

ANNUAL GENERAL MEETING OF SHAREHOLDERS

25 October 2016

BOC Headquarters

Speech by the Chairman of the Board of Directors, Dr Josef Ackermann

Dear Shareholders,
Distinguished guests,
Dear Colleagues,

On behalf of the Board of Directors of the Bank of Cyprus, it is with great pleasure that I welcome you to the Annual General Meeting of Shareholders. Unfortunately, our Vice Chairman, Mr W. Ross, although very much engaged in the Board's work, cannot be with us on this occasion. My presentation to you will be in English, but a Greek version is also available. Both versions will be posted on the Bank's website in a few minutes.

As always, our AGM is an extremely important occasion under our corporate governance structure. The Board of Directors and the senior executive management team report to you, the Bank's shareholders to whom we are all accountable, on the financial performance of the Bank during 2015. The agenda includes a number of important items, such as:

- the consideration of the Directors' and Auditors' Reports and the Consolidated Financial Statements for the year 2015
- the re-appointment of the Auditors of the Company and the authorisation to the Board of Directors to fix their remuneration
- the examination of the Board of Directors' Remuneration Report and the fixing of their remuneration; and
- the composition of the Company's Board.

I will comment on all of the above later in my speech.

Equally important, however, the AGM provides an opportunity for all of us to brief you on the evolving strategy of the Bank, the major achievements recorded so far in the implementation of this strategy and the challenges for the period ahead. As usual, at the end of my and the CEO's speeches, there will be a Q&A session where you can raise questions on the key issues facing the Bank.

I would like to assure you that all members of the Board and the senior management team very much value your input and support for the strategy and objectives the Bank is pursuing. We firmly believe that your support is indispensable for enabling us to maximize shareholder value with due regard to the interests of all stakeholders, as well as support the advancement of the Cypriot economy.

On behalf of the whole Board of Directors, I would like to express our appreciation for the opportunity we have been given to serve the Bank of Cyprus and the Cypriot economy. We come from several countries and from different professional and educational backgrounds, but we are all united in our commitment to help the Bank overcome the challenges it has inherited and the Cypriot economy to regain its strength and vitality. We would like to say a big thank you to you, the shareholders, for your confidence in us. We would also like to convey our sincere thanks and give a pat on the back to the Bank's senior management team as well as to the rest of the staff for their dedication, hard work, and commitment to excellence. We all need to continue working together as a unified team.

This *esprit de corps* has already begun to yield remarkable positive results for the Bank, as we will discuss in a minute. The Board, for its part, has continued to remain focused on enhancing further our corporate governance, on taking important decisions on the restructuring of non-performing loans and other major issues that require Board approval, and on providing quick, effective and well-considered guidance to the executive team in addressing the operational and strategic challenges facing the Bank. By the end of this year the Board will have met more than 10 times physically here in Nicosia, and additionally a number of times by teleconference. The work of the Board is complemented and facilitated by the hard work being carried out by the four statutory Board Committees to whom the Board has delegated authority for the handling of specialized issues, while retaining overall oversight and collective responsibility and accountability.

DOMESTIC AND EXTERNAL ECONOMIC ENVIRONMENT

Dear shareholders,

Before highlighting the Bank's financial performance during 2015 and the first half of 2016, please allow me to comment briefly on the domestic and global economic and financial environment in which both the Bank and the Cypriot economy operate and depend on.

The Bank's operations during 2015 and so far in 2016 took place under an improving domestic economic setting, but the external environment has overall deteriorated.

Global growth has remained anaemic, uneven and modest at low and, more recently, declining levels, particularly following the Brexit referendum result. Moreover, inflation rates in the Euro Area and other advanced countries have remained unduly low despite the intensified exceptional monetary policy measures taken by major central banks. These measures have resulted in further reductions in policy and market interest rates, which tend to affect adversely the interest rate margins and profitability of all banks.

Brexit has raised concerns and uncertainty about the eventual adverse impact on countries like Cyprus with whom the UK has strong trade relations. In addition, arrivals of UK tourists, which account for the largest share in Cyprus' total tourist arrivals, might be affected from 2017 onwards.

Developments in two other countries have also had a major impact on the Cypriot economy and banking system. The economic, financial and political situation of Greece deteriorated markedly in 2015, including the imposition of strict capital controls, but stabilized in 2016, causing changes in the trade and financial flows between Greece and Cyprus. Nonetheless, the sale of Cypriot bank branches in Greece in March 2013 has insulated to a large extent the financial linkages between Cyprus and Greece.

At the same time, the levelling off at low levels in global oil prices has continued to affect negatively the Russian economy and the financial flows from Russia to Cyprus. However, political and security developments in the Middle-East region have contributed to a major shift in the destination of Russian tourist flows, which has benefitted Cyprus. As a result, total tourist arrivals in Cyprus increased substantially in 2015 and reached record levels so far in 2016, even though the revenue from tourism has increased somewhat more modestly.

On the domestic front, 2015 was the third and critical year of Cyprus' Troika-supported economic adjustment program, which was successfully concluded in March 2016. Key reform measures adopted in 2015 and early 2016 included the lifting of capital controls and the adoption by Parliament of a legal framework for foreclosure and insolvency, as well as of tax incentives for property sales and of financial regulation measures. These developments have facilitated debt-to-asset swaps and other bank loan restructuring options that have greatly contributed to the on-going process of lowering bank non-performing loans from their very high levels. However, the foreclosure and insolvency framework has not yet been fully tested in practice and initial efforts indicate a need for some amendments to ensure effectiveness.

Overall, Cyprus's performance under the Troika program was very strong and has earned well-deserved praise from EU policy makers and international financial institutions. As a result, aided by the recovery in tourism and business services and continued growth in private consumption, positive economic growth resumed in early 2015 and gained strength during 2016. In fact, growth reached 2,7% in the first half of 2016, the second highest growth rate in the EU. The recovery in output was accompanied by a notable reduction in the unemployment rate and some pickup in employment gains. Inflation, however, has remained negative for a third consecutive year, which, while it has raised real disposable incomes and sustained private consumption, has also raised the real private and public debt burdens. At the same time, property prices have continued to decline at a decelerating pace, with some signs of levelling off in recent quarters, as activity in the construction sector has, after a sharp contraction, started to increase.

As regards the banking system, stability and confidence have been restored; the capital controls have been lifted; bank deposits have begun to rise; ELA and non-performing loans have been cut steeply; capital positions and provisions have been strengthened; profitability has been restored; and new bank lending has resumed.

These achievements have been recognized by both the major rating agencies, which have all raised their ratings of both Cyprus and the key Cypriot banks by several notches (but to still below investment grade), and by the investor community, as Cyprus has regained full access to international capital markets at lower yields and spreads than before the crisis.

However, as you can imagine, challenges remain as the economy is still fragile and the government's structural reform agenda ("*Action Plan for Growth*") is not yet fully implemented. It is essential that no policy reversals take place and that the reform regains momentum, especially as regards the modernization of public administration, the preservation of fiscal discipline, the further improvement in the business environment and the enforcement of property rights. These reforms are necessary to capitalize on the socially painful adjustment measures already implemented and unlock Cyprus' unexploited substantial growth potential by attracting foreign direct investment and facilitating the deleveraging efforts of the household and corporate sectors. To this end, all political forces in Cyprus should guard against complacency that unfortunately appears to be creeping in, and foster instead the necessary broad political consensus in favour for continued reforms.

In parallel, the on-going intensified negotiations on the political reunification of Cyprus between the two community leaders offer, in case of a hoped-for successful outcome, major eventual potential economic benefits, but pose also major transitional challenges that deserve close attention. In this context, the existing EU policy, legal and administrative framework can serve as an ideal basis for the functioning of a Federal State in Cyprus. The potential reunification of the EU's only divided country deserves the EU's full political support and eventual financial assistance.

OVERVIEW OF BOC FINANCIAL PERFORMANCE

Dear Shareholders,

The financial position of the Bank of Cyprus improved substantially during 2015 and in the first half of 2016, but, understandably, challenges remain.

Aided in part by the recovery of the Cypriot economy and some of the reforms put in place, the sustained and determined implementation of the Bank's restructuring and consolidation strategy began during this period to yield considerable payoffs and concrete results in a number of critical areas. These areas included the restructuring and reduction of non-performing loans, the unwinding of non-core operations in Russia and elsewhere, the attraction of increasing client deposits, the sharp reduction in Emergency Liquidity Assistance (ELA), the containment of operating costs, the strengthening of the Bank's capital position notwithstanding a substantial increase in provisions, the restoration of after tax profitability, and the resumption of new bank lending to the Cypriot economy.

The Chief Executive Officer, John Hourican, will summarize the progress made in more detail in a few minutes.

THE WAY FORWARD

Looking ahead, the Bank's strategy will remain focused on serving the needs of our clients and achieving value for our shareholders, while also aiding the recovery of the Cypriot economy. As I emphasized in the last AGM, the Bank and the Cypriot economy are in the same boat and we need to work together with the whole Cypriot society. We are not only in the same boat, but it is important that we row in the same direction.

The Bank remains committed to implementing its strategy of becoming a stronger, safer, and more focused institution capable of supporting the recovery of the Cypriot economy and delivering appropriate returns to its shareholders over the medium term. To this end, the main pillars of the Bank strategy are to:

- Materially reduce further the level of non-performing exposures and thus enhance the quality of the Bank's balance sheet, which continues to be the Bank's top priority;
- Repay ELA fully as soon as possible and normalize the Bank's funding and liability structure;
- Maintain an appropriate capital position by internally generating capital;
- Focus on the core Cyprus market and on the UK operations;
- Intensify the efforts to achieve a listing on a major European stock exchange in the period ahead; and
- Achieve a lean operating model.

Earlier in the year we announced that we were considering a listing on the London Stock Exchange to fulfill one of the Bank's objectives of listing on a major European Stock Exchange. We have made meaningful progress during the year in this regard, making appropriate preparations and working through the various regulatory and technical aspects of this project. We highlighted to you in August that we were

considering, following consultation with our stakeholders, the incorporation of a new holding company in Ireland to facilitate this process. Work continues on this project but the timing of any potential listing remains uncertain and subject to relevant approvals and market conditions. We will make further announcements in due course.

The Bank considers that it is adequately capitalized at present, taking into account its risk profile, risk appetite, the remaining level of non-performing loans, the macro-economic environment in which it operates, and the applicable regulatory requirements.

The Bank is also fully committed to maintaining the very high quality level of corporate governance and transparency already achieved, which we are pleased to note that it has been recognized and appreciated by our correspondent banks, clients, and expert observers and analysts. The continued enhancement of the confidence and trust in the Bank by the Cypriot society is central to the success of the Bank.

AGENDA ITEMS

Coming now to the agenda for this year's AGM, you will have noted that your formal approval is required for:

- authorising the Board of Directors to fix the Auditors' remuneration,
- the Directors' Remuneration Report and the fixing of their Remuneration and
- the re-election or election of five Board Members.

It should be noted that our Auditors, EY, have been automatically re-appointed as Auditors of the Group in view of the fact that no resolution has been received for the appointment of another Auditor or for their removal, and the fact they remained qualified and accepted to be re-appointed.

With respect to the Directors' remuneration, please note that the proposal is for this to remain at the same levels approved by last year's AGM.

Now turning to the re-election or election of the five Board Members, please note that three of the candidates, namely Maksim Goldman, Michael Spanos and Arne Berggren, are sitting members of the Board that had been elected in an earlier AGM

and as per the Bank's Articles of Association now retire and offer themselves for re-election.

Maksim, is currently one of the Bank's two Vice Chairmen of the Board, he is a US and Russian national and a US-trained lawyer and serves also as Director of Strategic Projects of Renova, a Swiss-based major financial firm. Maksim has an extensive professional background.

Michael, the Board's Senior Independent Director and Chairman of the Board's Human Resources and Remuneration Committee, probably needs no introduction before a mainly Cypriot audience. He is a Cypriot, with an economics and business background, and with very extensive experience in leadership positions in the business sector. Michael is a current and former member of many business Boards and of the Board of the Central Bank.

Arne, is a national of Sweden, with training as an economist and very extensive experience as a financial expert in several countries. Arne is the Chairman of the Board's Risk Committee, which is guiding the Bank's risk management efforts and decides and approves the strategies for the restructuring of non-performing loans.

Michael Heger was appointed as Director by the Board during 2016 to hold office until the present AGM, whereby he is offering himself for election. He is an Austrian national with a legal academic background and a very extensive experience in the financial sector of several European countries.

Last but certainly not least, Lyn Grobler, whose nomination has already been approved by the Board, but remains subject to the normal regulatory approval by the ECB, was born in South Africa,. She has a technical training and very impressive experience as an IT expert and senior information technology officer in several UK corporations. Lyn is currently the Group Chief Information Officer of the Hyperion Insurance Group based in London.

If elected by the AGM and once approved by the ECB, Lyn will head a new Board Technology Committee to be established, which will guide and lead the Bank's work in the area of information technology, the digitalization of our banking operations and access to banking services, among many other technical issues that the Bank is addressing.

The CVs of all candidates are on the Bank's website.

Dear Shareholders,

I am delighted and honoured to be working with such talented and dedicated members of the Board, with an impressive and diversified experience and excellent record of performance as Directors of the Bank of Cyprus.

CONCLUSION

Dear shareholders,

In conclusion, I would like to reiterate that much has been achieved by the Bank since the last AGM, and that we recognize and are committed to addressing effectively the remaining challenges through a determined implementation of the Bank's strategy. We firmly believe that we have the right strategy and a strong and dedicated senior management team to address these challenges. We appreciate your support and remain fully confident that together we can meet our shared objectives.

Thank you very much.