ANNUAL GENERAL MEETING 2020

Report of Questions submitted by Shareholders and Replies given during the AGM

BOV

Bank of Valletta

Annual General Meeting of Bank of Valletta p.l.c held remotely on 26 November 2020 at 10:00 hours

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QUESTION:
The Bank received a number of questions relating to the fact that the Bank has not distributed any cash dividends since May 2018 (dividend for FY 2017).

REPLY:
In recent times, the banking sector in general has faced significant external challenges including those emanating from a low interest rate scenario and regulatory compliance. There are many other banks which in the current circumstances have not distributed any dividends. When the Bank published its financial results for FY2019, way back in March, the Bank had recommended the distribution of dividends for shareholders' approval during this year's AGM. However, in October the Bank had to withdraw this recommendation and postpone this decision following a reassessment to be carried out in March 2021. This decision was based on the recommendation of the European Central Bank that in the light of the economic concerns attributed to COVID-19 no dividends can be paid until at least March 2021. It is the intention of the Board to return to a normal and hopefully regular flow of dividend returns to shareholders without further delays.

QUESTION:
Can the Bank issue bonus shares to shareholders instead of cash dividends?

REPLY
The Bank has in the past granted bonus shares to its shareholders. Discussions and decisions regarding capital management are taken by the Board in the context of its normal work cycle, with due consideration to regulatory issues and in the best interests of shareholder value.

QUESTION:
The Bank received a number of queries regarding the decline in the BOV share price.

REPLY:
The share price of the Bank is established by the forces of demand and supply on the Malta Stock Exchange. It is noted that the value of market capitalisation for Bank of Valletta is under one half the net asset value on the balance sheet. This reflects the overall situation in capital markets in Malta and elsewhere, the specific characteristics of the stock market in Malta, other considerations such as risks which the Bank was facing, and the Bank's ability to pay dividends.

QUESTION:
Unless this information is deemed to be confidential, can you inform me who were the four candidates, who had put forward their nominations to become BOV directors and were not chosen for this role, as well as the reason for such a decision.

REPLY:
Due to confidentiality reasons, the Bank is not in a position to disclose information relating to the candidates who were nominated for the position of director on the Bank of Valletta Board of Directors. Nor can the Bank divulge the reasons why these candidates were deemed not to have satisfied all the established criteria for this role by the Nominations and Governance Committee.

QUESTION:
The burden borne by shareholders should be also shared by the directors in that their remuneration should not be increased. Due to the reduction of profits for 2020, and the relative undervaluation of the share price (under 1 euro) that has been consistent since July, only rising again in recent weeks, as well as the cancellation of the dividend, shouldn't the remuneration, for Directors, and auditors also be revisited and if required revised?

REPLY:
Resolution 3 is seeking the approval of shareholders to a Remuneration Policy for Directors. This is required by the Listing Rules, and the Remuneration Policy for Directors merely formalizes the existing remuneration of directors. Therefore, we wish to clarify that the Bank is not proposing any increases to the directors' remuneration. The compensation received by Directors at Bank of Valletta is very moderate when compared to market standards for organisations of a similar size and complexity. It

is important for the Bank to be able to offer a sufficiently attractive package to be able to attract and retain the right talent on its Board of Directors. The remuneration of the Bank's external auditors should reflect adequate payments which are regulated by a contract of engagement.

QUESTION:
The Bank received a number of queries seeking clarifications in relation to Resolution 4 relating to Authorisation by the Bank to adopt a Variable Remuneration Share Plan.

REPLY:
Resolution 4 is seeking the authorisation of shareholders to adopt and operate a variable remuneration share plan (the "Plan") and to make awards of shares in the Bank as part of the variable executive remuneration. The proposed scheme allows the Bank an additional performance management tool with respect to specific roles. It is a variable reward system involving both bonus and malus elements (in other words, earlier bonuses could be withdrawn if performance is not sustained). It also provides for deferred rewards, thereby incentivising executives to maximise the long term value of the firm.

The resolution is not introducing any additional rewards over and above those which exist in employment and service contracts. It is merely authorising the Bank to pay part of the variable reward element in the form of shares rather than cash. This is in line with recommendations by the regulatory authorities aimed to better align the interests of the executives subject to the scheme with those of the shareholders.

The mechanism regulating the deferral of bonus payment will be approved by the Remuneration Committee, a Board Committee composed entirely of independent Non-Executive Directors. All variable remunerations will be determined by reference to strict criteria determined by the Remuneration Committee. Measures and targets will be set for employees and will be based on a number of Key Performance Indicators (KPIs). The KPIs will be aligned with the Bank's business strategy and long-term interests and sustainability and will aim to ensure that the Bank is not unduly exposed to risk.

The performance management system has been designed in accordance with international principles of best practice and will be subject to the oversight and monitoring of the Remuneration Committee. Such performance management schemes are usual in the financial services industry.

While it is understandable that some may misinterpret the Plan to involve a bonus to executives at a time when no dividends are being paid, this is actually aligning the executives' interests with the interests of shareholders, at a time when the Bank needs to substantially improve performance while attracting and retaining the right talent.

As part of Resolution 4, the Bank is also seeking to issue up to a maximum limit of 2.5% of the Bank's current issued share capital, over a period of 10 years. Therefore, this is the maximum amount of dilution of the rights of the other shareholders which can occur over this long period of time, during which it is meanwhile expected that the value of the capital would have improved for the same reasons why the bonuses would have been awarded. The awarding of shares under this share plan may be satisfied using either the issuance of new shares or through shares purchased in the secondary market, in which cases there will be no dilution of the rights of the other shareholders.

QUESTION:
Has risk mitigation been undertaken to limit the substantial liabilities which the bank has been exposed to in recent years due to certain financial guarantees?

REPLY:
As already mentioned by the CEO in his speech, a considerable amount of focus and effort has been put by the Bank into closing out contingent liabilities arising from past legal issues, which have been dragging on for many years. The Bank is making real progress on this matter. The historic La Valette Multi Manager Property Fund issue has been settled in the Bank's favour and was closed in 2019. Very recently we also successfully closed the case of the Swedish Pension Agency (SPA), being the sole investor in the Falcon Fund SICAV. The settlement amount was €26.5 million, which is significantly lower than the alleged loss of more than €88 million which was being claimed by SPA. This means that some of the money previously provided for will be released back to the profit and loss account and the Bank's total provisions for all contingent liabilities will also be reduced significantly.

The Bank is also very active in seeking to resolve the Deiulemar case because it is currently creating regulatory concerns that can further impact dividend prospects. However, the outcome is very dependent on legal proceedings.

The Bank cannot disclose details of any disciplinary actions it may have taken against any of its employees with respect to any of the afore-mentioned litigation claims.

QUESTION:
Given that the BOV share price is currently trading at almost half the Net Asset Value of the company, why is the Company not considering conducting a share buyback instead of a dividend distribution?

REPLY:
Currently, there are two key factors driving the Bank's comparatively high capitalization:
1. The outstanding litigation cases
2. The COVID-19 situation: banking regulators are very concerned about the impact of a pro-longed impact and are directly instructing banks to preserve all capital until such time as the final potential credit losses, resulting from severe impact upon bank customers, are known. This means not only are dividend payments prohibited but also share buy back schemes are similarly restricted as they are capital dilutive.

Like all other banks therefore, BOV is currently tied into the current high levels of capital. As soon as both of the above issues are clarified in terms of capital impact, the bank will be undertaking an in-depth review of options available to make the most effective use of capital available in order to enhance overall returns to shareholders.

The Bank's strategy will prioritise sustainable returns which can support dividend payments in a post-COVID environment.

QUESTION:
Did the Bank engage McKinsey consultants as advisers? If in the affirmative, what advice are McKinsey providing to the Bank, and whether they have been engaged directly or through an open call?

REPLY:
Over the last year McKinsey's have been helping the Bank with various aspects of work as part of our de-risking and regulatory remediation processes. This included, inter alia, work on our Governance, Risk Appetite, Strategic planning processes and credit frameworks. Through this work they became deeply knowledgeable on the Group's position and operations.

As a regulatory requirement the Bank was also required to produce a new strategy for the next 3-5 years, and given McKinsey's specific capabilities in this regard and their inside knowledge of our business, they were assessed as being the best placed consultancy to help us deliver and implement this. The approval process for this involved the full engagement of the Board in all decisions taken regarding the strategy and its subsequent implementation.

McKinsey's are helping the Bank to deliver in key areas of the strategy where the Bank needs to supplement internal capabilities, for example in the areas of digital technologies and data mining and analysis. They are also supporting the whole programme delivery. We have put in place a rigorous internal oversight framework for the work they do and have also linked payment of their fees directly to specific deliverables which benefit the bank.

The Board considered possible alternative suppliers but each would involve distinct drawbacks in terms of time and significantly increased cost. The Board mandated controls around the McKinsey contract as follows:

1. McKinsey only receive a portion of the total spend to be covered by the full strategy;
2. Their contract requires stage approvals; I.e. we are not fully committed if they do not deliver and we can cancel all future elements at any time;
3. All other elements of the strategy cost (the large majority) will be put to area specific specialists by way of new tenders.

Maħruġ minn Bank of Valletta p.l.c., 58, Triq San Żakkarija, Il-Belt Valletta VLT 1130
Il-Bank of Valletta p.l.c. hija kumpanija pubblika b'responsabbiltà limitata regolata mill-Awtorità Maltija għas-Servizzi Finanzjarji u liċenzjata biex toffri l-kummerċ bankarju u s-servizzi ta' investiment f'termini tal-Att dwar il-Kummerċ Bankarju (Kap. 371 tal-Liġijiet ta' Malta) u tal-Att dwar Servizzi ta' Investiment (Kap. 370 tal-Liġijiet ta' Malta).

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