

# ANNUAL GENERAL MEETING 2022

Report of Questions submitted by Shareholders  
and Replies given during the Annual General Meeting

## **Annual General Meeting of Bank of Valletta p.l.c. held remotely on 2 June 2022 at 10:00 hours**

Report of questions submitted by Shareholders and replies given during the Annual General Meeting

The Bank received a number of questions relating to the Deiulemar litigation and the out-of-court settlement agreement that was reached recently by the Bank with the curatela. The following questions relate to this particular issue:

### **QUESTION 1**

**A shareholder enquired whether the Bank had set aside the amount of €363 million, which were claimed in the Deiulemar litigation, with an independent institution. Shareholder further enquired whether the BOV shareholders will have to fund the remaining €102.5 million.**

### **REPLY**

In 2018, the Bank had placed in excess of €363 million with Italian bank Intesa San Paolo, following an order from the Tribunal of Torre Annunziata as a precautionary warrant. Following the settlement payment from the out-of-court arrangement in May, these assets have been returned under the control of the Bank. BOV's income statement for 2022 will be impacted by the settlement amount of just over €182 million, net of the provisions already raised by the Bank on account of previous offers and assessment of likely legal costs. This means that on a net basis, our expenses for this year will be impacted by around €100 million. No further negative impacts are expected from this case for future years, when the Bank will actually be likely to benefit from lower costs of regulatory and other provisions, as a result of the closure of this event. The Bank's capital position is strong enough to absorb the impact of this settlement, and closure of this case will permit the Bank to plan its capital more efficiently.

### **QUESTION 2**

**A shareholder questioned the fact that for several years the Bank has continuously maintained that it had a strong legal position and now that a settlement of €182.5 million has been made, whether it was acceptable that management and the Board of Directors continue to refuse to assume any responsibility whatsoever for this debacle and hide behind an anonymous internal investigation that is said to show no wrongdoing from the Bank.**

**Another shareholder commented that those Bank officials who were responsible for the Deiulemar event should be investigated and held accountable for any illegal transactions.**

**Another shareholder enquired as to why shareholders have to bear the brunt of past mis-management relating to the Deiulemar case, and proposed that management should show sympathy by announcing a hand over of a substantial part of their yearly emolument.**

**Another shareholder enquired that now that an amicable settlement has been reached in the Deiulemar case, whether BOV was prepared to make known to shareholders the result of its internal investigation.**

### **REPLY**

The advice and opinions of eminent and independent legal advisers, from Malta and Italy, all point towards the fact that the Bank is not at fault, which advice forms the basis of the strength of the legal case pursued by the Bank. This was corroborated by an internal investigation conducted by reputable external legal and financial consultants in 2015. This naturally implies that no fault can be attributed to one or more individuals working at the Bank, or to the Bank's management.

This settlement reflected a rational management of the litigation risks of this case by the Bank. In managing such risk, the legal merits of one's case are not the only factor that needs to be considered. There are many other factors, some of them external to the judicial process itself but still need to be taken into account as they can have a material impact on the outcome of any litigation.

Indeed, as our experience has shown in this case, these external factors were a significant element that the Bank had to consider – not least the environment in which the judicial process was being conducted. Torre Annunziata is a province just 25 kms south of Naples with a population of about 40,000, of whom 13,000 lost significant amounts of their life savings due to the Deiulemar failure. The public outcry and political pressures not only within the region, but at times also at a national level in Italy, are factors which impinge on the litigation risk that the Bank was facing in defending this case in Torre Annunziata. Whilst this does not change the robust legal basis for the Bank's defence, the Bank had to consider the impact that such a conditioned environment had on the judgement of first instance and could potentially have on the appeal.

Against all advice received by the Bank on the legal merits of the case, the first court in Torre Annunziata, in February 2022 decided against the Bank and in favour of the Deiulementar bankruptcy and ordered the Bank to pay a sum equivalent to around €370 million; the Bank proceeded to appeal this judgement on the strong merits of its legal case. Pending the hearing of the appeal the Board considered all available options amongst which the very real risk that the Naples-based court that would hear the appeal proceedings, may well similarly be influenced by the conditioned environment in the region, and take a position against the Bank and in support of the Deiulementar bankruptcy.

The Bank's sustained strong legal position on the merits and facts of the case was thus no guarantee of a positive outcome, as the first court judgement proved, and accordingly there was no guarantee that the appeals court ruling would be in the Bank's favour. In the event of an unfavourable judgement on appeal, the Bank's position would have been significantly worse than the out-of-court settlement, and possibly even worse than that emanating from the initial court ruling.

The Bank's Board therefore actively assessed the options, amongst which the possibility of a settlement and concluded unanimously that in the circumstances a settlement representing a lower amount than the worst-case risk scenario (and less than half of that already awarded through the initial court ruling) delivers an overall better outcome for the Bank in the short and long term.

The settlement, where no party is a winner or a loser, was made without an admission of liability on the Bank's part because the Bank believes that there was no fault by the Bank or its management or the Board of Directors.

### QUESTION 3

**A shareholder enquired that as it was evident at the time that the Deiulementar curators were not prepared to accept the Bank's offer of €75 million (increased from €50 million) plus legal fees and costs (for which a specific provision of €81.5 million had been made) how can the Board justify a decision to reverse €8.58 million in litigation provision in 2020?**

### REPLY

The reason for the €8.6m reversal was the closure of the claim in relation to the Swedish Pension Agency. Being a specific provision for the outcome of those cases, the provision was reversed upon the successful outcome in those cases.

In addition, there was no prospect in 2020 of a settlement for €182.5 million.

As already explained above that following the adverse decision against the Bank in the Court of Torre Annunziata in February 2022 and the risk that irrespective of the legal merits of the case the appeal in the court of Naples could also go against the Bank, the Board decided that it was in the Bank's interest to reach an out of court final settlement on the basis that it did.

### QUESTION 4

**Notwithstanding that no change in the litigation provision was made in 2021, it now emerges from the Interim Directors' Statement issued on 5 May 2022 (re the Q1 2022 performance) that, following an out-of-court settlement with the Deiulementar curators for €182.5 million, the litigation provision of €81.5mn made in that respect will have to be raised by +€100mn in the current financial year 2022. As the 2021 financials were closed on 22 March 2022 (a mere 6 weeks before the settlement announcement) one is led to question the decision to leave this provision unchanged. The Board's comments in this respect were requested.**

### REPLY

In March 2022 the Bank's position was to appeal the judgement of first instance and positioning itself to be able to potentially settle the matter if the right opportunity arises for the bank to mitigate its litigation risks presented itself. This was the position at the point in time of closing the 2021 financial statements. The Bank had also sought independent advice on its legal standing of appeal which confirmed that the Bank's legal basis for appeal was a strong one. Accordingly, there was no reason why the Bank would have increased its provision at that stage.

Indeed, in March 2022, there was no basis under the current IFRSs for the Bank to have increased the provision.

## QUESTION 5

In the Q&As issued by the Bank on the 17 May, the Bank stated that “One needs to understand that the Bank’s only involvement with Deiuemar was the passive holding of shares on trust.” If that was the case what was the real basis of the case brought against BOV by the bankruptcy curators on behalf of the company’s 13,000 bondholders?

## REPLY

The action brought against the Bank in its capacity of trustee of Giano, Gilda, and Capital Trust by the Curators is that which under Italian Law is known as “azione revocatoria risarcitoria.” In these proceedings the Curators requested the Court to:

- Declare that the settlement in trusts was not effective vis-a-vis the general body of creditors of Deiuemar; and
- Declare the Bank as liable to pay an amount of approximately €363 million allegedly corresponding to the value of the shares in Taggia settled in the trusts.

## QUESTION 6

It had been reported that BOV had set up three separate Malta Trusts for shareholders of Deiuemar. Were the MFSA and ECB satisfied with the level of due diligence that had been made on these persons (who were found by the Italian courts to be guilty of fraud)?

## REPLY

The Bank did not only report the matter to its regulators but kept the regulators aware of the proceedings during the course of the case. At no point in time have the regulators expressed a view or opinion on the bank’s due diligence.

It is fundamental to note that the Bank’s due diligence was undertaken when it took over the shares in trust, which is December 2009. At that time, there was no issue about the financial stability of either the Deiuemar Group or the three families – that information only came to the fore in 2012 -2013 when one of the Deiuemar companies was declared bankrupt.

The Bank did however commission an independent investigation into the matter in 2015, a few months after the case was instituted against it. That investigation concluded that there is no basis to sustain any suggestion that the Bank could or should have known that the families had any financial difficulties in 2009.

## QUESTION 7

Did BOV cover itself by including an exclusion clause in the trust documentation so as to release itself from any obligation to monitor the management of Deiuemar especially in the knowledge that the company had a massive liability to such a huge number of bondholders?

## REPLY

The case against the Bank was never based on the trust deed or the contractual clauses in the trust deed, but rather on the basis that the settlement was done. The issue of liability exclusion clauses never arose.

## QUESTION 8

Did the Bank also act as a nominee shareholder or director with respect to the Deiuemar trust?

## REPLY

The Bank appeared as the shareholder of record for the shares in the company Taggia, that was at the head of the whole Deiuemar group. At no point was the Bank or any of its representatives a director in any of the operating companies that incurred the debts.

## QUESTION 9

Is there any reason why BOV did not include in the Q&A document a link to the decision of the Italian court of first instance and also the appeal entered by the Bank so that interested shareholders will have a clearer picture?

### REPLY

Unlike in Malta, judgements and court papers in civil proceedings under Italian law are not publicly available documents.

## QUESTION 10

Did BOV seek their auditors' opinion on the settlement amount of €182.5mn and what views were given by them especially bearing in mind that the Bank's original offer for an amicable settlement, made only two years ago, was for €50mn?

### REPLY

The Bank did not seek the external auditors' opinion on the settlement amount of €182.5 million as none was required in the circumstances.

**The following questions on other different matters were also received:**

## QUESTION 11

Except for an interim dividend paid in January 2022, the Bank did not distribute any dividend to its shareholders because the Board anticipated the need not to strain its capital resources in the knowledge that 2022 results will be hit by a further €100 million of specific litigation provisions. Is it correct to anticipate that shareholders will again have to forego receiving a dividend until 2023 results are known in March 2024 (unless an interim dividend is paid in January 2024)?

### REPLY

Looking ahead, the Board will be working in a more serene manner towards an appropriate dividend recommendation, whilst sustaining capital growth to meet ongoing challenges and provide for business growth opportunities.

## QUESTION 12

There were a number of shareholders who enquired as to how, in the light of the Deulemar litigation case and at a time when shareholders have not received a dividend for a number of years, the Board of Directors was proposing for shareholders' approval a revised Remuneration Policy for Directors and seeking an increase in directors' remuneration.

### REPLY

Given the size of the Bank, the complexity of the organisation and the rigorous regulatory environment in which the Bank conducts its business, the members of the Board of Directors are subject to significant personal responsibility. Moreover, notwithstanding that the majority of directors have a non-executive role, they still dedicate a considerable amount of time on BOV-related duties. In the Chairman's case, time-commitment goes up to at least thirty hours per week.

The increase in directors' remuneration is minimal and in line with the total maximum of the aggregate directors' emolument which was approved by shareholders in 2017. Mindful of the fact that the Bank has not distributed dividend for a number of years, since 2017 the Board of Directors has not sought shareholders' approval to increase the aggregate emoluments of directors. It is also to be noted that a distribution of dividend took place in January this year.

The compensation received by Directors at Bank of Valletta is very moderate when compared to market standards for organisations of a similar size or 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 the Board.

### QUESTION 13

A shareholder commented that as a shareholder he would like to see the BOV share price go up and accordingly suggested that the Bank considers a buy back of own shares.

Another shareholder suggested compensating existing shareholders with a lump sum or bonus shares to make up for the loss of 3 to 4 years of unpaid dividends.

### REPLY

Following the announcement of the decision, regarding the out of court settlement of the Deiuemar litigation on 4 May 2022, the price of BOV Ordinary Shares listed on the Malta Stock Exchange rose from €0.785 to €0.99, a 26.1% increase, on a trading volume of over half a million shares. This indicates that investors had a positive assessment of the closure of the Deiuemar case, and the settlement resulted in a significant increase in the market capitalisation value of BOV shares.

As a result of the settlement of the Deiuemar litigation, the Bank has material surplus capital over the regulatory requirements. The Board, as part of the capital management process, will prudently consider different options including using this excess capital to grow business and distribute dividends to shareholders.

### QUESTION 14

A shareholder enquired whether now was the time for the Bank to put in place an efficient, friendly and responsive phone customer care service. Shareholder commented that despite the Bank's claim of being customer focused, response time to reach Customer Service Centre was still unacceptable.

### REPLY

As a result of COVID 19, the incoming calls to the Bank's Customer Service Centre have increased exponentially over this period with the Centre handling just over 1 million calls during FY 2021. This surge in incoming calls was motivated by day to day queries of the Bank's customers, the incidence of phishing scams as well as the implementation of 3D Secure, which was a regulatory requirement.

In order to better manage the significant increase in the number of incoming calls, the Bank took forward a number of initiatives strengthen the service of the contact centre as follows:

- **Technology Platform:** Upgraded the call management software to manage call queues more efficiently and amongst others direct the caller to skillset agents according to the selected choice;
- **Human Resources:** Strengthened the recruitment process in order to engage more candidates and keep the contact centre well-resourced in a sustained manner. The Bank currently has 45 dedicated resources to manage customer service calls;
- **Incoming Calls.** Focus on the root cause of incoming calls to reduce the need for customers to call the Customer Service Centre. In effect, incoming calls have gone down from 80,000 calls in January to 44,000 calls in May. More over the initiatives that have been taken forward so far have also enabled the Bank to lower the number of abandoned calls from 18% in January to an average of 8% in May 2022. Call abandonment continues to trend downwards to <5% in the last week of May.