

0004/00006277/en

General Meeting

USB Bank Plc

USB

Written Directors' Report & Independent Expert Report

The relative announcement is attached.

Attachment:

1. **Announcement**

Non Regulated

Publication Date: 10/03/2014

10 March, 2014

Director,
Cyprus Stock Exchange,
Nicosia

Dear Sir,

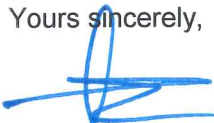
ANNOUNCEMENT

Written Directors' Report
Independent Expert Report

Further to the announcement of USB Bank PLC (the "Bank"), dated 25 February 2014, regarding the convention of an Extraordinary General Meeting of the members of the Bank on 27 March, 2014 for discussion and if thought fit, the approval of the Resolutions in connection with the reduction of the nominal value of the share of the Bank and the issue and allotment of 66.666.667 new shares to BLC Bank sal, we attach the Written Directors' Report as well as the Independent Expert Report, as provided by the Law.

The mentioned Reports will also be available at the registered office of the Bank at 83 Digenis Akritas Avenue, 5th floor, 1070, Nicosia and at the website of the Bank www.usbbank.com.cy

Yours sincerely,



Andreas Theodorides
Secretary

c.c. Chairman
Cyprus Securities and Exchange Commission

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**WRITTEN REPORT OF THE DIRECTORS OF USB BANK PLC PREPARED
PURSUANT TO ARTICLE 60B OF THE COMPANIES LAW**

The Board of Directors of USB BANK PLC (the "Bank") decided at a meeting held on February 24, 2014 the immediate strengthening of the capital base of the Bank taking into consideration the increased supervisory capital requirements set in the updated Memorandum of Understanding of 6 November 2013. For this reason it decided to proceed to an increase of the issued share capital of the Bank by €20.000.000 (the "Issue"). The proposed Issue concerns the issue and allotment of 66.666.667 new ordinary shares at an issue price of €0,30 per new share as explained in detail below.

In order to facilitate the issue and allotment of new ordinary shares in view of the prevailing current financial conditions and the fact that pursuant to the Cyprus Companies Law Cap 113 (as amended), new shares cannot be issued and allotted at a price lower than the current nominal value of Euro 0,57 which is higher than the current net asset value per share, the Board of Directors of the Bank has proposed to convene an Extraordinary General Meeting in order to consider and if thought fit, adopt a resolution for the reduction of the nominal value of the ordinary share of the Bank from Euro 0,57 each to Euro 0,10 each share. The reduction of the nominal value of the share is proposed in order to facilitate the Bank to provide greater flexibility for the issue of 66.666.667 ordinary shares. The total amount from the reduction of the nominal value of the issued ordinary shares amounting to Euro 46.657.212 will be utilized for the reduction of the Bank's capital against accumulated losses of the Bank.

Based on the above and considering the commitment by BLC Bank sal ("BLC Bank") as the majority member with a stake of 97,31%, to cover fully the above Issue and acquire the new shares that will be issued at the issue price of €0,30 per new share, the Board of Directors considered it more appropriate under the circumstances to convene an Extraordinary General Meeting of the members of the Bank on 27 March 2014, where the following resolutions will be considered and if thought fit to be adopted:

(1) The Special Resolution No. 1 for the reduction of the authorised share capital of the Bank from Euro 85.500.000 divided into 150.000.000 ordinary shares of nominal value of Euro 0,57, as well as for the reduction of the issued share capital of the Bank which comprises of Euro 56.584.277,91 divided into 99.270.663 ordinary shares of nominal value of Euro 0,57 each, so that the authorised share capital is reduced to Euro 15.000.000 divided into 150.000.000 ordinary shares of nominal value of Euro 0,10 each and the issued share capital is reduced to Euro 9.927.066,30 divided into 99.270.663 ordinary shares of nominal value of Euro 0,10 each, for the purpose of writing off accumulated losses and immediately after the above reduction, the authorised share capital of the Bank to be re-increased to the amount of €85.500.000 which will be divided into 855.000.000 ordinary shares of €0,10 each.

This Special Resolution No. 1 is subject to ratification by the District Court of Nicosia.

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(2) The Special Resolution No. 2 which is subject to the approval of the above Special Resolution No.1 by the District Court of Nicosia, where the existing members will be called to waive their pre-emption rights so that the Board of Directors of the Bank be authorised to issue and allot 66.666.667 new ordinary shares of nominal value of Euro 0,10 each at the total issue price of Euro 0,30 each, exclusively to BLC Bank. The 66.666.667 new ordinary shares will rank pari passu with the existing fully paid shares of the Bank.

It is noted that BLC Bank, the majority shareholder of the Bank, has made an irrevocable commitment before the year end of 2013 to fully cover any required increase of capital of the Bank, in an effort for the Bank to comply in a timely manner with the regulatory requirements and maintain an adequate capital base by blocking €20 million in an escrow account demonstrating its continued support to the Bank. As a consequence, the Core Tier 1 ratio of the Bank as at 31 December 2013 stands at 10,2 % and the Total Capital ratio at 13,04%.

For this reason, the Board of Directors of the Bank, will propose to the members of the Bank to waive their pre-emption rights and proceed with the issue and allotment of 66.666.667 new ordinary shares of a nominal value of Euro 0,10 each at the issue price of Euro 0,30 each.

The Board of Directors of the Bank in its decision has also taken into account the undertaking of BLC Bank, to dispose up to 1.790.363 ordinary shares of a nominal value of €0,10 each share, at the total issue price of €0,30 per share (that represents the proposed issue price of the new shares to BLC Bank), to those registered members of the Bank who will within 30 days from the date of the Issue to BLC Bank ("Expiry Date"), following the approval of the proposed resolution at the Extraordinary General Meeting, the approval of Special Resolution No.1 by the District Court of Nicosia and the granting of an exception to BLC Bank by the Cyprus Securities and Exchange Commission in accordance with the provisions of the Public Takeover Bids Law (L.41 (I) / 2007), express their interest in acquiring such number of shares which correspond to the ratio and number that they will hold on the Expiry Date. The number of 1.790.363 ordinary shares represents the number of shares that would have been offered to them if the Issue was offered and allotted to all members of the Bank on a pro rata basis.

After the completion of the issue and allotment of 66.666.667 new ordinary shares, the Bank will take all necessary measures for their listing on the Cyprus Stock Exchange, provided that an exception is granted to BLC Bank by the Cyprus Securities and Exchange Commission in accordance with the provisions of the Public Take Over Bids Law (L41(I)/2007).

With the successful completion of the reduction, the re-increase and subsequent issue and allotment of 66.666.667 new ordinary shares, the issued share capital of the Bank will amount to €16.593.733 divided into 165.937.330 ordinary shares of nominal value of €0,10 each.

It is noted that BLC Bank currently holds 96.604.705 shares that represent 97,31% of the issued share capital of the Bank out of which 53.765.035 are temporarily suspended. With the completion of the above issue and subject to obtaining all necessary approvals, the stake of BLC Bank in the share capital of the Bank will increase to 98,39% (excluding any possible disposal of 1.790.363 shares by BLC Bank mentioned above to the registered members of the Bank).

(3)The Ordinary Resolution authorising the Board of Directors to take all necessary actions in order to give effect to the above resolutions, including, to make all necessary applications to the District Court of Nicosia for a Court Order approving the aforesaid Special Resolution No.1, to make all necessary entries in the Bank's books and finally to file all necessary returns with the Registrar of Companies as prescribed by law.

The Board of Directors of the Bank considers that the proposed issue price of €0,30 per share (which consists of the proposed new reduced nominal value of Euro 0,10 and the share premium value of Euro 0,20) is fair and reasonable.

It is also noted that the Board of Directors of the Bank has received an independent opinion from an Independent Expert, namely BDO Ltd, which considers the issue price as fair and reasonable. The report of the Independent Expert is available on the website of the Bank at www.usbbank.com.cy (Investor Relations/General Meetings) and a copy can also be obtained at the registered office of the Bank at 83 Digenis Akritas Avenue, 5th floor, 1070, Nicosia.

By order of the Board,



Andreas Theodorides
Secretary

6 March 2014



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Cyprus

4 March 2014

Dear Sirs,

On 24 February 2014 the Board of Directors of USB Bank Plc (the "Bank") resolved that it will strengthen its capital base taking into consideration the current financial conditions as well as the increased regulatory requirements. For this reason it decided to convene an Extraordinary General Meeting of its members where it will be discussed and, if thought fit, decide to reduce the nominal value of €0,57 of the share of the Bank to €0,10 each share primarily in order to facilitate the issue and allotment of new ordinary shares at a lower price in light of the prevailing market conditions and the fact that pursuant to the Cyprus Companies Law Cap. 113 (as amended) new shares cannot be issued and allotted at a price lower than the current nominal value of the Bank of €0,57 which is higher than the current net asset value per share. The proposed reduction of the nominal value of each share is effected in order to provide greater flexibility for the issue of 66.666.667 new ordinary shares at the new proposed nominal value of €0,10 at the proposed issue price of €0,30. Furthermore, the total amount of the reduction amounting to Euro 46.657.212 will be utilised for the reduction of the Bank's capital against accumulated losses.

The majority shareholder of the Bank has made an irrevocable commitment before the year end of 2013 to fully cover any required increase of capital of the Bank by blocking in an escrow account €20m which was held under a special reserve account. The new shares will be issued in exchange for the cancellation of the special reserve account. As a result, there will be no change in the total net asset value of the Bank.

We have been requested by the Board of Directors of the Bank to express an opinion on whether the proposed issue price of €0,30 per share (to include the proposed reduced nominal value of Euro 0,10 and share premium value of Euro 0,20) for the increase of the issued share capital of the Bank is fair and reasonable for the Bank.

In providing this letter we have considered indicative financial results of the Bank for the year ended 31 December 2013 announced on 25 February 2014 as well as publicly available information on the Banking sector and stock market performance in the period from 1 January 2012 to 4 March 2014 summarised as follows:



We consider that the issue price offered for the acquisition of the new shares of €0,30 is fair due to the following:

- As shown in the graph 1 in Appendix A, the share price of the Bank over the last year has traded above the offer price. The closing share price on 4 March 2014 was €0,643, above nominal value. The average share price for the period 1 January 2013 to 28 February 2014 was €0,65, showing that the share price was consistently above the offer price throughout the period under review.
- The share is characterised as illiquid. Graph 2 in Appendix A shows that the volume of transactions was negligible. The low volume of transactions indicates the low liquidity of the shares and the difficulty in which the shares can be traded, which may affect their realisable value in the event of a major share sale or new issue of shares. As a general observation, the share price has not substantially changed in value over the last year.
- According to the unaudited results for the year ended 31 December 2013 (indicative results), which were announced on 25 February 2014, the Bank generated losses of €15,9m compared to losses of €824k incurred in 2012, while for the year ended 31 December 2011 the Bank announced losses of €8,9m. The current quoted share price does not seem to take into account the current performance of the Bank, has negligible trading volume over the last year and is therefore not considered to be a fair indication of the market value of the shares.
- A more appropriate indicator of value of the shares may therefore be the net asset value. The net asset value of the Bank as at 31 December 2013, including the special reserve was €52.467.387. The special reserve was specifically created as a result of the Bank's parent commitment to provide the necessary capital support (by way of future issue of shares) in order to meet regulatory capital requirements. Since the special reserve was specifically set aside for the issue of shares now proposed, it should be excluded from any net asset valuation used when assessing the fairness of the proposed offer price. We have therefore considered the net asset value (NAV) of the Bank as at 31 December 2013 excluding the special reserve which is €32.467.387 representing an NAV per share of €0,327.
- Following the proposed share issue the revised NAV per share will be €0,316.
- We have compared the Net Asset Value (NAV) per share of the only bank whose shares are traded in the Cyprus Stock market (Hellenic Bank Public Co, "HB" - Appendix B Table 2). The analysis shows that the shares of HB as at 4 March 2014 are traded at a discount of 26% compared to its NAV. The discount could be explained by continuing uncertainties associated with the Cypriot banking sector and economy as a whole.



- The proposed issue price of €0,30 offered for the new issue of 66.666.667 represents a discount of 8% compared to the Bank's NAV per share which is less than the discount of the only directly comparable bank.
- We have also analysed the shares comprising the General index of the Cyprus Stock Exchange, as an indicator of the overall market (Appendix B Table 3). As indicated on this table, shares in companies comprising the General index of the Cyprus Stock Exchange are traded at a significant discount to NAV, except in the case of Logicom Public Ltd which is trading at a premium of approximately 20%. The proposed issue price of €0,30 represents a discount of 8% (Appendix A Table 1) over the Bank's NAV per share.

Opinion

In our opinion, the issue price of €0,30 offered for the acquisition of the new shares, is reasonable and fair for the Bank.

Disclaimer

There are a number of other areas which you should consider as part of your due diligence but which are outside the scope of our review and as such you should not place sole reliance on our report to support your Board's decision regarding whether or not to support or otherwise the terms of the offer being made.

We accept no responsibility for matters not covered by our report or needed due to the limited nature of our review.

We shall assume that the information and data included in the information described above to be true and accurate. We are not required and shall not carry out any audit procedures to verify any accuracy of information included therein and stress that our work cannot be considered to constitute in any way a valuation of the shares and bonds of the Bank nor to constitute financial due diligence of the financial statements of the Bank.

Our report and opinion, data and information included therein are intended to be used solely by the Board of Directors to confirm the fairness of the proposed issue price of €0,30 for the increase of ordinary share capital of the Bank and for no other purpose. Our report is not intended and will not constitute investment, legal or tax advice. Investment decisions of shareholders of the Bank should be made after obtaining professional advice and having regard to their specific circumstances and investment profile at their own risk and responsibility.

Any significant change or variance on the information provided to us, would likely impact our opinion.

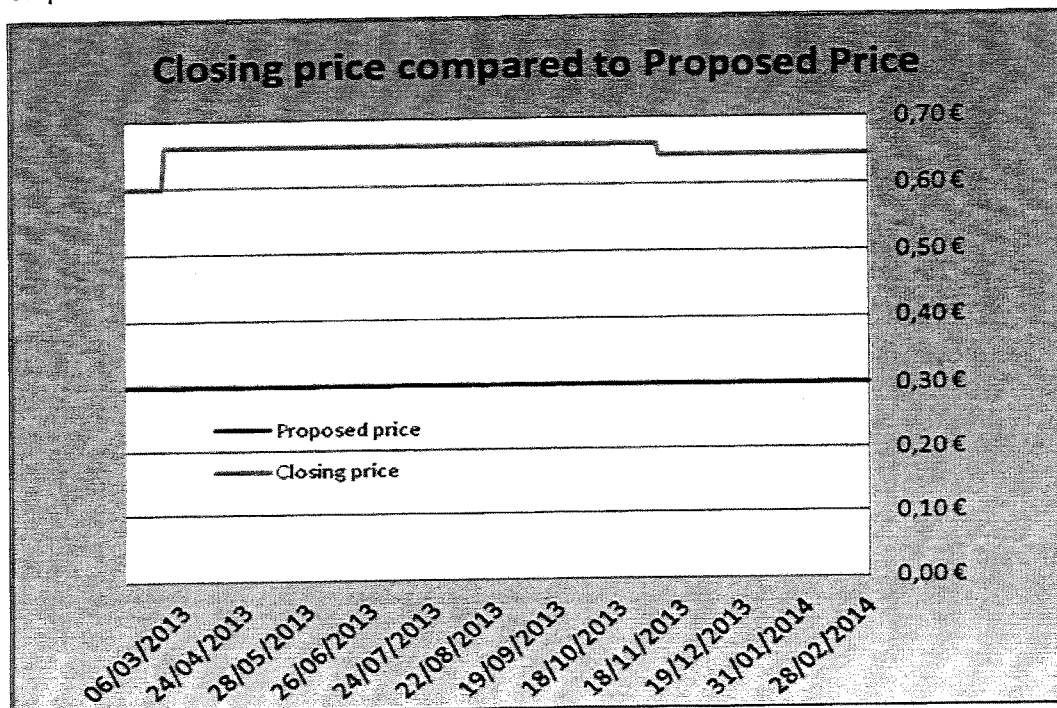
Yours faithfully

A handwritten signature in black ink, appearing to be 'Terence Kiely', written over a dotted line.

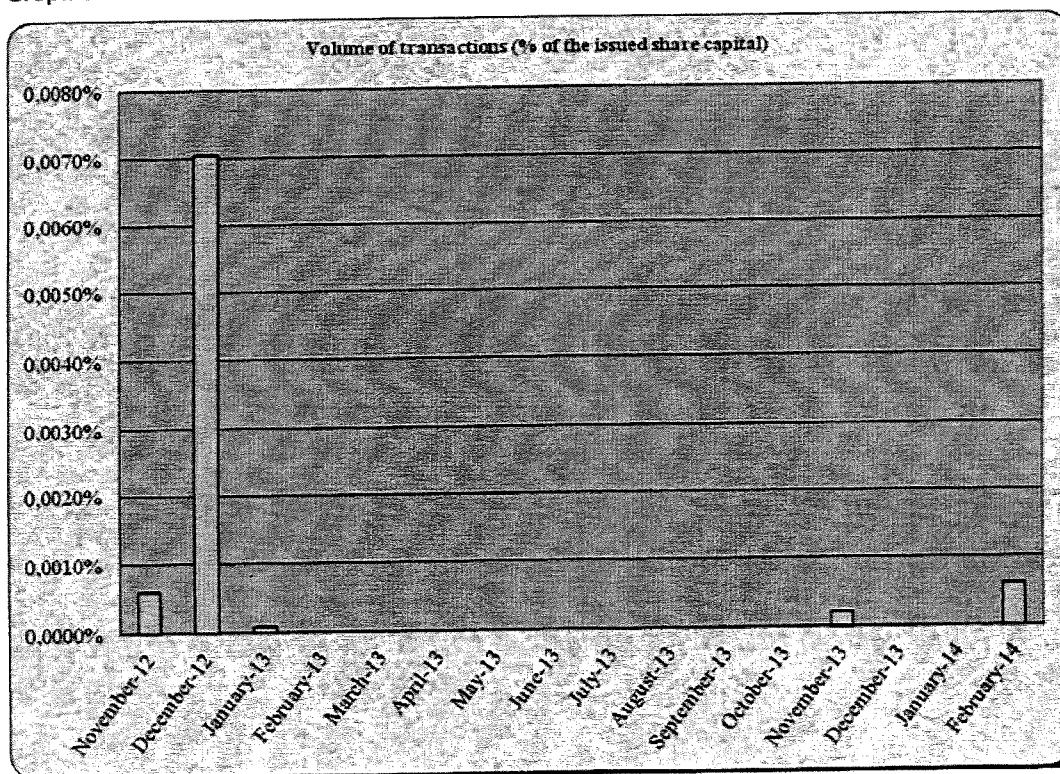
Terence Kiely
Member of the Board

Appendix A

Graph 1



Graph 2



Appendix B

Table 1

USB Bank Plc Net Assets	Net assets (€)	Net assets excluding the special reserve (€)	Issued shares	NAV per share	Offer price	Premium/ (discount)
Net asset Value per audited accounts 31/12/2009	30.572.109	n/a	45.384.453	0,674	0,30	-55,46 %
Net asset Value per audited accounts 31/12/2010	24.041.507	n/a	45.505.628	0,528	0,30	-43,22%
Net asset Value per audited accounts 31/12/2011	26.295.014	n/a	60.674.171	0,433	0,30	-30,78%
Net asset Value per audited accounts 31/12/2012	49.957.701	n/a	99.270.663	0,473	0,30	-36,58%
Net asset Value per unaudited accounts 31/12/2013	52.467.387	32.467.387	99.270.663	0,327	0,30	-8,27%

Table 2

Cyprus Banks	Net assets (€)	Issued shares	NAV per share	Share price 04/03/14	Premium/ (discount)
Hellenic Bank plc - Net asset Value per unaudited accounts 31/12/2013	394.488.000	2.688.753.000	0,147	0,109	-26%

Table 3

General Index Shares	Net Asset Value per share as at 31/12/2012 (€)	Market price 24/02/2014 (€)	Premium/ (discount)
A&P (ANDREOU & PARASKEVAIDES) ENTERPRISES PUBLIC COMPANY LTD	0,246	0,184	-25,17%
ERMES DEPARTMENT STORES PLC	0,454	0,179	-60,57%
WOOLWORTH (CYPRUS) PROPERTIES PLC	1,781	0,301	-83,10%
G.A.P. VASSILOPOULOS PUBLIC LTD	0,308	0,131	-57,43%
HELLENIC BANK PUBLIC COMPANY LTD	0,777	0,117	-84,95%
LORDOS HOTELS (HOLDINGS) PUBLIC LTD	1,943	0,398	-79,51%
LOGICOM PUBLIC LTD	0,552	0,658	19,27%
LORDOS UNITED PLASTICS PUBLIC LTD	1,956	0,079	-95,96%
LOUIS PLC	0,217	0,047	-78,33%
MITSIDES PUBLIC COMPANY LTD	3,049	0,410	-86,55%
A. TSOKKOS HOTELS PUBLIC LTD	0,488	0,085	-82,58%
VASSILICO CEMENT WORKS PUBLIC COMPANY LTD	3,194	0,910	-71,51%