Bank of Cyprus Holdings

ANNUAL GENERAL MEETING OF SHAREHOLDERS

29 August 2017

Bank of Cyprus Holdings PLC 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 reasonably brief and in English. There is a real-time translation facility available for anyone who wishes to hear these remarks in Greek. A copy of these remarks will also be placed on the Group's website in a few minutes.

In addition to Dr Ackermann's words of welcome, I would also like to thank you for attending today's Annual General Meeting. I appreciate the opportunity to update you on the Group's progress in 2016 and thus far in 2017.

This is my sixth time to stand in front of our shareholders in general meeting since taking on the challenge to navigate this Group through these difficult and changing times. The Group is making steady positive progress in its journey back to strength. But we would also acknowledge that there remains more to do before we can declare any conclusive victory in this regard.

I would like to open my remarks by assuring you, our shareholders that the Management and every employee at the Bank, continue to focus all and every effort on re-building a financially sound, trusted and safer organisation. As each day passes, the Bank adds strength and is better positioned to support the recovering Cyprus economy. There continue to be observable fragilities and risks that require our constant attention, not least the continuing high level of loan default in Cyprus, the consequences of a less than perfect bank merger and resolution in 2013, an intrusive supervisory backdrop and the highly litigious nature of Cyprus society. Navigating and managing these risks is critical in delivering the Bank to safety and value.

I would like to take this opportunity to thank each of our shareholders for bearing with us and for continuing to support us on this journey. We truly appreciate the trust you place in us as well as your continued patience. This is particularly welcome as we take the necessary, deliberate and choreographed steps to complete the Bank's repair. We are extremely grateful to our customers, our supervisors, our shareholders, Cyprus society and our employees for their continued support and encouragement during these ever-changing times.

Dr Ackermann has covered off the meeting's agenda and made some important remarks about the macroeconomic backdrop. I will not revisit these areas.

Steady Progress in the Bank's Recovery

This morning's primary purpose is to place the 2016 Financial Statements before our shareholders. Before highlighting the important takeaways from the 2016 financial results, I would like to take this opportunity to briefly reflect on certain aspects of our progress in 2016 and in 2017 so far.

Our focus during 2016 and 2017 to-date has continued to be on strengthening all aspects of our balance sheet and ensuring that the Bank's improving financial metrics offer the best evidence to our customers, our supervisors and the investor community of the Bank's progress.

Capital Adequacy & Risk Reduction

Capital levels remain adequate. This is despite our allocating a further significant amount of capital against non-performing loans in the first half of 2017. During the past week, as part of our first half 2017 results, we announced that we would deliberately allocate an incremental €500 mn of capital, through increased provisioning, to our non-performing loans.

It is important to state that this material increase in provisions is positively motivated in that it should facilitate a more rapid de-risking and potential sell-down of delinquent loans. It also materially closes-off a contentious set of supervisory discussions with the European Central Bank and, along with the introduction of IFRS9 on 1 January 2018, these incremental provisions should position the Bank to deliver more normal financial results in 2018. Dr Ackermann has made reference to the Board's decision-making in this regard and I would echo his remarks.

I have spoken before about the economic fragilities in Cyprus and their consequences for the banking system's balance sheet. Non-performing loans and general delinquency, albeit reducing, continue to be a blight on the Bank and a stain on the country's image.

We are actively working through our loan-book to find innovative solutions that bring individuals' and companies' loan servicing obligations more current and in line with the changing economic and financial circumstances of co-operating borrowers. At the same time, we are intensifying our pursuit of strategic and other defaulted borrowers more generally – it remains entirely unacceptable for those who have the means to settle exposures to continue to be in default of their obligations. We would entreat Cyprus society to more universally regard as unacceptable the deliberate default on obligations to repay borrowings. We should not forget that it is the depositors of the predecessor banks that are carrying the cost of this behaviour. We must return to a normal expectation that the obligation to repay our debts is a fundamental foundation on which a modern and progressive democracy is built.

At Bank of Cyprus, we have made substantial progress in reducing the level of problem loans and improving the safety of our assets. We reduced our stock of NPEs by €5.2 bn or 35% since December 2014 – to put this in context, this amounts to 28% of the country's GDP. We have recorded material NPE reductions for nine consecutive quarters and we expect the organic reduction of NPEs to continue in the coming quarters. During the period from 1 January 2015 to 30 April 2017 Bank of Cyprus has delivered approximately 83% of the reduction in non-performing loans in Cyprus, despite only having 39% market share of lending.

That said, the level of NPEs on our balance sheet remains unacceptably high in a European and developed market context. We are continuously exploring ways to speed up the reduction of NPEs. The support of the legislature, the legal system and wider society is critical to this. We will, of course, continue to ensure we play our part in protecting vulnerable groups in society but we will be increasingly active in pushing for some non-traditional measures to accelerate NPE reduction.

To date, the level of provisions in the Bank's balance sheet has proven entirely adequate to deliver these nine quarters of material de-risking. However, we believe that increasing coverage levels on residual NPEs to near 50% of balances will allow us to examine a further step change in de-risking. In addition to the in-house organic servicing solutions that have underpinned our NPE strategy to-date, we intend to aggressively pursue other avenues of risk-transfer that have previously not been readily available to us. We are engaged with a number of external counterparties to explore certain de-risking options. Although we are actively pursuing these ideas, it would be premature to provide any further details at this stage.

The initiative that we undertook in late 2015 establishing the Real Estate Management Unit in a Joint Venture with Resolute Asset Management – known as REMU – to professionalise the on-boarding, management and sale of foreclosed property is now delivering for us.

In 2016 and in the first half of 2017 REMU on-boarded assets worth €1.3 bn. As at 30 June 2017 REMU manages a stock of properties with a total carrying value of €1.5 bn. In 2016 we recorded sales of €155 mn in Cyprus, accelerating to €184 mn in 2017 to date, exceeding the levels achieved in the full year 2016 and at average prices above book value. Sales momentum in the second half of 2017 is increasing with a promising sales pipeline. We are also actively exploring a number of innovative ideas to further accelerate the reduction in our real estate exposures.

We continue to believe that REMU will help accelerate the recovery process, unlock value for our shareholders and help further professionalise the Cyprus real estate market.

Despite being able to sign-post significant positive progress in risk reduction, there remains much to do to complete our journey back to full strength and - in time - value. Ladies and Gentlemen, repairing a bank in the unique circumstances of Bank of Cyprus can, at times, appear frustratingly slow and we are conscious of the need to keep demonstrating that our strategy is working. We believe that our quarter-on-quarter balance sheet metrics and our general progress are good evidence that the faith shown in us by our customers, our supervisors and our shareholders and Cyprus society is justified.

<u>Deposits, Liquidity & Liability Management</u>

We have not forgotten that 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 recognise that a fundamental tenet of a smooth-functioning banking system is confidence and that this confidence underpins the availability, stability and shape of deposits. At Bank of Cyprus, deposit levels are stable and now more than fully fund the loan book.

I have repeatedly said from this podium that we have deliberately set out to rebuild this confidence through concrete actions. Earlier this year - and ahead of plan - we completed the repayment of the €11.4 bn of Emergency Liquidity Assistance funding provided by the Central Bank. This concluded a multi-year repayment programme and was made possible through corporate actions including the extensive deleveraging of non-core assets and operations, the €1 bn equity raise in 2014, the repayment and maturity of Cyprus Government bonds, the conversion of assets into normal ECB-funding eligible assets and most importantly the renewed trust shown to the Bank by our customers, as evidenced by the strong growth of deposits.

In 2016 our deposits grew by €2.3 bn or 16% and remain stable today. It is evident that depositors' confidence continues to grow. Today we have a market share of 30.1% in resident deposits and of 35.3% in non-resident deposits. We are extremely grateful to our customers for their continuing trust in the Bank and we are determined to sustain and strengthen that trust on a daily basis.

Today our loan to deposit ratio is healthy at 90%, adequate to fund loan balances and better than European bank averages. Following the full repayment of ELA funding our liquidity position has improved significantly. As of March 2017 our Liquidity Coverage Ratio reached European Central Bank compliance levels and continues to improve.

In January 2017, the Bank further strengthened its liability structure with the issuance of a significantly over-subscribed €250 mn Tier-2 Bond. This was the first bond issued by the Bank for almost a decade and signalled our successful return to the capital markets. During the coming twelve months we will continue to examine the possibility of incremental capital efficient AT-1 or Tier 2 issuance.

London Listing

As our shareholders know, it has been our long-term objective to list our shares on a liquid, index-driven European stock exchange and we previously made it clear that The London Stock Exchange was our target destination. As Dr. Ackermann said, on

19 January 2017 our shares commenced trading on the LSE. We also retained our listing in Cyprus.

The listing on the LSE enabled us to fulfil a long-standing commitment to our shareholders. The London listing has increased the visibility of the Bank, made it easier for shareholders to trade, and increased the Bank's potential future access to capital. The ease with which the partial disposal of the Laiki holding in the Bank by the Resolution Authority was achieved last May is a testament to the level of equity interest in the Bank. That transaction was five times oversubscribed and attracted interest from both new long term, sector focused investors and existing shareholders.

We continue to work towards a premium listing on the LSE. Our intention is to seek inclusion in the FTSE UK Index Series in time. Companies included in the FTSE indices attract the interest of both active and passive investors and we believe that an eventual inclusion will lead to even greater liquidity in our stock. Our standard listing is an intermediate step on this path.

Strategy & Modernisation

As the Chairman noted, underpinning the Group's momentum is a recovering Cypriot economy. The Cyprus economy is currently the second fastest growing economy in Europe. It is pleasing to see a broad based recovery with tourist numbers at record highs, stabilising property prices and falling unemployment.

The Bank is committed to providing credit to the recovering Cyprus economy. We are targeting new lending in selected industries. Industries such as tourism, trade, professional services, information/communication technologies, energy, education and green projects present good business lending opportunities for the Bank. We granted new lending of more than €1 bn to the Cyprus economy in 2016 and we expect to significantly exceed that level this year.

The Bank is also currently looking to carefully expand its UK operations. This is being achieved in a controlled manner and we remain careful to ensure that any controlled expansion is within the Group's overall credit appetite and consistent with the regulatory environment, particularly as the UK prepares for its exit from the European Union.

The progress we have made in fully repaying ELA, normalising funding, maintaining capital sufficiency and significantly reducing NPEs against the clear objectives we have set has been recognised by Moody's. This June Moody's upgraded our rating by one notch with a positive outlook. We are hopeful of further upgrades in the periods to come and we continue to work towards an investment grade rating which still remains our target in the medium term.

Committed to the highest standards of governance

We have been working hard to embed a customer-centric, transparent, non-bureaucratic, modern, humble and honest set of values throughout the organisation. We continue to improve our processes and to try and modernise our culture. We intend to invest to better serve our customers through improved products and services and to make the Bank more capable of competing in a changing competitive, and increasingly digital, paradigm. We have embarked on an ambitious digitalization plan in partnership with IBM which should lay the foundations for this transformation.

We have a truly world-class Board. We have made three significant appointments to the Board of Directors this year, each bringing a unique set of skills and experience. We are committed to the highest standards of governance and business practises as part of the culture transformation of our Bank. Following the listing on the LSE, and as a sign of this commitment to corporate governance and transparency, we took the decision to comply with the UK Corporate Governance Code on a voluntarily basis.

Financial Year 2016

The main purpose of the AGM today is to table the financial statements of 2016 before our shareholders. I would like to make a few specific observations on the 2016 Financial Statements placed before you today:

- Our results for 2016 were satisfactory and reflect our clear strategy of continued de-risking across all aspects of the business. The Bank posted a modest profit after tax of €64 mn in 2016, reflecting the fact that it directed materially all its pre-provision profits in the last three quarters towards deliberate balance sheet de-risking. This trend continued into 2017.

- The Bank's CET1 ratio was strengthened by 50bps during 2016 and stood at 14.5%, at 31 December 2016, despite the continued and aggressive organic balance sheet de-risking.

- In 2016 we made material progress in reducing problem loans. Accounts overdue for more than 90 days or impaired were reduced by €3.0 bn in 2016, a 27% reduction. Provision coverage against exposures of greater than 90 days or impaired at the end of 2016 was at 54%. .

- In 2016 we reduced NPEs by €2.9 bn, a 21% reduction. Provision coverage against exposures designated as NPEs at the end of 2016 was at 41%. The trend in risk reduction and increased coverage has continued in 2017.

- In 2016 we experienced strong growth in customer deposits which essentially allowed for the early repayment of ELA. Deposits grew by €2.3 bn or 16% compared to the previous year and have been stable since that date.

- After the establishment of REMU in the final quarter of 2015, the Bank made good progress in "on-boarding" and selling real estate. The stock of real estate amounted to €1.2 bn and 1,124 properties as at the end of 2016. During 2016 the Bank sold €155 mn of real estate at average prices in excess of the carrying value. The Bank has already sold more real estate in 2017 year-to-date than it did in the whole of 2016.

Recent performance – first 6 months 2017

This morning we presented the Bank's results for the first six months of the year to the market. I would like to highlight some points from the Half Year Results:

- The first half results reflected the Bank's previous policy of absorbing all its operating profitability in further de-risking the balance sheet. The Board also made a deliberate decision to allocate a further €500 mn of the Bank's capital, through increased provisioning, to further accelerate risk reduction. This resulted in an accounting loss of €554 mn for the first six months of the year and substantially completes the credit provisioning exercise necessary to bring a conclusion to our discussions with the ECB. We expect to continue to direct the operating profit of the Bank for the remainder of 2017 to further balance sheet de-risking and, post the introduction of IFRS9 on 1st January 2018, to be in a position to present a more normal credit cycle charge.

- As at 30 June the Bank's CET1 ratio was at 12.3% and the total capital ratio was 13.8%.

- Deposits remained broadly stable in the first half of the year. The Bank is focused on ensuring its deposit base has an appropriate shape to meet liquidity compliance ratios and is now less focused on just gathering deposit balances.

- In the first 6 months of 2017 we made good progress in reducing problem loans. NPEs reduced by 12%, or €1.3 bn during the first half of 2017. NPEs are 48% covered by provisions and these exposures are now significantly more than 100% covered when the fair value of collateral is included.

- Tackling the Group's loan portfolio quality remains the top priority for management. The Group continues to make steady progress across all asset quality metrics and the loan restructuring activity continues. The Group has been successful in engineering sustainable restructuring solutions across the spectrum of its loan portfolio. As I said earlier, we are examining a number of avenues to accelerate this reduction.

Priorities for the journey ahead

Since the last AGM, the Bank has made reasonable progress in a number of fronts. We have continued to make meaningful reductions in non-performing loans. We have substantially increased the coverage (and therefore safety) level against these non-performing loans. We have made good progress in selling real estate collateral taken in settlement of delinquent loans. We re-accessed wholesale markets through issuing a Tier 2 Bond. We have rebalanced the liability side of the Bank's balance sheet and fully repaid ELA. We listed the company of the London Stock Exchange. We also maintained good levels of capital in support of the risk in the balance sheet and we have supported the recovering Cyprus economy through providing material levels of new lending.

Our priorities for the remainder of this year and into 2018 remain broadly unchanged and reflect our commitment to deliver against our "in progress" strategy and creating a valuable bank for our shareholders.

- We must finish the job on non-performing loans. We believe that we have adequate levels of cash provision coverage and collateral against the risks on our balance sheet. We will continue to deliver the organic march down of NPEs and we will augment this by examining value accretive avenues to accelerate this reduction. This will necessarily involve our examining portfolio sales and structured solutions across our loan book and our real estate portfolio. We will also examine the potential to accelerate and syndicate certain aspects of loan servicing.

- We must maintain new lending and compliance standards. We note a level of indiscipline in the competitive Cyprus lending market as certain competitors try and put capital to work. We will maintain our hard fought lending standards and security standards. We will remain vigilant in ensuring that our KYC standards across the business and compliance protocols are maintained at the highest level. These are essential hallmarks of a modern banking landscape and will help safeguard the country's and the Bank's reputation into the future.

- We will continue to communicate openly with all stakeholders on all issues. This is an essential part of maintaining confidence in the Bank and ensuring the rebuild of trust with our depositors and customers, our supervisors, our employees and our investors. We will endeavour to operate a "no surprises" agenda.

- We will focus on the modernising the Bank. We have embarked on an important partnership with IBM designed to create a more modern and digital infrastructure. Delivering process efficiency and better customer service in a modern and cost effective manner is a critical focus of this programme. We are also conscious that there is much to do in embedding modern HR disciplines across our business and we will be working with our employees and their representatives to make essential changes to many of the archaic and uncompetitive practices of the past. We recognise that modernising the Bank requires culture change. We will continue to encourage all of our staff to embrace meritocracy and modern working practices.

We are, of course, also mindful of continued geo-political uncertainties. There are also diplomatic uncertainties closer to home, following the recent break-down in Cypriot negotiations in Switzerland. It is imperative that we continue to be well positioned to help our customers navigate the challenging environment. We do not try to predict the outcome, but instead ensure that we are prepared for the various scenarios in order to continue to deliver high quality service to our clients.

Closing remarks

Together with the Chairman, the Board of Directors and our senior management team, I continue to believe that our strategy will deliver the Bank to safety and deliver value for our shareholders. Last year I said that the country's outlook was bright and that the Bank's prospects were good. I remain convinced of this.

As a final point, I would like to express my sincere gratitude to our employees and to our clients for the trust they place in Bank of Cyprus. I would also like to thank the Board for its collective counsel, challenge and support since the last AGM.

And last but not least, my thanks go to you, our shareholders.

Thank you.