

DIRECTORS REPORT PURSUANT TO SECTION 60(B)5 OF COMPANIES LAW, CAP 113

The Directors of Bank of Cyprus Public Company Limited (the “Bank”) have approved the following report, in accordance with section 60B(5) of the Companies Law, Cap. 113.

Unless otherwise herein defined, capitalized terms defined in the Shareholders’ Circular dated 30 July 2014 issued by the Bank which has been made available to the shareholders (the “Shareholders’ Circular”) shall have the same meaning in this report.

Dis-application of Pre-emption rights

The Capital Raising has been structured in order to enable a successful completion within a short period of time, but with a number of methods for Existing Shareholders to participate. These methods are as follows:

- (1) **The First Phase** (as in more detail described in the Shareholders’ Circular) comprised the Placing; under this phase, Existing Shareholders that met the requirements of a qualified investor in their relevant jurisdiction (which would be “qualified investors” as defined in the Prospectus Directive for Existing Shareholders in EEA member states) could participate and, as a matter of fact, have participated in the Placing.
- (2) **The Second Phase** (as in more detail described in the Shareholders’ Circular) comprised the Open Offer; under this phase, Existing Shareholders (other than the Excluded Shareholders) could participate in the Capital Raising by subscribing for up to 20% of the total number of Placing Shares at the same price per share as for the Placing so long as their subscription (per shareholder) was for a total consideration of at least €100,000. The Open Offer commenced on 31 July 2014 and remained open until 21 August 2014. The Bank received valid acceptances under the Open Offer in respect of 10,39% of the total number of Placing Shares (which corresponds to 52,0% of the Placing Shares made available for the Open Offer).
- (3) **The Third phase** (as in more detail described in the Shareholders’ Circular) will comprise the Retail Offer: the Bank proposes to offer up to €100 million of new Ordinary Shares (which, for the avoidance of doubt, would be in addition to those sold in the Placing and the Open Offer) for subscription by Existing Shareholders (which, for the avoidance of doubt, will not include Places that are not Existing Shareholders) at the same price per share as for the Placing and the Open Offer, following completion of the Placing and the Open Offer and prior to any listing of the Ordinary Shares on the CSE and the ATHEX (subject to the necessary regulatory approvals). An approved prospectus for the purposes of the Prospectus Directive will be prepared by the Bank in connection with the Retail Offer in order to allow for a wider pool of Existing Shareholders to subscribe for new Ordinary Shares.

The Board decided to conduct the Capital Raising without observing pre-emptive rights to shareholders in order to facilitate fast execution of the Capital Raising and a higher likelihood of success. The Board is of the view that the disapplication of pre-emptive rights does not unduly prejudice Shareholders as they have been, and are being, provided with the opportunity to participate in each phase of the Capital Raising for which they are eligible.

Proposed Price Justification

The subscription price of EUR0,24 has been determined following the completion of a book-building process under which investors participating in the Placing were requested to submit bids indicating the number of shares they wish to subscribe for and the relevant price.

Having taken into consideration the Company's objective of raising EUR 1 billion through the First and the Second Phases described above, the Board consider that the subscription price of EUR0,24 to be a fair reflection of the market value of the Bank's ordinary shares as it has been determined by market participants as the price at which the EUR 1 billion capital raising could be achieved and accordingly they consider it to be reasonable and justifiable under the circumstances.