsis and Mr Frixos Sorokos retired by rotation and were re-elected at the same meeting.

On 8th September 2006, Mr Iosif Vavlitis resigned from the Board of Directors.

For the year ended 31 December 2006, and according to the Bank's articles of association, during the next Annual General Meeting, Mr Michalis Michaelides and Mr Michalis Kleopas retire by rotation, and being eligible, offer themselves for re-election.

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

Audit Committee

The Audit Committee members are appointed by the Board. The Committee consists of three non-executive Directors, the majority of whom are independent members of the Board. The Audit Committee members elect the Committee's Chairman.

During 2006, the Committee consisted of the following members:

Chairman:	Frixos Sorokos (Since 26/6/06)
	Symeon Matsis (Upto 25/6/06)
Members:	Michalis Michaelides
	Socrates Solomides (Since 26/6/06)
	Frixos Sorokos (Upto 25/6/06)

The Committee met six times during 2006.

The duties of the Committee include the following:

- Recommendations to the Board with regards to the appointment, termination, and remuneration of the Bank's external auditors, the continuous supervision of the extent and effectiveness of the audit, and the independence and objectivity of the auditors.
- Submission to the Board of a report including:
  (a) Audit and advisory fees paid to the external auditors.
  (b) The assignment of substantial advisory duties assigned to the external auditors either based on their importance to the Bank 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 selection of accounting policies used for the preparation of the financial statements of the Bank
- In co-operation with the Corporate Governance Compliance Officer, preparation and submission to the Board of the Corporate Governance Report for inclusion in the Bank's Annual Report.
- Recommendations to the Board of Directors with regard to compliance with the Code in connection with the recommended activities of the Corporate Governance Compliance Officer.
- Review of the Bank's 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.
- Evaluation of the adequacy and independence of the Internal Audit Department.

Nominations Committee

The members of the Nominations Committee are appointed by the Board and the majority are 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
Members: Frixos Sorokos
Iosif Vavlitis (Upto 8/9/06)

The Nominations Committee met once during 2006.

The duties of the Committee include:

- Submission to the Board of recommendations for the appointment 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 Secretary, formulation of succession plans of the Board.
- 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. The Committee consists of three independent non-executive Directors. The Committee's Chairman is elected by the members.

The members of the Remuneration Committee are:

Chairman: Frixos Sorokos (Since 8/9/06)
Iosif Vavlitis (Upto 8/9/06)
Members: Michalis Michaelides

Although as of the date of the revision of the code by the Board of CSE, this Committee did not have the appropriate composition, it met once during 2006.

The Committee's duties include:

- Review of the employment contracts of the executive Directors.
- Submission to the Board 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.
- Submission of the Directors' remuneration 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 Bank's financial performance.

Report on Remuneration of Directors

The Board of Directors set the remuneration of the Senior Executive Management Team, on the recommendations of the Remuneration Committee.

The remuneration is related to the members' attendance at the Board of Directors' meetings and approved by the shareholders in every annual general meeting. During the shareholders' annual general meeting that was conducted on 7th June 2006, an annual amount of C£1.000 was approved for each member and also the amount of C£50 for each Board of Directors and Committee meetings respectively. Additionally, the Chairman's remuneration of C£12.000 was approved at the same annual general meeting.

The remuneration of the non-executive Directors is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Bank, and for their participation in the Committees of the Board of Directors. Furthermore, based on the Bank's memorandum, the traveling expenses that are necessary for the members of Board of Directors' attendance in all kind of meetings could be reimbursed.

The remuneration of the executive Directors are approved annually by the Board during the budget review for the following year. The reward package comprises salary, adjusted on an annual basis taking into account the prevailing economic and labour market conditions.

Further details of Director remuneration for the years 2005 and 2006 are set out in Note 34 of the audited financial statements for the year ended 31 December 2006.

Loans to directors and other transactions

Details of loans and other transactions with the Directors are set out in Note 34 of the audited financial statements for the year ended 31 December 2006. All the transactions are conducted in the normal course of the Bank's business, on an arms' length basis and with transparency.

Confirmations by the Board of Directors

System of Internal Controls
The Bank maintains an Internal Audit Department.

The Board of Directors confirms the review of the effectiveness of the internal control systems of the Bank and confirms its satisfaction. The review covers all control systems, including both financial and operational systems, as well as the risk management systems which address the risks threatening the achievement of the Bank's goals.

Accuracy and completeness of information
The Board confirms that the Company has adopted 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 Laws and Regulations.

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

In addition, the Board of Directors provides the opportunity to holders of at least 5% of the Bank's share capital to request the inclusion of items on the agenda of General Meetings upto 5 months after the Bank's year end and at least 10 days prior to the notice of the General Meeting.

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

Corporate Governance Compliance Officer

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

The Board of Directors
Universal Bank Public Limited

Nicosia, 28 March 2007.

Board of Directors
Symeon Matsis, Chairman
Michalis Michaelides
Michalis Kleopas
Socrates Solomides
Frixos Sorokos

General Manager
Dr Spyros Episkopou

Manager, Financial Services
Demetris Shacallis

Secretary
Michalis Kleopas

Registered Office
85 Digenis Akritas Avenue
Universal Tower, 6th floor
1070 Nicosia

Legal Advisor
Dr Kypros Chrysostomides & Co.

Auditors
Ernst & Young
Chartered Accountants

Declaration of the Members of the Board of Directors
and of the Officers responsible for preparation of the financial statements

In accordance with article 140(1) of the Cyprus Stock Exchange Laws & Regulations, we, the members of the Board of Directors and the officers responsible for the drafting of Universal Bank Ltd financial statements for the year ended 31 December 2006, based on our knowledge, which is the product of careful and conscientious work declare that the particulars which are specified in the financial statements are true and fair.

Members of the Board of Directors
Symeon Matsis, Chairman
Michalis Michaelides
Michalis Kleopas
Socrates Solomides
Frixos Sorokos

Officers responsible for the preparation of financial statements
Dr Spyros Episkopou, General Manager
Demetris Shacallis, Manager Financial Services

Nicosia, 28 March 2007

The Board of Directors of Universal Bank Public Limited (the "Bank") submit to the shareholders their report and the audited financial statements for the year ended 31 December 2006.

Change in the ownership of the Bank
During the year, the Bank was a subsidiary company of Universal Life Insurance Public Co. Ltd. On 10th January and 6th February 2007, Universal Life Insurance Public Co Ltd sold 50,99% of the issued share capital of the Bank to Schöeller Holdings Ltd and Path Holdings Ltd in equal shares.

Activities
The Bank's main activity during the year was the provision of banking and financial services in Cyprus.

Branches
The Bank operates through 17 branches in Cyprus. During the first half of 2007 two new branches are expected to commence operations, one in Paphos and the other one in Limassol increasing the number of branches to 19.

Financial Results
Operating profits before provisions for loan impairment for the year increased dramatically as compared to 2005 reaching C£2,8 million (€4,8 million). Profit after provisions and taxation, amounted to C£1,9 million (€3,2 million), compared to a loss of C£989 thousands (€1,7 million) for the previous year.

Total assets amounted to C£248,8 million, showing a 24% increase compared to C£200,8 million (€347 million) for the year 2005, which is mainly due to the utilisation of available funds from the increase in deposits of 24%.
Gross loans increased by 4% and total loans and advances reached C£127,8 million (€221 million). As a result of the above, the Bank's equity increased by C£1,9 million (€3,2 million).

The main financial highlights for the years 2006 and 2005 are as follows:

	2006 **C£'000**	2005 C£'000	2006 Euro **(€'000)**	2005 Euro (€'000)	Change %
Turnover	**17.668**	15.022	**30.557**	25.981	+18%
Profit before provisions	**2.767**	454	**4.786**	785	+510%
Profit/(loss) before tax	**1.872**	(888)	**3.238**	(1.536)	Δ/E
Profit/(loss) after tax	**1.869**	(989)	**3.233**	(1.711)	Δ/E
Profit/(loss) per share (cent)	**12,4**	(6,5)	**21,4**	(11,3)	Δ/E
Deposits	**218.925**	177.045	**378.632**	306.200	+24%
Loans and advances	**127.798**	122.864	**221.028**	212.495	+4%
Total assets	**248.804**	200.811	**430.307**	347.304	+24%
Equity	**12.521**	10.586	**21.656**	18.308	+18%

Board of Directors
The Board of Directors of the Bank consists of the members listed on page 14. Mr Iosif Vavlitis resigned from the Bank's Board of Directors on 8 September 2006.

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

Future Developments

As soon as all the necessary actions for the acquisition of the majority shareholding of the Bank are completed, the Board of Directors will finalise the strategic plan of the Bank.

However, the main short-term goals of the Bank include the following:
- launching of new deposit products, as well as credit products.
- continuous investment in credit risk management systems and strengthening of the efforts for the improvement in the quality of the loan portfolio.
- move away from over reliance on net interest income and concentration on more profitable sources of income, and,
- automation and simplification of a major number of systems and procedures to restrain operating and other expenses.

Based on the above and the continuous expansion of the Bank's operations, it is expected that the profitability achieved in 2006 will continue in 2007.

Risk management
The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance. The financing risks which are managed and monitored are credit risk, operating risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 31 of the financial statements.

Share Capital
During the year the Bank's share capital remained unchanged.

Post Balance Sheet events
Post Balance Sheet events are described in Note 36 of the financial statements.

Corporate Governance Code
Taking into account the new principles of the revised Code that was decided by the Cyprus Stock Exchange and in valid from 1 May 2006 and the developments relating to the majority shareholding of the Bank, the Board of Directors decided the partial implementation of principles of the revised code for the year 2006.

The Board of Directors of the Bank intends to implement the Code of Corporate Governance in full during the year 2007 if and provided, all the procedures are completed regarding the acquisition of the majority shareholding of the Bank.

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

Symeon Matsis
Chairman

Nicosia, 28 March 2007.

FINANCIAL STATEMENTS

Income Statement

for the year ended 31 December 2006

	Note	2006 C£	2005 C£
Turnover		**17.668.182**	15.022.194
Interest Income	2	**15.118.947**	12.797.510
Interest Expense	3	**(8.231.706)**	(7.801.393)
Net interest income		**6.887.241**	4.996.117
Fee and commission income		**1.558.980**	1.469.448
Fee and commission expense		**(172.553)**	(95.626)
Foreign exchange income		**401.528**	354.785
Income from available for sale investments	4	**101.055**	3.114
Other income	5	**487.672**	397.337
Total net income		**9.263.923**	7.125.175
Staff costs	6	**(4.200.799)**	(4.039.270)
Depreciation of property, equipment and intangible assets		**(619.841)**	(702.197)
Losses on revaluation, sale and impairment of investments	4	**(16.818)**	(84.942)
Loss from impairment of investment property		**(48.132)**	-
Other operating expenses		**(1.610.983)**	(1.845.114)
Total operating expenses before provisions		**(6.496.573)**	(6.671.523)
Profit before provisions		**2.767.350**	453.652
Provisions for loan impairment	12	**(895.346)**	(1.341.622)
Profit/(loss) before tax	7	**1.872.004**	(887.970)
Tax	8	**(2.644)**	(101.393)
Profit/(loss) for the year		**1.869.360**	(989.363)
Profit/(loss) per share (cent)	9	**12,4**	(6,5)

Income Statement

for the year ended 31 December 2006 - Euro

Additional Information

	2006 Euro (€)	2005 Euro (€)
Turnover	**30.557.215**	25.980.965
Interest Income	**26.148.300**	22.133.362
Interest Expense	**(14.236.780)**	(13.492.551)
Net interest income	**11.911.520**	8.640.811
Fee and commission income	**2.696.264**	2.541.418
Fee and commission expense	**(298.431)**	(165.386)
Foreign exchange income	**694.445**	613.603
Income from available for sale investments	**174.775**	5.386
Other income	**843.431**	687.196
Total net income	**16.022.004**	12.323.028
Staff costs	**(7.265.304)**	(6.985.939)
Depreciation of property, equipment and intangible assets	**(1.072.018)**	(1.214.453)
Losses on revaluation, sale and impairment of investments	**(29.087)**	(146.908)
Loss from impairment of investment property	**(83.245)**	-
Other operating expenses	**(2.786.203)**	(3.191.134)
Total operating expenses before provisions	**(11.235.857)**	(11.538.434)
Profit before provisions	**4.786.147**	784.594
Provisions for loan impairment	**(1.548.506)**	(2.320.342)
Profit/(loss) before tax	**3.237.641**	(1.535.748)
Tax	**(4.573)**	(175.360)
Profit/(loss) for the year	**3.233.068**	(1.711.108)
Profit/(loss) per share (cent)	**21,4**	(11,3)

Balance Sheet
as at 31 December 2006

	Note	2006 C£	2005 C£
ASSETS			
Cash and balances with the Central Bank	10	**54.564.147**	28.377.513
Placements with banks	11	**10.513.148**	17.479.993
Loans and advances to customers	12	**127.798.246**	122.864.438
Investments held-to-maturity	13	**50.832.230**	26.414.983
Investments available for sale	14	**43.923**	106.582
Investment properties	15	**473.000**	370.000
Investments in subsidiary companies	16	**1.156**	1.156
Property and equipment	17	**3.120.175**	3.322.098
Intangible assets	18	**331.327**	339.784
Other assets	19	**652.140**	1.092.387
Prepayments and accrued income	20	**474.187**	442.495
Total Assets		**248.803.679**	200.811.429
LIABILITIES			
Amounts due to banks		**4.064.588**	-
Customer deposits and other accounts	21	**218.924.932**	177.044.821
Other liabilities	22	**812.223**	645.304
Accrued expenses	23	**3.910.593**	3.965.609
Subordinated loan stock	24	**8.570.000**	8.570.000
Total liabilities		**236.282.336**	190.225.734
EQUITY			
Share capital	25	**15.128.151**	15.128.151
Share premium		**12.399.495**	12.399.495
Property revaluation reserve		**1.078.005**	1.001.851
Investments revaluation reserve		**22.789**	32.655
General reserve		**26.867**	26.867
Accumulated losses		**(16.133.964)**	(18.003.324)
		12.521.343	10.585.695
Total liabilities and equity		**248.803.679**	200.811.429
CONTINGENT LIABILITIES AND COMMITMENTS			
Contingent liabilities	26	**12.296.134**	12.660.954
Commitments	26	**10.428.629**	10.020.119

Symeon Matsis – *Chairman*
Dr Spyros Episkopou – *General Manager*
Demetris Shacallis – *Manager Financial Services*

Balance Sheet
as at 31 December 2006 - Euro

Additional Information

	2006 Euro (€)	2005 Euro (€)
ASSETS		
Cash and balances with the Central Bank	**94.368.985**	49.079.061
Placements with banks	**18.182.546**	30.231.742
Loans and advances to customers	**221.027.752**	212.494.704
Investments held-to-maturity	**87.914.614**	45.684.855
Investments available for sale	**75.965**	184.334
Investment properties	**818.056**	639.917
Investments in subsidiary companies	**1.999**	1.999
Property and equipment	**5.396.359**	5.745.586
Intangible assets	**573.032**	587.658
Other assets	**1.127.880**	1.889.289
Prepayments and accrued income	**820.110**	765.299
Total Assets	**430.307.298**	347.304.444
LIABILITIES		
Amounts due to banks	**7.029.727**	-
Customer deposits and other accounts	**378.631.844**	306.199.967
Other liabilities	**1.404.744**	1.116.057
Accrued expenses	**6.763.392**	6.858.542
Subordinated loan stock	**14.821.861**	14.821.861
Total liabilities	**408.651.568**	328.996.427
EQUITY		
Share capital	**26.164.218**	26.164.218
Share premium	**21.444.993**	21.444.993
Property revaluation reserve	**1.864.415**	1.732.707
Investments revaluation reserve	**39.414**	56.477
General reserve	**46.467**	46.467
Accumulated losses	**(27.903.777)**	(31.136.845)
	21.655.730	18.308.017
Total liabilities and equity	**430.307.298**	347.304.444
CONTINGENT LIABILITIES AND COMMITMENTS		
Contingent liabilities	**21.266.230**	21.897.188
Commitments	**18.036.370**	17.329.850

Symeon Matsis – *Chairman*
Dr Spyros Episkopou – *General Manager*
Demetris Shacallis – *Manager Financial Services*

Statement of Changes in Equity
for the year ended 31 December 2006

	Share capital	Share premium	Investments revaluation reserve	Property revaluation reserve	General reserve	Accumulated losses	Total equity
	C£	C£	C£	C£	C£	C£	C£
Year 2005							
1 January 2005	15.128.151	12.399.495	(73.325)	599.121	26.867	(17.013.961)	11.066.348
Loss after tax	-	-	-	-	-	(989.363)	(989.363)
Property revaluation	-	-	-	456.382	-	-	456.382
Deferred tax	-	-	-	(53.652)	-	-	(53.652)
Transfer to the Income Statement for the impairment of available for sale investments	-	-	84.942	-	-	-	84.942
Revaluation of available for sale investments	-	-	21.038	-	-	-	21.038
31 December 2005	**15.128.151**	**12.399.495**	**32.655**	**1.001.851**	**26.867**	**(18.003.324)**	**10.585.695**
Year 2006							
1 January 2006	15.128.151	12.399.495	32.655	1.001.851	26.867	(18.003.324)	10.585.695
Profit after tax	-	-	-	-	-	1.869.360	1.869.360
Property revaluation	-	-	-	79.739	-	-	79.739
Deferred tax	-	-	-	(3.585)	-	-	(3.585)
Transfer to the Income Statement for the impairment of available for sale investments	-	-	(86.514)	-	-	-	(86.514)
Revaluation of available for sale investments	-	-	76.648	-	-	-	76.648
31 December 2006	**15.128.151**	**12.399.495**	**22.789**	**1.078.005**	**26.867**	**(16.133.964)**	**12.521.343**

Statement of Changes in Equity
for the year ended 31 December 2006 - Euro

	Share capital	Share premium	Investments revaluation reserve	Property revaluation reserve	General reserve	Accumulated losses	Total equity
	Euro(€)	Euro(€)	Euro(€)	Euro(€)	Euro(€)	Euro(€)	Euro(€)
Year 2005							
1 January 2005	26.164.218	21.444.993	(126.816)	1.036.183	46.467	(29.425.737)	19.139.308
Loss after tax	-	-	-	-	-	(1.711.108)	(1.711.108)
Property revaluation	-	-	-	789.315	-	-	789.315
Deferred tax	-	-	-	(92.791)	-	-	(92.791)
Transfer to the Income Statement for the impairment of available for sale investments	-	-	146.908	-	-	-	146.908
Revaluation of available for sale investments	-	-	36.385	-	-	-	36.385
31 December 2005	**26.164.218**	**21.444.993**	**56.477**	**1.732.707**	**46.467**	**(31.136.845)**	**18.308.017**
Year 2006							
1 January 2006	26.164.218	21.444.993	56.477	1.732.707	46.467	(31.136.845)	18.308.017
Profit after tax	-	-	-	-	-	3.233.068	3.233.068
Property revaluation	-	-	-	137.908	-	-	137.908
Deferred tax	-	-	-	(6.200)	-	-	(6.200)
Transfer to the Income Statement for the impairment of available for sale investments	-	-	(149.626)	-	-	-	(149.626)
Revaluation of available for sale investments	-	-	132.563	-	-	-	132.563
31 December 2006	**26.164.218**	**21.444.993**	**39.414**	**1.864.415**	**46.467**	**(27.903.777)**	**21.655.730**

	Note	2006 C£	2005 C£
Net cash flow from operating activities	29	**22.324.953**	10.606.890
Cash flow from investing activities			
Purchase of property and equipment		**(329.722)**	(202.161)
Purchase of investment properties		**(387.448)**	(364.475)
Purchase of available for sale investments		**(3.332)**	(2.800)
Proceeds from the disposal of property and equipment		**3.048**	266
Proceeds from disposal of investment properties		**355.000**	-
Proceeds from the disposal of available for sale investments		**135.216**	-
Interest received on Government and other debt securities		**1.837.734**	1.415.193
Divided income from available for sale investments		**5.146**	3.114
Net cash flow from investing activities		**1.615.642**	849.137
Cash flow from financing activities			
Issue of subordinated loan stock		**-**	570.000
Interest paid on subordinated loan stock		**(491.836)**	(543.249)
Net cash flow (used in)/from financing activities		**(491.836)**	26.751
Net increase in cash and cash equivalents for the year		**23.448.759**	11.482.778
Cash and cash equivalents			
At 1 January		**36.607.506**	25.124.728
Net increase in cash and cash equivalents		**23.448.759**	11.482.778
At 31 December	30	**60.056.265**	36.607.506

Additional Information

	2006 Euro (€)	2005 Euro (€)
Net cash flow from operating activities	**38.611.126**	18.344.673
Cash flow from investing activities		
Purchase of property and equipment	**(570.256)**	(349.639)
Purchase of investment properties	**(670.093)**	(630.361)
Purchase of available for sale investments	**(5.763)**	(4.843)
Proceeds from the disposal of property and equipment	**5.272**	460
Proceeds from disposal of investment properties	**613.974**	-
Proceeds from the disposal of available for sale investments	**233.857**	-
Interest received on Government and other debt securities	**3.178.371**	2.447.584
Dividend income from available for sale investments	**8.900**	5.386
Net cash flow from investing activities	**2.794.262**	1.468.587
Cash flow from financing activities		
Issue of subordinated loan stock	**-**	985.818
Interest paid on subordinated loan stock	**(850.633)**	(939.552)
Net cash flow (used in)/from financing activities	**(850.633)**	46.266
Net increase in cash and cash equivalents for the year	**40.554.755**	19.859.526
Cash and cash equivalents		
At 1 January	**63.312.878**	43.453.352
Net increase in cash and cash equivalents	**40.554.755**	19.859.526
At 31 December	**103.867.633**	63.312.878

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

1 Basis of preparation

The financial statements are presented in Cyprus pounds (C£) and are prepared under the historical cost convention, modified to include the revaluation of freehold property, investment property, available-for-sale investments and derivatives.

Statement of compliance
The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

All IFRSs issued by the IASB and effective at the time of preparing these financial statements, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and measurement' relating to portfolio hedge accounting. Since the Bank is not affected by these provisions, these financial statements comply with both the IFRSs as adopted by the EU and the IFRSs as issued by the IASB.

In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Laws and Regulations.

Additional information in Euro
For the purposes of providing additional information, the income statement, the balance sheet, the statement of changes in equity and the cash flow statement for the year ended 31 December 2006 are also presented in Euro (€). The translation from Cyprus pounds to Euro (€) for information relating to the year 2006 and the prior year presented, was carried out using the average Euro-Cyprus Pound exchange rate as at 31 December 2006, which was €1 = C£0,5782.

2 Adoption of new and amended IFRSs

As from 1 January 2006, new IFRSs, interpretations and amendments have come into effect. These did not have any effect on the financial statements of the Bank, except as set out below:

IAS 1 and IAS 19, Amendments 'Actuarial Gains and Losses, Group Plans and Disclosures'
The amended IAS 19 offers an additional option regarding the recognition of actuarial gains and losses related to defined benefit plans. It allows the recognition of all actuarial gains and losses through the statement of recognised gains and losses directly in equity. IAS 19 requires additional disclosures. It also gives guidance on the treatment by entities within a group of certain employee benefits in their individual financial statements and requires additional disclosures.
This amendment has resulted in additional disclosures for the year ended 31 December 2006 as well as comparative information for year 2005. The Bank has elected not to apply the new option offered and therefore the amendment had no impact on the recognition and measurement of actuarial gains and losses.

3 Standards and interpretations 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 but are not yet effective for the current reporting period and which the Bank has not early adopted, as follows:

(a) Standards and interpretations issued by the IASB and adopted by the EU

IFRS 7 'Financial Instruments: Disclosures' and a complementary amendment to IAS 1, 'Presentation of Financial Statements – Capital Disclosures' (effective for annual periods beginning on or after 1 January 2007)
IFRS 7 requires additional disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. In particular, it specifies minimum disclosures about credit risk, liquidity risk and market risk. IFRS 7 replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'.

The amendment to IAS 1 introduces disclosures relating to the level of an entity's capital and how it is managed.

The Bank does not expect that the adoption of IFRS 7 and the amended IAS 1 will have any material effect on the financial statements, except for the additional disclosures required.

IFRIC 7 'Applying the Restatement Approach' under IAS 29 'Financial Reporting in Hyperinflationary Economies' (effective for annual periods beginning on or after 1 March 2006)
International Financial Reporting Interpretation (IFRIC 7) requires entities to apply IAS 29 in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency, as if the economy had always been hyperinflationary. IFRIC 7 is not relevant to the Bank.

IFRIC 8 'Scope of IFRS 2' (effective for annual periods beginning on or after 1 May 2006)
IFRIC 8 clarifies that IFRS 2 'Share-Based Payments' applies to any arrangement by which equity shares are granted or liabilities (based on the value of an entity's equity shares) are incurred and the identifiable consideration appears to be less than the fair value of the equity shares granted or the liabilities incurred. IFRIC 8 is not relevant to the Bank.

IFRIC 9 'Reassessment of Embedded Derivatives' (effective for annual periods beginning on or after 1 June 2006)
IFRIC 9 requires an entity to assess upon entering into a contract, whether this contains an embedded derivative and prohibits reassessment unless there is a change to the contract terms as a result of which there are significant changes in the cash flows. IFRIC 9 is not relevant to the Bank.

(b) Standards and interpretations issued by the IASB but not yet adopted by the EU

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009)
IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. IFRS 8 is not relevant to the Bank.

IFRIC 10 'Interim Financial Reporting and Impairment' (effective for annual periods beginning on or after 1 November 2006)
IFRIC 10 may impact the financial statements should any impairment losses be recognised in the interim financial statements in relation to goodwill, available-for-sale investments or unquoted equity shares carried at cost as these losses may not be reversed in subsequent interim periods or when preparing the annual financial statements.

IFRIC 11, IFRS 2 'Group and Treasury Share Transactions' (effective for annual periods beginning on or after 1 March 2007)
IFRIC 11 requires arrangements whereby an employee is granted options to buy equity shares, to be accounted for as equity-settled schemes by an entity even if the entity chooses or is required to buy those equity shares from another party, or the

shareholders of the entity provide the equity shares granted. The interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent. IFRIC 11 is not relevant to the Bank.

IFRIC 12 'Service Concession Arrangements' (effective for annual periods beginning on or after 1 January 2008)
IFRC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognise a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Bank.

4 Significant accounting judgments and estimates

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

<u>Provisions for loan impairment</u>
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 in the income statement. The review of credit risk is continuous. The methodology and assumptions used for estimating the provision are reviewed regularly to reduce any differences between estimated and actual losses.

<u>Impairment of available for sale equity investments</u>
Available for sale equity investments are measured at fair value with fair value changes taken to equity. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost (requires estimation). In such a case, the loss recognised in equity is transferred to the income statement.

This determination of what is significant or prolonged requires judgment. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence that significant changes with an adverse effect have taken place in the technological, market, economic or legal environment in which the investee operates.

<u>Retirement benefits</u>
The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

<u>Taxation</u>
The Bank is subject to taxation in Cyprus. 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 impact 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 Cyprus pounds (C£), which is the functional and presentation currency of the Bank.

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet 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 when the fair value was determined.

6 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.

7 Revenue recognition

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

(a) Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method.

Interest and other income from non-performing loans and advances is not recognised in the income statement but is credited to a balance sheet suspense account. Non-performing loans and advances are defined as: (a) loans and advances that are more than three months in arrears and are not fully secured, (b) overdraft accounts that are over 5% in excess of their credit limit on a continuous basis for more than three months and are not fully secured at the date of calculation of the accrued interest, and (c) loans and advances for which a provision for impairment has been made.

Non-performing loans and advances in 2005 were defined as: (a) loans and advances that were more than six months in arrears and were not fully secured, (b) overdraft accounts that were in excess of their credit limit and were not fully secured at the date of calculation of the accrued interest, to the extent that the accrued interest or other income was not covered by the total of the amounts credited in the account during the previous six months, and (c) loans and advances for which a provision for impairment was made.

Interest and other income credited to a balance sheet suspense account, are transferred to the income statement upon collection or when the relevant loans and advances cease to be classified as non-performing.

Interest income and interest expense on balances before 15 August 1974, were 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.

(b) Fee and commission income

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

(c) Dividend income

Dividend income is recognised when the Bank's right to receive payment is established.

(d) Income from the disposal of property held for sale

Income and cost of sales from the disposal of these properties is recognised in the income statement 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 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 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.

10 Financial instruments

(a) 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. ‘Amounts due to banks’, ‘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 the borrowers.

(b) Initial recognition 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.

(c) Derivatives

Derivative financial instruments are recognized at fair value in the balance sheet. 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.

(d) Loans and advances

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

After their 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 losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances'.

Loans and advances are stated net of specific and general provisions for doubtful debts, which may arise during the ordinary course of business. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

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

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

Impaired loans are monitored continuously and are reviewed for provision purposes every six months. Any subsequent changes to the estimated recoverable amounts and timing of the expected future cash flows, are compared to the prior estimates and any difference arising results 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 principal and interest according to the original terms of the loan will be collected timely.

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

(e) Investments

Investments in equity shares and Government and other debt securities, 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.

Interest earned on treasury bills and debt securities is included in 'Interest income' in the period in which the investments are held.

<u>Investments held-to-maturity</u>
Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities and 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 account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the income statement. Losses arising from impairment of such investments are recognised in 'Net gains on sale and change in fair value of financial instruments' in the income statement.

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

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

Available for sale investments in equity shares are impaired if the decline in their fair value is significant and prolonged. Impairment losses on investments in equity shares are not reversed in the income statement. Potential increases in the fair value following impairment are recognised in the revaluation reserves.

(f) Deposits and subordinated loan stock

Deposits and subordinated loan stock in issue 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. Interest on deposits and subordinated loan stock in issue is included in 'Interest expense'.

11 Derecognition of financial assets and financial liabilities

(a) 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.

(b) 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 may be offset and the net amount reported in the balance sheet when the Bank has a 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

The investments in subsidiary companies are shown 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 is stated initially at cost and thereafter at estimated fair value less accumulated depreciation. Valuation occurs periodically by independent qualified valuers. The amount of depreciation is calculated on the basis of estimated value less estimated residual value on a straight-line basis over the expected useful economic lives of the assets. Gains or losses arising from changes in the estimated fair value of the assets are recognised in the revaluation reserve. Upon disposal the relevant amount in the revaluation reserve is transferred to retained earnings.

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, 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.

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

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.

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 property

Investment property consists of property purchased for the settlement of debts. Investment property is measured at fair value as at the balance sheet date. Gains or losses arising from changes in fair value of investment property are recorded in the income statement. Valuations are performed by independent qualified valuers.

17 Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Group are made when : (a) there is a present obligation (legal or constructive) arising from past events, (b) 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 bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward 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 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.

19 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 non-obligatory deposits with the Central Bank of Cyprus, and Government debt securities repayable within three months.

1 Corporate information

The financial statements of Universal Bank Public Limited (the 'Bank') for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Board of Directors on 26 March 2007.

The Bank is a subsidiary company of Universal Life Insurance Public Co. Ltd. On the 10 January and 6 February 2007, Universal Life Insurance Public Co Ltd allocated according to the current share capital the 50,99% owned to the Bank towards the companies Schöeller Holdings and Path Holdings Ltd.

The Bank's main activity during the year was 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 of 1922 and 1923 and is considered a public company under the Cyprus Stock Exchange Laws and Regulations.

2 Interest income

	2006	2005
	C£	C£
Loans and advances to customers	**11.734.161**	10.349.304
Placements with banks	**1.547.052**	1.033.013
Government and other debt securities	**1.837.734**	1.415.193
	15.118.947	12.797.510

3 Interest expense

	2006	2005
	C£	C£
Customer deposits	**7.733.773**	7.136.286
Amounts due to the banks	**6.097**	121.858
Subordinated loan stock	**491.836**	543.249
	8.231.706	7.801.393

4 Income from available for sale investments

	2006	2005
	C£	C£
Dividends from equity investments	**5.146**	3.114
Transfer from the revaluation reserve on sale of available for sale Investments	**86.514**	-
Gains on sale of available for sale investments	**9.395**	-
	101.055	3.114

	2006	2005
	C£	C£
Loss on revaluation, sale and impairment of investments	**(16.818)**	(84.942)

5 Other income

	2006	2005
	C£	C£
Profit from the change in the fair value of investment properties	85.552	-
Other income	402.120	397.337
	487.672	397.337

6 Staff costs

	2006	2005
	C£	C£
Staff salaries and wages	3.223.160	2.984.833
Social insurance and other costs	384.797	339.002
Retirement benefit costs	592.842	715.435
	4.200.799	4.039.270

The number of employees as at 31 December 2006 was 189 (2005: 190).

Retirement benefits – Defined benefits scheme

The Bank operates a defined benefits scheme, which is fully funded. All contributions to the scheme are made on an annual basis with the purpose of creating enough reserves during the working lives of the employees to provide for the payment of a lump sum either upon retirement or earlier death. The annual cost of providing benefits under the 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 by independent actuaries. According to this method, the cost of providing retirement 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 valuation of the plan 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 2006, the amounts appearing in the balance sheet of the Bank are as follows:

	2006	2005
	C£	C£
Present value of the obligation	(3.542.652)	(2.634.200)
Fair value of plan assets	2.483.100	1.362.950
Deficit	(1.059.552)	(1.271.250)
Unrecognised actuarial loss	569.107	1.366.235
Net (liability)/asset recognised in the balance sheet	(490.445)	94.985

The principal actuarial assumptions used for the actuarial valuation were:

	2006	2005
	%	%
Discount rate	5,0	5,0
Expected return on plan assets	6,0	6,0
Future salary increase	6,5	6,5
Future price inflation	3,0	3,0

The amounts recognised in the income statement in respect of the defined benefit scheme are as follows:

	2006 C£	2005 C£
Current service cost	**494.512**	501.870
Interest expense on obligations	**142.712**	146.725
Expected return on plan assets	**(94.900)**	(33.259)
Actuarial loss recognised in the year	**50.518**	100.099
Total	**592.842**	715.435

Movement in the net (liability)/asset presented in the balance sheet (Notes 19 and 22 respectively):

	2006 C£	2005 C£
Balance 1 January – Asset	**94.985**	288.576
Expense recognised in the income statement	**(592.842)**	(715.435)
Employer contributions for the year	**7.412**	521.844
Net (liability)/asset at 31 December	**(490.445)**	94.985

Movement of plan assets:

	2006 C£	2005 C£
Fair value of plan assets 1 January	**1.362.950**	513.501
Expected Return on Plan Assets	**94.900**	33.259
Employer contributions for the year	**7.412**	521.844
Benefits paid	**(7.412)**	(21.844)
Change in the fair value on plan assets	**1.025.250**	316.190
Fair value of plan assets 31 December	**2.483.100**	1.362.950
Actual return on plan assets	**1.120.150**	349.449

Plan assets do not include securities or/and other financial instruments that have been issued by the Bank.

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

	2006 C£	2005 C£
Net present value of obligations	**(3.542.652)**	(2.634.200)
Fair value of plan assets	**2.483.100**	1.362.950
Deficit	**(1.059.552)**	(1.271.250)

Experience adjustments to obligations	**(278.639)**	(17.091)
Experience adjustments to plan assets	**1.025.250**	316.190

The Bank expects to contribute £50.000 to the plan during 2007.

7 Profit / (Loss) before tax

Protif / (Loss) before tax is stated after charging:

	2006	2005
	C£	C£
Directors' emoluments	**27.905**	31.621
Auditors' remuneration	**42.250**	21.000
Depreciation of property and equipment	**619.841**	702.197
Gain/(loss) on sale and write-off of property and equipment	**3.048**	(15.532)
Operating lease rentals for immovable property	**343.178**	352.838

8 Tax

	2006	2005
	C£	C£
Previous years' corporation tax	**9.255**	125.582
Previous years' special contribution to the defence fund	**1.363**	10.937
Deferred tax	**(7.974)**	(35.126)
	2.644	101.393

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

	2006	2005
	C£	C£
Profit/(loss) before tax	**1.872.004**	(887.970)
Corporation tax based on the effective rates	**186.936**	(88.797)
Tax effect of:		
- Expenses not deductible	**79.703**	59.220
- Income not subject to tax	**(77.485)**	(63.433)
- Unused tax losses	**-**	57.884
- Tax losses utilised	**(197.392)**	-
Previous years' tax	**10.618**	136.519
	2.644	101.393

Corporation tax is calculated at a rate of 10% on taxable income.
At 31 December 2006, the Bank had tax losses carried forward amounting to C£15,7 million (2005: C£17,4 million) on which no deferred tax asset was recognised.

9 Profit/(loss) per share

	2006	2005
	C£	C£
Profit/(loss) attributable to shareholders	**1.869.360**	(989.363)
Weighted average number of shares in issue during the year	**15.128.151**	15.128.151
Profit/(loss) per share (cent)	**12,4**	(6,5)

At 31 December 2006 and 2005 respectively, there were no potentially dilutive ordinary shares.

10 Cash and balances with the Central Bank

	2006	2005
	C£	C£
Cash	2.294.861	1.563.096
Balances with the Central Bank of Cyprus	52.269.286	26.814.417
	54.564.147	28.377.513

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to C£9.355.164 (2005: C£9.250.000).

Interest on the interbank placements and takings is based on the interbank rate of the relevant term and currency.

11 Placements with banks

	2006	2005
	C£	C£
Repayable:		
- on demand	3.108.768	2.069.121
- within three months	7.404.380	15.410.872
	10.513.148	17.479.993

12 Loans and advances to customers

	2006	2005
	C£	C£
Loans and other advances	158.783.760	153.244.803
Provision for loan impairment	(30.985.514)	(30.380.365)
	127.798.246	122.864.438
Loans and advances are repayable:		
- on demand	82.659.281	85.915.619
- within three months	1.115.104	2.605.951
- between three months and one year	9.975.870	5.360.749
- between one and five years	22.705.210	42.958.814
- over five years	42.328.295	16.403.670
	158.783.760	153.244.803

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

	2006	2005
	C£	C£
Trade and industry	15.859.505	13.569.129
Tourism	18.069.363	18.303.869
Property and construction	30.769.489	29.048.792
Personal and professional	89.652.273	88.092.291
Other sectors	4.433.130	4.230.722
	158.783.760	153.244.803

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

	Universal Life Insurance Public Co. Ltd C£	Universal Investments Ltd C£
Lending interest rates as at 31.12.2006	Basic rate plus 1,50%	Basic rate plus 1,00%
Transactions:		
Interest receivable and other commissions	1.386	-
Bank balances as at 31.12.2006:		
Credit bank balances (*Note 21*)	2.179.986	22.668

Provisions for loan impairment and suspended income:

Year 2006

	Provisions	Suspended income	**Total**
	C£	C£	**C£**
1 January	17.459.965	12.920.400	**30.380.365**
Debts recovered	(527.375)	(1.487.306)	**(2.014.681)**
Charge for the year	1.422.721	-	**1.422.721**
Net charge for the year	895.346	(1.487.306)	**(591.960)**
Write-offs	(1.192.379)	(684.859)	**(1.877.238)**
Suspended interest for the year	-	3.074.347	**3.074.347**
Total	(297.033)	902.182	**605.149**
31 December	**17.162.932**	**13.822.582**	**30.985.514**

Year 2005

	Provisions	Suspended income	**Total**
	C£	C£	**C£**
1 January	16.399.141	9.754.919	**26.154.060**
Debts recovered	(151.933)	(311.337)	**(463.270)**
Charge for the year	1.493.555	-	**1.493.555**
Net charge for the year	1.341.622	(311.337)	**1.030.285**
Write-offs	(280.798)	(205.366)	**(486.164)**
Suspended interest for the year	-	3.682.184	**3.682.184**
Total	1.060.824	3.165.481	**4.226.305**
31 December	**17.459.965**	**12.920.400**	**30.380.365**

The loans and advances for which specific provision is made and interest is suspended amount C£61.599.903 (2005: C£55.222.477).

The fair value of loans and advances is approximately equal to the amount shown on the balance sheet after the deduction of provisions for loan impairment and suspended income.

Advances and other accounts before 15 August 1974
These consist of:

	2006 C£	2005 C£
Loans to third parties	**525.635**	535.273
Provisions for advances and other loan accounts before 15 August 1974	**(525.635)**	(535.273)
	-	-

13 Investments held-to-maturity

	2006 C£	2005 C£
Treasury bills:		
Cyprus Government	**49.512.566**	24.887.164
Cyprus public companies	**1.319.664**	1.527.819
	50.832.230	26.414.983

Movement for the year is as follows:

	2006	2005
1 January	**26.414.983**	33.159.501
Additions	**25.598.415**	1.883.730
Redemptions	**(1.376.403)**	(8.883.047)
Amortisation of premiums/discounts	**195.235**	254.799
31 December	**50.832.230**	26.414.983

The fair value of held-to-maturity investments as at 31 December 2006 was C£50.606.996 (2005: C£26.787.960).

14 Investments available for sale

	2006 C£	2005 C£
Listed on the Cyprus Stock Exchange	**43.923**	106.582

The movement in available for sale investments is presented below:

	2006 C£	2005 C£
1 January	**106.582**	82.744
Additions	**3.332**	2.800
Sales	**(126.072)**	-
Change in fair value	**76.649**	21.038
Impairment	**(16.568)**	-
31 December	**43.923**	106.582

15 Investment properties

Investment properties consists of properties purchased for the settlement of debts and are measured at fair value as at the balance sheet date.

Movement in investment properties is presented below:

	2006	2005
	C£	C£
1 January	**370.000**	-
Additions	**387.448**	364.475
Disposals	**(370.000)**	-
Change in fair value	**85.552**	5.525
31 December	**473.000**	370.000

16 Investments in subsidiary companies

	2006	2005
	C£	C£
Universal Leasing and Factoring Ltd	**495**	495
Imagetech Ltd	**661**	661
	1.156	1.156

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

17 Property and equipment

Year 2006

	Immovable property C£	Equipment C£	**Total C£**
Cost or estimated fair value			
1 January	3.293.348	3.170.896	**6.464.244**
Additions	84.710	92.393	**177.103**
Disposals/write-offs	-	(15.456)	**(15.456)**
Revaluation	79.739	-	**79.739**
Reversal of depreciation due to revaluation	(81.439)	-	**(81.439)**
31 December	3.376.358	3.247.833	**6.624.191**
Depreciation			
1 January	637.064	2.505.082	**3.142.146**
Charge for the year	206.891	251.874	**458.765**
Disposals/write-offs	-	(15.456)	**(15.456)**
Reversal of depreciation due to revaluation	(81.439)	-	**(81.439)**
31 December	762.516	2.741.500	**3.504.016**
Net book value	2.613.842	506.333	**3.120.175**

Year 2005

	Immovable property C£	Equipment C£	**Total C£**
Cost or estimated fair value			
1 January	2.991.678	3.116.280	**6.107.958**
Additions	27.951	93.811	**121.762**
Disposals/write-offs	(31.669)	(39.195)	**(70.864)**
Revaluation	456.384	-	**456.384**
Reversal of depreciation due to revaluation	(150.996)	-	**(150.996)**
31 December	3.293.348	3.170.896	**6.464.244**
Depreciation			
1 January	607.001	2.208.390	**2.815.391**
Charge for the year	196.930	335.887	**532.817**
Disposals/write-offs	(15.871)	(39.195)	**(55.066)**
Reversal of depreciation due to revaluation	(150.996)	-	**(150.996)**
31 December	637.064	2.505.082	**3.142.146**
Net book value	2.656.284	665.814	**3.322.098**

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.

Immovable property was revalued in March 2007, in accordance with a valuation performed by an independent qualified surveyor.

The net book value of immovable property as at 31 December 2006 based on historic cost less accumulated depreciation would be C£1,408.790 (2005: C£1.510.888).

18 Intangible assets

Year 2006

	Goodwill on leasehold property C£	Computer software C£	**Total C£**
Cost			
1 January	50.000	2.669.967	**2.719.967**
Additions	-	152.619	**152.619**
31 December	50.000	2.822.586	**2.872.586**
Amortisation			
1 January	29.750	2.350.433	**2.380.183**
Charge for the year	7.140	153.936	**161.076**
31 December	36.890	2.504.369	**2.541.259**
Net book value	13.110	318.217	**331.327**

Year 2005

	Goodwill on leasehold property C£	Computer software C£	**Total C£**
Cost			
1 January	50.000	2.589.569	**2.639.569**
Additions	-	80.398	**80.398**
31 December	50.000	2.669.967	**2.719.967**
Amortisation			
1 January	22.610	2.188.193	**2.210.803**
Charge for the year	7.140	162.240	**169.380**
31 December	29.750	2.350.433	**2.380.183**
Net book value	20.250	319.534	**339.784**

19 Other assets

	2006 C£	2005 C£
Other debtors	**579.185**	601.017
Corporation tax receivable	**58.755**	68.961
Fair value of derivatives *(Note 27)*	**14.200**	327.424
Defined benefit asset *(Note 6)*	**-**	94.985
	652.140	1.092.387

20 Prepayments and accrued income

	2006	2005
	C£	C£
Accrued interest receivable	**468.943**	432.026
Prepaid fees	**5.244**	10.469
	474.187	442.495

21 Customer deposits

	2006	2005
	C£	C£
Deposits of parent company	**2.179.986**	2.869.829
Deposits of fellow subsidiary companies	**2.958.894**	2.678.957
Deposits of related companies	**-**	134.126
Other customer deposits	**213.786.052**	171.361.909
	218.924.932	177.044.821

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. (2005: 4,71%).

The following amounts represent interest paid on the balances of the Parent, fello subsidiary and related companies. Interest is calculated daily at 4,33% (2005: 4,71%).

	2006	2005
	C£	C£
Parent company – Universal Life Insurance Public Co. Ltd	**63.444**	65.690
Fellow subsidiary – Universal Life (HELLAS) A.A.E.Z.	**48.174**	62.608
Fellow subsidiary – Universal Financial Services Ltd	**30.386**	22.373
Fellow subsidiary – Universal Investments Ltd (note.12)	**850**	2.402
Fellow subsidiary – Universal Nominees Ltd	**21.140**	4.494
Fellow subsidiary – Universal Securities Ltd	**63**	599

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 2006 was C£93.224 (2005: C£94.258). 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 May 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 2006 the Bank repaid pre-1974 frozen deposits amounting to C£1.034 (2005: C£4.241) by debiting the Income Statement.

The net book value of deposits repayable on demand represents their fair value. The fair value of term deposits with floating interest rate is equivalent to their net book value and is determined based on the present value of the future cash flows, using interest rates for new deposits with the same maturity date. The fair value of these deposits does not materially differ from their net book value as their largest part has a maturity date of one year from the balance sheet date (Note 31).

22 Other liabilities

	2006	2005
	C£	C£
Sundry creditors	**184.879**	214.972
Deferred tax	**33.093**	37.481
Fair value of derivatives *(Note. 27)*	**-**	324.334
Defined benefit obligation *(Note. 6)*	**490.445**	-
Other liabilities	**103.806**	68.517
	812.223	645.304

The deferred tax liability consists of the following:

	2006	2005
	C£	C£
Temporary differences between wear and tear allowances and depreciation	**56.139**	73.814
Property revaluation	**86.352**	86.931
Provisions for loan impairment	**(80.500)**	(68.500)
Tax losses carried forward	**(28.898)**	(54.764)
	33.093	37.481

23 Accrued expenses

	2006	2005
	C£	C£
Bills payable	**1.186.577**	1.107.904
Accrued interest	**2.172.012**	2.123.470
Other accruals	**504.000**	694.235
Provision for stamp duty (Note 37)	**48.004**	40.000
	3.910.593	3.965.609

24 Subordinated loan stock

	2006 C£	2005 C£
Tier I capital		
Capital securities	**570.000**	570.000
Tier II capital		
Debentures 2003/2008	**8.000.000**	8.000.000
Total	**8.570.000**	8.570.000

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, 5 (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.

According to the terms of issue, if the Bank does not proceed with the repurchase of Capital Securities within ten (10) 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.

Debentures 2003/2008

On 25 July 2003 the Bank issued debentures amounting to C£8.000.000 with duration of five (5) years maturing on 25 July 2008. These are non-secured and are included in the direct, non-secured subordinated liabilities of the Bank. Interest is paid twice per annum, on 30 June and 31 December. The debentures carry a variable interest rate equal to the weighted average of the basic interest rate of the Central Bank of Cyprus (Lombard rate) for Cyprus pounds that was in effect during the previous interest rate period (i.e. the previous six month period), plus 1,50%. The Bank can, if it chooses to do so, buy the total amount of debentures back, or it can partially buy them back at their nominal value plus any interest accrued with six months of notice, after approval by the Central Bank of Cyprus.

The fair value of the Subordinated Loan Stock is equivalent to its net book value.

25 Share capital

	2006 No. of shares	2006 C£	2005 No. of shares	2005 C£
Authorised				
Shares of £1 each	**50.000.000**	**50.000.000**	50.000.000	50.000.000
Issued				
Fully paid shares	**15.128.151**	**15.128.151**	15.128.151	15.128.151
Total issued share capital	**15.128.151**	**15.128.151**	15.128.151	15.128.151

26 Contingent liabilities and commitments

	2006 C£	2005 C£
Contingent liabilities		
Acceptances and endorsements	**35.120**	76.599
Guarantees	**12.261.014**	12.584.355
	12.296.134	12.660.954
Commitments		
Documentary credits	**579.559**	579.559
Undrawn formal stand by facilities, credit lines and other commitments to lend	**9.849.070**	9.440.560
	10.428.629	10.020.119

The amounts above include guarantees provided by the Bank prior to 15 August 1974 to third parties on behalf of customers including previous members of the Board of Directors, which amounted to C£72.125.

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 expenditures for the Bank amount to C£274.179 (2005: C£141.374).

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 2006 amounted to C£93.224 (2005: C£94.258).

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

27 Derivatives

The nominal amounts and fair values of derivative financial instruments are summarised below:

	Nominal amount	Fair value	
		Assets *(note. 19)*	Liabilities *(note. 22)*
	C£	C£	C£
Year 2006			
Derivatives held for trading			
Currency swaps	2.651.985	14.200	-
	2.651.985	**14.200**	**-**
Year 2005			
Derivatives held for trading			
Forward exchange rate contracts	6.776.455	321.612	324.334
Currency swaps	1.476.200	5.812	-
	8.252.655	**327.424**	**324.334**

28 Operating leases

Commitments under non-cancellable operating leases are as follows:

	2006	2005
	C£	C£
Within one year	**145.840**	263.692
Between two and five years	**168.590**	185.200
	314.430	448.892

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.

29 Net cash flows from operating activities

	2006 C£	2005 C£
Profit/(loss) before tax	**1.872.004**	(887.970)
Provisions for loan impairment	**895.346**	1.341.622
Depreciation of property and equipment	**619.841**	702.197
Gain/(loss) on disposal/write-off of assets and equipment	**(3.048)**	15.532
Transfer to the income statement on sale of available-for-sale investments	**(86.514)**	-
Loss on disposal of investment property	**48.132**	-
Profit on disposal of available for sale investments	**(9.395)**	-
Dividends from investments in equity shares	**(5.146)**	(3.114)
Interest on treasury bills	**(1.837.734)**	(1.415.193)
Interest on debt securities	**491.836**	543.249
Profit from change in the fair value of investment property	**(85.552)**	(5.525)
Profit from change in the fair value of derivatives	**(14.200)**	(3.090)
Impairment of available for sale investments	**16.818**	84.942
	1.902.388	372.650
(Increase)/decrease in operating assets:		
Placements with the Central Bank	**(105.164)**	2.037.000
Investments held to maturity	**(20.083.113)**	(957.075)
Loans and advances to customers	**(5.829.154)**	3.140.005
Other assets	**389.623**	492.702
Increase/(decrease) in operating liabilities		
Amounts due to banks	**4.064.588**	(5.800.000)
Customer deposits and other accounts	**41.880.111**	10.947.212
Other liabilities	**105.674**	377.696
	22.324.953	10.610.190
Taxes paid	**-**	(3.300)
Net cash flows from operating activities	**22.324.953**	10.606.890

30 Cash and cash equivalents

	2006 C£	2005 C£
Cash and balances with the Central Bank	**54.564.147**	28.377.513
Government and other debt securities	**4.334.134**	-
Placements with other banks	**10.513.148**	17.479.993
	69.411.429	45.857.506
Less obligatory deposits with Central Bank	**(9.355.164)**	(9.250.000)
	60.056.265	36.607.506

31 Risk management

The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance.

The financial risks considered are mainly credit risk, operating risk, market risk and liquidity risk.

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

The Bank minimises the risk by spreading its loan portfolio over all economic sectors (Note 12) 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.

Operating risk
Operating risk is the risk of possible loss arising from problematic internal procedures and systems, human behaviour or from external factors.

As part of the Bank's efforts to adopt the new European Directive on capital adequacy, the Basic Indicator Approach and the Standardised Approach will be implemented as of 1 January 2008.

Market risk
Market risk is the risk of loss arising from adverse movements in interest rates, exchange rates, equity shares and other securities prices.

The Asset/Liability Management Committee (ALCO) of the Bank defines specific strategies and sets strict open position and other limits for managing these risks.

The position of the Bank regarding interest rate risk and currency risk is presented below.

31 Risk management (continued)

Interest rate risk – 2006

Analysis of assets and liabilities as at 31 December 2006, according to their contractual repricing or maturity date:

	Up to one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	Non-interest bearing C£	**Total C£**
Assets							
Cash and balances with Central Bank	51.236.317	1.518.140	1.809.690	-	-	-	**54.564.147**
Placements with banks	10.513.148	-	-	-	-	-	**10.513.148**
Loans and advances to customers	127.487.352	-	-	310.894	-	-	**127.798.246**
Investments held-to-maturity	3.077.069	1.257.065	-	44.415.142	2.082.954	-	**50.832.230**
Investments available for sale	-	-	-	-	-	43.923	**43.923**
Investment properties	-	-	-	-	-	473.000	**473.000**
Investment in subsidiaries	-	-	-	-	-	1.156	**1.156**
Property, equipment and intangible assets	-	-	-	-	-	3.451.502	**3.451.502**
Other assets	-	-	-	-	-	652.140	**652.140**
Prepayments and accrued income	-	-	-	-	-	474.187	**474.187**
Total assets	**192.313.886**	**2.775.205**	**1.809.690**	**44.726.036**	**2.082.954**	**5.095.908**	**248.803.679**
Liabilities							
Amounts due to banks	4.064.588	-	-	-	-	-	**4.064.588**
Customer deposits and other accounts	132.413.090	23.509.235	62.842.607	160.000	-	-	**218.924.932**
Other liabilities	-	-	-	-	-	812.223	**812.223**
Accrued expenses	1.186.577	-	-	-	-	2.724.015	**3.910.592**
Subordinated loan stock	-	-	8.570.000	-	-	-	**8.570.000**
Total liabilities	**137.664.255**	**23.509.235**	**71.412.607**	**160.000**	**-**	**3.536.238**	**236.282.335**
Net position	**54.649.631**	**(20.734.030)**	**(69.602.917)**	**44.566.036**	**2.082.954**	**1.559.670**	**12.521.344**

31 Risk management (continued)

Interest rate risk

Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities. The Bank Asset/Liability Management Committee (ALCO) continuously monitors interest rate shifts.

The interest rate risk in the investment portfolio is the risk of a reduction in net interest income of the Bank as a result of adverse movements in interest rates. This risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied by 1% (assumed change in interest rates) for the period from the repricing date until twelve months from the date of the analysis, to compute the annual impact on earnings of the change in interest rates for the next twelve months for each currency. In order to calculate the total annual impact for all currencies, correlation coefficients between the interest rates of the various currencies are used.

A parallel 1% increase in interest rates applied as at 31 December 2006, would result in a decrease in annual profits before tax of C£37 thousand in a year (2005: an increase in annual profits of C£185 thousand). A parallel 1% decrease in interest rates would result in an increase in annual profits before tax of C£9 thousand (2005: decrease in annual profits of C£203 thousand). The sensitivity analysis performed in order to calculate the above figures differs from the tables presented, in respect of the width of the time bands and the assumptions used in analysing assets and liabilities. Specifically, the sensitivity analysis takes into account behavioural characteristics such as the elasticity of interest rates on deposits and loans to changes in market rates.

The average real interest rate for loans for the year 2006 was 8,34% (2005: 8,81%).

The interest rate for the years 2006 and 2005 fluctuated between 3,55% and 6,54%.

The average effective interest rate for deposits for the year 2006 was 3,98% (2005: 4,33%).

31 Risk management (continued)

Interest rate risk – 2005

Analysis of assets and liabilities as at 31 December 2005 according to their contractual repricing or maturity date:

	Up to one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	Non-interest bearing C£	**Total C£**
Assets							
Cash and balances with Central Bank	26.125.938	1.696.155	555.420	-	-	-	**28.377.513**
Placements with banks	17.479.993	-	-	-	-	-	**17.479.993**
Loans and advances to customers	122.387.007	-	-	477.431	-	-	**122.864.438**
Investments held-to-maturity	-	-	-	24.340.156	2.074.827	-	**26.414.983**
Investments available for sale	-	-	-	-	-	106.582	**106.582**
Investment properties	-	-	-	-	-	370.000	**370.000**
Investments in subsidiaries	-	-	-	-	-	1.156	**1.156**
Property, equipment and intangible assets	-	-	-	-	-	3.661.882	**3.661.882**
Other assets	-	-	-	-	-	1.092.387	**1.092.387**
Prepayments and accrued income	-	-	-	-	-	442.495	**442.495**
Total assets	**165.992.938**	**1.696.155**	**555.420**	**24.817.587**	**2.074.827**	**5.674.502**	**200.811.429**
Liabilities							
Amounts due to banks	-	-	-	-	-	-	**-**
Customer deposits and other accounts	88.864.777	16.400.936	63.366.770	8.412.338	-	-	**177.044.821**
Other liabilities	-	-	-	-	-	645.304	**645.304**
Accrued expenses	1.107.904	-	-	-	-	2.857.705	**3.965.609**
Subordinated loan stock	-	-	8.570.000	-	-	-	**8.570.000**
Total liabilities	**89.972.681**	**16.400.936**	**71.936.770**	**8.412.338**	**-**	**3.503.009**	**190.225.734**
Net position	**76.020.257**	**(14.704.781)**	**(71.381.350)**	**16.405.249**	**2.074.827**	**2.171.493**	**10.585.695**

31 Risk management (continued)

Currency risk – 2006

Analysis of assets and liabilities as at 31 December 2006 by currency:

	Cyprus pounds C£	Euro C£	U.S. Dollars C£	British pounds C£	Other currencies C£	**Total C£**
Assets						
Cash and balances with Central Bank	29.803.820	6.979.502	10.371.470	7.388.657	20.698	**54.564.147**
Placements with banks	3.242.335	3.522.502	3.110.424	573.294	64.593	**10.513.148**
Loans and advances to customers	124.941.057	-	213.436	-	2.643.753	**127.798.246**
Investments held-to-maturity	50.832.230	-	-	-	-	**50.832.230**
Investments available for sale	43.923	-	-	-	-	**43.923**
Investment properties	473.000	-	-	-	-	**473.000**
Investments in subsidiaries	1.156	-	-	-	-	**1.156**
Property, equipment and intangible assets	3.451.502	-	-	-	-	**3.451.502**
Other assets	335.278	-	302.662	-	14.200	**652.140**
Prepayments and accrued income	468.942	-	5.245	-	-	**474.187**
Total assets	**213.593.243**	**10.502.004**	**14.003.237**	**7.961.951**	**2.743.244**	**248.803.679**
Liabilities						
Amounts due to banks	2.000.000	1.283.368	781.220	-	-	**4.064.588**
Customer deposits and other accounts	185.939.312	9.528.420	14.500.812	8.945.466	10.922	**218.924.932**
Other liabilities	812.223	-	-	-	-	**812.223**
Accrued expenses	3.837.918	6.984	25.070	40.620	-	**3.910.592**
Subordinated loan stock	8.570.000	-	-	-	-	**8.570.000**
Total liabilities	**201.159.453**	**10.818.772**	**15.307.102**	**8.986.086**	**10.922**	**236.282.335**
Net position	**12.433.790**	**(316.768)**	**(1.303.865)**	**(1.024.135)**	**2.732.322**	**12.521.344**

Currency risk results from adverse movements in the rates of exchange between currencies, interest rates, equity shares and other security prices that may result to a loss. Currency risk arises from the fact that the Bank has deposits in foreign currencies. In order to hedge against this risk, the Bank maintains equivalent liabilities in foreign Banks in the respective currencies. The open position is monitored on a regular basis by the Bank Treasury/Risk Management Unit.

31 Risk management (continued)

Currency risk – 2005

Analysis of assets and liabilities as at 31 December 2005 by currency:

	Cyprus pounds C£	Euro C£	U.S. Dollars C£	British pounds C£	Other currencies C£	**Total C£**
Assets						
Cash and balances with Central Bank	17.591.201	1.312.248	3.471.843	5.988.943	13.278	**28.377.513**
Placements with banks	12.353.138	1.143.440	2.330.080	1.573.655	79.680	**17.479.993**
Loans and advances to customers	120.833.201	401.049	160.754	-	1.469.434	**122.864.438**
Investments held-to-maturity	26.414.983	-	-	-	-	**26.414.983**
Investments available for sale	106.582	-	-	-	-	**106.582**
Investment properties	370.000	-	-	-	-	**370.000**
Investments in subsidiaries	1.156	-	-	-	-	**1.156**
Property, equipment and intangible assets	3.661.882	-	-	-	-	**3.661.882**
Other assets	395.683	734	694.944	1.026	-	**1.092.387**
Prepayments and accrued income	432.026	-	10.469	-	-	**442.495**
Total assets	**182.159.852**	**2.857.471**	**6.668.090**	**7.563.624**	**1.562.392**	**200.811.429**
Liabilities						
Amounts due to banks	-	-	-	-	-	**-**
Customer deposits and other accounts	159.942.330	2.917.679	7.024.063	7.150.552	10.197	**177.044.821**
Other liabilities	320.970	-	-	324.334	-	**645.304**
Accrued expenses	3.756.161	37.741	49.370	122.288	49	**3.965.609**
Subordinated loan stock	8.570.000	-	-	-	-	**8.570.000**
Total liabilities	**172.589.461**	**2.955.420**	**7.073.433**	**7.597.174**	**10.246**	**190.225.734**
Net position	**9.570.391**	**(97.949)**	**(405.343)**	**(33.550)**	**1.552.146**	**10.585.695**

31 Risk management (continued)

Liquidity risk – 2006

Analysis of assets and liabilities as at 31 December 2006 according to their maturity:

	On demand and up one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	C£	C£	C£	C£	C£	**C£**
Assets						
Cash and balances with Central bank	42.481.310	1.518.140	1.809.690	-	8.755.007	**54.564.147**
Placements with banks	10.472.092	41.056	-	-	-	**10.513.148**
Customer loans and advances	51.673.767	1.115.104	9.975.870	22.705.210	42.328.295	**127.798.246**
Investments held-to-maturity	3.077.069	1.257.065	-	44.415.142	2.082.954	**50.832.230**
Investments available for sale	43.923	-	-	-	-	**43.923**
Investment properties	-	-	473.000	-	-	**473.000**
Investments in subsidiaries	-	-	-	-	1.156	**1.156**
Property, equipment and intangible assets	-	-	-	-	3.451.502	**3.451.502**
Other assets	593.385	-	-	58.755	-	**652.140**
Prepayments and accrued income	-	-	474.187	-	-	**474.187**
Total assets	**108.341.546**	**3.931.365**	**12.732.747**	**67.179.107**	**56.618.914**	**248.803.679**
Liabilities						
Amounts due to banks	4.064.588	-	-	-	-	**4.064.588**
Customer deposits and other accounts	84.768.561	53.291.086	80.705.285	160.000	-	**218.924.932**
Other liabilities	288.686	-	-	33.093	490.444	**812.223**
Accrued expenses	2.579.592	528.715	800.698	1.587	-	**3.910.592**
Subordinated loan stock	-	-	-	8.000.000	570.000	**8.570.000**
Total liabilities	**91.701.427**	**53.819.801**	**81.505.983**	**8.194.680**	**1.060.444**	**236.282.335**
Net position	**16.640.119**	**(49.888.436)**	**(68.773.236)**	**58.984.427**	**55.558.470**	**12.521.344**

31 Risk management (continued)

Liquidity risk (continued)

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. In order to cover its obligations and have adequate resources to finance its customers, the Bank requires to have a constant flow of cash. To ensure there is a constant flow of cash, deposits are actively managed as well as funding limits approved but not yet utilised. The Bank also plans to offer its services to a vast number of customers, in order to avoid concentration of funding needs at a point in time or from a small number of depositors.

The Bank's management considers the matching of assets and liabilities maturity dates very important. Rarely do maturity dates of assets and liabilities , within banking organisations, exactly match , as the products offered and the payment/deposit terms vary.

The maturity dates of assets and liabilities and the ability to replace, at a reasonable cost, interest-bearing liabilities at their maturity date, are considered very important for the Bank's liquidity management.

The Bank closely monitors the repayment and replacement progress of its interest-bearing liabilities, as well as the funding limits approved and not utilised, in order to avoid the risk of a large amount of deposits that will not be replaced reaching their maturity date simultaneously.

31 Risk management (continued)

Liquidity risk – 2005

Analysis of assets and liabilities as at 31 December 2005 according to their maturity:

	On demand and up one month C£	Between one and three months C£	Between three months and one year C£	Between one and five years C£	Over five years C£	**Total C£**
Assets						
Cash and balances with Central bank	17.507.438	1.696.155	555.420	-	8.618.500	**28.377.513**
Placements with banks	17.439.732	40.261	-	-	-	**17.479.993**
Customer loans and advances	55.535.254	2.605.951	5.360.749	42.958.814	16.403.670	**122.864.438**
Investments held-to-maturity	-	-	-	24.340.156	2.074.827	**26.414.983**
Investments available for sale	106.582	-	-	-	-	**106.582**
Investment properties	-	-	-	370.000	-	**370.000**
Investments in subsidiaries	-	-	-	-	1.156	**1.156**
Property, equipment and intangible assets	-	-	-	-	3.661.882	**3.661.882**
Other assets	606.829	-	321.612	163.946	-	**1.092.387**
Prepayments and accrued income	-	-	437.251	5.244	-	**442.495**
Total assets	**91.195.835**	**4.342.367**	**6.675.032**	**67.838.160**	**30.760.035**	**200.811.429**
Liabilities						
Amounts due to banks	-	-	-	-	-	**-**
Customer deposits and other accounts	52.001.453	36.020.694	80.610.336	8.412.338	-	**177.044.821**
Other liabilities	283.489	-	324.334	37.481	-	**645.304**
Accrued expenses	2.230.408	322.746	1.246.913	165.542	-	**3.965.609**
Subordinated loan stock	-	-	-	8.000.000	570.000	**8.570.000**
Total liabilities	**54.515.350**	**36.343.440**	**82.181.583**	**16.615.361**	**570.000**	**190.225.734**
Net position	**36.680.485**	**(32.001.073)**	**(75.506.551)**	**51.222.799**	**30.190.035**	**10.585.695**

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 2006 and 26 March 2007 is stated below:

	Percentage 31.12.2006 %	Percentage 26.3.2007 %
S. Matsis	-	-
M. Michaelides	0,03	0,03
M. Kleopas	0,38	0,38
S. Solomides	-	-
F. Sorokos	-	-

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 31 December 2006 and at 26 March 2007 were:

	Percentage 31.12.2006 %	Percentage 26.3.2007 %
Universal Life Insurance Public Co. Ltd	61,060	9,990
Schöeller Holdings Ltd	-	25,495
Path Holdings Ltd	-	25,495

34 Related party transactions

The analysis of loans and other advances to members of the Board of Directors, key management personnel of the Bank, members of the Board of the parent company and to related parties as at 31 December 2006 and 2005 were as follows:

	Number of existing Directors of the bank		Number of Directors of the parent company		Loans and other advances	
	2006	2005	**2006**	2005	**2006** C£	2005 C£
More than 1% of the net assets of the Bank, per Director	**-**	1	**2**	2	**869.698**	7.887.493
Less than 1% of the net assets of the Bank, per Director	**5**	5	**10**	11	**54.872**	188.685
Total	**5**	6	**12**	13	**924.570**	8.076.178

	2006	2005
Loans and advances to key managing personnel and related parties	**497.050**	353.885
Loans and other advances	**1.421.620**	8.430.063
Tangible securities	**1.872.614**	5.947.388
Accumulated provisions for loan impairment	**-**	2.085.263
Accumulated balance of suspended income	**-**	962.666
Suspended income for the year	**-**	339.384
Write-offs and income received for the year	**-**	(153.318)
Interest income for the year	**-**	211.660
Related party deposits	**5.537.755**	6.629.791
Interest expense	**170.036**	169.969

The key management personnel of the Bank are the General Manager and seven (7) high-ranking executive members.

In addition, there were contingent liabilities in respect of members of the Board of Directors of the Bank and the parent company in the form of documentary credits, guarantees and commitments to lend, amounting to C£435.341 (2005: C£1.497.110). Of these C£299.513 (2005: C£1.351.531) relate to Directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Bank per director. There were also contingent liabilities to Bank key management personnel amounting to C£94.054 (2005: C£66.460) of which amount of C£13.458 (2005: C£0) concerns management personnel and related parties whose total credit facilities exceed the net assets by 1% per manager.

As of 21 September 2006, Madisas Ltd (formerly Spidertrade Finance Ltd) is not considered a related party to the Bank and the Universal Group of companies, due to the disposal of the shares held by a member of the Board of Directors of the parent company to a third party, who has no relationship with the Bank and Universal Group of Companies.

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

All transactions with Directors, key management personnel or/and with their connected persons are made on normal business terms.

Fees and emoluments of Directors and key management personnel

	2006 C£	2005 C£
Directors emoluments		
Fees:		
Non executive	**27.905**	31.621
Emoluments in executive capacity	**27.905**	31.621
Key management personnel emoluments		
Salaries and other short-term benefits	**350.279**	406.767
Employer contributions for social insurance etc.	**31.333**	29.629
Retirement benefit plan costs	**75.354**	85.827
Total emoluments of key management personnel	**456.966**	522.223
Total	**484.871**	553.844

Mr. Michalis Kleopas, who is a member and the secretary of the Bank's Board of Directors, is a partner in the Law Office Kleopas & Kleopas, who are the external legal advisors of the Bank, handling court cases and legal proceedings on behalf of the Bank. The total cost of these cases which is charged to the debtors/creditors for 2006 amounted to C£32.999 (2005: C£3.276).

Mr Michalis Michaelides, member of the Bank's Board of Directors, provides advisory services to the Law Office Ntinos Michaelides & Co, which handles law cases and procedures against debtors/creditors of the Bank. The total cost charged for these cases for 2006 amounted to C£7.097 (2005 : C£3.942)

Mr. Iosif Vavlitis, who was a member of the Bank's Board of Directors until 8 September 2006, is the main shareholder of J.K. Vavlitis Ltd, which provides maintenance and technical support to the Bank's air-conditioning systems. The total amount charged for its services for 2006 amounted to C£9.999 (2005: C£6.103). Purchases of equipment for 2006 amounted to C£11.799 (2005: C£1.000).

During 2006, the Bank received C£8.706 (2005: C£5.918) from its parent company Universal Life Insurance Public Co. Limited as fee and commission income. These amounts are included in fee and commission income to the Profit and Loss Account.

Furthermore, the Bank paid the following to its parent company Universal Life Insurance Public Co Limited:

	2006	2005
	C£	C£
Operating lease rentals for buildings	**150.960**	150.960
Insurance premiums for life and general insurance contracts	**169.764**	163.942
Cost of staff medical insurance	**23.408**	113.034
Other	**24.800**	29.985
Total	**368.932**	457.921

35 Agreements with major shareholder

Except for the disclosures in notes 12, 21 and 34 to the Financial Statements, at the date of the Financial Statements there were no other agreements between the Bank and its major shareholder.

36 Events after the balance sheet date

On 4 January 2007, the Board of Directors of the parent company received a notification letter that was sent to the CSE by Sharelink Securities and Financial Services Ltd, financial advisors to Aspis Pronoia A.E.G.A. and Commercial Value AAE, in which they announced their intention to revise the Terms of the Public Offer for the acquisition of a minimum 20% and a maximum of 50% plus one share of the Bank's issued share capital for C£1,10 or €1,90 per share in cash.

On 8 January 2007, the Board of Directors of the Bank announced its opinion on the Public Offer by Schöeller Holdings Ltd and Path Holdings Ltd for the acquisition of a minimum 41% and a maximum of 50,99% of the issued share capital of the Bank. Specifically, the Board believed that the offered price of 90 cents per share was fair and reasonable, based on the net book value of the Bank and its market value during the last 12 months prior to the announcement of the Public Offer. Also, the Board of Directors laid emphasis on the prospect for an immediate increase in the Bank's capital base, and the prospects that would arise for the development of new business. As a result, the Board of Directors decided to recommend to the shareholders the acceptance of the Public Offer.

On 10 January 2007, Universal Life Insurance Public Co. Ltd sold 907.689 shares of the Bank to Schöeller Holdings Ltd and 907.689 shares of the Bank to Path Holdings Ltd.

On 31 January 2007, Schöeller Holdings Ltd and Path Holdings Ltd announced their intention to revise the terms of their Public Offer. Specifically, the revised Public Offer did not include the provision that was mentioned in the Public Offer dated December 20, 2006, and according to which "the Public Offer would be considered successful if, apart from the bidder and Universal Life Insurance Public Co. Ltd, no other shareholder exists, that controls directly or indirectly a stake of more than 19.99% of Universal Bank Public Limited, during the end of the acceptance period of the Public Offer. The remaining provisions of the Public Offer dated December 20, 2006 remained unchanged. The revised Public Offer document was authorised for issue by the CSE Council on 8 February 2007.

On 7 February 2007, Universal Life Insurance Public Co. Ltd announced that pursuant to the provisions of Article 171(1) of the Cyprus Stock Exchange Regulations, sold on 6 February 2007, 5.910.566 shares of Universal Bank Public Ltd. As a result their stake in the share capital of the Bank was decreased to 9.99% from 49.06%. The transaction was completed further to a decision by the Board of Directors of Universal Life Insurance Public Company Ltd dated 6 February 2006, to transfer the 39% of the share capital of Universal Bank Public Ltd to the companies Schöeller Holdings Ltd and Path Holdings Ltd, in the frames of the acceptance of the Public Offer and according to the signed selling agreement with the companies, dated 17 November 2006.

On 8 February 2007, the Board of Directors of the Bank received notification of a letter sent to the CSE by Sharelink Securities and Financial Services Ltd, financial advisors to Aspis Pronoia A.E.G.A. and Commercial Value AAE dated 16 February 2007, in which they announced their intention to revise the Terms of the Public Offer for the acquisition of a minimum 20% and a maximum of 50% plus one share of the Bank's issued share capital for C£1,36 or €2,35 per share in cash instead of C£1,10 or €1,90 per share in cash. The revised Public Offer document was authorised for issue by the CSE Council on 16 February 2007.

On 21 February 2007, the Board of Directors of the Bank announced its opinion on the Public Offer by Aspis Pronoia A.E.G.A. and Commercial Value A.A.E. dated 16 February 2007, for the acquisition of a minimum 20% and a maximum of 50% plus one share of the issued share capital of the Bank. Specifically, the serious doubts that the Board of Directors had in relation to the business plan of the Offerors and the prospects for the strengthening of the Bank's capital base, have been raised given that the Bank's control has been transferred to Schöeller Holdings Limited and Path Holdings Limited. As a result, giving regard to the offered price, the Board of Directors decided to recommend to the shareholders the acceptance of the Competitive and Revised Public Offer.

On 1 March 2007, the CSE Council announced that in agreement with the SEC and pursuant to Regulation 13(2), it decided to extend for two weeks the period of acceptance of the Competitive and Revised Public Offer of Aspis Pronoia AEGA and Commercial Value A.A.E. for the acquisition of a minimum 20% and a maximum 50% plus 1 share of the issued share capital of Universal Bank Public Ltd and the Revised Public Offer of Schöeller Holdings Ltd and Path Holdings Ltd for the acquisition of a minimum 41% and a maximum 50.99% of the issued share capital of Universal Bank Public Ltd, so that they expire on March 15, 2007 and in order to give time to the Securities and Exchange Commission to complete its investigation.

On 13 March 2007, the CSE Council announced that in agreement with the SEC and pursuant to Regulation 13(2), it decided to extend for two weeks more the period of acceptance of the Competitive and Revised Public Offer by Aspis Pronoia AEGA and Commercial Value A.A.E. for the acquisition of a minimum 20% and a maximum 50% plus 1 share of the issued share capital of Universal Bank Public Ltd and the Revised Public Offer by Schöeller Holdings Ltd and Path Holdings Ltd for the acquisition of a minimum 41% and a maximum 50.99% of the issued share capital of Universal Bank Public Ltd so that they expire on March 29, 2007 in order to give time to the Securities and Exchange Commission to complete its investigation and announce its results. The investigation of the Securities and Exchange Commission concerns the possible revision of the terms of the Public Offers that are in effect for the acquisition of a stake in the share capital of Universal Bank Public Ltd, pursuant to Regulation 16 of the Mergers and Acquisitions Regulation. The CSE Council will, therefore, examine the issue within the framework of Regulation 16 at its next meeting.

37 Differences between the final audited results and the reported preliminary unaudited results

The final audited results of the Bank differ from the preliminary unaudited results announced on 28 February 2007. The reason is the settlement of the liability for stamp duty and fine imposed by the Stamp Duty Commissioner for the issue of C£8 million of non convertible securities with duration of 5 years in the year 2003. The settlement was finalised on 19 March 2007, resulting in a decrease of operating expenses with a simultaneous increase in profits by C£432 thousand.

Report on the Financial Statements

We have audited the financial statements of Universal Bank Public Limited (the "Company") on pages 17 to 67, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 and fair presentation of the financial statements 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 Universal Bank Public Limited as of 31 December 2006, 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 EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law,Cap.113.

Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, 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 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 15 to 16 is consistent with the financial statements.

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 156 of the Companies Law, Cap.113 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.

Ernst & Young
Chartered Accountants

Nicosia
28 March 2007

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