Bank of Cyprus Group: Annual General Meeting 2015

24 November 2015

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

OPENING REMARKS

Good morning ladies and gentlemen, distinguished guests and colleagues.

This is my fourth time to stand in front of you, our shareholders, since taking on this challenging role some two years ago.

I would like to start by assuring you that the Board, the Management and every employee at the Bank of Cyprus continue to dedicate themselves to rebuilding a financially sound, trusted and safer bank. We have achieved a great deal during the last couple of years but there remains more to do before we can declare the Bank's recovery as "complete".

I would like to take this opportunity to thank each of you for bearing with us and for continuing to entrust us with your business dealings and your savings. We do appreciate this trust and, most importantly, we genuinely appreciate your patience with us as we painstakingly and carefully work to restore the Bank's financial strength and position.

As I have repeatedly said, repairing this Bank will only be achieved through careful, choreographed and deliberate actions over time – there are no "quick fixes" and, although everyone would like to see even faster progress, we have made some really good progress each and every quarter over the past two years. This could not have been achieved without the support of our customers, our supervisors, our shareholders and, importantly, the dedication of our employees.

This morning we place the 2014 Accounts before our shareholders and seek your permission to put in place some important foundations to allow our Bank to compete and prosper. Joe has already covered the agenda of this meeting in his remarks.

Reflecting on two years of effort

Before I highlight a few important take-aways from our financial results, I would like to briefly reflect on the progress we have made over the past two years.

Ensuring the recovery and stabilisation of the Bank following the unprecedented and regrettable events of 2013 has been a slow and incremental process. Two years ago, when I first stood in front of you to set the agenda for the Bank, we were staring down the barrels of great uncertainty. We had a balance sheet disproportionally bloated with overseas assets, massive reliance on Emergency Liquidity Assistance, high and rising NPL levels, disaggregated IT & branch systems, low levels of capitalisation, an uncertain funding base, stringent international and domestic capital controls, a shell-shocked customer base and staff morale at nadir.

Today the story is an improved, but not yet complete, one. We took deliberate and targeted actions to address many of the challenges facing the Bank. We implemented a deliberate "shrink to strength" strategy:

- We quickly restructured the way we manage the Bank, by organising the Group's structure along functional, domestic, international and restructuring lines.
- We established a dedicated Restructuring and Recoveries Division to focus on the professional rehabilitation of delinquent accounts. We have stabilised the level of delinquencies and we are beginning to see some reduction in these balances….. I'll cover

this a little more when I talk about the financial results for the nine months to 30 September 2015. At the same time, we continue to work hard to protect viable businesses and jobs in Cyprus.

- BUT ……….We recognise that we still have much to do to normalise the Bank's loan quality and reducing NPLs remains the overwhelming and number one priority of the Bank's Management today and into 2016. These loans attract excess capital that we would prefer to see in productive use in the economy and we need all regulatory, legislative and societal help to reduce them. It is important that we collectively set out to achieve this.

- Over the past 24 months, we methodically deleveraged and de-risked our overseas exposures, simplifying significantly the Group structure and its risk profile. We sold significant businesses and exposures in the Ukraine, Romania, Serbia, Greece, The UK and, more recently, in Russia. There is some residual exposure in these countries and we will continue to deliberately and carefully manage these exposures down……… but the primary effort from here on will be on our core valuable Cypriot business.

- Through the overseas deleveraging, poorly deployed capital and liquidity has been, where possible, repatriated to support our Cyprus business. The combined impact of these disposals has been to increase the Common Equity Tier 1 ratio by approximately 125 basis points and to improve the Group's liquidity by about Euro 1,7 billion.

- Just over a year ago we raised 1 billion euros of fresh equity from sophisticated international investors to strengthen the Bank's capital base. This positioned the Bank with an appropriate level of capital to pass the European Central Bank's Europe-wide stress test exercise in October 2014. We continue to believe the Group's capital position remains appropriate for the level of risk we manage. At 30 September 2015, our CET 1 ratio, an important measure of the bank's capital adequacy, stands at 15,6%. This is amongst the highest in Europe. The risk intensity of our capital, measured by comparing the level of risk weighted assets to the balance sheet size is also very high by European Standards and appropriate given the inherent risk on the balance sheet. The CET1 ratio of the Bank of Cyprus is more than 5% points higher today than it was when we started this journey two years ago. There is, of course, a constant regulatory dialogue on this matter and I will come back to this when I refer to the nine month numbers.

- Another important contributor to restoring confidence in the Bank has been our ability to significantly reduce the Group's reliance on Emergency Liquidity Assistance (ELA). The Bank has now repaid more than Euro 7bn since its high point. To put this in context, this ELA repayment corresponds to more than 40% of the country's GDP and is almost the same size the country's entire Troika programme.

- We have managed to stabilize our deposit base and we are making real progress in normalising our funding structure. We have released more than €2,5 bn of blocked decree deposits earlier than expected, paving the way for the full abolition of capital controls in April 2015.

- Through our equity raise one year ago, we attracted a world-class Board of Directors, with significant expertise in managing financial institutions. The Board has been fully engaged in the company, challenging the management team, testing our strategy and demanding strong controls. I would like to thank the Chairman and each of the members of the Board for their support, their guidance and, at times, their patience. I can assure our shareholders that the Board is as impatient as any of you to ensure we make continued and rapid progress in delivering the Bank back to health and, ultimately, to see improvement in our share price performance.

- Since the last AGM, we have re-listed the Bank's stock on the Cyprus and Athens Exchanges in December 2014. Our stock performance has admittedly been disappointing, despite the fact the Bank's financial performance and risk position has been improving. Although, we are frustrated that markets are not yet rewarding us for improved performance, we do expect that the strength and quality of the underlying business, and its value, will come through over the longer term. When we recapitalised the Bank, we told this equity story as a multi-year return to book value through delivering a reasonable return on core equity in a Cyprus-centric, well managed and appropriately funded bank. We continue to believe this premise holds.

- Our steady progress in stabilising the Bank has been recognised by the international credit rating agencies. Both Fitch and Moody's have upgraded their credit ratings assigned to the Bank. But we still have a long way to go before achieving a desirable investment grade rating. Euromoney also paid some tribute to the efforts of the Bank in awarding us "The Best Bank in Cyprus for 2015".

- An important component of rekindling growth in the Cyprus economy is our ability to lend. We are providing finance to creditworthy individuals and businesses in order to support the recovery of the Cypriot economy. We have introduced a number of schemes together with European institutions in order to jointly finance SMEs. 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.

Financial Results for 2014

Before I cover the Bank's performance during 2015, I would like to say a few points about the 2014 financial results, the accounts of which are placed before you today.

- At 31 December 2014, the CET1 ratio totalled 14,0%, compared to 10,2% a year earlier, with the significant improvement reflecting the €1 bn share capital increase completed in September 2014.
- Using proceeds from deleverage, the capital increase and customer flows, we managed to repay €2,2 bn of ELA during 2014, reducing it to €7,4 bn at 31 December 2014.
- Profit before provisions and impairments, restructuring costs and discontinued operations for 2014 was €745 mn, compared with €584 mn for 2013. Provisions for impairment of customer loans for 2014 were €666 mn (continuing operations), with the increased level of provisions related to the methodological alignment and changes in certain estimates, following the completion of the review of the AQR results during the fourth quarter of 2014.
- The total loss of discontinued operations for 2014 amounted to €303 mn, primarily due to a loss of €299 mn relating to the Russian operations. As a result, a loss after tax attributable to the owners of the Bank of €261 mn was recorded for 2014, compared to a loss of €2.056 mn for 2013.

Financial Results for the nine months of 2015

Yesterday we announced the Group's financial results for the nine months to September 2015. The results were satisfactory in the context of the plans we set ourselves and the Group posted a modest profit after tax attributable to shareholders amounting to Euro 73 million.

The positive progress we made in the first half of the year continued into the third quarter and it is pleasing that we have made progress on all fronts. Nevertheless, we acknowledge that the non-performance in the Group's loan book, though declining, remains very high by any standard and this should remain the primary focus of the Bank going forward.

- Our Common Equity Tier 1 ratio, an important measure of our ability to cope with any further losses and risk, improved to 15,6% at the end of September, the highest level achieved post March 2013 events. As a reminder, this compares to the 10,2% the bank was re-capitalised to post resolution in mid-2013.

- During the third quarter of 2015, we completed the disposal of the majority of the Russian operations, allowing us to further de-risk and deleverage the balance sheet. The Group's balance sheet as at 30th September 2015 totalled Euro 24,2 billion, about Euro 8,8 billion or 27% smaller compared to June 2013.

- Emergency Liquidity Assistance was reduced by Euro 1 billion in the third quarter and by a further Euro 600 million post-quarter end. It currently stands at Euro 4,3 billion, about 62% lower than its peak of Euro 11,4 billion in April 2013.

- During the quarter, we completed the restructuring of a retained covered bond, achieving an investment grade rating of Baa3 by Moody's. As such, the covered bond became ECB eligible collateral for monetary operations and we were able to access normal ECB funding and repay more expensive ELA.

- Our deposit franchise continued to strengthen, with customer deposits in Cyprus growing by Euro 0,5 billion or 5% during the quarter and totalling Euro 12,2 billion at the end of September. The Group's loans to deposits ratio improved further to 132% compared to a high of 151%, evidencing that the Bank's funding structure is gradually moving towards normality. There is of course much more to do here.

- Loans in arrears for more than 90 days across the Group declined by Euro 649 million during the quarter to Euro 12,0 billion, but still represent an unacceptable 52% of our gross loans, Despite this progress, the Bank continues to have one of the worst asset quality ratios among European banks and this is the number one priority of management as we move forward.

- Last evening we disclosed the fact that we are engaged on our annual Supervisory Review and Evaluation Process discussions with the ECB. This process is ongoing and, as you might imagine, there is very real ongoing dialogue with our regulator on a variety of matters. One such area that we highlighted in our accounts last evening was provision adequacy. The ECB would like to see greater levels of provisioning against certain portfolios of assets and we are not necessarily in agreement that the evidence supports this. We have therefore disclosed the issue and the disagreement. We have quantified it and, even were we to conclude that such an adjustment should be considered, the Bank's capital is sufficient for the risks it manages and we do not believe that any further capital raising is required. As a reminder the Banks CET 1 ratio is 15.6%. Even if the Bank were to include fully the ECB's methodological challenges the CET1 ratio would be a healthy 13,2%!

Priorities for the journey ahead

We recognise that there is still much to do to fully recover the lost trust between the Bank and society and to create value for stakeholders. I am hopeful that the track-record of delivery that we have built during the past couple of years will provide our customers and all stakeholders with the confidence to continue supporting and encouraging us.

- We do recognise that we must serve our customers better, improve our response times and reduce bureaucracy. We will continue to embrace transparency and adopt international best practices in risk management. We will invest in our technology to better advantage our customers;

- We will play our part in the regeneration of the Cyprus economy. We will lend to our viable customers, both business and consumers. The Bank's future financial performance and strength is highly correlated with the economic activity in Cyprus.

- We will complete our overseas disposal programme by shedding the leftover exposures and assets in Greece, Romania and Russia, 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 attracting more 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 is trained in supporting business and retail customers with repayment challenges. We are deploying sustainable restructuring solutions. We are encouraged by the recent changes in the legal framework and we will continue to petition legislators and regulators to help create appropriate law and regulation to support and sustain a healthy banking framework. Resolving Cyprus's NPL issue is not just a "banking problem" but a "societal problem" that requires a common effort to resolve it.

- We intend to improve the liquidity and attractiveness of our stock by attracting more institutional investors in the equity. We are examining the possibility of listing the stock in a more liquid, index-driven, European stock exchange.

CONCLUDING REMARKS

Ladies and Gentlemen and distinguished guests, in March 2013 we suffered the indignity of being the only Bank and Eurozone Sovereign nation to bail in its unsecured depositors and impose debilitating capital controls. We lost the confidence of our customers, our investors, our staff and all stakeholders.

Although we remain at war with economic circumstance, today the picture is much improved. We have significantly strengthened the Bank's ability to weather the storm. Its capital base stands at 15,6%. The balance sheet is less exposed to overseas shocks and significantly deleveraged. We have dramatically reduced our reliance on ELA and begun to rebuild our deposit franchise. We have stabilised and begun reducing delinquent exposure levels.

BUT…… while Chapter 1 has delivered a stable platform from which to regroup and support a recovering Cyprus economy, many dangers remain. We must 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.

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.

I would like to thank the people of Cyprus, our customers, for making me feel welcome in their country. I would also like to pay tribute to the efforts of the Cypriot authorities, and in particular the Ministry of Finance and the Central Bank of Cyprus, for their steady economic and supervisory hands during this very difficult economic period.

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 shareholders.

In conclusion, I feel immensely privileged to have worked for this company during a most critical period of its 116-year history and to have led the executive team during this remarkable two-year chapter. As Joe said, I have committed to continue to lead the team for another two years and I will do all I can to return our Bank to value and strength.

Thank you.

END