

ANNUAL GENERAL MEETING 2021

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

Bank of Valletta p.l.c. Annual General Meeting held remotely on the 20th May 2021 at 10:00am

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QUESTION:

The Bank has received a number of questions related to the fact that the Bank has not distributed cash dividends since May 2018 (dividend for the Financial Year 2017).

REPLY:

The Board of Directors and I fully understand and share with you shareholders the disappointment elicited by the Bank's decision not to distribute dividend payments. As I explained earlier in my speech, the Bank aims to resume dividend payments once the uncertainties we are facing due to the pandemic and the Deulemar case are resolved, and sustainable profitability is ensured through implementation of the transformation. The decision that, for Financial Year 2020, the Bank does not pay dividends is also consistent with the recommendation of the European Central Bank, that due to the economic turmoil brought about by COVID-19, banks do not pay dividends for Financial Year 2020.

I assure you that the Board, together with the Executive Team, has closely scrutinised the issue of dividend distribution, as well as other means that could be considered for the benefit of shareholders, also taking the market share price into account. All this took place within the context of the Bank's capital planning and management. In consultation with our regulators, we have arrived to the conclusion that the decision taken is the best way to ensure the Bank's current financial health, and the return of a sustained long-term dividend distribution as soon as possible.

May I remind you that as a result of this decision, the provisionings made by the Bank during the year were very strong, and these will prove to be highly beneficial for the Bank and its shareholders in the coming years.

QUESTION:

The Bank received a number of questions regarding the reduction in BOV's 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:

Why have the Directors, in a gesture of solidarity with shareholders, not renounced their remuneration for the year 2020?

REPLY:

The members of the Board of Directors are subject to substantial personal responsibility, given the size of the Bank, the complexity of the organisation and the regulatory environment in which the Bank operates. I would like to highlight that the directors' time commitment on BOV-related duties averages approximately ten (10) hours a week, and, in my case, that goes up to thirty (30) hours. It is in the best interest of the shareholders that the Board embraces people of competence, experience and integrity with skills that are not easy to find in today's labour market. The persons serving as Directors must be approved by the regulators, both in Malta and abroad, and remain under their scrutiny.

I assure you that it has not been easy for us to present ourselves before you today with a board where all its seats are filled with competent people for the post of director. We also have to consider the fact that the remuneration that this Board is offering is certainly not among the most attractive, neither in our country and much less on an international standard. Despite this fact, and the difficulties it brings with it, we are not thinking of increasing the Board's remuneration until a more opportune time comes.

In this context, a Board that works without pay is certainly not in the best interests of shareholders.

QUESTION:

Why is the payment of an employee bonus not linked to the payment of dividends to shareholders and the share price value?

REPLY:

In the business world, shareholders and employees play complementary but different roles. Employee remuneration must reflect their efforts, especially in difficult times. Payments to shareholders reflect capital inflows that are affected by business risks, including those over which we do not have control, in both positive and adverse times such as those currently underway. The Board and the Executive Team are grateful to the employees of the Bank who, for the most part, showed commitment and

dedication to the organisation and who went beyond what was expected of them in these times of great difficulty. These same employees are also the human capital on which we will build the future of the Bank. It is of utmost importance that the Bank remains one of the employers of choice in Malta.

Therefore, the payment of an employee bonus should be linked to the employee's performance and whether or not the employee meets the targets set at the beginning of the year, and not to the payment of dividends to shareholders or to the Bank's share price or value.

In view of all this, it is certainly in the best interest of shareholders to recognise employees through an appropriate bonus for their efforts, which could have been even better if the level of earnings had so allowed.

QUESTION:

Why has the Bank chosen to hire foreign officials for top management positions and give them a high salary package? Have attempts been made to identify Maltese people who have the necessary qualifications to fill these roles?

REPLY:

The Bank does not base the choice of individuals for certain senior management roles on their nationality. The Bank considers various factors that lead it to seek, and, in a highly competitive labour market, where the skills needed are scarce, selects people for roles of great commitment and responsibility, including those who also need regulatory approval. Strong leadership and personality traits, qualifications, experience and competencies are essential in these roles. Due to the complex nature of the financial industry, and the transformation that the Bank is undergoing, the fact that a person has relevant experience at an international level, makes that candidate's credentials more appealing for the relative role.

QUESTION:

We have received a question related to Resolution number 2 regarding auditors, that if by the vote of the shareholders, the Bank is being given the right to pay the auditors as much as it wants.

REPLY:

The remuneration of the Bank's external auditors reflects an appropriate fee arising from a service contract between the Bank and the auditors.

QUESTION:

We have received several questions related to the Bank's litigation in relation to the Deiulemar case.

- ***What is the Bank's current position regarding the Deiulemar case being heard before the Court in Italy?***
- ***Does the Bank have an indication when this case will come to an end?***
- ***Why is the Bank willing to pay Eur50 million to close the case if the Bank is convinced that the guardianship claim is without merit?***
- ***Has the Bank taken disciplinary action against any of the Bank's officials involved in this case? Is the European Central Bank informed of developments in this case?***

REPLY:

The Deiulemar case has not yet been resolved. This case is of great importance to the Bank. Based on legal advice obtained by the Bank from various legal experts, including recently from legal experts in Italy, the Bank has consistently maintained and still maintains the plaintiff's claims as unfounded in fact and at law.

The Bank is making various efforts to safeguard its right to a fair and independent hearing before the Tribunal in Torre Annunziata. In addition, the Bank is continuing to explore various possibilities for resolving this case, including by making a payment offer to the other party, which offer has not been accepted.

The case before the Torre Annunziata Tribunal is still ongoing, and the Bank has no indication as to when the Tribunal will deliver its decision on this case. The Bank will continue to work hard until this case is closed without undue delay, aware of the fact that this delay is hindering the Bank from opportunities for further growth and investment, and to allow it to resume dividend payments to its shareholders.

The Bank constantly updates the European Central Bank and its banking regulators with any developments in the Deiulemar case.

The Bank cannot divulge any details on any disciplinary action it may have taken against any of its employees in connection with this case.

QUESTION:

The Bank has been asked about the level of due diligence that was performed in relation to certain major credit facilities it has provided in the past.

REPLY:

The Bank is bound by strict principles of confidentiality vis-à-vis its customers and may not disclose to the public details of its relations with customers. Nevertheless, the Bank wishes to assure its shareholders that it complies, in the most rigorous manner, with the obligations arising from various laws and regulations. In addition, significant improvements have been made in recent months in governance structures within the Bank, and in the Bank's battle against financial crime in line with the ever-evolving regulatory framework.

QUESTION:

How much is the cost of the BOV 2023 strategy formulation and implementation? At what stage is the Bank in this process and what are the prospects in this regard?

REPLY:

In the best interest of its shareholders, the Bank continuously invests and updates its systems, with a view to meet its regulatory requirements and adapt to constantly evolving customer needs. In this context, the Bank is envisaging an annual investment of circa €30 million per annum, over the next few years. The Bank's strategy is to invest in digital systems in an integrated manner and seeks to take the opportunity to take a more integrated and a forward-looking approach, to enhance efficiency and best-experience for our clients. In view that some of these systems are still new to the Bank, we had to engage specialists to assist us in the implementation of particular aspects of our Strategy. At the same time, we are continuously investing in our people through more training and development. The investment in this strategy is expected to be recovered over the next three to five years, despite the difficult external environment we are currently operating in.

It is also worth noting that a substantial amount of the expenditure incurred by the Bank with respect to the Strategy implementation will only be settled if the results and objectives of this investment is achieved.

QUESTION:

What are the governance systems surrounding the engagement of consultants? How can conflicts of interest be avoided?

REPLY:

As described in our explanation on strategy, the Bank needs to make significant changes over the next two-three years. Wherever possible, the Bank always seeks to utilise its internal resources and develops in-house capabilities to reach its strategic mission. However, in view of the large scale of this change, and the new areas into which BOV needs to move ahead quickly, we have to engage additional skills to supplement our own resources and ensure the successful implementation of the Bank's strategy.

When we need to undertake decisions in relation to resourcing, the Bank considers the following factors:

1. can we resource this internally with resources we already have?
2. can we quickly train existent internal resources to achieve our scope?
3. if the reply to these two queries is no, then we seek recruitment of individuals from within the local market
4. if we cannot find available skills from within the local market, we look overseas for suitably skilled resources

Given the need to move quickly and at a particular scale, we had to supplement our internal and planned resources with external consultants. The Bank follows a rigorous process for the selection and appointment of all consultants, irrespective of these being either individuals or specialised large international firms. This process requires complete and absolute independence and in the case of larger contracts, Board approval is also sought. To ensure there have been no conflicts of interest in the selection of any consultants, the Board's Audit Committee have undertaken reviews of all contractual arrangements and has always been satisfied that there have been no conflicts of interest in any such selection. It is also worth noting that consultants are all assigned very specific delivery targets, in most cases these are engaged on a contract basis, which the Bank can terminate upon a relatively short notice period, and are tightly managed to ensure we receive the expected results from their specific skills and experience. The Bank has made significant strides forward through the use of such specific skills and has made progress which without such engagements, would have otherwise been impossible.

It is also important to note that, the expenditure in systems and software represent a long term investment and a proportion of this annual investment being carried out by the Bank, will be capitalised, so that the impact on the Profit and Loss will be less than the total investment expenditure per year.

We also received queries in relation to engagement of persons and specific companies with the Bank, and the possibility of conflict of interest in this regard. These queries are not being addressed here for confidentiality reasons. However, it is important to add that the Bank has all the structures in place in line with legal requirements in relation to whistleblower

reports, and each report received by the Bank is investigated in a comprehensive manner by a specific committee which investigates these reports. The Bank has in place a Whistleblower Policy which amongst other things, regulates the process of how a whistleblower report should be made and how its investigation should be carried out.

QUESTION:

We have received a question about the salary and allowance of the Bank's new Chief Financial Officer, and whether it was approved by the MFSA? And if not, how did she present the Bank's Financial Results of the Bank? In addition, why has the Bank appointed a Chief Financial Officer, who is not qualified as an accountant?

REPLY:

Salary and benefits received by individual employees are deemed to be confidential information. As we announced in the company announcement issued by the Bank on March 3, 2021, the Bank requested regulatory approval for the appointment of its new Chief Financial Officer of the Bank. The process of assessment and approval by the Regulator is a lengthy process and the Bank is still awaiting the approval of the new Chief Financial Officer. The Bank will issue a company announcement to inform the market when it receives this approval. There are no rules that require that a company's Chief Financial Officer needs to be a qualified accountant, provided that such person is supported by a team of qualified accountants who compile the company's financial statements.

QUESTION:

We received a question related to Correspondent Banking services and to the challenges successes relating to this service, as well as to the key role played by Risk Management and Compliance.

REPLY:

As we recently announced on 6th May, the Bank has reached alternative arrangements to replace Raiffeisen Bank International as our correspondent bank and to ensure that correspondent banking services continue uninterrupted. We also continue to make progress with other potential partners in order to remove the reliance on any one counterparty.

Our risk and Compliance teams were fully engaged in all aspects of transitioning to new Correspondent Banking partners.

We have also received a question seeking details about commercial arrangements which the Bank has entered into for correspondent banking purposes. This information is of a sensitive commercial nature and therefore cannot be publicly divulged.

Issued by Bank of Valletta p.l.c., 58, Triq San Żakkarija, Il-Belt Valletta VLT 1130
Bank of Valletta p.l.c. is a public limited company regulated by the MFSA and is licensed to
carry out the business of banking and investment services in terms of the Banking Act (Cap.
371 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta).

BOV

Bank of Valletta