Bank of Cyprus Holdings

AGM OF SHAREHOLDERS

BOCH 29/08/2017

Speech by Dr Josef Ackermann

Chairman of the Board of Directors

Dear Shareholders,

Distinguished guests,

Dear Colleagues,

On behalf of the Board of Directors, it is with great pleasure that I welcome you to the first Annual General Meeting of Shareholders of the Bank of Cyprus Holdings Public Limited Company (BOC Holdings). My presentation to you will be in English, with simultaneous translation in Greek. The speech in both Greek and English will be posted on the Bank's website in a few minutes.

As you are all aware, a scheme of arrangement was approved at an Extraordinary General Meeting of shareholders of the Bank of Cyprus Public Company (BOC) in December 2016 pursuant to which BOC Holdings became the sole owner of BOC in January 2017. Each one of you has been transformed from a shareholder of BOC to a shareholder of BOC Holdings, with the same effective rights and claims on BOC as before. I will refer to the "Bank" throughout my speech when referring to the Bank of Cyprus Group as a whole.

The proposed resolutions before you today, on which I will comment later in my speech, relate formally to BOC Holdings as a legal entity registered in Ireland, with its shares traded on the London Stock exchange and the Cyprus Stock Exchange, and subject to the relevant legal frameworks and governance codes of Ireland, the UK and Cyprus. I would like to assure you that all the substantive issues related to BOC will be discussed at today's AGM meeting. As usual, the Board members of BOC Holdings, who are the same as the Board members of BOC, together with the BOC Executives, the BOC Chief Legal Advisor and external legal advisors from Cyprus and Ireland, are sitting here at the podium, or in the front row.

As on previous occasions, 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.

The operation in the first eight months of 2017of the two separate entities, BOC Holdings and BOC with their separate Boards and Board Committees, has been very smooth and effective. This reflects the fact that these corporate bodies are comprised by the same team as last year, and that BOC Holdings and BOC are committed to full compliance with the strictest governance requirements of the three countries of jurisdiction. The Bank monitors closely and strives to ensure strict compliance with governance, prudential, capital and other ECB regulatory requirements.

The Boards of both the BOC Holdings and BOC have remained 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. The BOC Board meets about 15 times physically here in Nicosia, and additionally a number of times by teleconference as necessary.

The BOC Holdings Board meets equally frequently and focuses on very broad issues, such as the review of financial statements. The work of the Board is complemented and facilitated by the hard work being carried out by the four statutory Board Committees to which the Boards have delegated authority for the handling of specialized issues. To this end, some Board Committees meet even more frequently than the Board, including by teleconferencing. A new Committee has been set up for both Boards that covers technology issues and guides inter alia the ongoing implementation of the Bank's digitization strategy. The two Boards retain, of course, overall oversight and collective responsibility and accountability.

Domestic and External Economic Environment

Dear shareholders,

Before highlighting the Bank's financial performance during 2016 and the first half of 2017, please allow me to comment briefly on the domestic and global economic and financial environments in which both the Bank and the Cypriot economy operate and depend on.

The Bank's operations during 2016 and so far in 2017, took place under an improving economic setting both domestically and abroad.

Global economic activity has picked up since mid-2016, according to the latest IMF World Economic Outlook estimates and is projected to gain further momentum, reflecting largely the improving outlook in the Euro Area. Global growth amounted to 3.2% in 2016 and is projected to accelerate to 3.5% in 2017 and 3.6% in 2018. It has reflected mainly a cyclical recovery in investment and trade and the continued exceptional support policies of major central banks, including the ECB, which have contributed to reduced deflationary pressures and increased headline and core inflation rates, which, nonetheless, remain below central bank targets. The exchange rate of the Euro, which had weakened against the US dollar last year, has rebounded since March 2017, reflecting increased confidence, a strong output recovery and reduced political risk.

Within this framework, developments over the past year in three countries or regions, which are of special interest to Cyprus as important trading partners in goods and services, have been broadly positive. Growth in the Eurozone is projected to increase marginally from 1.8% in 2016 to 1.9% in 2017 and to ease somewhat to 1.7% in 2018. Germany, which is the leading economy within the Eurozone and an increasingly important source for tourist flows to Cyprus, is projected to expand at broadly similar growth rates. The UK and Russia are by far the most important countries for Cyprus' tourism industry. In the UK, concerns raised by the June 2016 Brexit referendum were alleviated in 2016, with growth proving more resilient and amounting to 1.8%. But UK growth is projected to weaken further to 1.7% in 2017 and 1.5% in 2018. The eventual outcome of the Brexit negotiations, however, is still unclear at this stage. Russia's economic decline levelled off in 2016, with a substantially more modest decline than earlier anticipated as oil prices partly recovered, while positive growth of 1.4% is projected for 2017 and 2018.

Besides Brexit, however, some other concerns continue to affect the economic and financial environment in Europe. They relate to the ongoing structural challenges facing the banking system that, combined with the low interest rate environment, compress bank profitability, as well as concerns about potential additional regulatory requirements.

On the domestic front, economic developments have been very positive, with consistent progress recorded on a number of fronts. Following the successful conclusion of Cyprus' Troika-supported economic adjustment program in March 2016, economic growth gained momentum during 2016, with the growth rate rising to 2.8%, and accelerated further to 3.7% and 3.5% during the first two quarters of 2017. The unemployment rate has declined further, while inflation has returned to low positive levels by 2017 for the first time since 2012. The expansion in output reflected further strong gains in private consumption and some pickup in investment, while cyclical gains in tax receipts improved further the fiscal position and helped preserve fiscal discipline.

The higher growth was fairly broadly based across economic sectors, but was mainly driven by a strong expansion in tourism. The number of tourist arrivals and tourist receipts reached record levels, of 3.2 million and €2.4 billion, respectively, in 2016. Further strong increases in tourism have been recorded so far in 2017 and projected for the year as a whole. Activity in the construction sector has also continued to improve markedly, but from a low base, while housing prices appear to have levelled off. Looking ahead, the growth outlook for Cyprus remains positive. According to the latest IMF and European Commission projections, Cyprus' growth rate would range between 2% and 3% in 2017 and 2018.

The welcomed gains in output have improved the financial position of the corporate sector, but are yet to be significantly felt by the household sector. Both sectors are still highly indebted and undergoing a deleveraging process. This is reflected in the trends in bank non-performing loans, where major progress has been made in reducing the non-performing exposures (NPEs) of the corporate sector, with more modest progress for the retail sector and SMEs.

There has also been a significant, and much awaited, increase in the demand for bank credit from the corporate sector and to a lesser extent from the household sector.

These achievements of the Cypriot economy have been recognized, I am pleased to note, by major rating agencies, which have all raised their ratings of both Cyprus and the key Cypriot banks by several notches. According to Standard & Poor's, Cyprus is now only one notch below investment grade. At the same time, the international investment community's confidence in the Cypriot economy seems to have improved further, as evidenced by the recent substantial narrowing of spreads and decline in the yields on government bonds and the Tier2 Capital Note issued by BOC.

While exogenous factors have contributed to the improved growth performance, good policies have also played a major role. Going forward, sustained high growth in potential output is essential for alleviating the debt overhang of the public and private sectors. This, in turn, requires continued fiscal discipline and renewed policy efforts to improve further the business environment and attract foreign direct investment.

Overview of BOC Financial Performance and the Way Forward

Dear Shareholders,

The financial health of the Bank continued to improve substantially during 2016 and in the first half of 2017. The financial performance of the Bank during 2016 is the main item of discussion under the ordinary business of the AGM. But, understandably, as you all know, challenges remain.

The Chief Executive Officer, John Hourican, will summarize the progress made in more detail in a few minutes. But please allow me to highlight some key points.

As the CEO noted in his public statement on the Q1 2017 results, "the Bank continues to make good progress in its journey back to strength." Several new milestones have been reached since the last AGM. In January 2017, BOC Holdings was listed on the London Stock Exchange and the Cyprus Stock Exchange, the Bank regained access in capital markets by BOC issuing successfully a Tier 2 Capital Note of €250 million and the Bank repaid all remaining amounts of Emergency Liquidity Assistance (ELA).

The latter was made possible in large part by the improved confidence in the Bank and the associated strong increase in deposits, which also facilitated an overall improvement in the Bank's liquidity position. The Bank has lowered further its loans-to-deposits ratio to 90% and has become compliant since March 2017 with the ECB's Liquidity Coverage Ratio requirement. At the same time, the Bank has expanded strongly its lending to the Cypriot economy. Equally important, the Bank has made enormous strides in stepping up debt restructurings and achieving a cumulative steep reduction in NPEs of €5.2 billion or 35% since end-2014. Overall, the Bank has continued to record sizable operating profits before provisions in excess of €500 million on an annual basis during 2015, 2016 and the first quarter of 2017. The Bank recorded modest positive profits after tax and after provisions in 2016 and the first quarter of 2017. 2016 was the first profitable year for the Bank since 2010.

By Board decision, a large part of the operating profits has been used since the last quarter of 2015 to additionally de-risk the Bank balance sheet by increasing further provisions against non-performing loans and thus raising the NPE coverage ratio to 42% by March 2017.

As announced last week and highlighted in this morning's release of the Bank's financial performance during the second quarter of 2017, the Board has decided to accelerate further the reduction of NPEs and the de-risking of its balance sheet by adopting a more conservative provisioning methodology and thus increasing provisions by an additional €500 million relative to what was originally envisaged for the second quarter of 2017. As a result, the NPE coverage ratio rose to 48% by June 2017, and by implication the Bank recorded an accounting loss of around €560 million during the latest quarter. The progress made by the Bank over the past two years has allowed it to fully accommodate this loss by partly drawing down on the existing capital cushion relative to regulatory requirements. In addition, the likely additional adjustment associated with the introduction of IFRS9 by January 2018 is expected to raise NPE coverage to more than 50% without significant capital implications. The Bank is expected to resume normal provisioning and return to profitability in 2018.

The rationale and motivation for the change in the balance sheet de-risking strategy is to provide the Bank more optionality and flexibility in exploring innovative strategic solutions for accelerating the reduction of NPEs for the benefit of its shareholders, while also facilitating a more focussed dialogue with the regulator.

But please allow me to emphasize once again that a steeper reduction and eventual elimination of NPEs depend not only on the Bank's actions, but also on the engagement of bank borrowers and more broadly the whole Cypriot society. To achieve accelerated progress in reducing non-performing loans we need first and foremost a stronger commitment by individual borrowers, both large and small, to cooperate with the Bank and to adhere to the principle that borrowers should respect and honour their financial obligations. Bank shareholders, many of whom are actually bank depositors, have already made major sacrifices in addressing the challenge of high non-performing loans. They cannot and should not do it alone.

I would like to encourage the remaining bank customers with non-performing loans to cooperate more openly with the Bank so as to find innovative and practical solutions to their debt servicing difficulties. Cooperation is the optimal way out for our clients, the Bank itself, and the Cypriot economy.

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. In this context, we are delighted with the growing strength of the Cypriot economy and its positive medium-term prospects. The Cypriot operations of the Bank account for 90% of total bank gross loans and deposits, and the Bank has an increasing share in the total local loan and deposits market. As I have emphasized in previous AGMs, the Bank and the Cypriot economy are in the same boat and we need to work together with the whole Cypriot society.

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. The principal priority remains a sustained strong reduction in NPEs.

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. 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 4 Ordinary Business resolutions and 8 Special Business resolutions.

The Ordinary Business resolutions relate to the following:

- The Financial Statements of BOC Holdings for the year ended 2016 together with the related reports of the Directors and Auditors;
- Authorisation of the Board of Directors to fix the Auditors' remuneration;
- The fixing of the Directors' Remuneration; and
- The re-election of all Board Members by separate resolutions. These Directors are:
    - Dr Josef Ackermann
    - Maksim Goldman
    - Michael Spanos
    - Arne Berggren
    - Lyn Grobler
    - Dr Michael Heger
    - John Hourican
    - Dr Christodoulos Patsalides
    - Ioannis Zographakis

In addition, the election of the following Directors, by separate resolution, in each case effective from the date of the approval of their respective appointments by the ECB:

- Anat Bar-Gera
- James B. Lockhart III

It should be noted that our Auditors, Ernst & Young (EY), have been automatically re-appointed as Auditors of the BOC Holdings and 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 that they remained qualified and accepted the appointment. As already announced, PwC will replace EY as our auditor with effect from 2019.

With respect to the Directors’ remuneration, please note that the proposal is for this to remain at the same levels originally approved by the 2015 AGM and re-approved at last year’s AGM. Specific remuneration is also now proposed for the members of the new Technology Committee. Please note that as Directors are now members of both the Boards of BOC Holdings and BOC and their respective Committees, the remuneration indicated in the AGM Notice is the total compensation for their services and they will receive no additional remuneration for being on both Boards.

Please note that for Resolution 4 (which is comprised of 11 separate sub-resolutions, one for each Director), the UK Governance Code, with which BOC Holdings voluntarily complies, requires annual re-election of all Board members. All 9 current Directors and the 2 appointed Directors that are awaiting ECB approval have agreed to submit their names for re-election. The CVs of all Directors are available on the Bank’s website. As Chairman of the BOC Holdings Board, I would like to confirm that, following the annual formal performance evaluation of the Board of Directors, all Directors continue to be effective and to demonstrate commitment to the role.

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 and BOC Holdings.

As you may know, Mr. Marios Kalochoritis stepped down from the Board in June 2017 to take up other duties with the Bank. I would like to take this occasion to express the thanks and appreciation of the Board for the able services rendered to the Bank by Mr. Kalochoritis as Member of the BOC Holdings Board since October 2016 and of the BOC Board since September 2013.

Turning to the Special Business Resolutions, they relate to the following issues:

- Resolution 5: Authorisation of the Board to issue ordinary and treasury shares up to 2/3 of the existing issued ordinary shares of BOC Holdings, subject to statutory pre-emption rights;

- Resolutions 6 and 7: Authorisation of the Board to issue shares on a non-pre-emptive basis for up to 5% of existing issued ordinary shares of BOC Holdings under each resolution to be used under Resolution 6 for general purposes or, under Resolution 7, in connection with an acquisition or a specified capital investment;

- Resolutions 8 and 9: Authorisation of the Board to issue additional Tier 1 Contingent Equity Conversion Notes and to allot ordinary shares on the conversion or exchange of additional Tier 1 Contingent Equity Conversion Notes of up to 15% of existing issued ordinary shares of BOC Holdings on a non-pre-emptive basis;

- Resolution 10: Authorisation of the Board to make market purchases of the BOC Holdings' ordinary shares of up to 10% of its issued shares, subject to minimum and maximum prices;

- Resolution 11: Authorisation of the Board to re-allot treasury shares subject to minimum and maximum prices; and

- Resolution 12: Authorisation of the Board to convene an Extraordinary General Meeting (EGM) on at least 14-days' notice to be used in limited and time-sensitive circumstances for the advantage of all shareholders.

If approved, the authority granted under Resolutions 5-11 will expire on the day of the next AGM of the Company in 2018, or by end-September 2018, whichever is earlier. The full text of the Resolutions and associated Explanatory Notes are included in the Shareholders' Notice distributed to you. In addition, the Chief Legal Officer of BOC, Ms Katia Santis, as well as the external legal advisors for Ireland and Cyprus are standing by to offer some additional clarifications on the need, scope and meaning of each resolution. As a general statement, however, I would like to clarify that Resolutions 5-12 are fairly routine for companies listed on the London Stock Exchange and are intended to provide the Board with the customary and generally accepted range of options so as to allow it to respond effectively and on a timely basis to circumstances that might arise. The Board fully supports each resolution and I urge each one of you to support all proposed resolutions so as to allow the Board of BOC Holdings to serve the best interests of all existing shareholders.

Conclusion

Dear shareholders,

In conclusion, I would like to reiterate that much has been achieved by the Bank since the last AGM. All BOC Holdings Board Members recognize and are committed to addressing effectively the remaining challenges facing the Bank through a determined implementation of the Bank's strategy. We firmly believe that we have the right strategy and a strong and dedicated senior executive 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.