Bank of Cyprus Holdings

ANNUAL GENERAL MEETING OF SHAREHOLDERS

28 August 2018

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 in English and there is also a real-time translation facility available in Greek. A copy of these remarks will be put on the Group's website in a few minutes.

Echoing the Chairman's remarks, I would like to thank you for attending today's Annual General Meeting. I appreciate this opportunity to update you on The Group's progress during 2017 and in 2018 so far.

I would like to begin by assuring our shareholders that the management and every employee at the Bank continue to focus all our efforts on re-building a financially sound, trusted, modern and customer-focused organisation. I would also like to thank each of you for continuing to support and encourage us on this journey. We appreciate both your trust and, more importantly, your continued patience. This patience is particularly welcome as we take the necessary and sometimes bold steps required to restore the Bank's financial strength and value.

We have made good progress since the recapitalisation of the Bank in 2014 but we recognise that there is still a lot to do before we can regard the Bank as normalised in a European context. Ensuring the bank has strong financial foundations is an essential prerequisite to building a future-focused and customer-centric business.

We continue to support the recovery of the Cypriot economy. We continue to focus on improving our service standards for our customers. We recognise the necessity of delivering appropriate shareholder returns in the medium term.

Dr Ackermann has covered off the meeting's agenda and made some important remarks about the macroeconomic backdrop and some of our future plans. I will not repeat these observations.

Good progress in the Bank's recovery

The AGM's primary purpose is to place the 2017 Financial Statements before our shareholders. However before highlighting the key takeaways from the 2017 financial results, I would like to take this opportunity to reflect on certain aspects of our overall progress to-date.

Today we announced our financial results for the first six months of 2018. We also announced the sale of €2.8bn of loans to a highly reputable international buyer. This loan portfolio sale significantly accelerates the repair of the bank's balance sheet and further underpins the risk reduction strategy we have pursued since the crisis in 2013.

SLIDE 1- PROGRESS SO FAR

It is worth pausing for a moment to consider the scale of the progress that we have made over the past few years. This delivery sets the context for today's shareholder update and creates a platform for your continued confidence going forward.

€9bn Smaller Balance Sheet

The Group's Balance sheet is €9bn smaller now than it was in 2013. We have deleveraged through selling off non-core operations in Russia, Ukraine, Romania and other jurisdictions and through reducing the stock of Non-performing loans. Today Bank of Cyprus has its capital-base fully focused on serving the Cypriot economy and maintaining its position as the number one bank in the country.

€10bn reduction in Non-performing Loans

We started this journey with more than €15bn of Non-Performing Loans and, in a four year period, we have reduced the non-performing loan stock by €10bn to €5.2bn. We have delivered a material organic reduction in the stock of NPLs for 13 consecutive quarters. The €2.8bn portfolio sale we announced this morning accelerates this by the equivalent of another 6 quarters and brings important new active capital to the island of Cyprus. The reduction in our NPL stock is equivalent to c.60% of Cyprus GDP and it has all been delivered without state-aid.

It is of course also true to say that the patience of our regulators and the alignment of Government policy have been important positive factors. I would pay tribute to the government and parliament for passing the recent package of legislative amendments to the foreclosure and recovery regime. These changes will help all institutions in Cyprus, including the recently established government Bad Bank, to accelerate recovery of these delinquent exposures. This must be a common objective.

Strong Liquidity Position

Ladies and Gentlemen,

We started this journey with an encumbrance of €11bn of Emergency Liquidity Assistance Funding from the Central Bank. In January 2017 we completed the full repayment of that funding. Thanks to the renewed trust of our customers, deposits have steadily grown and the bank now has a very strong loan-to-deposit ratio. Today the bank carries significant surplus liquidity and is compliant will all European and local regulatory ratios.

As the chairman referred to earlier, in the first half of 2018 there were stresses in the Cyprus Financial System due to the uncertain situation that existed at the Cooperative Bank. Bank of Cyprus did not have any negative deposit flows during this period and, to the contrary, the Bank experienced positive account opening and deposit activity. Our deposits have grown by €2bn or 12% since 2016. As at 30 June 2018 we have a market share of 34.1% in resident deposits and of 38.8% 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.

Today, our loan to deposit ratio is strong at 77%, more than adequate to fund loan balances and better than European bank averages. Today, we have excess liquidity of approximately €1.4bn and this is expected to increase further with the full relaxation of the add-on requirements imposed by the Central Bank of Cyprus later this year.

Adequate Capital Base

Maintaining a strong capital base is an important pre-requisite for building confidence in any bank. In 2013 Bank of Cyprus was re-capitalised by the authorities to a CET1 level of 10.5%, as at 30 June 2013, post resolution. We determined that this was not a sufficient level of capital for the bank to achieve the accelerated de-risking necessary to allow it succeed under a Europe-wide regulatory construct.

We raised €1bn of equity in late 2014 from international investors and we separately raised a €250m Tier 2 bond in January 2017. Our capital levels have been adequate throughout this journey so far. Our core equity ratio currently stands at 11.9% and once the corporate actions described in this morning's announcement are completed, we expect this pro-forma CET1 number to be c.14.0% and pro-forma total capital to be c.15.4%. Total Capital ratios will also be further strengthened if we are successful in issuing an AT-1 Bond in the coming period.

SLIDE 2- Macroeconomic Backdrop

Strong Macroeconomic Backdrop

As the Chairman noted, underpinning the Group's momentum is a recovering Cypriot economy. The Cyprus economy has been consistently one of the fastest growing economies in Europe in recent years. It is pleasing to see the continuation of a broad-based recovery with tourist numbers at record highs, rising property prices and falling unemployment.

The Bank is committed to providing credit to fuel the recovering Cyprus economy. We are targeting sustainable new lending in selected sectors. Industries such as tourism, trade, professional services, information technology, health, energy, education and green projects present good business lending opportunities for the Bank. We granted new lending of more than €1.7 bn to the Cyprus economy in 2017 and we expect to exceed that level this year.

The overall progress we have made has been recognised by the credit rating agency Standard & Poor's. This July, S&P affirmed our rating 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 remains our target in the medium term.

Focus on operational excellence and good governance

We continue to work hard to drive a customer-centric and honest set of values throughout the organisation. We continue to invest in our processes and to try and modernise our culture. We are committed to a modernisation agenda designed to transform our business model so that we can compete efficiently in a changing world and better service the changing needs of our customers.

To drive momentum in modernising our business we continue to work with IBM, our Strategic Digital Transformation Partner. We intend to use market leading digital innovation to improve efficiency and agility across the Group. We intend to provide a market-leading experience to our customers. At the same time, we are encouraging our people to embrace this change and to help us design a sustainable operating model that will accommodate the essential need to be more cost-effective in an increasingly digital world.

We have a world-class Board. We have made two significant appointments to the Board of Directors this year, both of whom are highly experienced international business leaders. We are committed to the highest standards of governance and business practises.

SLIDE 3- 2017 Highlights

Financial Year 2017

Now turning to the Financial Statements of 2017. As I said in my opening remarks, the main purpose of the AGM today is to table the financial statements of 2017 before our shareholders.

While 2017 now feels like a long time ago and we have already presented these results to the market, by way of a reminder I would like to make a few observations on the 2017 Financial Statements placed before you today:

- As the Chairman already said, the financial results for 2017 reflect the Board's deliberate decision in the second quarter of 2017 to allocate a further €500m of the Bank's capital, through increased provisioning, to further accelerate risk reduction. This decision was the primary driver for the accounting loss of €552 mn for the full year. The material NPL sale we announced today essentially confirms that this decision was appropriate in that it facilitated the externalisation of a significant NPL portfolio without significant further capital destruction.

- The Bank's CET1 ratio (transitional) stood at 12.7% and the Total Capital Ratio at 14.2% at 31 December 2017. This capital position was achieved despite the continued and aggressive organic balance sheet de-risking.

- In 2017 we made material organic progress in reducing problem loans. NPEs were reduced by €2.2bn, a 20% reduction. Provision coverage against NPEs was 48% at the end of 2017, rising to 51% post IFRS 9 First Time Adoption Impact. The trend in organic risk reduction has continued in 2018.

- In 2017 we experienced strong growth in customer deposits. This facilitated full compliance with all local and European liquidity requirements as of 1 January 2018. Deposits grew by €1.3bn or 8% during 2017.

- Our Real Estate Management Unit had a strong year in terms of both sales value and sales volume. The stock of real estate amounted to €1.6 bn and 1,951 properties as at the end of 2017. During 2017, the Bank sold €274 mn of real estate representing 313 individual asset sales, at average prices in excess of the carrying value.

SLIDE 4- 1H2018 Highlights

Recent performance – first 6 months 2018

Now turning to the results for the first half of 2018 - This morning, we presented the Bank's results for the first six months of the year. Progress since the beginning of the year has been incrementally positive and I referenced some of these achievements earlier.

The full presentation of the results is available on our website but given that these results are fresh off the press, I would like to highlight some points from the Half Year Results.

- In the first 6 months of 2018 we made good progress in reducing problem loans organically. NPEs reduced organically by €890 mn or 10% to €7.9bn. This was the 13th consecutive quarter of material reduction. The subsequent sale of €2.7bn of non-performing loans, known as project Helix, accelerated this reduction to €5.2bn pro-forma. Provision coverage on the residual non-performing portfolio remains adequate at 49%.

- Deposits grew by c.€600m in the first half of 2018. At the half year, the bank held €18.4bn of deposits and had surplus liquidity to ratio compliance of c€1.4bn. The banks loan to deposit ratio stood at 77%. The Bank is now focused on reducing the cost of deposits and ensuring its deposit base has the appropriate shape to maintain compliance with the liquidity requirement.

- The Bank continues to have adequate capital. The CET1 ratio at 30 June 2018, adjusted to reflect the impact of the NPL portfolio sale and the sale of UK Banking Subsidiary is 14.0% and total capital is 15.4%

- Organic performance before Project Helix was in line with guidance of 10 cents per quarter or €44m in Q2.

- The first half results reflect the Bank's decision to proceed with Project Helix. The accounting loss from the transaction recorded in the six month results was €135mn which declines to c.€105m by the end of the year, as the time value of money of €30mn unwinds over Q3 and Q4 of 2018.

- 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 restructuring solutions across the spectrum of its loan portfolio and will continue to actively explore alternative avenues to further accelerate the reduction of NPEs via structured solutions to accelerate de-risking.

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Priorities for the journey ahead

Ladies and Gentlemen, the evidence suggests that our strategy is working.

We have a materially lower level of non-performing loans. We have surplus liquidity. We have adequate capital despite rising capital requirements across the industry. We have a reasonable level of core operating profitability and we have "in-progress" plans to modernise our customer proposition. That said, we still have more to do before we can declare any form of victory on the Bank's repair.

We will stay focused on further reducing delinquent loans. We will continue to actively work through our loan-book to find innovative solutions that bring individuals' and companies' loan servicing obligations more current.

The amendments passed by the Cyprus parliament in July strengthen the foreclosure and insolvency laws and will allow us to intensify 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.

In July, the Government proposed ESTIA, a Scheme that aims to help address delinquent loans collateralised by lower value primary residences. This Scheme aims to protect socially vulnerable borrowers and we welcome its introduction.

To date, the level of provisions in the Bank's balance sheet has proven adequate to deliver these thirteen quarters of material de-risking. We expect the coverage of NPEs to remain around 50% going forward.

We will stay focused on making the Bank a stronger, safer and a more focused institution capable of supporting the recovery of the Cypriot economy and delivering appropriate shareholder returns in the medium term. We are pleased to be supporting the real economy with more than €1bn of new lending so far this year.

A key objective over the coming quarters will be to develop an efficient business model with a focus on sustaining revenues while at the same time reducing costs and managing labour relations.

Closing remarks

Ladies & Gentlemen, together with the Chairman, the Board of Directors and our senior management team, I continue to believe that the strategy we are pursuing is the right one. We are committed to delivering on our common goals to create a stronger, safer and Cyprus-focused bank. Last year I said our outlook was bright and I continue to believe this to be true.

As a final point, I would like to express my sincere gratitude to our employees and to our clients for the trust they continue to place in Bank of Cyprus. I would also like to thank the Chairman and the Board for their guidance and support during the year.

And last but not least, my thanks go to you, our shareholders. I look forward to serving the Company and its shareholders into 2019 and beyond.

Thank you.