

## ANNUAL GENERAL MEETING OF SHAREHOLDERS

20 May 2022

Bank of Cyprus Holdings PLC Headquarters

Remarks by Panicos Nicolaou,

Group Chief Executive Officer

### **Opening remarks**

Dear Shareholders,

Thank you for taking the time this morning to attend our AGM and for allowing us the opportunity to present an update on the progress of the Group since our last meeting.

Before addressing the Bank's progress, I would like to provide an update on the Cyprus economy.

### **Operating environment**

Strong recovery in economic activity in Cyprus marked 2021, especially in the second half, against the backdrop of increasing vaccination coverage against COVID-19 across the island and relaxation of restrictions.

The economy in Cyprus grew by 5.5% in 2021, above the EU average of 5.3%, fully recovering the lost output (of 5.1%) from the previous year, demonstrating an open, small and dynamic economy.

At the same time however, inflationary pressures and supply change disruptions resulting from the pandemic-related era, have recently been exacerbated following the outbreak of the war in Ukraine.

Our direct exposure to the region is limited following the sale of our banking operations in Russia and Ukraine in 2014-2015, with a legacy net exposure of less than €5 mn as at 31 March 2022 in Russia being run down. Our direct exposure to loans related to the region is limited and amounts to loans with a net book value of c.€100 mn as at 31 March 2022, representing less than 1% of net loans at the quarter end. Of these, c.90% are performing, whilst the remaining had been classified as NPEs well before the crisis. The portfolio is granular and secured mainly by real estate properties in Cyprus.

Customer deposits related to the region account for only 6% of total customer deposits as at the quarter end. This is not material given the Group's significant surplus liquidity of over €6 bn.

We have no exposure to Russian bonds or banks which are the subject of sanctions.

Finally, only c.3% of the Group's net fee and commission income in 2021 came from Russian, Ukrainian or Belarusian UBOs.

Overall, we expect limited impact from our direct exposure, while any indirect impact will depend on the duration and severity of the crisis and its impact on the Cypriot economy, particularly on the sectors of tourism and professional services, which remains uncertain at this stage.

## **Financial Year 2021**

We have already presented the Full Year 2021 results to the market, but I would like to make a few key observations on the 2021 Financial Statements tabled before you today.

During 2021 we continued to support our clients and the broader economy, we early achieved our target for a single digit NPE ratio, whilst further strengthening our capital ratios.

Specifically, during the year we extended €1.8 bn of new loans, supporting the strong recovery of the Cypriot economy. This represented an increase of a third on the prior year, steadily recovering towards pre-pandemic levels.

During the year, we generated total income of €581 mn and operating profits of €198 mn, whilst our cost of risk halved to 57 bps. Overall, during 2021, we generated a net profit of €30 mn, despite incurring restructuring costs of €61 mn.

Reflecting our clear focus on careful cost management we kept our total operating expenses below €350 mn, broadly flat on the prior year, allowing our cost to income ratio to remain steady at 60% on the same basis, despite revenue pressures.

Our deposits increased by c.€1 bn in the year to €17.5 bn and we continue to operate with significant surplus liquidity of €6.4 bn.

We reduced our NPE ratio to 7.5% on a pro forma basis at the end of 2021, reaching single digit much earlier than previously expected. This was the combined result of the completion of the sale of €1.3 bn NPEs in Project Helix 2, the agreement for the sale of a further €0.6 bn NPEs in Project Helix 3, as well as organic reductions of c.€400 mn NPEs in 2021.

During the year we further strengthened our capital ratios. As at 31 December 2021, our CET 1 ratio (on a transitional basis), pro forma for the NPE sales, stood at 15.8% and the Total Capital ratio at 20.8%, following the successful refinancing of our Tier 2 Capital Notes in April 2021 and the inaugural MREL-compliant issuance in June 2021 of €300 mn of senior preferred notes.

## The first three months of 2022

Yesterday we announced our first quarter 2022 financial results. A copy of these is available on the Group's website.

Progress since the beginning of the year has been in line with our plans. Since the news is fresh, I will highlight some points.

- We achieved a record new lending of €618 mn, up 31% on the prior quarter, driven by increased lending activity across corporate, shipping and international, SME and non-housing retail.
- We generated total income of €146 mn and a positive operating result of €50 mn. Cost of risk is normalising at 44 bps. We delivered a profit before non-recurring items of €27 mn and the overall result for the quarter was a profit after tax of €21 mn.
- At the same time, we kept our total operating expenses (excluding levies and contributions) broadly flat on the prior quarter at €86 mn, reflecting our on-going efforts to contain costs.
- The Bank's capital position remains robust and comfortably in excess of our regulatory requirements with Total Capital ratio at 20.3% and CET1 ratio at 15.2%, both pro forma for NPE sales and on a transitional basis. Our liquidity position also remains strong and we now operate with €6.4 bn surplus liquidity and an LCR at 296%. Deposits on our balance sheet increased by 1% in the quarter to €17.7 bn.
- Balance sheet repair has continued in the first quarter of the year with further organic reduction of NPEs by almost €100 mn, reducing our NPE ratio to 6.5%, pro forma for NPE sales. Overall, since the peak in 2014, we have now reduced the stock of NPEs by €14.3 bn or 95% to less than €0.7 bn and the NPE ratio by 56.5 percentage points, from 63% to 6.5%, pro forma for NPE sales. We are

on track to achieve our updated strategic target of NPE ratio of c.5% by the end of the year and of less than 3% by the end of 2025.

## **Priorities for the journey ahead**

### ***Focus on operational excellence***

Our transformation plan is already in progress and aims to enable the shift to a modern banking organisation. The holistic transformation aims to (i) shift to a more customer-centric operating model by defining customer segment strategies, (ii) redefine our distribution model across existing and new channels, (iii) digitally transform the way we serve our customers and operate internally, and (iv) improve employee engagement through a robust set of organisational health initiatives.

The transformation plan will enable delivery on the Group's strategic pillars, with key shifts focusing on a leaner and more efficient operating model, profitability and optimisation of the client service and distribution models with an emphasis on the customer. Examples of actions under the plan include investing in digital sales, marketing and analytics capabilities to benefit from the Bank's dominant market position, improvement of our in-branch operating model and footprint, streamlining and simplification of our lending process and internally scaling up agile to improve efficiency and productivity.

In addition, as we aim to be a leader in shaping the digital transformation of our local economy we are extending this scope even more through the creation of a Digital Economy Platform with horizontal end to end digital services, that optimize the economy processes and create new revenue sources over the medium term. The Platform aims to bring economy stakeholders together, link businesses with each other and with consumers and to drive opportunities in lifestyle banking and beyond. We are now at the stage where the first set of services for digitizing business to business activities have been launched (e.g. electronic invoicing, remittance management and payments) and through the input of major economy stakeholders, are being optimized. Our delivery roadmap is ambitious and we are confident that the impact on the economy and the Bank will be positive.

## **ESG**

We are determined to lead the transition of Cyprus to a sustainable future by enhancing organisational resilience and deliver on our ESG (Environmental, Social and Governance) agenda, by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities.

In 2021, we formulated our first ESG strategy, according to which, in addition to maintaining our leading role in the social and governance pillars, we will shift focus on the environment pillar by transforming not only our own operations, but also of our clients. We have committed to specific ESG targets which reflect the pivotal role of ESG in the Bank's strategy.

Specifically, we will intensify our support to our clients and communities in becoming increasingly sustainable and will respond to the heightened importance, you, our investors and shareholders, attach to ESG matters. The Bank has the commitment, the scale and the reach to deliver the desired change across Cyprus in the coming years. Environmentally friendly products have been launched, and we will continue to enrich our products and services in line with our ESG Strategy and the Recovery and Resilience Plan for Cyprus.

### ***Strategic priorities for the medium term – An update***

Having delivered significant progress against our strategy announced in November 2020, including having reached the important milestone of single digit NPEs earlier than anticipated, has allowed us to update our medium term strategic targets in February this year, with an increased focus on creating shareholder value, including increasing our medium term return on tangible equity target from 7% to over 10%, providing the foundations for a return of dividend distributions, subject to performance and relevant approvals.

The key pillars of our updated strategy are:

Firstly, to grow revenues in a more capital efficient way; we aim to grow our high quality new lending, drive growth in niche areas for further market penetration and diversify through non-banking services, such as insurance and digital products.

Secondly, to improve operating efficiency, by achieving a leaner operating model through digitisation and automation, as well as effectively eliminating restructuring costs over the medium term.

Thirdly, to complete legacy de-risking, normalise cost of risk and reduce other impairments. We have a clear path to reduce the NPE ratio to c.5% by the end of 2022 and to less than 3% by the end of 2025.

The combined effect of these pillars as building blocks of our strategy has allowed us to increase our medium term return on tangible equity (ROTE) target from 7% to over 10%, setting the foundations for a return to dividend distributions, subject to performance and relevant approvals.

Maintaining a strong capital base has been a key foundation of the past few years and it remains a non-negotiable for the bank going forward. Our business plan is based on us maintaining a CET1 ratio in the range of 13.5%-14.5% over the entire period of our plan.

**We have a dynamic strategy in place, leveraging on our strong customer base and customer trust, our market leadership position, and further developing digital knowledge and infrastructure, with a clear focus on creating shareholder value and providing the foundations for a return to dividend distributions, subject to performance and relevant approvals.**

**Since we shared our updated medium term guidance in February the external environment has changed. As a result we now expect to deliver a higher ROTe each year starting in 2023, and to achieve an ROTe in excess of 10% a year ahead of plan.**

### **Closing remarks**

Ladies and Gentlemen, our vision for the future of the Bank is clear, and we remain committed to being part of the country's economic growth. We remain confident that

our strategy will generate sustainable profitability and create shareholder value in the medium term.

Finally, I would like to express my sincere thanks to our employees and senior management team for working hard to deliver on our strategy. I would also like to thank our customers for the trust they continue to place in the Bank of Cyprus, the Chairman and the Board of Directors for their continuous support and last, but not least, our shareholders. It is a great privilege to work here and lead this great Bank.

***Thank you***