Bank of Cyprus

ANNUAL GENERAL MEETING OF SHAREHOLDERS

25 October 2016

BOC Headquarters

Remarks by John Patrick Hourican,

Group Chief Executive Officer

OPENING REMARKS

Good morning ladies and gentlemen, distinguished guests and colleagues.

As in previous years, my remarks will be in English and there is a real-time translation facility available for anyone who wishes to hear these remarks in Greek. A copy of my remarks will also be placed on the Group's website in a few minutes.

This is my fifth time to stand in front of our shareholders in general meeting and it is almost exactly three years since I took on the challenge to lead this Group through these difficult times.

We have made good progress since the eventful days of 2013 and the Bank is in a much improved state. But we must also acknowledge that there remains much to do to complete our carefully choreographed step-by-step journey back to full strength and - in time - value.

As in previous times, I would like to begin my remarks by assuring you, our shareholders, that we, the Board, the Management and every employee at the Bank, continue to focus all our efforts on re-building a financially sound, trusted and safer organisation.

Over the past three years the Group has been getting steadily stronger and it is unarguably a financially safer institution today. This visible improvement could not have been achieved without the increasing trust shown to the Bank by our customers, nor could it have been achieved without the dedicated service of our frontline and back-office staff – we are extremely grateful to our customers, our supervisors, our shareholders and our employees for their continued support and encouragement.

I would also, again, like to take this opportunity to thank each of you for bearing with us and for continuing to support us on this journey. We appreciate both this trust and, more importantly, your continued patience with us. This patience is particularly welcome as we, piece-by-piece, take the necessary and deliberate steps to restore the Bank's financial strength and value and enhance its risk management and control structures.

Dr Ackermann has covered off the meeting's agenda and made some important remarks about the macroeconomic backdrop and, indeed, the key features of our plans for the future.

This morning's primary purpose is to place the 2015 Financial Statements before our shareholders. But before highlighting the important takeaways from the 2015 financial results, I would like to take this opportunity to briefly reflect on some aspects of our progress during the 1000 days since the bank was resolved and recapitalised.

PROGRESS SO FAR – 1000 days

Focus on Capital Strength

The bedrock of any bank is its capital base, the quality of that capital and understanding the amount and nature of the risk that the capital supports. This fundamental principle has been an area of deliberate focus for us at the Bank of Cyprus.

The Bank maintains a strong level of core capital, or CET1. When we began this journey in late 2013 with a core capital level of just 10,4%, we quickly determined that this needed to be strengthened.

We raised €1 bn of new equity from sophisticated international investors in September 2014. As a reminder, this was the largest-ever Foreign Direct Investment into Cyprus. It was a watershed moment for the Bank and arguably for the country. Raising this equity enabled us to pass the ECB-led Comprehensive Assessment and validated the Bank's viability. Since then, we have maintained core capital levels in excess of 14%. Taking into account the views of our supervisors at the SSM as per their Annual Evaluation Process, we view the level of core capital to be sufficient to support the risks inherent on the Bank's balance sheet.

Our early focus on strengthening the equity in the Bank has been critical to improving customer, shareholder and regulatory confidence in our Bank. It has also been extremely important in creating the capacity to de-risk the Bank's balance sheet – you will note the balance sheet is now €8 bn smaller than it was in December 2013.

As at 30 June 2016, the Bank's core capital stood at 14,4%, a level that compares well with European banks generally. The risk intensity of our capital, measured by comparing the level of risk weighted assets to the balance sheet size, is also high by European standards and offers further evidence of the prudent level of capital against the inherent risk in the Bank's balance sheet.

Bank of Cyprus has sufficient common equity capital to support its strategy and so is not expecting to raise any additional equity. However we are, as you should expect, constantly examining ways to improve the efficiency of our shareholders' capital as well as the funding of our balance sheet. To that end, and as our bank normalizes, we are carefully exploring the possibility of introducing Tier 2 capital to augment the strength of our balance sheet and supplement our equity capital base. This is another positive and deliberate action on our recovery journey.

<u>International reach</u>

The Bank's previous strategy of expanding to non-home markets has proved unsuccessful. Until recently the residual risk from these overseas businesses presented significant event risk to our Bank.

Our strategy during the past 1000 days has been to "Shrink to Strength" through deliberately shedding non-core businesses and exposures overseas. We have now substantially reversed the previously adopted strategy and sold businesses and exposures in Russia, Ukraine, Romania, Serbia, Greece and elsewhere. We have repatriated capital and liquidity, and refocused management attention on Cyprus. We have reduced the Group's employee numbers by some 4.000 during this period through such sales and, while there are still overseas exposures that we are managing down, there are now no individual exposures that present existential risks to the Group.

We are now focused on building our capability in support of the Cypriot economy and supporting entrepreneurs through our UK Bank. Our strategy is simple and separately focuses on Cyprus and on our much smaller self-funded operations in the UK.

Dr Ackermann has already discussed the world economic backdrop and referenced a strongly recovering Cyprus economy. It is pleasing to see a sustained recovery in Cyprus. It is pleasing to see tourist numbers at record highs, a pickup in industrial production, falling unemployment, stabilising property prices and continued fiscal discipline in government finances. These are certainly encouraging signs that make us cautiously optimistic about the prospects for our core Cyprus market, though the momentum of policy reforms should continue. As the government emphasises, there is still an unfinished agenda.

Non-performing Loans

But of course there are real fragilities in Cyprus and they express themselves on the banking system balance sheet. Non-performance and delinquency continues to be a scourge in our loan book and a stain on the nation's image.

The Bank has made some good progress in reducing the level of problem loans but the sheer size of the problem created by the events of March 2013 and, importantly, the preceding excesses mean this problem will be with us for some years. We have reduced the quantum of delinquency in our balance sheet but it remains still unacceptably high in a European and developed market context. We continue to need the support of the legislature, the legal system and the wider society to speed up the resolution of this issue. We will, of course, continue to ensure we play our part in protecting vulnerable groups in society. We will also actively seek to find innovative solutions that bring bank loan servicing obligations more in line with the changing economic and financial circumstances of cooperating bank borrowers. But we will also be tireless in the pursuit of strategic and other defaulted borrowers more generally.

In early 2014 we reorganised the Bank to specifically separate the management of delinquency from the mainstream bank. This deliberate separation stabilised the problem and allowed us to focus explicitly on creating viable remediation.

This strategy is now delivering for us. We have been able to reduce the stock of non-performing loans in each of the last five reported quarters. We have embedded essential routines and protocols across the various segments of our business to create viable and enduring solutions to our customers' problems. During the period from 1 January 2015 to 30 June 2016, we have been responsible for approximately two thirds of the reduction in non-performing loans in Cyprus, despite only having a 40% share of lending. But there is still much to do.

In late 2015 we recognised that the new foreclosure regime would encourage an increased level of consensual asset transfers from troubled borrowers. We established a Real Estate Management Unit, REMU, to professionalise the on-boarding, management and sale of foreclosed property. We created a formal joint venture with Resolute Asset Management and we are pleased with the focus that this has brought to this area. We believe this initiative will help accelerate the recovery process, as well as help further professionalise the Cyprus real estate market. This continues to be an area of very deliberate focus for management in the coming year.

Funding

The fundamental lubricant to a functioning banking system is confidence. The events of March 2013 did serious damage to customer confidence in the Cypriot banking system and, more specifically, in the Bank of Cyprus. We knew that words could not repair the damage and, as I mentioned earlier, we set out to rebuild the confidence through concrete actions, not words.

We tackled the problem piece by piece. We raised capital. We restructured the way we ran the Bank. We sold overseas businesses. We released "trapped" fixed deposits early. We worked with the Government to lift domestic and international capital controls early. We focused on "doing real things".

These deliberate "real" building blocks have had the combined effect of slowly creating confidence for our customers to again place deposits with the Bank. Deposit erosion was halted and we have been able to grow our market share in both resident and non-resident deposits since the abolition of capital controls. Today we have a 28,6% market share in resident deposits and a 33,8% market share in non-resident deposits. We are extremely grateful to our customers for their renewed trust in the Bank and we are determined to sustain and strengthen that trust on a daily basis.

The combination of corporate finance actions, repayment of government bonds, balance sheet shrinkage and deposit growth has meant that we have been able to repay more than €10 bn of Emergency Liquidity Assistance (ELA). From a high in April 2013 of €11,4 bn, we are now at less than €1,0 bn. We hold more liquid assets than ELA and we expect to fully extinguish the remaining ELA early next year. The repayment of ELA demonstrates that the strategy we set has, to date, worked to restore and normalise the Bank's funding profile. Our loan-to-deposit ratio is now on the right side of the EU averages.

The progress in repaying ELA, normalising funding, and maintaining capital sufficiency against the clear objectives we have set has been recognised by international credit rating agencies. Both Fitch and Moody's have upgraded our credit ratings repeatedly and we are hopeful and confident of further upgrades in the years to come. We continue to work towards an investment grade rating which still remains our target in the medium term.

Governance and Culture

We also recognise that fixing the financial underpinnings of our Bank is only part of the story. Our industry globally and our predecessor banks in Cyprus lost the trust of society. We recognise the need to embed a customer-centric, transparent, non-bureaucratic, modern, humble and honest set of values that pervade the organisation and are "on display" across our business.

Changing the culture of any organisation takes time but we are committed to doing so. We are embarking on significant changes to our processes, to the level of digitisation, to our culture at the core of the Bank. We know that we still have much progress to make in developing a truly customer-centric culture that puts customer service and modern business practices at the heart of how we do things. It is a priority for us.

We have a truly world-class Board. We have adopted the highest standards of governance and protocols. This will also facilitate our attempt to move the Group's listing to a large liquid European exchange, while maintaining a listing in Cyprus. We are committed to flag-carry our brand and the country's image onto the world's largest financial markets. We are committed to the highest standards of governance and business practices as part of the culture and transformation of our Bank. We have reinforced a culture of accountability and learning. We are engendering a culture of self-identifying and fixing shortcomings, but we also recognise that this is work-in-progress.

FINANCIAL YEAR 2015

The main purpose of the AGM today is to table the financial statements of 2015 before our shareholders. 2015 already feels like a long time ago and indeed is the "middle" period of the journey I have just talked about. I would like to make a few specific observations on the 2015 Financial Statements placed before you today:

- The Bank posted three profitable quarters in 2015 but, taking into account an important and continuing regulatory dialogue, posted a €630 mn impairment charge in the fourth quarter. This charge was taken following certain changes in the assumptions used in the Bank's provisioning methodology within the parameters of IFRS, considering the Bank's strategy with respect to its NPL portfolio, developments both at the macro level of the Cyprus economy as well as specific developments in various borrower exposures and in relation to the on-going regulatory dialogue between the Bank and the ECB regarding SREP 2015. We believe the amendments to our methodology significantly bridge the regulatory dialogue and have, in any case, resulted in an increase in the level of conservatism (within an acceptable range) in our provision calculations. We explained this at the time we posted the charge and, as a matter of practice, we continue to direct pre-provision profitability to de-risk our balance sheet. As a result of posting this Q4 elevated impairment charge, the outcome for the full year was a loss attributable to shareholders of €438 mn;

- As at 31 December 2015, the Bank's CET1 ratio was stable at 14%, despite our taking a full year provision charge of €959 mn;

- 2015 was the first year where we recorded material reductions in problem loans. We made material progress in this regard in the third and fourth quarters, with accounts overdue for more than 90 days or impaired being reduced by €649 mn and €668 mn, respectively. A reduction of €1,3 bn was posted for the full year 2015. The trend established in the second half of 2015 continued and accelerated into the first half of 2016;

- In April 2015, all international capital controls were lifted. This was the first real test of the resilience of the Bank's deposit base. We are pleased to note that in 2015, in aggregate, deposits for the Group grew by 12% or €1,6 bn (after adjusting for the disposal of the Russian operations) despite the full lifting of capital controls;

- In 2015, we completed the disposal of our largest overseas banking subsidiary, Uniastrum Bank in Russia. This represented an important milestone for the Group and significantly reduced our operational risk profile;

- Using the proceeds from deleveraging, deposit inflows and more normal ECB monetary operations, we repaid a further €3,6 bn of ELA during 2015. The balance at the end of 2015 was €3,8 bn. As a reminder, the balance today stands at less than €1,0 bn and our plans are to fully repay this during 2017.

RECENT PERFORMANCE – FIRST 6 MONTHS 2016

We have previously presented the Bank's results for the first six months of the year to the market and we will announce the 9 month results on 14th November.

I would like to take this opportunity to remind our shareholders that the progress during the first six months of 2016 has been incrementally positive. We also expect continued positive progress in Q3.

I would just like to highlight some points from the already disclosed Half Year Results:

- The Bank posted an after tax profit of €56 mn for the first 6 months of the year; As at 30 June 2016 the Bank's CET 1 ratio was at 14,4%;

- Deposits grew by €566 mn, or 4%, during the first six months. Our market share in resident and non-resident deposits grew to 28,6% and 33,8% at the end of August;

- We further paid down significant amounts of ELA and, as I mentioned earlier, we now carry more liquidity than the amount of ELA. The near term prospect of eliminating ELA is now real;

- We made good progress in reducing problem loans. Exposures with arrears greater than 90 days or impaired fell by 18% or €2,0 bn during the first 6 months of 2016. We continued to direct our operating profit to de-risk the balance sheet and coverage levels against the balance sheet risk continue to rise. Exposures with arrears greater than 90 days or impaired have provisions in excess of 53% and these exposures are more than 100% covered when the discounted value of collateral is included;

- During the first half of 2016 we took the painful but essential step of further reducing our staff numbers in Cyprus. We ran Voluntary Retirement Schemes and this resulted in 432 people leaving the Group. This should result in a €22 mn annual cost saving and will help stave off the competitive headwinds in our business. It is of course a difficult and disruptive process for the business to go through and, as always, we regret the personal discomfort that such processes cause to our employees.

PRIORITIES FOR THE JOURNEY AHEAD

Turning to our priorities, we have achieved a great deal in the 1000 days post the resolution of the Bank in 2013 but there remains much to do in rebuilding the value and position of this Institution. I remain hopeful that the track record of delivery that we have built during this period will provide our customers and all stakeholders with the confidence and renewed patience to continue to support and encourage us.

- We remain committed to the same strategy. We want to serve our customers better through improved branch service, better technology, reduced bureaucracy and consistently raising our standards. We have made progress in these areas since the last AGM, but not enough of the improvements are visible to our customers;

- We will continue to play our part in the recovery of the Cypriot economy. We are pleased to be supporting the real economy with more than €650 mn of new lending so far this year. We are pleased to be supporting some of the new developments and new projects coming to Cyprus with the support of overseas capital;

- We will stay focused on making the Bank safe, on managing risk, on repaying ELA, on restoring customer and investor confidence;

- We will vigorously and deliberately pursue the highest standards of corporate governance and do all we can to discover liquidity and value for our Bank and its shareholders;

- As Dr Ackermann mentioned in his remarks, work continues on our efforts to prepare the Group for a London listing and we are continuing to engage with all stakeholders in this complex project. The timing of any potential listing continues to be uncertain. We will make announcements on plans and progress as soon as we have greater clarity in due course;

- While we are pleased with the progress we are making in tackling delinquent loans, the problem remains very large. We will continue to devote huge effort in driving momentum and resolution of this societal problem. We will continue to encourage government and legislators to put in place the essential reforms to allow us more rapidly to resolve this last big hurdle to declaring some level of closure on the most serious financial crisis that Cyprus has had to cope with in recent years.

CONCLUDING REMARKS

Ladies and Gentlemen and distinguished guests, 1000 days into this journey, there is no question that the Bank is in better shape.

2015 was another year that strengthened our foundations and in the first half of 2016 we made further significant progress. But we still have a lot do before we can declare victory. We have to get Cypriot society behind us in making loan delinquency an unacceptable societal issue. We must of course protect the vulnerable. We must continue to earn our customers' trust and respect. We must continue to battle all the issues across the Group with the same intensity and determination as before and, of course, we must deliver on our promises.

Last year I said I thought our long-term outlook was bright. I am even more convinced of this now. We are confident in the Group's prospects and in our ability to deliver sustainable returns to our shareholders.

I would like to thank the people of Cyprus, our customers, for continuing to make me feel so welcome in their country. I would continue to pay tribute to the Cypriot authorities, particularly the Ministry of Finance and the Central Bank for their continued attention to the long-term interests of the country.

I am extremely humbled by the continued dedication to duty of my colleagues across the Group and their commitment to success. I know we share a common determination to deliver a better Bank to our customers and a valuable one for our shareholders.

Thank you. Back to you Mr. Chairman.