

## ANNUAL GENERAL MEETING OF SHAREHOLDERS

17 May 2024

Bank of Cyprus Holdings PLC Headquarters

Remarks by Panicos Nicolaou,

Group Chief Executive Officer

### **Opening remarks: 2023 a 'milestone year'**

Dear Shareholders,

Thank you for joining us for today's AGM, which is an important moment in the life of the Group. It is particularly so today as we present the Group's performance during what I consider to be a 'milestone year' in 2023. It is also an opportunity to review the Group's medium-term outlook and to reflect on the Bank's 125<sup>th</sup> anniversary in 2024.

I will explain briefly what I mean by a 'milestone year' in 2023 before discussing the geopolitical and macroeconomic environment and the Group's performance in this context.

2023 was a 'milestone year' for the Bank as we were the first bank in Cyprus and Greece to secure approval from the ECB to restart dividend payments after 12 years. The dividend of €22.3 mn was equivalent to a payout ratio of 14% of the full-year 2022 adjusted recurring profits. It confirmed Bank of Cyprus' transformation into a well-capitalised, diversified and sustainably profitable banking and financial services group.

In a further demonstration of the significant progress we have made in recent years and the credibility we have built with international investors, Bank of Cyprus re-opened the euro-denominated AT1 debt market in June 2023.

This market had been closed following the emergency takeover of Credit Suisse and the write-down of its AT1 debt in March 2023. Our successful issue of €220 mn AT1 capital securities was 12 times over-subscribed with interest from c.240 institutional investors. This enabled us to price the issue much more keenly than our previous AT1 issue in 2018. This transaction was also recognised as the Best Financial Institution Bond in South East Europe by EMEA Finance in its 2023 awards.

I will now provide an overview of the performance of the Cypriot economy in 2023, which provides important context for the Group's performance.

### **Operating environment: Cyprus continued to outperform the euro area.**

In addition to the ongoing war in Ukraine, 2023 saw the outbreak of war between Israel and Hamas increasing geopolitical uncertainty and instability. Furthermore, attacks from Houthis in Yemen on merchant shipping in the Red Sea added to existing inflationary pressures as shipping routes became longer and more expensive.

Despite this challenging backdrop, Cyprus' economy continued to show its resilience to geopolitical and macroeconomic shocks in 2023. Cyprus recorded GDP growth of 2.5% in 2023, with trade, transport, and accommodation contributing more than half of the recorded growth in the period. Cyprus' GDP growth significantly outperformed the euro area, whose GDP grew by 0.5% in 2023.

Tourist activity continued to improve in 2023 after a strong performance in 2022. Arrivals increased by 20.1% from a year earlier, reaching 3.8 million persons, which corresponds to 97% of arrivals in 2019 before Covid. Likewise, tourist revenue for the year ended 31 December 2023 increased by an estimated 22.6% year-on-year reaching almost €3 billion for the year. This was 11% higher than total receipts during 2019.

Cyprus' economy also benefited from lower inflation than the euro area, with average inflation as measured by the Harmonised Index of Consumer Prices of 3.9% compared with 5.4% in the euro area in 2023. Harmonised Inflation is expected to continue its

downward trend in 2024, with the European Commission forecasting 2.4% in Cyprus and 2.5% in the euro area<sup>1</sup>.

Before discussing the details of our operational and financial performance in 2023, I would like to take a step back.

As I have said, 2023 was a milestone year for the Bank.

It was the start of a new chapter in which the Bank is well capitalised, has a diversified business model and is sustainably profitable. This followed the radical transformation of the Bank during the previous decade.

We de-risked the Bank reducing NPEs by €14.6 bn (or by 98%) since December 2014. At the end of 2023 the NPE ratio stood at 3.6%.

De-risking was also combined with a significant improvement of our capital ratios and a total transformation of our liquidity profile, allowing us to deliver strong returns in 2023 with a reported Return on Tangible Equity (ROTE) of 24.8%.

### **Financial year 2023: a strong operational and financial performance**

I will now share with you my main observations on the 2023 Financial Statements which are tabled before you today.

We delivered a strong operational and financial performance in 2023 generating profit after tax of €487 mn (up from €57 mn in 2022), benefitting from sharply rising interest rates, and surpassed the full-year 2023 targets that we set at our Investor Update event in June 2023.

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<sup>1</sup> European Commission, Spring 2024 Economic Forecast. See [here](#) for euro area statistics and [here](#) for Cyprus statistics.

We were particularly pleased with the Return on Tangible Equity (ROTE) of 24.8%, up from 3.2% in 2022 and our cost to income ratio of 31%, down from 49% in 2022.

We strengthened our capital position during 2023 thanks to strong organic capital generation of 482 basis points. As a result, our regulatory CET1 and Total capital ratios reached 17.4% and 22.4% respectively. These capital ratios are after the shareholder distribution from full-year 2023 profit after tax, the cash dividend element of which you are being asked to approve today.

Our liquidity position remained robust in 2023, with surplus liquidity of €9.1 bn and a total deposit base, mainly retail funded, of €19.3 bn up 2% year-on-year. In addition, in July 2023 we issued €350 mn of MREL–Eligible Senior Preferred Notes.

We continued to support our clients and the Cypriot economy in 2023 with c.€2 bn of new lending though our gross performing loan book remained broadly flat year-on-year at €9.8 bn as repayments offset new lending.

And finally, we continued to improve our asset quality with our NPE ratio at 3.6% as at 31 December 2023, down 40 basis points year-on-year and in line with guidance. The level of coverage reached 73%, up 4 percentage points on the prior year. Our cost of risk was 62 basis points, which we expect to normalise towards 40-50 basis points over the medium-term.

**As I mentioned earlier, in April 2023 Bank of Cyprus was the first bank in Cyprus and Greece to secure approval from the European Central Bank to resume dividend payments after 12 years.**

**Our particularly strong performance in 2023 enabled us to gain approval from the ECB in March 2024 to significantly increase the shareholder distribution from full-year 2023 earnings to €137 mn. This comprises a proposed cash dividend of €112 mn (25 cents per ordinary share) and an inaugural share buyback of up to €25 mn. This distribution is over six-times higher than the distribution in 2023, with the proposed cash dividend five-times higher than that paid in 2023. We have more than doubled the payout ratio to 30% compared to last year, meeting our target payout range of 30%-50%.**

#### **The first three months of 2024**

You have probably seen our first quarter results for 2024, which we published yesterday, and which are available on the Group's website, so I will just outline the main points.

We had a strong start to 2024, particularly in terms of profitability.

- We delivered a profit after tax of €133 mn with ROTE of 23.6%, which is the 5<sup>th</sup> consecutive quarter of ROTE above 20%.
- We continued to support our clients and the economy with a strong quarter of new lending of €676 mn.
- Our capital position remains robust. We ended the quarter with a regulatory CET1 ratio of 17.1% and a Total Capital ratio of 22.0%. We generated c.130 bps of organic capital during the quarter. Including the profits of the first quarter net of distribution accrual, CET 1 and Total capital ratio stood at 17.6% and 22.5% respectively.
- Our liquidity position also remains robust, with surplus liquidity of €7.3 bn. Deposits, the majority of which are retail, remained flat quarter-on-quarter at

€19.3 bn, but were up 2% year-on-year. We have also met our end 2024 MREL target ahead of schedule, following the successful issuance of a €300 mn green bond in April 2024.

- Asset quality is healthy and in line with our full-year target, reflected in an NPE ratio of 3.4%, and an improved level of coverage of 77% as at quarter end.

Our strong performance this quarter indicates that we are tracking ahead of our 2024 targets.

## **Immediate priorities**

### ***Digital transformation***

Digital transformation is essential to delivering operational excellence and Bank of Cyprus is a pioneer of digital banking innovation in Cyprus. We are reshaping the banking experience so that it is more intuitive, more responsive, and more aligned with the needs of our customers.

The Group aims to continue to innovate, and simplify the banking journey, providing a unique and personalised experience to each of our customers.

### **Quickhub**

In 2023 we launched Quickhub (a digital branch) which facilitates the everyday transactions and financial needs of our customers in a user-friendly and efficient manner.

Quickloans is one of the recent innovations of the Bank that is accessible through both the BOC Mobile App and Internet Banking. Quickloans have transformed the traditional loan process, enabling customers to obtain a credit decision instantly, without the need to visit a branch. Since the beginning of 2023, over 33,000 applications were processed, granting €100 mn of new loans.

### **Jinius**

In April 2023 Bank of Cyprus established Jinius Ltd a wholly owned subsidiary, which is a B2B and B2C digital economy platform that connects the entire Cypriot market.

It offers businesses innovative services that simplify and speed up their daily transactions and activities. We also expect Jinius to create new revenue sources for the Bank over the medium-term.

The B2B services of the platform include:

- tenders management;
- ecosystem management;
- invoicing management;
- payments by cheque/cash/other banks;
- remittance management (bulk payments to multiple suppliers).

As at 31 March 2024 over 2,000 companies had registered and over €500 mn was exchanged via the platform, through invoicing and remittance services.

We launched the B2C service in February 2024, which enables retailers to sell their products to customers. As at 31 March 2024, c.100 retailers were onboarded and c.150 thousand products were available across all categories.

### ***ESG agenda***

Climate change and the transition to a sustainable economy are two of the world's greatest challenges.

As part of our vision to be the leading financial hub in Cyprus, we are determined to lead the transition of Cyprus to a sustainable future. The Group continues to progress towards its goal to embrace ESG in all aspects of business as usual.

We maintain our leading role in the Social and Governance pillars.

The Bank of Cyprus Oncology Centre has helped almost 50,000 patients since 1998. We are also proud of the Bank's SupportCY network consisting of companies and organisations, responding to various needs in society and to crises and emergencies.

Finally, we should not forget the contribution of the Bank of Cyprus Cultural Foundation in promoting the cultural heritage of the island.

Under the Governance pillar, in 2023 we exceeded our ESG target of having  $\geq 30\%$  women in the Group's management bodies by 2030, with female representation at this level (defined as ExCo) reaching 33% as at 31 December 2023. Furthermore, the Bank had female representation of 41% in key positions such as Managers, Heads, Leads, Team Heads (defined as the wider Group Leadership) as at the end of 2023.

We continue to work to increase the positive impacts on the Environment by transforming not only the Bank's own operations, but also the operations of its customers. In 2023, we set our first decarbonisation target on our Mortgage portfolio aligning with our Net Zero 2050 commitment.

We are proud that the Bank was the first Bank in Cyprus to become an official signatory of the United Nations Principles for Responsible Banking in November 2023.

Our commitment to lead Cyprus' transition to a sustainable future, was demonstrated by the issuance of our inaugural green bond in April 2024. This highly successful transaction, which was four times over-subscribed, enabled us to raise €300 mn to support eligible green projects, such as green buildings, energy efficiency, clean transport and renewable energy.

The progress we are making on embracing ESG in all aspects of business as usual was demonstrated by our AA rating (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment in 2023.

We maintain our strong commitment to sustainability and to long-term value creation for all of our stakeholders.

### **Strategic priorities for the medium-term – an update**

2023 was the first year of Bank of Cyprus' new chapter as a well-capitalised, diversified and sustainably profitable banking and financial services group. As I mentioned the



strong operational and financial performance in 2023, with a ROTE of 24.8%, enabled the Group to significantly surpass all of its full-year targets set in June 2023 at the Investor Update Event.

Our vision for the Group is to create lifelong partnerships with our customers guiding and supporting them in a changing world.

The strategic pillars remain as follows:

- grow revenues in a more capital efficient way, by enhancing revenue generation via growth in high quality new lending, diversification to less capital-intensive banking and other financial services (such as insurance and the digital economy) as well as prudent management of the Group's liquidity;
- achieve a lean operating model, through our ongoing focus on efficiency from further automation facilitated by digitisation and Artificial Intelligence (AI);
- maintain robust asset quality, with high quality new lending via strict underwriting criteria, normalising cost of risk and reducing other impairments;
- enhance organisational resilience and our ESG (Environmental, Social and Governance) agenda; by leading the transition of Cyprus to a sustainable future and building a forward-looking organisation embracing ESG in all aspects.

**We remain committed to delivering shareholder value and sustainable returns. We believe that we can continue to provide good returns to shareholders on the basis of our ROTE targets (on a 15% CET 1 ratio) of over 17% for full-year 2024 and over 16% for full-year 2025 despite an anticipated decline in interest rates.**

#### **Closing remarks**

Ladies and Gentlemen, I am incredibly proud that after ten years of decisive management actions and the extraordinary efforts and dedication of our staff the Bank was not only able to support its clients, the Cypriot economy and society and to deliver sustainable value to you, our shareholders, in 2023, but also led the way among banks in the region and in the EU more broadly.

2024 marks the 125<sup>th</sup> year of Bank of Cyprus and I am delighted that the Bank is the leading banking and financial services group in Cyprus and delivering value for all of our stakeholders. Our proven strategy and well diversified business model position the Group for success over the years ahead.

Bank of Cyprus continues to be a cornerstone of the Cypriot economy - now pioneering its digital evolution - as well as an important contributor to the social and cultural life of our country. Our commitment to these roles is as strong today as it has ever been, alongside our unwavering commitment to serving our customers and delivering sustainable value to our shareholders.

At the heart of banking is trust. On behalf of the Group I thank our customers for continuing to place their trust in us.

I express my thanks to the executive team and to all of our staff whose commitment underpins the Group's performance.

Thank you to you all, our shareholders, for your investment and constructive engagement during the year.

And last, but not least, thank you to the Chairman and the Board of Directors for their continuous guidance and support.

**It is a privilege and an honour to lead this great Bank.**

***Thank you***