

Chairman's Statement



Dear stakeholders,

In March 2016 Cyprus succeeded to exit the economic adjustment program earlier than expected and regained access to international capital markets. 2016 was a year of stability for both the Cyprus economy and the Cyprus banking sector.

Cyprus real GDP grew by 2,8% with the growth in year 2017 expected to be at approximately same levels. The positive outlook for the Cyprus economy is also reflected in the upgrades of the country's rating by all international rating agencies indicating the improved levels of confidence. Developments in the country about a potential reunification along with the exploitation of Cyprus' natural resources are being closely monitored in order to assess any potential prospects that are being developed.

The rising confidence was also evident in the Cyprus banking sector with the deposits in the Cyprus banks continuing to grow and the international credit ratings upgrading the Cyprus banks.

Despite the positive developments, challenges remain and involve the high level of non-performing exposures in the banking sector and the deterioration of the external environment which could pose risks for an open economy like Cyprus. The political uncertainty in Europe triggered by a British exit and/or the refugee crisis could lead to economic uncertainty and undermine economic confidence.

The objective for year 2016 for USB Bank was to focus on the strategy set to deal decisively with the management of the non performing exposures in order to effectively reduce them and safeguard the Bank's operations. We have reduced the non-performing exposures by approximately 7% by the end of year 2016 in comparison to year 2015 through sustainable restructuring solutions and other actions including debt to assets swaps.

The Bank's capital base was enhanced by €23 million in May 2016 with the Total Capital Ratio as at year end of 2016 being 14,27% exceeding the minimum imposed by the regulatory authorities. A strong capital base and a strong liquidity set the foundations for the Bank's future growth.

Despite the operational profit of €9,7 million achieved in year 2016, the provisions booked for the year amounting to €12 million resulted in a net loss of €2,3 million. It is important to note that the negative interest rates as per the European Central Bank's decision affect the Bank's profitability considering the excess levels of liquidity.

The outlook for year 2017 remains challenging. The priorities and objectives set for the forthcoming year are the reduction of the non-performing exposures and growth of our loan portfolio thus actively supporting the recovery of the Cyprus economy through financing creditworthy businesses and individuals. Addressing our clients' needs through new products and services thus improving further our customer service remains one of our main priorities.

We will continue to support our clients who face financial difficulties and are willing to cooperate with the Bank but we will take all necessary measures for those who have the financial ability but refuse to fulfil their obligations. Our main concern is to protect all the stakeholders of the Bank.

Despite all the challenges we have laid solid foundations for the Bank's future course and the Bank's Management is ready to have a constructive year for a steady course towards profitability and growth.

Henri Guillemin
Chairman