



Bank of Cyprus Group: Annual General Meeting 2014

20 November 2014

Remarks: Mr. John Patrick Hourican, Group Chief Executive Officer

OPENING REMARKS

Good Morning ladies and gentlemen, and distinguished guests. Given the important business at hand this morning, I will keep my remarks short.

Today's AGM marks an important check-point for the Bank in its journey back to strength. This morning we place the 2013 Accounts before our shareholders and, importantly, we will elect a new Board to guide the Bank through the next chapter of its history.

Before going any further this morning, I would like to place on the record my thanks to the outgoing Chairman and the Board for their efforts and success in helping guide the Bank of Cyprus Group since September 2013. This has been a very difficult time for the Bank as well as the country. But the Bank of Cyprus Group today stands visibly stronger than it did just twelve months ago.

Progress so far

Since December 2013, we have made good progress through a deliberate and programmed "shrink to strength" strategy:

- We sold significant businesses and exposures in the Ukraine, Romania, Serbia and the UK;

- We completed the closure of our surplus branch network, reducing the number of branches from 203 to 130;
- We completed the integration of the banks IT systems and, since June 2014, the combined bank has been operating on a single IT platform;
- We restructured the way we manage the Bank. We established a dedicated restructuring and recoveries division to focus on the professional re-habilitation of delinquent accounts. We continue to work hard to protect viable businesses and jobs in Cyprus;
- We released all blocked decree deposits ahead of time and contributed to the successful lifting of all domestic capital controls;
- We have reduced lending costs in a variety of products, including student loans and credit cards. We have provided additional support to many vulnerable borrowers;
- Our balance sheet has deleveraged significantly. Poorly deployed overseas capital and liquidity has been, where possible, repatriated to Cyprus and ELA has been reduced by almost 4billion euros since its high point;
- The level of non-performance in our book, while still unacceptable, has been stabilised.
- And importantly, we raised 1 billion euros of fresh equity from sophisticated international investors to significantly strengthen the Bank's capital base. This positioned the Bank with an appropriate level of capital to pass the recent European Central Bank's Europe-wide stress test exercise.

More to do

We do however recognise that there is still much to do to recover the lost trust between the Bank and society. The track-record of actions taken in 2014 along with the explicit strengthening of the Bank's capital should provide our customers and all stakeholders with the evidence that the Bank has turned an important page to begin a new and progressive chapter.

At its core, our management agenda will be much the same as before:

- We intend to serve our customers better, embracing transparency and adopting international best practices in risk management and corporate governance;
- We want to play our part in the regeneration of the Cyprus economy. We want to lend to our customers, both business and consumers. Our Cypriot operations account for approximately 85% of our business. The Bank's future financial performance and strength is highly correlated with the economic activity in Cyprus.
- We will complete our overseas disposal programme, repatriating capital and liquidity to serve our core Cyprus operations;
- We will continue to normalise our funding, increasingly accessing wholesale markets, further repaying ELA and hopefully attracting depositors to our bank.
- We will continue to dedicate extraordinary effort to tackling the very high level of arrears and non-performing loans. Our Restructuring and Recoveries staff are trained in supporting business and retail customers with repayment challenges. We are deploying sustainable restructuring solutions. This is an area of very poor international comparison for Cyprus and we will continue to encourage legislators and regulators to help create appropriate law and regulation to support and sustain a healthy banking framework.
- We intend to re-list our stock before the year-end on the Cyprus and Athens Exchanges. This is another important milestone for the Bank. We will complete the Share Capital Increase with a Retail Offer of up to €100 mn shares.

CONCLUDING REMARKS

Ladies and Gentlemen and distinguished guests, one year ago our Bank was staring down the barrel of great uncertainty. We suffered the indignity of being the only Bank and Eurozone Sovereign nation to bail in its depositors and impose capital controls. We lost the confidence of our customers, our investors, our staff and all stakeholders.

Although we remain at war with circumstance, today the picture could not be more different. We have significantly strengthened the Bank through the capital increase. We have restructured the Bank and have significantly deleveraged and de-risked the balance sheet. We

have stabilized the deposit base and we have reduced our reliance on ELA. We must however continue to battle all issues across the Group with the same intensity as before – we still have much to do in building value for our investors and a great Bank for our customers and employees.

Today, the Bank is in a better and stronger position to play its part in rehabilitating the Cyprus economy and to create a future for our employees, customers, investors and Cyprus more generally. We are in a stronger position to face a world without capital controls, as the Cypriot government prepares to remove the remaining international capital controls.

We believe our long-term outlook is bright. We are confident in the Group's prospects and in our ability to deliver sustainable returns for our shareholders.

Before closing, I would again like to thank the outgoing members of the Board for their contribution and support during the last year.

Finally, I am very grateful to my colleagues throughout the Group who, despite the many challenges that we have encountered, have remained resilient, committed and focused as we deliver on our shared objectives for our customers and for the Group.

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