

AGM OF SHAREHOLDERS

BOCH 14/05/2019

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 Annual General Meeting of Shareholders of the Bank of Cyprus Holdings Public Limited Company (BOC Holdings). As usual, 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 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.

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.

Dear Shareholders,

This year's AGM is rather special, for a number of reasons, both for the Bank itself and for me personally.

The first reason is procedural. As you may have noted, the timing of the AGM has shifted from late in the year during the period since 2013, to a more normal time for European banks in the second quarter of the year, as the main objective of the AGM remains the presentation to the

shareholders of the financial statements for the last calendar year. As you know, these statements have already been released in early March 2019.

The second reason is substantive and fundamental to the Bank's ongoing restructuring and de-risking efforts. The Bank has achieved ever more impressive milestones during the past year, even when compared to its own strong restructuring performance in preceding years. More specifically, *inter alia*, the Bank has completed the sale of its UK subsidiary, has issued successfully a €220 million Additional Tier 1 capital note by year end, and has concluded the so-called Project Helix that entailed the sale of €2.8 billion of non-performing exposures (NPEs) and other assets to a foreign investor. In parallel, the Bank has continued to make major strides in lowering further its NPEs through organic means, expanding new credit to the economy, enhancing its liquidity position, and implementing its ambitious digital transformation program. The end result of these efforts has been a substantial increase, as intended, in the Bank's capital ratios by end-2018 on a pro forma basis, taking into account the impact of both Helix and the recent legislative amendment that affects the accounting treatment of our deferred tax assets inherited from Laiki Bank. The CEO John Hourican will elaborate on these issues in more detail in a few minutes.

I should note in passing that the market seems to have welcome these results, as the BOCH share price has recovered sharply since the release of the preliminary 2018 results in late February, albeit from a low level, remaining nonetheless rather volatile and below previous peaks. Of course, as is normal best practice, the Board and the Bank management do not target the share price in any way. But we do endeavour, however, as an integral part of the Bank's strategy, to enhance shareholder value over the medium term. We are very grateful for, and highly appreciative of, the patience of the Bank's shareholders, as they have witnessed a downward trend in the Bank's share price in recent years without any dividend distribution. As shareholders are aware, the sizeable operating profits generated during these years have been used mainly for building provisions and providing the necessary cushion for NPE trades and other de-risking efforts with a medium-term pay-off.

The third reason this AGM is rather special is because of the changes in the Bank's leadership structure that have already been announced. The next AGM, in a year's time, will be under a new Board Chairman and a new CEO.

As you know, at the last AGM in August 2018 I announced my intention to step down from my position as Board Chairman at the next AGM. Today is my last day in office, after some four and a half years of engagement with the Bank of Cyprus. On this special occasion, I would like to take a longer-period perspective and comment briefly on what we have collectively achieved during this period and on the remaining challenges. I will also offer some personal remarks at the end of my speech.

Following the last AGM, an intensive search was launched, fully consistent with the Bank's Corporate Governance Code, for the identification of a suitable candidate to succeed me as Board Chairman. In late February, the Board's Nominations and Corporate Governance Committee made a recommendation which was endorsed by the full Board for the appointment of Mr Takis Arapoglou as an independent Board member, subject to ECB approval. If elected by the AGM today as a Board member, Mr. Arapoglou will be a candidate for Chairman. As provided in our Corporate Governance Code, the newly elected Board after today's AGM will convene to elect a new Chairman in a meeting to be chaired by the Senior Independent Director. If so selected, Mr. Arapoglou will take up his duties once his Board membership is approved by the ECB. At the same February Board meeting, Mr Yiannis Zographakis, a long-serving Board member, was appointed as the Board's new Senior Independent Director. I offer my congratulations and best wishes to Yiannis in his new, additional duties.

I am delighted with Mr. Arapoglou's candidacy to succeed me. Takis is an esteemed colleague and friend of mine for many years. He is also well known to most of you as a Greek national with an extensive and rich experience in international capital markets and in corporate, commercial and investment banking in Europe, the Middle East and Africa. He has also extensive experience as chief executive, including at the National Bank of Greece, and as a board member and chairman of several financial and commercial firms. He is also very familiar with economic and financial developments in Cyprus and Greece and has close familiarity with the regulatory agencies in Europe and elsewhere. I am thus very confident that, with his deep background, Mr. Takis Arapoglou will be a valuable addition to our Boards. As a well-seasoned professional, he is fully committed to devoting all necessary time to effectively carry out his duties with the Bank, notwithstanding the other board positions he holds. I would strongly recommend that you support his election at today's AGM.

The other major change in Bank leadership is the decision in early March of our CEO, John Hourican, to step down from his position in September 2019, to take up a new commercial opportunity in the UK and to be closer to his family. As you know, John has been with the Bank since October 2013 and has been instrumental in turning the Bank around after the March 2013 dramatic events and in establishing a solid basis for a brighter future for the Bank.

As the Board has indicated on a number of earlier occasions, we are all deeply appreciative and grateful for John's pivotal role and exceptional service to the Bank. We are sorry to see him go, but we understand fully that this is a natural and unavoidable move. We all extend to John and his family our best wishes in their future endeavours. I am sure these assessments and sentiments are fully shared by all shareholders and the Bank staff.

After a thorough search process, based on the Bank's Corporate Governance Code, the Board selected yesterday, as already announced, Panicos Nicolaou, the Bank's respected and

successful Director of Corporate Banking, to succeed John as the Bank's new CEO, pending regulatory approval. Panicos comes from the Bank family and hardly needs any introduction. He has first-hand experience in managing some key departments in the Bank, and has been instrumental in strengthening business relationships with major clients. Panicos knows the Bank and its policies well and he is ready to lead the Bank forward. On behalf of the Board, I would like to extend our warm congratulations to Panicos and to wish him all the best in his new, more demanding duties. In the months ahead, Panicos, as designated CEO, will work closely with John to help ensure a smooth transition.

I would like to reassure all shareholders and the Bank staff that the change in the Bank's leadership that is under way will not disrupt the momentum of the ongoing reforms to effectively address the remaining and the new challenges facing the Bank. We have in place the appropriate strategy, an experienced senior executive team, an experienced and well tested Board and effective corporate management and governance structures to take the Bank forward. The prospective change in Board Chairman and CEO is an opportunity to carry this process forward with renewed vigour and enthusiasm.

Bank Performance Since 2014 – We Have A Dream

Dear Shareholders,

Looking back at the time when I took up my position with the Bank of Cyprus in November 2014, the deep wounds and dislocations from the dramatic events of March 2013 and the excesses that preceded them for both the Bank of Cyprus and the Cypriot economy were still very fresh and painful. I should remind you that in the policy discussions in Brussels in March 2013 several people had doubts that the Bank of Cyprus could survive. The Bank in the subsequent 20 months underwent some dramatic changes, including a bailing-in of its unsecured deposits in July 2013, the appointment of a resolution administrator and of two CEOs, a merging with the remaining Laiki Bank after its resolution, changes in the composition of its Board, internal administrative reforms and a major injection of new equity capital in October 2014. But the challenges the Bank faced by late 2014 were still open, formidable and pressing.

Faced with this reality, as the new Board members elected at the November 2014 AGM, with many of us coming from outside, we were all armed with lots of enthusiasm and eagerness to help as much as we could. In the immortal words of Martin Luther King, and with due humility, we **Had a Dream** both about the Bank and about Cyprus.

Our Dream was for an ambitious strategy to revive the Bank, its set of values and three constituent reform pillars. We also had a **vision** for the **mission** of the Bank in the best service of the Cypriot economy. The mission and overriding objective was, and still is, to restore the Bank to full financial health, equip it with all modern technical, managerial organizational and IT tools

so as to allow it to enhance its traditional role as the leading banking institution in Cyprus, serving as a hub of financial services in the ecosystem of the new digital era, promoting the interests of its clients and the economic recovery and prosperity of the Cypriot economy in the years ahead. I am pleased to say that this strategy and vision were fully endorsed by the executive team and the staff of the Bank and we all collectively embarked on getting the job done.

The strategy was premised on **a strong set of values** that was of fundamental importance for turning the Bank around on solid foundations. The values comprised high ethical standards of integrity, reliability, care, professionalism and strict adherence from the Board down to all employees to both the best corporate governance standards and to the ever widening compliance requirements across a number of fields. This principled course has also been accompanied by a zero tolerance policy for any non-compliance with the legal, financial, the expanding anti-money laundering and other regulations, the Bank policies, and the ethical values that the Bank stands for.

This commitment and strict adherence to best governance practices, rules and regulations has not gone unnoticed by outside independent observers. I am very pleased to note that the Bank of Cyprus has recently been awarded the World Finance Award for the Best Corporate Governance in Cyprus for the third year in a row, for 2017, 2018 and 2019.

The three pillars of the Dream strategy were fairly far reaching. All pillars included extremely complicated, arduous and painful tasks that entailed the mobilization of not only the Bank's entire internal talent, but also a heavy reliance on a broad array of external expertise, as needed, on financial, legal, investment banking, tax, real estate, loan restructuring, risk management, accounting, IT and digital transformation issues.

The first pillar was to **Focus** the activities of the Bank **on** Cyprus, folding back its operations—and some would say adventures--in other countries from Russia, Ukraine, Serbia, Romania, and Greece and even from the Bank's long presence in the UK market.

The second pillar was to **Repair** the Bank. The first and foremost task was to restore confidence in the Bank and to gradually address the challenge of excessively high and still rising non-performing exposures (NPEs), the Bank's weak liquidity position and the largely inherited high resort to emergency liquidity assistance. NPE reduction was paramount through organic means such as debt restructuring, debt-for-assets swaps, and debt write-offs, but also through imaginative and novel NPE trades and the launching of real estate operations to dispose of the accumulated stock of repossessed or on-boarded real estate assets. In parallel, the objective was to strengthen further the Bank's capital position through organic profit generation, new issues of capital-increasing security, a reduction in the high risk intensity of the Bank assets, and a conversion of the inherited Deferred Tax Assets into less capital-expensive Deferred Tax Credits.

The third pillar was the equally demanding task to **Build** the Bank. This entailed intensified efforts to strengthen the administrative structure and human resource management, to develop an effective senior management team, to improve efficiency, and to strengthen and diversify revenue generation. This required a sharpening of the focus of the traditional business strategies of lending to the retail, SME and corporate sectors on better serving the needs of our clients amid increasing domestic competition, a boosting of fee-generation from card issuing and bankassurance activities in collaboration with our two insurance subsidiaries, and the development of new strategies such as lending to shipping and syndicated loans. More recently, the enhancement of the efficiency of bank operations entailed the launching of a far-reaching digitalization program.

The actual implementation of the strategy required of course many painful decisions and adjustments along the way that resulted in added pains and losses for the Bank and our shareholders in the interest of accelerating the repair job and building a better bank faster. As I mentioned, it became necessary to divert most operating profits and occasionally part of the outstanding equity capital toward making appropriate provisions and providing necessary cushions for de-risking the Bank balance sheet and facilitating novel NPE trades, as well as covering the unavoidable restructuring costs. We are grateful to our shareholders for their understanding, support, and patience.

But the Bank did not operate in a vacuum. The implementation of the strategy took place in the context of a generally supportive, albeit changing—and I dare say in some ways more demanding--domestic and external economic environment. On the external front, the output recovery in Europe and the global level and the easing of the sovereign debt crisis in Europe have certainly played a positive role. But the ECB low interest rate policy affected adversely the returns from our increasing liquid assets.

On the domestic front, the strong recovery in output growth since early 2015 has exceeded expectations and has been associated with a welcome boost in employment, wage income, and corporate earnings. However, the weak domestic legal framework for NPE restructuring for most of the recent period and the still ongoing private sector deleveraging process from initially very high debt levels have had a constraining impact on our repair strategy.

Nonetheless, I would like to underscore and recognize that our reform strategy has been aided by the cooperation of most of our clients and the pragmatic and prudent policies followed by the authorities. We remain highly appreciative of the authorities' consistent efforts to maintain macroeconomic and financial stability through a prudent fiscal policy and, more recently, stepped up efforts to improve further the legal framework.

Four and half years later, I am pleased and proud to report that, while we still have plenty of work to do, the results from the implementation of the strategy have been impressive and have

exceeded our initial expectations. We have made considerable strides in several areas, achieved and exceeded several objectives, and, overall, our Dream is close to being a reality. Thanks to our innovative and ambitious repair strategy, we have reached a strong capital position by end-2018 on a pro forma basis that exceeds by a large margin the minimum requirements. Our Build strategy has also allowed the Bank to become a leader among all other financial institutions in Cyprus in the digital transformation process, whose benefits are already being enjoyed by our customers with on line access to banking services through their computers, tablets and mobile devices. The living room couches of our customers have practically become our largest branch! Under the Bank's new IT arrangements, the Board itself has benefitted from the use of novel e-learning packages about the latest developments in banking and the regulatory framework.

The digital transformation process is still ongoing and gathering steam. I am pleased to announce that our Chief Information Officer, George Tziortzis, will make a short presentation to you before the voting results are announced, on what we have in store for our clients through further benefits from operational efficiency and a widening range of services by turning the Bank into a premier digital centre and a key cornerstone of Cyprus' National Digital Economy.

Finally, commenting briefly on the financial results for the first quarter of 2019, announced yesterday, I simply would like to note that a positive performance was recorded, with an underlying profit before restructuring costs of €23m and a total profit after tax of €95m. The Bank's capital ratios remained comfortably above requirements.

But, hold on, no cigars yet! There is no room for complacency. The work, while advanced, is unfinished in some areas, while new challenges are emerging.

The Way Forward

Dear Shareholders,

Looking forward, **We Still Have a Dream**. The Bank's Dream remains alive and fairly powerful. The initial reform strategy remains appropriate. The Focus part has been virtually completed, but the Repair and Build parts, while substantially advanced, are still ongoing. The strategy for the next few years has in fact been reinforced in terms of its pace and tools, while its quantitative objectives have been updated and in some ways accelerated. The Bank remains focused on further de-risking its balance sheet from a position of strength through an additional large contraction in its NPEs in the years ahead through organic and potentially other means. In parallel, it will step up the implementation of its digital transformation project and continue to refine its business strategy. Unavoidably, the Bank will explore more intensively ways to optimize its cost structure and maintain viability of its business model over the medium term, in collaboration with all its stakeholders.

Now I come to my personal Dream for Cyprus.

I remain optimistic about the outlook for the Cypriot economy. I believe in the great potential of the Cypriot economy, which has not yet been fully tapped or energized. There is significant scope for broadening the sectoral base of the recent rapid expansion in output beyond the traditional sectors of tourism, construction and professional services. As is already becoming evident, there seems to be clear potential in the health, education, shipping and alternative energy sectors. With continued good policies and additional enhancements in the institutional and legal framework to better support business activities and stimulate domestic and foreign direct investment, much can be achieved.

But everyone will have to play a role and make a contribution. Borrowers should respect their debt servicing schedules on a timely basis. Labour unions should collaborate with their counterparts to help realize the new potential for employment and wage benefits, consistent with new modern policies for compensation that reflect the changing business prospects and the impact of technological change. Banks and the financial sector more broadly should maintain their adherence to the more demanding compliance requirements to preserve the reputation of Cyprus in a domestic and external environment of increasing competition and consolidation pressures. Political parties and the Cypriot society at large should strive to achieve the necessary broad consensus to underpin the required further structural reforms through open and constructive dialogue and a clearer view of the potential benefits for the whole society over time, while in parallel guarding against populist tendencies.

As I have said in earlier AGM speeches, the outlook for the Bank of Cyprus is, because of its size, intrinsically linked to the outlook for the Cypriot economy. The Bank remains fully committed to working very closely with all its stakeholders to promote our shared objectives. We are all in the same boat in a still turbulent river. To succeed in reaching our common desired destination, we must ensure that we are all rowing in the same direction.

Overall, we remain confident that, with our shareholders' continued support and encouragement, the Bank will continue to make further strides in the period ahead. While maintaining our leading market position in a strengthening Cypriot economy, the Board of Directors and the management of our Bank remain fully committed to a stronger, safer, Cyprus-focused institution, capable of supporting the Cypriot economy.

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 9 Special Business resolutions.

The Ordinary Business resolutions relate to the following:

- The Financial Statements of BOC Holdings for the year ended 2018 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 or election of Board Members by separate resolutions.

It should be noted that, as already announced, PwC will replace Ernst & Young as our auditor with effect from 2019. I would like to express our thanks and appreciation to Ernst & Young for their high quality independent auditing services to the Bank over the past several years.

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 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 10 current Directors, excluding myself, have agreed to submit their names for re-election. Takis Arapoglou, who was appointed as Board member on February 26, subject to ECB approval, also stands for 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. In the case of Mr. Maksim Goldman I would like to clarify that over the past year some shareholders have expressed concern about his links to companies covered by or owned by persons affected by the US Sanctions of April 2018. Mr. Goldman has severed his relations with these companies and, as confirmed by external legal opinion, he is fully in compliance with the provisions of the US Sanctions. We have passed these reassurances to all concerned shareholders.

Resolutions 5-13 are identical to the comparable resolutions adopted at the last AGM. 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 additional clarifications on the need, scope and meaning of each resolution.

As a general comment, however, I would like to reiterate that Resolutions 5-13 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 express some personal thoughts on my last day, final hours I should say, in office.

This has been a very interesting and exciting journey for me. Cyprus and its banking system are fairly small in comparison with other European countries, but the challenges they both have faced since 2013 and the complexity of tasks that needed to be undertaken and in equal measure the progress achieved in such a short time are impressive. I am very pleased with the opportunity and privilege of participating in these processes. I have enjoyed fighting with you in this noble struggle.

As I have pointed out, much has been achieved by the Bank in recent years through the combined efforts of Board members, the senior executive team and the whole Bank staff, with the full support and understanding of our shareholders and other stakeholders. In this context, I would like to offer my sincere thanks to all of you for your close collaboration and support. There are so many people that have helped me carry out my duties that it is not possible to mention each one of them separately. I would like nonetheless to make special reference to my colleagues at the Board for their dedication, confidence and strong support, and particularly to our CEO, John Hourican, for his very close and fruitful collaboration.

Finally, I would like to thank my wife Pirkko, and in equal measure all the spouses and partners of my Board colleagues, for their support and understanding for our frequent travel and absence from our homes.

I have also enjoyed, together occasionally with my family, all the other great things that Cyprus has to offer, such as the traditional warm hospitality of its people, its deep culture, its rich history spanning over nine thousand years, its beautiful landscape and excellent beaches accessible almost 10 months a year for me, and, last but not least, its excellent food. This combination of offerings is also unique relative to other countries. Thank you Cyprus!

I leave very satisfied with what has been achieved, but also fully confident that the right team and strategy are in place to continue the needed work. I would like to wish them every success in these efforts in the interest of our clients, our staff, our shareholders and the country as a whole.

I thus take my leave from the Bank of Cyprus, but not from Cyprus.

Thank you very much and farewell!