Speech by Mr. Sophocles Michaelides, President of the Interim Board of Directors of the Bank of Cyprus, at the General Meeting of the Shareholders on September 10, 2013

Honourable guests,

Ladies and gentlemen shareholders,

The Eurogroup's decisions on March 25, 2013, have created an entirely new order of things in the real economy and especially in the banking sector of our country. The development model has been placed under review and the financial system is being redesigned.

Months of negotiations between the government and the Troika had preceded the Eurogroup, with a view to signing a Memorandum of Understanding, which would also comprise of the recapitalisation of banks.

Let me remind you that on June 27, 2012, the Bank of Cyprus turned to the State requesting capital support, since, as a result of increased projections in its loan portfolio in both Greece and Cyprus, but also due to the write-down of Greek Sovereign Debt, the capital deficit, as determined by the European Banking Authority, had been estimated at 500 million Euro.

Contradicting the general view that the deficit would be covered by resources drawn from the bailout package included in the Memorandum, the Eurogroup eventually ordered the recapitalisation of the Bank of Cyprus through it's own means, that is to say, by way of turning deposits into equity capital.

This sequence of events led to the emergency situation we are dealing with today and brought the most historical, the biggest and the most systemically significant bank in Cyprus face to face with undoubtedly tough challenges.

After the decisions of the Eurogroup and the enforcement of the relevant decrees of the Cyprus Central Bank, our Group:

* Has absorbed part of the assets of Laiki Bank, which mostly consists of serviced debt.

* Has undertaken part of Laiki Bank's liabilities and owner's equity, which consists mostly of secured deposits and the emergency liquidity assistance provided by the European Central Bank.

* Has transferred its banking activities in Greece to Piraeus Bank.

* Has absorbed the business of Laiki Bank in the United Kingdom.

As a result of all the above and of other actions, the deposit total of the new Bank of Cyprus on March 31 2013 was 18.2 billion Euro. Deposits in Cyprus amounted to 84% of the total. The rest was mostly the deposits in the United Kingdom (8%) and in Russia (6%).

Loans amounted to 28.8 billion Euro, with dispensations in Cyprus being 87%, in Russia 7% and in the United Kingdom 3% of the total.

After the absorption of Laiki Bank activities in Cyprus, the total number of branches rose to 203 and of staff to 5725 individuals. Enforcing the decisions for reducing operational cost, the total number of branches has now fallen to 166, and the staff has been reduced to approximately 4350 individuals.

Outside of Cyprus the Group owns 190 branches in Russia, 44 in Ukraine, 4 in the United Kingdom, 1 in Romania, and 1 in Guernsey, Channel Islands.

Dear shareholders,

The Interim Board of Directors took office on April 30, appointed by the Central Bank in its capacity as the Resolutions Authority and in association with the Minister of Finance. The Interim Board of Directors' main mission was to prepare the Bank's exit from resolution, in other words, to return control of the Bank to its shareholders.

The Interim Board of Directors' mandate was:

* To achieve recapitalisation according to the decision of the Eurogroup

* To complete the process of absorbing Laiki Bank

* To design a Restructuring Plan for the Bank of Cyprus

* To cut operational costs

* To meet the immediate challenges, the most important of which was the public's loss of confidence in the financial system.

We had to face the distrust, occasionally even the anger and the excessive condemnation of the public.

Every initiative of ours was taken exclusively with a view to restoring the Bank to its normal state of operations as soon as possible, in parallel with the gradual relaxation of capital control measures.

On May 30, the Board of Directors, with the consent of the Resolutions Authority, appointed Mr. Christos Sorotos as Interim Chief Executive Officer.

In cooperation with the Chief Executive Officer, the Board of Directors implemented a new organisational chart aiming chiefly to enhance corporate governance, thus securing greater corporate responsibility and transparency, as well as best practices and standards of operation for the whole Group.

To adjust to the new reality expediently, as well as to secure the viability and the prospects of the Bank, we sought to cut the cost of general operations and payroll.

After negotiating with the Bank Employees Trade Union (ETYK) we agreed to cut wages by up to 30% and to abolish benefits, starting from June 2013.

But the greatest contribution to cutting costs was made by the implementation of the voluntary exit programme, the conditions of which were also consensually agreed upon after consecutive negotiations with ETYK, so that substantial motivation would be offered to people opting for voluntary retirement.

Upon completion of the voluntary exit programme, 1370 members of staff, most of them of longstanding service, have chosen to retire early.

The Group's staff in Cyprus was cut approximately by a quarter. Taking into account both the pay cuts and the retirements we estimate that the Group will save about 35% of its annual payroll cost in Cyprus.

We have stressed repeatedly that we consider our human resources as our groups most valuable asset.

From the official floor of this General Meeting I would like to thank all the colleagues of the Bank of Cyprus and the former Laiki Bank for their valuable services, the zeal and the professionalism they have shown all these years. We are certain that our staff will continue to play a leading role in weathering today's challenges and in creating a new development dynamic for the Bank.

With the successful realisation of the voluntary exit programme we have taken another substantial step towards reorganising the Group.

The completion of the Restructuring Plan created by the Bank with the aid of the Special Counsels of the McKinsey Institute will be one of the first and probably the main issue presented to the new Board of Directors. The Plan will suggest solutions, among other things, regarding the slimming down of our branches network, the consolidation of services and the filling of organisational gaps produced by the implementation of the Voluntary Exit Programme.

The finalisation of the Restructuring Plan and its consistent implementation will secure the viable development and the prospects of the Bank of Cyprus. It will create further opportunities for regaining the trust of our customers and the general public. Such an outcome will substantially facilitate the gradual relaxation of measures restricting financial transactions on the basis of the road map agreed upon with the Troika. It will also signal the definite return of the Bank to stability for the benefit of our customers and the economy. Our main mission and concern is to help the business world, especially small and medium-sized companies and households, to reactivate themselves financially and to overcome today's recession.

Dear shareholders,

On July 31 2013 the Central Bank announced the Bank of Cyprus's exit from resolution confirming that 47.5% of non-secured deposits would be transformed to bonds.

As a result, the Bank has a new roster of shareholders, with foreign investors being represented in high numbers. We welcome this new composition of the shareholding body, which befits both the extrovert culture and the rich international experiences of the Bank, while simultaneously it underlines the fact that Cyprus as an important financial centre will never stop growing.

Dear shareholders,

Today's General Meeting concludes the mission of the Interim Board of Directors. I want to extend warm thanks to all the members of the Board for their valuable services and dedication. With a sense of satisfaction for having carried out the task entrusted to us by the State, we pass the baton to the new shareholders of the Bank and to the new Board of Directors, which they will soon be called upon to elect.

The Group finds itself in the beginning of a painful yet promising process of adjustment to a new economic and social environment.

With steady, measured steps we have to move forward, in order to restore the profitability of the Bank and the trust of our customers, bearing in mind the following main strategic objectives:

* To speed up the process of unifying business with the former Laiki Bank

* To offer cutting-edge services and new products

* To strictly manage and to reinforce our loan portfolio

* To adopt best credit policies

* To manage non-serviced loans with reason

* To gradually normalise the conditions for financing

* To reduce emergency liquidity drawn from the European Central Bank.

If we pursue these objectives consistently, and if we realise the Restructuring Plan, the high capital efficiency of our Bank will be preserved.

With a cohesive strategy and with the top performance of our tested staff we can look ahead to the future prospects of the Bank with confidence. The Bank will be here, ever present, as the biggest bank of the country, to offer financial services to its customers and to create equity for its shareholders.

Thank you very much for your attention.