



**USB BANK PLC**  
**Unaudited Interim Management Statement for the period**  
**1 January 2014 to 29 April 2014**

The unaudited Interim Management Statement of USB Bank Plc (the "Bank") for the period 1 January 2014 to 29 April 2014 is prepared in accordance to Article 11 of the Transparency Law of 2007 and 2009 (L.190(I)/2007 & 72(I)2009).

**1. Explanation of material events and transactions**

The Bank operates within a challenging economic environment after the developments that followed the Eurogroup decisions on the 25<sup>th</sup> March 2013. Cyprus is expected to continue to be in recession during 2014 with moderate real GDP growth and a decline in unemployment levels being expected in 2015.

This economic environment requires prudent management. As a consequence, the main objectives of the Bank are the effective management of credit risk and the maintenance of adequate levels of capital and liquidity in order to be able to manage the potential adverse effects that could result from the present business and economic environment.

In this respect, the Bank maintains healthy liquidity levels with a gross loans to deposits ratio being 87% as at 31 March 2014, complies with the minimum Euro and foreign currency liquidity ratios as set by the Central Bank of Cyprus and has no financing from the European Central Bank or any other third party.

In relation to capital, the Board of Directors in a meeting held on 24<sup>th</sup> February 2014 decided to proceed to an increase of the issued share capital of the Bank by €20 million in order to strengthen the Bank's capital base through the parent company's, BLC Bank SAL, irrevocable commitment made in December 2013 to fully cover any required increase of capital by depositing €20 million in an escrow account.

At an Extraordinary General Meeting held on the 27<sup>th</sup> March 2014 a resolution was approved for the reduction of the nominal value of the Bank's shares in order to facilitate and provide greater flexibility to the Bank for the issue of new ordinary shares. Subject to ratification by the District Court of Nicosia of the above resolution, a second resolution was approved whereby the existing members waived their pre-emption rights so that the Board of Directors of the Bank was authorised to issue and allot 66.666.667 new ordinary shares of nominal value of €0,10 each at the total issue price of €0,30 each, exclusively to BLC Bank SAL. The 66.666.667 new ordinary shares will rank pari passu with the existing fully paid shares of the Bank.

As at 31 March 2014 the Bank complies with the minimum regulatory ratio of Core Tier 1 of 9% as set by the Central Bank of Cyprus with the pro forma Core Tier 1 ratio being 9,5%.

During this period there were no other material transactions during this period other than the Bank's ordinary operations that affected significantly the Banks' financial statements and no other profit or loss occurred from non recurring activities other than the Banks' ordinary operations.

## **2. Financial Results for the period from 1 January 2014 to 31 March 2014**

The operational profit of the Bank increased substantially by 133% from €1,5 million in the 1<sup>st</sup> quarter of 2013 to €3,5 million in the 1<sup>st</sup> quarter of 2014 despite the recessionary environment and the restrictive measures imposed on the banking transactions both locally and internationally and which have impacted the Bank's turnover by a 4% decrease between the two year periods.

Net interest income for the period under review increased by 38% reaching €6,9 million in relation to €5 million for last year period.

In particular, while the interest income presents a decrease of 3% in relation to the last years' corresponding period and amounted to €10,6 million mainly due to the lower returns received from placements and investments following the implementation of a more prudent approach, the interest expense of the Bank for the 1<sup>st</sup> quarter of 2014 amounted to €3,6 million in relation to €5,9 million presenting a decrease of 39% which was a result of the reduction in the cost of deposits and the maintenance of lower deposit levels during the current period in comparison to the prior year period.

Net fees and commissions have been affected by the imposition of capital controls and decreased by €0,2 million from €0,8 million in the 1<sup>st</sup> quarter of 2013 to €0,6 million in the 1<sup>st</sup> quarter of 2014.

The total expenses of the Bank present a decrease of 4% mainly due to the reduction of staff cost following the application of the new collective agreement between the Cyprus Union of Bank Employees and the Cyprus Bankers Employers' Association which implemented reductions in salaries applicable from 1 March 2014 and also reductions for the employers contributions to the employees provident fund applicable from 1 January 2014.

Due to the continuing economic recession, the continuing reduction in real estate prices, the new stringent regulations imposed by the Central Bank of Cyprus on the definition of non-performing loans and provision methodology and based on the resulting repayment difficulties faced by clients, the provisions for impairment of loans and advances increased substantially and amounted to €6,4 million for the 1<sup>st</sup> quarter of 2014 in relation to €2,2 million for the 1<sup>st</sup> quarter of 2013.

Despite the increase in operational profit by €2 million reaching €3,5 million in the 1<sup>st</sup> quarter of 2014, the loss for the period under review resulting from the above increase in provisions for loans is €3,1 million in relation to €0,9 million for the corresponding last year period.

## **3. Outlook**

The Banks' Management acknowledges that the recessionary conditions will continue in year 2014 with further reduction in spending and increased unemployment and monitors closely the developments within the economy. The Bank considers that the credit risk management is the most important process and factor contributing towards the safeguarding of its operations and takes all necessary steps to effectively manage it.