annual**report** 2011

usbbank

WE DELIVER WHAT MATTERS

Contents

Notice of Annual General Meeting

The Annual General Meeting of USB Bank PLC will be held at the Hilton Hotel in Nicosia, on Friday 20 July 2012 at 4.00 p.m. to address the following:

Agenda

1 Review and approval of the Directors' Report for the year ended 31 December 2011.

2 Review and approval of the Financial Statements and the Auditors' Report for the year ended 31 December 2011.

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

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

5 Re-appointment of the Independent Auditors and authorisation to the Board of Directors to fix their remuneration.

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

By order of the Board,

Andreas Theodorides
Secretary

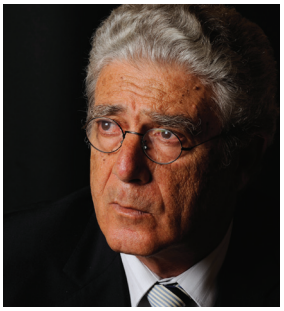
Nicosia, June 25 2012

Notes:

(a) A member entitled to attend and vote at the above meeting, is entitled to appoint a proxy to attend and vote on his behalf. The instrument appointing the proxy must either be received at P.O. Box 28510, 2080 Nicosia, or by Fax at +35722458367 or deposited at the registered office of the Bank, 83 Digenis Akritas Avenue, 5th floor, 1070 Nicosia, at least 48 hours before the time of the meeting or adjourned meeting.

(b) The Annual Report of USB Bank PLC for the year 2011 is available in electronic form on the Bank's website at www.usbbank.com.cy
Copies of the Annual Report, either in electronic form or in printed form, are also available, free of charge, at the Shares Department, 83 Digenis Akritas Avenue, 4th floor, Nicosia, Telephone:22883523, Fax: 22458367, e-mail: shares@usb.com.cy
The Annual Report will also be available, in printed form during the Annual General Meeting.

Chairman's Statement



Dear Shareholders,

2011 was undoubtedly a very difficult year for the Cypriot economy due to the ongoing financial turbulence in the euro zone and the Cypriot banks' exposure to the Greek debt crisis. This exposure to the Greek economy resulted in the Cypriot Banking system being affected by the finalization of the terms of the private sector involvement plan (PSI) on the 21st of February, 2012 along with the rising impairment on the write-down of the Greek government bonds.

Taking into account the terms of the PSI, USB Bank recorded an impairment loss of Euro 9.5 million on the Greek government bonds, representing 71.5% of their nominal value. The profit before impairment was Euro 1.4 million for the year 2011 compared to a loss of Euro 6.5 million for the year 2010, whereby the loss after impairment for 2011 accounted for approximately Euro 9 million.

As our primary objective is to maintain a strong capital base, a healthy liquidity and to allow for growth, the main shareholder, BLC Bank SAL, has already decided to cover the losses of 2011, due to the Greek debt crisis and increase the share capital by Euro 17 million through an extraordinary general assembly meeting held on May 25, 2012.

Despite all the challenges faced, the past year was a significant turning point for USB Bank. In fact, the successful acquisition by BLC Bank – Fransabank Group in February 2011 and the latter's continuous support contributed to USB increasing its turnover by 17% compared to the previous year and its operational profits before provisions by 10 times posting Euro 4.3 million compared to Euro 392 thousand for 2010. Moreover, deposits increased by 11% reaching Euro 522 million in 2011 and the Bank's lending portfolio increased by 17% to reach Euro 449 million as at end of 2011.

Maintaining high levels of liquidity, a minimal exposure to the Greek debt and not having a presence in countries of economic risk constitute a competitive advantage for USB Bank, allowing it to focus on growing its business locally and internationally, capitalizing on the opportunities arising from the wide network of the Group and leveraging on their know-how and expertise.

Amidst this economic turmoil, satisfying clients' needs is becoming more and more challenging. At USB Bank, we adapt to new situations by focusing on technology, innovation and our human capital to meet emerging client needs. Committed to our values of transparency, reliability, integrity and professionalism, we aim to provide service excellence to all our stakeholders.

Maurice Sehnaoui
Chairman

Report on Corporate Governance

Part A

The establishment and adoption of corporate governance principles and the reinforcement of the supervisory role of the Board of Directors are aiming to the full transparency over the total administration of USB Bank Plc (the "Bank"), the continuous servicing of corporate interest and investors' interest, the provision of timely information, as well as the guarantee that the Board of Directors is sufficiently independent in its decision making.

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

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

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

Following the successful Public Offer by BLC Bank SAL to the shareholders of the Bank for the acquisition of up to 100% of the issued share capital, the dispersion of the Bank has dropped below 10% and as a result of this and in view of the failure to abide by the obligations of the parallel market that the Bank was listed in, the C.S.E. Council decided to transfer the titles of the Bank from the parallel market to the Special Characteristics Market for an additional nine months period which expires on December 27, 2012, during which time the Bank is to become compliant to the relevant regulations for compliance.

Voting rights which correspond to 15,168,543 new shares acquired by BLC Bank SAL on 4 May 2011 are suspended temporarily.

Part B

The Board of Directors of the Bank confirms that during 2011 it has complied with the relative provisions of the Code.

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

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

1. Board of Directors

1.1 Role of the Board of Directors

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

1.2 Operation of the Board of Directors

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

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

Report on Corporate Governance

1.2 Operation of the Board of Directors (continued)

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

1.3 Board of Directors Main Responsibilities

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

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

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

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

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

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

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

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

Report on Corporate Governance

1.4 Meetings of the Board of Directors

The Board of Directors must convene regularly, at least 6 times in a year. During 2011, the Board of Directors has convened eleven times.

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

1.5 Composition of the Board of Directors

On 31 December 2011 the Bank's Board of Directors comprised of fifteen members as follows:

Chairman:		
Mr. Maurice Sehnaoui	Non Independent,	Non Executive
Members:		
Fransabank SAL represented by Mr. Adel Kassar	Non Independent,	Non Executive
Mr. Nadim Kassar	Non Independent,	Non Executive
Mr. Nabil Kassar	Non Independent,	Non Executive
Mr. Walid Daouk	Non Independent,	Non Executive
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	Non Independent,	Non Executive
Mr. Raoul Nehme	Non Independent,	Non Executive
BLC Bank SAL represented by Mr. Walid Ziade	Non Independent,	Non Executive
Mrs Tania Moussallem	Non Independent,	Non Executive
Mr. Agis Taramides	Independent,	Non Executive
Mr. George Galatariotis	Independent,	Non Executive
Mr. George Stylianou	Independent,	Non Executive
Mr. Philippos Philis	Independent,	Non Executive
Mr. Andreas Theodorides	Non Independent,	Executive
Mrs Despo Polycarpou	Non Independent,	Executive
Secretary:		
Andreas Theodorides		

Changes in the composition during 2011

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

The following members resigned from the Board of Directors:

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

Messrs Maurice Sehnaoui, Fransabank SAL (represented by Mr. Adel Kassar), Nadim Kassar, Nabil Kassar, Walid Daouk. Fransa Invest Bank SAL (represented by Mr. Mansour Bteish), Raoul Nehme, BLC Bank SAL (represented by Mr. Walid Ziade), Tania Moussallem, Agis Taramides and George Galatariotis.

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

Their appointment has been validated during the Annual General Meeting of the shareholders which took place on 28 June 2011.

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

Report on Corporate Governance

1.5 Composition of the Board of Directors

Structure of the Board of Directors as at 31.12.2011

Total Board Members, fifteen out of which:

Executives/Non-Independent Members:	two
Non-Executive & Independent Members:	four
Non-Executive & Non-Independent Members:	nine

1.6 Senior Independent Director

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

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

1.7 Non executive Directors

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

1.8 Classification criteria for determining Independent Directors

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

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

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

On an annual basis, an Assessment Report concerning the non executive and independent members is submitted to the Board of Directors in order to evaluate their compliance with the criteria of Independence. Based on the structure of the Board of Directors, the Bank confirms that during the year 2011, it has complied with the Provision A.2.3 of the Code, by the participation of four Independent members in the Board of Directors.

1.9 Definition and Division of Responsibilities of the Chairman and Managing Director

The Chairman responsibilities are performed by Mr. Maurice Sehnaoui and the responsibilities of the Managing Director by Mr. Andreas Theodorides – Deputy Managing Director. The Chairman is responsible for the proper running of the Board of Directors meetings and the General Meetings of the Bank, guides the Board of Directors and deals with strategic issues of the Bank. The Deputy Managing Director has the responsibility for the daily operations of the Bank and deals with the management and the effective monitoring of the activities and operations of the Bank. The division of the Chairman position and the Managing Director position satisfies the relative provision A.2.6 of the Code.

[1] The Directive was issued according to article 41 of the Banking Laws of 1997.

Report on Corporate Governance

1.10 Re-election of Directors

For the year ended 31 December 2011 and according to the Banks' Articles of Association at the next Annual General Meeting of the shareholders Messrs Raoul Nehme, Tania Moussallem, George Galatariotis, Andreas Theodorides and Despo Polycarpou will retire but they offer themselves for re-election.

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

Biographical Details of the Members of the Board of Directors

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

H.E. Maurice Sehnaoui (Chairman of the Board of Directors)

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

Mr. Adel Kassar (representing Fransabank SAL)

He was born in Beirut in 1932. He has a degree in Lebanese and French law of the St. Joseph University, Beirut and has thirty years of experience in banking. He is a former Chairman of the Association of Banks in Lebanon and is the Honorary Consul General of the Republic of Hungary in Lebanon. He is Founder and Co-Owner of A.A. Kassar SAL and Board Member of "Chateau Ksara", a leading wine spirit in Lebanon. He is the Deputy Chairman of the Board of Directors of Fransabank SAL and of Fransa Holding. He is also the Chairman of the Board of Directors of Fransabank (France) SA and Fransabank (Syria) SA. He is also the Chairman of the Board of Directors and General Manager of Bancassurance SAL and of the Lebanese Leasing Company SAL. He is a Member of the Supervisory Board of Fransabank OJSC and Member of the Board of Directors of BLC Bank SAL.

Mr. Nadim Kassar

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

Mr. Nabil Kassar

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

Mr. Walid Ziade (representing BLC Bank SAL)

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

Report on Corporate Governance

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

H.E. Mr. Walid Daouk, Esq
He was born in 1958. He has a degree in Lebanese and French law of the St. Joseph University Beirut, he is a practionner lawyer member of the Beirut Bar Association since 1982 and is a member of the Board of Directors of various companies, real estate, banks and financial institutions in Lebanon and abroad including Fransabank (France) SA, Fransabank El Djazair SPA, BLC Bank SAL, Bankassurance SAL and the Lebanese Leasing Company SAL. He is the Government Commissioner at the Beirut Stock Exchange and the Chairman of the Audit Committee and member of the Corporate Governance and Risk Management Committees, he is a former member of the Board of Directors of the Counsel of Development and Reconstruction of Lebanon. Since June 2011 he is the Minister of Information of the Republic of Lebanon.

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

Mrs Tania Moussallem
She was born in 1972. She has over 16 years of banking experience and is currently Assistant General Manager heading the Strategic Development and Financial Management Group at BLC Bank. She joined BLC Bank in 2008 where she initiated, headed and implemented several strategic and innovative development projects involving external and organic growth for the bank. Areas covered include acquisitions, finance, insurance, factoring, investment banking, technology, corporate social responsibility, etc. She had started her carrier at Société Générale de Banque au Liban where she held several managerial positions and headed among others Investment Banking, Specialized Financing and SME's Departments. In parallel, she acted as Deputy Head of the Corporate and Investment Banking Division. She developed as well an extensive experience in privatization of the energy and water and waste water sectors including a 6 months period as member of the Minister of Energy and Water Cabinet. She holds a Masters degree in Finance & Communication from Ecole Superieure des Sciences Economiques et Commerciales ESSEC, France and a degree in Business Administration from the American University of Beirut.

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

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

Report on Corporate Governance

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

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

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

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

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

Mrs Despo Polycarpou
She was born in 1957. She is a Fellow of the Chartered Institute of Bankers (FCIB) and holds the ACIB degree. She is the Secretary General of the Cyprus Institute of Financial Services. She started her career in 1976 in Hellenic Bank. She was employed in USB Bank Plc in 1999 where she held various positions including Manager Banking Operations and Trade Services, Nicosia Regional Manager, Manager Banking Services Development, Manager Retail Sector and currently she holds the position of the Assistant General Manager, Manager of Compliance & Projects and also the position of the Manager of Human Resources.

Report on Corporate Governance

2. Confirmations by the Board of Directors

2.1 Going Concern

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

The impairment loss of €9.455.741 on the Greek Government Bonds as at 31 December 2011 based on the specific terms of the Private sector involvement (PSI) voluntary plan, have led to lower capital adequacy levels than the required levels of the Central Bank of Cyprus.

The major shareholder of the Bank, BLC Bank SAL is committed to take all necessary actions to ensure that the capital adequacy levels will fall within the limits set by the Central Bank of Cyprus.

2.2 Internal Control Systems

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

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

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

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

3. Board of Directors Committees

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

3.1 Audit Committee

Role of the Committee

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

Report on Corporate Governance

3.1 Audit Committee (continued)

Composition and terms of reference of the Committee

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

Duties and responsibilities of the Committee

- Recommendations to the Board of Directors with regards to the appointment, termination and remunera tion of the Bank's external auditors.
- The continuous supervision of the extent and effectiveness of the external audit and the independence and objectivity of the auditors.
- Review in cooperation with the Risk Management Committee the implementation of the Basel II framework.
- Review and evaluation on an annual basis of the adequacy and effectiveness of the Internal Control Sys tem as per the relative information provided by the Internal Audit Department, the findings and obser vations of the External Auditors, the Central Bank of Cyprus and the Cyprus Securities and Exchange Commission. On the basis of this examination, it recommends the corrective actions to be taken by the Bank's Board of Directors.
- Review of the six monthly, interim statements and the final financial statements before submission to the Board of Directors for approval.
- Guarantees that the Bank appoints every three years external auditors for the evaluation of the Internal Control System according to the Central Bank of Cyprus Directive.
- Review of any significant events or risks that affect the Bank's operations.
- Review the material transactions of the Bank which the Chairman, the Executive Directors, the members of the Board of Directors, the Executive Management, the Secretary, the Auditors or major shareholder of the Bank as well as their related parties who hold directly or indirectly more than 5% of the issued share capital or the voting rights of the Company, have a direct or indirect substantial interest, in order to en sure that these transactions are carried out in he normal course of business and at arm's length.
- The performance of any other related duties, which may be assigned by the Board.

Report on Corporate Governance

3.1 Audit Committee (continued)

Composition and service of the members of the Committee during 2011 until today

Current composition

Chairman:		
George Stylianou	from 7/7/2008	Non Executive, Independent
Members:		
Philippos Philis	from 21/1/2009	Non Executive, Independent
Walid Daouk	from 21/3/2011	Non Executive, Non Independent
BLC Bank SAL represented by Mr. Walid Ziade	from 21/3/2011	Non Executive, Non Independent
Agis Taramides	from 21/3/2011	Non Executive, Independent

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

During the year 2011, the Audit Committee has met seven times.

3.2 Nominations/Internal Governance Committee

Role of the Committee

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

Composition and terms of operation of the Committee

- The Board of Directors appoints the members of the Committee.
- The Board of Directors appoints the Chairman of the Committee.
- The Chairman of the Committee may be either the Chairman of the Board of Directors (non executive), or a non executive member.
- The majority of the members of the Committee should be non executive Directors.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of at least three or more members.
- Three members of the Committee comprise a quorum.
- The Committee meets when required.
- The Committee keeps minutes for all its decisions and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice when ever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Banks' shareholders.

3.2 Nominations/Internal Governance Committee (continued)

Duties and responsibilities of the Committee

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

Composition and service of the members of the Committee during 2011 until today

Current composition

Chairman:		
Philippos Philis	from 25/2/2010	Non Executive, Independent
Members:		
Raoul Nehme	from 21/10/2010	Non Executive, Non Independent
Nadim Kassar	from 21/3/2011	Non Executive, Non Independent
Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
BLC Bank SAL represented represented by Mr. Walid Ziade	from 21/3/2011	Non Executive, Non Independent
Andreas Theodorides	from 21/3/2011	Executive, Non Independent

On 21 March 2011 Messrs Nadim Kassar, Nabil Kassar, BLC Bank SAL represented by Mr. Walid Ziade and Andreas Theodorides were appointed in replacement of Messrs Michalis Kleopas, Yiannos Mouzouris and Yiannos Christofi who resigned as members of the Board on the same date.

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

During the year 2011, the Committee has met once.

3.3 Remuneration Committee

Role of the Committee

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

3.3 Remuneration Committee (continued)

Composition and terms of operation of the Committee

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

Duties and responsibilities of the Committee

- Submission to the Board of Directors of recommendations concerning the framework and level of remu neration of the Executive Directors. The remuneration must be sufficient so as to attract and maintain the Directors at the Bank's service.
- Review of employment contracts of the Executive Directors.
- Periodic review of the Remuneration Policy for the Executive Directors or the Managing Directors, includ ing the policy regarding remuneration, based on shares and its application.
- Submission of the Directors' remuneration Policy to the shareholders for approval at an Annual General Meeting.
- Evaluation and approval of the Annual Directors' Remuneration Statement in accordance with Annex 2 of the Code, to be included in the Annual Report.
- The Remuneration Committee recommends the Remuneration Policy Report in accordance with Annex 1 of the Code. The Remuneration Policy Report is included in the Bank's Annual Report and is presented to the Annual General Meeting of the shareholders for approval.
- The Remuneration Committee shall, when using the services of a consultant to obtain information on market standards for remuneration systems, ensure that this consultant is not also giving advice to the hu man resources department or the Executive or Managing Directors of the Bank.
- The performance of any other related duties, which may be assigned by the Board.

3.3 Remuneration Committee (continued)

Composition and service of the members of the Committee during 2011 until today

Current composition

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

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

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

All the members of the Remuneration Committee have sufficient knowledge and experience in the remuneration policy sector.

During the year 2011, the Committee has met once.

3.4 Risk Management Committee

Role of the Committee

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

Composition and terms of reference of the Committee

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

3.4 Risk Management Committee (continued)

Duties and responsibilities of the Committee

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

Composition and service of the members of the Committee during 2011 until today

Current composition

Chairman:		
Walid Daouk	from 21/3/2011	Non Executive, Non Independent
Members:		
Andreas Theodorides	from 12/7/2010	Executive, Non Independent
Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
BLC Bank SAL represented by Mr. Walid Ziade	from 21/3/2011	Non Executive, Non Independent
George Galatariotis	from 21/3/2011	Non Executive, Independent
Raoul Nehme	from 4/11/2011	Non Executive, Non Independent
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	from 4/11/2011	Non Executive, Non Independent

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

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

On 4 November 2011, Mr. Raoul Nehme and Fransa Invest Bank SAL (represented by Mr. Mansour Bteish), were appointed as additional members of the Committee.

During the year 2011, the Committee has met four times.

4. Report on Remuneration of Board of Directors

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

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

The remuneration of the members of the Board of Directors is analysed between remuneration as members of the Board of Directors and remuneration for their executive services. The analysis of the remuneration of the Board of Directors is presented in Note 32 of the audited financial statements for the year ended 31 December 2011. Furthermore the Remuneration of the members of the Board of Directors is analyzed as follows:

4.1 Remuneration of the Non Executive Members of the Board

	2011 €	2010 €
Maurice Sehnaoui	24.677	-
Fransabank SAL represented by Mr. Adel Kassar	5.609	-
Nadim Kassar	6.082	-
Nabil Kassar	7.978	-
Walid Daouk	11.773	-
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	6.090	-
Raoul Nehme	8.665	1.353
Tania Moussallem	7.906	1.352
Agis Taramides	8.102	-
George Galatariotis	8.922	-
George Stylianou	14.178	16.456
Philippos Philis	12.336	10.919
BLC Bank SAL represented by Mr. Walid Ziade	10.136	-
Pavlos Savvides (retired on 21.10.2010)	-	32.891
Michalis Kleopas (retired on 21.3.2011)	8.362	17.853
Yiannos Mouzouris (retired on 21.3.2011)	3.276	12.418
Yiannos Christofi (retired on 21.3.2011)	3.198	13.952
Garo Keheyan (retired on 21.3.2011)	1.844	8.602
Kleanthis Demosthenous (retired on 8.10.2010)	-	6.384
Marios Hannides (retired on 21.3.2011)	2.146	9.850
Georges Tabet (retired on 21.3.2011)	-	1.858
Echo Naji (retired on 21.3.2011)	-	1.268
	151.280	**135.156**

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

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

4.1 Remuneration of the Non Executive Members of the Board (continued)

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

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

4.2 Remuneration of Executive Members of the Board

The salaries and other short-term benefits of the Executive Members of the Board totalling €245K (2010 €389K) concern €126K (2010:121K) for Mr. Andreas Theodorides and €119K (2010:108K) for Mrs. Despo Polycarpou and also €160K (2010) for Mr. Kyriacos Kyriakides who retired from the Board of Directors on 1 July 2010.

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

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

As far as the remuneration of the Executive Directors is concerned, no Remuneration Policy is provided, under which variable remuneration components are included, nor any schemes were adopted under which share options are granted.

All Executive Members of the Board of Directors are participating in the Staff Retirement Benefits Scheme with the same terms applicable to the personnel of the Bank. The main characteristics of the Scheme are described in Note 6 of the audited financial statements for the year ended 31 December 2011.

5. Loans and other transactions of the members of the Board of Directors

Details of the loans and other transactions of the members of the Board of Directors and their related parties for the year ended 31 December 2011 are set out in Note 32 of the audited financial statements. It is certified that All the transactions are conducted in the normal course of the Banks' business, on an arms length basis and with transparency.

6. Investor Relations

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

The Board of Directors provide the opportunity to shareholders who represent at least 5% of the Bank's share capital to place items on the agenda of the General Meetings of the shareholders in accordance with the procedures provided for by the Companies Act.

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

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

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

Report on Corporate Governance

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

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

Board of Directors

USB BANK PLC

24 April 2012

Board of Directors and Other Executives

Board of Directors
Maurice Sehnaoui, Non Executive Chairman
Fransabank SAL represented by Mr. Adel Kassar
Nadim Kassar
Nabil Kassar
Walid Daouk
Fransa Invest Bank SAL represented by Mr. Mansour Bteish
Raoul Nehme
BLC Bank SAL represented by Mr. Walid Ziade
Tania Moussallem
Agis Taramides
George Galatariotis
George Stylianou
Philippos Philis
Andreas Theodorides
Despo Polykarpou

Secretary of the Board
Andreas Theodorides

Deputy Managing Director
Andreas Theodorides

Finance Manager
Paola Ioannou

Registered Office
83 Digenis Akritas Avenue, 5th floor, 1070 Nicosia

Legal Advisors
Dr. Kypros Chrysostomides & Co
L.Papafilippou and Co

Independent Auditors
Deloitte Limited
Certified Public Accountants and Registered Auditors

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements

(In accordance with the provisions of the Law 190(I)/2007 & 72(I)/2009 on Transparency Requirements)

In accordance with Article 9, subparagraph (3)(c) and (7) of the Transparency Requirements (Traded securities in a Regulated Market) Act 2007 and 2009, we, the members of the Board of Directors and the officers responsible for the drafting of the financial statements of USB Bank Plc (the "Bank") for the year ended 31 December 2011, declare that, to the best of our knowledge:

(a) the financial statements which are presented in pages 30 to 82:
   (i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Article 9, subparagraph (4) of the Act, and

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

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

Maurice Sehnaoui	Non Executive Chairman
Fransabank SAL represented by Mr. Adel Kassar	Non Executive Director
Nadim Kassar	Non Executive Director
Nabil Kassar	Non Executive Director
Walid Daouk	Non Executive Director
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	Non Executive Director
Raoul Nehme	Non Executive Director
BLC Bank SAL represented by Mr. Walid Ziade	Non Executive Director
Tania Moussallem	Non Executive Director
Agis Taramides	Independent, Non Executive Director
George Galatariotis	Independent, Non Executive Director
George Stylianou	Independent, Non Executive Director
Philippos Philis	Independent, Non Executive Director
Andreas Theodorides	Executive Director
Despo Polykarpou	Executive Director
Paola Ioannou	Finance Manager

24 April 2012

Board of Directors' Report

The Board of Directors of USB Bank Plc (the 'Bank') submit to the shareholders their report and the audited financial statements for the year ended 31 December 2011.

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

Financial Results
Despite the difficult economic conditions and the challenging environment of recession and uncertainty due to the ongoing financial crisis, it is important to note the increase by 10 times of operating profits before provisions, amounting to €4,3 million compared to operating profit before provisions of €392 thousand for the year 2010. After the provisions for impairment of loans and advances granted prior to the acquisition by BLC Bank SAL of the majority of shares of the Bank, profits amounted to €1,4 million for the year 2011 compared to losses of approximately €6,5 million in 2010, which was followed by a €12 million capital increase subscribed entirely by BLC Bank SAL.

The Bank expanded significantly its turnover in 2011 by 17% compared to 2010, from €34 million in 2010 to €40 million in 2011 and increased its customer deposits by 11% from €471 million in 2010 to €522 million in 2011. Furthermore, the lending portfolio increased by 17% compared to the prior year reaching €449 million by the end of 2011 compared to €383 million in 2010.

The main financial highlights of the Bank for the years 2011 and 2010 are as follows:

	2011	2010
	€000	€000
Turnover	**39.806**	33.981
Profit before provisions	**4.287**	392
Profit / (loss) for the year after provisions for impairment of loans and advances	**1.399**	(6.534)
Provisions for impairment of Greek Government Bonds	**(9.456)**	-
Loss for the year	**(8.961)**	(6.534)
Losses per share (cent)	**(16,1)**	(14,4)
Customer deposits	**522.291**	470.571
Loans and advances to customers before provisions for impairment	**449.421**	382.735
Total assets	**704.959**	541.956
Equity	**26.295**	24.042

In 2011 and 2010, no dividends were paid or declared since the Bank had accumulated losses.

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authorities as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders.

Board of Directors' Report

Financial Results (continued)
In 2011 and 2010 the capital adequacy ratios of the Bank were as follows:

	2011	2010
Core Tier 1 ratio	**5,3%**	5,6%
Original Own Funds ratio	**5,6%**	5,9%
Capital Adequacy ratio	**8,6%**	9,4%

On 31 December 2011 the minimum limit set on the Core tier 1 ratio was 8% and the minimum limit for the Original Own Funds ratio and the Capital Adequacy ratio were 9,5% and 11,5% respectively.

All the above ratios of supervisory capital of the Bank are below the minimum required by the Central Bank of Cyprus. The Bank is already examining a recapitalisation plan which will strengthen its capital adequacy in order to exceed all required minimum capital adequacy ratios.

Board of Directors
The Board of Directors at the date of this report is listed on page 21. Following the successful completion of the process of the Public Offer and the acquisition of the majority of shares by BLC Bank SAL, on 21 March 2011 a restructuring took place whereby the Board of Directors of the Bank unanimously elected and appointed as new Non-Executive Chairman Mr. Maurice Sehnaoui with immediate effect from 21 March 2011 to replace Mr. Michalis Kleopas who resigned from his position of Chairman of the Board of Directors, Board member and Secretary of the Board. On the same date, Mr. Andreas Theodorides was appointed as secretary of the Board of Directors.

On 21 March 2011, Messrs Michalis Kleopas, Marios Hannides, Yiannos Mouzouris, Yiannos Christofi, Garo Keheyan, Echo Naji and Georges Tabet submitted their resignation from their position in the Bank's Board of Directors, which was accepted. At the same meeting, the Board of Directors appointed Messrs Maurice Sehnaoui, Fransabank SAL represented by Mr. Adel Kassar, Nadim Kassar, Nabil Kassar, Walid Daouk, Fransa Invest Bank SAL represented by Mr. Mansour Bteish, BLC Bank SAL represented by Mr. Walid Ziade, Agis Taramides and George Galatariotis as new Board members with immediate effect from 21 March 2011. Also during the same meeting the new composition of the Board Committees was decided, which were established based on the Directives of the Corporate Governance Code of the Cyprus Stock Exchange and the related Directives of the Central Bank of Cyprus.

Board of Directors' Report

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

Michalis Kleopas	(resigned on 21/03/2011)
Marios Hannides	(resigned on 21/03/2011)
Yiannos Mouzouris	(resigned on 21/03/2011)
Yiannos Christofi	(resigned on 21/03/2011)
Garo Keheyan	(resigned on 21/03/2011)
Echo Naji	(resigned on 21/03/2011)
Georges Tabet	(resigned on 21/03/2011)
Maurice Sehnaoui	(appointed on 21/03/2011)
Fransabank SAL represented by Mr. Adel Kassar	(appointed on 21/03/2011
Nadim Kassar	(appointed on 21/03/2011)
Nabil Kassar	(appointed on 21/03/2011)
Walid Daouk	(appointed on 21/03/2011)
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	(appointed on 21/03/2011)
BLC Bank SAL represented by Mr. Walid Ziade	(appointed on 21/03/2011)
Agis Taramides	(appointed on 21/03/2011)
George Galatariotis	(appointed on 21/03/2011)

For the year ended 31 December 2011 and according to the Bank's Articles of Association, at the next annual general meeting of the shareholders, Messrs Raoul Nehme, Tania Moussallem, George Galatariotis, Andreas Theodorides and Despo Polykarpou will retire but are offered for re-election

Information relating to share capital
On 31 December 2011 the issued share capital of the Bank was 60.674.171 ordinary shares of a nominal value of €0,57 each. The Bank's shares are listed on the Cyprus Stock Exchange.

During the year, the Bank's issued share capital was increased by €8.646.069 from the increase of share capital to the parent company BLC Bank SAL. In particular, following the decision of the Board of Directors dated 31 March 2011 which was approved by the Extraordinary General Meeting (EGM) on 4 May 2011, the Bank proceeded with the issue to BLC Bank SAL of 15.168.543 new shares of a nominal value of €0,57 per share at the price of €0,80 each, in a ratio of 1 new share for every 3 existing shares in the issued share capital of 45.505.628 shares.

As a result, the Bank's share capital on 31 December 2011 amounts to €34.584.277 divided to 60.674.171 shares of nominal value €0,57 each, while share premium reserve was increased by €3.488.765 and amounts to €24.666.732 on 31 December 2011.

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

Board of Directors' Report

Information relating to share capital (continued)
For contracts involving probationary hiring of personnel which are governed by the Agreement with the Cyprus Union of Bank Employees – ETYK, the Bank has the right to terminate the services of the employee at any time during his probationary service, without any notice. If for any reason the employee wishes to terminate his employment with the Bank, one months' notice must be given. The employment contract of a staff member includes a provision for a notice period in case of non-justified pre-mature termination of contract.

Public Offer
Following the successful Public Offer by BLC Bank SAL to the shareholders of the Bank to acquire up to 100% of the issued share capital, the minority interest decreased below 10% and as a consequence of failure to comply with the requirements for minimum dispersion to the public for companies traded in the Parallel Market, the council of the Cyprus Stock Exchange has decided to transfer the shares of the Bank in the Special Characteristics Market for a grace period during which the Bank will have the opportunity to comply with the relevant compliance regulations.

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

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

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

The Bank being quoted on the Special Characteristics Market of the Cyprus Stock Exchange (CSE), has voluntarily decided to adopt the CSE Corporate Governance Code and applies its principles. The CSE's Corporate Governance Code is available on the CSE website, www.cse.com.cy. The Bank complies with the relevant provisions of the 3rd Revised Edition of the Corporate Governance Code of the CSE during the year 2011, as published by the CSE in March 2011. The 3rd edition of the Code includes new provisions which become effective as of 2011 and are reflected in the Annual Report on Corporate Governance of the Bank for the year 2011.

The Board has taken all necessary action so as to ensure that the Bank will comply with all such new requirements. The Annual Report on Corporate Governance for 2011 is available on the Bank's website, www.usbbank.com.cy.

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

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

Board of Directors' Report

Statement of Corporate Governance (continued)
In addition, in the event that an increase in the authorised share capital is required, the approval of the shareholders in a General Meeting must be obtained. Any share repurchase plan also requires the approval of a General Meeting. The existing Bank's shares are ordinary shares, and are not divided into classes. Voting rights attributable to 15.168.543 new shares that were acquired by BLC Bank SAL on 4 May 2011 have been temporarily suspended.

Shareholders holding more than 5% of the share capital of the Bank
At 31 December 2011 and 24 April 2012, the following shareholders held directly or indirectly more than 5% of the share capital of the Bank:

	24.04.2012 %	31.12.2011 %
BLC Bank SAL	95,61	95,61

Directors' interest in the share capital of the Bank
At the date of this report, Messrs. Adel Kassar, Nadim Kassar and Nabil Kassar hold indirectly 95,61% of the share capital of the Bank, through their participation in Fransabank.

Future Developments
The new shareholding structure gives a new dynamic to the Bank as it benefits from the knowledge and expertise, the international network of clients of BLC Bank SAL as well as the constant support of the parent company and the Group.

The primary objectives of the management of the Bank are maintaining a strong capital base as well as strong liquidity. At the same time, the Bank continues to upgrade its systems and procedures with the aim of improving productivity and helping the growth of the Bank.

The Bank is examining a recapitalisation plan which will strengthen its capital adequacy in order to exceed all required minimum capital adequacy ratios.

The main shareholder of the Bank has commited to take appropriate measures to ensure that the Bank maintains its capital adequacy ratios to the levels required by the Central Bank of Cyprus.

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

Preliminary results
The main reason for the variance in the net loss for the year between the final audited figure of €8.961.265 and the preliminary unaudited figure announced on 24 February 2012 of €6.247.541, is the further impairment at the reporting date of Greek Government Bonds, following the finalisation of the terms of the Private Sector Involvement in the support plan for Greece.

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

Independent auditors
The independent auditors of the Bank, Deloitte Limited, have expressed their willingness to continue in office. A resolution for the election of the Bank's independent auditors and their remuneration will be proposed at the shareholders' Annual General Meeting.

Maurice Sehnaoui - Chairman
24 April 2012

FINANCIAL STATEMENTS 2011

Income Statement
for the year ended 31 December 2011

	Note	**2011** **€**	2010 €
Turnover		**39.805.737**	33.981.004
Interest income	3	**35.631.941**	29.599.438
Interest expense	4	**(19.249.854)**	(17.687.494)
Net interest income		**16.382.087**	11.911.944
Fee and commission income		**3.718.940**	3.888.836
Fee and commission expense		**(901.615)**	(792.285)
Foreign exchange income		**411.507**	413.538
Income from available for sale investments	5	**11.690**	10.020
Gain / (loss) on revaluation of investment properties	16	**90.194**	(485.000)
Other income		**31.659**	69.172
Total net income		**19.744.462**	15.016.225
Staff costs	6	**(10.981.603)**	(10.161.932)
Depreciation of property and equipment and amortisation of intangible assets	17,18	**(731.330)**	(829.593)
Other operating expenses		**(3.744.872)**	(3.632.819)
Total operating expenses before provisions		**(15.457.805)**	(14.624.344)
Profit before provisions		**4.286.657**	391.881
Provision for impairment of loans and advances	13	**(2.887.927)**	(6.925.421)
Profit/(loss) before impairment of bonds		**1.398.730**	(6.533.540)
Provision for impairment of Greek Government Bonds	7	**(9.455.741)**	-
Provision for impairment of investments available for sale	15	**(469.863)**	-
Loss before tax	8	**(8.526.874)**	(6.533.540)
Special Taxation for Credit Institutions	9	**(434.391)**	-
Tax	9	**-**	-
Loss for the year		**(8.961.265)**	(6.533.540)
Losses per share (cent)	10	**(16,1)**	(14,4)

Statement of Comprehensive Income
for the year ended 31 December 2011

	Note	**2011** **€**	2010 €
Loss for the year		**(8.961.265)**	(6.533.540)
Other comprehensive income			
Loss on revaluation of investments available for sale	15,24	**(1.388.730)**	(240.179)
Transfer to the statement of comprehensive income due to impairment in the value of available for sale investments	15,24	**469.863**	-
Gain on revaluation of properties	24	**-**	235.505
Taxation on revaluation of properties	24	**-**	(21.369)
Other comprehensive expense for the year after taxation		**(918.867)**	(26.043)
Total comprehensive expense for the year		**(9.880.132)**	(6.559.583)

Statement of Financial Position
as at 31 December 2011

	Note	**2011** **€**	2010 €
ASSES			
Cash and balances with the Central Bank	11	**16.803.076**	22.744.506
Placements with banks	12	**25.118.640**	11.640.310
Loans and advances to customers	13	**385.107.013**	327.021.153
Investments held-to-maturity	14	**252.915.264**	157.922.918
Investments available for sale	15	**7.875.011**	8.896.933
Investment properties	16	**9.030.000**	5.700.000
Property and equipment	17	**6.126.140**	6.155.615
Intangible assets	18	**297.119**	137.796
Other assets	19	**1.686.821**	1.736.337
Total assets		**704.959.084**	541.955.568
LIABILITIES			
Placements by banks and financing from the Central Bank	20	**136.602.389**	30.210.721
Customer deposits	20	**522.291.069**	470.570.828
Other liabilities	21	**9.587.649**	6.949.549
Loan capital	22	**10.182.963**	10.182.963
Total liabilities		**678.664.070**	517.914.061
EQUITY			
Share capital	23	**34.584.277**	25.938.208
Share premium	23	**24.666.732**	21.177.967
Revaluation reserves	24	**2.411.228**	3.330.095
Accumulated losses		**(35.367.223)**	(26.404.763)
Total equity		**26.295.014**	24.041.507
Total liabilities and equity		**704.959.084**	541.955.568

Maurice Sehnaoui — Chairman

Andreas Theodorides — Deputy Managing Director

Paola Ioannou — Finance Manager

Statement of Changes in Equity
for the year ended 31 December 2011

	Share capital	Share premium	Revaluation reserves (Note 24)	Accumulated losses (Note 24)	Total
	€	€	€	€	€
YEAR 2011					
1 January	25.938.208	21.177.967	3.330.095	(26.404.763)	**24.041.507**
Issue of share capital	8.646.069	3.488.765	-	-	**12.134.834**
Loss after tax	-	-	-	(8.961.265)	**(8.961.265)**
Other comprehensive expenses for the year after taxation	-	-	(918.867)	-	**(918.867)**
Total comprehensive expense for the year	-	-	(918.867)	(8.961.265)	**(9.880.132)**
Deemed dividend distribution (Note 24)	-	-	-	(1.195)	**(1.195)**
31 December	**34.584.277**	**24.666.732**	**2.411.228**	**(35.367.223)**	**26.295.014**
YEAR 2010					
1 January	25.869.138	21.164.638	3.356.138	(19.817.805)	**30.572.109**
Issue of share capital	69.070	13.329	-	-	**82.399**
Loss after tax	-	-	-	(6.533.540)	**(6.533.540)**
Other comprehensive expenses for the year after taxation	-	-	(26.043)	-	**(26.043)**
Total comprehensive expense for the year	-	-	(26.043)	(6.533.540)	**(6.559.583)**
Deemed dividend distribution (Note 24)	-	-	-	(53.418)	**(53.418)**
31 December	**25.938.208**	**21.177.967**	**3.330.095**	**(26.404.763)**	**24.041.507**

Statement of Cash Flows
for the year ended 31 December 2011

	Note	**2011** **€**	2010 €
Net cash flow from/(used in) operating activities	28	**85.670.995**	(7.091.620)
Cash flow from investing activities			
Purchase of property, equipment and software		**(861.178)**	(279.322)
Proceeds from the disposal of property and equipment		**4.900**	3.300
Purchase of bonds		**(157.493.148)**	(74.634.943)
Proceeds from the disposal and redemption of bonds		**58.706.603**	52.916.056
Interest on government and other debt securities		**9.239.842**	5.663.310
Dividend income from shares		**11.690**	10.020
Net cash flow used in investing activities		**(90.391.291)**	(16.321.579)
Cash flow from financing activities			
Proceeds from the issuance of share capital		**12.134.834**	82.399
Interest on loan capital		**(756.824)**	(719.547)
Proceeds from the issuance of loan capital		**-**	1.209.060
Net cash flow from financing activities		**11.378.010**	571.912
Net increase/(decrease) in cash and cash equivalents for the year		**6.657.714**	(22.841.287)
Cash and cash equivalents			
At 1 January		**25.373.352**	48.214.639
Net increase/(decrease) in cash and cash equivalents		**6.657.714**	(22.841.287)
At 31 December	29	**32.031.066**	25.373.352

Summary of Significant Accounting Policies
at 31 December 2011

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

1. Basis of preparation

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

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

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

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

The accounting policies adopted are consistent with those adopted in the prior year, except as set out below. The Bank has adopted the following new and amended IFRSs and IFRIC Interpretations at 1 January 2011:

- IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters' (Amendment)
- IFRIC 14 'Prepayments of a Minimum Funding Requirement' (Amendment)
- IAS 24 'Related Party Disclosures' (Revised)
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
- IAS 32 'Financial Instruments: Presentation: Classification of Rights Issues' (Amendment)
- Improvements to IFRSs (Issued by IASB in May 2010)

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

Summary of Significant Accounting Policies
at 31 December 2011

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

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

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

Amendments to IFRS 7 'Financial Instruments: Disclosures' (effective for accounting periods beginning on or after 1 July 2011)

The amendments to IFRS 7 enhance the transparency of disclosure requirements for the transfer of financial assets. These amendments are intended to provide greater transparency in relation to risk exposures of transfers of financial assets and the potential risks that may remain with the transferor. The amendments also require disclosure where transfers of financial assets are not distributed equally over the period.

The Bank does not expect the implementation of the above IFRS in future periods to have a significant impact on its financial statements.

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

- IFRS 9 'Financial Instruments' (Issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued in December 2011)
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosures of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- Revised IAS 27 'Separate Financial Statements'
- Revised IAS 28 'Investments in Associates and Joint Ventures'
- Amendments to IAS 12 'Deferred tax' - Recovery of Underlying Assets
- Amendments to IAS 19 'Employee Benefits'
- Amendments to IFRS 1 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters'
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- Amendments to IFRS 7 'Disclosures–Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'
- Amendments to IFRS 1 'Government Loans'
- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine

Summary of Significant Accounting Policies
at 31 December 2011

4. Significant accounting judgments and estimates

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

Going concern

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

Provisions for impairment of loans and advances

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

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

Impairment of available for sale and held to maturity investments

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

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

4. Significant accounting judgments and estimates (continued)

Fair value of investments

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

Retirement benefits

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

Income tax

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

5. Foreign currency translation

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

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

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

Summary of Significant Accounting Policies
at 31 December 2011

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

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

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

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

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

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

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

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

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

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

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

9. Staff retirement benefits (continued)

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

The fair value is based on current market prices and in the case of investments traded in an active market it is the publicized market price.

10. Financial instruments

(i) Date of recognition

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

(ii) Initial recognition and measurement of financial instruments

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

(iii) Financial derivative instruments

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

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

(iv) Loans and advances to customers

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

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

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

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

10. Financial instruments (continued)

(iv) Loans and advances to customers (continued)

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

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

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

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

(v) Investments

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

Investments held-to-maturity

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

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

Impairment of investments held-to-maturity

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

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

10. Financial instruments (continued)

(v) Investments (continued)

Available for sale investments

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

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

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

Impairment of available for sale investments

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

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

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

(vi) Deposits and subordinate loan capital

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

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

Summary of Significant Accounting Policies
at 31 December 2011

11. Derecognition of financial assets and financial liabilities

(i) Financial assets

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

(ii) Financial liabilities

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

12. Offsetting financial instruments

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

13. 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.

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

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

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

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

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

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

Summary of Significant Accounting Policies
at 31 December 2011

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

The annual depreciation rates for the year were as follows:

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

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

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

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

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

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

15. Investment properties

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

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

16. Provisions for pending litigation or claims

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

Summary of Significant Accounting Policies
at 31 December 2011

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

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

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

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

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

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

Notes to the Financial Statements
as at 31 December 2011

1. Corporate information

The financial statements of USB Bank Plc (the 'Bank') for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 24 April 2012.

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

The Bank was incorporated in Cyprus as a limited liability company in 1925 under the Cyprus Companies Law and is considered a public company under the Company Law and Cyprus Stock Exchange Laws and Regulations and under the Cyprus Income Tax Law. The registered office of the Bank is at 83, Digenis Akritas Avenue, 1070 Nicosia.

2. Segmental analysis

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

Notes to the Financial Statements
as at 31 December 2011

3. Interest income

	2011 €	2010 €
Loans and other advances to customers	**25.859.424**	23.501.959
Placements with banks and deposits with the Central Bank	**532.675**	434.169
Investments	**9.239.842**	5.663.310
	35.631.941	29.599.438

Interest income from loans and advances to customers includes interest on impaired loans and advances of €2.376.017 (2010: €1.573.734).

4. Interest expense

	2011 €	2010 €
Deposits and other customer accounts	**17.487.230**	16.672.314
Amounts due to banks	**1.005.800**	295.633
Subordinated loan capital	**756.824**	719.54
	19.249.854	17.687.494

5. Income from available for sale investments

	2011 €	2010 €
Dividends from investments available for sale	**11.690**	10.020

6. Staff costs

	2011 €	2010 €
Staff salaries and other remuneration	**8.299.054**	7.857.110
Social insurance and other contributions	**988.563**	929.411
Retirement benefit costs	**1.693.986**	1.375.411
	10.981.603	10.161.932

The number of persons employed by the Bank as at 31 December 2011 was 215 (2010: 195).

6. Staff costs (continued)

Retirement benefits – Defined benefit scheme

The Bank operates a defined benefit scheme, which is fully funded. This plan has been terminated on 31 December 2011 and as of the 1st of January 2012 it has been replaced by a defined contribution scheme.

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

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

According to the actuarial valuation carried out for the year ended 31 December 2011, the amounts presented on the statement of financial position of the Bank in relation to the defined benefit scheme are as follows:

	2011	2010
	€	€
Present value of the obligation	**(12.730.396)**	(10.227.359)
Fair value of plan assets	**2.520.904**	3.120.809
	(10.209.492)	(7.106.550)
Unrecognised actuarial loss	**4.127.862**	2.821.256
Net liability recognised in the statement of financial position	**(6.081.630)**	(4.285.294)

The principal actuarial assumptions used for the actuarial valuation were:

	2011	2010
	%	%
Discount rate	**5,09**	5,41
Expected return on plan assets	**4,63**	5,39
Future salary increase	**6,00**	6,00

6. Staff costs (continued)

Retirement benefits – Defined benefit scheme (continued)

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

	2011	2010
	€	€
Current service cost	**1.052.192**	1.013.293
Interest expense on obligations	**546.242**	461.492
Expected return on plan assets	**(161.179)**	(188.374)
Actuarial loss recognised in the year	**102.773**	89.000
Amortised cost of prior service	**153.958**	-
	1.693.986	1.375.411

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

	2011	2010
	€	€
Net liability at 1 January	**(4.285.294)**	(3.058.507)
Expense recognised in the income statement	**(1.693.986)**	(1.375.411)
Employer contributions for the year	**222.176**	148.624
Adjustment	**(324.526)**	-
Net liability at 31 December	**(6.081.630)**	(4.285.294)

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

	2011	2010
	€	€
1 January	**10.227.359**	8.927.886
Current service cost	**1.052.192**	1.013.293
Interest on liabilities	**546.242**	461.492
Benefits paid from the plan	**(222.176)**	(148.624)
Actuarial losses/(gains)	**648.295**	(26.688)
Other obligations	**324.526**	-
Cost of prior service	**153.958**	-
31 December	**12.730.396**	10.227.359

Movement in plan assets:

	2011	2010
	€	€
Fair value of plan assets on 1 January	**3.120.809**	3.396.846
Expected return on plan assets	**161.179**	188.374
Employer contributions for the year	**222.176**	148.624
Benefits paid for the year	**(222.176)**	(148.624)
Losses of plan assets	**(761.084)**	(464.411)
Fair value of plan assets at 31 December	**2.520.904**	3.120.809
Actual decrease in the return on plan assets	**(599.905)**	(276.037)

6. Staff costs (continued)

Retirement benefits – Defined benefit scheme (continued)

Adjustments based on experience and their effect on the net present value of obligations and the fair value of plan assets are as follows:

	2011	2010	2009	2008	2007
	€	€	€	€	€
Net present value of obligations	**(12.730.396)**	(10.227.359)	(8.927.886)	(7.077.202)	(6.778.034)
Fair value of plan assets	**2.520.904**	3.120.809	3.396.846	2.904.919	4.967.984
Deficit	**(10.209.492)**	(7.106.550)	(5.531.040)	(4.172.283)	(1.810.050)
Experience adjustments to plan obligations	**(648.295)**	26.688	(571.266)	295.403	223.511
Experience adjustments to plan assets	**(761.084)**	(464.411)	323.950	(2.355.541)	475.458

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

	2011	2010
Insurance funds	**3%**	3%
Shares	**8%**	28%
Bonds	**26%**	26%
Placements with banks	**63%**	43%

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

Principal actuarial assumptions used in the actuarial valuations

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

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

6. Staff costs (continued)

Retirement benefits – Defined Contribution plan (Note 34)

Under the new collective agreement between the Cyprus Banks Employers' Association and the Trade Union of Cyprus Bank Employees – ETYK agreed on 12 January 2012 and valid from the 1st of January 2012, the retirement benefit plan in the form of a lump sum was terminated on the 31st of December 2011 and all the employees are automatically included in a provident fund. Under this change the employers have agreed to make monthly contributions to the provident funds of 14% of the employees' salary and each employee will contribute 3% - 10% of their salary.

Contracts with employees

For contracts involving probationary hiring of personnel which are governed by the Agreement with the Cyprus Union of Bank Employees – ETYK, the bank has the right to terminate the services of the employee at any time during his probationary service, without any notice. If for any reason the employee wishes to terminate his employment with the bank, one months' notice must be given. The employment contract of a staff member includes a provision for a notice period in case of non-justified pre-mature termination of contract.

7. Impairment of Greek Government Bonds

On 26 October 2011, a revised support plan for Greece (the "Plan") was announce at the Eurozone summit, which includes a decision for the restructuring of the Greek public debt with a voluntary exchange of existing Greek Government Bonds (GGBs) held by private sector investors.

As at 31 December 2011, the Bank owned eligible GGBs which have been classified as investments held to maturity. Their nominal value amounts to €12,5 million and have maturity date between 2014 and 2015. The Bank has proceeded with the exchange of the above bonds on 12 March 2012. Taking into account the terms of participation in the Plan (Note 34) the Bank has recognised impairment loss amounting to €9.455.741 on the above bonds at 31 December 2011.

Impairment of Greek Government Bonds measured at amortised cost:

	Amortised cost before impairmen €	Amount of impairment €	Carrying amount after impairment €
Greek Government Bonds originally designated as investments held to maturity	**13.024.380**	**(9.455.741)**	**3.568.639**

Notes to the Financial Statements
as at 31 December 2011

8. Loss before tax

Loss before tax is disclosed after charging the following:

	2011	2010
	€	€
Directors' emoluments (Note 32)	**474.986**	614.530
(Gain)/loss on sale and write-off of property and equipment	**(4.900)**	28.695
Operating lease rentals for buildings	**686.754**	809.309
Fees to the independent auditors for audit and other professional services to the Bank:		
- Audit of the financial statements of the Bank	**54.625**	54.625
- Audit-related services	**5.175**	5.750
- Tax services	**3.450**	13.053
- Other services	**59.600**	1.150

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

9. Tax

The total corporation tax for the year reconciles to the accounting losses as follows:

	2011	2010
	€	€
Loss before tax	**(8.526.874)**	(6.533.540)
Corporation tax based on the applicable rates	**(852.687)**	(653.354)
Tax effect of:		
- Not deductible expenses	**1.312.795**	297.455
- Income not subject to tax	**(67.437)**	(53.703)
- Tax losses utilised	**21.922**	(134.737)
- Tax losses for the year	**(414.593)**	544.339
Tax per the income statement	-	-

Corporation tax is calculated at the rate of 10% on taxable income (2010: 10%).

At 31 December 2011, the Bank had tax losses carried forward amounting to €17,9 million (2010: €22,1 million) for €13,5 million (2010: €17,4 million) of which no deferred tax asset was recognised in the statement of financial position.

9. Tax (continued)

The balance of net deferred tax liability (Note 21) represents:

	2011 €	2010 €
Difference between tax allowances and accounting depreciation	**76.175**	52.981
Revaluation of properties	**376.199**	390.260
Collective impairment	**155.971**	187.025
Tax losses utilised	**(446.261)**	(468.182)
	162.084	162.084

On 14 April 2011, the Parliament enacted legislation "The Special Levy on Credit Institutions Law of 2011", whose aim is to impose a special tax on the credit institutions for the years 2011 and 2012. Credit institutions operating in Cyprus are required to pay a levy of 0,095% on their customer deposits as at 31st December of the previous year. The total amount of Special Levy for both years 2011 and 2012 should not exceed 20% of the taxable profit of the year in which it is paid as this will be determined following a final assessment by the Director of the Income Tax Office for the years 2011 and 2012. The provisions of the above legislation will cease to apply from 1st January 2013, at which time will come into effect "The Establishment and Operation of the Independent Financial Stability Fund Act of 2011". For the years 2011 and 2012, the 25/60ths of the total levy collections will be deposited in a special account which will form part of the Independent Financial Stability Fund.

On 14 December 2011, the Parliament enacted "The Establishment and Operation of Independent Financial Stability Fund Law of 2011", which will establish the Financial Stability Fund, with the purpose of improving the existing framework for managing and resolving financial crises, safeguarding financial stability and consolidating the credit institutions affected. This Fund will receive the balance of thespecial account held pursuant to the Special Levy on Credit Institutions Law of 2011. In addition, as of 2013 and thereafter regular contributions will be made by the credit institutions covered, under article 9 of the law.

The charge on the results of the Bank relating to the Special Levy on Credit Institutions in Cyprus for the year ended 31 December 2011 amounts to €434.391.

10. Losses per share

	2011 €	2010 €
Loss attributable to shareholders	**(8.961.265)**	(6.533.540)
Weighted average number of shares in issue during the year	**55.521.022**	45.445.041
Losses per share (cent)	**(16,1)**	(14,4)

At 31 December 2011, there were titles convertible to ordinary shares that were not considered dilutive and consequently diluted losses per share are not presented.

11. Cash and balances with the Central Bank

	2011 €	2010 €
Cash	**5.044.744**	7.733.000
Balances with the Central Bank of Cyprus	**11.758.332**	15.011.506
	16.803.076	22.744.506

Deposits with the Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to €9.890.650 (2010: €9.011.464).

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

12. Placements with banks

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

13. Loans and advances to customers

	2011 €	2010 €
Loans and other advances	**449.421.026**	382.735.070
Provision for impairment of loans and advances	**(64.314.013)**	(55.713.917)
	385.107.013	327.021.153

Provisions for impairment of loans and advances:

	2011 €	2010 €
1 January	**55.713.917**	44.305.279
Collections/reversals	**(4.435.524)**	(1.576.919)
Charge for the year	**7.323.451**	8.502.340
Net charge for the year	**2.887.927**	6.925.421
Restriction of interest on impaired loans	**6.040.322**	5.297.438
Write-offs	**(328.153)**	(814.221)
	8.600.096	11.408.638
31 December	**64.314.013**	55.713.917

13. Loans and advances to customers (continued)

Total provisions for impairment as at 31 December 2011 include collective impairment provision of €1.559.707 (2010: €1.870.252).

The total amount of impaired loans and advances amounts to €94.440.979 (2010: €83.047.594).

Additionally, at 31 December 2011, the Bank had pledged €42,6 million of loans and other advances to customers for the benefit of the Republic of Cyprus as collateral for the issue of €30 million special government bonds which can in turn be used as collateral for obtaining financing from the European Central Bank.

The fair value of loans and advances is approximately equal to the amount shown on the statement of financial position, after the deduction of provisions for loan impairment. Additional analyses and information regarding credit risk are presented in Note 30 of the financial statements.

14. Investments held-to-maturity

	2011	2010
	€	€
Government and other bonds:		
Cyprus Government	**185.043.469**	58.108.839
Greek Government (Note 7)	**3.568.639**	13.284.710
Foreign banks	**64.303.156**	86.529.369
	252.915.264	157.922.918

	2011	2010
	€	€
Listed in:		
Cyprus stock exchange	**69.326.408**	44.706.612
European stock exchanges	**183.588.856**	113.216.306
	252.915.264	157.922.918

	2011	2010
	€	€
1 January	**157.922.918**	140.549.739
Purchase of bonds	**157.221.722**	69.154.485
Sale / maturity of bonds	**(58.706.603)**	(52.916.056)
Impairment charge (Note 7)	**(9.455.741)**	-
Amortisation	**5.932.968**	1.134.750
31 December	**252.915.264**	157.922.918

The fair value of held-to-maturity investments as at 31 December 2011 was €221.616.972 (2010: €151.275.285).

As indicated in Note 7, on 31 December 2011 the Bank recognized a loss of €9.455.741 (2010: €nil) relating to the impairment of Greek Government Bonds.

15. Investments available for sale

	2011 €	2010 €
Shares listed on the Cyprus Stock Exchange	**248.180**	153.640
Bonds of Cyprus Public companies	**4.055.265**	5.299.272
Bonds of foreign banks	**3.571.566**	3.444.021
	7.875.011	8.896.933

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

	Level 1 €	Total €
31 December 2011		
Shares listed on the Cyprus Stock Exchange	**248.180**	**248.180**
Bonds of Cyprus Public Companies	**4.055.265**	**4.055.265**
Bonds of foreign banks	**3.571.566**	**3.571.566**
	7.875.011	**7.875.011**

	Level 1 €	Total €
31 December 2010		
Shares listed on the Cyprus Stock Exchange	153.640	153.640
Bonds of Cyprus Public Companies	5.299.272	5.299.272
Bonds of foreign banks	3.444.021	3.444.021
	8.896.933	8.896.933

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

The movement in the available for sale investments during the year is analysed as follows:

	2011 €	2010 €
1 January	**8.896.933**	3.693.725
Purchase of bonds	**271.426**	5.480.458
Change in fair value	**(1.388.730)**	(240.179)
Amortisation	**95.382**	(37.071)
31 December	**7.875.011**	8.896.933

On 31 December 2011, the Bank recognised a loss of €469.863 (2010: €nil) relating to the impairment in fair value of the available for sale investments.

16. Investment properties

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

	2011	2010
	€	€
1 January	**5.700.000**	6.185.000
Additions for the year	**3.239.806**	-
Change in fair value	**90.194**	(485.000)
31 December	**9.030.000**	5.700.000

The Bank as part of its normal operations, acquires property from customers in settlement of their obligations, which are held directly or through companies controlled by the Bank whose sole business is the management of these properties. The properties are recognized in the financial statements of the Bank as investment property and are included without presenting the subsidiary companies separately, reflecting the substance of these transactions.

The companies which are included in the individual accounts of the Bank as at 31 December 2011 are as follows:

Name	Country of incorporation	**Participation %**
Imagetech Limited	Cyprus	**100%**
Averrhoa Limited	Cyprus	**100%**
RowingtonVenturesLimited	Cyprus	**100%**

Notes to the Financial Statements
as at 31 December 2011

17. Property and equipment

Year 2011	Property	Equipment	Total
	€	€	€
Cost or estimated fair value			
1 January	7.526.347	5.446.163	**12.972.510**
Additions	318.733	252.595	**571.328**
Disposals/write-offs	-	(148.126)	**(148.126)**
31 December	7.845.080	5.550.632	**13.395.712**
Depreciation			
1 January	2.162.914	4.653.981	**6.816.895**
Charge for the year	339.492	261.311	**600.803**
Disposals/write-offs	-	(148.126)	**(148.126)**
31 December	2.502.406	4.767.166	**7.296.572**
Net book value	5.342.674	783.466	**6.126.140**

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

Properties are presented at fair value based on a valuation carried out in 2011 by independent qualified surveyors. The net book value of own properties at 31 December 2011 based on cost less accumulated depreciation would be €2.255.031 (2010: €2.148.063). Land is not depreciated and its book value at 31 December 2011 and 31 December 2010 was €1.433.695.

Notes to the Financial Statements
as at 31 December 2011

18. Intangible assets

Year 2011	Computer Software €
Cost	
1 January	**5.245.890**
Additions/Write-offs	**289.850**
Disposals	**-**
31 December	**5.535.740**
Amortisation	
1 January	**5.108.094**
Charge for the year	**130.527**
Disposals	**-**
31 December	**5.238.621**
Net book value	**297.119**

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

19. Other assets

	2011	2010
	€	€
Sundry debtors and other assets	**760.885**	836.954
Collateral amount with Visa International	**925.936**	899.383
	1.686.821	1.736.337

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

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

Placements by banks and financing from the Central Bank

Placements by banks and financing from Central Bank on 31 December 2011 were €136.602.389 (2010: €30.210.721) and include funding from the European Central Bank of €112,5m (2010: €30m). This funding is fully secured by the pledge of special government securities (Note 13) or other financial assets. This funding is secured through credit operations in the context of monetary policy in the euro zone.

	2011	2010
	€	€
Customer deposits:		
Demand deposits	**88.468.110**	56.140.053
Notice deposits	**51.641.480**	55.052.982
Term deposits	**382.181.479**	359.377.793
	522.291.069	470.570.828

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

21. Other liabilities

	2011 €	2010 €
Sundry creditors	**739.805**	395.007
Financial guarantees	**100.821**	125.136
Net deferred tax liability (Note 9)	**162.084**	162.084
Net liability for staff retirement plan (Note 6)	**6.081.630**	4.285.294
Bills payable	**491.118**	491.681
Deemed dividend distribution (Note 24)	**1.195**	53.418
Other liabilities	**966.236**	819.615
Accrued expenses	**580.850**	340.455
Special defence contribution	**463.910**	276.859
	9.587.649	6.949.549

22. Subordinated loan capital

	2011 €	2010 €
Tier I capital		
Capital securities	**973.903**	973.903
Tier II capital		
Non-convertible bonds	**8.000.000**	8.000.000
Convertible bonds	**1.209.060**	1.209.060
	9.209.060	9.209.060
	10.182.963	10.182.963

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 1 capital and have no maturity date, however, they may be redeemed in whole at the option of the Bank subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter, and provided that they will be replaced with capital of equivalent or senior ranking unless the Central Bank of Cyprus concludes that the Bank's capital is at a satisfactory level.

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

22. Subordinated loan capital (continued)

Non-convertible bonds

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

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

Convertible bonds

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

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

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

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

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

Notes to the Financial Statements
as at 31 December 2011

23. Share capital and share premium reserve

	2011 Number of shares	2011 €	2010 Number of shares	2010 €
Authorised				
Ordinary shares of €0,57 each	**150.000.000**	**85.500.000**	150.000.000	85.500.000
Issued and fully paid				
1 January	**45.505.628**	**25.938.208**	45.384.453	25.869.138
Share issue	**15.168.543**	**8.646.069**	121.175	69.070
31 December	**60.674.171**	**34.584.277**	45.505.628	25.938.208

On 31 December 2011 the issued share capital of the Bank was 60.674.171 ordinary shares of nominal value €0,57 each. The shares of the Bank were traded on the Cyprus Stock Exchange.

During the year, the issued share capital of the Bank increased by €8.646.069 through a capital increase from the parent company BLC Bank SAL. More specifically, following a resolution of the Board of Directors dated 31 March 2011 which was approved by the Extraordinary General Meeting (EGM) on 4 May 2011, the Bank proceeded with the issue to BLC Bank SAL of 15.168.543 new shares of nominal value €0,57 each at the price of €0,80 each, at a ratio of 1 new share for every 3 existing shares in the issued share capital of 45.505.628 shares.

As a result, the share capital of the Bank on 31 December 2011 amounts to €34.584.277 divided into 60.674.171 shares of nominal value of €0,57 each, while the share premium reserve increased by €3.488.765 and is €24.666.732 on 31 December 2011.

24. Revaluation reserves and retained earnings

	Investments revaluation reserve	Property revaluation reserve	Total
Revaluation Reserves	€	€	€
Year 2011			
1 January	**(147.094)**	**3.477.189**	**3.330.095**
Revaluation of available-for-sale investments	**(1.388.730)**	**-**	**(1.388.730)**
Transfer to statement of comprehensive income due to impairment	**469.863**	**-**	**469.863**
31 December	**(1.065.961)**	**3.477.189**	**2.411.228**
Year 2010			
1 January	93.085	3.263.053	3.356.138
Property revaluation	-	235.505	235.505
Deferred tax	-	(21.369)	(21.369)
Revaluation of available-for-sale investments	(240.179)	-	(240.179)
31 December	(147.094)	3.477.189	3.330.095

Retained earnings
The only reserves available for distribution as dividend are retained earnings. In 2011 and 2010 no dividends were paid nor declared to be paid since the Bank had accumulated losses.

Companies which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% (15% until 30 August 2011) will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders. The amount of €1.195 presented in Note 21 of the financial statements represents the special defence contribution for deemed dividend distribution for the profits of 2009, whilst in 2010 special defence contribution for deemed dividend distribution amounting to €53.418 was paid for the profits of 2008.

Notes to the Financial Statements
as at 31 December 2011

25. Contingent liabilities and commitments

	2011	2010
	€	€
Contingent liabilities		
Acceptances and endorsements	**36.030**	211.448
Guarantees	**21.867.305**	20.910.539
	21.903.335	21.121.987
Commitments		
Documentary credits and certified export credits	**1.483.825**	1.147.743
Unutilised limits	**40.233.887**	34.773.454
	41.717.712	35.921.197

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

Capital commitments
There were no commitments for contracted capital expenditure of the Bank as at 31 December 2011 and 2010.

Litigation
As at 31 December 2011, in the ordinary course of business, the Bank is involved in lawsuits, which the management of the Bank does not expect to have a significant effect on the financial positions and operations of the Bank. At the same time, there are no pending claims or/and assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

Notes to the Financial Statements
as at 31 December 2011

26. Analysis of assets and liabilities by expected maturity

	2011			2010		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one Year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and deposits with the Central Bank	**7.969.332**	**8.833.744**	**16.803.076**	14.391.074	8.353.432	22.744.506
Placements with banks	**25.118.640**	**-**	**25.118.640**	11.640.310	-	11.640.310
Loans and advances to customers	**55.044.978**	**330.062.035**	**385.107.013**	36.390.038	290.631.115	327.021.153
Investments held to maturity	**132.996.332**	**119.918.932**	**252.915.264**	59.412.169	98.510.749	157.922.918
Investments available for sale	**7.875.011**	**-**	**7.875.011**	8.896.933	-	8.896.933
Investment properties	**-**	**9.030.000**	**9.030.000**	-	5.700.000	5.700.000
Property, equipment and intangible assets	**93.526**	**6.329.733**	**6.423.259**	88.784	6.204.627	6.293.411
Other assets	**760.885**	**925.936**	**1.686.821**	835.689	900.648	1.736.337
	229.858.704	**475.100.380**	**704.959.084**	131.654.997	410.300.571	541.955.568
Liabilities						
Deposits by banks	**136.602.389**	**-**	**136.602.389**	203.221	30.007.500	30.210.721
Customer deposits	**80.603.865**	**441.687.204**	**522.291.069**	52.899.249	417.671.579	470.570.828
Other liabilities	**3.506.020**	**6.081.629**	**9.587.649**	2.664.255	4.285.294	6.949.549
Subordinated loan capital	**-**	**10.182.963**	**10.182.963**	-	10.182.963	10.182.963
	220.712.274	**457.951.796**	**678.664.070**	55.766.725	462.147.336	517.914.061

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

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

27. Operating leases

Commitments under non-cancellable operating leases are as follows:

	2011	2010
	€	€
Within one year	**340.569**	480.473
Between two and five years	**631.272**	41.163
	971.841	521.636

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

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

	2011	2010
	€	€
Loss before tax	**(8.526.874)**	(6.533.540)
Adjustments:		
Provision for impairment of loans and advances	**2.887.927**	6.925.421
Charge for impairment of the value of financial assets	**9.925.604**	-
Depreciation of property and equipment and amortisation of intangible assets	**731.330**	829.593
(Profit) / loss on disposal of property and equipment	**(4.900)**	28.695
(Profit) / loss on revaluation of investment property	**(90.194)**	485.000
Dividend income from available for sale investments	**(11.690)**	(10.020)
Interest on government and other bonds	**(9.239.842)**	(5.663.310)
Interest on subordinated loan capital	**756.824**	719.547
	(3.571.815)	(3.218.614)
(Increase)/decrease in operating assets:		
Obligatory deposits with the Central Bank	**(879.186)**	(24.738)
Investments in bonds	**(6.028.350)**	(1.097.679)
Loans and advances to customers	**(64.213.593)**	(26.187.121)
Other assets	**49.516**	(205.903)
Increase/(decrease) in operating liabilities:		
Deposits by banks	**106.391.668**	727.474
Customer deposits	**51.720.241**	22.738.066
Other liabilities and other accounts	**2.636.905**	176.895
	86.105.386	(7.091.620)
Special tax paid	**(434.391)**	-
Net cash flow from / (used in) operating activities	**85.670.995**	(7.091.620)

29. Cash and cash equivalents

	2011	2010
	€	€
Cash and balances with the Central Bank (Note 11)	**16.803.076**	22.744.506
Placements with banks (Note 12)	**25.118.640**	11.640.310
	41.921.716	34.384.816
Less obligatory deposits with the Central Bank (Note 11)	**(9.890.650)**	(9.011.464)
	32.031.066	25.373.352

30. Risk management

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

Credit risk

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

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

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

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

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

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

30. Risk management (continued)

Credit risk (continued)

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

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

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

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

Maximum exposure to credit risk

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

	2011	2010
	€	€
Balances with the Central Bank (Note 11)	**11.758.332**	15.011.506
Placements with banks (Note 12)	**25.118.640**	11.640.310
Loans and advances to customers (Note 13)	**385.107.013**	327.021.153
Investments held-to-maturity (Note 14)	**252.915.264**	157.922.918
Investments available for sale (Note 15)	**7.626.831**	8.743.293
Other assets (Note 19)	**1.686.821**	1.736.337
Total on-statement of financial position	**684.212.901**	522.075.517
Contingent liabilities (Note 25)	**21.903.335**	21.121.987
Commitments (Note 25)	**41.717.712**	35.921.197
Total off-statement of financial position	**63.621.047**	57.043.184
Total credit risk exposure	**747.833.948**	579.117.436

30. Risk management (continued)
Credit risk (continued)

Credit risk concentration
There are restrictions on credit risk concentrations which are imposed by the Banking Law and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group after taking into account the effect of credit risk reduction techniques as they are defined in the Directive of the Central Bank of Cyprus regarding the calculation of Capital Requirements and Large Exposures. There is also a directive from the Central Bank of Cyprus in relation to uncovered risk and the total of loans granted to directors and any related parties cannot exceed the total of 2% and 20% respectively of capital base of the bank. The Bank is in total compliance with all restrictions, with the exception of a customer group whose total lending exceeds 25% of the Bank's Capital Base, for which the Central Bank of Cyprus is kept informed and the Bank is already taking all necessary actions for full compliance with the supervisory limits.

The Bank's exposure to credit risk arising from customer groups, who have credit facilities amounting to more than 10% of the Bank's capital base as at 31 December 2011, was €194,5 million (2010: €154,2 million).

The allocation of advances relating to the clients' sector in the economy is as follows:

	2011	2010
	€	€
Trade and manufacturing	**74.821.031**	65.343.061
Tourism	**38.807.529**	37.638.047
Property and construction	**109.064.701**	87.192.474
Personal and professional	**187.787.335**	173.774.878
Other sectors	**38.940.430**	18.786.610
	449.421.026	382.735.070

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

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

30. Risk management (continued)

Credit risk (continued)

Analysis of loans and advances to customers

	2011	2010
	€	€
Neither past due nor impaired	**258.477.097**	222.103.546
Past due but not impaired	**96.502.950**	77.583.930
Impaired	**94.440.979**	83.047.594
	449.421.026	382.735.070

Neither past due nor impaired loans and advances to customers

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

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

	2011	2010
	€	€
Grade 1	**182.579.463**	160.673.498
Grade 2 & 3	**67.770.508**	58.777.761
Grade 4	**8.127.126**	2.652.287
	258.477.097	222.103.546

Grade 1

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

Grade 2 & 3

Loans and advances to customers that require monitoring for the prevention of future problems. Repayment ability remains within acceptable levels.

Grade 4

This grade is given to loans that had repayment difficulties in the past and are under close supervision

30. Risk management (continued)

Credit risk (continued)

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

	2011	2010
	€	€
In arrears:		
Up to 30 days	**36.790.781**	21.175.128
From 31 to 90 days	**17.697.526**	17.278.664
From 91 to 180 days	**6.021.050**	10.511.957
From 181 to 365 days	**15.092.556**	14.952.725
Over one year	**20.901.037**	13.665.456
	96.502.950	77.583.930

The fair value of collateral held by the Bank in respect of loans and advances to customers that are past due but not impaired as at 31 December 2011 amounted to €110,6 million (2010: €86,4 million).

Collateral on impaired loans and advances

The fair value of collateral held by the Bank in relation to individually impaired loans as at 31 December 2011, amounted to €33,3 million (2010: €28,7 million).

Renegotiated loans and other advances to customers

During the year, total loans amounting to €55,3 million (2010: €33,1 million) were restructured.

Analysis by rating agency designation

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

	2011	2010
	€	€
Items in the course of collection	**3.642.965**	1.386.754
Aaa – Aa3	**10.864.448**	15.728.164
A1 – A3	**3.927.947**	1.083.844
Baa1 – Baa3	**11.758.332**	8.453.054
Caa1 – Caa3	**14.443**	-
Unrated	**6.668.837**	-
	36.876.972	26.651.816

30. Risk management (continued)

Credit risk (continued)

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

	2011	2010
	€	€
Aaa – Aa3	**7.527.308**	99.697.270
A1 – A3	**48.578.980**	47.530.137
Baa1 – Baa3	**200.867.168**	19.438.804
Ca	**3.568.639**	-
Unrated	**248.180**	153.640
	260.790.275	166.819.851
Issued by:		
Cyprus government	**185.043.469**	58.108.839
Greek government	**3.568.639**	13.284.710
Cyprus public companies	**4.303.445**	5.452.912
Foreign banks	**67.874.722**	89.973.390
	260.790.275	166.819.851
Classified as:		
Investments held to maturity	**252.915.264**	157.922.918
Investments available for sale	**7.875.011**	8.896.933
	260.790.275	166.819.851

Interest rate risk

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

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

30. Risk management (continued)

Interest rate risk (continued)

Sensitivity analysis

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

Change in interest rates 2011	Euro €	US Dollars €	British Pounds €	Other currencies €	Σύνολο €
+0,5% for all currencies	**429.408**	**105.017**	**27.001**	**3.409**	**564.835**
-0,25% for US Dollars and -0,5% for all other currencies	**(423.792)**	**(52.509)**	**(27.001)**	**(3.409)**	**(506.711)**

Change in interest rates 2010	Euro €	US Dollars €	British Pounds €	Other currencies €	Σύνολο €
+0,5% for all currencies	489.742	51.615	19.922	6.199	567.478
-0,25% for US Dollars and -0,5% for all other currencies	(482.616)	(25.807)	(19.922)	(6.199)	(534.544)

Currency risk

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

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

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

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

Liquidity Risk

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

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

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

30. Risk management (continued)
Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2011	€	€	€	€	€	**€**
Deposits by banks	87.037.278	-	49.754.458	-	-	**136.791.736**
Deposits and other customer accounts	198.537.843	118.978.682	200.804.614	9.235.387	776.704	**528.333.230**
Other liabilities	1.911.401	-	-	-	-	**1.911.401**
Subordinated loan capital	-	-	1.733.142	11.708.202	-	**13.441.344**
	287.486.521	**118.978.682**	**252.292.214**	**20.943.589**	**776.704**	**680.477.711**

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2010	€	€	€	€	€	€
Deposits by banks	202.646	-	30.081.667	-	-	30.284.313
Deposits and other customer accounts	156.583.013	118.343.239	199.956.025	306.617	627.763	475.816.657
Other liabilities	1.443.813	-	-	-	-	1.443.813
Subordinated loan capital	-	-	1.728.272	11.675.859	-	13.404.131
	158.229.472	118.343.239	231.765.964	11.982.476	627.763	520.948.914

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

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

30. Risk management (continued)

Liquidity Risk (continued)

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

The liquidity ratio in Euro was as follows:

	2011	2010
	%	%
31 December	**25,41**	34,97
Average	**33,28**	36,71
Maximum ratio	**38,56**	37,80
Minimum ratio	**25,41**	34,97

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

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

Financial assets are presented in these statements as follows:

Cash and deposits with Central Bank

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

Placements with banks

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

Loans and advances to customers

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

Investments held-to-maturity and available for sale

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

30. Risk management (continued)

Operational risk

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

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

Equity securities price risk

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

Regulatory risk

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

Intensity of competition

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

Litigation risk

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

31. Capital management

The lead regulator that sets and monitors capital requirements for the Bank is the Central Bank of Cyprus. The Central Bank of Cyprus is guided in its supervisory role by the recommendations of the Basel Committee and the European Union Directives on banking issues.

In December 2006 the Central Bank of Cyprus issued a Directive to the Banks for the purposes of harmonisation with the European Union Directives in regards to the calculation of the capital requirements and large exposures of banks (Basel II). The Bank has elected to comply with Basel II as from January 2008.

Basel II comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory review process
- Pillar 3 – Market discipline

31. Capital management (continued)

Pillar 1 – Minimum capital requirements

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Bank has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighed using specific weights, depending on the class the exposures belong to and their credit rating. Also, Basel II suggests two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Bank has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Bank's collateral.

Regarding market risk, the Bank has adopted the Standardized Approach, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models

The Bank uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a specific percentage on the average sum of gross income on a three year basis.

Pillar 2 – Supervisory review process

Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures of the Bank and requires appropriate risk management, reporting and governance policies. The Bank applied the Minimum Capital Approach to determine the additional capital required to cover credit risks which are not sufficiently covered by Pillar 1 requirements, such as Residual Risk, as well as risks not recognised by Pillar 1, such as Credit Concentration Risk, Interest Rate Risk in the Banking Book, Business and Strategy Risk and any external factors affecting the Bank.

Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process (ICAAP), while at the same time maintaining communication with supervisors on a continuous basis. This procedure is monitored and evaluated by the Central Bank of Cyprus.

Pillar 3 – Market discipline

Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on the Central Bank Directive, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders.

In July 2011 the Central Bank of Cyprus has amended the Directive for the Calculation of Capital Requirements and Large Exposures, introducing a new index which refers to the Core Tier 1 Capital with effect on 31 December 2011. Core Tier 1 capital includes the share capital, share premium reserve and revenue reserve. The carrying amount of intangible assets and other regulatory adjustments are deducted in arriving at Core Tier 1 capital. The minimum rate of the new index is set at 8% plus surcharge calculated on the percentage of the assets of the Bank compared to the gross domestic product of the Republic of Cyprus. The Directive provides a transitional period until 2014 for the purposes of calculating the surcharge. Until 31 December 2012 the surcharge on the minimum rate has been set at zero, which will gradually increase to with the full implementation on 31 December 2014.

31. Capital management (continued)

The minimum increment for purposes of determining the Core Tier 1 capital ratio on the Core Tier 1 equity index is set at 150 basis points. For the years 2011 and 2012 the minimum ratio stands at 9,5%.

The minimum increment for purposes of determining the overall capital ratio on the Core Tier 1 equity index is set at 200 basis points. For the years 2011 and 2012 the minimum ratio stands at 11,5%.

All the above ratios of supervisory capital of the Bank are below the minimum required by the Central Bank of Cyprus. The Bank is already examining a recapitalisation plan which will strengthen its capital adequacy in order to exceed all required minimum capital adequacy ratios.

The main shareholder of the Bank has commited to take appropriate measures to ensure that the Bank maintains its capital adequacy ratios to the levels required by the Central Bank of Cyprus.

The table below presents the position of the Bank's regulatory capital, in accordance with the principles of Basel II, at 31 December:

	2011	2010
	€000	€000
Regulatory capital		
Core Tier 1	**22.521**	20.574
Original own funds	**23.495**	21.548
Additional own funds	**12.686**	12.539
Total own funds	**36.181**	34.087
Risk weighted assets - credit risk	**390.751**	334.935
Risk weighted assets - operational risk	**31.688**	28.513
Risk weighted assets - market risk	**500**	-
Total risk weighted assets	**422.939**	363.448
Core Tier 1 ratio	**5,3%**	5,6%
Original Own Funds ratio	**5,6%**	5,9%
Additional Own Funds ratio	**3,0%**	3,5%
Capital Adequacy ratio	**8,6%**	9,4%

Notes to the Financial Statements
as at 31 December 2011

32. Related party transactions

	2011	2010	2011	2010
	Number of Directors of the Bank		€	€
Loans and advances:				
To members of the Board of Directors and related parties:				
Less than 1% of the net assets per director	15	13	**542.474**	3.718.069
	15	13	**542.474**	3.718.069
To key management personnel and related parties			**824.094**	808.055
To shareholder who owns more than 20% of the share capital and its connected persons			**-**	3.760.813
Total loans and other advances			**1.366.569**	8.286.937
Tangible securities			**1.958.795**	9.600.665
Interest income			**23.279**	610.116
Deposits:				
- members of the Board of Directors and key management personnel			**872.726**	878.023
- connected persons of the above			**1.842.411**	691.368
- shareholder who owns more than 20% of the share capital and its connected parties			**-**	47.062
			2.715.137	1.616.453
Interest expense			**26.403**	47.747
Subordinated loan capital issued to connected person of a member of the Board of Directors			**-**	70.000
Subordinated loan capital issued to shareholder who owns more than 20% of the share capital			**282.350**	-
Interest expense on subordinated loan capital			**20.470**	3.045

32. Related party transactions (continued)

In addition, there were contingent liabilities and commitments to the members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €374.231 (2010: €268.854), of which €140.027 (2010: €163.410) relate to Directors and their connected persons.

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

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

Furthermore, on 31 December there was interbank lending amounting to €25.077.306 from the parent company BLC Bank SAL and corresponding interbank deposits of €6.668.837 to the same bank, as part of the ordinary operations of the Bank.

Fees and emoluments of Directors and key management personnel

Directors' emoluments	**2011**	2010
	€	€
Member Fees:		
Non executives	**151.280**	135.156
Executives	**-**	-
Total member fees	**151.280**	135.156
Executive directors' emoluments:		
Salaries and other short-term benefits	**244.807**	388.778
Employer's contributions	**19.845**	24.391
Retirement benefit plan costs	**59.054**	66.205
Total executive directors' emoluments	**323.706**	479.374
Total Board of Directors emoluments	**474.986**	614.530
Key management personnel emoluments		
Salaries and other short-term benefits	**406.841**	377.102
Employer's contributions	**36.162**	34.585
Retirement benefit plan costs	**93.126**	91.599
Total key management personnel emoluments	**536.129**	503.286
Total emoluments	**1.011.115**	1.117.816

33. Agreements with a major shareholder

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

34. Events after the reporting date

New collective agreement

Under the new collective agreement between the Cyprus Bankers Employers' Association and the Cyprus Union of Bank Employees in Cyprus – ETYK, signed on 12 January 2012 and effective from 1st of January 2012, the staff defined benefit retirement plan which applied to all employees whose retirement benefits were governed by the provisions of the collective agreements, was terminated as at 31st December 2011. As of 1st of January 2012, all the affected employees became part of a Provident Fund into which they will contribute 3%-10% of their basic monthly salary plus the equivalent Cost of Living Allowance (COLA). The corresponding monthly contribution of the employer will amount to 14%. The Provided Fund shall receive the amount of retirement benefit for which there has been a provision by the Bank and relates to the service of each employee until 31 December 2011 as well as the net assets of the Universal Bank Trust Fund. Until the date of approval of the financial statements the establishment and operation of the new fund was not finalised and therefore the Bank has not paid the original amount to the Provident Fund. In addition, it was agreed to freeze for two years the annual increases, promotions and Cost of Living Allowance (COLA).

Voluntary participation in the plan for private sector involvement (PSI)

On 21 February 2012, an agreement was reached between the Finance ministers of the Eurozone countries (Eurogroup), for the granting of new support to Greece. In addition, the terms of the private sector involvement plan (PSI) were finalised. As a result and according to the terms of the plan on 12 March 2012 the creditors, including the Bank, exchanged the existing Greek Government Bonds held and received:

a. new Greek Government Bonds having a face value equal to 31,5% of the face amount of the exchanged debt
b. notes issued by the European Financial Stability Fund (EFSF) maturing in 24 months or less and face amount equal to 15% of the face amount of the old bonds tendered for exchange
c. detachable GDP-linked securities issued by the Hellenic Republic having a notional amount equal to the face amount of the new bonds received.

Any accrued interest on the original Greek government bonds was paid using 6-month securities issued by the EFSF.

The new Greek bonds have gradual maturity which commences on the 11th anniversary of the issue date of 24 February 2012 with final maturity in 2042 and bear fixed coupon rate as follows:
- 2% per annum for payment dates up to 2015
- 3% per annum for payment dates between 2016 and 2020
- 3.65% per annum for payment dates in 2021
- 4.3% per annum for payment dates in 2022 and thereafter

Special contribution of Private Sector Employees

Pursuant to the provisions of the legislation on Special Contribution of Private Sector Employees, which has been implemented from 1st January 2012 and will last for 2 years, the employer will pay an equal sum with the employees a special contribution on all gross monthly earnings, based on predetermined rates. The special levy will be deposited in the Consolidated Fund of the Republic.

Independent Auditors' report to the Members of USB Bank Plc

Report on the financial statements

We have audited the accompanying financial statements of USB BANK PLC (the "Bank") on pages 30 to 82, which comprise the statement of financial position as at 31 December 2011, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Independent Auditors' report to the Members of USB Bank Plc

Report on other legal requirements
Opinion
Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 Bank.
- The Bank's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

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

Other matter
This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

Maximos Plaza, Tower 1, 3rd Floor
213 Arch. Makariou III Avenue,
CY-3030 Limassol, Cyprus

Limassol, 24 April 2012

Main Offices, Services and Banking Centres

HEAD OFFICE
83 Digeni Akrita Avenue
5th Floor
1070 Nicosia
Telephone: 22 883333
Fax: 22 875899

POSTAL ADDRESS:
P.O. Box 28510
2080 Nicosia

DEPUTY MANAGING DIRECTOR OFFICE
83 Digeni Akrita Avenue
5th Floor
1070 Nicosia
Telephone: 22 883511
Fax: 22 883355

FINANCIAL SERVICES
6 Demetsanis street
2nd Floor
1070 Nicosia
Telephone: 22 883444
Fax: 22 452056

ORGANISATION AND METHODS
6 Demetsanis street
3rd Floor
1070 Nicosia
Telephone: 22 883362
Fax: 22 762942

INFORMATION TECHNOLOGY
6 Demetsanis street
4th Floor
1070 Nicosia
Telephone: 22 883339
Fax: 22 760280

IT PROJECTS AND SYSTEMS SECURITY
6 Demetsanis street
4th Floor
1070 Nicosia
Telephone: 22 883364
Fax: 22 760280

HUMAN RESOURCES
6 Demetsanis street
5th Floor
1070 Nicosia
Telephone: 22 883401
Fax: 22 883305

RISK MANAGEMENT & LEGAL SERVICES
6 Demetsanis street
5th Floor
1070 Nicosia
Telephone: 22 883502
Fax: 22 883308

CENTRALISED SERVICES
6 Demetsanis street
3rd Floor
1070 Nicosia
Telephone: 22 883512
Fax: 22 883309

TREASURY AND CORRESPONDENT BANKING
6 Demetsanis street
5th Floor
1070 Nicosia
Telephone: 22 883338
Fax: 22 883307

Main Offices, Services and Banking Centres

INTERNAL AUDIT
12-14 Kennedy Avenue
1087 Nicosia
Telephone: 22 883678
Fax: 22 754383

COMPLIANCE & PROJECTS MANAGEMENT
83 Digeni Akrita Avenue
4th Floor
1070 Nicosia
Telephone: 22 883500
Fax: 22 452348

DEBT RECOVERY MANAGEMENT
6 Demetsanis street
2th Floor
1070 Nicosia
Telephone: 22 883470
Fax: 22 452056

CORPORATE BANKING
83 Digeni Akrita Avenue
2th Floor
1070 Nicosia
Telephone: 22 883510
Fax: 22 460398

NICOSIA CORPORATE MANAGEMENT
12-14 Kennedy Avenue
1087 Nicosia
Telephone: 22 883680
Fax: 22 754381

LIMASSOL CORPORATE MANAGEMENT
205 Arch. Makarios III Avenue
3030 Limassol
Telephone: 25 822877
Fax: 25 822879

AMMOCHOSTOS CORPORATE MANAGEMENT
129 1st April Avenue
5280 Paralimni
Telephone: 23 812266
Fax: 23 812261

LARNACA CORPORATE MANAGEMENT
1 Gladstonos Avenue, Panayiotio Megaro
6023 Larnaca
Telephone: 24 664255
Fax: 24 665140

PAPHOS CORPORATE MANAGEMENT
20 Griva Digeni Avenue
8047 Paphos
Telephone: 26 818550
Fax: 26 818552

RETAIL BANKING, PRODUCTS DEVELOPMENT & MARKETING
83 Digeni Akrita Avenue
3th Floor
1070 Nicosia
Telephone: 22 883540
Fax: 22 452342

BRANCH SUPPORT DEPARTMENT
83 Digeni Akrita Avenue
3th Floor
1070 Nicosia
Telephone: 22 883555
Fax: 22 452342

NICOSIA BANKING CENTRES

KENNEDY BRANCH
12-14 Kennedy Avenue
1087 Nicosia
Telephone: 22 883601
Fax: 22 754387

PALLOURIOTISSA BRANCH
39 Corner Pouliou & Kapota street & Ayiou Andrea street
Pallouriotissa
1040 Nicosia
Telephone: 22 877268
Fax: 22 730410

DIGENI AKRITA BRANCH
83 Digeni Akrita Avenue
1070 Nicosia
Telephone: 22 883341
Fax: 22 458753

METOCHIOU BRANCH
57A Metochiou Street
Ayios Andreas
1101 Nicosia
Telephone: 22 459010
Fax: 22 459032

Main Offices, Services and Banking Centres

NICOSIA BANKING CENTRES (continued)

MAKEDONITISSA BRANCH
25 Elia Papakyriakou street
Makedonitissa
2415 Engomi
Telephone: 22 819870
Fax: 22 356388

LIMASSOL BANKING CENTRES

KOLONAKIOU BRANCH
12 Kolonakiou street, Shop D
4103 Ayios Athanasios
Telephone: 25 430222
Fax: 25 430305

VICTORY BRANCH
205 Arch. Makarios III Avenue
3030 Limassol
Telephone: 25 822770
Fax: 25 822875

OMONIAS BRANCH
11 Omonias Avenue
3052 Limassol
Telephone: 25 819724
Fax: 25 819730

PAPHOS BANKING CENTRES

EV. PALLIKARIDES BRANCH
121 Evagora Pallikarides street
8010 Paphos
Telephone: 26 819111
Fax: 26 911450

POLYS CHRYSOCHOUS BRANCH
3 Mariou Avenue, Block A, No.1
Polis Chrysochous
8820 Paphos
Telephone: 26 815781
Fax: 26 815782

APOSTOLOU PAVLOU BRANCH
3 Mariou Avenue, Block A, No. 1
8049 Paphos
Telephone: 26 811300
Fax: 26 944120

AMMOCHOSTOS BANKING CENTRES

PARALIMNI BRANCH
129 1st April Avenue
5280 Paralimni
Telephone: 23 812255
Fax: 23 812260

AYIA NAPA BRANCH
21 Ayia Mavri street
5330 Ayia Napa
Telephone: 23 819260
Fax: 23 724055

PROTARAS BRANCH
13 Protaras street
5296 Paralimni
Telephone: 23 819442
Fax: 23 833577

LARNACA BANKING CENTRES

GLADSTONOS BRANCH
1 Gladstonos Avenue, Panayiotio Megaro
6023 Larnaca
Telephone: 24 665141
Fax: 24 664279

DROSIA BRANCH
20 Griva Digeni Avenue
6045 Larnaca
Telephone: 24 822530
Fax: 24 822535

INTERNATIONAL BUSINESS UNIT

12-14 Kennedy Avenue
1087 Nicosia
Telephone: 22 883680
Fax: 22 754388

NICOSIA INTERNATIONAL BUSINESS UNIT

12-14 Kennedy Avenue
1087 Nicosia
Telephone: 22 883755
Fax: 22 754388

LIMASSOL INTERNATIONAL BUSINESS UNIT

12 Kolonakiou street, Shop D
4103 Ayios Athanasios
Telephone: 25 430350
Fax: 25 314172

usbbank

WE DELIVER WHAT MATTERS

www.usbbank.com.cy | 8000 2323