

## AGM OF SHAREHOLDERS

BOCH 28/08/2018

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 second 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.

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. As you know, BOC Holdings is virtually the sole shareholder of the BOC Group, which encompasses the Bank of Cyprus and its subsidiaries in Cyprus and abroad. As last year, all the substantive issues related to BOC Group will be discussed at today's AGM.

As usual, all the Board members of the BOC Holdings, who are the same as the Board members of the BOC Group, 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. The only exception is Board member Anat Bar-Gera, who regrets she could not join us today, due to a minor medical treatment.

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.

## **Domestic and External Economic Environment**

Dear shareholders,

Before addressing the achievements of the Bank during 2017 and so far in 2018, 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.

Overall, I am pleased to note that both external and domestic output developments have been particularly positive over this period, even though trade tensions have escalated at the global level, increasing downside risks. As you all know, Cyprus' financial system experienced a major turbulence during the first seven months of 2018, threatening not only all stakeholders of the second largest commercial bank in the country, but also, I dare say, the stability of the Cypriot banking system as a whole. I am pleased that the authorities and Parliament took the necessary policy actions to restore calm and stability, enhancing in the process the legal framework for foreclosures, insolvency, and loan securitization.

More specifically, the external environment has been fairly positive over the past eighteen months. 2017 witnessed a global cyclical upswing in growth in all major country groups. Growth in the Euro Area accelerated strongly in 2017, but is projected to ease somewhat in 2018 and 2019, remaining though still above potential.

The balance of risks to growth at the global level and the Euro Area as well tilted toward the downside in 2018 as trade tensions have escalated. In addition, uncertainties continue in the Euro Area with regard to the eventual outcome of the Brexit negotiations and the resolution of the discussions on the EU fiscal policy framework and the arrangements for addressing the migration issue.

Core inflation in the Euro Area has remained subdued, and it is still expected to take a few years before the European Central Bank's inflation objective of close but below 2% is reached. The exchange rate of the Euro strengthened significantly during 2017 and the first quarter of 2018, but has since weakened somewhat, mirroring the changing trends in the US dollar. Against this background, the European Central Bank (ECB) has maintained the loose stance of its monetary policy and the associated very low level of its policy interest rates. The negative level of the ECB deposit rate continues to affect adversely the interest income of banks, such as the Bank of Cyprus, with excess liquidity.

On the regulatory front, the Euro Area's Single Supervisory Mechanism (SSM) operated by the ECB has continued its very strict overall and on-site supervision of the 110 or so major systemic banks, including the Bank of Cyprus, under its jurisdiction. The SSM has emphasized broadly harmonized approaches and, for the banks in the few countries experiencing high levels of Non-Performing Exposures (NPEs), intensive on-site inspections and stepped up measures to achieve targeted reductions in these exposures.

Turning to the domestic front, we have all been gratified with the continued accelerating recovery of output growth in the Cypriot economy. The real GDP growth rate increased consistently since early 2015 and reached about 4% on average during 2017 and so far in 2018. GDP growth is currently projected by the IMF at 4% for 2018 as a whole and to increase further to 4.2% in 2019. This welcome strong cyclical recovery has exceeded by far earlier expectations by the authorities and international organizations, and has remained significantly above estimates of the potential output growth. It has also coincided with increasing employment, declining unemployment rates from historically high levels and a pickup in the inflation rate from negative levels to a modest positive level in 2018. Nominal GDP has by now almost reached its pre-crisis level. However, recent intensified geopolitical tensions and risks raise some clouds of uncertainty, with potential adverse pressures on the Cypriot economy and the financial system.

Public finances have continued to improve, with consistently high and increasing primary budget surpluses. Public debt, although still very high, is projected to resume its declining trend over the medium term after an increase in 2018 related to the government actions in the deal with the Cyprus Cooperative Bank (CCB). Rating agencies have raised their ratings of Cyprus over the past year. In addition, the spreads on government bonds have begun to narrow again after their temporary increase during the first half of 2018.

The strong growth has of course been very welcome news, both for the society as a whole as it helps the healing of the deep wounds from the financial crisis, and the banking sector. It has improved private disposable incomes, particularly of the corporate sector, and the debt servicing ability of all bank borrowers. The creditworthy demand for bank credit has continued to increase, but, it should be noted, it continues to be constrained by the existing still high debt burdens facing the corporate and the household sectors and the related still high levels of non-performing bank loans. As this deleveraging process continues, the levels of outstanding net bank credit to the private sector and the overall bank assets would remain under pressure.

Dear Shareholders,

The reduction of NPEs and the preservation and further enhancement of financial sector stability are a shared objective, not only of the Bank of Cyprus, but also of the banking sector as a whole, the authorities and the regulators.

As I mentioned earlier, the resolution of the crisis with the Cyprus Cooperative Bank was associated with a major enhancement of the existing legislative framework for bank loan foreclosures, insolvency, and loan sales and with the introduction of new legislation on loan securitization. These changes have been supported, besides the government and a majority in parliament, by the ECB, the European Commission, the IMF, and all banks in Cyprus. These changes are welcome as they bring the Cypriot legal framework closer to the best practices in Europe by strengthening in a balanced way the incentives for both borrowers and lenders to reach mutually beneficial restructuring arrangements, while also allowing for efficiency gains and faster NPE reduction through loan sales.

It should be noted that these legal reforms would not compromise the rights of bank borrowers. In addition, they are accompanied by a new government initiative under Project Estia to support vulnerable low-income borrowers, with effect from January 2019. Project Estia will be open to all banks to participate. Moreover, I am pleased to note that the authorities intend to introduce long-awaited reforms in the judicial system aimed at accelerating the procedures for adjudicating legal disputes through more resources and changes in the required processes. We look forward to a more speedy resolution of all legal disputes over bank loans for the mutual benefit of all parties concerned and the economy as a whole. This is a long-awaited reform, which is critical for the effective enforcement of financial contracts, the protection of property rights, and for attracting foreign direct investment.

Again, the shared overall objective is to help accelerate the reduction of NPEs in a balanced and socially acceptable way, while also reducing the incentives and the political and societal acceptance of the destructive process of strategic default.

## **Overview of Recent BOC Group Achievements and the Way Forward**

Dear Shareholders,

It is almost four years when several of my colleagues and I assumed our current positions as members of the Board of Directors with the Bank of Cyprus back in November 2014. Since then, the Board composition has changed, including over the past month or so with the addition of two new Cypriot members, Paula Hadjisotiriou and Maria Philippou, and, following ECB approval of their nominations.

But the Bank has also changed over this period in far-reaching and welcome ways. I would like to underscore right away though that, while major progress has been achieved across a number of fronts, the work of the Board and Executive Management is not finished, as many challenges remain.

As you are aware, the fundamental objective of today's AGM is to review the financial statements of the BOC Holdings during 2017. I will not get into the details as the CEO, John Hourican, will outline in a few minutes, an overview of financial performance both during 2017 and, in part, so far in 2018. But I would like to highlight some broad issues.

2017 was both a year of major achievements as well as year of major decisions and strategic planning. As you are well aware, thanks to the intensive preparations in earlier years, we were able to launch in January 2017 the listing of BOC Holdings on the London Stock Exchange and to repay the last remaining portion of the Emergency Liquidity Assistance (ELA) extended in part to the Bank of Cyprus and mainly inherited from Laiki Bank in 2013. The liquidity position of the BOC Group improved further since then, allowing the Bank to meet fully its liquidity regulatory requirements and since early 2018 the additional prudential liquidity requirements imposed by the Central Bank of Cyprus. It has also made possible for the Bank to meet all creditworthy demand for new loans.

In addition, BOC Group embarked during 2017 on an intensified strategy of accelerating further the reduction of balance sheet risk through a major reduction of NPEs beyond the significant scope already allowed by organic developments within the Bank. To this end, the Board of Directors authorized in mid-2017 a large ad hoc increase in provisions to allow the Bank adequate flexibility to consider potential NPE trades with interested investors. As a consequence, BOC Group recorded accounting losses after tax for the year as a whole, but a significant operating profit.

The efforts to conclude a large NPE trade have been supported also both by you, our shareholders, and by our regulators. The preparations and actual negotiations with interested investors continued during 2018, and they were successfully concluded, as announced this morning.

As you can expect, the Board, which serves both BOC Holdings and the BOC Group, has played during this period a critical leadership role in debating, endorsing and monitoring the implementation of an appropriate reform strategy. This was achieved through detailed discussions on these issues in the Board's annual offsite strategy session, and with follow-up and update discussions during the Board's regular meetings and more frequent teleconferences as needed.

The Board has also remained focused on enhancing further our corporate governance and on providing quick, effective and well-considered guidance to the executive team in addressing the operational and strategic challenges facing the Bank. The work of the Board is complemented and facilitated by the hard work being carried out by the four statutory Board Committees and the Technology Committee to which the Board have delegated authority for the handling of specialized issues.

The Board has remained committed to ensuring full compliance with the strictest governance requirements of the three countries of jurisdiction of BOC Holdings. Under the Board's guidance, the BOC Group monitors closely and strives to ensure strict compliance with all prudential, capital and other regulatory requirements, including, most notably, the strictest enforcement of all requirements for knowing your customer, anti-money laundering, data confidentiality, and other compliance issues. The Bank of Cyprus is very proud of its record and performance in these areas, as demonstrated by its willingness to close existing or refuse the opening of new bank accounts by individuals and legal entities that pose elevated risks.

The BOC Group is also fully compliant with all US and other international sanctions. In this context, as you may know already, I stepped down from my position as an independent member of the board of Renova, a company covered by the US sanctions, a few days after the sanctions were announced. In addition, my colleague at the BOC Group Board, Maksim Goldman, has severed his employment relationship with the same company within the allowed transitional time limits. As you also know, Lamesa, which is owned by Viktor Vekselberg, a person included in the US sanctions, is the BOC Holdings' largest shareholder with a share of 9.3%, which, however, is well below the limit of 50% set by the implementation regulations of the US sanctions. The Bank has also sought advice from US legal experts and has received confirmation of compliance with the provisions of US sanctions.

The Board and the Executive Management team have been promoting and instilling within the BOC Group and its staff a set of values and high principles. These values and principles emphasize ethical behaviour, no tolerance for any form of financial crime, strict adherence to the compliance requirements, respect and promotion of the clients' interests, and recognition and appreciation of the valuable contribution to the work of the BOC Group by each one of its employees. The message and tone from the Board and top management was very clear: no tolerance for any violation of compliance requirements.

As a result of the far-reaching reforms pursued by the Board and the Executive Management, and in the context of the supportive domestic and external economic environment, the BOC Group, notwithstanding the balance sheet risk reduction, remains by far the largest, the most trusted and the most profitable financial institution in Cyprus. Despite the ongoing merging of the second and third largest commercial banks in the island, the BOC Group retains the largest market share in outstanding deposits and loans, and the lion's share in credit expansion. The BOC Group is also serving the insurance needs of its clients and the Cypriot society in general through two very efficient and dynamic insurance companies, which themselves have the largest market share in life insurance and the second largest share in the non-life insurance market.

Dear Shareholders,

Looking forward, the BOC Group has refocused its efforts on serving the needs of the Cypriot economy and society through a broad range of competitive financial and insurance products. We remain committed to serving the needs of our clients, while adding value over the medium term to our shareholders and other important stakeholders.

As I mentioned earlier, however, we also remain very keenly aware that our work is not yet finished. The BOC Group still faces major challenges, which we are determined to continue to confront decisively. These challenges include the need to reduce even further our NPEs through organic curing and other means, refine further our business model, contain our cost structure, optimize our funding structure, and modernize further our operations.

As you know, the banking industry in Europe and elsewhere is changing rapidly. It is driven *inter alia* by the existing structural constraints it is facing, such as the need for further consolidation, but also the ongoing digitalization process and IT revolution. The Cypriot banking system cannot and will not be insulated or isolated from developments in the global financial system, nor can it ignore the competitive challenges this interconnectedness poses. It is against this backdrop that the BOC Group has been pursuing over the past couple of years a very ambitious and far-reaching digital transformation program that would touch the way we do business and interact with our clients. Some of these changes are already apparent. More would come in the next few years, which would enhance the quality and effectiveness of the services we provide to our clients.

## Agenda Items

Dear Shareholders,

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 10 Special Business resolutions.

The Ordinary Business resolutions relate to the following:

- The Financial Statements of BOC Holdings for the year ended 2017 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.

It should be noted that our current 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 approved at last year's AGM.

Please note that for Resolution 4 (which is comprised of 12 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 12 current Directors 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 would like to reiterate that I am delighted and honoured to continue 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.

Resolutions 5-12 are identical to those adopted at the last AGM.

Resolutions 13 and 14 propose a minor amendment of the BOC Holdings' Articles of Association and the conversion of the existing share premium into distributable reserves. This conversion would ensure that the Bank is not constrained in paying any dividends, redeeming or repurchasing ordinary shares, and paying coupons for any Alternative Tier 1 instruments outstanding. This change is intended to maximize the Company's flexibility without compromising shareholders' interests.

If approved, the authority granted under Resolutions 5-12 will expire on the day of the next AGM of the Company in 2019, or by end-September 2019, whichever is earlier. The full text of all 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, please allow me to reiterate that much has been achieved by the BOC Group since the last AGM. This progress bodes well for the ability of the BOC Group to serve better its clients and address effectively the remaining challenges and unfinished business. We very much appreciate your patience and support. My Board colleagues and I remain committed to serving the needs of the Cypriot economy and enhancing the value of BOC Holdings over the medium term to its shareholders and other stakeholders.

Dear Shareholders,

Finally, please allow me to address an important leadership issue that will certainly be of great interest to all of you, namely the issue of succession planning for the Board Chairman and the CEO.

I would like to inform you that I intend, if re-elected at today's AGM, to step down from my position at the Boards of BOC Holdings and BOC Group at the next AGM in 2019. When I was first asked to take my position with the Bank of Cyprus, I committed to stay for three years. Now, almost four years later, with a strong Board and executive management team, major strides have already been made in restructuring the Bank and in formulating appropriate reform strategies. It may thus be a suitable time to give an indication of my intentions, as part of the Bank's prudent governance practices. While I do not wish to give a farewell speech at this juncture, I would like to indicate that I feel privileged that I have had the exciting opportunity to serve at the Board of the Bank of Cyprus during these critical and challenging times. But I also remain fully committed to continuing to serve. I also remain gratified by the support and encouragement provided to me by all of you.

The exploration of a suitable successor will be addressed by the Nominations and Corporate Governance Committee in due course.

As to the CEO position, I am pleased to announce that John Hourican has agreed to continue to serve for two additional years. We are of course all delighted with John's and his family's decision, as we will all benefit at the BOC Group family from John's continued excellent performance as he and our strong Executive Management team address the remaining tough challenges facing the BOC Group.

Thank you very much.