
FOR IMMEDIATE RELEASE

14th May 2022

BOV INVITES SHAREHOLDERS TO MEET BANK'S MANAGEMENT BOARD

Bank of Valletta p.l.c is organising a physical meeting for shareholders in the presence of the Board of Directors and the Executive Committee. In this question and answer session, BOV shareholders can field questions regarding recent developments concerning the Bank's business, including the latest developments leading to the out-of-court settlement in the "Deiulemar" case. This session, which will be held on Wednesday 15th June 2022 at the Hilton Hotel in St. Julians, will give shareholders the opportunity to obtain a clear picture of the bank's business.

The Board of Directors is sensitive to the requests made by shareholders, and it was a discussion with the Malta Association of Small Shareholders that led to this session being organised.

Shareholders who would like to attend the information session can register their intent by sending an email to iro@bov.com by not later than Friday, 10th June. Shareholders are kindly asked to provide their personal information in the email. They are to present their identity card on the day for entry to the venue. Attendance will be limited to the venue capacity. Parking will be provided. For more information shareholders can call on 2275 3556 or send an email on iro@bov.com.

The Annual General Meeting to Be Held as Planned

The Bank would also like to clarify that the Annual General Meeting (AGM) will be held as planned in a virtual format on 2 June 2022. The organisation of an AGM for an institution of the size of Bank of Valletta, which is the largest locally quoted company with approximately 20,000 shareholders, requires several months of preparation and activities which, once committed to, cannot be reversed. This involves not only the selection of a venue that is suited to the occasion, but also the preparation, printing and posting of official documentation including the Proxy Form, Notices and Circulars to Shareholders in line with the statutory requirements and timings established for such an event.

Requests over the past days for the AGM to be held physically came at a time when preparations for the Annual General Meeting to be held in a virtual manner were well advanced and could not be changed. The AGM could not be postponed and changing from a virtual AGM to a physical one was not possible at that stage.

Questions and Answers

1. *Why is BOV settling the case out of court for €182.5 million when it has always been stated this case has no legal merit?*

- This settlement is really about managing the Bank's litigation risks. Our legal advice remains unchanged, and it is our advisors' view that the claim made against the Bank has no merit from a purely legal perspective: this reflects the independent opinions of four legal firms in Malta and in Italy;
- In managing litigation risk however, 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 deal with – not least the environment in which the judicial process was being conducted. Torre Annunziata is an Italian Town just 40 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 just by moving 40kms north of Torre Annunziata;
- Going against all the reasoned advice ever 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 Deiulemar 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 Deiulemar 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 that in the circumstances a settlement representing a significantly lower proportion of the worst-case risk scenario (and only half of that already awarded through the initial court ruling) delivers an overall better outcome for the Bank in the short and long term.

2. *Why has BOV not settled sooner?*

- During the course of the judicial proceedings the Bank has continuously been progressing potential options which have always included seeking to reach an out of court settlement arrangement. Previous offers were made, but the Deiulemar bankruptcy representatives were unwilling to accept any offers at the levels put forward;
- Judicial proceedings can be complex, particularly lengthy proceedings that span over a period of eight years. There are different stages during such proceedings at which, for instance, the simple statement of a judge or the change in position of the counterparty may open up opportunities for settlement discussions. Such approaches were made in the past but were unsuccessful;
- Following the judgement of the first court which in the view of the bank and its legal counsel had significant flaws from the legal perspective, opened up the possibility of first filing a robust appeal on the legal merits. On the basis of the knowledge that the only option available was appeal to the court of Naples it was decided that, following the filing of an appeal, which therefore created litigation risks not only to the bank but also to the Deiulemar bankruptcy, would present yet another opportunity to try and reach an out-of-court settlement;
- An initial approach to the Deiulemar legal representatives encouraged us to proceed now as we believe they were similarly seeking to avoid prolonged legal proceedings;
- Having filed a robust appeal against the judgement of first instance, but within the context of a first ruling already delivered against it, the Bank considered that it would be the right timing to be able to make a final attempt to close this matter once and for all.

3. *Has BOV considered potential other remedies as opposed to paying out such a high sum?*

- A broad range of different alternative approaches and legal remedies have been fully considered by the Bank at every point throughout this long outstanding claim;
- Proceedings before the European Court of Human Rights were commenced – on the basis that unless the venue of the judicial process would be changed from Torre Annunziata – it was unlikely that the Bank would receive a fair hearing, based on the highly charged and conditioned external environment that would inevitably influence, even if sub-consciously, a judge deciding the matter. The ECHR ruled that the Italian judicial process needed to be completed and remedies exhausted locally before it would hear the matter;
- Given the risks presented by this case related particularly to fair hearing issues, the Board believed that this settlement presented a better outcome for the Bank than any other available alternative.

4. *Has BOV taken proper legal advice on the proposed way forward?*

- BOV has consistently been taking and acting upon advice from Maltese Counsel, Italian Counsel and other specialised Italian legal advisors with extensive subject matter expertise;
- Given the specific context in which the claim will be heard, it was advised to reach a more favourable outcome without incurring significant ongoing costs in terms of legal process and time.

5. *How has the settlement figure been calculated?*

- The settlement figure put forward represents the Bank's risk assessment of the likelihood and impact of outcomes under a wide range of scenarios;
- It should be noted that under a number of these scenarios, the possible outcomes for BOV were materially worse and far more damaging in terms of their impact;
- In recent early discussions with the Deiulemar representatives, we sought to gain an indication of their expectations, and the settlement was reached where both sides could meet at an acceptable compromise.

6. *Will BOV make a loss this year and/or future years as a result of this?*

- The impact of this settlement is that BOV's 2022 trading position will be impacted by €182m, less the provisions already raised by the Bank in terms of previous offers and assessment of likely legal costs;
- On a net basis, our trading results will therefore be impacted by around €100m this year, with the full year position reflecting our normal trading results for this year, minus the €100m net impact;
- Only this year's trading will be negatively impacted;
- We will be able to remove the opportunity cost associated with holding higher capital for this contingent liability, leaving the Bank in a better position to grow its balance sheet and distribute dividends.

7. *How does this settlement impact BOV's capital position and sustainability?*

- BOV has been conservatively preserving capital to ensure it can withstand any eventuality and this settlement does not impact our ability to comfortably meet continuing regulatory capital requirements;
- Removal of this claim also means the Bank will not have to hold capital against a potentially more adverse outcome;
- The litigation case was considered as a possible high impact loss event (tail event) with severe consequence on the capital position of the Bank. This impacted the economic capital model of the Bank. The resolvability of this issue removes the tail event and makes capital forecasting more predictable as well as releasing capital buffers;

- The Bank estimates that, based on the current regulatory expectations, it has excess capital over both the regulatory and economic capital models. The Bank can use this excess capital to grow the business, potentially assets can grow by an additional EUR 4 billion.

8. *In what sense was the Dieulemar case described as posing an “existential risk” to the bank?*

- The meaning intended to be conveyed by the term “*existential risk*” is that the Bank had considered the very real risks that a negative outcome on appeal would severely curtail the options available to pursue its future ambitions in their existing shape and form; in particular, a negative outcome on appeal would have created severe uncertainties around the ability of the Bank to continue to expand its balance sheet, proceed with the investments necessary for its transformation and pay dividends; it is also very likely that the period from recovery from such uncertainties would be extensive, possibly reaching 10 years or more.

9. *What does this mean for dividend payments to shareholders in the short and longer term?*

- Now that this matter is settled, and uncertainty has been removed, the potential outcomes from the Deulemar case will no longer be a factor in our future dividend decision making;
- Dividends in future can be more directly related to the underlying trading performance of the Bank.

10. *Will there be any repercussions for anyone responsible for this loss?*

- The Bank’s strong legal case on the merits is a function of the fact that there was no wrong-doing on the part of the bank during the course of dealing with the Deulemar shares. One needs to understand that the Bank’s only involvement with Deulemar was the passive holding of shares on trust. It was not involved in the management of Deulemar nor was there ever any allegation that the Bank was somehow involved in the failure of the Deulemar group;
- The advice of different legal advisers, both local and Italian, all pointing towards the fact that the Bank is not at fault, as well as the findings of investigations, led the Board to conclude that no fault could be attributed to one or more individuals, and to consider that no further action is required.

11. *How does the out of court settlement follow from earlier actions and statements made by the Bank?*

- It is therefore necessary for the Bank to explain why the offer was made. The Bank has consistently been advised by its lawyers that the Deulemar case is completely without merit. The advice of the Bank’s lawyers has recently been independently confirmed by Italy’s leading legal authority in this area, and that advice has been

brought to the attention of the court. This notwithstanding, the Bank faces a most unusual fair hearing risk in this litigation. It is seeking to eliminate that risk through proceedings filed before the European Court of Human Rights, and other measures. But the risk at first instance remains. In view of this risk, and because of the consequential costs it may have to incur, it made commercial sense to offer a settlement to the curators in order to close this matter. In other words, the offer was not a result of any change in the Bank's conviction that the claim is entirely unmeritorious; it was simply an attempt at finding a pragmatic, commercial solution.

12. Why were shareholders not consulted before this decision was taken?

- This is a decision that falls within the responsibility and competence of the Board, and that accordingly the Board has shouldered the responsibility of the decision and proceeded with the settlement;
- Legal advice stated that the Board, acting in the best interests of the company, was best placed to decide on this matter, also given the significant levels of information that needed to be factored into any agreed way forward;
- This is a highly confidential issue that might impact share price. Therefore, for reasons of proper market behaviour, the Board was advised that shareholder consultation might compromise its position and also potentially put at risk the very delicate negotiations;
- The opportunity to reach agreement came up in a very narrow time window and speed was of the essence to ensure matters could proceed;
- The Board undertook to fully inform Shareholders immediately once matters were concluded.

13. Have the regulators been advised and will they be taking any action?

- BOV works closely with all of its regulators and we have sought to keep them fully informed of all major developments;
- We believe the regulators are very supportive of BOV reaching closure on this matter, especially at a level considerably below any significantly higher ultimate outcome.

14. Why is the Annual General Meeting being held in a remote format?

- The organisation of an AGM for an institution of the size of Bank of Valletta, which is the largest locally quoted company with approximately 20,000 shareholders, requires several months of preparation and activities which, once committed to, cannot be reversed. This involves not only the selection of a venue that is suited to the occasion, but also the preparation, printing and posting of official documentation including the Proxy Form, Notices and Circulars to Shareholders in line with the statutory requirements and timings established for such an event. Preparations for the Annual General Meeting are well advanced and changing from a remote AGM to a physical one is not possible at this stage;
- Notwithstanding, the Bank is organising a physical meeting for shareholders, in the presence of the Board of Directors and the Executive Committee. In this question and

answer session, BOV shareholders can field questions regarding recent developments concerning the Bank's business, including the out-of-court settlement in the "Deiulemar" case. This session will be held on 15 June 2022.