

## **REMUNERATION POLICY FOR DIRECTORS**

### **Introduction**

The Remuneration Policy (the “**Policy**”) for members of the Board of Directors of Bank of Valletta p.l.c. (the “**Bank**”) has been prepared in accordance with the new requirements to the Listing Rules which were introduced in July 2019.

Shareholders of the Bank shall vote on the Policy at the 2020 annual general meeting, which vote shall be binding and take effect from 26 November 2020. If, when put to the approval of shareholders, this Policy is not approved, the Directors shall continue to pay remuneration in accordance with current practices, subject to revising the Policy and submitting for shareholders’ approval at a later date.

Efforts are made to ensure that the remuneration of the Board of Directors takes into consideration Board members’ required competencies, skills, effort and scope of the Board work, including the number of meetings. Due consideration is also given to market demands, the size of the Bank and its importance to the local economy as well as to the Directors’ responsibilities. A successful implementation of the Policy will ensure that the Bank can attract and retain high-quality people, enabling us to execute our business strategy and serve our long-term interests, including our sustainability goals.

For the purposes of the Policy, Director means any member of the Board of Directors including both Executive Directors and Non-Executive Directors of the Bank.

### **Non-Executive Director Remuneration**

Details of Directors remuneration are disclosed in the Bank’s annual report and shall be subject to such limit of aggregate emoluments to Directors that is approved by shareholders from time to time.

### **Fees**

The composition of fees may change from time to time. Currently, a base annual fee of €20,500 is paid to each Non-Executive Director and €80,000 to the Chairman of the Board. In addition to the base fee, Non-Executive Directors who are also appointed as members of one of the Board Committees receive additional compensation. The additional remuneration paid depends on whether a Director is Chair or a member of such Board Committee.

Fee levels are fixed and determined by the Remuneration Committee from time to time in order to provide an appropriate reward to attract individuals with appropriate knowledge and experience to review and support the implementation of the Company’s strategy.

### **Other benefits**

Non-Executive Directors may receive various benefits as approved by the Remuneration Committee. Currently, all Non-Executive Directors are entitled to health insurance and to a reimbursement of out-of-pocket expenses incurred by them in attending and returning from meetings of the Directors or other committees or general meetings of the Bank or in connection with the business of the Bank.

In addition, Non-Executive Directors may be entitled to such discounts on products and services of the Bank as the Remuneration Committee may from time to time determine.

Non-Executive Directors are not eligible to participate in the annual bonus plan or pension arrangements.

### **Executive Director Remuneration**

The Bank’s policy is that the remuneration of the Executive Directors ought to reflect primarily their executive positions within the Bank. Such remuneration shall include a fixed salary and bonuses, and may include pension benefits, termination benefits and other benefits as may be provided for in their employment contract with the Bank.

The Bank believes that a combination of fixed and variable remuneration seeks to attract and retain suitable executives who have the necessary competence, skills, qualities and expertise to enable them to discharge their duties according to the highest

standards. The fixed remuneration component considers the level of responsibility such position entails, whereas the variable component is subject to performance assessment (whether, of the Bank, the individual or otherwise) on such basis as the Remuneration Committee considers appropriate and which may include risk-adjusted performance indicators and be aligned to the achievement of strategic objectives and the delivery of value to shareholders.

The remuneration of each Executive Director is set and approved by the Board upon the recommendation of the Remuneration Committee and is aligned with the Group's Remuneration Policy for executives and employees. The Remuneration Committee takes into account wider pay arrangements throughout the Bank.

## **Fixed remuneration**

Fixed remuneration for Executive Directors consists of salary, pension benefits (where the Executive Director has an entitlement under their contract of employment) and other benefits. In addition, Executive Directors are paid a base annual fee of €20,500 for the duration of their appointment as Executive Director of the Bank.

## **Salary**

Executive Directors receive a fixed base salary based on position, responsibilities, performance and competencies.

## **Pension**

Currently no formal pension plan is provided although, on a non-contractual basis, employees with a prescribed level of service may be eligible to a retirement gratuity of up to 3 times salary. Executive Directors may also benefit from a lump sum early retirement package in accordance with the terms of their contract of employment (although the current Chief Executive Officer is not entitled to such a benefit under his definite contract of employment).

## **Other benefits**

The Remuneration Committee may determine the level and type of benefits to be provided from time to time. All Directors are entitled to health insurance and to a reimbursement of out-of-pocket expenses incurred by them in attending and returning from meetings of the Directors or other committee or general meetings of the Bank or in connection with the business of the Bank.

In addition, Executive Directors are entitled to:

- such discounts on products and services of the Bank as the Board may from time to time determine; and
- the use of a company car.

## **Variable remuneration**

The variable component of Executive Director remuneration is set so as to compensate executives for achieving certain levels of performance, without however exposing the Bank to unwarranted risk.

The variable component of individual Executive Directors is determined in line with this Policy. The Policy may be applied differently to different executives in instances where the Remuneration Committee may consider it appropriate, such as where an executive is employed on a definite contract or an indefinite contract with the Bank.

Variable remuneration normally takes the form of annual bonuses, paid in a combination of cash and ordinary shares of the Bank (or other qualifying instruments). Annual bonus outcomes for a financial year shall not exceed 100% of fixed remuneration. This level is set as a cap in compliance with banking regulations and has been chosen to provide suitable flexibility during the term of this Policy. In practice, the Remuneration Committee does not envisage annual bonus outcomes exceeding a lower limit of 50% of fixed remuneration in normal circumstances.

All variable remuneration will be determined by reference to criterion determined by the Remuneration Committee to be appropriate. Measures and targets will normally be set around the start of a financial year and may be based on a number of key performance indicators ("KPIs") that determine a balanced scoring between quantitative and qualitative factors and the overall performance of the Group. The KPIs will normally be selected in order to ensure that they contribute to the company's business strategy and long-term interests and sustainability.

The Remuneration Committee selects and approves the KPIs, targets and relative weightings around the start of each year

to ensure strong alignment with current business strategy and that targets are sufficiently stretching without, in the view of the Remuneration Committee, unduly exposing the Bank to risk. The Remuneration Committee shall have full discretion in evaluating performance and attainment of KPIs and awarding the variable remuneration following the publication of the relevant financial results for a financial year of the Bank.

Subject to any de minimis exceptions permitted by relevant banking regulations (de minimis), at least 40% of the annual bonus outcome will normally be deferred over 5 years, paid annually in equal instalments.

Similarly subject to de minimis, in order to align the interests of Executive Directors with the long-term interests of shareholders, at least 50% of the annual bonus outcome will normally be paid out in ordinary shares of the Bank with the balance normally be paid out in cash.

## **Malus and clawback**

Any variable component of Executive Director remuneration shall also be subject to malus and clawback provisions which would allow a reduction or reversal of any variable remuneration.

The Remuneration Committee may enforce such provisions up to 7 years from the date of performance assessment (which may be increased to 10 years if there is an on-going investigation) in the case of:

- (malus only) material misstatement of the Company's financial results
- (malus only) material error
- (malus and clawback) circumstances warranting summary dismissal
- (malus and clawback) material failure of risk management
- (malus only) material downturn in economic activity

## **Others**

The Bank's Board may from time to time have members appointed to it who hold an indefinite salaried office with the Bank, but who are not considered as executive directors since their position is not one of executive decision making with the Bank, and are appointed to the Board by shareholders in general meeting. Any remuneration paid to any Director by virtue of his holding an indefinite salaried office with the Bank shall not be deemed to form part of such Director's emoluments and shall not be taken into consideration for the purpose of the Policy.

## **Duration**

According to Article 24 of the Bank's articles of association the Chief Executive Officer shall upon his or her appointment to that executive office become an Executive Director on the Board of Directors and shall serve as Executive Director throughout his or her tenure of the position of Chief Executive Officer.

Other Executive Directors who are appointed on the Board shall be appointed for a period of three (3) years and shall thereafter be eligible for re-appointment.

The employment contract of the Chief Executive Officer is for a definite period of time and consequently shall be governed by the legal provisions applicable to the termination of such contracts. Depending on whether the contract of employment of the other Executive Director/s is for an indefinite or a definite period of time, details of notice period shall be governed by the relative legal provisions applicable to the termination of such contracts.

Non-Executive Directors are appointed on the Board of Directors for a term of three (3) years and are eligible for re-appointment subject to the rotation of directors' process as stipulated in Article 28 of the Bank's Articles of Association.

## **Termination and payments linked to termination**

An Executive Director shall, upon termination of his service agreement, continue to benefit from all the benefits offered to retired executives under the applicable terms and conditions existing at the time of signing of his contract of employment. The current Chief Executive Officer is not entitled to any pension, retirement schemes or other entitlements upon termination of contract.

Non-Executive Directors are not paid any benefits linked to the termination of their office and they do not benefit from any pension or early retirement schemes by virtue of their office.

## **Recruitment arrangements**

The Remuneration Committee may approve special arrangements as it considers necessary on the recruitment of a new Executive Director, including honouring amounts to compensate for the loss of rights on leaving their former employer in respect of external recruits provided that such buy-out awards are, in the view of the Committee no more generous overall than the rights forfeited.

## **Managing potential conflicts of interest**

In order to avoid any conflict of interest, remuneration is managed through well-defined processes ensuring no individual is involved in the decision-making process related to their own remuneration. In particular, the remuneration of all Executive Directors is approved by Board upon the recommendation of the Remuneration Committee; none of the Executive Directors are involved in the determination of their own remuneration arrangements. The Remuneration Committee also receives support from external advisers and evaluates the support provided by those advisers annually to ensure that advice is independent, appropriate and cost-effective.

In determining variable pay out-turns, the Remuneration Committee may seek such advice as it considers appropriate, including from the Risk Committee and from external advisers.

## **Revision of Policy**

The Remuneration Committee is tasked with keeping the Policy under review and considers whether it requires revision or updating in line with market demands with a view to ensuring that the Bank's Board attracts and retains, suitable members that provide the collective skills and experience required for the proper functioning of the Board.

The Policy shall be reviewed regularly, and any material amendments thereto shall be submitted to a vote by the general meeting before adoption, and in any case at least every four (4) years.