

Chairman's statement



Dear Stakeholders,

During the year 2013 the Cypriot Economy witnessed unprecedented developments following the events that took place in March 2013 and the bailout agreement that was signed with Troika. These developments rocked the banking sector, slowed down the credit cycle and mandated the imposition of capital movement restrictions.

Despite the deep recession in 2013 with falling wages and rising unemployment, USB Bank maintained healthy liquidity levels with a euro liquidity ratio of 26% and a foreign currency liquidity ratio of 96% as compared to the regulatory requirements of 20% and 70% respectively.

The continuous support of the parent company BLC Bank SAL was demonstrated once again in December 2013 with the irrevocable commitment to fully cover any increase of capital required from USB Bank to comply with the regulatory requirements and maintain an adequate capital base, by injecting €20 million Core Tier I equity. As a result, at 31 December 2013, USB Bank had a Core Tier 1 Ratio of 10,2% and complied with the minimum imposed by Central Bank of Cyprus of 9% while its total capital adequacy ratio was 13,04%.

In a very difficult economic environment and within restrictive measures imposed on banking transactions, the operational profit of USB Bank increased by a substantial 82% compared to year 2012 and amounted to €8,6 million. As a result of the continuing economic recession, the constant fall in real estate prices, the stringent regulations issued by the Central Bank of Cyprus on the classification of loans and provisioning methodology and the resulting repayment difficulties faced by clients, the provisions for impairment of loans and advances increased substantially and as a consequence the loss for the year 2013 amounted to €15,9 million fully covered by the above €20 million equity injection.

The outlook for year 2014 remains difficult as the economy continues to face significant challenges, but program implementation remains on track and the recession is likely to end in 2015. The overall macroeconomic performance for 2013 has been better than initially anticipated, as the economy has proven to be resilient and significantly flexible. The fiscal performance has also been better than anticipated, exceeding program targets by a considerable margin.

Amidst this economic turmoil, meeting client 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 deliver what matters to our stakeholders, employees and the community. We remain committed to our values of transparency, reliability, integrity and professionalism.

To conclude, I would like to express my sincere appreciation to all the members of the Board of Directors for their productive cooperation and I warmly thank our associates and customers for their continuous trust. I would like to thank the Bank's Management and staff for their devotion, hard work and commitment to the objectives of the Group.

Maurice Sehnaoui
Chairman