



PROSPECTUS

Rights Issue of

1 New Share for every 4 Existing Shares at an Offer Price of
€1.43 per New Share

in

Bank of Valletta p.l.c.

Legal Counsel

CAMILLERI PREZIOSI
ADVOCATES

Joint Sponsors

 **RIZZO FARRUGIA**
YOUR INVESTMENT CONSULTANTS

Jesmond Mizzi
FINANCIAL ADVISORS

Manager & Registrar

BOV
Bank of Valletta

**Summary Note
dated 30 October 2017**

This Summary Note is issued in accordance with the provisions of Chapter 4 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended (the "Prospectus Regulation").

**Rights Issue of
1 New Share for every 4 Existing Shares at an Offer Price of
€1.43 per New Share**

in

BANK OF VALLETTA P.L.C.

(a public limited liability company registered under the laws of Malta with company registration number C 2833)

and in the event that any Rights to subscribe for New Shares are not taken up by Eligible Participants they shall be allocated to: (i) Existing Shareholders that have accepted their Proportionate Entitlement in full and applied for Lapsed Rights; (ii) Employees; and (iii) to the general public in Malta through an Intermediaries Offer, in this order of preference

THE LISTING AUTHORITY HAS AUTHORISED THE ADMISSIBILITY OF THE NEW SHARES AS A LISTED FINANCIAL INSTRUMENT. THIS MEANS THAT THE NEW SHARES ARE BEING OFFERED AND WILL BE ISSUED IN COMPLIANCE WITH THE REQUIREMENTS AND CONDITIONS SET OUT IN THE LISTING RULES. IN PROVIDING THIS AUTHORISATION, THE LISTING AUTHORITY DOES NOT GIVE ANY CERTIFICATION REGARDING THE POTENTIAL RISKS IN INVESTING IN THE NEW SHARES AND SUCH AUTHORISATION SHOULD NOT BE DEEMED OR BE CONSTRUED AS A REPRESENTATION OR WARRANTY AS TO THE SAFETY OF INVESTING IN THE NEW SHARES.

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM, OR IN RELIANCE UPON, THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS INCLUDING ANY LOSSES INCURRED BY INVESTING IN THE NEW SHARES.

A PROSPECTIVE INVESTOR SHOULD SEEK INDEPENDENT INVESTMENT ADVICE BEFORE DECIDING TO INVEST IN THE NEW SHARES. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE POTENTIAL RISKS IN INVESTING IN THE NEW SHARES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND CONSULTATION WITH HIS OR HER OWN INDEPENDENT FINANCIAL ADVISER.

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IMPORTANT INFORMATION

THIS SUMMARY NOTE CONTAINS INFORMATION ON A RIGHTS ISSUE TO EXISTING SHAREHOLDERS OF THE BANK AND THE OFFER OF LAPSED RIGHTS AND IS DRAWN UP IN COMPLIANCE WITH THE REQUIREMENTS OF THE LISTING RULES, THE ACT AND THE PROSPECTUS REGULATION.

THE BANK IS OFFERING THE NEW SHARES ON A PRE-EMPTIVE BASIS TO EXISTING SHAREHOLDERS AND IS HEREBY ISSUING NIL PAID RIGHTS IN A RATIO OF 1 RIGHT FOR EVERY 4 SHARES HELD BY EXISTING SHAREHOLDERS. EACH ALLOCATED RIGHT SHALL ENTITLE EXISTING SHAREHOLDERS OR THEIR ASSIGNEES TO SUBSCRIBE FOR ONE (1) NEW SHARE IN THE BANK FOR EACH RIGHT ALLOCATED AT AN OFFER PRICE OF €1.43.

THE RIGHTS ARE RENOUNCEABLE AND ASSIGNABLE BY EXISTING SHAREHOLDERS BY INSTRUMENT IN WRITING USING THE APPLICABLE FORMS WHICH WILL BE MAILED BY THE ISSUER TO EXISTING SHAREHOLDERS. NO MARKET WILL BE MADE IN THE RIGHTS ON THE MSE. ACCORDINGLY, THE RIGHTS CANNOT BE TRADED AS A SEPARATE FINANCIAL INSTRUMENT ON THE MSE.

RIGHTS WHICH ARE NOT SUBSCRIBED TO BY ELIGIBLE PARTICIPANTS SHALL CONSTITUTE LAPSED RIGHTS AND WILL BE ALLOCATED TO: (I) EXISTING SHAREHOLDERS THAT HAVE ACCEPTED THEIR PROPORTIONATE ENTITLEMENT IN FULL AND APPLIED FOR LAPSED RIGHTS; (II) EMPLOYEES; AND (III) THE GENERAL PUBLIC THROUGH AN INTERMEDIARIES OFFER, IN THIS ORDER OF PREFERENCE, AND SUBJECT TO SCALING DOWN IN ACCORDANCE WITH THE PROSPECTUS.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE BANK OR ITS DIRECTORS TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE RIGHTS, THE OFFER OF LAPSED RIGHTS OR THE NEW SHARES OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO HEREIN IN CONNECTION WITH THE OFFER OF NEW SHARES HEREBY MADE, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE BANK, ITS DIRECTORS OR ADVISERS.

NONE OF THE ADVISERS OR ANY PERSON MENTIONED IN THIS PROSPECTUS, OTHER THAN THE ISSUER AND ITS DIRECTORS, ARE RESPONSIBLE FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR ANY SUPPLEMENT THEREOF OR ANY DOCUMENTS INCORPORATED BY REFERENCE, AND ACCORDINGLY, TO THE EXTENT PERMITTED BY THE LAWS OF ANY RELEVANT JURISDICTION, NONE OF THESE PERSONS ACCEPTS ANY RESPONSIBILITY AS TO THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN ANY OF THESE DOCUMENTS.

THIS SUMMARY NOTE DOES NOT CONSTITUTE, AND MAY NOT BE USED FOR THE PURPOSES OF, AN OFFER, SOLICITATION OR INVITATION TO SUBSCRIBE FOR THE RIGHTS OR LAPSED RIGHTS OR THE NEW SHARES BY ANY PERSON IN ANY JURISDICTION: (I) IN WHICH SUCH OFFER OR INVITATION IS NOT AUTHORISED; OR (II) IN WHICH THE PERSON MAKING SUCH OFFER OR INVITATION IS NOT QUALIFIED TO DO SO; OR (III) TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR INVITATION.

IT IS THE RESPONSIBILITY OF ANY PERSON IN POSSESSION OF THIS DOCUMENT AND (I) ANY EXISTING SHAREHOLDER TO WHOM THIS OFFER AND A FORM OF ACCEPTANCE, AUTHORITY AND ELECTION IS ADDRESSED; (II) ANY PERSON WISHING TO SUBSCRIBE FOR ANY NEW SHARES PURSUANT TO AN ASSIGNMENT OF RIGHTS FROM AN EXISTING SHAREHOLDER; (III) EMPLOYEES SUBSCRIBING TO NEW SHARES BY WAY OF ACQUISITION OF LAPSED RIGHTS AND; (IV) ANY PERSON SUBSCRIBING TO NEW SHARES BY WAY OF ACQUISITION OF LAPSED RIGHTS THROUGH THE INTERMEDIARIES OFFER, TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION.

EXISTING SHAREHOLDERS WISHING TO ACCEPT ALL OF THE RIGHTS ALLOCATED TO THEM AND SUBSCRIBE FOR LAPSED RIGHTS OR, OTHERWISE OPTING TO ACCEPT PART AND/OR ASSIGN PART OR ALL OF THEIR RIGHTS, SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF ACCEPTING SUCH ALLOCATION OR OF ASSIGNING THEIR RIGHTS TO THIRD PARTIES TO SUBSCRIBE FOR NEW SHARES, AS WELL AS ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND FISCAL OBLIGATIONS IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE OR DOMICILE AND THE COUNTRIES OF THE NATIONALITY, RESIDENCE OR DOMICILE OF THOSE PERSONS IN WHOSE FAVOUR THEY MAY ASSIGN THEIR RIGHTS FOR THE SUBSCRIPTION OF NEW SHARES.

IN ADDITION: (I) ASSIGNEES OF THE RIGHTS AGREEING TO SUBSCRIBE FOR NEW SHARES THROUGH AN ASSIGNMENT FROM AN EXISTING SHAREHOLDER; (II) EMPLOYEES APPLYING TO SUBSCRIBE TO NEW SHARES; AND (III) APPLICANTS APPLYING TO SUBSCRIBE TO NEW SHARES THROUGH THE INTERMEDIARIES OFFER, SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS TO SUBSCRIBE FOR NEW SHARES AS WELL AS ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND FISCAL OBLIGATIONS IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE OR DOMICILE.

SAVE FOR THE RIGHTS ISSUE AND THE OFFER OF LAPSED RIGHTS IN THE REPUBLIC OF MALTA, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE BANK THAT WOULD PERMIT A PUBLIC OFFERING OF THE NEW SHARES OR THE DISTRIBUTION OF THE PROSPECTUS (OR ANY PART THEREOF) OR ANY OFFERING MATERIAL IN ANY COUNTRY OR JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED.

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (OTHER THAN MALTA) WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING ON A REGULATED MARKET OR WHICH, PENDING SUCH IMPLEMENTATION, APPLIES ARTICLE 3(2) OF SAID DIRECTIVE, THE NEW SHARES CAN ONLY BE OFFERED TO “QUALIFIED INVESTORS” (AS DEFINED IN THE SAID DIRECTIVE) AS WELL AS IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE BANK OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE SAID DIRECTIVE.

THE RIGHTS AND THE NEW SHARES HAVE NOT BEEN NOR WILL THEY BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, 1933 AS AMENDED, OR UNDER ANY FEDERAL OR STATE SECURITIES LAW AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, 1933. FURTHERMORE, THE BANK WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT, 1940, AS AMENDED, AND INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS SET OUT THEREIN.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MSE IN SATISFACTION OF THE MSE BYE LAWS, AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE ACT. APPLICATION HAS ALSO BEEN MADE TO THE LISTING AUTHORITY AND THE MSE FOR THE NEW SHARES TO BE ADMITTED TO THE OFFICIAL LIST OF THE MSE.

UNLESS OTHERWISE STATED IN THIS DOCUMENT, THE CONTENTS OF THE BANK’S WEBSITE OR ANY WEBSITE DIRECTLY OR INDIRECTLY LINKED TO THE BANK’S WEBSITE, DO NOT FORM PART OF THIS DOCUMENT. ACCORDINGLY, NO RELIANCE OUGHT TO BE MADE BY ANY INVESTOR ON ANY INFORMATION OR OTHER DATA CONTAINED IN SUCH WEBSITES AS THE BASIS FOR A DECISION TO INVEST IN THE NEW SHARES.

ALL THE ADVISERS TO THE ISSUER HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE ISSUER IN RELATION TO THIS PROSPECTUS AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION OR RESPONSIBILITY TOWARDS ANY OTHER PERSON. NONE OF THE ADVISERS ACCEPT ANY RESPONSIBILITY TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE TRANSACTION PROPOSED IN THE PROSPECTUS, AND/OR THE CONTENTS OF, AND ANY INFORMATION CONTAINED IN, THE PROSPECTUS, ITS COMPLETENESS OR ACCURACY OR ANY OTHER STATEMENT MADE IN CONNECTION THEREWITH.

THE VALUE OF INVESTMENTS CAN RISE OR FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER ALL THE INFORMATION CONTAINED IN THE PROSPECTUS AS A WHOLE AND SHOULD CONSULT THEIR OWN INDEPENDENT FINANCIAL ADVISER BEFORE DECIDING TO MAKE AN INVESTMENT IN THE NEW SHARES.

THIS DOCUMENT, THE FAAEs, APPLICATION FORMS AND ALL AGREEMENTS, ACCEPTANCES AND CONTRACTS RESULTING THEREFROM, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF MALTA, AND ANY PERSON ACQUIRING ANY NEW SHARES PURSUANT TO THE PROSPECTUS SHALL SUBMIT TO THE JURISDICTION OF THE MALTESE COURTS, WITHOUT LIMITING IN ANY MANNER THE RIGHT OF THE ISSUER TO BRING ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN CONNECTION WITH THE RIGHTS ISSUE, THE OFFER OF LAPSED RIGHTS OR ANY AGREEMENT RESULTING HEREFROM OR THE PROSPECTUS AS A WHOLE IN ANY OTHER COMPETENT JURISDICTION.

STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THERETO.

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS.

This Summary Note is prepared in accordance with the requirements of the Prospectus Regulation.

A summary note is made up of disclosure requirements known as ‘Elements’. These Elements are numbered in Sections A – E (A.1– E.7). This Summary Note contains all the Elements required to be included in a summary for the type of securities being offered pursuant to this Prospectus and the Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the Summary Note with the mention of ‘Not Applicable’.

Except where the context otherwise requires, the capitalised words and expressions used in this Summary Note shall bear the meanings assigned to them in the Registration Document and the Securities Note, as the case may be.

SECTION A INTRODUCTION AND WARNINGS

A.1 Prospective investors are hereby warned that:

- i. this Summary Note is being provided to convey the essential characteristics and risks associated with the Issuer and the securities being offered pursuant to the Prospectus. This part is merely a summary and therefore should only be read as an introduction to the Prospectus. It is not and does not purport to be exhaustive and investors are warned that they should not rely on the information contained in this Summary Note in making a decision as to whether to invest in the securities described in the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor;
- ii. where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of Malta, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and
- iii. civil liability attaches only to those persons who have tabled the Summary Note including any translation thereof, and who applied for its notification, but only if the Summary Note, when read together with the other parts of the Prospectus is misleading, inaccurate or inconsistent or does not provide key information in order to aid investors when considering whether to invest in the securities being offered pursuant to the Prospectus.

A.2 Not Applicable.

SECTION B COMPANY

B.1 The legal and commercial name of the Issuer is Bank of Valletta p.l.c.

B.2 The Issuer was registered in Malta, on the 21 March 1974. The Issuer is registered as a public limited liability company in terms of the Act.

B.3 The following is an overview of the key factors relating to the nature of the Issuer's current operations and its principal activities, as well as the principal markets in which it operates:

The Issuer is a commercial bank, operating, together with its Subsidiaries, predominantly in Malta, with an average number of employees of 1,814 and 37 branches as at 31 August 2017. The Group offers banking, financial and investment services and connected activities within the domestic Maltese market. The Group has three representative offices in each of Milan, Brussels and Libya. In the latter case, the Bank has retained its licence to operate the office, but has temporarily suspended operations in view of the prevailing situation in Libya. The Issuer does not operate any licensable activities in any of these jurisdictions.

The principal activities of the Issuer comprise the following:

- The receipt and acceptance of customers' monies for deposit in current, savings and term accounts which may be denominated in Euro and other major currencies.
- The provision of loans and advances to a wide array of customers, ranging from the private individual, businesses and industries, including also trade finance services to exporters, importers and traders. Loans and advances include: (i) short-term and longer-term loans; and (ii) overdrafts.
- The provision of investment services, covering a comprehensive suite of investment products and services that meet the customers' needs throughout their lifecycle, including stockbroking, advisory and discretionary portfolio management services. Such services are offered to both retail as well as institutional clients.

In most part, the activities of the Issuer are licensable activities regulated under the domestic and EU financial regulatory framework. In this respect, the Issuer is licensed by the MFSA:

- As a credit institution under the Banking Act; and
- As a category 3 and 4A licence holder in terms of the Investment Services Act (Cap. 370 of the laws of Malta), authorising it to provide a number of investment services to retail, professional and eligible counterparties.

B.4a At the date of publication of the Prospectus, with the exception of the macroeconomic conditions and market conditions generally, as well as the impact of legislation and regulations applicable to the Issuer and to other financial institutions within the Eurozone, the Issuer does not anticipate any trends, uncertainties, demands, commitments or events outside the ordinary course of business that could be deemed likely to have a material effect on the upcoming prospects of the Issuer's business for at least up to the end of the current financial year.

B.4b Not Applicable.

B.5 The Issuer is the parent company of the Group. The Issuer is the sole direct shareholder of the two subsidiary companies forming part of the Group, these being BOV Asset Management Limited and BOV Fund Services Limited. BOV Asset Management Limited (formerly known as Valletta Fund Management Limited) provides management services to collective investment schemes as well as portfolio management services to institutional clients. BOV Fund Services Limited (formerly known as Valletta Fund Services Limited) was registered in Malta under the Act and is: (a) recognised by the MFSA to provide fund administration services; and (b) registered to act as company service provider in terms of the Company Service Providers Act (Cap. 529 of the laws of Malta).

The Issuer holds a 50 per cent equity interest in MAPFRE MSV Life p.l.c., a company that operates as a life assurance business and which is licensed under the Insurance Business Act (Cap. 403 of the laws of Malta). The Issuer also holds 31.08% equity interest in MAPFRE Middlesea p.l.c, a company that operates the business of insurance, including group life assurance and which is licensed under the Insurance Business Act (Cap. 403 of the laws of Malta).

B.6 To the extent known by the Issuer, direct or indirect control of the Issuer is not vested in any one single entity or person. As at the date of the Prospectus, the Issuer is not aware of any arrangements, the operation of which may, at a subsequent date, result in a change of control of the Issuer.

The following shareholders hold in excess of 5% of the share capital of the Issuer having voting rights:

| | |
|---------------------|--------|
| Government of Malta | 25.23% |
| UniCredit S.p.A. | 14.55% |

B.7 The following table depicts key financial information extracted from the audited consolidated annual financial statements of the Issuer for the financial years ended 30 September 2016, 30 September 2015 and 30 September 2014 and unaudited consolidated interim financial statements of the Group for the six months ended 31 March 2017, 31 March 2016, 31 March 2015 and 31 March 2014.

| | 31 Mar-17 | 30 Sep-16 | 31 Mar-16 | 30 Sep-15 | 31 Mar-15 | 30 Sep-14 | 31 Mar-14 |
|---|------------|------------|------------|-----------|-----------|-----------|-----------|
| Authorised share capital (ordinary shares of €1.00 each) ('000) | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Ordinary shares in issue of €1.00 each ('000) | 420,000 | 390,000 | 390,000 | 360,000 | 360,000 | 330,000 | 330,000 |
| Total assets (€'000) | 11,305,810 | 10,722,851 | 10,496,201 | 9,901,962 | 9,042,441 | 8,296,791 | 7,734,102 |
| Total liabilities (€'000) | 10,552,945 | 9,993,690 | 9,790,094 | 9,231,773 | 8,401,521 | 7,682,322 | 7,148,690 |
| Total equity (€'000) | 752,865 | 729,161 | 706,107 | 670,189 | 640,920 | 614,469 | 585,412 |
| Common Equity Tier 1 ratio | 13.1% | 12.8% | 12.3%* | 11.3% | 11.8% | 11.7% | 11.3% |
| Total Capital Ratio | 16.8%* | 16.8% | 16.6%* | 13.4% | 14.3% | 14.5% | 16.0% |

There has been no material adverse change in the prospects of the Group since 30 September 2016 (date of the Group's last published audited consolidated financial statements). Further, there has been no significant change in the financial or trading position of the Group subsequent to the period covered by the historical financial information.

** This ratio does not feature in the unaudited consolidated interim financial statements of the Group, but has been included in the above table for comparative purposes.*

B.8 Not Applicable.

- B.9** The table below provides a summary of the consolidated statements of profit and loss of the Group for the year ended 30 September 2016 and for the interim period 1 October 2016 to 30 September 2017 as well as the forecasted statements of profit and loss for the interim period 1 October 2017 to 31 December 2017.

| Statements of Profit or Loss | | | |
|---|---|---|--|
| | Financial year ended 30 September 2016 (Audited) | Interim period 1 October 2016 to 30 September 2017 (Unaudited) | Interim period 1 October 2017 to 31 December 2017 (Unaudited) |
| | €'millions | €'millions | €'millions |
| | Actual | Actual | Forecast |
| Net Interest margin | 149 | 147 | 37 |
| Fee and commission income | 88 | 89 | 22 |
| Costs | (113) | (120) | (30) |
| Impairment | (23) | 8 | (2) |
| CORE PROFIT | 101 | 124 | 27 |
| Share of profit of equity-accounted investees | 4 | 14 | - |
| Gain on Visa transaction | 28 | - | - |
| Fair value movement | 13 | 6 | 1 |
| Profit before tax | 146 | 144 | 28 |

- B.10** Not Applicable: the audit report on the audited consolidated financial statements for the financial year ended 30 September 2016 does not contain any qualifications.
- B.11** Not Applicable: the Issuer's working capital is considered sufficient for the Issuer's present requirements.

SECTION C SECURITIES

- C.1** The Bank shall issue nil paid rights in a ratio of 1 Right for every 4 Shares held by Existing Shareholders which shall entitle Existing Shareholders or their Assignees to subscribe for one (1) New Share in the Bank for each Right allocated at an Offer Price of €1.43.

The Rights are renounceable and assignable by Existing Shareholders using the forms available but no market will be made in the Rights on the MSE. Accordingly, the Rights cannot be traded as a separate financial instrument on the MSE.

Rights which are not subscribed to by Eligible Participants by 6 December 2017 shall constitute Lapsed Rights and will be offered to: (i) Existing Shareholders who would have accepted their Proportionate Entitlement in full and applied for Lapsed Rights; (ii) Employees; and (iii) the general public through an Intermediaries Offer, in this order of preference.

The New Shares will be issued in fully registered and dematerialised book-entry form and will be represented in uncertificated form by the appropriate entry in the electronic register maintained on behalf of the Issuer at the CSD or in such other form as may be determined from time to time by applicable law, the requirements of the MSE or the Bank. On admission to trading the Shares will have the following ISIN: MT0000020116.

- C.2** The New Shares are denominated in Euro (€).

- C.3** The Issuer has an issued share capital of €420,000,000 divided into 420,000,000 ordinary shares of a nominal value of €1.00 per share, each fully paid-up. Through a resolution taken at an extraordinary general meeting held on the 27 July 2017, the Board of Directors was authorised to increase the Issuer's issued share capital up to a total of €580,000,000 divided into 580,000,000 shares of €1.00 per share, through the issue of new shares.

- C.4** The New Shares form part of the only class of Ordinary Shares in the Issuer and shall accordingly have the same rights and entitlements as all other Ordinary Shares currently in issue in the Issuer. The following are highlights of the rights attaching to the Shares:

- i. The New Shares shall carry the right to participate in any distribution of dividend declared by the Issuer *pari passu* with any other Ordinary Shares in the Issuer;
- ii. Each New Share shall be entitled to one vote at meetings of Shareholders; and
- iii. The New Shares shall carry the right for the holders thereof to participate in any distribution of capital made whether in the context of a winding up or otherwise, *pari passu* with all other Ordinary Shares of the Issuer.

- C.5** The New Shares are freely transferable and, once admitted to the Official List, shall be transferable only in whole in accordance with the rules and regulations of the MSE applicable from time to time.

- C.6** Application has been made to the Listing Authority for the admissibility of the New Shares to listing and to the MSE for the New Shares to be listed and traded on its Official List.

- C.7** In determining dividend pay-outs, the Group adopts a prudent approach which aims to ensure that an adequate amount of earnings is retained to strengthen the Tier 1 capital base. Indeed, as from FY 2016, the Bank's approach to dividend pay-outs is to determine the same with reference to a target CET1 ratio such that sufficient earnings are retained to enable the Bank to reach the aforementioned target ratio, with the remaining profit then being deemed eligible for distribution.

SECTION D RISKS

D.1 Key information on the key risks specific to the Issuer or its industry:

An investment in the New Shares involves certain risks. Prospective investors should carefully consider, with their own independent financial and other professional advisers, the following risk factors and other investment considerations as well as all the other information contained in the Prospectus before deciding to invest in the New Shares.

This Prospectus contains statements that are, or may be deemed to be “forward-looking statements.” They appear in a number of places throughout the Prospectus and include statements regarding the intentions, beliefs or current expectations of the Issuer and/or the Directors concerning, amongst other things, the Issuer’s strategy, current expectations of the Issuer and/or the Directors concerning, amongst other things, the Issuer’s strategy and business plans, results of operations, financial condition, liquidity, prospects, dividend pay-out approach and the market in which it operates.

Prospective investors are advised to read the Prospectus in its entirety and, in particular, the sections entitled “Risk Factors” in the Registration Document and Securities Note, for an assessment of the factors that could affect the Issuer’s future performance.

The value of investments can go up or down and past performance is not necessarily indicative of future performance. An investment in the New Shares involves certain risks, including those described below.

An investment in the Issuer and the New Shares may not be suitable for all recipients of the Prospectus and prospective investors are urged to consult an independent investment adviser licensed under the Investment Services Act (Cap. 370 of the laws of Malta) as to the suitability or otherwise of an investment in the New Shares before making an investment decision.

The risk factors set out below are a summary of the principal risks associated with an investment in the Issuer and the New Shares – there may be other risks which are not mentioned in this Summary Note.

Risks relating to the Strategic Initiatives

The increase in share capital is one of the main measures of the Bank’s Strategic Initiatives. Accordingly, unless the Bank can strengthen its capital buffers through additional CET1, its ability to sustain further growth within the parameters of the new regulatory framework, may be significantly curtailed. Failure to improve the capital base would also have an adverse impact on the Bank’s ability to sustain its current dividend pay-out approach and would entail that the Bank’s ability to proceed with the payment of dividends to Shareholders would be curtailed, if not altogether prohibited, until the new capital requirements are met to the satisfaction of the Regulatory Authorities. This could have a significant impact on the Issuer’s overall business, operational results and financial and capital condition.

In such an event, the Bank could also be subject to measures by the Regulatory Authorities involving its management including the imposition restrictions on assets and/or the sale of assets should this result in serious risks to the financial condition of the Bank.

Credit Risk and Risk of Credit Quality Deterioration

The activity, financial and capital strength and profitability of the Issuer also depend on the creditworthiness of its customers, among other things. In carrying out its credit activities, the Issuer is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may generate a corresponding change in the value of the associated credit exposure and give rise to the partial or total write-down thereof.

Risks associated with Capital Adequacy

The Issuer is required to adhere to capital adequacy regulations which require it to maintain appropriate capital resources both in terms of quantity and quality. As an other systemically important institution ("O-SII"), the Issuer must fulfil supplementary requirements concerning the amount of CET1 capital it must hold as a buffer. In addition, as a result of the SREP which banks within the EU, including the Issuer, are subjected to once a year, the applicable prudential limits setting out the specific measures which every bank needs to implement in the following year, including the minimum amount of capital, are communicated by the Regulatory Authorities.

The rules on capital adequacy for banks define the prudential minimum capital requirements, the quality of capital resources, and risk mitigation instruments. Non-compliance with these capital requirements may have a significant impact on the Bank's operations and future sustainability.

Liquidity Risk

Liquidity risk refers to the possibility that the Issuer may find itself unable to meet its current and future, anticipated and unforeseen cash payment and delivery obligations without impairing its day-to-day operations or financial position. The activity of the Issuer is subject in particular to funding liquidity risk, market liquidity risk, mismatch risk and contingency risk.

Market Risk

Market risk involves the risk that the Bank's earnings or capital will be adversely affected by the volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. In the event that any of the foregoing market risks were to occur, the Issuer may experience significant losses in the value of its investment portfolio, that would consequently have a significant adverse impact on the operations and financial performance of the Bank as well as the value of its assets.

Concentration Risk

Concentration risk arises due to a high level of exposure by the Bank to individual issuers or counterparties (single name concentration) or a group of connected clients or a high level of exposure within industry sectors and geographical regions (sectoral concentration). Given the size and nature of the domestic financial sector and the local economy, the Bank is exposed to concentration risk in its credit business. The Bank's investment portfolio may also be exposed to concentration risk derived from excessive reliance on the same country, counterparty, sector or currency. In addition, the deposit base of the Issuer primarily consists of customers located in Malta and other EU countries. As a result, the Issuer is highly exposed to any economic trends affecting Malta specifically and the EU generally, which if negative may have an adverse effect on the Issuer, its business and results of operations and financial condition.

Move from BBR to Euribor

The increase in competition for credit in the local sector is leading to pressure on the Bank to move from its BBR in pricing its loans to Euribor. This situation, if material, would have an effect on the net interest margin of the Bank and would therefore impact the financial position of the Group.

Operational Risk

Operational risk is the risk of loss due to errors, infringements, interruptions and damages caused by inadequate or failures in internal processes or personnel or systems or caused by external events. Any losses arising from such failures, could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

Risks relating to Information Technology

The Issuer depends on its information technology systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Issuer's business and operating data. The Issuer's business activities would be materially disrupted if there were a partial or complete failure of any of these information technology systems or communication networks. In addition, any failure or delay in recording or processing the Issuer's transaction data could subject the Issuer to claims for losses and regulatory fines and penalties.

Information Security Risk

Loss or leakage of confidential information could have a material adverse effect on the operations and performance of the Issuer.

Reputational Risk

Reputational risk is the current or future risk of a loss or decline in profits or share value as a result of a negative perception of the Issuer's image by customers, counterparties, shareholders, investors or regulators. The Issuer believes that if any of these risks were to occur it could result in a material adverse effect on the operations and performance of the Issuer.

Business Risk

Business risk is defined as a measurement of the variance between unanticipated unfavourable changes in future profit margins of the Issuer and those forecasted. It can lead to serious losses and therefore impact the Issuer's capital.

Strategic Risk

Strategic risk is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, with negative impact on the risk profile and consequently on capital, earnings as well as the overall direction and scope of the Bank in the long run.

Risks connected with Legal Proceedings in Progress and Supervisory Authority Measures

As at the date of the Prospectus, the Bank and the Group companies are defendants in several legal proceedings. Moreover, from time to time, past and present directors, officers and employees may be involved in civil and/or criminal proceedings, the details of which the Group may not lawfully know about or communicate. The Group is also required to deal appropriately with various legal and regulatory requirements in relation to certain aspects of its activity, such as conflicts of interest, ethical issues, anti-money laundering laws, client assets, competition law, privacy and information security rules and others. Actual or alleged failure to do so may lead to additional litigation and investigations and subjects the Group to damages claims, regulatory fines, other penalties and/or reputational damages.

Risks related to the Distribution of Dividends

The capacity of the Issuer to distribute dividends depends on the compliance of the minimum applicable capital requirements based on the regulations in force, specifically the overall capital requirements, where failure to comply involves the need to calculate the Maximum Distributable Amount. Therefore, albeit the Issuer may have distributable profits pursuant to its statutory financial statements, the Issuer would not be able to pay dividends in the case of failure to comply with these prudential regulatory provisions.

The distribution of dividends could, also, in future, be excluded or limited by the need to comply with capital requirements laid down by legal and/or regulatory rules applicable to the Group and/or imposed by the rules concerning Maximum Distributable Amount.

Risks associated with Borrowings and Evaluation Methods of the Issuer's Assets and Liabilities

In conformity with the framework dictated by International Accounting Standards, the Issuer should formulate evaluations, estimates and theories that affect the application of accounting standards and the amounts of assets, liabilities, costs and revenues reported in the financial statements, as well as information relating to contingent assets and liabilities. The estimates and related hypotheses are based on past experience and other factors considered reasonable in the specific circumstances and have been adopted to assess the assets and liabilities whose book value cannot easily be deduced from other sources.

The application of IAS by the Issuer reflects the interpretation and decisions made with regard to said principles. In particular, the measurement of fair value is regulated by IFRS 13 *"Fair Value Measurement"*.

In addition to the risks implicit in the market valuations for listed instruments, the risk of uncertainty in the estimate is essentially inherent in calculating the value of: (i) the fair value of financial instruments not listed on active markets; (ii) receivables, equity investments and, in general, all other financial assets/liabilities; (iii) severance pay and other employee benefits; (iv) provision for risks and charges and contingent assets; (v) goodwill and other intangible assets; (vi) deferred tax assets; and (vii) real estate. The quantification of these items subject to estimation can vary quite significantly in time depending on certain trends.

Risks arising from the Issuer's Custody Business

The Issuer acts as custodian to a number of professional investor funds ("PIFs"), UCITS funds and alternative investment funds ("AIFs") (collectively "CISs"). When acting as custodian of UCITS, AIFs and PIFs marketed to experienced investors, the Issuer is (broadly) in terms of applicable regulation: (a) liable for loss of financial instruments held in custody; and (b) is also liable for all other losses suffered by such investment funds and unit holders therein as a result of the Issuer's negligent or intentional failure to properly fulfil its obligations pursuant to applicable law. The liability of the Issuer is not affected by any delegation of services. When acting as custodian of PIFs marketed to qualifying and extraordinary investors, the Issuer is, in terms of applicable regulation (broadly) liable for any loss or prejudice suffered by the PIF or the unit-holders due to the Issuer's fraud, wilful default or negligence including the unjustifiable failure to perform in whole or in part the custodian's obligations arising pursuant to applicable law and the relevant custody agreement in place. With respect to PIFs marketed to qualifying and extraordinary investors, the Issuer's liability is similarly not affected by delegation of safekeeping functions, however it may (in certain instances) be varied or reduced with the written consent of the PIF or the manager acting on behalf thereof.

In the event that such liability arises, this could impact the financial performance of the Issuer.

Risks arising from the Issuer's Trusts Business

The Bank's trust unit was established in 2005, when the Bank was granted authorisation by the MFSA to offer trustee services in terms of the Trusts and Trustees Act (Cap. 331 of the laws of Malta). The Issuer has decided to wind down its trust business. However until such time as the trust business is wound down and, possibly even thereafter, liability of the Issuer could materialise in respect of the Bank's trust business due to (amongst others), negligence of the Issuer in the performance of its functions, loss of assets settled on trust and any breaches of the Issuer's contractual obligations. In the event that such liability arises, this could impact the financial performance of the Issuer. Such liabilities in relation to the trust business are taken into account in the capital allocation of the Issuer.

Risks arising from the Bank's International Corporate Centre

The Issuer's international corporate centre ("ICC") houses a large number of deposit accounts held by the Issuer's international corporate clients. The level of information required in order for the Issuer to comply with know-your-customer and other due diligence requirements may be very cumbersome when international corporate clients are comprised of complex corporate structures. In such instances, the identification of the ultimate beneficial owners and/or the sources of funds and wealth may be difficult to determine. Such situations present serious legal, regulatory and reputational risks for the

Issuer and potential financial risks due to the fact that the Issuer may not be able to detect money laundering and terrorist financing in respect of its international clients.

Risks connected with the Collection, Storage and Processing of Personal Data

The activity conducted by the Group is subject to the rules governing the processing of personal data in terms of the Data Protection Act (Cap. 440 of the laws of Malta) and subsidiary legislation issued thereunder (the “DPA”). The Group has adapted its internal procedures to comply with the DPA. However, the Group remains exposed to the risk that data collected could be damaged or lost, disclosed or processed for purposes other than as permitted in the DPA. The possible damage or loss of customer data, in the same way as its unauthorised processing or disclosure, would have a negative impact on the activity of the Issuer, in reputational terms too, and could lead to the imposition of fines.

Risks connected with the Performance of the Property Market

The Issuer is exposed to the risks of the property market. Any downturn in the property market could result in the Group having to make impairments to the real estate it owns or holds as collateral at a value that is higher than the recoverable value, with consequent negative effects, including significant ones, on the operating results and capital and financial position of the Issuer and/or the Group.

D.3 Risks relating to the Shares

- There can be no assurance that an active secondary market for the New Shares will develop or, if it develops, that it will continue. Furthermore, there can be no assurance that an investor will be able to sell or otherwise trade in the Shares at all.
- Following the completion of the Rights Issue and the allocation of the New Shares, the price at which the Shares will be traded, as well as the volume of trades, may fluctuate. There can be no guarantee of the price which may be realised by investors in the New Shares. In addition, limited trading in the Shares could increase the price volatility of the Shares and may limit the ability of investors to trade the New Shares in the amount, at the price and at the time desired.
- The Rights being offered to Existing Shareholders pursuant to the Rights Issue form part of the Issuer’s capital plan. In accordance with the capital plan, the Issuer intends to raise its share capital by approximately €150,000,000. In the event that the Bank is not successful in raising this capital, its capital base and its ability to sustain further growth within the parameters of the new regulatory framework will be significantly curtailed. This could have a significant impact on its overall business, as well as its operational and financial results.
- Even after the New Shares are admitted to trading on the Official List, the Bank must remain in compliance with certain requirements. The Listing Authority has the authority to suspend trading of the Shares if, *inter alia*, it comes to believe that such a suspension is required for the protection of investors or of the integrity or reputation of the markets. Furthermore, the Listing Authority may discontinue the listing of the Shares if, *inter alia*, it is satisfied that, owing to special circumstances, normal regular dealings in the Shares are no longer possible, or upon the request of the Issuer or the MSE. Any such trading suspensions or listing revocations/discontinuations described above, could have a material adverse effect on the liquidity and value of the Shares.
- The value of an investment in the Shares can rise or fall, and past performance of the Shares is not necessarily indicative of future performance.
- The subscription of part or all of the Proportionate Entitlement will increase the exposure of Existing Shareholders to the Bank and its future performance. Any additional exposure to the Shares may not be suitable for every Existing Shareholder. In addition, an investment in the New Shares may not be suitable for all investors, including Assignees as well as Employees and other investors subscribing to New Shares pursuant to the Intermediaries Offer.

- The extent of any dividend distribution by the Bank will depend upon, amongst other factors, the ability of the Bank to improve its current capital base, the profit for the year, the Directors' view on the prevailing market outlook, any debt servicing requirements, the cash flows of the Bank, working capital requirements, the Board's view on future investments, and the requirements of the Act.
- A Shareholder will bear the risk of any fluctuations in exchange rates between the currency of denomination of the New Shares (i.e. the Euro) and the Shareholder's currency of reference, if different.
- If an Existing Shareholder does not exercise the subscription rights granted under the Rights Issue, his/her percentage shareholding in the Issuer will decline and his/her voting rights will be diluted. This dilution will be proportional to the percentage by which the share capital of the Issuer is increased and to the extent by which the Existing Shareholder does not participate in the Rights Issue.
- Investment in the New Shares involves the risk of the loss of the capital invested in the event that the Issuer becomes subject to insolvency proceedings or finds itself failing or at risk of failure which involves the application of resolution tools, including the bail-in tool. In this regard, the BRRD Regulations, provide for the application of resolution tools by the Resolution Committee to credit institutions, at risk of failure, as an alternative to liquidation proceedings. The exercise by the Resolution Committee of any of its powers may have a material effect on the business and prospects of the Issuer. In addition, any bail-in of capital instruments will mean that Shareholders might have some or all of their shareholdings diluted or cancelled without any compensation therefor.

SECTION E OFFER

E.1 If subscribed to in full, the proceeds from the Offer are expected to amount to approximately €150,000,000. The selling commissions and legal, publicity, printing, Sponsors', and other miscellaneous, fees and expenses in connection with the Offer are estimated not to exceed €1.06 million and will be borne by the Issuer and not deducted from the proceeds of the Offer. Listing fees amounting to €143,000 will also be borne by the Issuer.

E.2a The purpose of the proceeds from the Offer, expected to amount to approximately €150,000,000, is to further strengthen the Issuer's Common Equity Tier 1 ("**CET1**") such that the Issuer will be in a better position to meet the level of capital buffers required under the relevant European banking regulations. The net proceeds from the Offer will also be used for the Issuer's general funding purposes.

E.3 The following are the Terms and Conditions of the Offer:

a. Rights Issue and Offer of Lapsed Rights

The New Shares will be offered to Existing Shareholders at the Offer Price of €1.43 per New Share (consisting of a premium of €0.43 over nominal value and a discount of 27.47% to TERP) by way of a Rights Issue. All Existing Shareholders are entitled to 1 Right for every 4 Shares held on the Record Date (the "**Proportionate Entitlement**"). In this respect, in the event that upon calculation of the Proportionate Entitlement an Existing Shareholder shall become entitled to a fractional entitlement of a Right, such fractional entitlement shall be rounded down to nearest whole Right; provided further that, if upon calculation of the Proportionate Entitlement, an Existing Shareholder is entitled to less than one (1) New Share, then such Existing Shareholder shall not be eligible to participate in the Rights Issue. Existing Shareholders will be entitled to subscribe for New Shares at a ratio of 1 New Share for every Right issued to them.

The Rights Issue contemplates the right of Existing Shareholders to accept the Rights allocated to them during the Offer Period, on a nil paid basis, by the Bank and to exercise those Rights and subscribe for New Shares (in part or in full); or to renounce to their Rights (in part or in full) in favour of third parties.

Existing Shareholders and, where applicable, Assignees, are required to complete, execute and lodge FAAEs with any of the Authorised Financial Intermediaries. The FAAEs also sets out instructions as to various options available to an Existing Shareholder namely:

- i. To accept the Rights in full and accordingly subscribe for the Proportionate Entitlement in full (*FAAE A - ALL*); or
- ii. Having accepted the Proportionate Entitlement in full, additionally commit to subscribe for Lapsed Rights (*FAAE A - ALL*); or
- iii. To accept the Rights in part and accordingly subscribe for the Proportionate Entitlement only in part (*FAAE B - Split/Assign*); or
- iv. To accept the Rights in part and assign part of the Proportionate Entitlement in favour of a third party/ies (*FAAE B - Split/Assign*); or
- v. To renounce in full to the Proportionate Entitlement and assign part or all of the Proportionate Entitlement in favour of a third party/ies (*FAAE B - Split/Assign*).

b. Offer of Lapsed Rights

- i. Existing Shareholders that have accepted their Proportionate Entitlement in full

Any Rights which are not validly accepted or validly assigned and paid for by the Rights Issue Closing Date, shall lapse and shall be offered to Existing Shareholders who would have accepted their Proportionate Entitlement in full and applied for Lapsed Rights by completing the relevant panel in *FAAE A- ALL*.

- ii. Employees

In the event that a balance of Lapsed Rights remains unallocated following the allocation of: (i) the Proportionate Entitlements to Eligible Participants; and (ii) any Lapsed Rights allocated to Existing Shareholders which have accepted their Proportionate Entitlement in full and have indicated their willingness to subscribe to Lapsed Rights; then such Lapsed Rights will be offered for subscription to Employees. Employees may apply for Lapsed Rights representing New Shares by completing *Application Form 'A'*. The minimum subscription amount that Employees may subscribe for is 1,000 New Shares and in multiples of 100 New Shares thereafter.

- iii. Intermediaries Offer

In the event that a balance of Lapsed Rights remains unallocated following the allocation of: (i) the Proportionate Entitlements to Eligible Participants; (ii) any Lapsed Rights allocated to Existing Shareholders which have accepted their Proportionate Entitlement in full and have indicated their willingness to subscribe to Lapsed Rights; and (iii) Lapsed Rights allocated to Employees; then, the remaining balance of such Lapsed Rights will be offered for subscription to Authorised Financial Intermediaries through an Intermediaries Offer. Investors may apply for Lapsed Rights and subscribe for New Shares under the Intermediaries Offer by completing *Application Form 'B'* which may be obtained from any of the Authorised Financial Intermediaries. The minimum subscription amount that investors may subscribe for is 1,000 New Shares and in multiples of 100 New Shares thereafter.

New Shares shall be available for subscription by Existing Shareholders, Assignees, Employees and the general public *via* an Intermediaries Offer during the Offer Period, that is, the period between and including 08.30 hours on 8 November 2017 and 14.00 hours on 6 December 2017.

c. Allocation Policy

The Issuer shall allocate the New Shares on the basis of the following policy:

- i. It shall first satisfy in full the exercise by all Existing Shareholders of their Rights and in the case of Assignees, of the Assigned Entitlement;
- ii. In the event that following the allocations made pursuant to (i) above there shall still remain unallocated New Shares, the Issuer shall then allocate such unallocated New Shares to those Existing Shareholders who would have indicated their wish to acquire Lapsed Rights and, where subscriptions for Lapsed Rights is greater than the number of unallocated New Shares available for allocation, then each application for Lapsed Rights shall be scaled down in accordance with the allocation policy as determined by the Issuer;

- iii. Where, following the allocations made to Eligible Applicants in terms of (i) and (ii) above there still remain Lapsed Rights, the Issuer will satisfy applications made by Employees subject to an allocation policy as determined by the Issuer;
- iv. In the event that following the allocations made pursuant to (i), (ii) and (iii) above, there shall still remain Lapsed Rights, the Issuer shall allocate such remaining New Shares to Authorised Financial Intermediaries who would have submitted a Subscription Agreement to acquire Lapsed Rights and shall be allocated in accordance with the allocation policy as determined by the Issuer through the Registrar.

It is expected that allotment letters will be dispatched to Existing Shareholders, Assignees, Employees and with respect to the Intermediaries Offer, to Authorised Financial Intermediaries for their own account or for the account of underlying customers by 8 January 2018.

d. Excluded Territories

The Offer is not being made in each of the United States of America, Canada, Australia, Japan, the Republic of South Africa and any other jurisdiction (whether in the EU or otherwise) where the extension into or availability of the Offer would breach any applicable law.

- E.4** The Issuer is an Authorised Financial Intermediary in respect of the Offer. However, as the Issuer of the New Shares, it has an interest in the Offer. In this respect, the Issuer will not be providing investment advice in relation to subscriptions for New Shares, however, may entertain applications for subscriptions for New Shares on an execution only basis. In this respect, investors are strongly encouraged to seek independent and professional advice prior to participating in the Offer.

Save for the Sponsors' entitlement to fees payable in connection with the Offer, so far as the Issuer is aware, no person involved in the Offer has any other interest that is material to the Offer.

- E.5** Not Applicable. The Offer comprises an offer of New Shares to be issued by the Issuer.

- E.6** The implementation of the capital increase through the Offer will result in the issued share capital of the Bank increasing by 25% provided that the offer is taken up in full.

Existing Shareholders who accept their Proportionate Entitlement in full will suffer no dilution to their interests in the Bank. However, Existing Shareholders who do not take up any of their Rights to subscribe for the New Shares will suffer an immediate dilution of 20% in their interests in the Bank if the offer is taken up in full.

- E.7** Not Applicable. No expenses will be charged to the investors by the Issuer.

EXPECTED TIME-TABLE

| | |
|---|----------------------------|
| 1. FAAE mailed to Existing Shareholders | Tuesday, 7 November 2017 |
| 2. Commencement of Offer Period | Wednesday, 8 November 2017 |
| 3. Closing of Offer Period | Wednesday, 6 December 2017 |
| 4. Announcement of basis of acceptance | Friday, 29 December 2017 |
| 5. Refunds of unallocated monies (if any) | Friday, 29 December 2017 |
| 6. Dispatch of allotment letters | Monday, 8 January 2018 |
| 7. Expected date of admission of the New Shares to listing | Tuesday, 9 January 2018 |
| 8. Expected date of commencement of trading in the New Shares | Wednesday, 10 January 2018 |

**Registration Document
dated 30 October 2017**

This Registration Document is issued in accordance with the provisions of Chapter 4 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended (the “Prospectus Regulation”).

BANK OF VALLETTA P.L.C.

(a public limited liability company registered under the laws of Malta with company registration number C 2833)

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS INCLUDING ANY LOSSES INCURRED BY INVESTING IN SECURITIES ISSUED BY THE BANK.

A PROSPECTIVE INVESTOR SHOULD SEEK INDEPENDENT FINANCIAL ADVICE BEFORE DECIDING TO INVEST IN ANY LISTED FINANCIAL INSTRUMENTS. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE POTENTIAL RISKS IN INVESTING IN THE NEW SHARES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND CONSULTATION WITH HIS OR HER OWN INDEPENDENT FINANCIAL ADVISER.

Legal Counsel

CAMILLERI PREZIOSI
ADVOCATES

Joint Sponsors

 **RIZZO FARRUGIA**
YOUR INVESTMENT CONSULTANTS

Jesmond Mizzi
FINANCIAL ADVISORS 

Manager & Registrar

BOV
Bank of Valletta

BACKGROUND TO THE ISSUER'S CAPITAL INCREASE

The balance sheet growth of Bank of Valletta p.l.c. (the “**Bank**”) to €10.7 billion as at the financial year ended 30 September 2016 and its status as an other systemically important institution (“**O-SII**”) drives the need for the Bank to maintain increased capital buffers that will allow it a higher capacity to continue developing its business and to absorb any unexpected losses that may be incurred. As an O-SII, the Bank is considered by supervisory banking authorities as an institution whose failure would have a significant impact on domestic financial stability and therefore is required, under the banking regulatory framework, to maintain capital buffers over and above those required of banks that are not considered to be O-SIIs; a measure calculated to absorb higher levels of losses from operations.¹

In meeting the challenges that are posed, amongst others, by these regulatory requirements, the Bank has developed a strategy that is aimed at actively managing its capital requirements, in the light of the conduct of its future business and its positioning within the Maltese economic landscape.

Centrefold to this strategy is the Bank's intention to increase its share capital through a rights issue of approximately €150,000,000. The capital increase is one of the main measures of the Bank's capital management plan and is aimed at enabling the Bank's future capital level to comply with, and indeed exceed, regulatory requirements following the implementation of the measures in the Bank's Strategic Initiatives for the period 2018 to 2020. The said Strategic Initiatives, details of which are set out in the Registration Document, are characterised by measures that will have an impact on the on-going capital requirements of the Bank, which the Bank will seek to manage by:

- i. Maintaining a prudent dividend payout ratio that will seek to balance the dividend expectations of Shareholders with the need to re-invest a proportion of profits into the business;
- ii. Managing the consumption of capital through control over the risk density of its assets. This strategy involves the winding down of certain business segments, such as the trusts services business, as well as re-dimensioning certain other business segments with a view to lowering their risk profiles, and improving the quality of its assets. The reduced risk profile of certain business lines will allow the Bank to lower the amount of capital required to support these lines, thereby freeing up capital to augment buffers; and
- iii. Ensuring sustainability of earnings through undertaking new business initiatives that are aimed at:
 - a. supplementing its traditional core income streams by expanding high yielding business lines such as personal finance, asset management, pensions and savings plans;
 - b. ensuring charges and tariffs that better reflect the real cost of service delivery to customers; and
 - c. developing and executing a robust digitalization strategy together with a comprehensive review of business processes with the aim of rendering the Bank's operations and processes more functional and efficient.

Additional demand for capital will however continue to increase in the short to medium term from the Bank's on-going Core Banking Transformation Programme, a multi-million Euro programme aimed at the replacement of the Bank's core banking system and related business processes. The current system, which has been in operation for seventeen years, will be replaced by a leading global solution provided by Oracle. It will be accompanied by a bank-wide change programme that will transform business processes with the aim of providing higher quality of service through robust delivery channels, thus enhancing the Bank's customer experience. The new core system will also provide a solid foundation for developing the Bank's future strategy to digitalise its services.

The new Core Banking System will be treated on the Bank's balance sheet as an intangible asset, and consequently, will be deducted from the Bank's regulatory capital. The result will be a diminution of regulatory capital available to the Bank to apply in satisfaction of its regulatory requirements.

¹ The O-SII capital buffer is a macro-prudential tool legally embedded in the CRD IV/CRR framework which in turn has been implemented in Malta in Directive no.11 issued by the Central Bank of Malta and MFSA Banking Rule 15.

Unless the Bank can improve its capital base, through additional CET1, its ability to sustain further growth and implement its Strategic Initiatives within the parameters of the new regulatory framework, may be curtailed. Failure to improve the capital base would also have an adverse impact on the Bank's ability to sustain its current dividend pay-out approach, and result in the Bank's ability to proceed with the payment of dividends to Shareholders being curtailed, if not altogether prohibited, until the new capital requirements are met to the satisfaction of the supervisory authorities. This could have a significant impact on its overall business, operational results and financial and capital condition. Accordingly, the new regulatory framework has created the need for the Bank to take a fresh look at its strategy and to improve its CET1 to avoid possible intrusive actions by Regulatory Authorities. In such an event, the Bank could also be subject to measures by the Regulatory Authorities including the imposition of restrictions or limits on assets and/or the sale of assets that are deemed to present higher risks to the financial stability and strength of the Bank.

IMPORTANT INFORMATION

THIS REGISTRATION DOCUMENT CONTAINS INFORMATION IN RELATION TO THE BANK AND ITS BUSINESS, AND IS DRAWN UP IN ACCORDANCE WITH THE REQUIREMENTS OF THE LISTING RULES, THE ACT AND THE PROSPECTUS REGULATION.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE BANK OR ITS DIRECTORS TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE BANK OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO THEREIN, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER OR ITS DIRECTORS.

IT IS THE RESPONSIBILITY OF ANY PERSON IN POSSESSION OF THIS DOCUMENT AND ANY PERSON WISHING TO ACQUIRE SECURITIES ISSUED BY THE BANK TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION. PROSPECTIVE INVESTORS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF ACQUIRING AND HOLDING SECURITIES ISSUED BY THE BANK AND ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND FISCAL OBLIGATIONS IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE, OR DOMICILE.

SECURITIES ISSUED PURSUANT TO THIS PROSPECTUS HAVE NOT BEEN, NOR WILL THEY BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT, 1933 AS AMENDED, OR UNDER ANY FEDERAL OR STATE SECURITIES LAW, AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS, OR ANY AREA SUBJECT TO ITS JURISDICTION (THE “U.S.”), OR TO OR FOR THE BENEFIT OF, DIRECTLY OR INDIRECTLY, ANY U.S. PERSON (AS DEFINED IN REGULATION “S” OF THE SAID ACT). FURTHERMORE, THE BANK WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT, 1940, AS AMENDED, AND INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS SET OUT THEREIN.

THE CONTENTS OF THE BANK’S WEBSITE OR ANY WEBSITE DIRECTLY OR INDIRECTLY LINKED TO THE BANK’S WEBSITE DO NOT FORM PART OF THIS DOCUMENT. ACCORDINGLY, NO RELIANCE OUGHT TO BE MADE BY ANY INVESTOR ON ANY INFORMATION OR OTHER DATA CONTAINED IN SUCH WEBSITES AS THE BASIS FOR A DECISION TO INVEST IN ANY SECURITIES ISSUED BY THE BANK.

ALL THE ADVISERS TO THE ISSUER HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE BANK IN RELATION TO THIS PROSPECTUS AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION OR RESPONSIBILITY TOWARDS ANY OTHER PERSON. NONE OF THE ADVISERS ACCEPT ANY RESPONSIBILITY TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE CONTENTS OF AND ANY INFORMATION CONTAINED IN THE PROSPECTUS, ITS COMPLETENESS OR ACCURACY OR ANY OTHER STATEMENT MADE IN CONNECTION THEREWITH.

THE DIRECTORS OF THE ISSUER CONFIRM THAT WHERE INFORMATION INCLUDED IN THIS PROSPECTUS HAS BEEN SOURCED FROM A THIRD PARTY, SUCH INFORMATION HAS BEEN ACCURATELY REPRODUCED, AND AS FAR AS THE DIRECTORS OF THE ISSUER ARE AWARE AND ARE ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

THE VALUE OF INVESTMENTS CAN RISE AS WELL AS FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. INVESTORS MAY LOSE ALL OR PART OF THEIR CAPITAL INVESTED BY INVESTING IN ANY SECURITIES ISSUED BY THE BANK. PROSPECTIVE INVESTORS SEEKING TO INVEST IN THE SAID FINANCIAL INSTRUMENTS ARE URGED TO CONSULT A LICENSED STOCKBROKER OR AN INVESTMENT ADVISER LICENCED UNDER THE INVESTMENT SERVICES ACT (CAP. 370 OF THE LAWS OF MALTA) PRIOR TO MAKING AN INVESTMENT DECISION.

STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE AND AS STATED OTHERWISE, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THERETO.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES AND TO THE MSE IN SATISFACTION OF THE MSE BYE-LAWS, AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE REQUIREMENTS OF THE ACT.

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1. DEFINITIONS

In this Registration Document, the following words and expressions shall bear the following meanings whenever such words and expressions are used in their capitalised form, except where the context otherwise requires:

| | |
|---|---|
| Act | The Companies Act (Cap. 386 of the laws of Malta); |
| Articles | The articles of association of the Issuer; |
| Associated Companies | Each of MAPFRE Middlesea p.l.c. (C 5553) and MAPFRE MSV Life p.l.c. (C 15722); |
| Bank or Issuer | Bank of Valletta p.l.c., a credit institution licenced by the MFSA and registered as a public limited liability company under the laws of Malta with company registration number C 2833; |
| Banking Act | The Banking Act (Cap. 371 of the laws of Malta); |
| Banking Union | The banking union in the EU which was initiated in 2012 as a response to the Eurozone crisis and which entails the transfer of responsibility for banking policy from the national to the EU level in several countries of the EU for the purpose of ensuring that EU banks are stronger and better supervised; |
| BBR | The Bank's base rate which is the basis, established by the Bank from time to time, on which the rate of interest payable generally on all Bank lending is determined; |
| Board or Board of Directors or Directors | The board of directors of the Issuer whose names are set out in section 12.1.1 of this Registration Document; |
| BOV Asset Management Limited or BOVAM | Means BOV Asset Management Limited, bearing company registration number C 18603 and with registered address at 58, Zachary Street, Valletta VLT 1130, Malta; |
| BOV Fund Services Limited or BOVFS | Means BOV Fund Services Limited, bearing company registration number C 39623 and with registered address at 58, Zachary Street, Valletta VLT 1130, Malta; |
| CRD IV | Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC; |
| CRR | Regulation (EU) No 575/2013 of the European Parliament and Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; |
| EU | The European Union; |

| | |
|--|---|
| EU Member States | The member states of the EU; |
| Euribor | The Euro Interbank Offered Rate which is a daily reference rate based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market (or interbank market); |
| Euro or € | The lawful currency of the Eurozone; |
| European Commission | An institution of the EU, responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU; |
| External Auditors or Statutory Auditors | The external auditors of the Issuer, details of which are set out in section 4.1 of this Registration Document; |
| FIAU | The financial intelligence analysis unit established under the Prevention of Money Laundering Act (Cap. 373 of the laws of Malta) which is the national agency responsible for prevention of money laundering and financing of terrorism; |
| Fitch | Refers to Fitch Ratings which is a global rating agency committed to providing the world's credit markets with independent and prospective credit opinions, research and data; |
| Group | The Issuer and the Subsidiaries; |
| Group CEO | The Chief Executive Officer of the Group; |
| IFRS or IAS or International Accounting Standards | All the International Financial Reporting Standards, all the International Accounting Standards (IAS), all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), adopted by the European Union; |
| Listing Authority | The Board of Governors of the MFSA, appointed as 'Listing Authority' for the purposes of the Malta Financial Services Authority Act (Cap. 330 of the laws of Malta); |
| Listing Rules | The listing rules issued by the Listing Authority as may be amended and/or supplemented from time to time; |
| Memorandum | The memorandum of association of the Issuer; |

| | |
|--------------------------------|---|
| Memorandum and Articles | The memorandum & articles of association of the Issuer; |
| MFSA | The Malta Financial Services Authority, established in terms of the Malta Financial Services Authority Act (Cap. 330 of the laws of Malta); |
| Moody's | Refers to Moody's Investors Service which is a leading provider of credit ratings, research, and risk analysis; |
| MSE | Malta Stock Exchange p.l.c., as originally constituted in terms of the Financial Markets Act (Cap. 345 of the laws of Malta), having its registered office at Garrison Chapel, Castille Place, Valletta VLT 1063, Malta, and bearing company registration number C 42525; |
| Prospectus | Collectively this Registration Document, the Securities Note and the Summary Note, as such documents may be amended, updated, replaced and/or supplemented from time to time; |
| Registration Document | This document in its entirety; |
| Registrar of Companies | Means the person appointed as registrar of companies in accordance with the provisions of the Act; |
| Regulatory Authorities | Collectively, the MFSA and the ECB; |
| Resolution Authority | Means the authority appointed for the purposes of the BRRD and which is empowered to apply the resolution tools and exercise the resolution powers; |
| Resolution Committee | Means the committee established within the MFSA through the Malta Financial Services Authority Act (Cap. 330 of the laws of Malta) and which is responsible for the resolution of credit institutions and investment firms; |
| Securities Note | The securities note dated 30 October 2017, forming part of the Prospectus; |
| Senior Management | The management board of the Issuer, details of which appear in section 12.3 of the Registration Document; |
| Shareholders | The persons registered in the Company's register of members as holding shares in the Company from time to time; |
| SRM Regulation | Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010; |
| SSM Regulation | Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions; |

| | |
|------------------------------|---|
| S&P | Refers to S&P Global Ratings which is the world's leading provider of credit ratings; |
| Strategic Initiatives | The strategic initiatives described in section 7.3 of this Registration Document; |
| Subsidiaries | Each of BOV Asset Management Limited and BOV Fund Services Limited; |
| Summary Note | The summary note dated 30 October 2017, forming part of the Prospectus; and |
| UniCredit | UniCredit S.p.A. having its registered office in Rome, Via A. Specchi 16, and Head Office in Milan, Piazza Gae Aulenti 3 – Tower A. |

2. GLOSSARY

The following technical terms are used in this document as a means of explaining *inter alia* the regulatory framework within which the Issuer operates. The terms are explained in this glossary to facilitate the reading and understanding of this document.

| | |
|---|---|
| Basel II | An international agreement on capital requirements for banks in relation to the risks that they assume; |
| Basel III | An international agreement modifying Basel II adopted in December 2010, containing amendments to the prudential regulations on bank capital and liquidity, with the new prudential requirements gradually coming into force from 1 January 2014 until 31 December 2019; |
| Basic Indicator Approach | An operational risk measurement technique used to calculate the capital charge for operational risk under the CRR which uses the Group's total gross income as a risk indicator for the Group's operational risk exposure and sets the required level of operational risk capital as 15% of the Group's annual positive gross income averaged over the previous three years; |
| Basic Method | The method used to determine the capital charge for foreign exchange risk by the Bank, which, as at the date of this Prospectus, is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency; |
| BRRD or BRRD Regulations | The Recovery and Resolution Regulations (subsidiary legislation 330.09 of the laws of Malta) implementing Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms; |
| CBM or Central Bank of Malta | The Central Bank of Malta established by the Central Bank of Malta Act (Cap. 204 of the laws of Malta); |
| Common Equity Tier 1 or CET1 or Tier 1 | The primary component of capital under Basel III rules, consisting principally of paid-up ordinary share capital, related premium reserves, profit for the period, reserves, shareholders' equity attributable to minority interests (which can be included within limits set by the rules) and such other components as may be detailed in the CRR from time to time, as the same may be amended and/or updated; |
| Core Banking Transformation Programme or Core Banking System or CBT Programme or CBT | The replacement of the Issuer's core IT system and the simultaneous upgrade of other key systems used by the Issuer. The IT implementation will be complemented by a thorough review of business processes with the aim of improving efficiency in customer service; |
| EBA | The European Banking Authority established through Regulation (EC) No 1093/2010 of the European Parliament and of the Council of 24 November 2010; |
| ECB | The European Central Bank, namely the central bank of the 19 EU Member States which have adopted the Euro; |

| | |
|--|---|
| ICAAP | Is the acronym of Internal Capital Adequacy Assessment Process, the independent process for evaluating capital adequacy, current and prospective, in relation to the risks undertaken and corporate strategies. The ICAAP makes it possible to calculate the internal capital level adequate to deal with all types of risk; |
| ILAAP | The Internal Liquidity Adequacy Assessment Process, the process for evaluating the adequacy of internal liquidity, with reference to the processes for identifying, measuring, managing and monitoring internal liquidity implemented pursuant to Article 86 of the CRD IV; |
| IMF | The International Monetary Fund; |
| JST | The joint supervisory team established for the Issuer, which is led by the ECB and comprises staff from the ECB and the MFSA; |
| Maximum Distributable Amount | Is the maximum amount of profit which may be distributed as dividends, which amount is calculated on the basis of Article 141(4) of CRD IV; |
| Oracle | Oracle Hellas Distribution of Software and Information Systems SMLLC; |
| ROE | An acronym of 'return on equity', the ratio between net income and the average of share capital, share premium reserves, reserves and valuation reserves; |
| Single Supervisory Mechanism or SSM | The European financial supervisory system composed of the ECB and competent national authorities of the participating EU Member States, established pursuant to Regulation (EU) No 1024 of the Council of 15 October 2013 and later supplemented by the implementation provisions pursuant to Regulation (EU) No 468/2014 of the ECB; |
| SRB | Refers to the Single Resolution Board. The Single Resolution Board is a key element of the SRM. Its mission is to ensure the orderly resolution of failing banks, with as little impact as possible on the real economy and public finances of the EU Member States participating in the SSM; |
| SRM | Refers to the Single Resolution Mechanism and applies to banks covered by the SSM. It is the second pillar of the Banking Union; |

| | |
|------------------------------|---|
| SREP | <p>The Supervisory Review and Evaluation Process governed by the CRD IV to which banks are subject, with an annual frequency, conducted by the Regulatory Authorities. The SREP is comprised of the following main phases:</p> <ul style="list-style-type: none"> (i) analysis of the exposure to all the significant risks undertaken and the organisational safeguards for their governance, management and control; (ii) evaluation of the robustness of the stress tests conducted internally, also by carrying out similar exercises on behalf of the Regulatory Authorities based on regulatory methods; (iii) analysis of the impact of the stress tests conducted in a macro prudential situation on the technical situation of the banks; (iv) verification of compliance of the capital requirements and other prudential rules; (v) evaluation of the corporate process for calculating the overall internal capital and adequacy of the overall capital in relation to the bank's risk profile (revision of the ICAAP); (vi) allocation of special ratings to each type of risk and an overall score for the corporate position; and (vii) identification by the Regulatory Authorities of any supervisory measures to be implemented; |
| Standardised Approach | A credit risk measurement technique involving the application of risk weights based on the exposure class to which the exposure is assigned and its credit quality, determined in accordance with the CRR; and |
| Tier 2 Capital | Tier 2 capital constitutes supplementary capital under the Basel III rules and primarily consists in capital instruments and subordinated loans where certain conditions are met and share premium accounts related to capital instruments (which can be included within limits set by the rules) and such other components as may be detailed in the CRR Regulation from time to time, as the same may be amended and/or updated. |

3. PERSONS RESPONSIBLE

3.1 PERSONS RESPONSIBLE FOR INFORMATION

The Issuer, with registered office as set out in section 7.1.4 of this Registration Document, and its Directors, whose names are set out in section 12.1.1 of this Registration Document, assume responsibility for the completeness of the data and information contained in the Prospectus.

3.2 DECLARATION OF RESPONSIBILITY

The Directors hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

4. STATUTORY AUDITORS AND ADVISERS

4.1 STATUTORY AUDITORS OF THE ISSUER

The Bank appointed KPMG of Portico Building, Marina Street, Pieta' PTA 9044, Malta jointly with KPMG LLP, of 15 Canada Square, Canary Wharf, London E14 5GL, United Kingdom as the Statutory Auditors of the Issuer by virtue of a Shareholders' resolution at the annual general meeting of the Issuer on the 17 December 2014, and their re-appointment has ever since been approved during subsequent annual general meetings. KPMG is registered as a partnership of certified public accountants holding a practising certificate to act as auditors in terms of the Accountancy Profession Act (Cap. 281 of the laws of Malta). KPMG LLP is a limited liability partnership incorporated in England and is a member of the Institute of Chartered Accountants in England and Wales.

The consolidated financial statements of the Issuer as at 30 September 2016, as at 30 September 2015 and as at 30 September 2014, have been audited by the Statutory Auditors. There were no adverse opinions on the part of the Statutory Auditors with respect thereto. The consolidated interim financial statements of the Issuer for the periods ended 31 March 2017 and 31 March 2016 were reviewed by the Statutory Auditors.

4.2 RELATIONS WITH THE EXTERNAL AUDITORS

As at the date of this Registration Document there was no revocation of the engagement given by the Issuer to the Statutory Auditors, nor any renunciation of that engagement by the Statutory Auditors. The current engagement of the Statutory Auditors is subject to the approval of the next annual general meeting of the Issuer.

4.3 ADVISERS

| | | |
|---------------------|----------|---|
| LEGAL COUNSEL | Name: | Camilleri Preziosi |
| | Address: | Level 3, Valletta Buildings, South Street, Valletta VLT 1103, Malta. |
| JOINT SPONSORS | Name: | Jesmond Mizzi Financial Advisors Ltd. |
| | Address: | 67, Level 3, South Street, Valletta VLT 1105, Malta. |
| | Name: | Rizzo, Farrugia & Co. (Stockbrokers) Ltd. |
| | Address: | Airways House, Third Floor, High Street, Sliema SLM 1549, Malta. |
| MANAGER & REGISTRAR | Name: | Bank of Valletta p.l.c. |
| | Address: | 58, Zachary Street, Valletta VLT 1130, Malta. |

5. SELECTED FINANCIAL INFORMATION

5.1 INTRODUCTION AND PRESENTATION OF CERTAIN FINANCIAL INFORMATION

Historically the Issuer's and the Group's financial year ended on the 30 September in each year. As from the current year (2017), the Issuer's and the Group's financial year shall end on the 31 December in each year.

The historical financial information of the Issuer and the Group is included in: (a) the consolidated audited financial statements of the Issuer for each of the financial years ended 30 September 2014, 30 September 2015 and 30 September 2016; and (b) the interim consolidated financial statements of the Issuer for the six-month financial periods ended 31 March 2016 and 31 March 2017, all of which are incorporated by reference into this Registration Document and extracts of which are reproduced in this Registration Document. The aforementioned financial statements are available for inspection at the registered office of the Issuer (as set out in section 27 of this Registration Document).

5.2 KEY FINANCIAL INFORMATION

5.2.1 Key Consolidated Financial Figures

The following table depicts key financial information extracted from the audited consolidated annual financial statements of the Group for the financial years ended 30 September 2016, 30 September 2015 and 30 September 2014 and unaudited consolidated interim financial statements of the Issuer for the six months ended 31 March 2017, 31 March 2016, 31 March 2015 and 31 March 2014.

| | 31 Mar-17 | 30 Sep-16 | 31 Mar-16 | 30 Sep-15 | 31 Mar-15 | 30 Sep-14 | 31 Mar-14 |
|---|------------|------------|------------|-----------|-----------|-----------|-----------|
| Authorised share capital (ordinary shares of €1.00 each) ('000) | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Ordinary shares in issue of €1.00 each ('000) | 420,000 | 390,000 | 390,000 | 360,000 | 360,000 | 330,000 | 330,000 |
| Total assets (€'000) | 11,305,810 | 10,722,851 | 10,496,201 | 9,901,962 | 9,042,441 | 8,296,791 | 7,734,102 |
| Total liabilities (€'000) | 10,552,945 | 9,993,690 | 9,790,094 | 9,231,773 | 8,401,521 | 7,682,322 | 7,148,690 |
| Total equity (€'000) | 752,865 | 729,161 | 706,107 | 670,189 | 640,920 | 614,469 | 585,412 |
| Common Equity Tier 1 ratio | 13.1% | 12.8% | 12.3%* | 11.3% | 11.8% | 11.7% | 11.3% |
| Total Capital Ratio | 16.8%* | 16.8% | 16.6%* | 13.4% | 14.3% | 14.5% | 16.0% |

* This ratio does not feature in the unaudited consolidated interim financial statements of the Group, but has been included in the above table for comparative purposes.

5.2.2 Key References

The table below sets out the various references to key sections of the consolidated audited financial statements of the Issuer for each of the financial years ended 30 September 2014, 30 September 2015 and 30 September 2016.

| | Page number in Annual Reports | | |
|--|--|--|--|
| Information incorporated by reference in this Prospectus | Financial year ended 30 September 2016 | Financial year ended 30 September 2015 | Financial year ended 30 September 2014 |
| Consolidated Statements of Profit or Loss | 40 | 41 | 46 |
| Consolidated Statements of Profit or Loss and other Comprehensive Income | 41 | 42 | 47 |
| Consolidated Statements of Financial Position | 42 | 43 | 48 |
| Consolidated Statements of Changes in Equity | 43 | 44 | 49 |
| Consolidated Statements of Cash Flows | 45 | 46 | 51 |
| Consolidated Notes to the Financial Statements | 46 to 112 | 47 to 114 | 52 to 115 |
| Independent Auditors' Report | 113 | 115 | 44 |

6. RISK FACTORS

6.1 GENERAL

PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER WITH THEIR OWN INDEPENDENT FINANCIAL AND OTHER PROFESSIONAL ADVISERS THE FOLLOWING RISK FACTORS AND OTHER INVESTMENT CONSIDERATIONS, AS WELL AS ALL THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, BEFORE MAKING ANY INVESTMENT DECISION WITH RESPECT TO ANY OF THE LISTED FINANCIAL INSTRUMENTS THAT WILL BE OFFERED BY THE ISSUER PURSUANT TO THIS REGISTRATION DOCUMENT. SOME OF THESE RISKS ARE SUBJECT TO CONTINGENCIES WHICH MAY OR MAY NOT OCCUR AND THE ISSUER IS NOT IN A POSITION TO EXPRESS ANY VIEWS ON THE LIKELIHOOD OF ANY SUCH CONTINGENCIES OCCURRING. THE SEQUENCE IN WHICH THE RISKS BELOW ARE LISTED IS NOT INTENDED TO BE INDICATIVE OF ANY ORDER OF PRIORITY OR OF THE EXTENT OF THEIR CONSEQUENCES.

IF ANY OF THE RISKS DESCRIBED BELOW WERE TO MATERIALISE, THEY COULD HAVE A SERIOUS EFFECT ON THE BANK'S FINANCIAL RESULTS, FINANCIAL CONDITION AND TRADING PROSPECTS. THE RISKS AND UNCERTAINTIES DISCUSSED BELOW ARE THOSE IDENTIFIED AS SUCH BY THE DIRECTORS, BUT THESE RISKS AND UNCERTAINTIES MAY NOT BE THE ONLY ONES THAT THE BANK FACES. ADDITIONAL RISKS AND UNCERTAINTIES, INCLUDING THOSE WHICH THE DIRECTORS ARE NOT CURRENTLY AWARE OF, MAY WELL RESULT IN A MATERIAL IMPACT ON THE FINANCIAL CONDITION AND OPERATIONAL PERFORMANCE OF THE BANK.

THIS REGISTRATION DOCUMENT IS NOT INTENDED TO CONSTITUTE, AND SHOULD NOT BE CONSTRUED AS CONSTITUTING, A RECOMMENDATION BY THE ISSUER, THE ADVISERS LISTED IN SECTION 4.3 OR ANY AUTHORISED FINANCIAL INTERMEDIARY TO PURCHASE ANY OF THE LISTED FINANCIAL INSTRUMENTS THAT WILL BE OFFERED BY THE ISSUER PURSUANT TO THIS REGISTRATION DOCUMENT. PROSPECTIVE INVESTORS SHOULD MAKE THEIR OWN INDEPENDENT EVALUATION OF ALL RISK FACTORS AND SHOULD CONSIDER ALL OTHER PARTS OF THE PROSPECTUS. THE RISK FACTOR DESCRIPTIONS GIVEN BELOW SHOULD BE READ IN CONJUNCTION WITH THE OTHER INFORMATION CONTAINED IN THE REGISTRATION DOCUMENT, INCLUDING THE DOCUMENTS AND INFORMATION REFERRED TO THEREIN, AS WELL AS THE INFORMATION AND OTHER RISK FACTORS DESCRIBED IN THE SECURITIES NOTE RELATING TO THE LISTED FINANCIAL INSTRUMENTS THAT THE ISSUER MAY OFFER PURSUANT TO THIS REGISTRATION DOCUMENT.

FORWARD-LOOKING STATEMENTS AND FINANCIAL FORECASTS

The Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places within the Prospectus and include statements regarding the intentions, beliefs or current expectations of the Bank and/or the Directors concerning, amongst other things, the Bank's strategy and business plans, results of operations, financial condition, liquidity, prospects, dividend pay-out approach of the Issuer and the market in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and should therefore not be construed as such. The Issuer's actual results of operations, financial condition, liquidity, dividend pay-out approach and the development of its Strategic Initiatives may differ materially from the impression created by the forward-looking statements contained in the Prospectus. In addition, even if the results of operations, financial condition, liquidity and dividend pay-out approach of the Bank are consistent with the forward-looking statements contained in the Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause these differences include, but are not limited to, changes in economic conditions, legislative and regulatory developments, changes in fiscal regimes and the availability of suitable financing.

In addition, the financial forecasts which are being presented in this Registration Document may differ materially from the actual financial statements, once issued. Accordingly, there is no guarantee that the figures as forecasted in the statement of profit and loss for the 3-month period ending 31 December 2017 as well as the statement of financial position as at 31 December 2017, will materialise.

Potential investors are advised to read the Prospectus in its entirety, and, in particular, all the risk factors set out in this Prospectus, for a description of the factors that could affect and/or vary the Bank's future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur. All forward-looking statements contained in this document are based on information available as at the date of the Prospectus. Subject to applicable legal and regulatory obligations, the Bank and its Directors expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

6.2 RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

6.2.1 Risks Relating to the Strategic Initiatives

The increase in share capital is one of the main measures of the Bank's Strategic Initiatives and is aimed at enabling the Bank's capital requirements to be maintained in excess of regulatory requirements following the implementation of the Bank's Strategic Initiatives.

The Strategic Initiatives are based on a number of factors, not least of which a number of assumptions with respect to the future, which may or may not occur. These include, but are not limited to, the Directors taking a view on the general socio-economic environment in Malta, the situation in the banking sector both in Malta and in the rest of the world, and not least the anticipated regulatory environment. Each of these factors has a significant impact on the Bank, its business and overall operations and financial performance. There can be no guarantee that the assumptions made by the Directors in devising the Strategic Initiatives will materialise, nor indeed that if they do materialise, the Strategic Initiatives will have the overall effect that they are expected to have. The Bank's results of operations, financial condition, liquidity and its development strategy may differ materially from the expectations of the Directors.

In line with the Bank's Strategic Initiatives, unless the Bank can strengthen its capital buffers through additional CET1, its ability to sustain further growth within the parameters of the new regulatory framework, may be significantly curtailed. Failure to improve the capital base would also have an adverse impact on the Bank's ability to sustain its current dividend pay-out approach and would entail that the Bank's ability to proceed with the payment of dividends to Shareholders would be curtailed, if not altogether prohibited, until the new capital requirements are met to the satisfaction of the Regulatory Authorities. This could have a significant impact on the Issuer's overall business, operational results and financial and capital condition.

In such an event, the Bank could also be subject to measures by the Regulatory Authorities involving its management, including the imposition of restrictions on assets and/or the sale of assets should this result in serious risks to the financial condition of the Bank.

6.2.2 Credit Risk and Risk of Credit Quality Deterioration

The activity, financial and capital strength and profitability of the Issuer also depend on the creditworthiness of its customers, among other things.

In carrying out its credit activities, the Issuer is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may generate a corresponding change in the value of the associated credit exposure and give rise to the partial or total write-down thereof. This risk is always inherent in the traditional activity of providing credit, regardless of the form it takes.

In the context of credit activities, this risk involves, among other things, the possibility that the Issuer's contractual counterparties may not fulfil their payment obligations, as well as the possibility that the Issuer may, based on incomplete, untrue or incorrect information, grant credit that otherwise would not have been granted or that would have been granted under different conditions.

The main causes of non-fulfilment relate to the borrower's loss of its autonomous capacity to service and repay the debt (due to a lack of liquidity and/or insolvency, amongst others), the emergence of circumstances not related to the economic/financial conditions of the debtor, (such as country risk), and the effect of operating risks.

Credit risk is the most significant risk and represents the Bank's largest regulatory capital requirement.

Credit risk also includes concentration risk². The latter arises through a high level of exposure to individual issuers or counterparties (single-name concentration) or a group of connected clients or a high level of exposure within industry sectors and geographical regions (sectoral concentration).

Other banking activities, besides the traditional lending and deposit activities, can also expose the Issuer to credit risks. Non-traditional credit risk can, for example, arise from the Issuer: (i) entering into derivative contracts; (ii) buying and selling securities and/or currencies; or (iii) custody of third-party securities. The counterparties of said transactions or the issuers of securities held by the Issuer could fail to comply with their payment obligations due to insolvency, political or economic events, a lack of liquidity, operating deficiencies, or other reasons.

6.2.3 Counterparty Credit Risk on Derivatives

Counterparty credit risk arising from over-the-counter derivatives is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction. This risk, which is increased by the volatility of the financial markets, may also manifest itself when netting agreements and collateral arrangements are in place, if such arrangements provided by the counterparty in favour of the Issuer in connection with exposures in derivatives are not realised or liquidated at a value that is sufficient to cover the exposure relating to said counterparty.

An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

6.2.4 Risks associated with Capital Adequacy

The Issuer is required to adhere to capital adequacy regulations which require it to maintain appropriate capital resources both in terms of quantity and quality. The Issuer has been assessed as an other systemically important institution ("O-SII") by European banking authorities. Accordingly, as an O-SII, the Issuer must fulfil supplementary requirements concerning the amount of CET1 capital it must hold as a buffer. These buffers aim to address the potential negative effects that systemically important banks, such as the Issuer, may have on the domestic financial system. In addition, as a result of the SREP which banks within the EU, including the Issuer, are subjected to once a year, the applicable prudential limits setting out the specific measures which every bank needs to implement in the following year, including the minimum amount of capital, are communicated by the Regulatory Authorities.

The rules on capital adequacy for banks define the prudential minimum capital requirements, the quality of capital resources, and risk mitigation instruments. Non-compliance with these capital requirements may have a significant impact on the Bank's operations and future sustainability.

6.2.5 Liquidity Risk

Liquidity risk refers to the possibility that the Issuer may find itself unable to meet its current and future, anticipated and unforeseen cash payment and delivery obligations without impairing its day-to-day operations or financial position. The activity of the Issuer is subject in particular to funding liquidity risk, market liquidity risk, mismatch risk and contingency risk.

Funding liquidity risk refers to the risk that the Issuer may not be able to meet its payment obligations, including financing commitments, when due. In light of this, the availability of the liquidity needed to carry out the Issuer's various activities and the ability to access long-term funding are essential for the Issuer to be able to meet its anticipated and unforeseen cash payment and delivery obligations, so as not to impair its day-to-day operations or financial position.

² See also section 6.2.7 below.

As regards market liquidity risk, sudden changes in market conditions (interest rates and creditworthiness in particular) can have significant effects on the time to sell securities, including high-quality assets such as government securities, without incurring losses. Moreover, the consequences of a possible downgrade of issuers of securities in which the Issuer is invested could make it difficult to guarantee that such financial instruments can be easily liquidated under favourable economic terms.

In this context, due to economic and market conditions or due to unforeseen risks which the Issuer might be faced with, the Issuer's access to deposits and other forms of funding could be curtailed. In view that a significant portion of the Issuer's financing is derived from local customer deposits, the Issuer is therefore exposed to risks that are typically associated with retail deposits. For example, a decrease in customer confidence could limit the Issuer's capacity to access retail funds, both through the deposits channel or through the issue of financial instruments. This could limit the Issuer's capacity to access the liquidity required to meet regulatory requirements, with consequent negative effects on the operating results and capital and/or financial position of the Issuer and/or of the Group.

In addition to risks closely connected to funding risk and market liquidity risk, an additional risk that could impact day-to-day liquidity management is represented by differences in the amounts or maturities of incoming and outgoing cash flows (mismatch risk). Furthermore, the Issuer must also manage the risk that (potentially unexpected) future requirements (i.e. use of credit lines, withdrawal of deposits, increase in guarantees offered as collateral) may use a greater amount of liquidity than that considered necessary for day-to-day activities (contingency risk).

6.2.6 Market Risk

Market risk involves the risk that the Bank's earnings or capital will be adversely affected by the volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. It arises from both customer and discretionary business and is managed by a variety of different techniques.

The discretionary investment portfolio of the Issuer consists mainly of debt securities. The Bank's strategy is to manage these instruments as an investment portfolio rather than as a trading portfolio. In fact, the Bank's exposure towards the trading book is nil and it is therefore exempted from the trading book capital requirements as set by the CRR.

In the event that any of the market risks specified above were to occur, the Issuer may experience significant losses in the value of its investment portfolio, that would consequently have a significant adverse impact on the operations and financial performance of the Bank as well as the value of its assets. The following are the principal identifiable market risks:

Interest Rate Risk

Interest rate risk is defined as the current or prospective risk of the Issuer's financial position arising from unfavourable movements in interest rates.

The Issuer is exposed to interest rate risk in its banking book ("IRRBB"), arising from the mismatch between interest sensitive assets and liabilities held in the banking book.

Changes in interest rates affect the sensitivity of earnings in the short term by changing the Issuer's net interest income and the level of other interest sensitive income and expenses.

Furthermore, interest rate risk arises from the different re-pricing characteristics of the Bank's interest-sensitive assets and liabilities and from the mismatch between interest rate-sensitive assets and liabilities. Variations in interest rates also affect the present value and timings of future cash flows. This in turn changes the underlying value of the Bank's assets, liabilities and off-balance sheet items. For this reason, movements in interest rates not only have an effect on the net interest margin, but also on the economic value effect on the Bank.

Foreign Exchange Risk

Foreign exchange risk arises on monetary assets and liabilities not denominated in the base currency of the Issuer. The Issuer's base currency is the Euro and since it conducts the principal part of its activities in Euro, it is not exposed to material foreign exchange risk.

6.2.7 Concentration Risk

Concentration risk arises due to a high level of exposure by the Bank to individual issuers or counterparties (single name concentration) or a group of connected clients or a high level of exposure within industry sectors and geographical regions (sectoral concentration). Consequently, due to concentration risk, the credit risks associated with such clients could be significantly greater than those where no such high levels of exposure or connections exist.

Given the size and nature of the domestic financial sector and the local economy, the Bank is exposed to concentration risk in its credit business. Concentration in the credit business results when the Bank has a high level of exposure to a single name or to a related group of borrowers, to credit exposures secured by a single security, or to credit exposures with common characteristics within an industry sector.

The Bank's investment portfolio may also be exposed to concentration risk derived from excessive reliance on the same country, counterparty, sector or currency.

In addition, the deposit base of the Issuer primarily consists of customers located in Malta and other EU countries. As a result, the Issuer is highly exposed to any economic trends affecting Malta specifically and the EU generally, which if negative may have an adverse effect on the Issuer, its business and results of operations and financial condition.

Any major downturn in economic activity in those markets where the Bank has a concentration risk could have a significant adverse impact on the financial performance and financial condition of the Bank.

Move from BBR to Euribor

The high liquidity present in the local market generated mainly by the increased economic activity, coupled with low-for-long interest rates as well as the internationalisation of the business environment, are all resulting in increased competition for credit within the local sector. This increase in competition is leading to pressure on the Bank to move from its BBR in pricing its loans to Euribor. This situation, if material, would have an effect on the net interest margin of the Bank and would therefore impact the financial position of the Group.

6.2.8 Operational Risk

Operational risk is the risk of loss due to errors, infringements, interruptions and damages caused by inadequate internal processes, failures/errors of personnel or systems or caused by external events.

Operational risk and consequent losses can result from a wide range of factors, including but are not limited to fraud, errors by employees, employment practices and workplace safety, client claims, failure of the Issuer's system of internal controls, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with increasingly complex regulatory requirements and conduct of business rules, systems and equipment failures, damage to the Bank's physical assets, natural disasters or the failure of external systems (for example, those of the Issuer's counterparties or vendors).

Any losses arising from the above failures, could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

Operational risk specific to the Issuer's IT systems is described below.

6.2.9 Risks relating to Information Technology

The Issuer depends on its information technology systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Issuer's business and operating data. The proper functioning of the Issuer's core client banking system, risk management tools, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the Issuer's business and ability to compete effectively. The Issuer's business activities would be materially disrupted if there were a partial or complete failure of any of these information technology systems or communication networks.

Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Issuer's control including natural disasters, extended power outages and computer viruses. The proper functioning of the Issuer's information technology systems also depends on accurate and reliable data and other system inputs, which are subject to human errors. In addition, given the Issuer's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, any failure or delay in recording or processing the Issuer's transaction data could subject the Issuer to claims for losses and regulatory fines and penalties.

6.2.10 Information Security Risk

Information security risk refers to the risk of loss caused by deliberate or accidental loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems. The Group applies various international standards in its integrated approach, which has the fundamental objective of ensuring the confidentiality, integrity and availability of its information assets. Loss or leakage of confidential information could have a material adverse effect on the operations and performance of the Issuer.

6.2.11 Reputational Risk

Reputational risk is the current or future risk of a loss or decline in profits or share value as a result of a negative perception of the Issuer's image by customers, counterparties, shareholders, investors or regulators. The Issuer believes that if any of these risks were to occur it could result in a material adverse effect on the operations and performance of the Issuer.

6.2.12 Business Risk

Business risk is defined as a measurement of the variance between unanticipated unfavourable changes in future profit margins of the Issuer and those forecasted. It can lead to serious losses and therefore impact the Issuer's capital. Business risk concerns the impact of future unanticipated impairment over a period of one year. In more detail, within the context of business risk, margins are defined as the difference between revenue and expense in such a way that they do not overlap with other risks (e.g. credit, market and operational).

Business risk may originate from a significant deterioration of the relevant market, changes in the scenario, alternative customer conduct, and even changes in the relevant regulatory framework.

6.2.13 Strategic Risk

Strategic risk is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, with negative impact on the risk profile and consequently on capital, earnings as well as the overall direction and scope of the Bank in the long run.

The quantifiable component of the risk, including the changes in the competitive scenario and the legal framework are incorporated in the business risk.

6.2.14 Risks connected with Legal Proceedings in Progress and Supervisory Authority Measures

As at the date of this Registration Document, the Bank and the Group companies are defendants in several legal proceedings. Moreover, from time to time, past and present directors, officers and employees may be involved in civil and/or criminal proceedings, the details of which the Group may not lawfully know about or communicate.

The Group is also required to deal appropriately with various legal and regulatory requirements in relation to certain aspects of its activity, such as conflicts of interest, ethical issues, anti-money laundering laws, client assets, competition law, privacy and information security rules and others. Actual or alleged failure to do so may lead to additional litigation and investigations and could subject the Group to claims for damages, regulatory fines, other penalties and/or reputational damages. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure.

In many cases, there is substantial uncertainty regarding the outcomes of the proceedings and the amount of any possible losses. However, if it is possible to reliably estimate the amount of possible losses and the loss is considered likely, provisions are made in the financial statements to the extent deemed appropriate by the Bank, or any of the Group companies involved, based on the circumstances and consistent with International Accounting Standards. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, a liability for the estimated loss is provided for. Due to the uncertainties inherent in these matters, provisions are based on the best information available at the reporting date. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in the estimates of the potential liabilities could have a material impact on results of operations and the financial position of the Group.

6.2.15 Risks related to the Distribution of Dividends

The capacity of the Issuer to distribute dividends depends on the compliance of the minimum applicable capital requirements based on the regulations in force, specifically the overall capital requirements, where failure to comply involves the need to calculate the Maximum Distributable Amount. Therefore, albeit the Issuer may have distributable profits pursuant to its statutory financial statements, the Issuer would not be able to pay dividends in the case of failure to comply with these prudential regulatory provisions.

The distribution of dividends could, also, in the future, be excluded or limited by the need to comply with capital requirements laid down by legal and/or regulatory rules applicable to the Group and/or imposed by the rules concerning the Maximum Distributable Amount. Further, despite there being the availability of distributable profits, the ECB, through the Recommendation of 13 December 2016, required all banks to adopt dividend distribution policies that are based on conservative and prudent assumptions that allow them to maintain, at individual and consolidated level, conditions of capital adequacy, current and prospective taking into account the fully loaded capital ratios, consistent with the combination of risks assumed, suitable for facilitating alignment to the prudential requirements established by the CRD IV and by the CRR and for guaranteeing the coverage of the internal capital levels calculated under the scope of the SREP.

In line with the CRR, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', requires additional buffers: capital conservation buffer; countercyclical buffer; other systemically important institutions (O-SII) buffer; and systemic risk buffer. These buffers are aimed to strengthen the resilience of the Group and have entered into force as from January 2016, with full application by January 2019. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

6.2.16 Risks associated with Borrowings and Evaluation Methods of the Issuer's Assets and Liabilities

In conformity with the framework dictated by International Accounting Standards, the Issuer should formulate evaluations, estimates and theories that affect the application of accounting standards and the amounts of assets, liabilities, costs and revenues reported in the financial statements, as well as information relating to contingent assets and liabilities. The estimates and related hypotheses are based on past experience and other factors considered reasonable in the specific circumstances and have been adopted to assess the assets and liabilities whose book value cannot easily be deduced from other sources.

The application of IAS by the Issuer reflects the interpretation and decisions made with regard to the said principles. In particular, the measurement of fair value is regulated by IFRS 13 “Fair Value Measurement”.

In addition to the risks implicit in the market valuations for listed instruments (also with reference to the sustainability of values over a period of time, for causes not strictly related to the intrinsic value of the actual asset), the risk of uncertainty in the estimate is essentially inherent in calculating the value of: (i) the fair value of financial instruments not listed on active markets; (ii) receivables, equity investments and, in general, all other financial assets/liabilities; (iii) severance pay and other employee benefits; (iv) provision for risks and charges and contingent assets; (v) goodwill and other intangible assets; (vi) deferred tax assets; and (vii) real estate.

The quantification of the above-mentioned items subject to estimation can vary quite significantly in time depending on trends in: (i) the national and international socio-economic situation and consequent reflections on the profitability of the Issuer and the solvency of customers; (ii) the financial markets, which influence the fluctuation of interest and foreign exchange rates, prices and actuarial bases; (iii) the real estate market, with consequent effects on the real estate owned by the Group and received as collateral; and (iv) any changes to existing regulations.

The quantification of fair value can also vary in time as a result of the corporate capacity to effectively measure this value based on the availability of adequate systems and methodologies and updated historical-statistical parameters and/or series.

In addition to the above-mentioned explicit factors, the quantification of the values can also vary as a result of changes in managerial decisions, both in the approach to evaluation systems and as a result of the revision of corporate strategies, also following changed market and regulatory contexts.

6.2.17 Risks arising from the Issuer’s Custody Business

The Issuer acts as custodian to a number of professional investor funds (“PIFs”), UCITS funds and alternative investment funds (“AIFs”) (collectively “CISs”). As custodian, the Issuer provides safekeeping services to CISs and also performs monitoring and oversight functions in respect of such CISs, amongst other services. The Issuer has global custody network access by means of a custody agreement entered into with RBC Investor Services Trust, London Branch (the UK branch of a trust company incorporated under the laws of Canada), further to which the Issuer delegates certain of its safekeeping functions.

When acting as custodian of UCITS, AIFs and PIFs marketed to experienced investors, the Issuer is (broadly) in terms of applicable regulation: (a) liable for loss of financial instruments held in custody (unless it can prove that the loss arose as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary); and (b) is also liable for all other losses suffered by such investment funds and unit holders therein as a result of the Issuer’s negligent or intentional failure to properly fulfil its obligations pursuant to applicable law. The liability of the Issuer is not affected by any delegation of services. Investors should note that unit holders in UCITS funds, AIFs and PIFs targeting experienced investors may invoke liability of the Issuer, as custodian, directly or indirectly through the management company or the fund.

When acting as custodian of PIFs marketed to qualifying and extraordinary investors, the Issuer is, in terms of applicable regulation (broadly) liable for any loss or prejudice suffered by the PIF or the unit-holders due to the Issuer’s fraud, wilful default or negligence including the unjustifiable failure to perform in whole or in part the custodian’s obligations arising pursuant to applicable law and the relevant custody agreement in place. With respect to PIFs marketed to qualifying and extraordinary investors, the Issuer’s liability is similarly not affected by delegation of safekeeping functions, however it may (in certain instances) be varied or reduced with the written consent of the PIF or the manager acting on behalf thereof.

In providing custody services, liability of the Issuer (as described above) could materialise due to, amongst others, the loss of financial instruments held in custody (including due to fraud and possible failures of the Issuer in segregating assets of the CISs), negligence of the Issuer in performing its custody functions, failures in clearing and settlement systems and/or the insolvency, negligence or fraudulent conduct of the Issuer’s sub-custodian (or delegates thereof). In the event that such liability arises, this could impact the financial performance of the Issuer.

6.2.18 Risks arising from the Issuer's Trusts Business

The Bank's trust unit was established in 2005, when the Bank was granted authorisation by the MFSA to offer trustee services in terms of the Trusts and Trustees Act (Cap. 331 of the laws of Malta).

It is inherent in the creation of a trust that ownership of assets passes from the existing owner (settlor) to the trustee which effectively means complete transfer of control of the trust assets to the trustee. In addition, settlors setting up discretionary trusts implies that the trustee has discretion on what to distribute to beneficiaries. Also, setting up and maintaining a trust involves certain costs. In addition, in very limited scenarios, the income which is generated by the asset under trust may suffer a higher rate of tax than if the income remained in the hands of the settlor.

As set out in section 8.1.1 of this Registration Document, the Issuer has decided to wind down its trust business. However, until such time as the trust business is wound down and, possibly even thereafter, liability of the Issuer could materialise in respect of the Bank's trust business due to (amongst others), negligence of the Issuer in the performance of its functions, loss of assets settled on trust and any breaches of the Issuer's contractual obligations. In the event that such liability arises, this could impact the financial performance of the Issuer. Such liabilities in relation to the trust business are taken into account in the capital allocation of the Issuer.

6.2.19 Risks arising from the Bank's International Corporate Centre

The Issuer's international corporate centre ("ICC") houses a large number of deposit accounts held by the Issuer's international corporate clients.

International corporate clients present a higher degree of risks than is normally associated with local clients. This is particularly pronounced in the level of information required in order for the Issuer to comply with know-your-customer and other due diligence requirements which may be very cumbersome when international corporate clients are comprised of complex corporate structures. In such instances, the identification of the ultimate beneficial owners and/or the sources of funds and wealth may be difficult to determine.

Such situations present serious legal, regulatory and reputational risks for the Issuer and potential financial risks due to the fact that the Issuer may not be able to detect money laundering and terrorist financing in respect of its international clients.

6.2.20 Risks connected with the Collection, Storage and Processing of Personal Data

The activity conducted by the Group is subject to the rules governing the processing of personal data in terms of the Data Protection Act (Cap. 440 of the laws of Malta) and subsidiary legislation issued thereunder (the "DPA").

In terms of the DPA, the Group is subject to a number of obligations concerning the processing of personal data, as a result of which the Issuer and the Subsidiaries must ensure, amongst others, that: (i) personal data is processed fairly and lawfully; (ii) personal data is always processed in accordance with good practice; (iii) personal data is only collected for specific, explicitly stated and legitimate purposes; (iv) all reasonable measures are taken to complete, correct, block or erase data to the extent that such data is incomplete or incorrect, having regard to the purposes for which they are processed; and (v) personal data is not kept for a period longer than is necessary. Additionally, prior to processing personal data, the Issuer and the Subsidiaries must ensure that the person to whom the personal data relates has unambiguously given his consent for such processing, unless the processing of personal data as aforesaid validly take places without such consent in the circumstances set out in the DPA.

The Group has adapted its internal procedures to comply with the DPA. However, the Group remains exposed to the risk that data collected could be damaged or lost, disclosed or processed for purposes other than as permitted in the DPA. The possible damage or loss of customer data, in the same way as its unauthorised processing or disclosure, would have a negative impact on the activity of the Issuer, in reputational terms too, and could lead to the imposition of fines.

In addition, any changes to the applicable laws and/or regulations, even at an EU level, could have a negative impact on the Group's activities, because it could create the need to incur costs for adapting to the new regulations. In this regard, prospective investors should note, among other things, that in June 2016 Regulation (EU) 2016/679 on the protection of physical persons with regard to the processing of personal data, as well as the free circulation of this data, came into force. This regulation, which will apply from May 2018, introduced more restrictive provisions and more onerous obligations on data controllers and processors as far as the processing of personal data is involved, also in relation to the methods of obtaining consent from the parties concerned. It also created more stringent sanctions applicable to the data controllers and processors if the provisions of the regulation are violated.

6.2.21 Risks connected with the Performance of the Property Market

The Issuer is exposed to the risks of the property market, both as a result of investments held directly in properties owned and through which it operates, and as a result of loans granted to companies operating in the property sector where the cash flow is generated mainly by the rental or sale of properties (commercial real estate), as well as due to granting loans to individuals where the collateral is immovable property.

Any downturn in the property market could result in the Group having to make impairments to the real estate it owns at a value that is higher than the recoverable value, with consequent negative effects, including significant ones, on the operating results and capital and financial position of the Issuer and/or the Group.

In addition, the Issuer is also exposed to, commercial real estate through loans granted to businesses operating in the property sector. Any downturn in the real estate market could lead to a fall in market prices and a consequent fall in the demand for real estate. As a result, the Issuer's customers operating in this sector could well have to deal with a decrease in transaction volumes and margins, an increase in commitments resulting from financial expenses, as well as greater difficulties in refinancing, with negative consequences on the profitability of their activities, which could have a negative impact on their ability to repay the loans granted by the Issuer.

On the other hand, with regard to loans granted to private individuals and collateralised by real estate, a fall in property prices could translate into a reduction in the value of the collateral that could potentially be realised in the case of enforcement if the debtor defaults.

Specifically, poor market conditions and/or, more generally, a protracted economic or financial downturn could lead to a fall in value of the collateral properties as well as create significant difficulties in terms of monetisation of the said collateral under the scope of enforcement procedures, with possible negative effects in terms of realisation times and values, as well as on the operations and financial position of the Issuer and/or the Group.

7. INFORMATION ABOUT THE ISSUER

7.1 HISTORY AND DEVELOPMENT OF THE ISSUER

7.1.1 Legal and Commercial Name of the Issuer

The Issuer's legal name is **Bank of Valletta p.l.c.** and, in shortened form, it is commercially referred to as **BOV**.

7.1.2 Place of Registration of the Issuer and its Registration Number

The Issuer is duly registered in Malta with company registration number C 2833.

7.1.3 The Date of Incorporation and the Length of the Issuer

The Issuer was first registered on 21 March 1974 for an indefinite period.

7.1.4 The Domicile and Legal Form of the Issuer, Legislation under which it operates, its Country of Incorporation, Telephone Number and its Registered Address

| | |
|-------------------------------------|---------------------------------------|
| Registered address: | 58, Zachary Street, Valletta VLT 1130 |
| Place of registration and domicile: | Malta |
| Legal form: | Public limited liability company |
| Telephone number: | +356 2275 3556 |
| Fax number: | +356 2275 3711 |
| Email: | iro@bov.com |
| Website: | www.bov.com |

The Issuer is established and registered under the Act.

7.2 RATING

The Issuer is currently rated by Fitch. The Issuer's long-term issuer default rating assigned by Fitch is 'BBB' with a stable outlook. A 'BBB' rating indicates that *"expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity"*³.

7.3 STRATEGIC INITIATIVES 2018 - 2020

The Board of Directors has articulated clear corporate goals for the Bank. These goals, which describe what the Bank aims to achieve in the long term, are:

- Financial stability and sustainability;
- Protection of the interests of depositors; and
- Provision of a sustainable and equitable return to Shareholders.

The Board has further identified a number of corporate strategies, which define the ways in which the Bank plans to achieve its goals. The principal strategies are:

1. Consolidation of long term financial sustainability;
2. Strengthening corporate governance;
3. The adoption of IFRS 9
4. Revision of the business model; and
5. Reinforcement of HR and IT resourcing.

Each strategy is discussed in more detail below.

1. Consolidation of Long Term Financial Sustainability

The Issuer is a local systemically important institution, and is consequently required to hold capital buffers which are higher than those which would be required of less significant banks. One of the objectives of the planned equity issue by the Bank in the fourth quarter of 2017 is, in fact, to build up such buffers, with the aim not only of compliance with supervisory demands, but also to ensure the long-term viability of the Issuer as a stable institution with sufficient capital to absorb any future unexpected losses.

³ Source: <https://www.fitchratings.com/site/definitions>

The equity issue will significantly strengthen capital buffers, allowing the Bank to:

- Attain and exceed regulatory capital buffers required by supervisory authorities;
- Absorb the costs of the Core Banking Transformation Programme;
- Absorb the impact of IFRS 9 adoption; and
- Allow capacity and flexibility to implement the Strategic Initiatives relating to the revised business model.

The Issuer has relied exclusively on the plough-back, or re-investment, of profit to increase its capital. The effectiveness of this source depends on articulating and executing a prudent and sustainable dividend pay-out approach. Such policy has always sought to provide the Bank with a steady stream of re-invested profit, while taking into account the legitimate expectations of Shareholders of a fair and sustainable dividend.

The Bank is currently actively following developments to determine the impact of the BRRD on the level of liabilities required as being eligible for “bail-in”. Concurrently, a capital optimisation exercise is being conducted, led by external consultants, with the aim of optimising efficiency in the use of regulatory capital.

2. Strengthening Corporate Governance

The Bank is taking steps to continue improving its governance framework, including through changes to its Memorandum and Articles, with the aim of enhancing Board effectiveness and continuity. Other steps which have recently been taken include:

- A thorough review of the terms of reference of board committees;
- The embedding of a nomination and governance committee in the Articles;
- An increase in the number of members on the audit, risk and compliance committees from three to four, thereby widening participation and giving new Directors the opportunity to form part of these important committees;
- The strengthening of reporting from Board committees to the Board through quarterly reports;
- The introduction of a detailed induction course to Board members covering areas such as corporate governance, risk management, risk appetite, capital management, anti-money laundering and specialised business areas (funds, trust, custody etc.);
- The appointment of Directors for a term of three years, rather than re-appointment on a yearly basis;
- The appointment of two executive directors (on an *ex officio* basis), being the Group CEO and the Chief Risk Officer; and
- The introduction of a risk appetite framework based on the “three lines of defence” model, comprising defined appetite and tolerance levels that set out the separate roles of the Board of Directors and of key executives, through quantitative and qualitative limits and statements.

The Bank’s risk appetite framework will be complemented by an exhaustive risk register, which will identify and classify all risks which the Bank expects to face in its daily operations.

Another strategic focus for the Bank is the strengthening of its anti-money laundering and countering of financing of terrorism defences. In this regard, the Bank is strengthening and standardising procedures relating to customer on boarding, customer file reviews and transaction monitoring.

Compliance with regulation is another key area contemplated by Bank strategy. There can be no good governance without a robust compliance culture. Regulation is a constantly evolving field to which the Bank allocates significant resources.

A key regulatory development which the Bank is in the process of implementing is the new financial reporting standard known as IFRS 9 (*Financial Instruments*).

3. The adoption of IFRS 9

IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. IFRS 9 was endorsed and published in the Official Journal of the EU in November 2016 and will be applicable in the EU for annual periods beginning on or after 1 January 2018, with earlier application being permitted.

The adoption of IFRS 9 may have a material impact on the Group's financial statements. The Group has already carried out an initial assessment on the impact of the new standard and is in the process of implementing a software solution in the coming months.

4. Revision of the Business Model

The Bank is in the process of reviewing its business model, with a view to:

- Diversifying its sources of revenue;
- Reducing reliance on core interest margin; and
- De-risking.

The Bank aims to maintain and develop a diversified portfolio of businesses, such that excessive concentration on any single area is controlled. Although interest margin will remain the Bank's core revenue source, it is desirable to diversify away from this source, especially in the present context of a "low-for-long" interest rate environment. Rates at historical lows, coupled with the imposition of negative deposit rates by the ECB and other institutions, are putting revenues under pressure. The Bank has reacted by setting up three strategic committees to draw up long-term plans relating to a number of business areas where the Bank sees good growth potential.

The Bank is also focusing on a thorough review of its distribution channels, whether physical or digital. A branch reconfiguration exercise, with the aim of rationalising the branch network in accordance with contemporary needs and expectations is under way. Concurrently, the Bank is stepping up its digitalisation strategy, which has the aim of facilitating the electronic distribution of products and services through different channels. The objective is to make the Bank into the most accessible financial services provider on the local market in the digital age.

Another area of strategic importance is the maintenance and improvement of asset quality, through which the Bank aims to minimise credit losses and optimise recovery of doubtful debts.

Finally, the Bank is carrying out an ongoing review of business lines where the risk assumed is either not justified by the reward, or where the risk lies at the periphery of the Bank's risk appetite. Certain business lines are earmarked to be wound down, while others are being reconfigured in the context of the Bank's risk appetite.

5. Reinforcement of HR and IT Resourcing

Human resources and information technology are the two principal resources available to the Bank in carrying out its operations. It is therefore inevitable that the Bank's strategy should give prime consideration to these two areas.

The principal change initiative being carried out by the Bank today is the Core Banking Transformation Programme. The Bank is in the course of replacing its core IT system. The significant investment being made in CBT demonstrates the Bank's determination to modify its business processes around the functionality offered by the new system, in order to maximise the benefits from this strategic initiative.

The Bank has chosen an Oracle IT platform, and is engaged with external consultants that will bring best practices and methodologies to assist the Bank in the transformation process. The CBT implementation is progressing on time with no major delays currently anticipated.

CBT is not solely an IT project. Indeed, it is an exhaustive change programme affecting all aspects of the Bank's operations, policies and procedures. The IT implementation will be complemented by a thorough review of business processes, the aim of which is to improve efficiency in the provision of service. The ultimate focus of the CBT Programme is improved customer service.

Concurrently, the Bank will be building up a data management function, which will manage the quality, completeness and controlled accessibility of all data held by the Bank.

The other core resource available to the Bank is Human Resources (“HR”). The building blocks of the Bank’s new HR strategy are currently being laid. The first building block was the conclusion of a new and innovative collective agreement with the recognised employees’ union, which was concluded in December 2015. This was followed by a comprehensive role assessment exercise, which abolished the old “grade” system and rationalised all roles within the organisation structure. This exercise has now been rolled out, and its outcome communicated to all concerned.

The principal features of the future HR strategy include:

- A new training philosophy, supported by the opening of new state-of-the-art training facilities;
- A focus on ethics, backed by a revised and updated code of ethics and a conflict of interest policy; and
- The setting up of an HR steering committee to oversee roll-out of the remaining Strategic Initiatives, including:-
 - o The determination of an optimal headcount at institutional and departmental level;
 - o A career progression strategy; and
 - o Succession planning.

7.4 2016 SREP

In 2017 the Group was subjected to the annual SREP conducted by the JST. SREP 2016 was conducted on the basis of the quantitative data extracted from the Issuer’s consolidated financial statements as at 31 December 2016. In addition, JST also carried out the following analysis/assessments to arrive at their conclusions:

- An analysis of the Issuer’s business model;
- An assessment of the Issuer’s internal governance and institution wide control;
- The risk to capital assessment; and
- The risk to liquidity and funding assessment.

Following this process, the Issuer was notified by JST of the prudential requirements that the Group is required to comply with. In line with the CRR, Banking Rule BR/15: ‘Capital Buffers of Credit Institutions authorised under the Banking Act, 1994’, the applicable fully loaded capital conservation buffer for the Group is 2.5% (1.25% in 2017, according to the transitional provisions) and the fully-loaded O-SII buffer for the Group is 2.0% (1.0% in 2017, according to the transitional provisions). These buffer requirements (or what are referred to as Pillar II requirements) will be fully provided by the end of 2019 and will be met with CET1 capital.

The Board of Directors, having evaluated:

- (i) The SREP conclusions; and
- (ii) The required capital for the five financial years commencing FY 2016 after factoring in the Bank’s strategy and budgets for the said five-year period;

resolved to increase the CET1 capital of the Issuer by an additional €150 million by way of a renounceable rights issue.

7.5 PRINCIPAL INVESTMENT

In March 2015, the Bank embarked on a programme to replace the existing IT core banking system that had been in place since 1998, with a new core system as part of the Core Banking Transformation Programme. The Core Banking Transformation Programme is key to the Bank’s future sustainability and ability to implement its key business initiatives aimed at creating an organization with a long-term view to gradual and steady growth, with a lower level of overall business risk. The Bank has selected the Oracle IT platform as the IT backbone for this project and has engaged external consultants to improve the systems and processes that the new functionalities afforded by the Core Banking System offer.

The Bank's investment in the Core Banking System is estimated to cost the Issuer around €44.5 million, which cost will be expensed over a five-year period from FY 2017 to FY 2021. Part of the funds that will potentially be raised through the Issuer's (approximate) €150 million equity issue in the fourth quarter of 2017, are expected to make good for this capital expense.

8. BUSINESS OVERVIEW

8.1 PRINCIPAL ACTIVITIES OF THE GROUP

8.1.1 Introduction

The Issuer is a commercial bank, operating, together with its Subsidiaries, predominantly in Malta, with an average number of employees of 1,814 and 37 branches as at 31 August 2017. The Group offers banking, financial and investment services and connected activities within the domestic Maltese market. The Group has three representative offices in each of Milan, Brussels and Libya. In the latter case, the Bank has retained its licence to operate the office, but has temporarily suspended operations in view of the prevailing situation in Libya. The Issuer does not operate any licensable activities in any of these jurisdictions.

The principal activities of the Issuer comprise the following:

- The receipt and acceptance of customers' monies for deposit in current, savings and term accounts which may be denominated in Euro and other major currencies.
- The provision of loans and advances to a wide array of customers, ranging from the private individual, businesses and industries, including also trade finance services to exporters, importers and traders. Loans and advances include: (i) short-term and longer-term loans; and (ii) overdrafts.
- The provision of investment services, covering a comprehensive suite of investment products and services that meet the customers' needs throughout their lifecycle, including stockbroking, advisory and discretionary portfolio management services. Such services are offered to both retail as well as institutional clients.

The Issuer also provides a number of other services, including:

| | |
|---|--|
| <i>Bancassurance:</i> | The Bank acts as a tied intermediary to the Associated Companies to offer insurance and life assurance products to its customers; |
| <i>Corporate Advisory:</i> | Investment banking, including underwriting, advisory, management and registrar services for capital market transactions in the domestic market; |
| <i>Custody, Fund Management and Fund Administration:</i> | The Bank also provides custody services to alternative investment funds, UCITS funds and professional investor funds. Fund management and administration services are also offered respectively through BOVAM and BOVFS; |
| <i>Other services:</i> | Including 24-hour internet banking service, issue of major credit cards, night safe facilities, automated teller machines, foreign exchange transactions, outward and inward payment transfers. |

The Issuer has a well-developed worldwide network of correspondent banks that provide it with the necessary backbone to service its customers in international banking and trade transactions.

In most part, the activities of the Issuer are licensable activities regulated under the domestic and EU financial regulatory framework. In this respect, the Issuer is licensed by the MFSA:

- As a credit institution under the Banking Act; and
- As a category 3⁴ and 4A⁵ licence holder in terms of the Investment Services Act (Cap. 370 of the laws of Malta), authorising it to provide a number of investment services to retail, professional and eligible counterparties.

The Issuer is also authorised to act as a trustee or co-trustee by the MFSA in terms of the Trusts and Trustees Act (Cap. 331 of the laws of Malta). Notwithstanding that the Issuer still holds this licence, pursuant to a decision of the Board it was resolved to wind down this business and the Bank has appointed an *ad hoc* steering committee with the task of conducting the process of winding down this area of activity.

In conducting its bancassurance business, the Issuer is a regulated tied insurance intermediary of MAPFRE MSV Life p.l.c and MAPFRE Middlesea p.l.c under the Insurance Business Act (Cap. 403 of the laws of Malta).

The Issuer is the direct parent of the Group, which consists of two (2) subsidiaries, namely BOV Asset Management Limited and BOV Fund Services Limited. BOV Asset Management Limited is a Maltese licensed UCITS management company and is in possession of a category 2 investment services licence under the Investment Service Act (Cap. 370 of the laws of Malta) authorised to provide management services to collective investment schemes, professional clients and eligible counterparties. BOV Fund Services Limited is a recognised fund administrator under the Investment Services Act (Cap. 370 of the laws of Malta) and is registered to act as a company service provider in terms of the Company Service Providers Act (Cap. 529 of the laws of Malta).

8.1.2 Description of the Group Business Segments

At the date of this Registration Document, the activities of the Group were broken down into the segments briefly described in section 8.1.1. Below is a description of each of the aforementioned business segments and the key financial indicators of same. The tables below for each business segment relate to the income statement data and key indicators at the end of 30 September 2016 compared with the same period of the previous years.

⁴ A category 3 licence authorises the holder thereof to provide any investment service contemplated by the Investment Services Act (Cap. 370 of the laws of Malta), including discretionary management, investment advice, execution only services and dealing on own account. A category 3 license also allows the holders thereof to hold and control clients' money or customers' assets and to deal for its own account or underwrite.

⁵ A category 4A licence allows the Issuer to act as custodian for all types of collective investment schemes.

Principal Business Segments

Deposit Taking activities

The Bank accepts deposits from customers principally at call and for various maturities, and seeks to earn interest margins through lending operations or by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank applies the liquidity created through its deposit taking activities and seeks to increase its interest margins principally through lending to both commercial and personal borrowers with a range of credit standings. Such exposures involve principally on-balance sheet loans and advances, as well as guarantees and other commitments such as performance and other bonds and letters of credit.

The total amount of term deposits and deposits repayable on demand as at 30 September 2015 and 30 September 2016 is set out hereunder.

| | 30 September 2016 €000 | 30 September 2015 €000 | 30 September 2014 €000 |
|---------------------------|------------------------------|------------------------------|------------------------------|
| AMOUNTS OWED TO CUSTOMERS | | | |
| Term deposits | 2,084,220 | 2,248,019 | 2,479,797 |
| Repayable on demand | 7,096,827 | 6,311,712 | 4,639,733 |
| | 9,181,047 | 8,559,731 | 7,119,530 |

Loans and other Advances

Another principal activity of the Bank is the provision of finance through loans and advances, trade finance facilities and other credit products to customers. This business segment includes the provision of finance to both corporate and personal customers of various credit standings and different maturities. In the business segment, the Bank is highly involved in all market sectors and provides business finance to customers ranging from large corporate customers as well as smaller business ventures, ranging from project finance to overdraft facilities financing working capital requirements. With respect to personal customers the Bank provides a suite of products aimed principally at consumer lending; with home finance being another important pillar in this business segment for the Bank. During the financial year ended 30 September 2016 drawdowns on new business lending exceeded €360 million, while drawdowns on consumer loans, including home loans, exceeded €340 million.

The Bank's net advances portfolio to customers stood at €4.1 billion as at end September 2016, representing an increase of 1.8% over September 2015. During the financial year ended 30 September 2016, growth was driven principally by the increase in the home loan segment, while the business and the personal segments decreased. Tight control of the loan book and the dual sanctioned process resulted in an overall improvement in credit quality of the advances portfolio with 84.6% of the total portfolio classified in the regular category (81.3% as at end September 2015).

Below are some key figures in respect of the Issuer's loans and advances business, some of which reflect the information provided above.

The Group

| | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|
| | €000 | €000 | €000 |
| Repayable on call and at short notice | 504,272 | 564,017 | 611,156 |
| Term loans and advances | 3,683,096 | 3,676,132 | 3,461,230 |
| | 4,187,368 | 4,240,149 | 4,072,386 |
| Less impairment losses | (185,712) | (238,310) | (210,854) |
| Net loans and advances at amortised cost | 4,001,656 | 4,001,839 | 3,861,532 |
| Loans and advances designated at fair value through profit or loss | 121,316 | 49,221 | 48,596 |
| Total loans and advances | 4,122,972 | 4,051,060 | 3,910,128 |

Investment Services

Investment services is considered as one of the pillars generating commission income for the Bank. The Bank considers investment services as one of the potential growth areas going forward. In fact, it is one of the strategic areas in which the Bank will be investing in the coming months. This will involve investment in our two core distribution channels, namely the physical as well as the digital channels.

The main investment services can be segmented between those offered to retail clients and services offered to institutional clients. Set out hereunder is a description of the stockbroking and wealth management services offered by the Issuer.

Stockbroking

The Bank's stockbroking unit handles the processing and execution of all local and international secondary market transactions relating to equities, bonds, ETFs and other funds. On the local scene, the Bank is a member of the MSE, and is one of the largest brokers (excluding the CBM as market maker for government stocks). The Bank's customers can also trade on the major global exchanges, where the Bank has direct market access to some of the main international brokers both for equities and fixed income securities. Customers are also able to place orders electronically via the Bank's 24x7 internet portal. For the more discerning and frequent trader, the Bank has partnered with Saxo Bank A/S to offer direct trading via the eTrader+ platform.

Wealth Management services

The Bank provides a select strata of its customers with an investment advisory service through its six Investment Centres located across Malta and Gozo. The financial advisers located within these Centres are constantly provided with the necessary tools and market-led information to enable them to provide professional investment advice to customers on the various array of instruments and products. These include a comprehensive range of investment funds, bancassurance products as well as the ability for investors to invest directly in bonds and equities in the world's capital markets.

For the more discerning and affluent investors, the Bank has a fully-fledged wealth management centre that provides a highly personalised service driven by professionalism, trust and long-term relationship. In view of the highly bespoke nature of this service, the financial advisers at the Bank's wealth management arm invest time and effort to get to know their customers, adopting a structured approach which consists of a fact-finding exercise followed by a detailed planning process to ensure that the ultimate investment portfolio is tailored to fully meet the objectives and needs of the customer. This approach is followed by a carefully designed open architecture product strategy which acts as a blue print for structuring the portfolio. The commitment of the financial advisers working within the wealth management arm is solely to focus on customer needs, and to proactively provide financial advice as well as discretionary management services within the parameters agreed with clients.

With a view to enhance its service offering in this segment, the Bank has over the past few months further strengthened its house view committee as well as its research and analysis committee, considered to be two key structures to the overall investment services proposition across the Bank's various customer touchpoints.

Other Important Business Segments

Bancassurance

The Bank acts as a tied intermediary to the Associated Companies to offer insurance and life assurance products to its customers. All policies sold through the Bank's branch network are issued and underwritten by the Associated Companies. The life assurance products fall under two main categories, mainly policies related to savings/investments, and policies related to pensions and cater for the different phases of a customer's life cycle. On the insurance side, the Bank provides home block policies and finance gap block policies. Bancassurance products contribute positively to non-interest income by providing it with both up-front and trailing fees. Such income is considered as risk free since the Bank is only acting as agent to the insurance company.

Corporate Advisory

The corporate advisory team at the Bank is considered as one of the major players on the local market for IPOs and primary bond issues. It can offer the whole spectrum of services for an entity intending to list on the local exchange. The team can assist an entity to seek alternative funding sources to traditional bank borrowing by offering the services of manager, registrar and/or sponsor. Although this business is dependent on the number of companies tapping the local market to raise finance, demand has been steady during the last couple of years. Consequently, this line of business has gained importance as an alternative source of non-interest income.

Custody

The Bank is authorised by the MFSA to provide custody and safekeeping services to a number of clients as regulated by the Investment Services Act (Cap. 370 of the laws of Malta) and relative amendments as published by the MFSA. The services offered through the custody unit include compliance monitoring, valuation analysis, corporate action services, settlement and reconciliation and are offered to collective investment schemes (UCITS, alternative investment funds and professional investor funds), retail clients and institutional clients. The Bank has also partnered with a renowned global custodian, Royal Bank of Canada, to safe keep clients' assets in foreign jurisdictions. Given the nature of this business, the unit will only attract new funds and business after it has successfully identified and assessed the risks raised by taking on each particular client.

Fund Management and Discretionary Management

BOVAM offers investment management services to collective investment schemes which qualify as UCITS Funds. Over the past twenty years, BOVAM has launched a wide range of domestic and international investment funds providing income and growth opportunities, thus offering clients a varied range of investment solutions to address their investment needs. Currently BOVAM manages 17 sub-funds, 14 of which are sub-funds of Vilhena Funds SICAV p.l.c and 3 of which are sub-funds of BOV Investment Funds. The total value of assets under management across all of the aforementioned sub-funds amounts to approximately €887 million as at 30 September 2017. As at the date of this Prospectus, the said sub-funds have over 34,000 unit holders.

Earlier this year, BOVAM had its licence extended to offer asset management service offering beyond collective investment schemes, in order to tap the growing demand for bespoke portfolio management services to professional institutional clients. BOVAM offers discretionary portfolio management services to local and foreign institutional clients such as insurance companies, credit institutions, investment firms, pension funds and captives.

Fund Administration Services

BOVFS is the largest fund administrator in Malta providing its services to numerous funds, with the total assets under administration amounting to over 30% of the local market as at 30 September 2017. BOVFS has always been at the forefront on the island in ensuring that additional services required by funds and fund managers arising out of the spate of new regulations can be fully catered for. This is possible thanks to a pro-active stance in understanding the implications of new directives and regulations, investing in state-of-the-art infrastructure and on-going training to its workforce. This continues to ensure full compliance of our customer base to the new directives and regulations upon going live, and concurrently creates additional revenue streams to the company.

Breakdown of revenues

Below is a breakdown of revenues of the Group divided into:

- (A) Interest and similar income (i) on loans and advances; (ii) balances with Central Bank of Malta; and (iii) treasury bills; and
- (B) Other revenues generated by the Group.

(A) INTEREST AND SIMILAR INCOME

| | The Group | | |
|--|-----------|---------|---------|
| | 2016 | 2015 | 2014 |
| | €000 | €000 | €000 |
| On loans and advances to banks | 1,984 | 1,067 | 755 |
| On loans and advances to customers | 158,211 | 157,096 | 151,460 |
| On balances with Central Bank of Malta | | | 993 |
| On treasury bills | - | 17 | 222 |
| | 160,195 | 158,180 | 153,430 |

(B) OTHER REVENUES

| | The Group | | |
|---|-----------|--------|--------|
| | 2016 | 2015 | 2014 |
| | €000 | €000 | €000 |
| Fees and commissions on loans and advances, similar activities and local business | 31,678 | 30,045 | 27,949 |
| Stockbroking | 4,931 | 3,898 | 4,555 |
| Wealth management services | 1,759 | 1,274 | 658 |
| Bancassurance | 5,858 | 4,821 | 3,301 |
| Other investment services | 278 | 165 | 212 |
| Custody | 1,554 | 1,650 | 1,292 |
| Fund management and discretionary management | 5,448 | 6,779 | 5,744 |
| Fund administration services | 4,887 | 3,350 | 3,235 |
| On other activities | 9,692 | 10,594 | 9,016 |
| | 66,085 | 62,576 | 55,962 |

8.1.3 Distribution Network

The distribution strategy of the Group is based on a multi-faceted approach that allows the Group to establish itself as the operator of choice in the markets in which it operates, by combining the responsibility for customer relations to the management of the localised branches or specialised departments, co-ordinated through centralised strategies and policies at head office level.

The Group offers its products and services through both traditional channels and virtual channels.

More particularly the Group offers its services through a diffused network of branches and ATMs located in various areas of Malta and Gozo, a network of investment centres dispersed throughout Malta and Gozo that provide select and limited wealth management services to customers. The Group also provides corporate and advisory service to corporate customers wishing to raise capital in the domestic capital markets through a specialised unit as well as a full range of wealth management services to high net worth customers through its wealth management unit.

As at the date of this Registration Document, the Group's distribution network comprised 37 branches and 95 ATMs in Malta and Gozo and three representative offices in Milan, Brussels and Libya (operations at the latter office are currently suspended), the purpose of which is to manage relations with local multinational and large corporate customers.

In addition to traditional channels, the Group provides its services through virtual channels such as home banking through its 24x7 home banking service and mobile banking, introduced following the market success of smart phones/tablets and apps developed for these devices, and it features dedicated applications such as BOV Mobile Banking and the E-Trader+, an application connected to the transactional platform powered by Saxo Bank A/S that allows live trading in investment instruments by customers.

8.2 RISK MANAGEMENT

The Group is exposed to the risks inherent to the nature of its activities. A significant part of the Group's activities consists of internally identifying, measuring, controlling and monitoring the risks associated with the transactions performed by the Group. These risks generally include, credit risk, market risk, liquidity risk and operating risk as well as other significant risks, such as, business risk, real estate risk, financial investment risk, strategic risk and reputational risk.

The Board of Directors establishes the strategic guidelines for taking the risks defining the capital allocation parameters for the Issuer and other Group companies, in conformity with the respective risk appetite and objectives for the creation of value in relation to the risks taken.

The Issuer's risk management department oversees and controls the risks of the Group directing, coordinating and controlling the risks in particular through the officers responsible for competency risks from the Group's perspective.

Since November 2014 the Bank, being a systematically significant financial institution, has been placed under the supervision of the Single Supervisory Mechanism. In compliance with Pillar II requirements of the CRD, the Bank prepares the ICAAP on an annual basis. The Board of Directors and Senior Management strongly believe that the ICAAP will continue to act as an important contribution to the strengthening of the risk management practices and capital adequacy of the Bank.

This section sets out a brief outline of the risk management functions within the Bank and the principal risk management policies and tools adopted by the Bank with respect to the main risks inherent in the business.

8.2.1 Risk Management Functions

The Bank assumes some risks consciously with the aim of managing them to achieve a return. Other risks are not deliberately assumed, but are the inevitable consequence of undertaking banking and other financial services business. Within this context, the Bank's organisational structure is constructed upon a framework that promotes a transparent and efficient risk culture.

The Bank adopts different layers of defence and segregates duties to reinforce the currently implemented risk control mechanisms. Such approach is embraced through the application of the three lines of defence model.

The first line of defence is executed by the functions that own and manage risks, namely the business units. The second line is executed by the functions that oversee risks, namely risk management, compliance and anti-financial crime departments; and the third line is executed by Group internal audit, which is the function that provides independent assurance to the Board.

Accordingly, responsibility for risk management resides at all levels within the Bank.

The risk management department, within the second line of defence, falls under the responsibility of the Chief Risk Officer (“CRO”) who is responsible for the following departments: credit risk sanctioning, risk management, legal services, anti-financial crime and compliance. The Bank’s risk governance structure is explained below:

The *Credit Risk Sanctioning Department* (“**CRSD**”) is responsible for conducting independent financial and risk analysis of lending and investment proposals that fall under the dual-voting system and to ensure that these are within the risk appetite communicated by the Board of Directors.

The *Risk Management Department* is responsible for the overall risk management of the Bank. In order to ensure integrity, the risk control department operates independently of the Bank’s business activities. This Department has a number of units, including:

- Credit Risk Management Unit (“CRMU”). The Unit’s objective is to safeguard the soundness of the loan portfolio, to ensure sustainable credit growth, and to enable a diversified portfolio aligned with the Bank’s risk appetite. CRMU is responsible for the development and maintenance of the credit policy, which sets out the Bank’s core values governing the provision of credit. The unit is also responsible for measuring and managing asset quality in line with the prevailing banking rules.
- Enterprise Risk Management Unit (“ERMU”). ERMU takes a holistic enterprise-wide view of the risks taken on by the Bank in carrying out its business and ensures that these are consistent with the overall risk appetite framework. It is a central unit which is responsible for the management of risk reporting, risk data governance and portfolio risk management. ERMU acts as the group’s liaison with the JST. The unit is responsible for regulatory and internal stress tests, including the periodic stress tests conducted by the ECB and/or by the EBA. The Unit is also actively involved in the compilation and submission of the ICAAP and ILAAP reports of the Bank.
- Economics & Risk Research Unit. The unit brief includes the monitoring of the Bank’s economic environment with special focus on the local and European economy. The unit is responsible for conducting all mathematical, statistical and economic research that is required by the Bank.
- Operational Risk Management Unit. The core operational risk function is responsible to coordinate and oversee the identification, assessment, management and reporting of operational risks. The unit is also responsible for the mitigation of operational risks events through the procurement of adequate and cost-effective insurance cover. The unit is also responsible for the implementation of the operational risk management framework. The operational risk management framework reflects the core elements that the Group will apply to manage operational risk. It includes all the processes and tools which are used to identify, assess and manage operational risk within the Group. The risk assessment will determine the level of management required and what form of risk mitigation, if any, will be applied. The risk assessment will also determine the level of reporting required. Any identified high risks are reported to the Issuer’s risk committee together with a recommended line of action for mitigation. In addition, the unit has an information security function which analyses, communicates information security risks, and evaluates their potential impact on the business processes. Business continuity also falls within the responsibility of this unit.
- Risk Coordination Unit. The objective of the unit is to be the direct link between the first and the second line of defence by increasing the awareness of risk responsibilities and cultivating a risk culture so that risk can be owned and managed within the business unit.

The *Legal Services Department* ensures that the Bank's interests are duly protected and that the Bank is kept duly updated with all legislative developments. This enables the Bank to map the way forward and to be prepared from a legal perspective even in terms of the Bank's processes.

Anti-Financial Crime Department ("AFCD"). The AFCD's key role within the Bank's enterprise risk management framework is that of acting as the Bank's second line of defence in relation to the prevention of money laundering and counter terrorism financing. The AFCD is responsible for the development and implementation of policies, procedures, systems and controls to counteract financial crime, money laundering, counter terrorism financing, bribery and corruption, and fraud. AFCD also ensures that the applicable sanctions are implemented. AFCD is the Group's liaison with the FIAU.

Compliance Department. This department is responsible to ensure that the Bank and its Subsidiaries operate in line with regulatory requirements. The compliance department monitors regulatory developments and assesses the impact and applicability of rules and regulations. It also carries-out specific and thematic reviews on various functions, while ensuring that the Group has effective policies that mitigate reputational and conduct risk. It provides regular training on regulatory obligations and requirements emanating from internal policies and procedures.

8.2.2 Management of Credit Risk

Considerable resources are dedicated by the Bank to manage credit risk. Indeed, as at 30 September 2016 the Bank had allocated €332.3 million in regulatory capital against credit risk. Notwithstanding credit risk mitigation processes, credit risk monitoring and management activities, there remains the risk that, the Group's credit exposure may exceed pre-determined levels pursuant to the procedures, rules and principles it has adopted. Therefore, the deterioration of certain particularly important customers' creditworthiness and, more generally, any defaults or repayment irregularities, the launch of bankruptcy proceedings by counterparties, the reduction of the economic value of guarantees received and/or the inability to execute said guarantees successfully and/or in a timely manner, as well as any errors in assessing customers' creditworthiness, could have negative effects on the activity, operating results and capital and financial position of the Issuer and/or the Group.

The credit risk management function is responsible for ensuring that the Bank's credit risk is properly managed. The main objectives of credit risk management are to:

- Maintain a framework of controls to ensure that credit risk-taking is based on sound credit risk management principles;
- Identify, assess and measure credit risk clearly both on an individual facility level as well as on a portfolio basis avoiding undesirable concentrations; and
- Monitor credit risk whilst ensuring that risk-reward objectives are met.

The Bank adopts various measures to achieve the above. These include the application of:

- a) High-level credit policies designed to facilitate the identification and mitigation of credit risk;
- b) Lending guidelines defining the responsibilities of lending officers while holding them accountable for their decisions;
- c) Limits on investment, settlement and contingent liability exposures by country and counterparty;
- d) Independent reviews (hindsight overviews) of credit exposures;
- e) Scoring systems which make use of quantitative modelling based on historical data to generate key predictive figures;
- f) An internal rating system based on the counterparty's track record and ability to meet the agreed repayment schedule;
- g) Large exposures and loan loss allowance policies in accordance with regulatory requirements;
- h) High level reporting giving a holistic overview of the Bank's credit portfolio quality; and
- i) Communication and provision of general guidelines including training on all credit-related risk issues, including regulatory changes, to promote consistency and best practice throughout the Bank.

The Group has also adopted valuation policies for customer loans and receivables that take into account write-downs recorded on asset portfolios for which no particular impairment has been identified. In the event of a deterioration in economic conditions and a consequent increase in non-performing loans, it cannot be ruled out that there may be significant increases in the write-downs to be performed on the various categories of such loans, and that credit risk estimates may need to be amended. Finally, there is a possibility that losses on loans may exceed the amount of the write-downs performed, which could have a negative impact on the operating results and capital and financial position of the Issuer and/or of the Group.

8.2.3 Management of Counterparty Credit Risk in the Investment Portfolio

The Bank is exposed to credit risk through its investment activities. Credit risk in the issuer's proprietary investment portfolio is mitigated through limits set in the Bank's treasury management policy (TMP). The Bank sets limits on the level of credit risk undertaken in relation to any counterparty exposure in accordance with external ratings issued by major rating agencies. Limits on the level of credit risk applicable to different ratings are reviewed and approved by the Board of Directors at regular intervals.

The Bank only enters into investment transactions with authorised counterparties, and invests in financial instruments of a credit quality that falls within specific parameters stated in the TMP. Actual exposures are monitored against limits on an on-going basis, while changes in credit ratings and future outlook are monitored daily. Every quarter, ERMU also monitors closely the Credit Default Swap (CDS) movements of the largest counterparties in the investment portfolio, since a general increase in CDS would normally lead to a widening of credit spreads which in turn implies a decline in the market values of securities.

8.2.4 Management of Counter Party Credit Risk on Derivatives

The TMP limits the use of derivatives to hedge a balance sheet position, to satisfy customers' requests and for the use of structured wealth management products. Counterparty risk related to derivatives is subject to prior approval from the appropriate sanctioning authority as stipulated by the Bank's policies. Derivative instruments must be denominated in the local currency or in hard foreign currencies.

Wrong way risk arises when the probability of default of a particular counterparty is positively correlated to the exposure with the same counterparty, so that the mark-to-market exposure increases at the same time as the riskiness of the counterparty increases. Wrong way risk is addressed by the Bank through the setting up of internal limits and its collateral management procedure. The TMP, which sets the limits on the maximum exposures held in derivatives, assumes that the business relationship with most counterparties is an on-going one; therefore, the limits are primarily based on the most conservative long-term credit rating of the counterparty.

For requests falling outside the TMP, these are also reviewed by CRSD and approved by the CRO or the Board of Directors according to the limit of the exposure. Limits are reviewed annually or more frequently in the event of a downgrade of the counterparty. Prior to effecting a transaction, the Bank ensures that an ISDA agreement⁶ with respective counterparties is in place and that the agreement covers the deal in question. It is the Bank's policy to revalue all traded transactions and associated collateral positions on a regular basis.

To measure the derivative exposure value in accordance with CRR article 271, the Bank uses the mark-to-market method where the exposure value is taken as the sum of current replacement cost and potential future credit exposure, taking into consideration the netting arrangement in place as per CRR article 298.

⁶ The term 'ISDA' refers to the International Swaps and Derivatives Association which inter alia publishes standard form contracts which are used in a widespread manner by market players in the derivatives markets. The Bank uses the standard form ISDA master agreement as a starting point in negotiating all derivatives contracts with counterparties.

8.2.5 Management of Capital Adequacy Risks

The Group's capital base is composed of CET1 and Tier 2 Capital. In line with new regulations the Issuer is placing much of its emphasis on monitoring its CET1 capital. This capital is the highest form of quality capital, thus providing the greatest level of protection against losses. The Group uses the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method with respect to the Group's foreign exchange risk. No capital is allocated for market risk as the Bank does not operate a trading book.

In addition to the risks above, a minimum capital requirement is also determined for non-credit obligation assets (i.e. 'other assets' on the balance sheet) in line with the CRD IV.

In line with the CRR, Banking Rule BR/15: '*Capital Buffers of Credit Institutions authorised under the Banking Act, 1994*', requires additional buffers: capital conservation buffer; countercyclical buffer; O-SII buffer; and systemic risk buffer. These buffers are aimed to strengthen the resilience of the Group and entered into force as from January 2016, with full application by January 2019. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. Its purpose is to limit the leverage effects in the balance sheet as it is a volume based measure calculated as Tier 1 capital divided by total exposure calculated as the total on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments, less amounts permitted to be deducted for Tier 1 capital. The Group's leverage ratio is determined and monitored on a regular basis, and as at 30 September 2016 stood at 5.34%.

8.2.6 Management of Liquidity Risk

In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. In fact, the Bank's asset-liability committee ("**ALCO**") monitors the Bank's liquidity gap on a monthly basis. ALCO also maintains an on-going oversight of forecast and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments.

The following risk indicators are presented on a regular basis to ALCO in order to enable the evaluation of the resilience of the Bank's liquidity position and to maintain a constant state of readiness should an exceptionally high demand for liquidity arise at any time:

- **Loan-to-Deposit ratio ("LtD")**
The LtD ratio assesses the Bank's liquidity position by dividing the Bank's total advances by its total deposits. The LtD ratio (net of interest in suspense) has been decreasing throughout this year, standing at 46.3% (September 2015: 49.2%). This shows that the Bank was highly liquid during FY2016, with its loan portfolio fully funded by deposits and with no dependence on the wholesale market. The decrease in the LtD ratio was the result of a significantly higher rise in customer deposits when compared to the increase in the lending portfolio. The Group maintains a stable base of "core deposits".
- **Liquidity Coverage Ratio ("LCR")**
The LCR requires credit institutions to hold sufficient unencumbered high-quality liquid assets ("HQLA") to withstand severe liquidity outflows that could be expected to accumulate over a 30-day stressed period. During such a period, a credit institution should be able to convert quickly its liquid assets into cash without recourse to central bank liquidity or public funds, which may result in its liquidity coverage ratio falling temporarily below the 100% level.

As at 30 September 2016 the Bank's calculated LCR was in line with the EU delegated act regulation and stood at 131%. This is above the minimum level of 100% which will be required at EU level when the rule is fully implemented in 2019.
- **Net Stable Funding Ratio ("NSFR")**
The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The NSFR is subject to an observation period and shall be introduced as a binding minimum standard in 2018.

Albeit it is not yet a binding regulatory standard, the Bank already calculates the NSFR, and the results indicate that the institution meets and exceeds the 100% threshold. The Bank officially reports the LCR to the Regulatory Authorities on a monthly basis whilst the NSFR is reported on a quarterly basis. The Bank also participated in the Basel III Quantitative Impact Study (QIS) exercise, which is repeated semi-annually.

Complementing the above, liquidity risk is also mitigated through adequate measures found in the:

- *TMP* - The TMP sets out the risk appetite of the Bank and sets out limits and controls that ensure a highly liquid investment portfolio;
- *Liquidity Risk Management Policy* - This policy outlines the liquidity management framework of the Bank developed to identify, evaluate, monitor, manage and report the Bank's liquidity position. The policy also outlines the governance and controls available to manage liquidity risk and oversee the liquidity position of the Bank;
- *ILAAP* - The ILAAP is designed to ensure that the Bank has a robust liquidity risk management and to demonstrate the Bank's overall liquidity adequacy. The document contains detailed qualitative and quantitative information of the Bank's processes and methodology used to measure and manage liquidity and funding risk. The assessment aims to ensure that the Bank has sufficient liquidity to ensure that liabilities are met in both normal and stressed scenarios. This document is reviewed by the ECB and MFSA.
- *Contingency Funding Plan* - This plan sets out the strategies that will be activated in case of excessive liquidity demand. It includes an outlined process and action plan for responding to severe disruptions to a bank's ability to fund some or all of its activities.

8.2.7 Management of Market Risk

The objective of the Bank is to manage and control market risk exposures in order to optimise return and minimise risk. Market risk is subject to strict controls under the TMP, which sets out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. The TMP also sets out the hedging policy, and also the pricing and validation policy.

ALCO regularly reviews high level market risk exposures and also makes recommendations to the Board of Directors concerning the overall market risk appetite and market risk policy. Exposures at lower levels of delegation are monitored at various intervals according to their volatility. ERMU regularly monitors the levels of exposures compared to set limits and where appropriate, escalation procedures are in place.

The Bank uses a number of tools to mitigate market risk including:

- *TMP* - Articulates the Bank's appetite for market risk by setting limits on the basis of credit ratings assigned by eligible external credit assessment institutions, namely, Fitch, Moody's and S&P's. The TMP is reviewed at least annually by ERMU in co-ordination with the Issuer's treasury department, and is approved by ALCO and the Board of Directors;
- *Hedging instruments* - Limit exposures on interest rate and currency positions resulting from trading activities. Positions resulting from trading activities which exceed these limits are closed either by entering into equal and opposite trades, or through the use of derivative instruments, mainly interest rate swaps and forward currency exchange deals;
- *Investment authorisation* - Sets out a 'four-eye' approach when an investment proposal falls outside the criteria set out in the Bank's TMP. CRSD undertakes an independent analysis of proposals which are then approved by the Chief Risk Officer or the Board as appropriate;

- *Review of limits* – Credit exposures are regularly reviewed upon changes in credit ratings or outlook with a view to taking early mitigating action. When there is a change in rating and in the outlook, CRSD undertakes an independent analysis, which is then presented to the Board. Exposures which are above TMP limits are reviewed annually by Treasury in order to reassess the credit risk and align the investment criteria as necessary;
- *Interest rate risk in the banking book* - Interest rate risk is defined as the current or prospective risk towards a bank's financial position arising from unfavourable movements in interest rates. The Bank's exposure towards the trading book is nil and it is therefore exempted from the trading book capital requirements as set by the CRR. The Bank is exposed to interest rate risk in the banking book ('IRRBB'), arising from the mismatch between interest sensitive assets and liabilities held in the banking book. The Bank has a detailed interest rate risk policy which clearly describes the approaches in which the Bank identifies, evaluates, monitors, manages, and reports its interest rate position. The policy also outlines the structure, responsibilities, and controls to manage and oversee the interest rate positions of the Bank. The Board of Directors is ultimately responsible for the interest rate risk assumed by the Bank and the manner in which this risk is managed to ensure that it is aligned with the interest rate risk strategy and risk appetite. ALCO is the main forum wherein, on a monthly basis, the exposure to interest rate risk is monitored and evaluated. ALCO assesses this risk with the objective of limiting potential adverse effects of interest rate movements on net interest income and on equity.
- *The measurement of interest rate risk* - Risk management processes are in place to control and limit the interest rate risk exposure without negatively affecting the profitability of the Bank. The Bank considers a dual, yet complementary perspectives in the process of controlling and assessing IRRBB. These include the earnings perspective and the economic value perspective.

8.2.8 Management of Operational Risk

The Operational Risk Management Unit ("**ORMU**") is responsible to develop and implement policies and procedures to ensure that operational risks are managed effectively. Although ownership and accountability for operational risk resides with the business level, the ORMU co-ordinates, supervises and drives forward the identification, assessment and monitoring of operational risks and controls.

Operational risks within the Group are covered by the Bank's operational risk management framework which includes risk identification, loss database, key risk indicators ("**KRIs**") and business continuity management ("**BCM**"). The Bank has also in place a reputation risk policy which was launched during FY2016 to establish an effective structure for managing the Group's reputation and to protect the Group's name and goodwill.

ORMU supports the business units in identifying and assessing the operational risk exposure. Risk assessments involve risk identification, risk evaluation and recommendations for managing and mitigating the risks. For the risk identification process, the Bank uses audit findings, internal loss data analysis and process mapping. The Bank is also compiling a Group risk register. A loss database has been created and maintained since 2009 and is updated regularly through risk event reporting on internal loss events and near misses. KRIs and thresholds have been identified at generic enterprise-wide level and are reported regularly.

Business continuity supporting documentation at unit level is in place throughout the organisation. A BCM programme is maintained and the Group is implementing a robust enterprise-wide business continuity plan ("**BCP**"). BCPs for critical activities and IT systems are regularly tested, thus ensuring timely response to disruptions and effective restoration. The Group's incident management team works in liaison with the ORMU to effectively manage the organisation's efforts where widespread threats require a more coordinated approach.

The Group currently uses the Basic Indicator Approach to apportion capital for operational risk and accordingly allocates 15% of the average gross income over three years in line with Basel III guidelines. The operational risk regulatory capital requirement for the Group as at 30 September 2016 was €34.66 million (notional risk-weighted assets €433.19 million).

The Bank addresses identified risks where these are not aligned with stated risk appetite by improving processes, investing in technology changes and, where necessary, tackling human resource vulnerabilities. As part of its BCP, the Bank maintains and periodically tests contingency facilities to validate the effectiveness of the plan in the event of a disaster. It also mitigates the possibility of higher impact risk events through comprehensive insurance coverage on selected business risks. Insurance cover is under on-going review by a specialised team within ORMU, which works in close liaison with the Group's insurance brokers and the different business units.

8.2.9 Management of Information Technology Risks

Information security risk refers to the risk of loss caused by deliberate or accidental loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems. The Group applies various international standards in its integrated approach, which has the fundamental objective of ensuring the confidentiality, integrity and availability of its information assets.

In order to fulfil the proper handling of information and prevent loss or leakage of information, the Group has developed a number of qualitative measures to reduce such risks through its organisational structure, with officials having specific responsibilities for information security issues, the establishment of information security policies, procedures and standards, awareness training and the implementation of a security infrastructure and systems to ensure a stable information security environment. The approach to the management of information security risks is in line with global standards, in particular ISO 27001. During FY2016, the information security policy was reviewed and updated extensively, establishing a framework of governance and accountability for information security within the Group.

8.2.10 Risk Management in Subsidiary Companies

Risk management and compliance are core functions of the Group's culture and operations and each of the Subsidiaries has a robust governance model which includes various documented policies and procedures and key internal control principles that enable the portfolio managers to carry out their work in an efficient and diligent way. Moreover, BOVAM has in place a risk and compliance programme together with a comprehensive risk register identifying primary and consequential risks. The BOVAM risk and regulatory committee is tasked with the responsibility to manage, develop and operate an appropriate risk control infrastructure. The combination of the qualitative and quantitative risk assessments aims to ensure that BOVAM operates a robust risk management process to protect it in both normal and stressed environments.

On the other hand, BOVFS was set up in 2006 as a fully owned subsidiary of the Bank to provide asset managers with a comprehensive range of administration services to investment funds. In providing its services, BOVFS is exposed to both operational and reputation risks and, to a lesser extent, also market risks. To mitigate these risks, BOVFS has in place compliance and risk monitoring internal audit programmes aimed at reviewing the processes and the corresponding control procedures. In addition, periodic audits of BOVFS's various operations are undertaken by the Group's internal audit department. BOVFS has also engaged an independent audit firm to perform an ISAE 3402 examination of its processes and controls on a biennial basis, which consists of an evaluation of the design and operating effectiveness of its controls. With respect to the management of reputation risks, BOVFS carries out an extensive due diligence process on its potential clients and has in place the necessary procedures to ensure that the business is compliant with prevailing prevention of money laundering regulations.

Lastly, in view of the dependence of BOVFS on its various IT systems, there is in place a detailed business continuity plan in order to appropriately manage the incidence of business interruptions and disaster recovery.

9. REGULATORY FRAMEWORK

9.1 OVERVIEW

The Issuer is regulated and supervised by the ECB and the MFSA in relation to licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organisational, governance and reporting requirements.

In reaction to the crisis in financial markets, the regulatory environment has undergone, and is still undergoing, significant changes. In December 2010, the Basel Committee on Banking Supervision (“**BCBS**”) proposed revised minimum capital adequacy and liquidity standards that were significantly more stringent than the then-existing requirements. The set of comprehensive changes to the capital adequacy framework published by the BCBS, known as Basel III, was implemented into EU law by a legislative package referred to as ‘CRR/CRD IV’. This package includes the CRR which is directly enforceable as law in every member state of the EU including Malta, and the CRD IV which has been implemented into national law through amendments to the Banking Act and applicable regulations thereunder. CRR/CRD IV contains, among other things, detailed rules on regulatory banking capital, increased capital requirements and the introduction of additional capital buffers, tightened liquidity standards and a non-risk based leverage ratio. Most of the new rules came into effect on 1 January 2014, whilst certain other regulatory requirements will be gradually phased-in by 1 January 2019.

On 23 November 2016, following a routine review of the CRR/CRD IV legislative package and other measures in the area of banking regulation and supervision, the European Commission published a comprehensive set of reforms to further strengthen the resilience of EU credit institutions (through what is known as CRR II and CRD V or the CRD-V package). The amendments proposed in CRD V and the CRR II aim to address a number of identified areas of improvements to the CRD IV package but also implement a number of reforms that have only recently been finalised by the BCBS and the Financial Stability Board. These include: (i) a binding leverage ratio, which will prevent institutions from excessively increasing balance sheet leverage; (ii) a binding net stable funding ratio, which will improve institutions’ funding profiles and resilience against market and funding stresses; (iii) more risk sensitive own funds requirements for institutions that actively trade in securities and derivatives; (iv) a revised framework for capturing interest rate risk in the banking book (IRRBB) which will entail a common approach and supervisory prescribed shock scenarios; and (v) new standards on the total loss-absorbing capacity (TLAC) of globally systemically important institutions (also referred to as G-SIIs), which will require more loss-absorbing and recapitalisation capacity. The proposed amendments will start entering into force in 2019 at the earliest and are tightly inter-linked with other provisions in the CRR and the CRD IV, which have been in effect since January 2014.

In addition to the continued implementation and refinement of the CRR/CRD IV package, the EU is pursuing a deeper integration and harmonisation of banking regulation and supervision by the establishment of the Banking Union. Currently, the Banking Union consists of two pillars, the SSM and the SRM for credit institutions domiciled in the Eurozone as well as for credit institutions domiciled in other EU Member States that decide to participate in the SSM and SRM. Under the SSM, the ECB is the primary supervisor of ‘significant’ credit institutions (such as the Issuer) and their banking affiliates in the relevant EU Member States. The SSM is based on the SSM Regulation which is directly enforceable as law in every participating member state including Malta. The SRM centralises at a European level the key competences and resources for managing the failure (or likely failure) of any credit institution in the participating EU Member States. Under the SRM, broad resolution powers with respect to credit institutions domiciled in the participating EU Member States, are granted to the SRB as the central European resolution authority and to the competent national resolution authorities. The SRM is based on the SRM Regulation, which is directly enforceable as law in Malta and the BRRD, which has been implemented into national law through the BRRD.

The reforms adopted also include the introduction of IFRS 9 (please refer to the section headed 7.3 for further information in this regard).

Further changes continue to be under consideration. While the extent and nature of these changes cannot be predicted now, they may include a further increase in regulatory oversight and enhanced prudential standards relating to capital, liquidity, leverage, conduct of business, and other aspects of the Issuer’s operations that may have a material effect on the Issuer’s business and the services and products that it will be able to offer.

9.2 COMPETENT AUTHORITIES

The Issuer is authorised to conduct banking business and to provide ancillary financial services as set forth in the Banking Act and is subject to comprehensive regulation and supervision by the ECB, the MFSA, the Listing Authority, the FIAU and the CBM.

As a 'significant' credit institution within the meaning of the SSM Regulation, the Issuer is directly supervised by the JST. The responsibilities of JST include, but are not limited to, performing the SREP, proposing the supervisory examination programme, including a plan of on-site inspections, implementing the approved supervisory examination programme as well as ensuring coordination with the on-site inspection teams and the MFSA.

The MFSA is the Issuer's principal supervisor for regulatory matters with respect to which the Issuer is not supervised by the JST, including the rules on business conduct in the investment services market. Further, the MFSA also supervises the Issuer with respect to those requirements under the Banking Act that are not based on EU law. The CBM supports the MFSA and the ECB and closely cooperates with them, including through the ongoing review and evaluation of reports submitted by the Issuer. Other competent authorities include the Listing Authority, which supervises the Issuer in relation to its compliance with the Listing Rules applicable to the issuance and trading of the Issuer's own securities, and the FIAU, which is the competent authority for matters relating to the regulation of anti-money laundering and the countering of terrorist financing.

These competent authorities have extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, to impose monetary and other sanctions, to request the replacement of members of the Issuer's management or Board of Directors, or to repeal or suspend the licence of the Issuer.

9.3 BANKING LEGISLATION

The Banking Act and the CRR contain the principal rules for Maltese credit institutions, including the requirements for a banking licence, and regulate the business activities of Maltese credit institutions. Significant parts of the regulatory framework for credit institutions in the EU are governed by the CRR, which sets forth the requirements applicable to the Issuer relating to regulatory capital, risk-based capital adequacy, monitoring and control of large exposures, leverage, liquidity and public disclosure. Certain other requirements, including those on capital buffers, organisational and risk management requirements, are set forth in the Banking Act and other rules and regulations issued thereunder, partly implementing EU directives such as the CRD IV.

9.4 FINANCIAL MARKETS LEGISLATION

Under the Financial Markets Act (Cap. 345 of the laws of Malta), the Listing Authority is responsible for, *inter alia*: authorising the admissibility of financial instruments to a regulated market; establishing and updating the Listing Rules; and ensuring compliance with any requirements or conditions set out in the Listing Rules for listed financial instruments to remain listed and monitor the timely disclosure of information by issuers.

On 3 July 2016, a new legal regime on market abuse entered into force consisting of a directly applicable EU regulation on market abuse (the Market Abuse Regulation (EU) No 596/2014 or "**MAR**") and an EU directive on criminal sanctions for market abuse (Directive 2014/57/EU or "**MAD II**") which has been implemented into national law *via* amendments to the Prevention of Financial Markets Abuse Act (Cap. 476 of the laws of Malta). The MAR establishes a common EU framework for, *inter alia*, insider dealing, the public disclosure of inside information, market manipulation, and managers' transactions. The Prevention of Financial Markets Abuse Act (Cap. 476 of the laws of Malta), which had contained rules on markets abuse prior to the entering into force of the MAR, continues to supplement the MAR including by, for example, setting out the sanctions in case of violations of the MAR.

The EU has enacted several legislative proposals which result in further regulation of securities trading and the trading in derivatives in particular. Notable, the EU adopted the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 or "**EMIR**"), which became effective on 16 August 2012 and which introduced requirements for standardised over-the-counter derivatives to be centrally cleared and derivative transactions to be reported to trade repositories. Further legislative measures such as the overhauled Markets in Financial Instruments Directive (Directive 2014/65/EU or "**MiFID II**") and the new Markets in Financial Instruments Regulation (Regulation (EU) No

600/2014 or “**MiFIR**”) and corresponding delegated legislation, which will be applicable as from 3 January 2018, provide for, among other things, greater regulation and oversight and greater sanctioning powers.

Further, European securities regulation is to a large extent based on technical standards, guidelines and recommendations developed by the European Securities and Markets Authority (“**ESMA**”).

9.5 CAPITAL ADEQUACY REQUIREMENTS

9.5.1 Minimum Capital Adequacy Requirements (Pillar I)

The minimum capital adequacy requirements for credit institutions are primarily set forth in the CRR. Pursuant to the CRR, the Issuer is required to maintain an adequate level of regulatory capital in relation to its risk position. Risk positions (also referred to as ‘risk-weighted assets’) include credit risks, market risks and operational risks. The most important type of capital for compliance with the CRR capital requirements is CET1 capital, which primarily consists of share capital, retained earnings and other reserves, subject to certain regulatory adjustments. Another component of regulatory capital is ‘Additional Tier 1’ capital, which includes certain unsecured subordinated perpetual capital instruments and related share premium accounts. Tier 1 capital requirements are aimed at ensuring the ability to absorb losses on a ‘going concern’ basis. The other type of regulatory capital is ‘Tier 2’ capital which generally consists of long-term subordinated debt instruments and must be able to absorb losses on a ‘gone concern’ basis. Tier 1 and Tier 2 capital together constitute ‘own funds’.

Under the CRR, credit institutions are required to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum ratio of CET1 capital to risk-weighted assets of 4.5%. The minimum total capital ratio of own funds to risk-weighted assets is 8%. The Issuer’s CET1 ratio as at 31 March 2017 stood at 13.1% up from 12.8% on 30 September 2016. Total capital ratio as at 30 September 2016 stood at 16.8%. However, the need for capital continues to grow, as evolving regulation is expected to impose higher capital requirements as well as higher risk weightings on assets.

9.5.2 Capital Buffers

Banking Rule 15 of 2015, *Capital Buffers of Credit Institutions Authorised Under the Banking Act 1994*, requires credit institutions to build up a mandatory capital conservation buffer and institution-specific countercyclical capital buffer, whilst having regard to any additional domestic counter-cyclical capital buffer which may be set by the CBM. The Issuer, in virtue of its classification as an O-SII, is to maintain an additional O-SII buffer, which buffer consists of, and is supplementary to, CET1 capital. The CBM is further empowered, by the Central Bank of Malta Act (Appointment of Designate Authority to implement Macro-Prudential Instruments) Regulations (S.L. 204.06) to require credit institutions to build up a systemic risk buffer to prevent and mitigate long-term, non-cyclical systemic or macro-prudential risks not otherwise covered by the CRR/CRD IV. If a credit institution fails to build up the required capital buffers, it will be subject to restrictions on the pay-out of dividends, share buybacks and discretionary compensation payments. Also, the ECB may require credit institutions to maintain higher capital buffers than those required by national competent authorities.

9.5.3 Supervisory Review and Evaluation Process (SREP) (Pillar II)

The ECB may impose capital requirements on individual significant credit institutions within the SSM, such as the Issuer, which are more stringent than the statutory minimum requirements set forth in the CRR, the Banking Act, or the related rules and regulations. In this context, the European Banking Authority published its final guidance for common procedures and methodologies for the SREP (which has been reflected in Banking Rule 12 of 2014, *The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act*), in terms of which competent supervisory authorities, including the ECB, are required to review the arrangements, strategies, processes and mechanisms of supervised credit institutions on a regular basis, in order to evaluate risks to which they are or might be exposed, risks they could pose to the financial system, and risks revealed by stress testing, taking into account the nature, scale and complexity of their activities. At the end of the process, the competent supervisory authority takes a SREP decision in relation to each relevant credit institution setting out, depending on the outcome of the SREP, specific capital and liquidity requirements for each affected credit institution. Any additional bank-specific capital requirements resulting from the SREP are referred to as ‘Pillar II’ requirements and must be fulfilled in addition

to the statutory minimum capital and buffer requirements. Also based on the outcome of the SREP, the competent supervisory authority may take a range of other measures in response to shortcomings in a credit institution's governance and risk management processes as well as its capital or liquidity position, such as prohibiting dividend payments to shareholders or distributions to bondholders of regulatory capital instruments.

9.6 INTERNAL CONTROLS

Under Pillar II, credit institutions are also required to establish robust governance arrangements, including a clear organisational and committee structure, well-defined lines of responsibility, effective risk management processes, control mechanisms, remuneration policies, and succession plans for key members of the board and senior management. The internal governance arrangements are to be appropriate to the nature, scale and complexity of the credit institution and the main responsibility for internal governance lies with the board of directors, which is subject to specific suitability requirements.

Pillar III disclosure obligations of credit institutions cover disclosures to the public regarding capital adequacy, exposure to risks and general characteristics of the related management and control systems, aimed at promoting a more accurate assessment of capital solidity and exposure to risks. Specifically, the CRR/CRD IV disclosure framework which credit institutions are subjected to, requires information of a quantitative and qualitative nature that must be published in accordance with the proportionality principle. The framework identifies the frequency of the publication, exemptions, as well as the checks to be carried out to information which is made public.

9.7 LIMITATIONS ON LARGE EXPOSURES

The CRR also contains the primary restrictions on large exposures, which limit a credit institution's concentration of credit risks. Under the CRR, the Issuer's exposure to a customer (and any customers affiliated with it) is deemed to be a 'large exposure' when the value of such exposure is equal to or exceeds 10% of the Issuer's eligible regulatory capital (defined as the sum of Tier 1 and Tier 2 capital which may not exceed one third of Tier 1 capital). In general, no large exposure may exceed 25% of the Issuer's eligible regulatory capital. If the customer is a credit institution or an investment firm, the exposure is limited to the higher of 25% of the Issuer's eligible regulatory capital or €150 million, provided that competent authorities may set a lower limit than €150 million.

9.8 LIQUIDITY REQUIREMENTS

The CRR introduced a new liquidity coverage requirement intended to ensure that credit institutions have an adequate stock of unencumbered HQLA that can be easily and quickly converted into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario. The required LCR is calculated as the ratio of a credit institution's liquidity buffer to its net liquidity outflows. The liquidity coverage requirement is being gradually phased in through 1 January 2018, with a minimum required level of liquidity of 80% in 2017 which will be increased to 100% in 2019. Whilst the Issuer is a highly liquid credit institution, with a LCR of 131% as at 30 September 2016, and thus, exceeds all levels of liquidity required by regulatory ratios, the Issuer has to ensure that it maintains a minimum stock of unencumbered, HQLA which have to be available to cover the net outflow expected to occur in a severe stress scenario.

As far as long-term liquidity is concerned, the regulations propose the introduction of a liquidity structural equilibrium requirement, that is, the NSFR, calculated as the ratio between the amount of available stable funding and the amount of required stable funding. The CRR contains interim reporting requirements on stable funding but does not yet include substantive provisions relating to NSFR. The NSFR is subject to an observation period and shall be introduced as a binding minimum standard in 2018. Although it is not yet a binding regulatory standard, the Issuer already calculates the NSFR whose results indicate that the Bank meets and exceeds the 100% threshold.

National liquidity requirements under the Banking Act and Banking Rule 5 of 2007, *Liquidity Requirements of Credit Institutions Authorised under the Banking Act 1994*, generally require credit institutions to invest their funds so as to maintain adequate liquidity at all times. The ECB and the MFSA may impose on individual credit institutions, liquidity requirements which are more stringent than the general statutory requirements if such credit institution's continuous liquidity would otherwise not be ensured.

9.9 LEVERAGE RATIO REQUIREMENTS

The Basel III framework proposes a non-risk based leverage ratio as a complement to the risk-based capital requirements. While the CRR, as currently in effect, does not require credit institutions to comply with a specific leverage ratio, credit institutions are required to report and publish their leverage ratios for a future assessment and calibration of the leverage ratio. The European Commission is proposing to introduce a binding minimum leverage ratio requirement of 3% of Tier I capital into the CRR.

9.10 RECOVERY AND RESOLUTION PLANNING, RESTRUCTURING POWERS

Malta participates in the SRM which centralises, at a European level, the key competences and resources for managing the failure of credit institutions in EU Member States participating in the Banking Union. The SRM Regulation and the BRRD Regulations require the preparation of recovery and resolution plans for credit institutions and grant broad powers to public authorities to intervene in a credit institution which is failing or likely to fail.

Resolution measures that could be imposed upon a failing credit institution may include a range of measures, such as the transfer of shares, assets or liabilities of the credit institution to another legal entity; the reduction, including to zero, of the nominal value of shares; the dilution of shareholders of a failing credit institution or the cancellation of shares outright; or the amendment, modification or variation of the terms of the credit institution's outstanding debt instruments, for example by way of deferral of payments or a reduction of the applicable interest rate.

To prevent credit institutions from structuring their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools, the SRM Regulation and the BRRD Regulations introduced a requirement for credit institutions to meet minimum requirements for own funds and eligible liabilities ("**MREL**"). The MREL shall be determined by the Resolution Committee, which is the competent resolution authority in Malta appointed by the Resolution Authority.

The SRF has also been established by the SRM Regulation. The SRF kicks in if, exceptionally, the contributions by shareholders and creditors are not sufficient to finance resolution. The SRF would, however, only finance support measures for the resolution tools and would not directly absorb any losses or recapitalise a bank. Most financial institutions within the EU, including the Issuer, are required to contribute to the SRF by way of making *ex ante* contributions to the SRF so that within eight years (starting 2016 to 2023), the SRF would amount to 1% of the protected deposits of all banks within the Banking Union (approximately €55 billion). Extraordinary *ex post* contributions become due if the financial means of the SRF are not sufficient to cover support measures.

9.11 DEPOSITOR AND INVESTOR COMPENSATION

The Depositor Compensation Scheme Regulations (S.L. 371.09, "**DCSR**") and the Investor Compensation Scheme Regulations (S.L. 370.09, "**ICSR**") provide for a mandatory deposit protection and investor compensation scheme in Malta.

The DCSR requires that each Maltese credit institution participates in the Depositor Compensation Scheme (the "**DCS**"), which collects and administers the contributions of the member credit institutions, such as the Issuer, and settles any compensation claims of depositors in accordance with the DCSR. Under the DCSR, the DCS is liable for obligations resulting from deposits denominated in any currency in an amount of up to €100,000 per depositor and credit institution, subject to such deposits being classified as 'eligible deposits' under the DCSR. Contributions and commitments made to the DCS by Maltese credit institutions are also governed by Banking Rule 18 of 2016, '*Risk-Based Method*' and the '*Compensation Contribution Method*' under the *Depositor Compensation Scheme Regulations*, and Banking Rule 19 of 2016, '*Payment Commitment*' under the *Depositor Compensation Scheme Regulations*.

Under the ICSR, in the event that the MFSA ascertains a compensation case, the Investor Compensation Scheme (the "**ICS**") is required to compensate 90% of any investor's aggregate claims arising from securities transactions denominated in euro or in a currency of any other EU member state up to an amount of the equivalent of €20,000, subject to the claim meeting the requirements imposed in the ICSR as may be applicable.

On 24 November 2015, the European Commission proposed a regulation to establish a European Deposit Insurance Scheme ("**EDIS**") for deposits of all credit institutions which are members of any of the current national statutory

depositor compensation schemes of EU Member States participating in the Banking Union. The European Commission's proposal envisages a progressive integration of existing national schemes in three stages, from a re-insurance of national depositor compensation schemes, to a co-insurance system, and then to the final stage, which would be reached in 2024, when the EDIS would fully insure all relevant national depositor compensation schemes in case of failure of a credit institution. The EDIS would be administered by the SRB in all stages jointly with participating national depositor compensation schemes. The proposal is currently being negotiated at EU level and the ultimate impact on the Issuer is uncertain.

9.12 PREVENTION OF MONEY LAUNDERING REGULATIONS

The Issuer is subject to the money laundering regime aimed at preventing money laundering and the funding of terrorism, contained mainly in the Prevention of Money Laundering Act (Cap. 373 of the laws of Malta), the Prevention of Money Laundering and Funding of Terrorism Regulations (S.L. 373.01), and the Criminal Code (Cap. 9 of the laws of Malta). Collectively, these legislative instruments implement Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

Specifically, pursuant to this regime, credit institutions are obliged, *inter alia*, to:

- Adequately identify and verify customers and ultimate beneficial owners where applicable, through rigorous identification and verification procedures, subject to adopting a risk-based approach;
- Conduct ongoing monitoring of business relationships, proportionate to the risk posed by such relationships;
- Appoint a money laundering reporting officer (referred to as the MLRO);
- Record and keep the identification data and other information on relationships and transactions with customers in a durable and accessible repository;
- Respond to requests for information from the FIAU and other competent authorities;
- Report suspicious transactions to the FIAU; and
- Set up internal control measures and ensure the adequate training of employees at regular intervals.

9.13 PAYMENT SERVICES DIRECTIVE II FOR FINANCIAL INSTITUTIONS

Directive (EU) 2015/2366 (known as the Payment Services Directive or PSDII) will be formally implemented on 13 January 2018. This is the deadline for national governments to transpose PSDII into local legislation. PSDII seeks to enhance consumer protection when effecting online payments, whilst at the same time promoting the use of innovative online and mobile payment solutions. The major change envisaged by PSDII envisages opening up by the payments industry through the "account information service" rule and the "payment initiation service" rule which oblige banks to provide third party payment service providers access to customer account information subject to customer approval.

The opportunities presented under PSDII is that banks can position themselves as the preferred payment service provider in view of their first mover advantage and can partner with non-bank technology payment providers. However, this will require banks to change their business model together with reorganising their internal IT infrastructures. The account information rule would also place obligations on banks, that maintain the customer account, to implement adequate customer protection measures. The extent and impact of PSDII on the Maltese market will need to be assessed over the coming years. Either way it will alter the way the Issuer's payments business will be run in the medium to long term.

10. TREND INFORMATION

10.1 TREND INFORMATION - MARKETS, REGULATIONS AND BUSINESS

There has been no material adverse change in the prospects of the Issuer since 30 September 2016 (date of the Issuer's last published audited financial statements). Further, there has been no significant change in the financial or trading position of the Issuer subsequent to the period covered by the historical financial information.

At the date of publication of the Prospectus, with the exception of the macroeconomic conditions and market conditions generally, as well as the impact of legislation and regulations applicable to the Issuer⁷ and to other financial institutions within the Eurozone, the Issuer does not anticipate any trends, uncertainties, demands, commitments or events outside the ordinary course of business that could be deemed likely to have a material effect on the upcoming prospects of the Issuer's business for at least up to the end of the current financial year.

Global and Local Economic Outlook

Global economic recovery is on a much firmer footing than it has been in the last couple of years. This has been confirmed by the IMF who are anticipating global growth to rise to 3.6% in 2017 and to increase to 3.8% in 2018. Growth is expected in all major developed and emerging economies, although performance will vary between the different regions. The US economy is expected to be the outperformer in developed markets, with growth forecasted at an average of 2.5% for 2017 and 2018. In the Eurozone, economic growth is expected to continue its positive trend and should average 1.7% in 2017 and 2018, especially now that most political risks have receded. The only exception is the United Kingdom and Brexit. This bodes well for the local economy, which continues to outstrip other European economies in terms of GDP growth and employment growth. In the first quarter of 2017, Malta experienced an annualised GDP growth rate of 4.2%, mainly driven by domestic demand. Such momentum is expected to be maintained in the foreseeable future, and this should leave a positive impact on the Issuer given its reliance on the local economy.

The improving economic situation is leading central banks to start normalising their unprecedented monetary policy stimulus which resulted in policy rates being cut to all-time lows. In the coming months the US Federal Reserve (the "Fed") is expected to start shrinking its balance sheet, whereas the ECB is expected to start tapering its quantitative easing ("QE") programme. Furthermore, the Fed has also hiked interest rates three times since December 2016. So far, only the Bank of Canada has followed the Fed in increasing its interest rates. However, there is a clear gradual shift towards a tightening of monetary policy across the board. Although the ECB is expected to slowly exit QE, it is not expected to hike interest rates before the latter part of 2019. This means that the Issuer will continue to face pressures on its interest rate margins, and hence the emphasis on its strategic shift to enhance non-interest income.

The pace of balance sheet reduction and interest hikes by major central banks will depend on the rate of inflation growth. While inflation started picking up in the last couple of months, it still remains below targets for major economies. The main factor behind the tepid inflation figures is that wage growth has been insignificant despite a tightening labour market. The fall in oil prices and increased globalisation are also contributing to low inflation expectations. Undoubtedly, this will change once central banks become more hawkish, although its timing will be difficult to predict. Although local inflation has picked up during 2017, price pressures still remain contained. Local inflation reached 1% in June as against the EU average of 1.3%. Furthermore, unit labour costs remain moderate and this should maintain our competitiveness on an international level.

Regulatory Reforms

Regulatory reforms in response to the weaknesses in the global financial sector, together with increased regulatory scrutiny, have had and are expected to continue to have a substantial impact on financial institutions, including the Issuer. For further details on the reforms that have been or may be adopted, please refer to the section headed *Regulatory Framework* above.

⁷ Amongst others, the impact of legislation and regulations has resulted in the Issuer having to increase its share capital to meet regulatory requirements.

Core Banking Transformation Programme

The Core Banking Transformation Programme is key to the Bank's future sustainability and ability to implement its key business initiatives aimed at creating an organisation with a long-term view to gradual and steady growth, with a lower level of overall business risk. This initiative, which is currently underway, should place the Bank in a position to implement a comprehensive digitalisation strategy that would render the Bank more accessible by customers by providing the platform to enhance the provision of certain services and the introduction of new services which the Bank's current systems do not permit. For further details on the Core Banking Transformation Programme and its impact on the Issuer's capital, please refer to the sub-section headed *Reinforcement of HR and IT Resourcing* of section 7.3 of the Registration Document.

10.2 TREND INFORMATION AND FORECASTS

Forecasted figures for the period from 1 October 2017 to 31 December 2017 presented against interim unaudited results for the twelve months ended 30 September 2017 and unaudited final results for the financial year ended 30 September 2016:

| Statements of Profit or Loss For the year/period | 1 October 2015 to 30 September 2016 (Audited) | 1 October 2016 to 30 September 2017 (Unaudited) | 1 October 2017 to 31 December 2017 (Unaudited) |
|---|---|---|--|
| | €'million Actual | €'million Actual | €'million Forecast |
| Net Interest margin | 149 | 147 | 37 |
| Commissions and trading income | 88 | 89 | 22 |
| Costs | (113) | (120) | (30) |
| Impairment | (23) | 8 | (2) |
| CORE PROFIT | 101 | 124 | 27 |
| Share of profit of equity-accounted investees | 4 | 14 | - |
| Gain on Visa transaction | 28 | - | - |
| Fair value movement | 13 | 6 | 1 |
| Profit before tax | 146 | 144 | 28 |

| Statements of Financial Position | | | |
|---------------------------------------|--------------------------------|----------------------------------|---------------------------------|
| As at | 30 September 2016 (Audited) | 30 September 2017 (Unaudited) | 31 December 2017 (Unaudited) |
| | €'million | €'million | €'million |
| | Actual | Actual | Forecast |
| Treasury assets | 6,277 | 6,931 | 7,299 |
| Advances | 4,123 | 4,313 | 4,363 |
| Other assets | 323 | 355 | 355 |
| Total assets | 10,723 | 11,599 | 12,017 |
| Customer deposits | 9,181 | 10,082 | 10,329 |
| Subordinated debt | 327 | 327 | 327 |
| Banks & Swaps | 291 | 199 | 188 |
| Other liabilities | 195 | 202 | 213 |
| Equity | 729 | 789 | 960 |
| Total liabilities & equity | 10,723 | 11,599 | 12,017 |

Financial Commentary

Profit before tax for the twelve-month period ended 30 September 2017 was in line with that of FY2016. However, the comparative period September 2016 included a one-off gain of €28 million on the disposal of the Bank's membership interest in Visa Europe⁸.

The Issuer will be changing its reporting year end from September to December. As a result, the Issuer has issued interim financial statements for the twelve-month period ended September 2017 which will be followed by the publication of full and final results for a fifteen-month period October 2016 to December 2017. The Group expects that the trends experienced up to September 2017 will continue for the last three months of 2017.

⁸ <https://www.bov.com/documents/company-announcement-293>

Key ratios

The following table depicts a number of key ratios for the historical financial year 2016, for the 12-month period ended 30 September 2017 and the forecasted 3-month period ending 31 December 2017.

| Analysis as at: | 30 September 2016 (Audited) Actual | 30 September 2017 (Unaudited) Actual | 31 December 2017 (Unaudited) Forecast |
|--|--|--|---|
| Return on equity (This ratio takes into consideration profit before tax as a percentage of equity) | 16.9%* | 19.0% | 12.8% |
| Return on assets (This ratio takes into consideration profit before tax as a percentage of Total Assets) | 1.1%* | 1.3% | 1.0% |
| Cost to income (This ratio takes into consideration expenses as a percentage of operating income [interest margin plus fee and trading income]) | 44.3%* | 46.8% | 49.6% |
| * Excludes gain on VISA | | | |
| Loans to deposits (This ratio takes into consideration net advances [advances as per statement of financial position, i.e. net of impairment allowances] as a percentage of customer deposits) | 44.9% | 42.8% | 42.2% |

Introduction to the Forecasts

The forecasts for the period 1 October 2017 to 31 December 2017, which comprise the forecast statement of profit or loss and forecast statement of financial position (“Forecasts”) are intended to show a possible outcome based on assumptions relating to anticipated future events which the Directors expect to take place, and on actions the Directors expect to take. Events and circumstances frequently do not occur as expected, and therefore, actual results may differ materially from those included in the Forecasts.

Attention is drawn, in particular, to the risk factors set out in this Registration Document, which describe the primary risks associated with the business to which the Forecasts relate.

The Forecasts, including the principal assumptions upon which they are based, are not intended to and do not provide all the information and disclosures necessary to give a true and fair view of the financial results, financial position, and cash flows of the Group, in accordance with International Financial Reporting Standards as adopted by the EU.

The Directors have exercised due care and diligence in adopting the assumptions set out below. The Forecasts were formally approved on 19 October 2017 by the Directors, and the stated assumptions reflect the judgments made by the Directors at that date.

The assumptions that the Directors believe are significant to the prospective financial information are described below.

Significant Accounting Policies

The significant accounting policies of the Bank are set out in the audited financial statements of the Bank for the financial year ended 30 September 2016. Where applicable, in so far as they relate to recognition and measurement criteria, they have been consistently applied in the preparation of the Forecasts.

Basis of Preparation and Principal Assumptions

The following are the key assumptions which the Issuer has taken into consideration in preparing the forecasts for the 3-month period ending 31 December 2017. The assumptions are divided into two segments:

- i. Assumptions based on factors outside the influence of the Issuer's Directors; and
- ii. Assumptions based on factors within the influence of the Issuer's Directors.

Factors outside the influence or control of the BOV directors:

- The Group will continue to enjoy the confidence of its customers throughout the period under consideration;
- There will be no changes to existing prevailing worldwide macroeconomic conditions as well as changes to the local economy during the period of the Forecasts;
- The Group will be able to continue with its business and will not be materially interrupted by any unforeseeable events including the occurrence of natural disasters;
- There will be no changes in interest rates, bases of taxes, legislation or regulatory requirements that would have a material impact on the Group;
- No material abnormal or extraordinary items will occur during the period covered by the Forecasts;
- The Group will enjoy good relations with its employees throughout the period under consideration;
- The Bank will retain its current employees and, if necessary, will recruit any additional employees necessary to meet its forecast level of activity under similar terms and conditions;
- There will be no material change to the Board of Directors or Senior Management during the period covered by the Forecasts;
- No significant fluctuations will occur in the fair values of fair value to profit and loss and available-for-sale investments;
- The rate of inflation throughout the period under consideration will not exceed that experienced in the last few years;
- Exchange rates will not change significantly over the period covered by the Forecasts.

Factors within the influence or control of the Issuer's Directors:

The Issuer does not expect the profit forecast for the 3-months ending 31 December 2017 to be materially different, on a proportionate basis from the profit statements for the 12-month period ended 30 September 2017.

The principal assumptions related to the environment in which the Group operates and the factors which the Directors can influence and which underlie the Forecasts, are the following.

Net Interest Margin

Interest margin for the twelve months to September 2017 remained on the same level of September 2016. The lower interest cost on customer deposits, driven by low rates and customers' preference for short term deposit products, was offset by a decrease in interest receivable on the Bank's assets. This reflects the persistent low yields and negative interest rates on balances with banks, which are placing significant pressures on banks' interest margins. This environment is expected to persist for the forecasted period.

Commissions and trading income

The Bank's strategy is to supplement pressure on its interest margin with other revenue streams. This is evidenced by the satisfactory growth in fee income, which emanates from increases in all major product lines. The forecasted number is based on this strategy.

Costs

The substantial investment which started this year to replace the Bank's Core Banking System is resulting in a higher IT expenditure. While the Bank will continue controlling discretionary expenses, the estimated increase in total expenditure reflects also the higher cost of compliance. This situation is expected to continue during the forecast period.

Impairment

The Bank is adopting a more pro-active approach especially when dealing with legacy debt. This has resulted in the reversal of impairment losses following the settlement of a number of non-performing loans. The decrease in non-performing exposures resulted in an improvement in the credit quality of the loan book. A prudent view was adopted and the forecast is based on the assumption that the settlements to September 2017 will not be repeated during the forecast period.

Non-core items

Non-core items include, share of profit of insurance interests, fair value movement and the one-off Visa gain in 2016.

Given that the Bank does not exercise control over its associates, the share of profit for the three months forecast is not expected to be material in this context and forecasts of the associates are not readily available, the Share of profits of Equity Accounted Investees has been excluded from the forecast.

The lower fair value gains during the 12 months to September 2017 resulted mostly from the lower level of quantitative easing activities when compared to 2016. This trend is expected to continue to end December 2017.

Financial position

Group total assets as at 30 September 2017 increased as the inflow of deposits continued. This reflects the current local economic activity and increased customer and investor confidence during the period. The level of subordinated debt is expected to remain unchanged during the forecast period.

Loans and advances to customers reflect a satisfactory demand for credit with growth in both the mortgage and corporate loan books.

The excess of incoming funds is driven by customer deposits, is mainly deployed into liquid short-term assets. As a result, the already conservative LtD ratio has decreased and is expected to decrease slightly to end December 2017.

Total equity as at 30 September 2017 reflected the need to strengthen capital buffers required to meet the onerous prudential requirements while meeting Shareholders' expectations of a fair return on their investment.

Total equity forecasted as at 31 December 2017 assumes a full take up of the €150 million rights issue which will take place in the fourth quarter of 2017.

Report prepared by the independent auditors

The independent accountant’s report on the Forecasts set out above is contained in Annex 4 of this Prospectus.

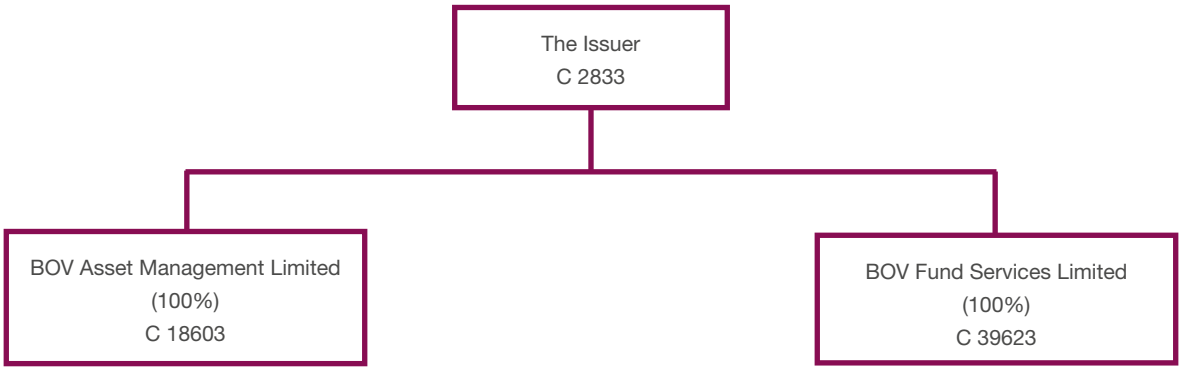
11. ORGANISATIONAL STRUCTURE

11.1 GROUP COMPANIES AND ASSOCIATED COMPANIES

11.1.1 The Subsidiaries

The Issuer is the parent company of the Group and as the parent company, in addition to banking activity, it carries out strategic and coordination functions over the banking, financial and instrumental subsidiary companies that make up the Group.

The Issuer is the sole direct shareholder of the two subsidiary companies forming part of the Group, these being BOV Asset Management Limited and BOV Fund Services Limited. The organisational chart for the companies of the Group as at the date of this Prospectus is below.

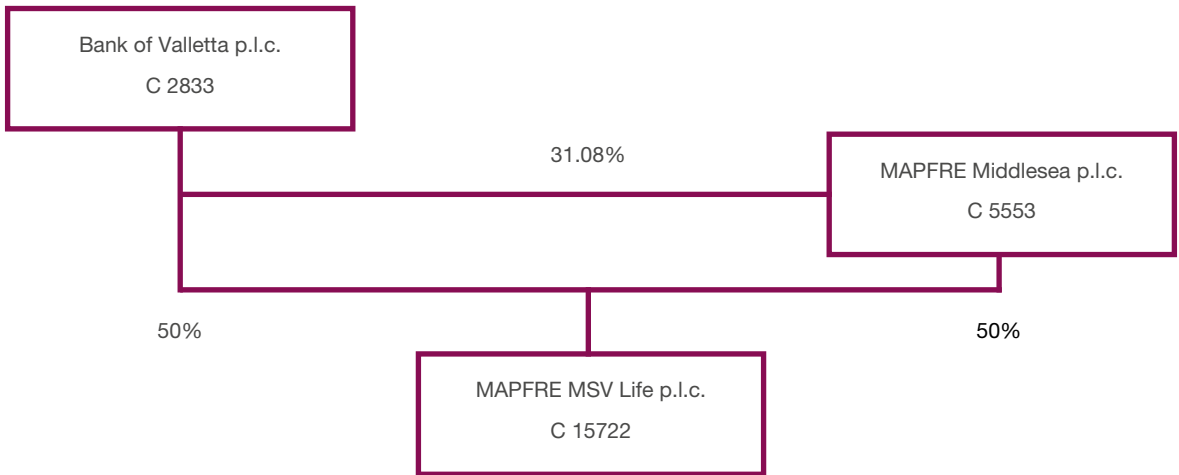


BOV Asset Management Limited (formerly known as Valletta Fund Management Limited) provides management services to collective investment schemes as well as portfolio management services to institutional clients. The company was registered in Malta under the Act and is licensed to carry on investment services under the Investment Services Act (Cap 370 of the laws of Malta).

BOV Fund Services Limited (formerly known as Valletta Fund Services Limited) was registered in Malta under the Act and is: (a) recognised by the MFSA to provide fund administration services; and (b) is registered to act as company service provider in terms of the Company Service Providers Act (Cap. 529 of the laws of Malta).

11.1.2 The Associated Companies

The following organisation chart depicts the relationship between the Issuer and the Associated Companies:



The Issuer holds a 50 per cent equity interest in MAPFRE MSV Life p.l.c., a company that operates as a life assurance business and which is licensed under the Insurance Business Act (Cap. 403 of the laws of Malta). MAPFRE MSV Life p.l.c. is registered as a public limited liability company in Malta under the Act with registration number C15722 and has its registered office at Level 7, The Mall, Floriana FRN 1420, Malta.

The Issuer also holds 31.08% equity interest in MAPFRE Middlesea p.l.c, a company that operates the business of insurance, including group life assurance and which is licensed under the Insurance Business Act (Cap. 403 of the laws of Malta). MAPFRE Middlesea p.l.c is registered as a public limited liability company in Malta under the Act with registration number C 5553 and has its registered office at Middlesea House, Floriana FRN 1442, Malta. The company's equity securities are also admitted to listing and trading on the MSE.

12. BOARD OF DIRECTORS AND SENIOR MANAGEMENT

12.1 THE BOARD OF DIRECTORS

12.1.1 Introduction

The Board of Directors is the corporate organ which is ultimately collectively responsible for the Issuer's business and its supervision. Following an extraordinary general meeting held on 27 July 2017, the Shareholders approved a number of amendments to the Memorandum and Articles most of which were intended to address governance issues amongst which are: (i) the requirement for a nominations and governance committee; (ii) the process for the approval of directors and senior executive management by the nominations; and (iii) governance committee as well as the mix of directors on the Board.

The Board of Directors is entrusted with the overall direction and oversight of the Issuer and is endowed with all the powers required for the board to conduct the direction and oversight of the business, with the exception of the powers reserved by law to the shareholders' meeting, to be exercised in accordance with the provisions of the Act, and other regulatory provisions in force, the Articles, as well as other applicable principles and criteria indicated in The code of principles of good corporate governance in the Listing Rules.

The Board meets regularly to establish and review the policies and strategies of the Issuer and to monitor the implementation thereof and the overall performance of the Issuer.

For further information about the practices of the Board of Directors refer to sections 12.1.2 to 12.1.6 of this Registration Document.

As at the date of publication of the Prospectus, the Board of Directors is composed of the following persons:

Taddeo Scerri (Chairman and Non-Executive Director)

Taddeo Scerri was appointed Chairman of the Bank in December 2016. Previously, he was a director of the Issuer following his appointment in April 2013. Mr Scerri currently chairs the Board's nominations and governance committee, the remuneration committee and the credit committee. He is a qualified accountant. Mr Scerri was the managing partner of RSM Malta until his retirement in 2015. He was the chairman of the local UEFA clubs licencing board and was also a member of the Malta Football Association's finance committee.

Alfred Lupi (Non-Executive Director)

Appointed to the Board in December 2015. Mr Lupi is currently a member of the credit committee and the compliance and crime prevention committee. Mr Lupi also chairs the audit committee. He is a professional accountant with an economics degree and currently engaged in consultancy services. Mr Lupi was chief financial officer in two major companies and the executive chairman of Pavi Shopping Complex p.l.c. He was a director of the Central Bank of Malta and served as acting governor. Mr Lupi chaired the accountancy board and was a member of its quality assurance oversight committee. Mr Lupi has held a number of board appointments mainly in the financial sector.

Joseph M Zrinzo (Non-Executive Director)

Appointed to the Board in December 2013. Mr Zrinzo currently chairs the Board's risk management committee. Mr Zrinzo is a member of the audit committee, of the nominations and governance committee and of the credit committee. Mr Zrinzo currently serves as managing director of a group of family companies, as board director of other local companies, committee member of the cultural heritage advisory and as an active member of the philanthropic associations. Over the years, Mr Zrinzo served as director on boards of various local and international companies, as director of the Issuer between 1996 and 1998, as member of audit, remuneration and compliance committees and was founder member of the Malta shareholders association. Mr Zrinzo has a vast experience of international trade having operated businesses with European, North African and Middle- East companies.

James Grech (Non-Executive Non-Independent Director)

Mr Grech was appointed to the Board in December 2014. He is the head of foreign bank relationships, sits on the audit committee and the compliance and crime prevention committee. He also serves as a member of the board of trustees of the BOV employees' foundation, a position he has held since August 2010. Professionally, James' career commenced as a management accountant with a local accounting firm. He then joined the Bank in 1998 and served as director on the board of the Issuer from January 2004 until December 2008. During his tenure, he occupied senior managerial positions at various branches and departments within the Bank and served as a member of the Bank's operational risk management and compliance committees. James is a director of other local companies, and a recognised member of the institute of directors UK. James holds an honours degree in management and a masters in business administration from Henley Management College, UK.

Stephen Agius (Non-Executive Director)

Appointed to the Board in December 2016. Stephen Agius is currently a member of the risk management committee and the nominations and governance committee. Mr Agius works as a chief of information and development with the national telecom regulatory authority. Apart from his role in strategic information management, he is currently coordinating a number of national initiatives aimed at supporting E-inclusion and digital participation. For 5 years, Mr Agius served as member of the board of directors of Enemalta p.l.c and Engineering Resources Limited.

Prior to his current role, Mr Agius occupied various positions where he was responsible for a number of large scale projects both locally and abroad in areas related to enterprise resource planning, billing, integration, business intelligence and data warehousing and process modelling. Mr Agius is also a visiting senior lecturer at the University of Malta where he lectures 'Digital Analytics for Marketing Professionals' and 'Digital Marketing'. He studied computer science and information systems and gained an honours Bachelor degree from the University of Greenwich UK followed by an MBA in e-Business from the University of Malta.

Alan Attard (Non-Executive Non-Independent Director)

Appointed to the Board in December 2016. Mr Attard is currently a member of the compliance and crime prevention committee. He joined the Bank in 1987. For the past twelve years, he has held various managerial positions including serving as branch manager of several branches. At present, Mr Attard is the branch manager of BOV's Floriana branch which is classified as one of the Bank's premier branches. In July 2015, he was elected as trustee on the board of trustees of the BOV employees' foundation and has since served as secretary to said board.

Paul V Azzopardi (Non-Executive Director)

Appointed to the Board in December 2016. Mr Azzopardi is currently the chairman of the compliance and crime prevention committee and a member of the risk management committee. He set up and managed Azzopardi Financial Services between 1989 and 2006 and subsequently worked in investments in Ontario, Canada, as director and portfolio manager, managing private clients' portfolios and investment funds.

Mr Azzopardi was sponsoring and corporate stockbroker of the Issuer from its initial listing on the Malta Stock Exchange in 1992 until 2006, and also served in the same roles for the funds of BOVAM and several other companies. Paul is the author of "Behavioural Technical Analysis" and two other books on investments, and contributes regularly to the press. He lectured at the University of Malta and the School of Continuing Studies, University of Toronto.

Mr Azzopardi holds a first degree in accountancy from the University of Malta, an MBA from the University of British Columbia, is a Fellow of the Malta Institute of Accountants, and a Certified Public Accountant.

Mr Azzopardi is also Director of BOV Asset Management Limited and BOV Fund Services Limited.

Anita Mangion (Non-Executive Director)

Appointed to the Board in December 2016. Anita Mangion is currently a member of the audit committee and remuneration committee. Ms Mangion is an experienced business and IT consultant. Her area of specialisation is technology intrapreneurship where she exploits innovative ways to restructure existing processes and create new business within organisations. During the last 15 years she consulted to such effect different local and international entities in various sectors; financial, ICT, banking, telecoms, NGOs, manufacturing, food and beverage as well as start-ups, where she successfully drove critical projects to completion and implemented sustainable profitable frameworks.

Ms Mangion graduated in Executive MBA (eBusiness); B.Com. Management Hons; and B.Sc. Business and Computing from the University of Malta. She also studied Business and IT at Indiana University (USA) and Technology Intrapreneurship and New Business Operations at the University of Malta in joint collaboration with Oxford University (UK). She also holds a Diploma in Sports Coaching from TK University (Hungary) in joint collaboration with Malta Olympic Committee.

Ms Mangion was a director at Malta Industrial Parks Limited (MIP) from May to September 2013. At MIP she was also entrusted to oversee the tenders committee, is a member of the audit committee and chairs the ICT steering committee.

Antonio Piras (Non-Executive Director)

Appointed to the Board in December 2016. Mr Antonio Piras is currently a member of the risk management committee and a member of the remuneration committee.

Mr Piras occupies the role of director of the board of Lacobucci Aerospace HF SpA and until recently was vice chairman of Eurofidi Soc. Consortile Garanzia Fidi s.c.a.r.l. (Turin). Until 2014, Antonio used to be the CEO of Equitalia Centro S.p.A (Florence) and chairman and CEO of others companies of Equitalia Group. In 1971 he started his career at UniCredit Group, former Credito Italiano, holding various key roles in the Italian commercial network until 1997.

In 1998 he was appointed as CEO of UniCredit Factoring (Milan), Deputy General Manager of Banca dell'Umbria, Chairman and CEO of Pekao Leasing Sp.z.o.o (Warsaw) and Leasing Fabryczny Sp.z.o.o (Lublin), CEO of UniRiscossioni S.p.A (Tourin), all companies held by UniCredit, and from where he ended his career as Senior Executive Vice President in 2009.

Mario Mallia (Executive Director)

Mario Mallia joined the Bank in September 1979. Mario Mallia was appointed as the Bank's Chief Executive Officer in January 2016. In October 2014, he had been appointed as the Bank's first chief operations officer. He carried out various other roles at the Bank, the most recent being those of chief finance officer and chief risk officer. Mr Mallia is chairman of the asset and liability management committee (ALCO) and of the management board. Mr Mallia is also director on the boards of MAPFRE MSV Life p.l.c. and BOV Fund Services Limited. He chairs the MAPFRE MSV Life risk committee and is currently chairman of the Malta Bankers Association.

Mr Mallia graduated in accountancy from the University of Malta, holds the Certified Public Accountant warrant and is a Fellow of the Malta Institute of Accountants. Mr Mallia's appointment as Executive Director is subject to regulatory approval by the MFSA as well as the ECB.

Miguel Borg (Executive Director)

Miguel Borg joined the Bank in November 2007. Mr Borg was appointed chief risk officer of the Group in November 2014 and is a member of the management board. In his role as chief risk officer, he is responsible for overseeing the measurement and management of the Group's financial and non-financial risk. He is responsible for maintaining the Bank's relationship with regulators and supervisors. Risk management, compliance, anti-financial crime, legal services and credit risk sanctioning departments report to the chief risk officer. Mr Borg is a director of BOVAM and chairs the risk and regulatory committee of BOVAM. He is a member of the Bank's asset and liability management committee and the risk committee of MAPFRE MSV Life p.l.c. Mr Borg is also chairman of the Central Co-Operative Fund.

Mr Borg holds a Masters in Economics from the University of Malta and lectures at the University of Malta. Mr Borg's appointment as Executive Director is subject to regulatory approval by the MFSA as well as the ECB.

12.1.2 Group Company Secretary

Ruth Spiteri Longhurst

Appointed Group company secretary in April 2016. Previously she occupied the post of executive head of the compliance unit within the Issuer. Dr Spiteri Longhurst is also the company secretary of MAPFRE MSV Life p.l.c., BOV Asset Management Limited and BOV Fund Services Limited. Dr Spiteri Longhurst graduated Doctor of Laws from the University of Malta in 2001 and obtained Master of Arts in Financial Services in 2004. Dr Ruth Spiteri Longhurst has been employed with the Bank for the past 15 years.

The business address of the Directors and the Group company secretary is that of the Issuer.

12.1.3 Composition and Appointment

The Board of Directors consists of a minimum of seven (7) and a maximum of twelve (12) individuals. A maximum of three (3) are to be appointed as executive Directors whilst the remaining nine (9) are to be non-executive Directors.

The appointment of executive Directors is regulated by article 24 of the Articles. In accordance with said article the Chief Executive Officer of the Issuer shall *ex officio* become an executive Director by virtue of his office and shall remain in office until the tenure of office as Chief Executive Officer. The non-executive Directors shall appoint at least one other executive Director on the Board from amongst the Senior Management and may also appoint a third executive Director if the non-executive Directors consider it in the best interests of the collective knowledge and competence of the Board to do so. Currently, only one of the optional executive Directors has been appointed and that position is held by the Chief Risk Officer, which is in line with the Issuer's Strategic Initiatives to highlight risk management even at board level.

The appointment of the nine (9) non-executive Directors is governed by article 25 of the Articles and appointments may be made as follows:

- (a) By qualifying Shareholders – namely members holding at least 10 per cent of the issued share capital of the Issuer having voting rights, that are entitled to nominate for the approval of the nominations and governance committee one person for each 10 per cent voting shares held; and
- (b) By other Shareholders not having a qualifying shareholding, but who individually or in aggregate hold not less than €50,000 in nominal value of shares having rights in the Issuer and who are entitled to make recommendations for the approval of the nominations and governance committee; or
- (c) The nominations and governance committee itself seeking the recruitment of fit and proper persons having the right attributes that can add value to the Board of Directors.

All directors, irrespective of the manner in which they are proposed can only take office following the approval of their nomination by the nominations and governance committee. In this context the nominations and governance committee is the organ that, having scrutinised the list of candidates to ensure that the board will have the appropriate collective knowledge, experience and competence, will then place the list of approved candidates for election at a general meeting.

12.1.4 Removal and Rotation of Directors

The rotation, removal and retirement of Directors is contemplated in articles 28 and 30 of the Articles.

Removal

Any Director may be removed at any time by the ordinary resolution of the Shareholders in accordance with the Act, or in accordance with any other applicable law. In addition, the office of director shall '*ipso facto*' be vacated:

- (a) if, by notice in writing to the Issuer, he resigns from the office of director; or
- (b) if he absents himself from the meetings of the Directors for a continuous period of three calendar months without leave of absence from the Directors and the Directors pass a resolution that he has, by reason of such absence, vacated office; or

- (c) if he violates any of the undertakings made by such Director to the Issuer in the applicable contract of service, any form pursuant to which such Director shall have submitted his application to become a director, or the declaration of secrecy required of him under the Articles and the Directors pass a resolution that he has so violated the declaration of secrecy; or
- (d) if he is prohibited by applicable law from being a Director; or
- (e) if he is removed by ordinary resolution from office pursuant to, or otherwise ceases to be a Director by virtue of, the Act; or
- (f) should he become of unsound mind, is convicted of any crime punishable with imprisonment, or is declared bankrupt during his term of office.

Any vacancy among the Directors, may be filled by: (a) the co-option of another person to the office of director, made by the Board of Directors on the recommendation of the nominations and governance committee; or (b) in the event that the retiring Director is appointed by a qualifying shareholder, by the appointment of another person nominated by such qualifying shareholder, subject to approval by the nominations and governance committee.

Any vacancy among the Directors filled by virtue of a co-option, is valid until the next annual general meeting.

Executive Directors may be removed by the Board on just cause being shown to the satisfaction of the nominations and governance committee, provided that the Group CEO may only be removed in the event that his term of office as Group CEO expires or is terminated, in which case any person occupying the office of Group CEO shall *ex officio* be appointed as an executive Director.

Rotation

Following the amendments adopted by the extraordinary general meeting of Shareholders in July 2017, the Issuer has adopted a system of rotation of Directors that is aimed at ensuring a certain level of continuity within the Board of Directors. The system of rotation of Directors contemplates the retirement of one-third of the non-executive Directors in each year, with the remaining two-thirds of the Board retaining office. This is aimed at providing stability of policy-making and implementation by retaining a majority of the Board in place for a period of at least two years at any time. Directors whose turn it is to retire from office, pursuant to the rotation system, will be eligible for re-appointment, subject to approval by the nominations and governance committee.

The rotation mechanism is also intended to cater for the proper management of the nominations and governance committee, whereby the members from time to time appointed to this committee, to the extent practicable, will be directors whose term of office does not expire during that year and therefore who would have no personal interest in the appointment of directors during that particular year.

The Directors to retire first shall be determined as follows:

- (a) First those non-executive Directors who wish to retire and not to seek re-appointment prior to the full term of his appointment;
- (b) To the extent that there are less than three non-executive Directors who intimate their willingness to retire and not seek re-appointment, by agreement between the non-executive Directors;
- (c) In the absence of agreement, those to retire first shall be the non-executive Directors who have been longest in office, including by virtue of re-election, since their first election, but as between persons who became Directors on the same day or in the event that the duration in office cannot be properly determined those to retire shall (unless they otherwise agree among themselves) be determined by lot.

A retiring Director shall only be eligible for re-election provided that such person did not occupy the office of non-executive Director for an aggregate period of more than 12 years in any period of 15 years.

12.1.5 Date of Expiration of the term of Office of Directors

The Directors currently in office have been appointed in December 2016. They shall all retire at the next annual general meeting but shall be subject to re-appointment in accordance with the Articles, subject to the rotation mechanism explained above. All Directors, all as from the next annual general meeting, be appointed for a term of three (3) years, to expire in 2020.

During each of the annual general meetings of the year 2018, 2019 and 2020, three (3) out of the nine (9) non-executive Directors' term of office, shall expire pursuant to the rotation mechanism in the Articles (set out above), subject to such person being eligible for re-appointment.

12.1.6 Powers of Directors

The Directors are empowered to act on behalf of the Issuer and, in this respect, have the authority to enter into contracts, sue and be sued in representation of the Bank. The Directors may transact all business of whatever nature of the Bank not expressly reserved by the Memorandum and Articles to the Shareholders in general meeting or by any provision contained in any law for the time being in force. According to the Memorandum and Articles, the Directors may from time to time delegate any of their powers and authorities to one or more of their number and/or to one or more committees as well as to management.

12.1.7 Potential Conflicts of Interest

As at the date of this Registration Document, there are no conflicts of interest between the duties of the Directors towards the Issuer and their private interests and/or other duties. Conflicts of interest may, however, arise in respect of certain future transactions, such as the granting of credit facilities by the Issuer to any of the Directors and/or any companies in which they may be involved. In such instances, such conflicts will be managed in the best interests of the Issuer in accordance with the procedures set out in section 12.1.8 below.

12.1.8 Code of Ethics and Conflicts of Interest Policies

The Bank has in place:

- (i) A code of ethics policy ("CoEP"); and
- (ii) A conflicts of interest policy ("CoIP");

for its Directors, Senior Management and employees.

The **CoEP** covers essentially the following:

- Confidentiality of information
- Proprietary information
- Gifts received or given by employees or directors
- Computer and equipment use
- Improper transactions and payments
- Personal Relationships
- Authority (to implement policy and related procedures)

The **CoIP** aims to ensure that Directors, Senior Management and employees administer their affairs in a manner well above criticism, particularly those affairs involving a Bank's employee, Director, Senior Management, client, borrower, vendor, competitor or other party to avoid situations that may lead to a conflict or the appearance of a conflict.

12.1.9 Other Directorships

The table below indicates the list of directorships of the Directors and Senior Management, during the past five years prior to the date of this Prospectus.

| Name & Surname | Current Directorships | Past Directorships |
|----------------------------------|---|--|
| <u>Board of Directors</u> | | |
| Taddeo Scerri | Bank of Valletta p.l.c. TAD Consultancy Limited MSD Nominee Services Limited - (submitted resignation in respect of this post) | MSD Consulting Limited MSD IT Co Limited MSD Tax & Corporate Limited Pas It Limited CSG Sports Media Limited MSD Holding Limited Fortina Contracting Limited Fortina Developments Limited |
| Alan Attard | Bank of Valletta p.l.c. | n/a |
| Alfred Lupi | Bank of Valletta p.l.c. TUI Cruises MS Mein Schiff Limited | Multi Risk Limited Multi Risk Benefits Limited Multi Risk Indemnity Co Limited Argus Insurance Agency Limited Katla Funds SICAV p.l.c Blue Papillon Limited Eden Limited Zammit Finance Limited FP & Co SVP & Co Dark Cover Limited Pale Cover Limited SC Malta SICAV p.l.c. PAVI Shopping Complex p.l.c PAVI Supermarkets Limited |
| Anita Mangion | Bank of Valletta p.l.c. | Malta Industrial Parks Limited |
| Antonio Piras | Bank of Valletta p.l.c. | Equitalia Group Eurofidi |
| James Grech | Bank of Valletta p.l.c. Energy Solutions & Services Limited Hompesch Pharmacy Limited | n/a |
| Joseph M Zrinzo | Bank of Valletta p.l.c. C.I.P. Limited | GlobalCapital Funds SICAV p.l.c GlobalCapital p.l.c GlobalCapital Life Insurance Limited Axel Telecom (Malta) Limited (in dissolution) |
| Paul V Azzopardi | Bank of Valletta p.l.c. BOV Fund Services Limited BOV Asset Management Limited Pinna Publishing Inc (domiciled in Ontario, Canada) | Azzopardi and Azzopardi Limited |
| Stephen Agius | Bank of Valletta p.l.c. | ARMS Limited Enemalta p.l.c Engineering Resources Limited |

Senior Management

| | | |
|-------------------|--|---|
| Mario Mallia | Bank of Valletta p.l.c MAPFRE MSV Life p.l.c. BOV Fund Services Limited Church Wharf Properties Limited | BOV Investments Limited |
| Albert Frendo | N/A | Valletta Cruise Port (VCP) p.l.c. |
| Elvia George | BOV Fund Services Limited Gozo Channel (Operations) Limited | n/a |
| Ernest John Agius | n/a | n/a |
| Joseph Noel Agius | Malta Information Technology Agency Malta Electronic Certification Services Limited | n/a |
| Kenneth Farrugia | BOV Asset Management Limited Malta Investments p.l.c. Attard & Co Limited Finance Malta | n/a |
| Miguel Borg | Bank of Valletta p.l.c BOV Asset Management Limited Central Co-Operative | Media Centre Limited Provisional Board of the Central Cooperative Fund |

12.1.10 Composition and Functions of Board of Directors' Committees

The Issuer has established a number of committees that provide the Board with the support necessary for the on-going management and oversight of the Issuer and its business. Below is a summary of each committee and its function within the organisational structure of the Issuer and the Group.

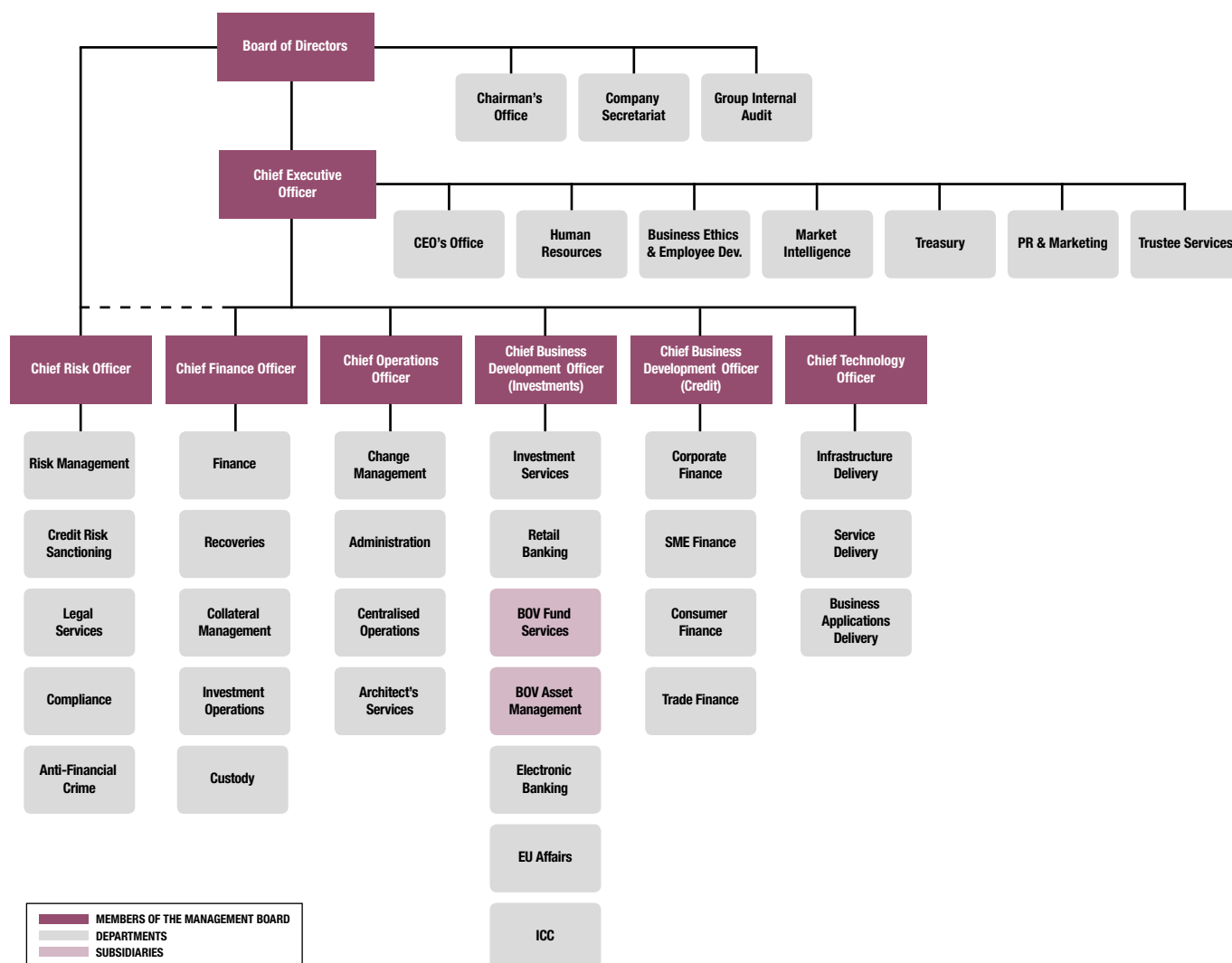
| | |
|----------------------------|--|
| The Audit Committee | <p>The audit committee is composed of Mr Alfred Lupi (Chairman), Ms Anita Mangion (member), Mr Joseph M Zrinzo (member) and Mr James Grech (member), all being non-executive directors. The audit committee's terms of reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems and the audit of the annual and consolidated accounts. The audit committee also scrutinizes and approves related party transactions. In so doing the audit committee considers the materiality and the nature of the related party transactions carried out by the Bank to ensure that the arms' length principle is adhered to at all times. The audit committee is also responsible for managing the Board's relationships with internal and external auditors.</p> |
|----------------------------|--|

| | |
|--|---|
| The Remuneration Committee | The remuneration committee is composed of Mr Taddeo Scerri (Chairman), Ms Anita Mangion (member) and Mr Antonio Piras (member). The remuneration committee is charged with overseeing the development and implementation of the remuneration and related policies of the Group. |
| The Nominations and Governance Committee | The main purposes of the nominations and governance committee (NGC) are to support and advise the Board in ensuring that it is comprised of individuals who are best able to discharge the duties and responsibilities of directors. The NGC focuses primarily on the composition, appointments, succession and effectiveness of the Board, but also oversees the adoption of appropriate internal policies on the assessment of the suitability of members of the management board and individuals that are key function holders. The NGC keeps the Board's governance arrangement under review and makes appropriate recommendations to the Board to ensure that such arrangements are consistent with high corporate governance standards and best practice. |
| The Risk Management Committee | The risk management committee assists the Board in assessing the different types of risks to which the organisation is exposed. The committee is responsible for the proper implementation and review of the Group's risk policies, related mainly, but not restricted to credit, market and operational risks. It reports to the Board on the adequacy, or otherwise, of such policies. The committee is also responsible to review delegated limits, together with an oversight of the Group's monitoring and reporting systems, to ensure regular and appropriate monitoring and reporting on the Group's risk positions. |
| The Compliance and Crime Prevention Committee | The primary objective of the compliance and crime prevention committee is to assist and guide the Board of Directors in ensuring the Bank's compliance with regulations and the maintenance of adequate systems and procedures for the avoidance of financial crime. The compliance and crime prevention committee is authorised and empowered to make such recommendations to the Board of the Bank as it may deem expedient and to deal with any compliance or anti-financial crime matter referred to it by management or by the Board of the Bank. |
| The Credit Committee | The primary purpose of the credit committee is to approve or otherwise any proposals for credit facilities or investment limits or write-offs on loan Bank balances. |

12.2 MANAGEMENT

At the date of this Registration Document, the organisational structure of the Group is based on the Group CEO, who has direct control over the implementation of the Group's strategy, associated risks, compliance, human resources, the optimisation of the cost structure and the main operating activities.

Below is an organogram, depicting the internal organisational structure of the Issuer.



12.3 MANAGEMENT COMMITTEES

The Board of Directors has approved the following management committees to support the Group CEO and Senior Management in their management functions.

Management Board

The management board is composed of the Senior Management and is the highest executive organ of the Group. It meets on a regular basis, around once weekly, and is primarily responsible for the operational management of the Group and for the execution of its strategy as approved by the Board of Directors. The management board monitors the financial performance at Group and at business segment levels, the management of risk, the resourcing of the Bank, including human resources, financial resources and information technology, business strategies, new business opportunities, and the development and effective functioning of policies, processes and procedures.

As at the date of this Prospectus the management board of the Issuer is composed of the following persons:

| | |
|-------------------|--|
| Mario Mallia | Chief Executive Officer |
| Albert Frendo | Chief Business Development Officer – Credit |
| Elvia George | Chief Finance Officer |
| Ernest John Agius | Chief Operations Officer |
| Joseph Noel Agius | Chief Technology Officer |
| Kenneth Farrugia | Chief Business Development Officer – Investments |
| Miguel Borg | Chief Risk Officer |

Brief CVs of Mr Mario Mallia and Mr Miguel Borg are set out above (*vide* section 12.1 of the Registration Document). Brief CVs of the other persons which form part of the management board are set out hereunder:

Albert Frendo (Chief Business Development Officer – Credit)

Albert Frendo is an accountant by profession and currently occupies the post of chief credit business development officer within Bank of Valletta p.l.c. His career at the Bank spans over 30 years with wide ranging experience in cost management and financial reporting, risk management and credit finance (both commercial and retail finance). During the last 12 years, he headed the Bank's risk management department and was later assigned with the management of the Bank's overall credit portfolio, responsible for a number of key credit areas including corporate, SME, consumer and trade finance, collections and collateral management. Albert was entrusted with the successful launching and management of the first risk sharing instruments aimed at SMEs in Malta including JEREMIE, CIP SMEG and SME Initiative (JAIME). He is a member of the Bank's management board, provisions committee, the Bank's asset and liability committee and IT steering committee. Albert holds a Masters in Business Administration, with specialization in Management Consulting, from Grenoble Graduate School of Business in France.

Elvia George (Chief Finance Officer)

Elvia George, is a certified public accountant, graduating with first class honours in accountancy from the University of Malta in 1988. She is also a Fellow of the Malta Institute of Accountants. Elvia joined the Issuer in 1981 and has occupied various roles within the organisation. She is a member of the management board, the asset and liability management committee) and also attends meetings of the credit board, the audit committee and the risk management committee as well as delivering presentations to the Board of Directors. Elvia sits on the MSV Life audit committee. She is also a member of the Malta Chamber of Commerce (Enterprise and Industry) and a member of the 100 Women in Hedge Funds. She is a member of the board of the Dar tal-Providenza, a residential home for persons with special needs and The Marigold Foundation - BOV in the Community, an umbrella charity set up by the Bank and primarily responsible for the social arm of the Bank's corporate social responsibility programme. In October 2016, Elvia was appointed as a director of BOV Fund Services Limited.

Elvia occupies the role of the chief finance officer of the Group, a post she has occupied since May 2008, and is responsible for published Group financial statements, supervisory reporting, management reporting, budgeting and forecasts, tax, cost management and investment appraisal and product evaluation. Besides the core areas of finance, Elvia is also responsible for the areas of custody services, settlement of treasury and investment operations, debt management and collateral management.

Besides lecturing at the University of Malta, where her area of expertise is accounting for financial institutions, she also supervises a number of students in their dissertation during their final year of the professional degree of the Masters in Accountancy or for an MA in Financial Services. She is involved with the Malta University examination panel and has also served as a member of the accountancy board for a number of years.

Ernest John Agius (Chief Operations Officer)

Ernest John Agius has been working in the banking services for over 30 years, starting his career with Mid Med Bank p.l.c on 20 March 1987, later on with HSBC Bank Malta p.l.c. where he held a number of executive management positions. He joined the Bank, in June 2015 as change management executive leading the Core Banking Transformation Programme. Ernest was appointed as BOV's chief operations officer and a management board member, in June 2016. As chief operations officer, Ernest is responsible for the management and delivery of change projects within the Bank. This includes the Core Banking Transformation Programme project across the whole Bank. Ernest is responsible for the management of all operational functions and the delivery of the Bank's overall transformation programme, which includes the CBT Project representing the business, change management, facilities, procurement, health and safety, security, architect's services and centralised operations.

Joseph Noel Agius (Chief Technology Officer)

Joseph Agius was appointed chief technology officer in October 2014, and became a member of the Bank's management board in October 2016. Since joining the Bank in 1985, Mr Agius has garnered over 30 years' experience in IT and financial services. In this time, he has been actively involved in the implementation of various mission critical projects. In his role as chief technology officer, Mr Agius is responsible for driving the Bank's IT strategy. He is a strong proponent for modernisation in IT, and running IT as a business with its inherent business value. Presently, his primary focus is on leading the Bank's Strategic Initiatives on core retailing banking transformation and digital banking. In his role as chief technology officer, Mr Agius chairs the Bank's IT steering committee. Joseph Agius is currently a non-executive director on the Board of the Malta Information Technology Agency. Mr Agius holds an honours degree in computer science from the University of Reading and an MBA in eBusiness from Grenoble Graduate School of Business. He is also a Chartered Engineer and member of the British Computer Society.

Kenneth Farrugia (Chief Business Development Officer – Investments)

Kenneth Farrugia was appointed chief business development officer in November 2014. He is responsible for the improvement of the Bank's market position and the achievement of financial growth. Kenneth was previously chief officer for BOVFS and BOVAM. Kenneth is also a director on the Board of BOVAM.

Kenneth joined the Bank in October 1985 and has occupied various posts within the Bank. He also serves as Chairman of the Malta Funds Industry Association and is the Chairman of Finance Malta, Malta's national promotional body for the financial services industry. He is also the Chairman of Malita Investments p.l.c. which is listed on the Malta Stock Exchange.

Asset and Liability Management Committee

The asset and liability management committee ("**ALCO**") is responsible for managing the Group's balance sheet, so as to achieve an optimal balance between risk and return. This committee meets at least once a month to review balance sheet risks and ensures their prudent management. The ALCO monitors the capital adequacy of the Group on a continuous basis, making use of capital forecasts to ensure that enough capital is readily available at all times to meet the demand arising from business expansion and regulation. It takes an integrated view of asset and liability cash flows, their uncertainties, and the management of such integrated exposures at a consolidated level, to enable it to give strategic direction to the business. Consideration is given, *inter alia*, to solvency, liquidity and interest rate risks. ALCO provides guidance in respect of risk and return to the business, and exercises executive authority in the area of interest rate management by setting base rates payable on retail deposit products. It monitors hedging strategies and hedge effectiveness in respect of the risks mentioned above, as well as asset mix, liabilities and balance sheet growth.

Provisions Committee

The provisions committee is responsible to develop and maintain a provisioning methodology in line with best practice and regulatory expectations. The committee meets on a monthly basis unless further meetings are required.

IT Steering Committee

The IT steering committee is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding in support of the objectives and needs of the Bank. The committee meets on a monthly basis unless further meetings are required.

Procurement Committee

The procurement committee is responsible for the approval of procurement of goods and services that exceed limits afforded to management and to make recommendations to the Board on the award of contracts that exceed a defined value.

The Core Banking Transformation Committee

The core banking transformation committee is responsible for the overseeing of the identification and implementation of a new core banking solution that will enhance the customer experience. In addition, the committee takes into consideration current banking practices that need to be transformed in order to adopt the solution selected.

The Anti-Financial Crime Committee

The anti-financial crime committee (the “**AFCC**”) is responsible to discuss and ensure legal, regulatory and other developments related to money laundering, counter-funding of terrorism and other financial crime matters, are implemented in the Bank’s policies and procedures. This Committee is also tasked to set risk appetite for financial crime for the Bank and to ensure that the Bank follows best practice in connection with money laundering, counter-funding of terrorism and other financial crime. When required, the AFCC also holds discussions concerning the regulators’ position on certain matters.

The New Product Approval Committee

The new product approval committee (“**NPAC**”) ensures the enhancement of long-term value creation for the benefit of all stakeholders. The aim is to ensure adequate due diligence before a product is launched by understanding and vetting the product or service. The committee identifies and mitigates risks which impact both product and Group. The NPAC makes the final decision to either approve, decline or recommend changes. The committee also provides guidance and recommendations in case of a new business line. The NPAC is appointed by the Board to ensure a risk adequate approach and the necessary degree of intervention in relation to product development.

The Property Committee

The property committee was set up by the Bank in May 2017. The primary role of the property committee is of ensuring that the Group’s property management and capital projects related to property are carried out in accordance with adopted policies, principles and strategies, and to make recommendations to the Board of Directors.

The Custody Committee

The role of the custody committee is of creating a framework to regulate the custody services offered, establishing the Bank’s risk appetite for this line of business, setting of clear guidelines on the acceptance of new mandates and ongoing monitoring and termination of existing mandates.

The Trustee Services Steering Committee

The trustee services steering committee is responsible for the monitoring and supervision of the closure or winding down of the Bank’s trust business. The committee is also responsible to guide, oversee, monitor and, where applicable and necessary in line with and subject to the Board’s approved policy, to take decisions related to the existing trust business.

12.4 SHARES HELD BY DIRECTORS AND SENIOR MANAGEMENT

The table below sets out the number of shares held by the Directors and Senior Management in the Issuer as at the 15 September 2017:

| Directors | Holdings of Ordinary Shares in the Issuer |
|------------------|---|
| Alan Attard | 11,826 |
| Paul V Azzopardi | 7,323 |
| Miguel Borg | 5,385 |
| Alfred Lupi | 12,062 |
| Joseph M Zrinzo | 154,613 |

| Senior Management | Holdings of Ordinary Shares in the Issuer |
|-------------------|---|
| Ernest John Agius | 5,988 |
| Joseph Noel Agius | 16,674 |
| Miguel Borg | 5,385 |
| Kenneth Farrugia | 20,693 |
| Albert Frendo | 12,544 |
| Elvia George | 37,003 |

12.5 STATEMENT IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

None of the Directors or members of Senior Management referred to in sections 12.1 and 12.3 of this Registration Document have, in the last five years:

- i. Been the subject of any convictions in relation to fraudulent offences;
- ii. Been associated with bankruptcies, receiverships or liquidations in respect of entities in respect of which they were members of administrative, management or supervisory bodies, partners with unlimited liability (in the case of a limited partnership with a share capital), founders or members of senior management;
- iii. Been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or
- iv. Been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

13. REMUNERATION AND BENEFITS

13.1 EMOLUMENTS FOR THE FINANCIAL YEAR ENDED 2016

Total emoluments received by Directors and Senior Management for the financial year ended 30 September 2016 are as follows:

| | Fixed remuneration | Variable remuneration | Share Option | Others |
|------------------|--------------------|-----------------------|--------------|---|
| Management board | €578,142 | €12,000 | N/A | Non-cash benefits as follows: health insurance and refund of out-of-pocket expenses |
| Directors | €267,298 | N/A | N/A | Non-cash benefits as follows: health insurance and refund of out-of-pocket expenses |

13.2 SERVICE CONTRACTS

The Directors have service contracts with the Issuer, none of which provide for severance payments upon termination of their directorship. In terms of the said service contracts, the Directors are entitled to certain benefits after the termination of their directorship, including discounts on products and services offered by the Group.

Senior Management are in full employment with the Bank on an indefinite contract but their appointment on the Management Board is on a definite contract. They enjoy the health insurance arrangements and death in service benefits as all bank employees. Certain members of the Management Board have a clause in their contract wherein should their contract be terminated without due reason, they may be eligible for monetary compensation.

13.3 RESTRICTIONS ON THE DISPOSAL OF THE ISSUER'S SECURITIES

Pursuant to the Bank's code of ethics, directors are precluded from trading in the Issuer's securities during the month immediately preceding the publication of the Bank's interim and annual financial statements (the "**Closed Period**"). Directors have to notify the company secretary/Chairman before trading in the Issuer's securities outside the Closed Period. Moreover, Directors are precluded from trading in the Issuer's securities if they are in possession of price sensitive information about the Bank's securities.

Senior Management are designated as 'Persons Discharging Managerial Responsibilities' and also insiders and thus are bound by the prevailing market abuse rules and regulations. Senior Management and persons closely associated with them are:

- Precluded from trading (buying/selling) in any securities when they are privy to price-sensitive information related to any listed company/ies when that same information may have an impact on the market once that information is made public. They are precluded from trading solely prior to that same information being disseminated to the market;
- Bound to notify the Listing Authority whenever they trade in the Issuer's securities within 3 business days after the transaction;
- Bound by the Bank's code of ethics which requires pre-notification to the compliance executive or in his absence the company secretary at least 24 hours before trading in any of the Issuer's securities;
- Cannot trade in the Issuer's securities during the Closed Period (as defined above), except when circumstances are of an exceptional nature in which case the prior approval of the Listing Authority is required prior to any submission of orders on the market during the Closed Period.

13.4 AMOUNTS FOR PENSIONS, RETIREMENT OR SIMILAR BENEFITS

The amount set aside by the Issuer for post-employment and termination liabilities, as at 31 March 17, stood at €26.3 million

14. CORPORATE GOVERNANCE

General

Pursuant to the Listing Rules, the Issuer, as a company whose equity securities are listed on the MSE, should endeavour to adopt the Code of Principles of Good Corporate Governance (the “Code”) contained in Appendix 5.1 to Chapter 5 of the Listing Rules.

The Board is committed to the values of truth, transparency, honesty and integrity in all its actions. The Board strongly believes that the Issuer benefits from having in place more transparent governance structures and from improved relations with the market which enhance market integrity and confidence.

The Board acknowledges that the Code recommends principles for the Board and the Bank’s management to pursue objectives that are in the interest of the Bank and its Shareholders. The Board has adopted a corporate decision-making and supervisory structure that is tailored to suit the requirements of the Bank’s constitutional documents as well as its size, nature and operational needs. In addition, while the structure provides flexibility and an efficient decentralisation of selective decision-making, it concurrently provides a system of checks and balances. The Board believes that any structure which is adopted must be geared to meet the necessary standards of accountability and probity and considers that the structure which it has adopted does so.

Compliance with Code as at date of this Registration Document

As at the date of this Registration Document, the Issuer believes that it complies with the provisions of the Code, save with respect to Code provision 9.3 which, as reported in the consolidated annual financial statements of the Issuer for the financial year ending 30 September 2016 (which are incorporated by reference into this document), does not apply to the Issuer for the reasons set out in said financial statements.

Instances of non-compliance which have been addressed

Prior to the date of this Registration Document, there were certain instances of non-compliance in respect of principle 3, principle 4 (Code provision 4.2.7) and Principle 7 of the Code (apart from Code provision 9.3 mentioned above). The reasons for the Issuer’s previous non-compliance are explained in the ‘corporate governance statement of compliance’ contained in the consolidated annual financial statements of the Issuer for the financial year ending 31 September 2016 (which financial statements are incorporated by reference into this document). These instances of non-compliance have been addressed in the manner set out hereunder through, amongst others, amendments to the Bank’s Memorandum and Articles which were approved during the Bank’s extraordinary general meeting held on the 27 July 2017.

Principle 3: (*Executive and non-executive directors on the Board*) and Principle 4 (*Code Provision 4.2.7*)

With respect to Principle 3 and Principle 4 (Code Provision 4.2.7), the revisions to the Memorandum and Articles (adopted at the above mentioned extraordinary general meeting) now address the following:

- a. The appointment of the CEO, on an *ex officio* basis, as the first executive Director of the Bank. (*The CEO has been duly appointed which appointment is still subject to regulatory approval*).
- b. The appointment by the non-executive Directors of another executive director from amongst the senior officers of the Bank. The non-executive Directors appointed the CRO as the second executive director. (*The appointment of the CRO is also still subject to regulatory approval*).
- c. The possibility for non-executive directors to appoint a third executive director.
- d. With effect from the next Annual General Meeting of the Bank following the EGM held in July 2017, non-executive Directors will be appointed for a period of three (3) years. A rotation process has also been introduced to ensure continuity at Board level. The Memorandum and Articles now provide that one third of the non-executive Directors have to submit their resignation during every financial year. They may however be re-appointed following a recommendation to this effect by the nominations and governance committee to the Board.
- e. The formal entrenchment of the nominations and governance committee in the Memorandum & Articles.

Principle 7: (*Evaluation of the Board’s Performance*)

The nominations and governance committee will be conducting the first evaluation of the performance of the Board and Board committees during the fourth quarter of financial year ending 31 December 2017 in line with principle 7 of the Code.

15. EMPLOYEES

15.1 NUMBER OF EMPLOYEES

The table below provides details on the number of employees employed by the Group as at August 2017 and as at each of the financial years ended 30 September 2016, 30 September 2015 and 30 September 2014 broken down by category:

| | The Group | | | | The Bank | | | |
|---------------------------------|-----------|---------|---------|---------|----------|---------|---------|---------|
| | Aug -17 | 2016 | 2015 | 2014 | Aug-17 | 2016 | 2015 | 2014 |
| | No. of | No. of | No. of | No. of | No. of | No. of | No. of | No. of |
| | persons | persons | persons | persons | persons | persons | persons | persons |
| Managerial | 554 | 521 | 544 | 547 | 519 | 501 | 527 | 530 |
| Supervisory and clerical | 1,215 | 949 | 877 | 852 | 1,172 | 906 | 843 | 821 |
| Others | 45 | 48 | 51 | 54 | 41 | 43 | 46 | 50 |
| | 1,814 | 1,518 | 1,472 | 1,453 | 1,732 | 1,450 | 1,416 | 1,401 |

15.2 BOV EMPLOYEES FOUNDATION

The BOV Employees' Foundation (**the "Foundation"**) was set up in March 1995 for the benefit of all then present and future employees of the Issuer and its Subsidiaries who are on an indefinite contract of employment (**the "Beneficiaries"**).

The Foundation is managed by a board of trustees who are responsible for the management and administration of the Foundation and exercise all such powers as set out in the Foundation's deed and bye-laws.

Based on the length of service with the Bank, the Beneficiaries are entitled to receive units in the Foundation representing their participation and interest in the Foundation. Subject to certain provisions as more fully described in the Foundation's deed and bye-laws, Beneficiaries are entitled to receive the redemption value of the units held in their name upon the attainment of pensionable age.

The Foundation has a legal personality, separate and distinct from the Issuer and the Beneficiaries.

16. OPERATING AND FINANCIAL REVIEW

16.1 INTRODUCTION

Below are the Group's consolidated statements of financial position, profit and loss and cash flows in respect of the financial years ended 30 September 2016, 30 September 2015, 30 September 2014 and the six-month periods ended 31 March 2017 and 31 March 2016.

The data for each of the years ended 30 September 2016, 30 September 2015, 30 September 2014 was extracted from the consolidated financial statements as at each of those dates, prepared in accordance with IFRSs. This data has been audited by the External Auditors, who issued their reports on the respective years on each of 2016, 2015 and 2014.

The data for the six-month periods ended 31 March 2017 and 31 March 2016 has been extracted from the consolidated interim report for the period ended 31 March 2017 prepared in accordance with the International Accounting Principle applicable to Interim Financial Reporting (IAS 34). This data has been reviewed by the External Auditors, who issued their report on 27 April 2017.

16.2 FINANCIAL CONDITION

16.2.1 Historic Financial Information of the Group

| <u>Statements of profit or loss for the year ended 30 September</u> | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|
| | €000 | €000 | €000 |
| Interest and similar income | | | |
| - on loans and advances, balances with Central Bank of Malta and treasury bills | 160,195 | 158,180 | 153,430 |
| - on debt and other fixed income instruments | 54,063 | 57,432 | 59,466 |
| Interest expense | (65,429) | (70,834) | (86,893) |
| Net interest income | 148,829 | 144,778 | 126,003 |
| Fee and commission income | 75,021 | 70,922 | 64,112 |
| Fee and commission expense | (8,936) | (8,346) | (8,150) |
| Net fee and commission income | 66,085 | 62,576 | 55,962 |
| Dividend income | 1,901 | 2,352 | 1,372 |
| Trading profits | 24,724 | 34,067 | 25,654 |
| Net gain on investment securities and hedging instruments | 9,046 | 3,098 | 814 |
| Gain on Visa transaction | 27,511 | - | - |
| Operating income | 278,096 | 246,871 | 209,805 |
| Employee compensation and benefits | (64,168) | (61,700) | (57,537) |
| General administrative expenses | (40,103) | (38,651) | (28,644) |
| Amortisation of intangible assets | (3,539) | (2,574) | (2,202) |
| Depreciation | (4,968) | (5,107) | (5,116) |
| Net impairment losses | (23,142) | (32,710) | (19,431) |
| Operating profit | 142,176 | 106,129 | 96,875 |
| Share of results of equity-accounted investees, net of tax | 3,730 | 11,786 | 7,227 |
| Profit before tax | 145,906 | 117,915 | 104,102 |
| Income tax expense | (50,708) | (37,971) | (34,718) |
| Profit for the year | 95,198 | 79,944 | 69,384 |
| Attributable to: | | | |
| Equity holders of the Bank | 94,742 | 79,378 | 68,945 |
| Non-controlling interest | 456 | 566 | 439 |
| | 95,198 | 79,944 | 69,384 |
| Earnings per share | 24c3 | 20c4 | 19c2 |

Statements of financial position as at 30 September

| | 2016 | 2015 | 2014 |
|--|-------------------|------------------|------------------|
| | €000 | €000 | €000 |
| ASSETS | | | |
| Balances with Central Bank of Malta, treasury bills and cash | 171,050 | 126,652 | 130,966 |
| Financial assets at fair value through profit or loss | 392,430 | 417,522 | 527,774 |
| Investments | 3,736,272 | 3,376,305 | 2,422,237 |
| Loans and advances to banks | 2,098,439 | 1,656,346 | 1,045,988 |
| Loans and advances to customers at amortised cost | 4,001,656 | 4,001,839 | 3,861,532 |
| Investments in equity-accounted investees | 97,041 | 96,904 | 88,553 |
| Investments in subsidiary companies | - | - | - |
| Intangible assets | 13,272 | 12,722 | 11,642 |
| Property and equipment | 89,574 | 89,801 | 88,117 |
| Current tax | 16,061 | 965 | - |
| Deferred tax | 67,188 | 86,654 | 78,550 |
| Assets held for realisation | 11,973 | 11,601 | 9,755 |
| Other assets | 4,818 | 2,990 | 7,659 |
| Prepayments and accrued income | 23,077 | 21,661 | 24,018 |
| Total Assets | 10,722,851 | 9,901,962 | 8,296,791 |
| LIABILITIES | | | |
| Financial liabilities at fair value through profit or loss | 20,237 | 25,077 | 44,903 |
| Amounts owed to banks | 250,155 | 197,760 | 86,579 |
| Amounts owed to customers | 9,181,047 | 8,559,731 | 7,119,530 |
| Debt securities in issue | 95,400 | 95,400 | 95,400 |
| Current tax | - | - | 16,090 |
| Deferred tax | 4,318 | 4,382 | 5,100 |
| Other liabilities | 173,988 | 172,905 | 130,168 |
| Accruals and deferred income | 16,215 | 21,317 | 27,643 |
| Derivatives designated for hedge accounting | 20,649 | 35,201 | 36,909 |
| Subordinated liabilities | 231,591 | 120,000 | 120,000 |
| Total Liabilities | 9,993,690 | 9,231,773 | 7,682,322 |
| EQUITY | | | |
| Called up share capital | 390,000 | 360,000 | 330,000 |
| Share premium account | 988 | 988 | 988 |
| Revaluation reserves | 35,332 | 35,217 | 29,136 |
| Retained earnings | 302,841 | 272,713 | 253,245 |
| Total Equity attributable to equity holders of the Bank | 729,161 | 668,918 | 613,369 |
| Non-controlling interest | - | 1,271 | 1,100 |
| Total Equity | 729,161 | 670,189 | 614,469 |
| Total Liabilities and Equity | 10,722,851 | 9,901,962 | 8,296,791 |
| MEMORANDUM ITEMS | | | |
| Contingent liabilities | 225,407 | 251,670 | 233,451 |
| Commitments | 1,590,156 | 1,612,122 | 1,647,091 |

Statements of cash flows as at 30 September

| | 2016 | 2015 | 2014 |
|--|------------------|------------------|------------------|
| | €000 | €000 | €000 |
| Cash flows from operating activities | | | |
| Interest and commission receipts | 237,321 | 259,455 | 260,915 |
| Interest, commission and compensation payments | (77,205) | (93,171) | (94,418) |
| Payments to employees and suppliers | (103,563) | (80,704) | (87,908) |
| Operating profit before changes in operating assets and liabilities | 56,553 | 85,580 | 78,589 |
| (Increase)/decrease in operating assets: | | | |
| Loans and advances | (53,038) | (322,100) | (245,922) |
| Reserve deposit with Central Bank of Malta | (8,643) | (15,731) | (8,108) |
| Fair value through profit or loss financial assets | 97,902 | 122,279 | 52,835 |
| Fair value through profit or loss equity instruments | 1,303 | 2,930 | (616) |
| Treasury bills with original maturity of more than 3 months | - | 3,999 | 33,977 |
| Other assets | (311) | 2,823 | (2,008) |
| Increase in operating liabilities: | | | |
| Amounts owed to banks and to customers | 752,337 | 1,300,337 | 861,532 |
| Other liabilities | (33,187) | 8,790 | 29,266 |
| Net cash from operating activities before tax | 812,916 | 1,188,907 | 799,545 |
| Tax paid | (44,862) | (64,799) | (32,658) |
| Net cash from operating activities | 768,054 | 1,124,108 | 766,887 |
| Cash flows from investing activities | | | |
| Dividends received | 5,628 | 5,808 | 4,926 |
| Interest received from held-to-maturity debt and other fixed income instruments | 59,783 | 58,998 | 45,394 |
| Acquisition of non-controlling interest | (5,000) | - | - |
| Purchase of equity instruments | - | (100) | (200) |
| Purchase of debt instruments | (1,257,546) | (1,560,089) | (1,167,952) |
| Proceeds from sale or maturity of debt instruments | 869,184 | 706,613 | 475,452 |
| Proceeds from sale of equity instruments | 3,043 | - | - |
| Proceeds from Visa transaction | 22,042 | - | - |
| Purchase of property and equipment and intangible assets | (8,111) | (9,132) | (14,649) |
| Proceeds from disposal of property and equipment | 598 | - | 8 |
| Net cash used in investing activities | (310,379) | (797,902) | (657,021) |
| Cash flows from financing activities | | | |
| Proceeds from issue of subordinated bonds | 111,591 | - | - |
| Dividends paid to Bank's equity holders | (29,802) | (28,967) | (34,466) |
| Dividends paid to non-controlling interests | (773) | (395) | - |
| Net cash from/(used in) financing activities | 81,016 | (29,362) | (34,466) |
| Net change in cash and cash equivalents | 538,691 | 296,844 | 75,400 |
| Effect of exchange rate changes on cash and cash equivalents | - | 64 | - |
| Net change in cash and cash equivalents after effect of exchange rate changes | 538,691 | 296,780 | 75,400 |
| Net change in cash and cash equivalents | 538,691 | 296,844 | 75,400 |
| Cash and cash equivalents at 1 October | 1,309,347 | 1,012,503 | 937,103 |
| Cash and cash equivalents at 30 September | 1,848,038 | 1,309,347 | 1,012,503 |

16.2.2 Performance Review for the Group for the Financial Year ended 30 September 2016

Below is some commentary on the 2016 figures set out above.

- Profit before taxation amounted to €145.9 million for the financial year ended 30 September 2016. This figure incorporates a one-time gain of €27.5 million arising from the acquisition of the Bank's shares in VISA Europe. Consequently, the Group's profit adjusted for this windfall profit, amounted to €118.4 million, as compared to the profit of €117.9 million registered during the previous financial year.
- Net interest income increased by almost 3% to €148.8 million over the previous financial year 2015.
- Net fee and commission income for the year rose by 6% over 2015, driven by strong performances on investment services, wealth management and cards. On the other hand, trading and dividend income reduced by 10%, due to lower fair value gains on investments, and lower exchange earnings. Overall, operating income rose by an aggregate of 2%*.
- Non-interest expense rose by 4%, driven by HR costs which increased as a result of two factors: firstly, the new collective agreement signed during end 2015, which sought to align salaries with current market rates; and secondly, due to further recruitment in the Bank's control functions. Higher IT related costs were also recorded as the Bank continued with its programme to replace its IT core banking system.
- The impairment charge of €23.1 million was lower by 29% compared to financial year 2015, when the charge had spiked due to the adoption of a more prudent provisioning methodology.
- Group total assets stood at €10.7 billion, up by €821 million, or 8.3%, over September 2015. This growth was financed primarily by incoming customer deposits, which increased by €621 million, or 7%, to reach €9.2 billion; and by the issue of €112 million worth of subordinated debt.
- Net total advances have grown by 1.8% to reach €4.1 billion, while equity is up by 8.8% and amounts to €729.2 million.
- The Group's Core Equity Tier 1 (CET1) ratio, which is the standard regulatory ratio measuring the capital adequacy of banks, rose to a robust 12.8% for financial year 2016, up from 11.3% during financial year 2015.
- The liquidity coverage ratio as at September 2016 stood at 131% (above the minimum level of 100% which will be required in 2019).
- The loan-to-deposit ratio (LtD) stood at 46.3% (49.2% as at FY September 2015). This shows that the Bank kept its highly liquid position during financial year 2016, with its loan portfolio fully funded by deposits and with no dependence on the wholesale market. The decrease in the LtD ratio was the result of a significantly higher rise in customer deposits when compared to the increase in the lending portfolio.
- Earnings per share increased from €0.204 for the financial year 2015 to €0.243 for the financial year 2016.
- A final gross dividend of €0.0852 per share was declared which together with the gross interim dividend of €0.0391 per share results in a total gross dividend of €0.1243 per share for financial year 2016; a bonus share issue of 1 share for every 13 shares held was also declared.

* For comparative purposes, ratios exclude the impact of the gain on the VISA transaction.

16.2.3 Interim Financial Information of the Group

| <u>Statements of profit or loss for the six months ended 31 March</u> | 2017 | 2016 |
|---|----------------|----------------|
| | €000 | €000 |
| Interest and similar income | | |
| - on loans and advances, balances with Central Bank of Malta and treasury bills | 79,003 | 79,170 |
| - on debt and other fixed income instruments | 25,482 | 28,085 |
| Interest expense | (31,773) | (32,377) |
| Net interest income | 72,712 | 74,878 |
| Fee and commission income | 38,595 | 36,409 |
| Fee and commission expense | (4,793) | (4,470) |
| Net fee and commission income | 33,802 | 31,939 |
| Dividend income | 499 | 294 |
| Trading profits | 13,518 | 16,652 |
| Net gain on investment securities and hedging instruments | 2,682 | 10,717 |
| Operating income | 123,213 | 134,480 |
| Employee compensation and benefits | (32,618) | (31,467) |
| General administrative expenses | (26,686) | (22,896) |
| Amortisation of intangible assets | (1,583) | (1,541) |
| Depreciation | (2,515) | (2,540) |
| Net impairment losses | 5,344 | (8,092) |
| Operating profit | 65,155 | 67,944 |
| Share of results of equity-accounted investees, net of tax | 8,875 | 539 |
| Profit before tax | 74,030 | 68,483 |
| Income tax expense | (23,377) | (23,648) |
| Profit for the period | 50,653 | 44,835 |
| Attributable to: | | |
| Equity holders of the Bank | 50,653 | 44,557 |
| Non-controlling interest | - | 278 |
| | 50,653 | 44,835 |
| Earnings per share | 12c1 | 10c6 |

Statements of financial position as at**31 March 2017**
€000**30 September 2016**
€000**ASSETS**

| | | |
|--|-------------------|-------------------|
| Balances with Central Bank of Malta, treasury bills and cash | 188,462 | 171,050 |
| Financial assets at fair value through profit or loss | 360,618 | 392,430 |
| Investments | 3,767,010 | 3,736,272 |
| Loans and advances to banks | 2,551,102 | 2,098,439 |
| Loans and advances to customers at amortised cost | 4,103,682 | 4,001,656 |
| Investments in equity-accounted investees | 100,143 | 97,041 |
| Investments in subsidiary companies | - | - |
| Intangible assets | 21,756 | 13,272 |
| Property and equipment | 91,043 | 89,574 |
| Current tax | 12,260 | 16,061 |
| Deferred tax | 59,030 | 67,188 |
| Assets held for realisation | 13,188 | 11,973 |
| Other assets | 6,509 | 4,818 |
| Prepayments and accrued income | 31,007 | 23,077 |
| Total Assets | 11,305,810 | 10,722,851 |

LIABILITIES

| | | |
|--|-------------------|------------------|
| Financial liabilities at fair value through profit or loss | 16,442 | 20,327 |
| Amounts owed to banks | 329,998 | 250,155 |
| Amounts owed to customers | 9,667,825 | 9,181,047 |
| Debt securities in issue | 95,400 | 95,400 |
| Deferred tax | 4,318 | 4,318 |
| Other liabilities | 179,541 | 173,988 |
| Accruals and deferred income | 13,590 | 16,215 |
| Derivatives designated for hedge accounting | 14,240 | 20,649 |
| Subordinated liabilities | 231,591 | 231,591 |
| Total Liabilities | 10,552,945 | 9,993,690 |

EQUITY

| | | |
|-------------------------|----------------|----------------|
| Called up share capital | 420,000 | 390,000 |
| Share premium account | 988 | 988 |
| Revaluation reserves | 29,830 | 35,332 |
| Retained earnings | 302,047 | 302,841 |
| Total Equity | 752,865 | 729,161 |

Total Liabilities and Equity**11,305,810**
10,722,851**MEMORANDUM ITEMS**

| | | |
|------------------------|------------------|------------------|
| Contingent liabilities | 243,002 | 225,407 |
| Commitments | 1,586,531 | 1,590,156 |

Statements of cash flows for the six months ended 31 March

| | 2017 | 2016 |
|--|------------------|------------------|
| | €000 | €000 |
| Cash flows from operating activities | | |
| Interest and commission receipts | 118,727 | 132,139 |
| Interest, commission and compensation payments | (36,001) | (39,080) |
| Payments to employees and suppliers | (59,304) | (54,363) |
| Operating profit before changes in operating assets and liabilities | 23,422 | 38,696 |
| (Increase)/decrease in operating assets: | | |
| Loans and advances | 28,821 | 33,275 |
| Reserve deposit with Central Bank of Malta | (2,518) | (4,829) |
| Fair value through profit or loss financial assets | 34,955 | 14,054 |
| Fair value through profit or loss equity instruments | 7,101 | (131) |
| Treasury bills with original maturity of more than 3 months | (3,006) | (15,010) |
| Other assets | (2,906) | (241) |
| Increase/(decrease) in operating liabilities: | | |
| Amounts owed to banks and to customers | 337,191 | 372,434 |
| Other liabilities | (578) | (26,024) |
| Net cash from operating activities before tax | 422,482 | 412,224 |
| Tax paid | (8,537) | (8,977) |
| Net cash from operating activities | 413,945 | 403,247 |
| Cash flows from investing activities | | |
| Dividends received | 6,274 | 2,794 |
| Interest received from held-to-maturity debt and other fixed income instruments | 22,876 | 24,431 |
| Proceeds from sale of equity instruments | 4,350 | 3,043 |
| Purchase of debt instruments | (495,487) | (794,903) |
| Proceeds from sale or maturity of debt instruments | 500,313 | 531,849 |
| Purchase of property and equipment and intangible assets | (14,013) | (3,571) |
| Proceeds from disposal of property and equipment | - | 538 |
| Net cash from/(used in) investing activities | 24,313 | (235,819) |
| Cash flows from financing activities | | |
| Proceeds from issue of subordinated liabilities | - | 111,591 |
| Dividends paid to Bank's equity holders | (21,598) | (19,890) |
| Dividends paid to non-controlling interests | - | (773) |
| Net cash (used in)/from financing activities | (21,598) | 90,928 |
| Net change in cash and cash equivalents | 416,660 | 258,356 |
| Effect of exchange rate changes on cash and cash equivalents | 954 | 5,081 |
| Net change in cash and cash equivalents after effect of exchange rate changes | 415,706 | 253,275 |
| Net change in cash and cash equivalents | 416,660 | 258,356 |
| Cash and cash equivalents at 1 October | 1,848,038 | 1,309,347 |
| Cash and cash equivalents at 31 March | 2,264,698 | 1,567,703 |

Financial Performance of the Issuer for the Interim period ended March 2017

- Profit before taxation amounted to €74 million for the six months ended on 31 March 2017, an increase of 8% over the €68.5 million reported for the same period ended on 31 March 2016.
- Net interest income amounted to €72.7 million, a decrease of 3% over March 2016. This was attributable to average rates of interest receivable falling to a greater extent than rates payable, as a result of asset repricing and competitive pressures.
- The decline in margin income was, however, mostly offset by an increase in net fee and commission income, which rose by 6% to reach €33.8 million. The Bank has embarked on a strategy to supplement its core margin income with non-interest revenue streams. Strong performances were recorded on fund management, fund services, stockbroking and bancassurance.
- Total operating income, comprising interest margin and non-interest income, amounted to €123.2 million, compared to €134.5 million for March 2016. This decrease is wholly attributable to lower price gains on investment and trading securities.
- Total overheads amounted to €63.4 million, as against €58.4 million for March 2016, an increase of €5 million. Most of this increase arose on HR costs (which rose by €1.2 million), occupancy costs and IT. The increase in HR costs is attributable to additional recruitment personnel in IT-related and anti-financial crime roles, and to regular salary increases agreed upon in the Collective Agreement signed in December 2015.
- The Group has recorded a net reversal of impairment losses amounting to €5.3 million (March 2016: net charge of €8.1 million). This reversal is due to the settlement of a number of non-performing loans during the period under review, which has also led to a decrease in the Group's non-performing exposures, and thus to an improvement in the credit quality of the loan book.
- Customer deposits rose by €487 million to reach €9.7 billion, accounting for 86% of the Group's balance sheet.
- Net total advances for the period ended March 2017 have grown by €102 million, split equally between business and personal loans, and stand at €4.1 billion. The excess of new deposits over new lending was deployed into liquid and investment assets.
- Total assets stand at €11.3 billion, an increase of €583 million over September 2016, while equity amounts to €753 million, an increase of €24 million.
- The Group's Core Equity Tier 1 (CET1) ratio rose to 13.1%, up from 12.8% in September 2016.
- Earnings per share increased from €0.106 for the interim period ended March 2016 to €0.121 for the period ended March 2017.

A gross interim dividend of €0.045 per share was declared, an increase of 24% over the €0.0363 per share declared during the previous period ended March 2016, as adjusted for the bonus share issue made in January 2017.

16.3 OPERATING RESULTS

16.3.1 Information regarding Significant Factors materially affecting the Group's Income from Operations

There were no significant factors, including unusual or infrequent events or new developments that materially affected the Issuer's income from operations.

16.3.2 Material Changes in Net Sales or Revenues

Material revenue was recorded for financial year ended 30 September 2016. This was a €27.5 million gain on

Visa transaction arising on the disposal of the Bank's membership interest in Visa Europe. In June 2016 Visa Inc, completed the acquisition of Visa Europe. This transaction resulted in a receipt of an upfront cash consideration, preference shares and a deferred cash payment. The total income of this transaction, (€27.5 million), was recognised in profit for FY 2016. The preference shares have been recognised at the value provided to all holders by Visa and adjusted by a haircut of 50%, to reflect litigation and liquidity risks.

16.3.3 Governmental, Economic, Fiscal, Monetary or Political Policies or Factors

Please refer to section 9 *Regulatory Framework* and section 10 *Trend Information* for information in this regard.

17. CAPITAL RESOURCES

17.1 THE ISSUER'S CAPITAL RESOURCES AS AT 30 SEPTEMBER 2016

| | € ' 000 |
|---|------------------|
| | Sep-16 |
| CET1 capital | 589,602 |
| Common Equity Tier 1 capital: instruments and reserves | 663,385 |
| Capital instruments and the related share premium accounts | 390,988 |
| Retained earnings | 232,559 |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 35,333 |
| Funds for general banking risk | 4,505 |
| Common Equity Tier 1 (CET1) capital: regulatory adjustments | (73,783) |
| Intangible assets (net of related tax liability) (negative amount) | (13,272) |
| Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related liability where the conditions in 38 (3) are met, negative amount) | (6,991) |
| Amount exceeding the 17.65% threshold (negative amount) | (6,820) |
| <i>of which: Deferred tax assets arising from temporary differences</i> | <i>(3,631)</i> |
| <i>of which: Significant direct and indirect holdings by the institution of the CET1 instruments of financial sector entities</i> | <i>(3,189)</i> |
| Regulatory adjustments relating to unrealised gains and losses | (14,088) |
| Regulatory adjustments relating to deferred Tax | 9,699 |
| Regulatory adjustments relating to significant investment in financial entities | 2,129 |
| Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR | (44,440) |
| TIER 2 capital | 184,935 |
| Capital instruments and the related share premium accounts | 187,065 |
| Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out | (2,130) |
| TOTAL CAPITAL | 774,537 |
| TOTAL Risk Weighted Assets | 4,598,590 |
| <i>of which deferred tax assets not deducted from CET1 capital</i> | <i>120,181</i> |
| <i>of which direct holdings by the institution of the CET1 instruments of financial sector entities not included in CET1 capital</i> | <i>105,554</i> |
| Capital Ratios and buffers | |
| Tier 1 capital | 12.82% |
| Total capital | 16.84% |

17.2 CASH FLOWS - SOURCES AND AMOUNTS

As depicted in the Bank's cash flow statement, the main sources of cash flows are from operations, with the largest source being customer deposits, (as at end September 2016 - €9.2 billion). The deposits are used primarily to fund loans and advances (as at end September 2016 - €4 billion) and secondly for the purchase of investment securities (as at end September 2016 €4.1 billion). The remaining funds are held in short term assets, mostly bank deposits (as at end September 2016 - €2.3 billion). Another source of funds is through the issue of subordinated capital, with the last issue held during FY2016 amounting to almost €111.6 million.

17.3 BORROWING REQUIREMENTS AND FUNDING STRUCTURE OF THE ISSUER

A significant portion of the Issuer's funding is derived from local customer deposits. The Bank has been successful in its drive to build and maintain a large and stable customer deposit base, helping to eliminate any reliance on wholesale funding. Even though the Bank has excess liquidity, the Bank maintains an ongoing presence in international funding markets and taps into as many unsecured credit lines to maintain a strong inter-bank relationship with the fund providers. The Bank also has in place a number of global master repurchase agreements with foreign banks that provide access to repo borrowing. The Bank has also raised funds from the local corporate bond market through the issuance of subordinated notes and senior debt.

The table below gives information relating to funding sources, other than capital and reserves, used by the Group for carrying out its activities, as at 30 September 2016, with the comparative data as at 30 September 2015 and as at 30 September 2014.

| | The Group | | |
|---|------------------|------------------|------------------|
| | FY2016 | FY2015 | FY2014 |
| | €'000 | €'000 | €'000 |
| AMOUNTS OWED TO BANKS | | | |
| Term deposits | 118,202 | 95,608 | 56,533 |
| Repayable on demand | 131,953 | 102,152 | 30,046 |
| | 250,155 | 197,760 | 86,579 |
| AMOUNTS OWED TO CUSTOMERS | | | |
| Term deposits | 2,084,220 | 2,248,019 | 2,479,797 |
| Repayable on demand | 7,096,827 | 6,311,712 | 4,639,733 |
| | 9,181,047 | 8,559,731 | 7,119,530 |
| DEBT SECURITIES IN ISSUE | | | |
| 4.80% Euro debt securities | 55,400 | 55,400 | 55,400 |
| 4.25% Euro debt securities | 40,000 | 40,000 | 40,000 |
| | 95,400 | 95,400 | 95,400 |
| SUBORDINATED LIABILITIES | | | |
| 5.35% Euro subordinated unsecured bonds | 50,000 | 50,000 | 50,000 |
| 4.80% Euro subordinated unsecured bonds | 70,000 | 70,000 | 70,000 |
| 3.50% Euro subordinated unsecured bonds | 111,591 | - | - |
| | 231,591 | 120,000 | 120,000 |

17.4 RESTRICTIONS ON THE USE OF CAPITAL RESOURCES THAT COULD MATERIALLY IMPACT THE BANK'S OPERATIONS

The Issuer, being classified as an O-SII, is required by the supervisory authorities to hold an O-SII capital buffer, in addition to the other normal buffers. Such capital buffers are of great significance, since failure to attain them could impact the Issuer's ability to take on new investments and the sanctioning of new credit facilities.

The Issuer has always relied exclusively on the plough-back of profits to increase its capital. In view, however, of increasingly onerous supervisory capital requirements, as well as of the planned significant investment in the core

IT system and other important initiatives, the Group is anticipating a situation when the retention of profit will not suffice, and must be supplemented by fresh issues of capital.

17.5 ANTICIPATED SOURCES OF FUNDS REQUIRED FOR CERTAIN INVESTMENTS

The funds potentially raised through the Issuer's (approximately) €150 million renounceable rights offer are expected to make good for the deduction to capital (CET1) as a result of the Bank's investment in the Core Banking System, which investment, is estimated will cost around €44.5 million, over a five year period from FY2017 to FY2021.

18. THE GROUP'S FIXED ASSETS

18.1 TANGIBLE FIXED ASSETS

The Group classifies property and equipment into land and buildings IT infrastructure and equipment and other, consisting principally of furniture and fittings.

The table below summarises total investments in tangible fixed assets of the Group for each of the financial years ended 31 December 2014, 31 December 2015, and 31 December 2016.

Property and Equipment

| | Land and buildings €000 | IT infrastructure and equipment €000 | Other €000 | Total €000 |
|---------------------------------|-------------------------------|--|---------------|---------------|
| The Group | | | | |
| Cost or valuation | | | | |
| 30 September 2014 | 85,391 | 18,239 | 26,979 | 130,609 |
| Additions | 1,685 | 2,365 | 1,428 | 5,478 |
| Disposals | - | - | (5) | (5) |
| Revaluation | 1,319 | - | - | 1,319 |
| 30 September 2015 | 88,395 | 20,604 | 28,402 | 137,401 |
| Additions | 931 | 2,211 | 880 | 4,022 |
| Disposals | (532) | - | - | (532) |
| Revaluation | 960 | - | - | 960 |
| 30 September 2016 | 89,754 | 22,815 | 29,282 | 141,851 |
| Accumulated depreciation | | | | |
| 30 September 2014 | 12,827 | 10,749 | 18,917 | 42,493 |
| Provision for the year | 825 | 2,642 | 1,640 | 5,107 |
| 30 September 2015 | 13,652 | 13,391 | 20,557 | 47,600 |
| Provision for the year | 865 | 2,597 | 1,506 | 4,968 |
| Disposals | (291) | - | - | (291) |
| 30 September 2016 | 14,226 | 15,988 | 22,063 | 52,277 |
| Carrying amount at: | | | | |
| 30 September 2014 | 72,564 | 7,490 | 8,062 | 88,116 |
| 30 September 2015 | 74,743 | 7,213 | 7,845 | 89,801 |
| 30 September 2016 | 75,528 | 6,827 | 7,219 | 89,574 |

| | The Group | | The Bank | |
|--|-----------|--------|----------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| | €000 | €000 | €000 | €000 |
| Carrying amount of land and buildings occupied for own use | 75,528 | 74,743 | 75,582 | 74,797 |

18.2 PROPERTY AND EQUIPMENT

The Group's investments involve both property and equipment held for practical use and assets held for re-sale following foreclosure on certain loans and advances, which are to be disposed of at the first available opportunity. In terms of Maltese banking legislation, the Issuer cannot hold real estate for investment purposes or for the purpose of collecting rental and/or for the appreciation of invested capital.

Land and buildings are revalued by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. The carrying amounts of land and buildings that would have been included in the financial statements, had these assets been carried at cost less accumulated depreciation are: 2016: Group and Bank €43.8 million; 2015: Group and Bank €43.7 million.

Property valuations are mainly conducted using the 'comparative investment approach' whereby market value is arrived at by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties.

18.3 ENVIRONMENTAL ISSUES

As at the date of this Registration Document, also in consideration of the activity conducted by the Group, there are no environmental problems that would significantly affect the use of the tangible fixed assets.

19. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES

In light of the business sector in which it operates, the Issuer does not consider research and development a main area of activity.

Refer to section 8.1.1 above of the Registration Document for a description of the nature of the licenses held by the Group.

20. MAJOR SHAREHOLDERS

To the extent known by the Issuer, direct or indirect control of the Issuer is not vested in any one single entity or person. As at the date of the Prospectus, the Issuer is not aware of any arrangements, the operation of which may, at a subsequent date, result in a change of control of the Issuer.

The following shareholders hold in excess of 5% of the share capital of the Issuer having voting rights:

| | |
|---------------------|--------|
| Government of Malta | 25.23% |
| UniCredit S.p.A. | 14.55% |

21. RELATED-PARTY TRANSACTIONS

21.1 INTRODUCTION

It is the established practice of the Issuer, in the performance of its activities, to respect at all times the criteria of transparency, substantial and procedural correctness in transactions, directly or *via* its Subsidiaries, with related-parties (as defined by the Listing Authority in the Listing Rules and in accordance with applicable laws and regulations from time to time, hereinafter “**Related Party/ies**”).

During the course of 2016, the Issuer has adopted strict policies and a process of monitoring and notifying the Board (and the audit committee) of important, atypical and/or unusual transactions, as well as transactions concluded with Related Parties. This process, aimed at systematising the information flow destined for the audit committee, has ensured appropriate information is provided regularly in the report on operations that accompanies the financial statements.

The Issuer has a related party transactions policy in place. This policy seeks to ensure the proper management of related party transactions and prevent potential abuses arising from such transactions. The policy document sets out the policy of the Issuer for handling of potential conflict of interest in relation to Related Party transactions which can present potential or actual conflicts of interest.

In addition, the Issuer has in place a code of ethics policy and a conflicts of interest policy, brief details of which are set out in section 12.1.8 above.

21.2 RELATED PARTY TRANSACTIONS

During the current and the prior year, the Group entered into transactions during the course of their normal business, with key management personnel, the equity-accounted investees, the Government of Malta (the “**Government**”) (which has a 25.23% holding in the Bank), Government related entities and other related parties. Government related entities are those where, in the opinion of the Bank, the Government is either deemed to exercise control, that is, it has the power to govern the financial and operating policies of the entity or linked to the Government but not controlled by the Government.

Key management personnel include the Chairman, Directors, Senior Management and their respective spouses, spousal equivalent and dependents.

Transactions with Related Parties are made on an arm's length basis.

The Bank also entered into Related Party transactions on an arm's length basis with its Subsidiaries and equity-accounted investees. Transactions between the Bank and its Subsidiaries have been eliminated on consolidation.

(i) The amounts due to or from Related Parties are settled in cash and the amount of Related Party transactions and outstanding balances are disclosed below:

| The Group | September 2017 Related Party transactions | | September 2016 Related Party transactions | | September 2015 Related Party transactions | |
|---|--|------------|--|------------|--|------------|
| | €000 | % of total | €000 | % of total | €000 | % of total |
| Interest and similar income: | | | | | | |
| - on loans and advances, balances with Central Bank of Malta and treasury bills | | | | | | |
| The Government | 2,139 | | 636 | | 577 | |
| Government related entities | 14,251 | | 16,251 | | 16,941 | |
| Key management personnel | 54 | | 4 | | 6 | |
| Other related parties | 98 | | 376 | | 1,009 | |
| | 16,542 | 10% | 17,267 | 11% | 18,533 | 12% |
| Interest and similar income: | | | | | | |
| - on debt and other fixed income instruments | | | | | | |
| The Government | 14,123 | 29% | 26,322 | 49% | 29,213 | 51% |
| Interest expense | | | | | | |
| Equity-accounted investees | 534 | | 1,073 | | 2,172 | |
| The Government | 8,992 | | 4,655 | | 1,145 | |
| Government related entities | 112 | | 220 | | 367 | |
| Key management personnel | 32 | | 11 | | 10 | |
| Other related parties | 4 | | 4 | | 9 | |
| | 9,674 | 16% | 5,963 | 9% | 3,703 | 5% |
| Fee and commission income | | | | | | |
| Equity-accounted investees | 6,303 | | 5,895 | | 4,851 | |
| The Government | 190 | | 68 | | 45 | |
| Government related entities | 358 | | 416 | | 685 | |
| Key management personnel | 4 | | 2 | | 1 | |
| Other related entities | 14 | | 10 | | 15 | |
| | 6,869 | 9% | 6,391 | 9% | 5,597 | 8% |
| Employee compensation and benefits | | | | | | |
| Key management personnel | 1,458 | 2% | 1,002 | 2% | 869 | 1% |
| General administrative expenses | | | | | | |
| Equity-accounted investees | 74 | | 123 | | 77 | |
| Key management personnel | 30 | | 38 | | 36 | |
| Other related parties | 4 | | 199 | | 108 | |
| | 108 | 0% | 360 | 1% | 221 | 1% |
| Movement in impairment allowances | | | | | | |
| The Government | (25) | | (20) | | (3) | |
| Government related entities | (722) | | 1,789 | | 8,823 | |
| Key management personnel | 1 | | - | | - | |
| Other related parties | (5) | | (398) | | 253 | |
| | (751) | 10% | 1,371 | 6% | 9,073 | 28% |

| The Group | September 2017 Related Party transactions | | September 2016 Related Party transactions | | September 2015 Related Party transactions | |
|---|--|------------|--|------------|--|------------|
| | €000 | % of total | €000 | % of total | €000 | % of total |
| Balances with Central Bank of Malta, treasury bills and cash | | | | | | |
| The Government | 112,643 | 71% | 126,796 | 74% | 85,286 | 67% |
| Financial assets at fair value through profit or loss | | | | | | |
| The Government | 50,150 | 14% | 56,238 | 14% | 70,809 | 17% |
| Investments | | | | | | |
| The Government | 598,521 | 17% | 664,252 | 18% | 734,709 | 22% |
| Loans and advances to customers | | | | | | |
| The Government | 70,079 | | 16,597 | | 16,192 | |
| Government related entities | 412,188 | | 464,658 | | 499,773 | |
| Key management personnel | 2,953 | | 1,433 | | 764 | |
| Other related entities | 2,129 | | 5,393 | | 20,904 | |
| | 487,349 | 12% | 488,081 | 12% | 537,633 | 13% |
| Loans and advances to banks | | | | | | |
| The Government | 2,617,376 | 87% | 1,619,029 | 77% | 887,629 | 54% |
| Impairment allowances | | | | | | |
| The Government | (80) | | (146) | | (166) | |
| Government related entities | (11,080) | | (11,808) | | (10,019) | |
| Other related parties | (62) | | (20) | | (418) | |
| | (11,227) | 7% | (11,974) | 6% | (10,603) | 4% |
| Amounts owed to customers | | | | | | |
| Equity-accounted investees | 287,475 | | 229,000 | | 209,977 | |
| The Government | 237,454 | | 298,137 | | 86,171 | |
| Government related entities | 66,023 | | 110,393 | | 178,995 | |
| Key management personnel | 4,445 | | 2,034 | | 1,312 | |
| Other related parties | 17,939 | | 6,036 | | 9,464 | |
| | 613,336 | 6% | 645,600 | 7% | 485,919 | 6% |
| Total Assets less Liabilities | | | | | | |
| Equity-accounted investees | (287,475) | | (229,000) | | (209,977) | |
| The Government | 3,211,235 | | 2,184,630 | | 1,708,288 | |
| Government related entities | 335,085 | | 342,457 | | 310,759 | |
| Key management personnel | (1,497) | | (601) | | (548) | |
| Other related parties | (15,872) | | (663) | | 11,022 | |
| | 3,241,476 | | 2,296,823 | | 1,819,544 | |
| Commitments | | | | | | |
| Equity-accounted investees | 390 | | 378 | | 4,329 | |
| The Government | 43,632 | | 13,809 | | 5,448 | |
| Government related entities | 78,787 | | 106,803 | | 212,962 | |
| Key management personnel | 763 | | 492 | | 731 | |
| Other related parties | 9,567 | | 9,248 | | 7,569 | |
| | 133,139 | 8% | 130,730 | 8% | 231,039 | 14% |

The Group

| September 2017 €000 | September 2016 €000 | September 2015 €000 |
|------------------------------------|------------------------------------|------------------------------------|
|------------------------------------|------------------------------------|------------------------------------|

All outstanding balances are secured except for the following:

Loans and advances to customers:

| | | | |
|----------------------------|-----|----|-------|
| - Key management personnel | 125 | 21 | 32 |
| - Other related parties | 202 | 5 | 1,179 |
| | 327 | 26 | 1,211 |

Details of guarantees received are disclosed below:

Loans and advances to customers:

| | | | |
|--|---------|---------|---------|
| - Amounts guaranteed by the Government | 540,553 | 528,441 | 521,215 |
|--|---------|---------|---------|

(ii) Loans to and commitments on behalf of Directors and Senior Management (including connected persons):

The Group

| | Loans and advances €000 | Commitments €000 |
|--|--|-----------------------------|
|--|--|-----------------------------|

Directors

| | | |
|----------------------------|-------|-------|
| At 1 October 2015 | 230 | 349 |
| Additions | 365 | 87 |
| | 595 | 436 |
| Less reductions/repayments | (186) | (240) |
| | 409 | 196 |
| At 30 September 2016 | 409 | 196 |
| Additions | 1,299 | 188 |
| | 1,708 | 384 |
| Less reductions/repayments | (303) | (81) |
| | 1,405 | 303 |
| At 30 September 2017 | 1,405 | 303 |

Other key management personnel (chief officers)

| | | |
|----------------------------|-------|-------|
| At 1 October 2015 | 534 | 382 |
| Additions | 640 | 47 |
| | 1,174 | 429 |
| Less reductions/repayments | (150) | (133) |
| | 1,024 | 296 |
| At 30 September 2016 | 1,024 | 296 |
| Additions | 659 | 193 |
| | 1,683 | 489 |
| Less reductions/repayments | (135) | (29) |
| | 1,548 | 460 |
| At 30 September 2017 | 1,548 | 460 |

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

22. DIVIDEND PAY-OUT APPROACH

In determining dividend pay-outs, the Group adopts a prudent approach which aims to ensure that an adequate amount of earnings is retained to strengthen the Tier 1 capital base. Indeed, as from FY 2016, the Bank's approach to dividend pay-outs is to determine the same with reference to a target CET1 ratio such that sufficient earnings are retained to enable the Bank to reach the aforementioned target ratio, with the remaining profit then being deemed eligible for distribution.

The amount of the dividend per share for each financial year for the period covered by the historical financial information adjusted, where the number of shares in the Issuer has changed, to make it comparable.

RE-STATED for BONUS ISSUES

| | Bonus 1:10 | Bonus 1:11 | Bonus 1:12 |
|--|------------|------------|------------|
| Gross Dividend | 2014 | 2015 | 2016 |
| | € | € | € |
| Interim | 3.34 | 3.34 | 3.63 |
| Final | 7.27 | 7.29 | 7.91 |
| Total Euro cents per share (restated for bonus issues) | 10.61 | 10.63 | 11.54 |

23. SIGNIFICANT CHANGE IN THE ISSUER'S FINANCIAL OR TRADING POSITION

There are no significant changes in the financial or trading position of the Group which have occurred since the end of the last interim financial period.

24. LEGAL AND ARBITRATION PROCEEDINGS

Save as stated hereunder, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during a period covering twelve months prior to the date of the Prospectus which may have, or have had, in the recent past significant effects on the financial position or profitability of the Issuer and/or the Group, taken as whole.

- 1) In November 2014, court action was instituted against the Bank by the curator of a failed group whilst under the trust of the Bank, by virtue of which a claim of €363 million was made against the Bank. On the basis of legal opinions, the Directors concluded that the Bank has a strong legal position and accordingly assessed the risk of an economic outflow from such claim to be improbable;
- 2) In June 2017 the Issuer received a judicial letter from an investor, which is invested in a number of sub-funds of a Maltese UCITS umbrella fund, of which the Issuer was the appointed custodian. In such letter, it was alleged that the Issuer is liable for damages allegedly suffered by the investor as a result of certain alleged failures in its role as custodian. These allegations were repeated in another letter sent to the Bank in July 2017. The Issuer considers the allegations contained in both letters to be unfounded both in fact and at law. Indeed, the Issuer replied to the aforementioned letters, rebutting the allegations raised in full and denying that it was in any way responsible for the damages allegedly suffered by the investor.
- 3) A number of complaints were filed before the arbiter for financial services (the "Arbiter") (established in terms of Cap. 555 of the laws of Malta) against the Issuer relating to the La Valette Multi Manager Property Fund. The Issuer filed replies to the aforementioned complaints, rebutting the allegations in full. Proceedings before the Arbiter are ongoing.

25. ADDITIONAL INFORMATION - MEMORANDUM AND ARTICLES

25.1 OBJECTS OF THE ISSUER

The objects of the Issuer essentially comprise the carrying on of the business of banking in all aspects including, without limitation, the transacting of all financial, monetary, investment and other business usually carried on by credit institutions. The full set of objects of the Issuer are set out in clause 3 of the Memorandum, which is available for inspection at the registered office of the Issuer.

25.2 CLASSES OF SHARES: RIGHTS, PREFERENCES AND RESTRICTIONS

The Issuer has only one class of ordinary shares in issue. Each share has the same rights and entitlements as all other Ordinary Shares currently in issue in the Bank. The issued shares of the Bank are classified as a CET1 instrument for the purposes of Article 28 of the CRR.

25.3 NUMBER OF SHARES ISSUED AND VALUE

As at the date of this Registration Document, the Issuer has an issued share capital of €420,000,000 divided into 420,000,000 ordinary shares of a nominal value of €1.00 per share, each fully paid-up. Through a resolution taken at an extraordinary general meeting held on the 27 July 2017, the Board of Directors was authorised to increase the Issuer's issued share capital up to a total of €580,000,000 divided into 580,000,000 shares of €1.00 per share, through the issue of new shares.

25.4 CHANGE OF SHARES FROM ONE CLASS TO ANOTHER AND CHANGES TO RIGHTS OF SHAREHOLDERS

If at any time the share capital is divided into different classes of shares, the change of any shares from one class into another or the variation of the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class which is to be changed or the rights attached to which are to be varied, according to the case) may, whether or not the Issuer is being wound up, be made with the consent in writing of the holders of three-fourths of the issued shares of that class, and the holders of three-fourths of the issued shares of any other class affected thereby. Such change or variation may also be made with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class and of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of any other class affected thereby.

25.5 GENERAL MEETINGS

Subject to the provisions of the Act, annual general meetings of the Issuer shall be held at such time and place as the Directors shall appoint. The Directors may convene an extraordinary general meeting whenever they think fit.

A general meeting of the Issuer shall be deemed not to have been duly convened unless at least twenty-one (21) days' notice has been given in writing, to all those members entitled to receive such notice. Notwithstanding the aforesaid, a general meeting of the Issuer may be called by shorter notice as may be permitted by the Listing Rules and/or any other applicable law in force from time to time. The notice shall contain the information required by the Listing Rules and/or any other applicable law in force from time to time and in case of extraordinary business, the general nature of the business, and shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such extraordinary business. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting, by any person entitled to receive notice shall not invalidate the proceedings of a meeting.

A Shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Bank. Every Shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the Directors or by such persons as the Directors may delegate for that purpose.

At any general meeting a resolution put to the vote shall be determined and decided by a show of hands, unless a poll is demanded, in the instances set out in the Articles. Unless a poll is demanded in accordance with the

provisions of the Articles, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost and an entry to that effect is made in the minute book, it shall be conclusive evidence of the fact without need for the proof of the number or proportion of the votes recorded in favour of or against such resolution PROVIDED that where a resolution requires a particular majority in value, the resolution shall not be deemed to have been passed on a show of hands by the required majority unless there be present at that meeting, whether in person or by proxy, a number of members holding in the aggregate the required majority as aforesaid.

For further detail on general meetings of the Bank, please refer to the section entitled *General Meetings* in the Articles.

25.6 CHANGE IN CONTROL OF THE ISSUER/CHANGE IN CAPITAL OF THE ISSUER

In terms of clause 4.3 of the Articles, no person may at any time, whether directly or indirectly and in any manner whatsoever: (i) acquire such number of shares in the Issuer as would in aggregate be in excess of five per cent (5%) of the issued share capital of the Issuer; or (ii) with the exception of existing large shareholders⁹, hold such number of shares in the Issuer as would in aggregate be in excess of five per cent (5%) of the issued share capital of the Issuer.

However, the terms of clause 4.3 (referred to above) do not apply in a number of instances including, amongst others, the following cases: (i) where an underwriter or sub-underwriter becomes a large Shareholder by virtue of an underwriting or sub-underwriting arrangement; (ii) to the Issuer, where the Issuer purchases any of its own shares in accordance with the Act; (iii) to any Shareholder whose holding of shares in the Issuer shall come to exceed five per cent (5%) of the issued share capital of the Issuer solely as a result of the Shareholder electing to exercise, in whole or in part, as may be applicable, a scrip dividend option declared by the Issuer; (iv) to any Shareholder whose holding of shares in the Issuer shall come to exceed five per cent (5%) of the issued share capital of the Issuer solely as a result of either: (a) the cancellation of shares and the subsequent reduction of share capital of the Issuer; or (b) the exercise by a Shareholder of its rights to subscribe for its proportionate share of a rights issue made by the Issuer.

The provisions of clause 4.3 (referred to above) also do not apply in cases where a large Shareholder¹⁰, being a bank, credit institution or financial institution wishes to offer for sale or otherwise dispose of, such number of shares in excess of five per cent (5%) of the issued share capital of the Issuer provided that only persons being themselves banks, credit institutions or financial institutions shall, subject to obtaining the necessary authorisations from the competent authorities in terms of law in Malta, be entitled to acquire (and hold) any of such shares on offer by a large Shareholder as aforesaid.

⁹ The term "large shareholder" means any shareholder holding in aggregate five percent (5%) or more of the issued share capital of the Issuer on the date of adoption of the Articles, being 27 July 2017.

¹⁰ Ibid

26. MATERIAL CONTRACTS

The Bank has entered into an agreement with Oracle for the provision and implementation of a number of software deliverables in relation to the Issuer's new Core Banking System (the "**Agreement**"). Under the Agreement, the solution that the Bank will be implementing is the Oracle FLEXCUBE Universal Banking solution.

The Agreement lays out the obligations of the Issuer in terms of the provision of hardware, software licences and data required by Oracle for the proper implementation thereof of the Core Banking System as well as the provision by the Issuer of technical and business resources with adequate skills and knowledge to support Oracle in the provision of its services. The Agreement also specifies that the failure by the Issuer to meet its obligations under the Agreement may result in unnecessary delays and costs which will be incurred by the Issuer itself. The Agreement also refers to the limitations on the part of Oracle in the provision of its services.

The Agreement sets out the costs and expenses of the new Core Banking System. The Agreement has been duly executed by both parties and implementation thereof of the CBT is in progress.

The Bank's investment in the core banking technology is estimated will cost around €44.5 million, over a five year period from financial year 2017 to financial year 2021.

27. INCORPORATION BY REFERENCE/DOCUMENTS ON DISPLAY

The following documents (the "**Reference Documents**") are incorporated by reference into this Registration Document and are available in the English language:

- a) The Memorandum and Articles of the Issuer;
- b) The annual reports including the consolidated audited financial statements of the Issuer for each of the financial years ended 30 September 2014, 30 September 2015 and 30 September 2016;
- c) The consolidated interim financial statements of the Issuer for the period ended 31 March 2016 and 31 March 2017; and
- d) The second consolidated interim financial statements of the Issuer for the period 1 October 2016 to 30 September 2017.

The following documents are available for inspection at the registered office of the Issuer for the life of this Prospectus:

- a) The documents numbered (a), (b), (c) and (d) above described as being Reference Documents;
- b) The Prospectus; and
- c) KPMG's Accountant's Report.

**Securities Note
dated 30 October 2017**

This document is a Securities Note issued in accordance with the provisions of Chapter 4 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended (the “Prospectus Regulation”). This Securities Note is issued pursuant to the requirements of Listing Rule 4.14 of the Listing Rules and contains information about the New Shares being issued by Bank of Valletta p.l.c. pursuant to a Rights Issue. Application has been made for the admission to listing and trading of the New Shares on the Official List of the MSE. This Securities Note should be read in conjunction with the most updated Registration Document issued from time to time containing information about Bank of Valletta p.l.c. and all other documents incorporated by reference herein.

Rights Issue of

**1 New Share for every 4 Existing Shares at an Offer Price of
€1.43 per New Share**

in

BANK OF VALLETTA P.L.C.

(a public limited liability company registered under the laws of Malta with company registration number C 2833)

and in the event that any Rights to subscribe for New Shares are not taken up by Eligible Participants they shall be allocated to: (i) Existing Shareholders that have accepted their Proportionate Entitlement in full and applied for Lapsed Rights; (ii) Employees; and (iii) to the general public in Malta through an Intermediaries Offer, in this order of preference

ISIN: MT0000020116

THE LISTING AUTHORITY HAS AUTHORISED THE ADMISSIBILITY OF THE NEW SHARES AS A LISTED FINANCIAL INSTRUMENT. THIS MEANS THAT THE NEW SHARES ARE BEING OFFERED AND WILL BE ISSUED IN COMPLIANCE WITH THE REQUIREMENTS AND CONDITIONS SET OUT IN THE LISTING RULES. IN PROVIDING THIS AUTHORISATION, THE LISTING AUTHORITY DOES NOT GIVE ANY CERTIFICATION REGARDING THE POTENTIAL RISKS IN INVESTING IN THE NEW SHARES AND SUCH AUTHORISATION SHOULD NOT BE DEEMED OR BE CONSTRUED AS A REPRESENTATION OR WARRANTY AS TO THE SAFETY OF INVESTING IN THE NEW SHARES.

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS INCLUDING ANY LOSSES INCURRED BY INVESTING IN THE NEW SHARES.

A PROSPECTIVE INVESTOR SHOULD SEEK INDEPENDENT INVESTMENT ADVICE BEFORE DECIDING TO INVEST IN THE NEW SHARES. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE POTENTIAL RISKS IN INVESTING IN THE NEW SHARES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND CONSULTATION WITH HIS OR HER OWN INDEPENDENT FINANCIAL ADVISER.

Legal Counsel

Joint Sponsors

Manager & Registrar

CAMILLERI PREZIOSI
ADVOCATES

 **RIZZO FARRUGIA**
YOUR INVESTMENT CONSULTANTS

Jesmond Mizzi
FINANCIAL ADVISORS

BOV
Bank of Valletta

IMPORTANT INFORMATION

THIS SECURITIES NOTE CONTAINS INFORMATION ON A RIGHTS ISSUE TO EXISTING SHAREHOLDERS OF THE BANK AND ON THE OFFER OF LAPSED RIGHTS AND IS DRAWN UP IN COMPLIANCE WITH THE REQUIREMENTS OF THE LISTING RULES, THE ACT AND THE PROSPECTUS REGULATION.

THE BANK IS OFFERING THE NEW SHARES ON A PRE-EMPTIVE BASIS TO EXISTING SHAREHOLDERS AND IS HEREBY ISSUING NIL PAID RIGHTS IN A RATIO OF ONE (1) RIGHT FOR EVERY FOUR (4) SHARES HELD BY EXISTING SHAREHOLDERS. EACH RIGHT SHALL ENTITLE EXISTING SHAREHOLDERS OR THEIR ASSIGNEES TO SUBSCRIBE FOR ONE (1) NEW SHARE IN THE BANK FOR EACH RIGHT ALLOCATED AT AN OFFER PRICE OF €1.43.

THE RIGHTS ARE RENOUNCEABLE AND ASSIGNABLE BY EXISTING SHAREHOLDERS BY INSTRUMENT IN WRITING USING THE APPLICABLE FORMS WHICH WILL BE MAILED BY THE ISSUER TO EXISTING SHAREHOLDERS. NO MARKET WILL BE MADE IN THE RIGHTS ON THE MSE. ACCORDINGLY, THE RIGHTS CANNOT BE TRADED AS A SEPARATE FINANCIAL INSTRUMENT ON THE MSE.

RIGHTS WHICH ARE NOT SUBSCRIBED TO BY ELIGIBLE PARTICIPANTS SHALL CONSTITUTE LAPSED RIGHTS AND WILL BE ALLOCATED TO: (I) EXISTING SHAREHOLDERS WHICH HAVE ACCEPTED THEIR PROPORTIONATE ENTITLEMENT IN FULL AND APPLIED FOR LAPSED RIGHTS; (II) EMPLOYEES; AND (III) THE GENERAL PUBLIC THROUGH AN INTERMEDIARIES OFFER, IN THIS ORDER OF PREFERENCE, AND SUBJECT TO SCALING DOWN IN ACCORDANCE WITH SECTION 9.4 OF THIS SECURITIES NOTE.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE BANK OR ITS DIRECTORS TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE RIGHTS ISSUE, THE OFFER OF LAPSED RIGHTS OR THE NEW SHARES OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO HEREIN IN CONNECTION WITH THE OFFER OF NEW SHARES HEREBY MADE, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE BANK, ITS DIRECTORS OR ADVISERS.

NONE OF THE ADVISERS OR ANY PERSON MENTIONED IN THIS PROSPECTUS, OTHER THAN THE ISSUER AND ITS DIRECTORS, ARE RESPONSIBLE FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR ANY SUPPLEMENT THEREOF OR ANY DOCUMENTS INCORPORATED BY REFERENCE, AND ACCORDINGLY, TO THE EXTENT PERMITTED BY THE LAWS OF ANY RELEVANT JURISDICTION, NONE OF THESE PERSONS ACCEPTS ANY RESPONSIBILITY AS TO THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN ANY OF THESE DOCUMENTS.

THIS SECURITIES NOTE DOES NOT CONSTITUTE, AND MAY NOT BE USED FOR THE PURPOSES OF, AN OFFER, SOLICITATION OR INVITATION TO SUBSCRIBE FOR THE RIGHTS OR THE LAPSED RIGHTS OR THE NEW SHARES BY ANY PERSON IN ANY JURISDICTION: (I) IN WHICH SUCH OFFER OR INVITATION IS NOT AUTHORISED; OR (II) IN WHICH THE PERSON MAKING SUCH OFFER OR INVITATION IS NOT QUALIFIED TO DO SO; OR (III) TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR INVITATION.

IT IS THE RESPONSIBILITY OF ANY PERSON IN POSSESSION OF THIS DOCUMENT AND (I) ANY EXISTING SHAREHOLDER TO WHOM THIS OFFER AND A FORM OF ACCEPTANCE, AUTHORITY AND ELECTION IS ADDRESSED; (II) ANY PERSON WISHING TO SUBSCRIBE FOR ANY NEW SHARES PURSUANT TO AN ASSIGNMENT OF RIGHTS FROM AN EXISTING SHAREHOLDER; (III) EMPLOYEES SUBSCRIBING TO NEW SHARES BY WAY OF ACQUISITION OF LAPSED RIGHTS; AND (IV) ANY PERSON SUBSCRIBING TO NEW SHARES BY WAY OF ACQUISITION OF LAPSED RIGHTS THROUGH THE INTERMEDIARIES OFFER, TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION.

EXISTING SHAREHOLDERS WISHING TO ACCEPT ALL OF THE RIGHTS ALLOCATED TO THEM AND SUBSCRIBE FOR LAPSED RIGHTS OR, OTHERWISE OPTING TO ACCEPT PART AND/OR ASSIGN PART OR ALL OF THEIR RIGHTS, SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF ACCEPTING SUCH ALLOCATION OR OF ASSIGNING THEIR RIGHTS TO THIRD PARTIES TO SUBSCRIBE FOR NEW SHARES AS WELL AS ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND FISCAL OBLIGATIONS

IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE OR DOMICILE AND THE COUNTRIES OF THE NATIONALITY, RESIDENCE OR DOMICILE OF THOSE PERSONS IN WHOSE FAVOUR THEY MAY ASSIGN THEIR RIGHTS FOR THE SUBSCRIPTION OF NEW SHARES.

IN ADDITION: (I) ASSIGNEES OF THE RIGHTS AGREEING TO SUBSCRIBE FOR NEW SHARES THROUGH AN ASSIGNMENT FROM AN EXISTING SHAREHOLDER; (II) EMPLOYEES APPLYING TO SUBSCRIBE FOR NEW SHARES; AND (III) APPLICANTS APPLYING TO SUBSCRIBE FOR NEW SHARES THROUGH THE INTERMEDIARIES OFFER, SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS TO SUBSCRIBE FOR NEW SHARES AS WELL AS ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND FISCAL OBLIGATIONS IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE OR DOMICILE.

SAVE FOR THE RIGHTS ISSUE AND THE OFFER OF LAPSED RIGHTS IN THE REPUBLIC OF MALTA, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE BANK THAT WOULD PERMIT A PUBLIC OFFERING OF THE NEW SHARES OR THE DISTRIBUTION OF THE PROSPECTUS (OR ANY PART THEREOF) OR ANY OFFERING MATERIAL IN ANY COUNTRY OR JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED.

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (OTHER THAN MALTA) WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING ON A REGULATED MARKET OR WHICH, PENDING SUCH IMPLEMENTATION, APPLIES ARTICLE 3(2) OF SAID DIRECTIVE, THE NEW SHARES CAN ONLY BE OFFERED TO “QUALIFIED INVESTORS” (AS DEFINED IN THE SAID DIRECTIVE) AS WELL AS IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE BANK OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE SAID DIRECTIVE.

THE RIGHTS AND THE NEW SHARES HAVE NOT BEEN NOR WILL THEY BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, 1933, AS AMENDED, OR UNDER ANY FEDERAL OR STATE SECURITIES LAW AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, 1933. FURTHERMORE, THE BANK WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT, 1940, AS AMENDED, AND INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS SET OUT THEREIN.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MSE IN SATISFACTION OF THE MSE BYE LAWS, AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE ACT. APPLICATION HAS ALSO BEEN MADE TO THE LISTING AUTHORITY AND THE MSE FOR THE NEW SHARES TO BE ADMITTED TO THE OFFICIAL LIST OF THE MSE.

UNLESS OTHERWISE STATED IN THIS DOCUMENT, THE CONTENTS OF THE BANK’S WEBSITE OR ANY WEBSITE DIRECTLY OR INDIRECTLY LINKED TO THE BANK’S WEBSITE, DO NOT FORM PART OF THIS DOCUMENT. ACCORDINGLY, NO RELIANCE OUGHT TO BE MADE BY ANY INVESTOR ON ANY INFORMATION OR OTHER DATA CONTAINED IN SUCH WEBSITES AS THE BASIS FOR A DECISION TO INVEST IN THE NEW SHARES.

ALL THE ADVISERS TO THE ISSUER HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE ISSUER IN RELATION TO THIS PROSPECTUS AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION OR RESPONSIBILITY TOWARDS ANY OTHER PERSON. NONE OF THE ADVISERS ACCEPT ANY RESPONSIBILITY TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE TRANSACTION PROPOSED IN THE PROSPECTUS, AND/OR THE CONTENTS OF, AND ANY INFORMATION CONTAINED IN, THE PROSPECTUS, ITS COMPLETENESS OR ACCURACY OR ANY OTHER STATEMENT MADE IN CONNECTION THEREWITH.

THE VALUE OF INVESTMENTS CAN RISE OR FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER ALL THE INFORMATION CONTAINED IN THE PROSPECTUS AS A WHOLE AND SHOULD CONSULT THEIR OWN INDEPENDENT FINANCIAL ADVISER BEFORE DECIDING TO MAKE AN INVESTMENT IN THE NEW SHARES. THIS DOCUMENT, THE FAAEs, APPLICATION FORMS AND ALL AGREEMENTS, ACCEPTANCES AND

CONTRACTS RESULTING THEREFROM SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF MALTA, AND ANY PERSON ACQUIRING ANY NEW SHARES PURSUANT TO THE PROSPECTUS SHALL SUBMIT TO THE JURISDICTION OF THE MALTESE COURTS, WITHOUT LIMITING IN ANY MANNER THE RIGHT OF THE ISSUER TO BRING ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN CONNECTION WITH THE RIGHTS ISSUE, THE OFFER OF LAPSED RIGHTS OR ANY AGREEMENT RESULTING HEREFROM OR THE PROSPECTUS AS A WHOLE IN ANY OTHER COMPETENT JURISDICTION.

STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THERETO.

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS.

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1. DEFINITIONS

Words and expressions and capitalised terms used in this Securities Note shall, except where the context otherwise requires and except where otherwise defined herein, bear the same meaning as the meaning given to such words, expressed in capitalised terms as indicated in the Registration Document forming part of the Prospectus. Additionally, the following words and expressions as used in this Securities Note shall bear the following meanings whenever such words and expressions are used in their capitalised form, except where the context otherwise requires.

| | |
|---|---|
| Applicant | means a person who is either an: (i) Employee; or (ii) an investor that applies to subscribe to Lapsed Rights (in the case of (ii), in terms of the Intermediaries Offer) and who lodge an Application Form to subscribe for Lapsed Rights; |
| Application | means the completion and lodgement of an Application Form by an Applicant to subscribe for Lapsed Rights being lodged by either an Employee (<i>Application Form 'A'</i>) or any other investor subscribing to Lapsed Rights through the Intermediaries Offer (<i>Application Form 'B'</i>); |
| Application Form | means the form of application for subscription of Lapsed Rights by Employees (<i>Application Form 'A'</i>) or other investors subscribing to Lapsed Rights through the Intermediaries Offer (<i>Application Form 'B'</i>), specimens of which are contained in Annex 3 to this Prospectus; |
| Articles | the Articles of Association of the Bank as currently applicable or as may, from time to time, be in force; |
| Assignee/s | a person/s that benefit/s from the assignment of Rights in accordance with the terms of this Securities Note; |
| Assigned Entitlement | the Rights assigned to Assignees by Existing Shareholders pursuant to sections 6.5.2 (c) and 6.5.2 (d) of the Securities Note; |
| Authorised Financial Intermediaries | the financial intermediaries as listed in Annex 1 of this Prospectus through which FAAEs and Application Forms may be accepted; |
| Bank Recovery and Resolution Regulations | the Recovery and Resolution Regulations (Subsidiary Legislation 330.09 of the laws of Malta) implementing Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms; |
| Bank or Issuer | Bank of Valletta p.l.c. a company registered under the laws of Malta with company registration number C 2833 and having its registered office at 58, Zachary Street, Valletta; |
| CSD | the Central Securities Depository of the MSE established pursuant to article 24 of the Financial Markets Act (Cap. 345 of the laws of Malta), and situated at Garrison Chapel, Castille Place, Valletta VLT 1063, Malta; |
| Eligible Participants | means: (i) Existing Shareholders; and (ii) Assignees; as applicable; |
| Employees | employees appearing on the payroll of the Issuer or either of the Subsidiaries as at 26 October 2017 and includes directors sitting on the board of directors of any of the Subsidiaries (which however do not also sit on the Issuer's Board); |
| Excluded Territory | each of the United States of America, Canada, Australia, Japan, the Republic of South Africa and any other jurisdiction (whether in the EU or otherwise) where the extension into or availability of the Offer would breach any applicable law; |

| | |
|---|---|
| Existing Shareholders | the Bank's shareholders appearing on the Register of Members as at the Record Date and that, on such date, hold Shares that would provide them with a Proportionate Entitlement of not less than one (1) Right; |
| Form of Acceptance, Authority and Election or FAAE | the application form, a sample of which is set out in Annex 2 of this Prospectus, addressed to Existing Shareholders by the Bank setting out the Rights allocated to them and pursuant to which, Existing Shareholders shall be entitled to, and may bind themselves to, accept, in whole or in part, their Proportionate Entitlement and/or apply for any Lapsed Rights or otherwise renounce to their rights in favour of Assignees; |
| Group | the Issuer and its Subsidiaries; |
| Intermediaries Offer | the offer to be made to Authorised Financial Intermediaries either for their own account or for the account of underlying customers with respect to any Lapsed Rights not subscribed to by Eligible Participants and Employees; |
| Lapsed Rights | any Rights which Existing Shareholders fail to accept or otherwise assign by the Rights Issue Closing Date; and which shall become available for allocation at the Offer Price to: (i) Existing Shareholders who accept their Proportionate Entitlement in full; (ii) Employees; and (iii) Authorised Financial Intermediaries, in this order of preference and in accordance with section 9.4 of this Securities Note; |
| Manager and Registrar or Registrar | Bank of Valletta p.l.c. a company registered under the laws of Malta with company registration number C 2833 and having its registered office at 58, Zachary Street, Valletta; |
| Major Shareholders | collectively the Government of Malta and UniCredit; |
| New Ordinary Shares or New Shares | the new ordinary shares to form part of the issued share capital of the Bank of a nominal value of €1.00 per Share to be issued pursuant to the exercise of Rights at the Offer Price by Eligible Participants, Employees and Authorised Financial Intermediaries (for their own account or for the account of their underlying clients), as the case may be. |
| Offer | the offer of the Rights to Existing Shareholders; and the offer of Lapsed Rights to: (i) Existing Shareholders that accept their Proportionate Entitlement in full; (ii) Employees; and (iii) Authorised Financial Intermediaries pursuant to the Intermediaries Offer, in this order of preference; |
| Offer Period | the period between and including 08.30 hours on 8 November 2017 and 14.00 hours on 6 December 2017 during which: <ul style="list-style-type: none"> (i) A FAAE may be accepted by Eligible Participants; (ii) Existing Shareholders that have taken up their Proportionate Entitlement in full, may apply for any Lapsed Rights; (iii) Employees may lodge their Application to apply for any Lapsed Rights not taken up by Existing Shareholders pursuant to (ii) above; and (iv) Authorised Financial Intermediaries may, through an Intermediaries Offer, subscribe to any Lapsed Rights not taken up by Existing Shareholders and Employees pursuant to (ii) and (iii) above; |
| Offer Price | the price of €1.43 per New Share, consisting of a discount of 27.47% to TERP and a premium of €0.43 over nominal value of the Ordinary Shares; |
| Official List | the list prepared and published by the MSE as its official list in accordance with the MSE Bye Laws; |
| Ordinary Shares | the ordinary shares of a nominal value of €1.00 each share in the share capital of the Bank; |
| Overseas Shareholders | Existing Shareholders whose registered address on the Register of Members is in a country other than Malta; |

| | |
|----------------------------------|--|
| Pre-Allocation Agreement | the conditional pre-allocation agreement entered into between the Issuer and the Government of Malta pursuant to which the Government of Malta has, amongst others, undertaken to exercise the Rights allocated to it, pursuant to the Rights Issue, in full and to subscribe for its entitlement of New Shares subject to the admission of the New Shares on the Official List; |
| Proportionate Entitlement | the entitlement of each Existing Shareholder to Rights in a ratio of 1 Right for every 4 Shares held by such Existing Shareholder as registered against the Shareholder's name in the Register of Members as at the Record Date; |
| Prospectus | this Securities Note together with the Registration Document and the Summary Note, all dated 30 October 2017 issued in connection with the Rights Issue; |
| Record Date | close of business of 26 October 2017 being the trading session of 24 October 2017; |
| Register of Members | the list of shareholders of the Issuer maintained and held by the CSD; |
| Registration Advice | means the notification sent by the CSD in the event of sales and/or purchases of financial instruments on the MSE; |
| Registration Document | the registration document dated 30 October 2017 forming part of the Prospectus; |
| Rights | the right to: (i) Subscribe to the Proportionate Entitlement subject to cleared payment of the Offer Price; or (ii) Assign the Proportionate Entitlement, which right shall be allocated to Existing Shareholders in nil paid form; |
| Rights Issue | the proposed allocation of Rights to Existing Shareholders as described in this Prospectus; |
| Rights Issue Closing Date | 14.00 hours on 6 December 2017, following which all rights under the Rights Issue shall lapse and shall no longer be capable of acceptance by Eligible Participants; |
| Securities Note | this securities note dated 30 October 2017 forming part of the Prospectus; |
| Shareholders | the persons registered in the Issuer's Register of Members as holding shares in the Bank from time to time; |
| Shares | collectively, all the issued share capital of the Bank as at the date of this Prospectus including the New Shares; |
| Sponsors | collectively, Rizzo Farrugia & Co. (Stockbrokers) Limited and Jesmond Mizzi Financial Advisors Limited; |
| Subscription Agreements | the conditional subscription agreements entered into for the purposes of the Intermediaries Offer between the Issuer and the Authorised Financial Intermediaries pursuant to which the Authorised Financial Intermediaries bind themselves to subscribe to, and the Issuer binds itself to allocate, an amount of Lapsed Rights, for their own account or on behalf of their underlying clients; |
| Subsidiaries | each of the subsidiaries of the Bank as defined and identified in the Registration Document; |
| Summary Note | the summary note dated 30 October 2017 forming part of the Prospectus; |
| Terms and Conditions | the terms and conditions of application relating to the New Shares as the same are contained in this Securities Note; and |
| TERP | means the theoretical ex-rights price which, based on the assumption that all the New Shares of the Issuer are taken up by the Eligible Participants, is the Share price that should prevail in the market once the New Shares are issued. |

All references in the Prospectus to "Malta" are to the "Republic of Malta".

Unless it appears otherwise from the context:

- a) words importing the singular shall include the plural and vice versa;
- b) words importing the masculine gender shall include the feminine gender and vice versa; and
- c) the word "may" shall be construed as permissive and the word "shall" shall be construed as imperative.

2. PERSONS RESPONSIBLE

The Issuer and all of the Directors, whose names appear in section 12.1.1 of the Registration Document, accept responsibility for the information contained in this Securities Note. To the best of the knowledge and belief of the Directors (who have all taken reasonable care to ensure such is the case), the information contained in this Securities Note is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly. They have been advised and assisted in the drafting and compilation of the Prospectus by the persons mentioned under the heading *Statutory Auditors and Advisers* found in section 4 of the Registration Document.

Neither the Issuer nor the Sponsors have authorised (nor do they authorise or consent the use of this Prospectus in connection with) the making of any public offer of the New Shares, except as provided in this document, by any person in any other circumstances. Any such unauthorised offers are not made on behalf of the Issuer or the Sponsors and both the Issuer and the Sponsors disclaim any responsibility or liability arising from the actions of any person making such offers. Neither the Issuer nor the Sponsors have any responsibility for any of the actions of any Authorised Financial Intermediary, including their compliance with applicable conduct of business rules or other local regulatory requirements or other securities law.

Investors should enquire whether an intermediary is considered to be an Authorised Financial Intermediary in terms of the Prospectus. If the investor is in doubt as to whether it can rely on the Prospectus and/or who is responsible for its contents, it should obtain legal advice.

No person has been authorised to give any information or to make any representation not contained in or inconsistent with this Prospectus. If given or made, it must not be relied upon as having been authorised by the Issuer or Sponsors. The Issuer does not accept responsibility for any information not contained in this Prospectus.

Any new information with respect to Authorised Financial Intermediaries unknown at the time of the approval of this Securities Note will be made available through a company announcement which will also be made available on the Bank's website: <https://www.bov.com/>

3. RISK FACTORS

3.1 GENERAL

AN INVESTMENT IN THE NEW SHARES INVOLVES CERTAIN RISKS, INCLUDING THOSE DESCRIBED BELOW. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER, WITH THEIR OWN INDEPENDENT FINANCIAL ADVISER AND OTHER PROFESSIONAL ADVISERS, THE FOLLOWING RISK FACTORS AND OTHER INVESTMENT CONSIDERATIONS, AS WELL AS ALL THE OTHER INFORMATION CONTAINED IN THE PROSPECTUS, BEFORE DECIDING TO INVEST IN THE NEW SHARES.

SOME OF THESE RISKS ARE SUBJECT TO CONTINGENCIES WHICH MAY OR MAY NOT OCCUR AND NEITHER THE DIRECTORS NOR THE ISSUER ARE IN A POSITION TO EXPRESS ANY VIEWS ON THE LIKELIHOOD OF ANY SUCH CONTINGENCIES OCCURRING. THE SEQUENCE IN WHICH THE RISKS BELOW ARE LISTED IS NOT INTENDED TO BE INDICATIVE OF ANY ORDER OF PRIORITY OR OF THE EXTENT OF THEIR CONSEQUENCES.

IF ANY OF THE RISKS DESCRIBED BELOW WERE TO MATERIALISE, THEY COULD HAVE A NEGATIVE AND/OR SERIOUS EFFECT ON THE VALUE OF THE NEW SHARES AND THE SHARES GENERALLY. THE RISKS AND UNCERTAINTIES DISCUSSED BELOW ARE THOSE IDENTIFIED AS SUCH BY THE DIRECTORS, BUT THESE RISKS AND UNCERTAINTIES MAY NOT BE THE ONLY ONES THAT THE BANK FACES. ADDITIONAL RISKS AND UNCERTAINTIES, INCLUDING THOSE WHICH THE DIRECTORS ARE NOT CURRENTLY AWARE OF, MAY WELL RESULT IN A MATERIAL IMPACT ON THE FINANCIAL CONDITION AND OPERATIONAL PERFORMANCE OF THE BANK.

THIS SECURITIES NOTE IS NOT INTENDED TO CONSTITUTE, AND SHOULD NOT BE CONSTRUED AS CONSTITUTING, A RECOMMENDATION BY THE BANK OR OF THE ADVISERS AS LISTED IN SECTION 4.3 OF THE REGISTRATION DOCUMENT OR ANY OF THE AUTHORISED FINANCIAL INTERMEDIARIES TO PURCHASE THE NEW SHARES. ACCORDINGLY, PROSPECTIVE INVESTORS SHOULD MAKE THEIR OWN INDEPENDENT EVALUATION OF ALL RISK FACTORS, AND SHOULD CONSIDER ALL OTHER SECTIONS IN THIS DOCUMENT.

THE RISK FACTORS MENTIONED IN THIS SECURITIES NOTE SHOULD BE READ IN CONJUNCTION WITH ALL OF THE RISK FACTORS INCLUDED IN THE REGISTRATION DOCUMENT WHICH SETS OUT RISK FACTORS THAT MAY HAVE AN IMPACT OR EFFECT ON THE ISSUER AND ITS BUSINESS. PROSPECTIVE INVESTORS ARE URGED TO READ CAREFULLY THE RISK FACTORS CONTAINED BOTH IN THIS SECURITIES NOTE AND THE REGISTRATION DOCUMENT BEFORE COMMITTING TO SUBSCRIBE FOR ANY NEW SHARES OR OTHERWISE ACCEPTING THE RIGHTS ISSUE.

FORWARD-LOOKING STATEMENTS AND FINANCIAL FORECASTS

The Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, such as the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout the Prospectus and include statements regarding the intentions, beliefs or current expectations of the Issuer and/or the Directors concerning, amongst other things, the Issuer’s strategy and business plans, results of operations, financial condition, liquidity, prospects, dividend pay-out approach, the markets in which it operates and general market conditions.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and should therefore not be construed as such. The Bank’s actual results of operations, financial condition, liquidity, dividend pay-out approach and the development of its Strategic Initiatives may differ materially from the impression created by the forward-looking statements contained in the Prospectus. In addition, even if the results of operations, financial condition, liquidity and dividend pay-out approach of the Bank are consistent with the forward-looking statements contained in the Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause these differences include, but are not limited to, changes in global and local economic conditions, legislative and regulatory developments, changes in taxation regimes and the availability of suitable financing.

In addition, the financial forecasts which are being presented in the Prospectus may differ materially from the actual financial statements, once issued. Accordingly, there is no guarantee that the figures as forecasted in the statements of profit and loss for the 3-month period ending 31 December 2017 as well as the statements of financial position as at 31 December 2017, will materialise.

Potential investors are advised to read the Prospectus in its entirety and, in particular, all the risks set out in this section and in the section entitled Risk Factors in the Registration Document, for a review of the factors that could affect the Bank’s performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur. All forward-looking statements contained in this document are made only as at the date hereof. Subject to applicable legal and regulatory obligations, the Bank and its Directors expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

3.2 RISK FACTORS RELATING TO THE OFFER

3.2.1 Orderly and Liquid Market

The existence of an orderly and liquid market for the Shares, including the New Shares, depends on a number of factors, many of which are beyond the Bank’s control, including but not limited to, the presence of willing buyers and sellers of the Shares at any given time and the general economic conditions in the market in which the Shares are traded, namely the Official List. Accordingly, there can be no assurance that an active secondary market for the New Shares will develop or, if it develops, that it will continue. Furthermore, there can be no assurance that an investor will be able to sell or otherwise trade in the Shares at all.

3.2.2 Volatility in Prices of the Shares

Following the completion of the Offer and the allocation of the New Shares, the price at which the Shares will be traded, as well as the volume of trades, may fluctuate. There can be no guarantee of the price which may be realised by investors in the New Shares. Movements in the price of the Shares are influenced by a multitude of factors, some of which may be specific to the Bank, its proposed operations and ability to implement its intended strategies. It is also possible that the Bank's results of operations or its business outlook may fall short of expectations, in which case the price of the Shares could be negatively affected. In addition, limited trading in the Shares could increase the price volatility of the Shares and may limit the ability of investors to trade the New Shares in the amount, at the price and at the time desired.

3.2.3 Requirement for Further Funding

The Rights being offered to Existing Shareholders pursuant to the Rights Issue in virtue of this Securities Note, form part of the Issuer's capital plan. In accordance with the capital plan, the Issuer intends to raise its share capital by approximately €150,000,000. In the event that the Bank is not successful in raising this capital, its capital base and its ability to sustain further growth within the parameters of the new regulatory framework, will be significantly curtailed. This could have a significant impact on its overall business, as well as its operational and financial results. The failure to improve the capital base will also have an adverse impact on the Issuer's ability to sustain its current dividend pay-out approach and will entail that the Issuer's ability to proceed with the payment of dividends to Shareholders, will also be severely curtailed, if not altogether prohibited, until the new capital requirements are met to the satisfaction of the ECB.

3.2.4 Revocation/Discontinuation of Listing

Even after the New Shares are admitted to trading on the Official List, the Bank must remain in compliance with certain requirements. The Listing Authority has the authority to suspend trading of the Shares if, *inter alia*, it comes to believe that such a suspension is required for the protection of investors or of the integrity or reputation of the markets. Furthermore, the Listing Authority may discontinue the listing of the Shares if, *inter alia*, it is satisfied that, owing to special circumstances, normal regular dealings in the Shares are no longer possible, or upon the request of the Issuer or the MSE. Any such trading suspensions or listing revocations / discontinuations described above, could have a material adverse effect on the liquidity and value of the Shares.

3.2.5 Value of Investment in the Shares

The value of an investment in the Shares can rise or fall, and past performance of the Shares is not necessarily indicative of future performance.

3.2.6 Suitability

All Existing Shareholders are already exposed to an investment in the Shares. However, the acceptance of the Rights Issue and the consequent subscription of part or all of the Proportionate Entitlement will increase the exposure of Existing Shareholders to the Bank and its future performance. Any additional exposure to the Shares may not be suitable for every Existing Shareholder. Accordingly, Existing Shareholders are urged to consult a licensed stockbroker or an investment adviser licensed under the Investment Services Act (Cap. 370 of the laws of Malta) as to the suitability or otherwise of a further investment in the Shares before making an investment decision to accept their Proportionate Entitlement under the Rights Issue and any additional New Shares they may subscribe for. In addition, an investment in the New Shares may not be suitable for all investors, including Assignees as well as Employees and other investors subscribing to New Shares pursuant to the Intermediaries Offer. Accordingly, any person seeking to invest in the New Shares is urged to refer to the Prospectus and consult a licensed stockbroker or an investment adviser licensed under the Investment Services Act (Cap. 370 of the laws of Malta) as to the suitability or otherwise of an investment in the New Shares before making an investment decision.

An informed investment decision can only be made by investors after they have read and fully understood the risk factors associated with an investment in the New Shares and the inherent risks associated with the Bank's business. In the event that an investor in the New Shares does not seek professional advice and/or does not read and fully understand the provisions of this Prospectus, there is a risk that such investor may acquire an investment which is not suitable for his or her risk profile and circumstances.

3.2.7 Dividends

The extent of any dividend distribution by the Bank will depend upon, amongst other factors, the ability of the Bank to improve its current capital base, the profit for the year, the Directors' view on the prevailing market outlook, any debt servicing requirements, the cash flows of the Bank, working capital requirements, the Board's view on future investments, and the requirements of the Act. The Bank's approach to dividend pay-outs is described in the section entitled *Dividend Pay-Out Approach* found in section 22 of the Registration Document should be read and construed accordingly.

3.2.8 Shareholder Currency of Reference

A Shareholder will bear the risk of any fluctuations in exchange rates between the currency of denomination of the New Shares (i.e. the Euro) and the Shareholder's currency of reference, if different.

3.2.9 Dilution Risk

The rights of the Existing Shareholders to subscribe for the New Shares, excluding the share fractional amount, ensure that each Existing Shareholder exercising its subscription rights under the Rights Issue will continue to hold its original, nearly unchanged percentage share in the share capital of the Bank. If an Existing Shareholder does not exercise the subscription rights granted under the Rights Issue, his/her percentage shareholding in the Issuer will decline and his/her voting rights will be diluted. This dilution will be proportional to the percentage by which the share capital of the Issuer is increased and to the extent by which the Existing Shareholder does not participate in the Rights Issue.

3.2.10 Resolution Mechanisms for Credit Institutions

Investment in the New Shares involves the risk of the loss of the capital invested in the event that the Issuer becomes subject to insolvency proceedings or finds itself failing or at risk of failure which involves the application of resolution tools, including the bail-in tool.

In this regard, the BRRD Regulations, provide for the application of resolution tools by the Resolution Committee to credit institutions at risk of failure, as an alternative to liquidation proceedings. These resolution tools include, also combined with one another: (i) the sale of business tool, which involves the sale of all or part of the business of the institution; (ii) the bridge institution tool, which concerns the establishment of a new institution which continues to provide essential services to clients; (iii) the asset separation tool, which concerns the separation of the unimpaired assets of the failing institution from those which are deteriorated or impaired; and (iv) the bail-in tool, through which the liabilities of the failing organisation are written down and/or converted with consequent losses for the Shareholders and for some categories of Issuer's creditors (including unsubordinated bondholders).

The power to write down or convert capital instruments may also be exercised pursuant to the BRRD Regulations. A write down may result in the reduction (including to zero) of the nominal value of shares, the dilution of shareholders' shareholding (and voting rights) in a failing bank, or the outright cancellation of the shares. Further, the Resolution Committee is empowered by the BRRD Regulations to take control of a credit institution under resolution and exercise all the rights and powers conferred upon shareholders, other owners and the board of directors of the institution under resolution.

The exercise by the Resolution Committee of any of these powers may have a material effect on the business and prospects of the Issuer. In addition, any bail-in of capital instruments will mean that Shareholders might have some or all of their shareholdings diluted or cancelled without any compensation therefor.

4. KEY INFORMATION

4.1 WORKING CAPITAL STATEMENT

The Directors, after reasonable inquiry, are of the opinion that the working capital available to the Group is sufficient for the Group's present business requirements for a period of at least 12 months from the date of the Securities Note.

4.2 CAPITALISATION AND INDEBTEDNESS

The capitalisation and indebtedness of the Group as at 30 September 2017 is summarised below:

| 4.2.1 Capitalisation | | September 2017 | September 2017 |
|--|---|----------------|----------------|
| | | €'000 | €'000 |
| Total Current Debt | | | 9,970,342 |
| Guaranteed | Amounts guaranteed under the Deposit Guarantee Scheme ("DGS") as per EU Directive 2014/49 | 5,062,998 | |
| Secured | Nil | - | |
| Unguaranteed | Total deposits net of covered deposits for DGS purposes | 4,907,344 | |
| Total Non-Current Debt (excluding current portion of long-term debt) | | | 616,222 |
| Guaranteed | Amounts guaranteed under the Deposit Guarantee Scheme ("DGS") as per EU Directive 2014/49 | 147,508 | |
| Secured | Nil | - | |
| Unguaranteed | Total deposits net of covered deposits for DGS purposes | 468,714 | |
| Shareholders' equity: | | | |
| Share capital | | | 420,000 |
| Legal reserve | | | 988 |
| Other reserves | | | 31,011 |
| Total equity | | | 451,999 |
| 4.2.2 Indebtedness | | | |
| Cash | | | 46,126 |
| Treasury bills | | | 14,011 |
| Deposits with banks | | | 3,112,632 |
| Trading securities | | | - |
| Liquidity | | | 3,172,769 |

| | |
|---|----------------------|
| Current Financial Receivable | 25,741 |
| Current Bank debt | 9,970,342 |
| Current portion of non-current debt | 1,561,667 |
| Other current financial debt | - |
| Current Financial Debt | 11,532,009 |
| Net Current Financial Indebtedness | 8,333,499 |
| Non-current Bank loans | 289,231 |
| Bonds issued | 231,591 |
| Other non-current loans | 95,400 |
| Non-Current Financial Indebtedness | 616,222 |
| Net Financial Indebtedness | 8,949,721 |

4.2.3 Commitments and Contingent Liabilities

The Issuer regularly enters into irrevocable lending commitments as well as contingent liabilities consisting of financial and performance guarantees, standby letters of credit and indemnity agreements on behalf of its customers (brief details of which for the period ended 30 September 2017 are set out below). Under these contracts, the Issuer is required to perform under an obligation agreement or to make payments to the beneficiary based on a third party's failure to meet its obligations.

| | September 2017 |
|---------------------------------|----------------|
| | €'000 |
| Irrevocable lending commitments | 1,533,878 |
| Contingent liabilities | 360,313 |

4.3 INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED IN THE OFFER

The Issuer is an Authorised Financial Intermediary in respect of the Offer. However, as the Issuer of the New Shares, it has an interest in the Offer. In this respect, the Issuer will not be providing investment advice in relation to subscriptions for New Shares, however may entertain applications for subscriptions for New Shares on an execution only basis. In this respect, investors are strongly encouraged to seek independent and professional advice prior to participating in the Offer.

Save for the Sponsors' entitlement to fees payable in connection with the Offer, so far as the Issuer is aware, no person involved in the Offer has any other interest that is material to the Offer.

4.4 REASONS FOR THE OFFER AND USE OF PROCEEDS

The main purpose of the proceeds from the Offer, expected to amount to approximately €150,000,000, is to further strengthen the Issuer's Common Equity Tier 1 ("CET1") such that the Issuer will be in a better position to meet the level of capital buffers required under the relevant European banking regulations.

The Issuer is classified as an Other Systemically Important Institution ("O-SII") by the Regulatory Authorities. Accordingly, although the Issuer is adequately capitalised, as an O-SII, the Bank is considered as an institution whose failure would have a significant impact on domestic financial stability and therefore is required, under the relevant European banking regulations, to maintain capital buffers over and above those required of banks that are not considered as O-SII. These capital buffers are the capital conservation buffer, the countercyclical buffer, the O-SII buffer and the systemic risk buffer (together referred to as the "O-SII Capital Buffers"). The O-SII Capital Buffers are a measure calculated to absorb higher levels of losses from operations and are ultimately aimed to strengthen the resilience of the Group as the need for capital continues to grow. The requirement for these capital buffers entered into force as from January 2016, with full application expected by January 2019.

The proceeds from the Offer will also be used for the Issuer's general funding purposes. The expenses of the Offer shall be borne by the Issuer and not deducted from the proceeds of the Offer.

5. INFORMATION ABOUT THE OFFER AND THE NEW SHARES

This section 5 of the Securities Note provides brief information on the Offer and the New Shares.

5.1 OFFER STATISTICS

| | |
|--|---|
| The Offer | An amount of 105,000,000 New Ordinary Shares to be offered on a pre-emptive basis to Existing Shareholders and the offer of Lapsed Rights to: (i) Existing Shareholders that accepted their Proportionate Entitlement in full and apply to acquire Lapsed Rights; (ii) Employees; and (iii) the general public <i>via</i> an Intermediaries Offer. |
| Amount of Rights Issued and Resultant Capital Increase | The Issuer has issued and allocated 105,000,000 Rights to Existing Shareholders. The Rights have been issued and allocated on the basis of the ratio of 1 Right for every 4 Shares held by Existing Shareholders on the Record Date. Each Right entitles the Eligible Participant to acquire one (1) New Share at a price of €1.43 per New Share. Through the Offer, and assuming the take up in full of all New Shares, the number of issued Shares in the Bank will increase from 420,000,000 to 525,000,000. The New Shares constitute an increase of 25% in the issued Share capital of the Bank. |
| Assignment of the Rights | <p>An Existing Shareholder is entitled to renounce all or part of the Rights allocated by the Issuer in favour of any third party under such terms and conditions as may be agreed between the parties. The Rights shall not be separately listed or traded on the MSE and may only be assigned by completing the appropriate section of the FAAE B – Split/Assign form and by submitting the form to any of the Authorised Financial Intermediaries.</p> <p>The right to assign the Rights only pertains to Existing Shareholders. The right to assign the Rights is not available to: (i) Existing Shareholders who accept their Proportionate Entitlement in full; (ii) Employees; or (iii) Authorised Financial Intermediaries with respect to, and to the extent of, the Lapsed Rights so acquired.</p> <p>Notwithstanding point (iii), nothing shall prevent Authorised Financial Intermediaries from subscribing to New Shares for the account of underlying clients, including retail and/or non-retail investors in Malta.</p> |
| Class of Shares | The New Shares form part of the only class of Ordinary Shares in issue in the Bank and shall accordingly have the same rights and entitlements as all other Ordinary Shares currently in issue in the Bank. |
| Offer Price | The price of €1.43 per New Share, consisting of a discount of 27.47% to TERP and a premium of €0.43 over nominal value. In calculating the TERP, the Issuer has taken into account the trade weighted average price of the Issuer's Shares over a three-month period from 18 July 2017 to 17 October 2017. |
| Legislation under which the Shares will be created | The New Shares will be created in terms of the Act. |
| Registered Form | The New Shares will be issued in fully registered and dematerialised book-entry form and will be represented in uncertificated form by the appropriate entry in the electronic register maintained on behalf of the Issuer at the CSD or in such other form as may be determined from time to time by applicable law, the requirements of the MSE or the Bank. |
| Currency of New Shares | Euro (€) |

| | |
|--|--|
| ISIN | MT0000020116 |
| Lapsed Rights | The remaining rights to New Ordinary Shares not validly accepted or validly assigned and paid for by the Rights Issue Closing Date by Eligible Participants. |
| Plan of Distribution | <p>The New Shares are open for subscription by:</p> <ul style="list-style-type: none"> (i) Existing Shareholders up to their Proportionate Entitlement; (ii) Assignees up to the Assigned Entitlement in their favour; (iii) Existing Shareholders that have accepted their Proportionate Entitlement in full and applied for Lapsed Rights; (iv) Employees subscribing to New Shares with respect to any Lapsed Rights not subscribed to by Existing Shareholders pursuant to (iii) above; (v) Authorised Financial Intermediaries, either for their own account or for the account of underlying clients, to the extent that the Lapsed Rights have not been subscribed in full pursuant to (iii) and (iv) above; <p>in this order of preference.</p> <p>Lapsed Rights shall be subject to scaling down by the Issuer in accordance with section 9.4 of this Securities Note.</p> |
| Listing | Application has been made for the New Shares to be admitted to listing on the Official List and for trading to commence thereafter. The Offer is subject to the admissibility to listing of the New Shares on the MSE. Admission to listing of the New Shares on the Official List is expected on 9 January 2018. |
| Dispatch by mail of FAAEs to Existing Shareholders | Expected 7 November 2017. |
| Rights Issue Closing Date | 14.00 hours on 6 December 2017, following which all Rights under the Rights Issue shall lapse and shall no longer be capable of acceptance by Eligible Participants after which point the Rights may be allocated in accordance with the plan of distribution set out above. |
| Offer Period | <p>The period between and including 08.30 hours on 8 November 2017 and 14.00 hours on 6 December 2017 during which:</p> <ul style="list-style-type: none"> (i) A FAAE may be accepted by Eligible Participants; (ii) Existing Shareholders that have taken up their Proportionate Entitlement in full, may apply for any Lapsed Rights; (iii) Employees may lodge their Application to apply for any Lapsed Rights not taken up by Existing Shareholders pursuant to (ii) above; and (iv) Authorised Financial Intermediaries may subscribe for any Lapsed Rights not taken up by Existing Shareholders and Employees through an Intermediaries Offer pursuant to (ii) and (iii) above. |
| Target Market | Principally, retail and non-retail investors in Malta. |

5.2 RIGHTS, PREFERENCES AND RESTRICTIONS ATTACHED TO THE SHARES

The New Shares form part of the only class of Ordinary Shares in issue in the Bank and shall accordingly have the same rights and entitlements as all other Ordinary Shares currently in issue in the Bank. The New Shares shall be classified as a CET1 instrument for the purposes of article 28 of the CRR and the following are highlights of the rights attaching to the New Shares:

5.2.1 Classification

The Issuer's share capital may be increased by issuing new shares within the limit of its authorised share capital. At the date of this Prospectus, the Issuer has an authorised share capital of €1,000,000,000. Through a resolution taken at an extraordinary general meeting held on the 27 July 2017, the Board of Directors was authorised to increase the Issuer's issued share capital up to a total of €580,000,000, through the issue of new shares.

For the purposes of the Act, applicable insolvency laws, as well as the applicable accounting framework, the New Shares, once issued, will be regarded as equity capital subscribed by the Shareholders.

5.2.2 Dividends

The New Shares shall carry the right to participate in any distribution of dividend declared by the Issuer *pari passu* with any other Ordinary Shares.

The Issuer can only make a distribution to the holders of the New Shares from distributable reserves. This means that distribution can only happen if, at the time, the amount of the net assets of the Issuer is not less than the aggregate of its called-up share capital and undistributable reserves, and if (and to the extent that) the distribution does not reduce the amount of those assets to less than that aggregate. The dividend distribution essentially depends on the self-financing requirements of the Issuer, the return expected by the Shareholders as well as applicable prudential requirements. The Directors may, before recommending any dividend, set aside out of the profits of the Issuer available for distribution any such sum, as they deem proper, as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the Issuer may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Issuer or be invested in such investments (other than Shares of the Issuer) as the Directors may from time to time deem fit. The Directors may also, without placing the same to reserve, carry forward any profits which they think prudent not to distribute.

The distribution of dividends could, in future and irrespective of the presence of distributable profits pursuant to its statutory financial statements, be excluded or limited by the need to comply with the capital requirements laid down by the legal and/or regulatory rules applicable to the Issuer or imposed by the Supervisory Authorities as prescribed by the applicable prudential regulations. The Issuer adopts an approach to dividend pay-outs that is based on conservative and prudent assumptions and that allows it to fulfil its current and prospective capital adequacy conditions, which are consistent with the combination of risks assumed and which are suitable for facilitating alignment to the prudential requirements established by the CRD IV and by the CRR, as well as guaranteeing the coverage of the internal capital levels calculated under the scope of the SREP. Without prejudice to the foregoing, the conditions governing the New Shares do not include a cap or other additional restrictions on the maximum level of distribution.

5.2.3 Voting Rights

Each New Share issued shall be entitled to one vote at general meetings of Shareholders.

5.2.4 Capital Distributions

The New Shares shall carry the right for the holders thereof to participate in any distribution of capital made whether in the context of a winding up or otherwise, *pari passu* with all other holders of Ordinary Shares of the Issuer.

The BRRD Regulations, provide that the New Shares, together with all other instruments of the Issuer classified as CET1 instruments, absorb the first and proportionately greatest share of losses as they occur. Further, in line with national law requirements, the New Shares and all other Ordinary Shares of the Issuer, rank below all other claims in the event of insolvency or liquidation of the Issuer. All holders of Ordinary Shares, including the New Shares, shall rank *pari passu* upon any distribution of assets in a winding up and shall be entitled to a claim on the residual assets of the Issuer, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of Ordinary Shares issued and is not fixed or subject to a cap.

5.2.5 Financial Statements Disclosures

As stated in sections 5.2.2 and 5.2.4 above, the New Shares shall rank *pari passu* with all other holders of Ordinary Shares of the Issuer and, therefore, for financial statement disclosure purposes, the nominal value of the New Shares shall be included as called-up share capital in the statement of financial position of the Issuer together with the existing equity share capital of the Issuer.

5.2.6 Transferability and Restrictions

The New Shares are freely transferable and once admitted to the Official List shall be transferable in accordance with the applicable rules and regulations thereof.

5.2.7 Pre-Emption

In accordance with article 88 of the Companies Act and article 8.1 of the Articles, should any shares in the Bank be proposed for allotment for consideration in cash, such shares must be offered on a pre-emptive basis to the existing holders of shares in proportion to the respective share capital held by each of them immediately prior to any new issue of shares.

A copy of any offer of subscription on a pre-emptive basis indicating the period within which this right must be exercised must be delivered to the Registry of Companies for registration. This right of pre-emption must be exercised in accordance with the terms and conditions set out in the Articles of the Bank and the said right may be assigned in favour of third parties.

This right of pre-emption may be withdrawn by an extraordinary resolution of the general meeting of Shareholders, in which case, the Directors will be required to present to that general meeting a written report indicating the reasons for restriction/withdrawal of the said right and justifying the issue price.

5.2.8 Mandatory Takeover Bids, Squeeze-Out and Sell-Out Rules

Chapter 11 of the Listing Rules, implementing the relevant provisions of *Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004*, regulates the acquisition by a person or persons, acting in concert, of the control of a company and provides specific rules on takeover bids and the squeeze-out and sell-out mechanisms. The Shareholders of the Bank may be protected by the said Listing Rules in the event that the Bank is the subject of a takeover bid (as defined therein). The Listing Rules may be viewed on the official website of the Listing Authority: <https://www.mfsa.com.mt/>

5.2.9 Other

The New Shares are not redeemable or convertible into any other form of security. The nominal value of the New Shares shall not be reduced or repaid, except in the event of the liquidation of the Issuer, and/or in the case of discretionary repurchases of the New Shares or other discretionary means of reducing capital, where the Issuer has received the prior permission of the Supervisory Authorities in accordance with article 77 of the CRR.

The New Shares are neither secured nor subject to a guarantee that enhances the seniority of the claim. Further, the New Shares are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the New Shares in insolvency or liquidation.

5.3 AUTHORISATIONS

The Offer has been authorised by the Board of Directors through a resolution dated 22 August 2017 following a resolution by the Shareholders at an extraordinary general meeting to increase the authorised share capital of the Bank and to authorise the Directors to issue further shares in the Bank for another five-year term to expire in June 2022. The Listing Authority authorised the New Shares as eligible to listing on the MSE pursuant to the Listing Rules by virtue of a letter dated 30 October 2017.

5.4 ALLOTMENT

It is expected that allotment letters will be dispatched to Existing Shareholders, Assignees, Employees and, with respect to the Intermediaries Offer, to Authorised Financial Intermediaries for their own account or for the account of underlying customers, by the 8 January 2018.

6. RIGHTS ISSUE

6.1 TERMS AND CONDITIONS APPLICABLE TO THE RIGHTS ISSUE

The following Terms and Conditions should be read and construed as one with the *General Terms and Conditions of the Offer* contained in section 9 of this Securities Note.

- 6.1.1** All Existing Shareholders are entitled to 1 Right for every 4 Shares held on the Record Date and are subject to rounding down in line with the convention set out in section 6.1.2 below.
- 6.1.2** In the event that upon calculation of the Proportionate Entitlement an Existing Shareholder shall become entitled to a fractional entitlement of a Right, such fractional entitlement shall be rounded down to the nearest whole Right. If upon calculation of the Proportionate Entitlement, an Existing Shareholder is entitled to less than one (1) New Share, then such Existing Shareholder shall not be eligible to participate in the Rights Issue.
- 6.1.3** Existing Shareholders will be entitled to subscribe for New Shares at a ratio of 1 New Share for every Right issued to them.
- 6.1.4** Each Existing Shareholder shall be entitled to accept the Proportionate Entitlement and to subscribe for an equivalent number of New Shares in fully paid New Shares by paying the Offer Price for each New Share which the Existing Shareholder applies to subscribe for. Any Rights which are not validly accepted or validly assigned and paid for by the Rights Issue Closing Date, shall lapse and shall be available to: (i) Existing Shareholders who would have accepted their Proportionate Entitlement in full and applied for Lapsed Rights; (ii) Employees (if there shall remain Lapsed Rights for allocation following (i) above); and (iii) the general public in Malta through an Intermediaries Offer (if there shall remain Lapsed Rights for allocation following (i) and (ii) above), in this order of preference.
- 6.1.5** The Rights Issue contemplates the right of Existing Shareholders to accept the Rights allocated to them, on a nil paid basis, by the Bank and to exercise those Rights and subscribe for New Shares (in part or in full); or to renounce to their Rights (in part or in full) in favour of third parties, on the basis and on the Terms and Conditions as set out in this Securities Note.
- 6.1.6** All Existing Shareholders registered as at the Record Date and whose shareholding as at that date will entitle such Existing Shareholder to subscribe to at least one (1) New Share by virtue of the exercise of Rights, shall receive, by mail from the Issuer, FAEs setting out their Proportionate Entitlement of Rights that entitle them to subscribe for an equivalent number of New Shares.

- 6.1.7** Existing Shareholders may apply for Lapsed Rights in accordance with the provisions of section 6.5.2(b) below.
- 6.1.8** Any Rights which are neither accepted nor validly assigned by Existing Shareholders shall result in Lapsed Rights, which Lapsed Rights shall be first made available to meet the demand of Existing Shareholders that have accepted their Proportionate Entitlement in full and applied for Lapsed Rights; and subsequently to meet the demand by Employees in accordance with the provisions of section 7 below; and, finally, to the general public in Malta through an Intermediaries Offer in accordance with the provisions of section 8 below.
- 6.1.9** The Government of Malta, being one of the Major Shareholders, shall not be required to submit a FAAE. *In lieu* thereof, it will be required to enter into a conditional Pre-Allocation Agreement with the Issuer pursuant to which it has bound itself in advance to participate in the Rights Issue, at the level of its Proportionate Entitlement. A brief description of the terms of the Pre-Allocation Agreement is set out below.

6.2 DISPATCH OF DOCUMENTATION TO EXISTING SHAREHOLDERS

FAAEs and the related instructions sheet will be dispatched by mail to Existing Shareholders at their registered addresses appearing on the Register of Members and, for all Existing Shareholders residing in Malta, it shall be deemed to have been served at the expiration of two (2) calendar days after dispatch.

6.3 FORMS OF ACCEPTANCE, AUTHORITY AND ELECTION

Forms of Acceptance, Authority and Election will be dispatched by mail to Existing Shareholders.

In the case of FAAEs issued to joint Existing Shareholders, reference to the Existing Shareholder in this Securities Note is a reference to each Existing Shareholder, and liability thereof is joint and several. Joint FAAEs are to be signed by all parties.

Eligible Participants shall return the Forms of Acceptance, Authority and Election to any of the Authorised Financial Intermediaries by not later than the Rights Issue Closing Date.

The FAAEs set out the number of New Shares which constitute the Existing Shareholders' Proportionate Entitlement. The FAAEs also set out instructions as to various options available to Existing Shareholders namely:

- a) To accept the Rights in full and accordingly subscribe for the Proportionate Entitlement in full (FAAE A - ALL); or
- b) Having accepted the Proportionate Entitlement in full, may additionally commit to subscribe for Lapsed Rights (FAAE A - ALL); or
- c) To accept the Rights in part and accordingly subscribe for the Proportionate Entitlement only in part (FAAE B - Split/Assign); or
- d) To accept the Rights in part and assign part of the Proportionate Entitlement in favour of a third party/ies (FAAE B - Split/Assign); or
- e) To renounce in full to the Proportionate Entitlement and assign part or all of the Proportionate Entitlement in favour of a third party/ies (FAAE B - Split/Assign).

The FAAEs, once duly completed, executed and lodged with an Authorised Financial Intermediary by the Eligible Participant, shall constitute a binding contract between the Issuer and the Eligible Participant, whereby the Eligible Participant shall be bound to subscribe for and acquire the number of New Shares forming part of the Rights Issue as are indicated in the FAAE and to effect payment therefor.

Any Rights which are not subscribed to by Eligible Participants by the Rights Issue Closing Date shall constitute Lapsed Rights and shall be available for subscription as set out in sections 6.6 below.

6.4 MAJOR SHAREHOLDERS

6.4.1 Pre-Allocation Agreement with the Government of Malta

The Issuer has entered into a conditional Pre-Allocation Agreement with the Government of Malta pursuant to which the Government of Malta has agreed to take up its Proportionate Entitlement, subject to the satisfaction of certain conditions including that: (i) the Listing Authority or the MSE shall not have indicated that it will not admit the New Shares to the Official List (subject to the provisional allocation of the New Shares pending effective listing thereof in accordance with the provisions of article 101 of the Act); and (ii) there shall not have been, since the date of the Prospectus, any material adverse change, or any event or development involving a potential material adverse change in the condition (financial or other), earnings, business, net worth, results of operations or properties of the Issuer. The Government of Malta, through the Pre-Allocation Agreement, has also agreed to take up its Proportionate Entitlement at a price which is no less or more favourable than the Offer Price.

In the Pre-Allocation Agreement the Government of Malta has reserved the right to apply, by written notice to the Issuer, for Lapsed Rights. If it exercises such right it will do so by way of a separate written notice to the Issuer.

6.4.2 UniCredit

UniCredit has indicated (in writing) to the Issuer that it will not take up its Proportionate Entitlement, however, UniCredit reserved its right to assign its Rights, in whole or in part.

6.5 ACTION REQUIRED BY AN EXISTING SHAREHOLDER TO SUBSCRIBE TO THE NEW SHARES

6.5.1 General

Each Form of Acceptance, Authority and Election will, apart from personal details of Existing Shareholders, set out:

- (i) The number of Shares held as at the Record Date on which an Existing Shareholder's entitlement to New Shares has been based; and
- (ii) The number of Rights allocated to an Existing Shareholder rounded down to the nearest whole Right (refer to section 6.1.2 above) representing the Proportionate Entitlement of each Existing Shareholder with respect to New Shares; and
- (iii) Instructions regarding acceptances, splitting, assignments, payments, and applications for Lapsed Rights by Existing Shareholders.

The minimum number of New Ordinary Shares that an Eligible Participant may subscribe for is one (1). Each Existing Shareholder will receive two FAAEs: *FAAE A – ALL* and *FAAE B – Split/Assign*. An Existing Shareholder must select the FAAE to be completed in accordance with whether such Existing Shareholder:

- (i) Wishes to accept the Proportionate Entitlement in full (see section 6.5.2(a)) by completing *FAAE A – ALL*; or
- (ii) Having accepted their Proportionate Entitlement in full, also wishes to apply for Lapsed Rights (see section 6.5.2(b)) by completing *FAAE A – ALL*; or
- (iii) Wishes to: (a) accept the Proportionate Entitlement in part; or (b) accept the Proportionate Entitlement in part and assign part or the remaining of the Proportionate Entitlement (see section 6.5.2 (c)) by completing *FAAE B – Split/Assign*; or
- (iv) Wishes to renounce to the Proportionate Entitlement but wishes to assign part or all of the Proportionate Entitlement (see section 6.5.2(d)) by completing *FAAE B – Split/Assign*.

6.5.2 Procedure for Acceptance and Payment by Existing Shareholders & Assignees

Existing Shareholders wishing to participate in the Rights Issue shall be required to submit a FAAE validly completed and accompanied by the respective payment for the New Shares subscribed for, to any Authorised Financial Intermediary.

a) Existing Shareholders who wish to accept their Proportionate Entitlement in full

Existing Shareholders who wish to take up all of the Proportionate Entitlement need only verify that the information contained in Panels I and II (A) of the *FAAE A – ALL* is correct and complete by signing the *FAAE*.

Duly completed and signed *FAAEs* by the Existing Shareholder/s must be delivered, against payment, to any of the Authorised Financial Intermediaries by the Rights Issue Closing Date. In the event that a cheque accompanying a *FAAE* is not honoured on its first presentation, the Registrar reserves the right to invalidate the relative *FAAE*.

b) Existing Shareholders wishing to apply for Lapsed Rights

Existing Shareholders accepting their Proportionate Entitlement in full may also indicate in Panel II (B) of the *FAAE A – ALL* any Lapsed Rights which they wish to subscribe to and shall also complete Panel II (C). **Only Existing Shareholders accepting their Proportionate Entitlement in full shall be eligible to apply for Lapsed Rights.**

Duly completed and signed *FAAEs* by the Existing Shareholder/s must be delivered, against payment, to any of the Authorised Financial Intermediaries by the Rights Issue Closing Date. In the event that a cheque accompanying a *FAAE* is not honoured on its first presentation, the Registrar reserves the right to invalidate the relative *FAAE*.

c) Existing Shareholders who wish to: (i) accept the Proportionate Entitlement in part; or (ii) accept their Proportionate Entitlement in part and assign part or the remaining of their Proportionate Entitlement

Existing Shareholders who wish to take up only part, but not all, of their Proportionate Entitlement should complete the *FAAE B – Split/Assign*: Panel II (A) by indicating the number of New Shares they wish to acquire and Panel II (C) indicating the number of New Shares not taken up.

Alternatively, an Existing Shareholder wishing to accept the Proportionate Entitlement in part and assign part or the remaining part of the Proportionate Entitlement to third parties, should complete the *FAAE B – Split/Assign*: Panel II (A) by indicating the number of New Shares they wish to acquire, Panel II (B) indicating the number of Rights to subscribe for New Shares they wish to assign to third parties and Panel II (C) indicating the number of New Shares not taken up, if any. The details of the Assignee/s shall be inserted in Panel III.

Duly completed and signed *FAAEs* by both the Existing Shareholder/s and the Assignee/s (if any) must be delivered, against payment, to any of the Authorised Financial Intermediaries by the Rights Issue Closing Date. In the event that a cheque accompanying a *FAAE* is not honoured on its first presentation, the Registrar reserves the right to invalidate the relative *FAAE*.

d) Existing Shareholders who do not take up their Proportionate Entitlement but wish to assign part or all of their Proportionate Entitlement

Existing Shareholders who do not wish to take up their Proportionate Entitlement but wish to assign part or all of their Proportionate Entitlement to a third party or third parties should complete the *FAAE B – Split/Assign*: Panel II (B) indicating the number of Rights to subscribe for New Shares they wish to assign to third parties and Panel II (C) indicating the number of New Shares not taken up, if any. The details of the Assignee/s shall be inserted in Panel III.

Duly completed and signed *FAAEs* by both the Existing Shareholder/s and the Assignee/s must be delivered, against payment, to any of the Authorised Financial Intermediaries by the Rights Issue Closing Date. In the event that a cheque accompanying a *FAAE* is not honoured on its first presentation, the Registrar reserves the right to invalidate the relative *FAAE*.

e) Discretion of Issuer

The Issuer reserves the right to refuse to register any renunciation of the Rights by an Existing Shareholder in favour of an Assignee/s in respect of which the Issuer believes such renunciation may violate applicable legal or regulatory requirements including (without limitation) any renunciation in the name of an Assignee/s with an address outside Malta.

f) *Payment*

All payments must be made in Euro.

g) *Issuer's discretion as to the validity of acceptances*

If any of the Authorised Financial Intermediaries do not deliver the Forms of Acceptance, Authority and Election together with proof of payment of cleared funds to the Registrar by the Rights Issue Closing Date, those Eligible Participants who would have submitted the FAAE through the said Authorised Financial Intermediary/ies to subscribe for New Shares, will be deemed to have been declined. Accordingly, the Rights of an Existing Shareholder shall be regarded by the Issuer as Lapsed Rights and the FAAE will be treated in accordance with the provisions detailed in section 6.6 below. The Issuer may, with the agreement of the Registrar, but shall not be obliged, to treat as valid Forms of Acceptance, Authority and Election accompanied by proof of payment received later than the Rights Issue Closing Date.

6.6 SUBSCRIPTION TO LAPSED RIGHTS

In the event that Eligible Participants fail to exercise their Rights by lodging a complete and valid FAAE by the Rights Issue Closing Date, in accordance with the procedure for acceptance and payment of Rights laid down in section 6.5.2 of this Securities Note, then that Proportionate Entitlement (or the part which is not exercised or assigned, as applicable) of the particular Existing Shareholder/s will be deemed to have been renounced, at which point the Rights will be regarded by the Issuer as Lapsed Rights.

Lapsed Rights shall be allocated as follows:

- (i) To Existing Shareholders who, having accepted their Proportionate Entitlement in full, and who would have indicated their willingness to acquire Lapsed Rights as detailed in section 6.5.2(b) above;
- (ii) To Employees who would have applied for the acquisition of Lapsed Rights as further set out in section 7 below;
- (iii) To Authorised Financial Intermediaries who would have committed to acquire Lapsed Rights for their own account or on behalf of their underlying clients pursuant to the Intermediaries Offer as further set out in section 8 below.

in this order of preference and in accordance with section 9.4 below.

7. EMPLOYEES OFFER

Terms and Conditions applicable to Employees subscribing to New Shares

The following Terms and Conditions should be read and construed as one with the *General Terms and Conditions of the Offer* contained in section 9 of this Securities Note.

- 7.1** In the event that a balance of Lapsed Rights remains unallocated following the allocation of: (i) the Proportionate Entitlements to Eligible Participants; and (ii) any Lapsed Rights allocated to Existing Shareholders which have accepted their Proportionate Entitlement in full and have indicated their willingness to subscribe to Lapsed Rights; then such balance of Lapsed Rights will be offered for subscription to Employees.
- 7.2** Employees may apply for Lapsed Rights representing New Shares by completing *Application Form 'A'* which will be pre-printed and mailed by the Issuer to each Employee.
- 7.3** All Applications for the acquisition of New Shares by Employees must be made during the Offer Period.

- 7.4** The minimum subscription amount that Employees may subscribe for is 1,000 New Shares and in multiples of 100 New Shares thereafter.
- 7.5** Duly completed and signed Application Forms by Employees must be delivered, against payment, to any of the Authorised Financial Intermediaries during the Offer Period. Payments must be made in Euro. In the event that a cheque accompanying an Application Form is not honoured on its first presentation, the Registrar reserves the right to invalidate the relative Application Form.
- 7.6** In the event that subscriptions for New Shares exceed the number of Lapsed Rights available under the Employees Offer, the Issuer shall allocate New Shares in accordance with the allocation policy described in section 9.4 of this Securities Note.

8. INTERMEDIARIES OFFER

Terms and Conditions applicable to investors subscribing to New Shares through the Intermediaries Offer

The following Terms and Conditions should be read and construed as one with the *General Terms and Conditions of the Offer* contained in section 9 of this Securities Note.

- 8.1** In the event that a balance of Lapsed Rights remains unallocated following the allocation of: (i) the Proportionate Entitlements to Eligible Participants; (ii) any Lapsed Rights allocated to Existing Shareholders which have accepted their Proportionate Entitlement in full and have indicated their willingness to subscribe to Lapsed Rights; and (iii) Lapsed Rights allocated to Employees, then the remaining balance of such Lapsed Rights will be offered for subscription to Authorised Financial Intermediaries through an Intermediaries Offer.
- 8.2** In this regard, the Issuer may enter into conditional Subscription Agreements with Authorised Financial Intermediaries, whereby the Issuer will be conditionally bound to allocate, and each of the said Authorised Financial Intermediaries will be conditionally bound to subscribe for, New Shares for their own account or for the account of their underlying clients (which clients may be both retail and non-retail clients).
- 8.3** Authorised Financial Intermediaries will be obliged to pay the Issuer (acting through the Registrar) all subscription proceeds in respect of the conditional Subscription Agreements in cleared funds by the closing of the Offer Period.
- 8.4** Investors may apply for Lapsed Rights and subscribe for New Shares under the Intermediaries Offer by completing *Application Form 'B'* which may be obtained from any of the Authorised Financial Intermediaries as listed in Annex 1.
- 8.5** In the case of joint Applications, reference to the Applicant in this Securities Note is a reference to each Applicant, and liability therefor is joint and several. Joint Applications are to be signed by all Applicants.
- 8.6** All Applications for the acquisition of New Shares must be made during the Offer Period.
- 8.7** The minimum subscription amount that Applicants may subscribe for is 1,000 New Shares and in multiples of 100 New Shares thereafter.

- 8.8** Duly completed and signed Application Forms by Applicants must be delivered, against payment, to any of the Authorised Financial Intermediaries during the Offer Period. Payments must be made in Euro. In the event that a cheque accompanying an Application Form is not honoured on its first presentation, the Registrar reserves the right to invalidate the relative Application Form.
- 8.9** In the event that subscriptions for New Shares exceed the number of Lapsed Rights available under the Intermediaries Offer, the Issuer shall allocate New Shares in accordance with the allocation policy described in section 9.4 of this Securities Note.
- 8.10** The Subscription Agreements shall be conditional, amongst other things, on the existence of a balance of Lapsed Rights remaining unallocated (as set out in 8.1 above) and the admissibility to listing of the New Shares on the MSE.

9. GENERAL TERMS AND CONDITIONS OF THE OFFER

9.1 GENERAL

The contract created by the acceptance by an Eligible Participant/s or Applicant/s of a FAAE or an Application, respectively, shall be subject to the Terms and Conditions set out below and elsewhere in this Securities Note, and in the respective FAAE or Application Form.

Eligible Participants and Applicants may lodge their FAAEs or Application Forms, respectively, with any Authorised Financial Intermediary during the Offer Period.

9.2 RIGHT TO REJECT

Subject to all other Terms and Conditions set out in this Prospectus, the Issuer, through the Registrar, reserves the right to reject in whole or in part any FAAE or any Application (including multiple or suspected multiple Applications) and any cheques and/or bank drafts for payment, upon receipt. The right is also reserved to refuse any FAAE or Application which, in the opinion of the Issuer and/or the Registrar, is not properly completed in all respects with the FAAE's or Application Form's instructions, or is not accompanied by the required documents and/or payment. Only original Application Forms and FAAEs will be accepted and photocopies/facsimile/scanned copies will not be accepted.

If any Application Form or FAAE is rejected by the Issuer or the Registrar, the payment monies will be returned by means of direct credit to the Applicant's or Eligible Participant's IBAN quoted on the Application Form or FAAE, respectively, without interest.

Any expenses or charges connected with such return of monies shall be borne by the respective Applicant or Eligible Participant. The Issuer and the Registrar are not liable for any charges, loss or delay in transmission of funds.

9.3 RIGHT TO REVOKE THE OFFER

Subject to all other Terms and Conditions set out in this Prospectus, the Issuer reserves the right to revoke the Offer at any time before the closing of the Offer Period.

The circumstances in which such revocation might occur are expected to be exceptional, for example, in the case of an extraordinary injection of capital not connected to this Offer or where a significant change in market conditions occurs.

In the event of a revocation of the Offer, the payment monies will be returned by means of a direct credit to the Applicant's or Eligible Participant's IBAN quoted on the Application Form or FAAE, respectively, without interest. The Issuer and the Registrar are not liable for any charges, loss or delay in transmission of funds.

9.4 ALLOCATION POLICY

The Issuer shall allocate the New Shares on the basis of the following policy:

- (i) It shall first satisfy in full the exercise by all Existing Shareholders of their Rights and in the case of Assignees, of the Assigned Entitlement;
- (ii) In the event that following the allocations made pursuant to (i) above there shall still remain unallocated New Shares, the Issuer shall then allocate such unallocated New Shares to those Existing Shareholders who would have indicated their wish to acquire Lapsed Rights. Where subscriptions for Lapsed Rights are greater than the number of unallocated New Shares available for allocation, then each application for Lapsed Rights shall be scaled down in accordance with the allocation policy as determined by the Issuer;
- (iii) Where, following the allocations made to Eligible Applicants in terms of (i) and (ii) above there still remain Lapsed Rights, the Issuer will satisfy applications made by Employees. Where subscriptions for Lapsed Rights are greater than the number of unallocated New Shares available for allocation, then each application for Lapsed Rights shall be scaled down in accordance with the allocation policy as determined by the Issuer;
- (iv) In the event that following the allocations made pursuant to sections (i), (ii) and (iii) above, there shall still remain Lapsed Rights, the Issuer shall allocate such remaining New Shares to Authorised Financial Intermediaries who would have submitted a Subscription Agreement to acquire Lapsed Rights as detailed in section 8 above and shall be allocated in accordance with the allocation policy as determined by the Issuer, acting in its capacity as Registrar.

9.5 EXPECTED TIMETABLE

| | |
|---|----------------------------|
| 1. FAAE mailed to Existing Shareholders | Tuesday, 7 November 2017 |
| 2. Commencement of Offer Period | Wednesday, 8 November 2017 |
| 3. Closing of Offer Period | Wednesday, 6 December 2017 |
| 4. Announcement of basis of acceptance | Friday, 29 December 2017 |
| 5. Refunds of unallocated monies (if any) | Friday, 29 December 2017 |
| 6. Dispatch of allotment letters | Monday, 8 January 2018 |
| 7. Expected date of admission of the New Shares to listing | Tuesday, 9 January 2018 |
| 8. Expected date of commencement of trading in the New Shares | Wednesday, 10 January 2018 |

9.6 BODY CORPORATES/BODIES OF PERSONS

In the case of an Applicant or an Eligible Participant, being a body corporate/body of persons, the Application Form or FAAE (as the case may be) must be signed by a person/s authorised to sign and bind such Applicant or Eligible Participant. It shall not be incumbent on the Issuer or Registrar to verify whether the person or persons purporting to bind such Applicants or Eligible Participants is or are in fact so authorised.

9.7 MINORS

Applications or FAAEs in the name and for the benefit of minors shall be allowed provided that they are signed by both parents or by the legal guardian/s and accompanied by a public registry birth certificate of the minor in whose name and for whose benefit the Application Form or FAAE is submitted, provided that a birth certificate is not required if the minor already holds securities which are listed on the MSE. Any New Shares allocated pursuant to such an Application or FAAE shall be registered in the name of the minor as the holder of the New Shares, with dividends payable to the parents/legal guardian/s signing the Application Form or FAAE until such time as the minor attains the age of eighteen (18) years, following which all dividends shall be payable directly to the registered holder, provided that the Issuer has been duly notified in writing of the fact that the minor has attained the age of eighteen (18) years.

9.8 RESULTS OF THE OFFER

The Issuer shall determine and announce (by way of a company announcement) the results of the offer, including the basis of acceptance of all FAAEs and Applications and the allocation policy to be adopted, by latest 29 December 2017.

9.9 OTHER TERMS AND CONDITIONS

The following are additional Terms and Conditions applicable to the Offer:

9.9.1 No person receiving or downloading a copy of the Prospectus or any part thereof, or an Application Form or a FAAE in any territory other than Malta may treat the same as constituting an invitation or offer to such person nor should such person in any event, use such Application Form or FAAE, unless, in the relevant territory, such an invitation or offer could lawfully be made to such person or such Application Form or FAAE could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside Malta wishing to invest in the New Shares to satisfy himself/herself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities required to be observed in such territory and paying any issues, transfer or other taxes required to be paid in such territory.

9.9.2 For the purposes of the *Prevention of Money Laundering and Funding of Terrorism Regulations 2008* and as subsequently amended, all appointed Authorised Financial Intermediaries are under a duty to communicate, upon request, all information they hold about clients, pursuant to sections 1.2(d) and 2.4 of the *Member's Code of Conduct*, appended as *Appendix 3.6* in *Chapter 3* of the *MSE Bye Laws*, irrespective of whether the Authorised Financial Intermediaries are MSE members or not. Furthermore, such information shall be held and controlled by the MSE in terms of the Data Protection Act (Cap. 440 of the laws of Malta) for the purposes, and within the terms, of the MSE's Data Protection Policy as published from time to time.

9.10 OVERSEAS SHAREHOLDERS

THE BELOW IS INTENDED AS A GENERAL GUIDE ONLY AND ANY PERSON WHO IS IN DOUBT AS TO HIS/HER POSITION SHOULD CONSULT HIS/HER INDEPENDENT PROFESSIONAL ADVISER WITHOUT DELAY.

THE OFFER OF RIGHTS, THE ASSIGNMENT THEREOF AND/OR THE OFFER OF LAPSED RIGHTS TO PERSONS RESIDENT IN, OR WHO ARE CITIZENS OF, OR WHO ARE DOMICILED IN, OR WHO HAVE A REGISTERED ADDRESS IN, COUNTRIES OTHER THAN MALTA, MAY BE AFFECTED BY THE LAW OF THE RELEVANT JURISDICTION. THOSE PERSONS SHOULD CONSULT THEIR PROFESSIONAL ADVISERS (INCLUDING TAX AND LEGAL ADVISERS) AS TO WHETHER THEY REQUIRE ANY GOVERNMENTAL OR OTHER CONSENTS OR NEED TO OBSERVE ANY OTHER FORMALITIES TO ENABLE THEM TO TAKE UP THE RIGHTS, ACCEPT AN ASSIGNMENT THEREOF AND/OR TAKE UP LAPSED RIGHTS (AS THE CASE MAY BE). IT IS ALSO THE RESPONSIBILITY OF ANY PERSON (INCLUDING, WITHOUT LIMITATION, NOMINEES, CUSTODIANS, DEPOSITARIES AND TRUSTEES) OUTSIDE MALTA WISHING TO PARTICIPATE IN THE OFFER, TO SATISFY HIMSELF/HERSELF/ITSELF AS TO FULL OBSERVANCE OF THE APPLICABLE LAWS OF ANY RELEVANT TERRITORY INCLUDING OBTAINING ANY REQUISITE GOVERNMENTAL OR OTHER CONSENTS, OBSERVING ANY OTHER REQUISITE FORMALITIES AND PAYING ANY TRANSFER OR OTHER TAXES (OF ANY NATURE WHATSOEVER) DUE IN SUCH TERRITORIES. **THE ISSUER SHALL NOT ACCEPT ANY RESPONSIBILITY FOR THE NON-COMPLIANCE BY ANY PERSON OF ANY APPLICABLE LAWS OR REGULATIONS OF FOREIGN JURISDICTIONS.**

No person downloading a copy of this document and/or a Form of Acceptance, Authority and Election and/or an Application Form in any territory other than Malta, may treat the same as constituting an invitation or offer to him/her, nor should he/she in any event deal with the Form of Acceptance, Authority and Election and/or Application Form (as the case may be) unless, in the relevant territory, such an invitation or Offer could lawfully be made to him/her or the Form of Acceptance, Authority and Election and/or Application Form (as the case may be) could lawfully be used or dealt with without contravention of any legal or regulatory requirements.

Having considered the circumstances, the Issuer has formed the view (due to the onerous requirements involved in the registration of this Prospectus in any territory other than Malta and/or compliance with the relevant legal

or regulatory requirements) not to send FAAEs to Overseas Shareholders, except where *inter alia* in the absolute discretion of the Issuer, it is satisfied that such action would not result in a contravention of any applicable legal or regulatory requirement in the relevant jurisdiction.

10. REPRESENTATIONS AND WARRANTIES BY ELIGIBLE PARTICIPANTS AND APPLICANTS

By completing and delivering the FAAE or Application Form (as the case may be), each Eligible Participant or Applicant (as the case may be):

- 10.1 Agrees to have had the opportunity to read the Prospectus and to have had notice of all information and representations concerning the Issuer and the issue of the New Shares contained therein;
- 10.2 Confirms that in completing the FAAE or the Application Form (as the case may be), no reliance was placed on any information or representation in relation to the Issuer or the issue of the New Shares other than those contained in the Prospectus and accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof will have any liability for any such other information or representation;
- 10.3 Agrees to provide the Authorised Financial Intermediary, Registrar and/or the Issuer, (as the case may be), any information which they may request in connection with the FAAE or Application Form (as the case may be);
- 10.4 Warrants, in connection with the FAAE or Application Form (as the case may be), to have observed all applicable laws, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with the FAAE or Application Form (as the case may be), and that he/she has not taken any action which will or may result in the Issuer (including when acting in its capacity as Registrar) acting in breach of the regulatory or legal requirements of any territory in connection with the issue of the New Shares or the FAAE or the Application Form (as the case may be);
- 10.5 Warrants that all applicable exchange control or other such regulations (including those relating to external transactions) have been duly and fully complied with;
- 10.6 Represents that the he/she/it is not a U.S. person (as such term is defined in Regulation “S” under the Securities Act of 1933 of the United States of America, as amended, the “**Securities Act**”) as well as not to be accepting the invitation set out in the Prospectus from within the United States of America, its territories or its possessions, or any area subject to its jurisdiction (the “**United States**”) or on behalf or for the account of anyone within the United States or anyone who is a U.S. person;
- 10.7 Acknowledges that the New Shares have not been and will not be registered under the Securities Act and accordingly may not be offered or sold within the United States or to or for the account or benefit of a U.S. person;
- 10.8 Warrants that if he/she/it submits a Form of Acceptance, Authority and Election he/she is not a citizen, resident or domicile of an Excluded Territory;
- 10.9 Agrees that all documents in connection with the issue of the New Shares will be mailed at his/her/its own risk and may be sent at the address (or, in the case of joint FAAEs or joint Applications, the address of the first named person) as set out in the FAAE or Application Form (as the case may be);

- 10.10** Warrants that he/she/it is aware that, for the purposes of the Prevention of Money Laundering Act (Cap. 373 of the laws of Malta) and all subsidiary legislation issued thereunder, all appointed Authorised Financial Intermediaries are under a duty to communicate, upon request, all information about clients acquiring the New Shares as is mentioned in sections 1.2(d) and 2.4 of the *Member's Code of Conduct* appended as *Appendix 3.6* to *Chapter 3* of the *MSE Bye Laws*. Such information shall be held and controlled by the Malta Stock Exchange in terms of the Data Protection Act (Cap. 440 of the laws of Malta) for the purposes and within the terms of the Malta Stock Exchange Data Protection Policy as published from time to time;
- 10.11** Irrevocably agrees to subscribe, and pay the consideration for, the number of New Shares specified in the FAAE or Application Form, as the case may be, (or any smaller number for which the FAAE or Application Form is accepted) at the Offer Price subject to the provisions of the Prospectus, these Terms and Conditions, the FAAE or Application Form and the Memorandum and Articles;
- 10.12** Authorises the Registrar and the Directors to include the Assignee's or Applicant's name, or in the case of joint FAAEs or joint Applications, the first-named Assignee or Applicant, in the Register of Members (in respect of the New Shares so allocated);
- 10.13** Warrants to have read and understood the contents of the Prospectus and to have had full opportunity to take such advice from an independent financial adviser of choice as considered appropriate before investing in the New Shares;
- 10.14** Warrants that the payment for the New Shares will be honoured on first presentation and agree that, if such payment is not so honoured:
- (i) The Eligible Participant or Applicant, as the case may be, will not be entitled to receive a Registration Advice or to be registered in the Register of Members or to enjoy or receive any rights in respect of such New Shares, unless and until a payment in cleared funds is made for such New Shares and such payment is accepted by the Registrar (which acceptance shall be made at the Registrar's absolute discretion and on the basis that the Eligible Participant or Applicant, as the case may be, indemnifies the Issuer, including in its capacity as Registrar, against all costs, damages, losses, expenses and liabilities arising out of, or in connection with, the failure of such remittance to be honoured on first presentation at any time prior to unconditional acceptance by the Registrar of such late payment in respect of such New Shares);
 - (ii) The Issuer may, without prejudice to other rights, treat the agreement to allocate such New Shares as void and may allocate such New Shares to another Eligible Participant/s or Applicant/s, in which case the former Eligible Participant or Applicant will not be entitled to any refund or payment in respect of such New Shares (other than return of such late payment);
- 10.15** Agrees that the Registration Advice and other documents and any monies returnable may be retained pending clearance of remittance and any verification of identity as required in terms of the Prevention of Money Laundering Act (Cap. 373 of the Laws of Malta) and regulations made thereunder and that such monies will not bear interest;
- 10.16** Agrees that all FAAEs or Applications, acceptances of FAAEs or Applications and contracts resulting therefrom will be governed by, and construed in accordance with Maltese law and that the Eligible Participant or Applicant shall submit to the jurisdiction of the Maltese Courts and agree that nothing shall limit the right of the Issuer to bring any action, suit or proceeding arising out of or in connection with any such FAAEs or Applications, acceptances of FAAEs or Applications and contracts in any other manner permitted by law in any court of competent jurisdiction;
- 10.17** Warrants that, if the FAAE or Application is signed on behalf of another person or on behalf of a body corporate/body of persons, the person signing the FAAE or Application Form has due authority to do so and

such person or body corporate/body of persons, will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these Terms and Conditions and undertakes to submit any power of attorney or corporate authority or a copy thereof duly certified by a lawyer or notary public, if so required by the Registrar;

- 10.18** Agrees that, having had the opportunity to read the Prospectus, the Eligible Participant or the Applicant shall be deemed to have had notice of all information and representations concerning the Issuer and the Offer contained therein;
- 10.19** Confirms that in lodging a FAAE or an Application (as the case may be), the Eligible Participant or the Applicant (as the case may be) is not relying on any information or representation in relation to the Issuer or the Offer other than those contained in the Prospectus and accordingly agrees that no person responsible solely or jointly for the FAAE or Application, or any part thereof, will have any liability for any such other information or representation;
- 10.20** Confirms that the restriction contained in paragraph 10.6 above and the warning in paragraph 10.25 below have been reviewed and complied with;
- 10.21** Warrants that s/he is not under the age of 18 years or, if the FAAE or Application is lodged in the name and for the benefit of a minor, warrant that the person/s lodging such FAAE or Application (as the case may be) are the parents or legal guardian/s of the minor;
- 10.22** Agrees that such FAAE or Application Form (as the case may be) is addressed to the Issuer and that, in respect of those New Shares for which your FAAE or Application (as the case may be) has been accepted, the Eligible Participant or Applicant shall receive a Registration Advice confirming such acceptance;
- 10.23** Confirms that in the case of joint Assignee/s or joint Applicant/s, as the case may be, the first-named Assignee or Applicant, as the case may be, shall be deemed to be the holder of the Shares;
- 10.24** Agrees to provide the Registrar with any information which the Registrar may request in connection with the FAAE or Application/s;
- 10.25** Agrees that each of the Sponsors will not treat an Eligible Participant or an Applicant as their customer by virtue of such Eligible Participant or Applicant making an application for New Shares or by virtue of such FAAE or Application to purchase New Shares being accepted and they will not owe the Eligible Participant or the Applicant any duties or responsibilities concerning the Offer Price of the Shares or their suitability thereof;
- 10.26** Warrants that, in connection with the FAAE or Application (as the case may be), the Eligible Participant or the Applicant (as the case may be) has observed all applicable laws, obtained any requisite governmental or other consents, and has not taken any action which will or may result in the Issuer (including in its capacity as Registrar) acting in breach of the regulatory or legal requirements of any territory in connection with the FAAE or the Application; and
- 10.27** Acknowledges that any New Shares which may be allotted to Eligible Participants or to Applicants (as the case may be) will be recorded by the CSD in the MSE account number quoted on the FAAE or the Application Form (as the case may be) even if the details of the Eligible Participant or Applicant (as the case may be), as held by the MSE, differ from any or all of the details appearing on the FAAE or Application Form (as the case may be).

11. REGISTRATION, REPLACEMENT, TRANSFER AND EXCHANGE

- 11.1** The Register of Members will be kept by the Issuer at the CSD, wherein there will be entered the names and addresses of the holders of the Shares (including the New Shares). A copy of such register will, at reasonable times during business hours, be open for inspection at the registered office of the Issuer for the purpose of inspecting information held on their respective account.
- 11.2** The New Shares shall be maintained in book-entry form in an electronic register maintained on behalf of the Issuer at the CSD. The New Shares shall accordingly be evidenced by a book-entry in the Register of Members held by the CSD. Statements of holdings and/or Registration Advices issued by the CSD will be regulated in terms of the e-portfolio service offering of the CSD. To this extent, the Shareholders are expected to liaise directly with the CSD on this matter.
- 11.3** New Shares may be transferred only in whole in accordance with the rules and procedures applicable from time to time in respect of the Official List.
- 11.4** Any person becoming entitled to the Shares in consequence of the death or bankruptcy of a Shareholder may, upon such evidence being produced as may from time to time properly be required by the Issuer or the MSE, elect either to be registered himself/herself as Shareholder or to have another person nominated by him/her to be registered as the transferee thereof. If the person so becoming entitled elects to be registered himself/herself, he/she shall deliver or send to the Issuer a notice in writing signed by him/her stating that he/she so elects. If he/she elects to have another person registered he/she shall testify his/her election by executing to that person a transfer of those Shares.
- 11.5** All transfers and transmissions are subject in all cases to any pledge (duly constituted) of the Shares and to any applicable laws and regulations.
- 11.6** The cost and expenses of affecting any exchange or registration of transfer or transmission except for the expenses of delivery other than regular mail (if any) and except, if the Issuer shall so require, the payment of a sum sufficient to cover any tax, duty or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Shareholder.
- 11.7** Upon submission of an Application Form or FAAE, the Eligible Participants or Applicants (as the case may be) who opt to subscribe for the online e-portfolio by ticking the appropriate box on the Application Form or FAAE (as the case may be) will be registered by the CSD for the online e-portfolio facility and will receive by mail at their registered address a handle code to activate the new e-portfolio login. The Shareholder's statement of holdings evidencing entitlement to Shares held in the Register of Members and Registration Advices evidencing movements in such Register of Members, will be available through the said e-portfolio facility on <https://eportfolio.borzamalta.com.mt/> Further detail on the e-portfolio is found on <https://eportfolio.borzamalta.com.mt/Help>

12. LISTING AND TRADING OF THE NEW SHARES

Application has been made for the New Shares to be admitted to the Official List. The New Shares are expected to be admitted to the Official List on 9 January 2018 and trading is expected to commence with effect from 10 January 2018.

13. EXPENSES OF THE OFFER

The selling commissions and legal, publicity, printing, Sponsors, and other miscellaneous fees and expenses in connection with the Offer are estimated not to exceed €1.06 million and will be borne by the Issuer. Listing fees amounting to €143,000 will also be borne by the Issuer.

14. TAXATION

Prospective investors are urged to seek professional advice as regards both Maltese and any foreign tax legislation and implications which may be applicable to them in respect of the Shares, including their acquisition, holding, disposal as well as any income or gains derived therefrom or made on their disposal. The following information of the anticipated tax treatment applicable to investors is applicable only in so far as taxation in Malta is concerned and in so far as the investors do not deal in Shares in the course of their normal trading activities. This information does not constitute legal or tax advice and does not purport to be exhaustive.

The information below is based on an interpretation of tax law and practice relative to the applicable legislation as known to the Issuer at the date of this Prospectus. Investors are reminded that tax law and practice and their interpretation, as well as the levels of tax, may change from time to time.

This information is being given solely as a general guide. The precise implications for investors will depend, on their particular individual circumstances, and thus professional advice in this respect should be sought accordingly.

14.1 TAXATION STATUS OF THE ISSUER

The Issuer, being a company incorporated and resident for tax purposes in Malta, is subject to income tax in Malta on a worldwide basis. The Issuer is subject to income tax at the standard rate of 35 per cent. Certain capital gains as specified in Maltese tax law are also subject to tax, however, the applicable tax rate and the method with which the tax is calculated may vary depending on the asset being transferred.

14.2 TAX ON DIVIDENDS

Maltese income tax legislation operates a full imputation system. This means that profits are first taxed in the hands of the company, however, when distributed to shareholders, the dividend will carry an imputation credit of the tax paid by the company on the profits so distributed. A shareholder is normally entitled to claim a refund of the difference between the tax payable on the grossed-up dividend and the tax paid by the company distributing the dividend but in some cases the amount of refund may be limited depending on the status and level of income of the recipient.

Dividends distributed to individual shareholders resident in Malta, from untaxed profits are subject to 15 per cent withholding tax which may be treated as a final tax at the option of the recipient shareholders. Such withholding tax may also apply to distributions made to non-resident persons in specific circumstances including when the non-Maltese resident shareholder is owned and controlled directly, or indirectly, by an individual who is ordinarily resident and domiciled in Malta. Accordingly, the Issuer will withhold this 15 per cent tax from the amount of the dividend and will remit same to the Commissioner for Revenue.

All other dividends distributed to Shareholders are not subject to any further tax in Malta, whether by way of withholding or otherwise.

14.3 TAX ON CAPITAL GAINS

In accordance with current legislation, for as long as the Shares remain listed on the MSE, no income tax on capital gains is payable in Malta on any transfer of these Shares.

14.4 DUTY ON DOCUMENTS AND TRANSFERS

In accordance with current legislation, for as long as the Shares remain listed on the MSE, no duty on documents and transfers is payable in Malta on any transfer of these Shares.

THE ABOVE INFORMATION IS BASED ON TAX LAW AND PRACTICE APPLICABLE AS AT THE DATE OF THE PROSPECTUS. PROSPECTIVE INVESTORS ARE CAUTIONED THAT TAX LAW AND PRACTICE AND THE LEVELS OF TAX RELATING TO THE ISSUER AND ITS SHAREHOLDERS MAY CHANGE FROM TIME TO TIME. PROSPECTIVE INVESTORS ARE THEREFORE URGED TO SEEK PROFESSIONAL ADVICE AS REGARDS BOTH MALTESE AND FOREIGN TAX LEGISLATION APPLICABLE TO THE ACQUISITION, HOLDING AND DISPOSAL OF THE SHARES, AS WELL AS DIVIDEND PAYMENTS MADE BY THE ISSUER. THIS INFORMATION, WHICH DOES NOT CONSTITUTE LEGAL OR TAX ADVICE, REFERS ONLY TO INVESTORS WHO DO NOT DEAL IN SECURITIES IN THE COURSE OF THEIR NORMAL TRADING ACTIVITY.

15. DILUTION

The implementation of the capital increase through the Offer will result in the issued share capital of the Bank increasing by 25% provided the Offer is taken up in full.

Existing Shareholders who accept their Proportionate Entitlement in full will suffer no dilution to their interests in the Bank. However, Existing Shareholders who do not take up any of their Rights to subscribe for the New Shares will suffer an immediate dilution of 20% in their interests in the Bank if the Offer is taken up in full.

ANNEX 1 – AUTHORISED FINANCIAL INTERMEDIARIES

| Name | Address | Telephone |
|--|---|-----------|
| APS Bank Ltd | APS Centre, Tower Road, Birkirkara BKR 4012 | 25603000 |
| Bank of Valletta p.l.c. | BOV Centre, Cannon Road, St Venera SVR 9030 | 22751732 |
| Calamatta Cuschieri & Co Ltd | Ewropa Business Centre, Triq Dun Karm, Birkirkara | 25688130 |
| Charts Investment Management Service Ltd | Valletta Waterfront, Vault 17, Pinto Wharf, Floriana FRN 1913 | 21224106 |
| Curmi & Partners Ltd | Finance House, Princess Elizabeth Street, Ta' Xbiex XBX 1102 | 21347331 |
| Financial Planning Services Ltd | 4, Marina Court No. 1, G. Cali Street, Ta' Xbiex XBX 1421 | 21344244 |
| FINCO Treasury Management Ltd | Level 5, The Mall Complex, The Mall, Floriana FRN 1470 | 21220002 |
| GlobalCapital Financial Management Ltd | Testaferrata Street, Ta' Xbiex XBX 1403 | 21342342 |
| Hogg Capital Investments Ltd | Ferris Building, Level 4, 1, St Luke's Road, Gwardamangia, Pietà PTA 1020 | 21322872 |
| Jesmond Mizzi Financial Advisors Ltd | 67/3, South Street, Valletta VLT 1105 | 23265696 |
| Lombard Bank Malta p.l.c. | 67, Republic Street, Valletta VLT 1117 | 25581806 |
| Mediterranean Bank plc | The Centre, Tigné Point, Sliema TPO 0001 | 25574400 |
| Mercieca Financial Investment Services Ltd | Mercieca, John F. Kennedy Square, Victoria, Gozo VCT 2580 | 21553892 |
| MFSP Financial Management Ltd | 220, Immaculate Conception Street, Msida MSD 1838 | 21332200 |
| Michael Grech Financial Investment Services Ltd | The Brokerage, Level 0 A, St Marta Street, Victoria, Gozo VCT 2550 | 21554492 |

| | | |
|--|---|----------|
| MZ Investment Services Ltd | 61, St Rita Street, Rabat RBT 1523 | 21453739 |
| Rizzo, Farrugia & Co (Stockbrokers) Ltd | Airways House, Third Floor, High Street, Sliema SLM 1549 | 22583000 |

ANNEX 2 – FORMS OF ACCEPTANCE, AUTHORITY AND ELECTION



FAAE A - ALL

Rights Issue of 1 New Share for every 4 Existing Shares at an Offer Price of €1.43 per New Share

FORM OF ACCEPTANCE, AUTHORITY AND ELECTION ("FAAE") - A

Your Rights to the New Shares of Bank of Valletta p.l.c. are as follows:

| | | | |
|---|--|-------------------------|---|
| I | | Existing Shareholder/s: | MSE Account Number: |
| | | | I.D. Card Number: |
| | | | Shareholding as at 26 October 2017 (<i>Record Date</i>) |
| | | | Proportionate Entitlement to New Shares (<i>Fractional share Rights are rounded down to the nearest whole share</i>) |

By signing this **FAAE A** and returning it to an Authorised Financial Intermediary by 6 December 2017 at 14:00 hours, you will be confirming your election to take up **ALL** your Rights.

| | |
|---|------------|
| <input type="checkbox"/> PLEASE REGISTER ME FOR E-PORTFOLIO (<i>mobile number mandatory for e-portfolio registration</i>) | Mobile No: |
|---|------------|

II

I/We accept to purchase and acquire **ALL** of my/our Proportionate Entitlement to New Shares:

| | | |
|----------|---|--------------------------------------|
| A | PROPORTIONATE ENTITLEMENT TO NEW SHARES | AMOUNT PAYABLE (€1.43 per New Share) |
| | | |

Furthermore, I/we accept to purchase and acquire Lapsed Rights, if available, in addition to my/our Proportionate Entitlement to New Shares:

| | | | |
|----------|--|--|--|
| B | NUMBER OF LAPSED RIGHTS (<i>in figures</i>) | NUMBER OF LAPSED RIGHTS (<i>in words</i>) | AMOUNT PAYABLE (€ 1.43 per New Share) |
| | | | € |

Mandatory if Panel B has been completed - Total Number of New Shares (Box A + Box B)

| | | | |
|----------|---|---|--|
| C | TOTAL NUMBER OF NEW SHARES (<i>in figures</i>) | TOTAL NUMBER OF NEW SHARES (<i>in words</i>) | TOTAL AMOUNT PAYABLE (€ 1.43 per New Share) |
| | | | € |

| | | |
|----------|---------------------------|------|
| D | DIVIDEND & REFUND MANDATE | |
| | Bank | IBAN |

I/We hereby declare that I/we have fully understood the instructions for the completion of this FAAE and am/are making this FAAE solely on the basis of the Prospectus dated 30 October 2017, and subject to the Terms & Conditions contained therein which I/we fully accept.

Signature/s of Existing Shareholder/s

(Parent/s or legal guardian/s is/are to sign if Existing Shareholder is a minor)
(All parties are to sign in the case of joint Existing Shareholders)
(Authorised representatives to sign in the case of a body corporate / body of persons)

Date

AUTHORISED FINANCIAL INTERMEDIARY'S STAMP

AUTHORISED FINANCIAL INTERMEDIARY'S CODE

APPLICATION NUMBER

Rights Issue of 1 New Share for every 4 Existing Shares at an Offer Price of €1.43 per New Share

FORM OF ACCEPTANCE, AUTHORITY AND ELECTION ("FAAE") - B

Your Rights to the New Shares of Bank of Valletta p.l.c. are as follows:

| | | |
|----------|-------------------------|---|
| I | Existing Shareholder/s: | MSE Account Number: |
| | | I.D. Card Number: |
| | | Shareholding as at 26 October 2017 (<i>Record Date</i>) |
| | | Proportionate Entitlement to New Shares (<i>Fractional share Rights are rounded down to the nearest whole share</i>) |

By completing the relevant boxes, signing this **FAAE B** and returning it to an Authorised Financial Intermediary by 6 December 2017 at 14:00 hours, you confirm your election to: (i) take up only **PART** and **ASSIGN** or **LAPSE** the remaining part of your Rights to the New Shares; or (ii) **ASSIGN ALL** of your Rights; or (iii) **ASSIGN PART** and **LAPSE** the remaining Rights, as applicable.

| | |
|--|------------|
| <input type="checkbox"/> PLEASE REGISTER ME FOR E-PORTFOLIO (mobile number mandatory for e-portfolio registration) | Mobile No: |
|--|------------|

II I/We accept to purchase and acquire **PART** of my/our Proportionate Entitlement to New Shares:

| A* PARTIAL TAKE UP (<i>where applicable</i>) | | |
|---|---|---|
| NUMBER OF NEW SHARES (<i>in figures</i>) | NUMBER OF NEW SHARES (<i>in words</i>) | AMOUNT PAYABLE (€1.43 per New Share) |
| | | € |
| DIVIDEND & REFUND MANDATE | | |
| Bank | IBAN | |

I/we accept to assign **ALL** or **PART OF** the Rights as follows:

| B* ASSIGN (<i>where applicable</i>) | | |
|---|---|---|
| NUMBER OF NEW SHARES (<i>in figures</i>) | NUMBER OF NEW SHARES (<i>in words</i>) | AMOUNT PAYABLE (€1.43 per New Share) |
| | | € |

| C* BALANCE OF NEW SHARES NOT TAKEN UP (<i>if any</i>) | |
|--|---------------------|
| (<i>in figures</i>) | (<i>in words</i>) |
| | |

* The total number of New Shares as added up in Panels A, B & C above, needs to be equal to the Proportionate Entitlement to New Shares as pre-printed in Panel I above.

I/We hereby declare that I/we have fully understood the instructions for the completion of this FAAE and am/are making this FAAE solely on the basis of the Prospectus dated 30 October 2017, and subject to the Terms & Conditions contained therein which I/we fully accept.

Signature/s of Existing Shareholder/s

(Parent/s or legal guardian/s is/are to sign if Existing Shareholder is a minor)
(All parties are to sign in the case of joint Existing Shareholders)
(Authorised representatives to sign in the case of a body corporate / body of persons)

Date

| | | | | | | |
|---|--|--|--|--|--|--------------------|
| AUTHORISED FINANCIAL INTERMEDIARY'S STAMP | AUTHORISED FINANCIAL INTERMEDIARY'S CODE <table border="1"> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table> | | | | | APPLICATION NUMBER |
| | | | | | | |

FAAE B - SPLIT / ASSIGN (continuation)

Declaration by assignee/s

I/We have irrevocably agreed to acquire a portion of the Rights of the Existing Shareholder/s to the New Shares as detailed below:

| | | | | |
|---|---|---------------------------------------|---|--|
| III DECLARATION OF ASSIGNEE/S | | | | |
| 1. Title (Mr/Mrs/Ms/...) | | Full Name & Surname / Registered Name | | |
| Address (including post code) | | | | |
| MSE A/C No. (if applicable) | ID Card/Passport/Co Reg No. | Tel. No. | <input type="checkbox"/> Non-Resident <input type="checkbox"/> Minor <input type="checkbox"/> Body Corporate / Body of Persons | |
| TOTAL NUMBER OF NEW SHARES <i>(in figures)</i> | TOTAL NUMBER OF NEW SHARES <i>(in words)</i> | | AMOUNT PAYABLE <i>(€1.43 per New Share)</i> € | |
| <input type="checkbox"/> PLEASE REGISTER ME FOR E-PORTFOLIO <small>(mobile number mandatory for e-portfolio registration)</small> | | | Mobile No: | |
| DIVIDEND & REFUND MANDATE <small>(completion of this field is mandatory)</small> | | | | |
| Bank | | IBAN | | |

| | | | | |
|---|---|---------------------------------------|---|--|
| DECLARATION OF ASSIGNEE/S | | | | |
| 2. Title (Mr/Mrs/Ms/...) | | Full Name & Surname / Registered Name | | |
| Address (including post code) | | | | |
| MSE A/C No. (if applicable) | ID Card/Passport/Co Reg No. | Tel. No. | <input type="checkbox"/> Non-Resident <input type="checkbox"/> Minor <input type="checkbox"/> Body Corporate / Body of Persons | |
| TOTAL NUMBER OF NEW SHARES <i>(in figures)</i> | TOTAL NUMBER OF NEW SHARES <i>(in words)</i> | | AMOUNT PAYABLE <i>(€1.43 per New Share)</i> € | |
| <input type="checkbox"/> PLEASE REGISTER ME FOR E-PORTFOLIO <small>(mobile number mandatory for e-portfolio registration)</small> | | | Mobile No: | |
| DIVIDEND & REFUND MANDATE <small>(completion of this field is mandatory)</small> | | | | |
| Bank | | IBAN | | |

| | | |
|---|---------------------|-------------------------|
| IV MINOR'S PARENTS/LEGAL GUARDIANS | | |
| 1. Title (Mr/Mrs/Ms/...) | Full Name & Surname | ID Card/Passport Number |
| 2. Title (Mr/Mrs/Ms/...) | Full Name & Surname | ID Card/Passport Number |

I/We hereby declare that I/we have fully understood the instructions for the completion of this FAAE and am/are making this FAAE solely on the basis of the Prospectus, and subject to the Terms & Conditions contained therein which I/we fully accept.

Signature/s of Assignee/s

(Parent/s or legal guardian/s is/are to sign if Assignee is a minor)

(All parties are to sign in the case of joint Assignees)

(Authorised representatives to sign in the case of a body corporate / body of persons)

Date

ADDENDUM TO FAAE B SPLIT / ASSIGN

| DETAILS OF ORIGINAL FAAE B | |
|--------------------------------|--|
| Name of Existing Shareholder/s | |
| I.D. Card / Passport No. | |
| Application No. | |

Declaration by assignee/s

I/We have irrevocably agreed to acquire a portion of the Rights of the Existing Shareholder/s to the New Shares as detailed below:

| V DECLARATION OF ASSIGNEE/S | | | |
|--|---------------------------------------|---------------------------------------|---|
| 1. Title (Mr/Mrs/Ms/...) | | Full Name & Surname / Registered Name | |
| Address (including post code) | | | |
| MSE A/C No. (if applicable) | ID Card/Passport/Co Reg No. | Tel. No. | <input type="checkbox"/> Non-Resident <input type="checkbox"/> Minor <input type="checkbox"/> Body Corporate / Body of Persons |
| TOTAL NO. OF NEW SHARES (in figures) | TOTAL NUMBER OF NEW SHARES (in words) | | AMOUNT PAYABLE (€1.43 per New Share) € |
| <input type="checkbox"/> PLEASE REGISTER ME FOR E-PORTFOLIO (mobile number mandatory for e-portfolio registration) | | | Mobile No: |
| DIVIDEND & REFUND MANDATE (completion of this field is mandatory) | | | |
| Bank | | IBAN | |
| DECLARATION OF ASSIGNEE/S | | | |
| 2. Title (Mr/Mrs/Ms/...) | | Full Name & Surname / Registered Name | |
| Address (including post code) | | | |
| MSE A/C No. (if applicable) | ID Card/Passport/Co Reg No. | Tel. No. | <input type="checkbox"/> Non-Resident <input type="checkbox"/> Minor <input type="checkbox"/> Body Corporate / Body of Persons |
| TOTAL NO. OF NEW SHARES (in figures) | TOTAL NUMBER OF NEW SHARES (in words) | | AMOUNT PAYABLE (€1.43 per New Share) € |
| <input type="checkbox"/> PLEASE REGISTER ME FOR E-PORTFOLIO (mobile number mandatory for e-portfolio registration) | | | Mobile No: |
| DIVIDEND & REFUND MANDATE (completion of this field is mandatory) | | | |
| Bank | | IBAN | |
| VI MINOR'S PARENTS/LEGAL GUARDIANS | | | |
| 1.Title (Mr/Mrs/Ms/...) | | Full Name & Surname | ID Card/Passport Number |
| 2.Title (Mr/Mrs/Ms/...) | | Full Name & Surname | ID Card/Passport Number |

I/We hereby declare that I/we have fully understood the instructions for the completion of this FAAE and am/are making this FAAE solely on the basis of the Prospectus dated 30 October 2017, and subject to the Terms & Conditions contained therein which I/we fully accept.

Signature/s of Assignee/s

(Parent/s or legal guardian/s is/are to sign if Assignee is a minor)

(All parties are to sign in the case of joint Assignees)

(Authorised representatives to sign in the case of a body corporate / body of persons)

Signature/s of Existing Shareholder/s

Date

INSTRUCTIONS SHEET

RIGHTS ISSUE OF 105,000,000 NEW SHARES AT AN OFFER PRICE OF €1.43 PER NEW SHARE

Instructions for completion

FORM OF ACCEPTANCE, AUTHORITY AND ELECTION (“FAAE”)

IMPORTANT: READ THE FOLLOWING INSTRUCTIONS CAREFULLY
BEFORE COMPLETING THE RELEVANT FAAE

1. The following is to be read in conjunction with the Prospectus dated 30 October 2017 (the “**Prospectus**”). Unless otherwise defined herein, the capitalised terms used in the FAAE have the same meaning as that assigned to them in the Prospectus.
2. There are two (2) FAAEs:
 - a. ‘**FAAE A – ALL**’ is to be completed by the Existing Shareholder/s wishing to **TAKE UP ALL** of his/her entitlement with the option to apply for Lapsed Rights;
 - b. ‘**FAAE B- SPLIT / ASSIGN**’ is to be completed by the Existing Shareholders wishing to: (i) take up only **PART** and **ASSIGN** or **LAPSE** the remaining part of his/her Rights to the New Shares; or (ii) **ASSIGN ALL** of the Rights; or (iii) **ASSIGN PART** and **LAPSE** the remaining Rights to New Shares;
3. The FAAE is to be completed in **BLOCK LETTERS**.
4. The relevant FAAE/s must be accompanied by payment **IN CLEARED FUNDS AND NET OF BANK TRANSFER CHARGES** for the amount in Euro of the New Shares subscribed for. Payment may be made by cheque, SWIFT or account transfer and shall be made to the Authorised Financial Intermediary as per instructions received by Eligible Participants.
5. Existing Shareholders shall receive any dividends payable to them by the Issuer directly in a bank account as pre-printed in Panel IID of FAAE A and Panel IIA of FAAE B as applicable (such bank account represents the dividend mandate as held by the Issuer in the Register of Members as at the Cut-Off Date). Assignees shall receive any dividends payable to them by the Issuer directly in a bank account held locally in Euro and which is to be inserted by Assignees in the ‘Dividend & Refund Mandate’ found in Panel III of FAAE B.
6. FAAEs may be accepted by Authorised Financial Intermediaries between and including 08:30 hours on 8 November 2017 and 14:00 hours on 6 December 2017 (the “**Offer Period**”). The Issuer, through the Registrar, may reject any FAAE/s:
 - a. received after the Offer Period closes; and/or
 - b. for which funds are still uncleared after the Offer Period closes; and/or
 - c. which is/are in breach of the Terms and Conditions as defined and set out in the Prospectus.

Eligible Participants are to ensure that payment for the exercise of Rights reach the respective Authorised Financial Intermediary **NET OF BANK CHARGES**.

7. Each FAAE has been pre-printed with details of Existing Shareholders/s appearing on the Issuer’s Register of Members as at the Record Date.
8. With respect to **FAAE A – ALL**, Existing Shareholders wishing to take up their Proportionate Entitlement in full need only sign and submit the FAAE A to an Authorised Financial Intermediary. Where Existing Shareholders opt to take up their Proportionate Entitlement in full and wish to subscribe for any Lapsed Rights, Panels IIB and IIC need to be completed.

- 9 With respect to **FAAE B – SPLIT / ASSIGN**, Existing Shareholders wishing to accept their Proportionate Entitlement in part need to complete Panel IIA and IIC. Where an Existing Shareholder wishes to assign part or all of his Proportionate Entitlement, Panel IIB needs also to be completed and details of the Assignee/s need to be inserted in Panel III.
- 10 Non-resident Assignee/s must indicate their passport number in Panel III of **FAAE B – SPLIT / ASSIGN** as applicable and tick the appropriate box accordingly.
- 11 In the case of an Existing Shareholder or an Assignee who is a minor, the respective FAAE shall be signed by the parents or the legal guardian/s as applicable. A Public Registry birth certificate must be provided only where an Assignee is a minor and does not hold securities listed on the MSE. The relative box in Panel III of **FAAE B – SPLIT / ASSIGN** shall be marked accordingly and details of the parents or legal guardian/s shall be inserted in Panel IV.
- 12 In the case where an Eligible Participant is a body corporate, the respective FAAE must be signed by the duly authorised representatives indicating the capacity in which they are signing and shall bind that body corporate. Where an Assignee/s under FAAE B is a body corporate, the exact registered name and registration number are to be inserted in Panel III and the appropriate box ticked accordingly.
- 13 **ASSIGNEES WHO ALREADY HOLD SECURITIES ON THE MSE ARE TO INDICATE THEIR MSE ACCOUNT NUMBER IN PANEL III OF FAAE B - SPLIT / ASSIGN. ASSIGNEES ARE HEREBY NOTIFIED THAT ANY SHARES ALLOTTED TO THEM WILL BE RECORDED IN THE MSE ACCOUNT NUMBER QUOTED ON THE FAAE B – SPLIT / ASSIGN. IF DETAILS OF SUCH MSE ACCOUNT NUMBER, AS HELD BY THE MSE, DIFFER FROM ANY OR ALL OF THE DETAILS APPEARING OVERLEAF, A SEPARATE REQUEST BY THE ASSIGNEE TO CHANGE THESE DETAILS AS RECORDED AT THE MSE WILL HAVE TO BE EFFECTED.**
- 14 Where an Existing Shareholder wishes to assign Rights to more than two Assignees, an addendum (in the form of a continuation sheet of **FAAE B – SPLIT / ASSIGN**) shall be supplied by the Registrar through the Authorised Financial Intermediary and this needs to be also signed by the Existing Shareholder/s and Assignee/s as applicable.
- 15 Completed FAAEs are to be delivered to any Authorised Financial Intermediary listed in Annex 1 of the Prospectus. Remittances by post are made at the risk of the Existing Shareholder/s and or Assignee/s. The Issuer and the Registrar disclaim all responsibility for any such remittance not received by the Rights Issue Closing Period.
- 16 Should any FAAE be lost or destroyed or otherwise defaced and/or invalidated, the Existing Shareholder/s shall contact the Registrar through any Authorised Financial Intermediary who will provide a duplicate of the FAAE to be used in such instance.
- 17 By completing and delivering an FAAE each Existing Shareholder/s and Assignee/s acknowledges that:
 - a. the Authorised Financial Intermediary, Registrar and/or the Issuer may process the personal data in the FAAE in accordance with the Data Protection Act (Cap. 440 of the laws of Malta);
 - b. the Authorised Financial Intermediary, Registrar and/or the Issuer may process such personal data for all purposes necessary for and related to the Rights Issue;
 - c. they have the right to request access to and rectification of the personal data relating to him/her, as processed by the Authorised Financial Intermediary, Registrar and/or the Issuer. Any such request must be signed by the Existing Shareholder/s and/or Assigned/s and made in writing to the CSD at the Malta Stock Exchange; and
 - d. all terms and conditions of the Prospectus, including but not limited to the undertakings, representations and warranties contained therein, have been read and understood.

The value of investments may increase as well as decrease and past performance is not an indication of future performance. Prospective investors are urged to read the Prospectus with particular reference to the sections entitled “Risk Factors” as contained in the Prospectus. Prospective Investors should seek independent financial advice before deciding to invest in the New Shares.

ANNEX 3 – APPLICATION FORMS

BOV Bank of Valletta

Bank of Valletta p.l.c.
Offer of Lapsed Rights
€1.43 per New Share
APPLICATION FORM 'A'
EMPLOYEES

This Application Form is not transferable and entitles you to subscribe for New Shares in Bank of Valletta p.l.c. as an "Employee" as defined in the Prospectus dated 30 October 2017 (the "Prospectus"). Please read the notes overleaf before completing this application form (the "Application Form"). Mark 'X' where applicable.

APPLICANT (see notes 2 to 4)

| | | | | |
|----------|--|--|--|------------------------|
| A | | | | ID CARD / PASSPORT NO. |
| | | | | |

| | | | |
|-----------------------------|----------------|----------|------------|
| MSE A/C NO. (if applicable) | E-MAIL ADDRESS | TEL. NO. | MOBILE NO. |
| | | | |

☐ PLEASE REGISTER ME FOR E-PORTFOLIO (mobile number mandatory for e-portfolio registration)

B ADDITIONAL (JOINT) APPLICANTS (see note 3)

| | | |
|-----------------------|---------------------|------------------------|
| TITLE (Mr/Mrs/Ms/...) | FULL NAME & SURNAME | ID CARD / PASSPORT NO. |
| | | |
| TITLE (Mr/Mrs/Ms/...) | FULL NAME & SURNAME | ID CARD / PASSPORT NO. |
| | | |

C I/WE APPLY TO PURCHASE AND ACQUIRE (see notes 5 & 6):

| | |
|---------------------------------|-------------------------------|
| NUMBER OF NEW SHARES IN FIGURES | NUMBER OF NEW SHARES IN WORDS |
| | |

Minimum investment of 1,000 New Shares and in multiples of 100 New Shares thereafter at the Offer Price of €1.43 per share, payable in full upon application.

| |
|---------------------|
| AMOUNT PAYABLE € |
| |

D DIVIDEND & REFUND MANDATE (see note 3 & 8) (completion of this panel is mandatory)

| | |
|------|------|
| BANK | IBAN |
| | |

E I/We hereby declare that I/we have fully understood the instructions for the completion of this Application Form and am/are making this Application Form solely on the basis of the Prospectus dated 30 October 2017, and subject to the Terms & Conditions contained therein which I/we fully accept.

Signature/s of Applicant/s
(all parties are to sign in the case of a joint Application)

Date

| |
|---|
| AUTHORISED FINANCIAL INTERMEDIARY'S STAMP |
| |

| |
|--|
| AUTHORISED FINANCIAL INTERMEDIARY'S CODE |
| |

| |
|--------------------|
| APPLICATION NUMBER |
| |

Notes on how to complete this Application Form and other information

Capitalised terms not used herein shall, unless the context otherwise requires, have the meaning ascribed to them in the Prospectus dated 30 October 2017 (the "Prospectus"). The following notes are to be read in conjunction with the Prospectus regulating the Offer.

1. This Application is governed by the Terms and Conditions of Application contained in the Securities Note dated 30 October 2017 forming part of the Prospectus.
2. The Application Form is to be completed in BLOCK LETTERS.
3. **In the case of an Application by more than one person, full details of the joint applicant/s including I.D. Card Number/s, must be given in Panel B. The person whose name appears in Panel A shall, for all intents and purposes, be deemed to be the registered holder of the New Shares (vide note 4 below) and said registered holder must therefore be the Employee. Dividends, if any, will be paid by direct credit to the bank account (which must be a Euro denominated bank account held with a local bank) bearing an IBAN (which must be a valid one) indicated by the Applicant in Panel D, or to such other bank account indicated by the Shareholder/s to the MSE.**
4. **APPLICANTS WHO ALREADY HOLD SECURITIES ON THE MSE ARE TO INDICATE THEIR MSE ACCOUNT NUMBER IN PANEL A. APPLICANTS ARE TO NOTE THAT ANY NEW SHARES ALLOTTED TO THEM WILL BE RECORDED BY THE MSE IN THE MSE ACCOUNT QUOTED IN THIS APPLICATION FORM EVEN IF THE DETAILS OF THE APPLICANT, AS HELD BY THE CSD, DIFFER FROM ANY OR ALL OF THE DETAILS APPEARING OVERLEAF. A SEPARATE REQUEST BY THE APPLICANT TO CHANGE THESE DETAILS AS RECORDED AT THE MSE WILL HAVE TO BE AFFECTED.**

Upon submission of an Application Form, Shareholders who opt to have an online e-portfolio facility (by marking the relative box in Panel A), will receive by mail at their registered address a handle code to activate the new e-portfolio login. Registration for the e-Portfolio facility requires a mobile number to be provided on the Application Form. The Shareholder's statement of holdings evidencing entitlement to Shares held in the Register of Members and registration advices evidencing movements in such register will be available through the said e-portfolio facility on <https://eportfolio.borzamalta.com.mt/>. Further detail on the e-portfolio may be found on <https://eportfolio.borzamalta.com.mt/Help>
5. Applications must be for a minimum of 1,000 New Shares and thereafter in multiples of 100 New Shares.
6. Applications must be accompanied by the relevant subscription monies in Euro, corresponding to the number of Lapsed Rights applied for.
7. Completed Application Forms are to be delivered to any of the Authorised Financial Intermediaries listed in Annex 1 of the Prospectus during normal office hours by not later than 14:00 hours on 6 December 2017. Applications received after this date will not be accepted. Remittances by post are made at the risk of the Applicant and the Issuer disclaims all responsibility for any such remittances not received by the closing of the subscription lists.
8. If any Application is not accepted or is accepted for fewer New Shares than those applied for, the monies or the balance of the amount paid but not allocated as the case may be, will be returned by direct credit into the bank account as indicated in Panel D.
9. The Issuer reserves the right to refuse any Application which appears to be in breach of the Terms and Conditions as contained in the Prospectus.
10. By completing and delivering an Application Form you, as the Applicant/s, acknowledge that:
 - a. the Issuer may process the personal data that you provide in the Application Form in accordance with the Data Protection Act (Cap. 440 of the laws of Malta);
 - b. the Issuer may process such personal data for all purposes necessary for and related to the New Shares applied for; and
 - c. you have the right to request access to and rectification of the personal data relating to you, as processed by the Issuer. Any such requests must be made in writing and addressed to the CSD. The request must be signed by yourself as the Applicant to whom the personal data relates.

The value of investments may increase as well as decrease and past performance is not an indication of future performance. Prospective investors are urged to read the Prospectus with particular reference to the sections entitled "Risk Factors" as contained in the Prospectus. Prospective Investors should seek independent financial advice before deciding to invest in the new shares.

Please read the notes overleaf before completing this application form (the "Application Form"). Mark 'X' where applicable.

APPLICANT (see notes 2 to 7)

A ☐ Non-resident ☐ Minor (under 18 yrs) ☐ Body Corporate / Body of Persons ☐ CIS-Prescribed Fund

B TITLE (Mr/Mrs/Ms/...) FULL NAME & SURNAME / REGISTERED NAME

ADDRESS / REGISTERED OFFICE

POSTCODE

MSE A/C NO. (if applicable)

ID CARD / PASSPORT / COMPANY REG. NO.

TEL. NO.

MOBILE NO.

☐ PLEASE REGISTER ME FOR E-PORTFOLIO (Mobile number mandatory for e-portfolio registration)

C ADDITIONAL (JOINT) APPLICANTS (see note 3) (please use additional Application Forms if space is not sufficient)

TITLE (Mr/Mrs/Ms/...)

FULL NAME & SURNAME

ID CARD / PASSPORT NO.

TITLE (Mr/Mrs/Ms/...)

FULL NAME & SURNAME

ID CARD / PASSPORT NO.

D MINOR'S PARENTS / LEGAL GUARDIAN/S (see note 5) (to be completed ONLY if the Applicant is a minor)

TITLE (Mr/Mrs/Ms/...)

FULL NAME & SURNAME

ID CARD / PASSPORT NO.

TITLE (Mr/Mrs/Ms/...)

FULL NAME & SURNAME

ID CARD / PASSPORT NO.

E I/WE APPLY TO PURCHASE AND ACQUIRE (see notes 8 & 9):

NUMBER OF NEW SHARES IN FIGURES

NUMBER OF NEW SHARES IN WORDS

Minimum investment of 1,000 New Shares and in multiples of 100 New Shares thereafter at the Offer Price of €1.43 per share, payable in full upon application.

AMOUNT PAYABLE

€

F DIVIDEND & REFUND MANDATE (see note 3 & 12) (completion of this panel is mandatory)

BANK

IBAN

G I/We hereby declare that I/we have fully understood the instructions for the completion of this Application Form and am/are making this Application Form solely on the basis of the Prospectus dated 30 October 2017, and subject to the Terms & Conditions contained therein which I/we fully accept.

Signature/s of Applicant/s

(both parents or legal guardian/s are/is to sign if Applicant is a minor)

(all parties are to sign in the case of a joint Application)

(Authorised representatives to sign in the case of a body corporate / body of persons)

Date

AUTHORISED FINANCIAL INTERMEDIARY'S STAMP

SHARES ALLOCATED IN FIGURES

AUTHORISED FINANCIAL
INTERMEDIARY'S CODE

APPLICATION NUMBER

Notes on how to complete this Application Form and other information

Capitalised terms not defined herein shall, unless the context otherwise requires, have the meaning ascribed to them in the Prospectus dated 30 October 2017 (the "**Prospectus**"). The following notes are to be read in conjunction with the Prospectus regulating the Offer.

1. This Application is governed by the Terms and Conditions of the Offer contained in the Securities Note dated 30 October 2017 forming part of the Prospectus.
2. The Application Form is to be completed in BLOCK LETTERS and Applicants are to insert full personal details in Panel B.
3. In the case of an Application by more than one person full details of all individuals, including I.D. Card Numbers, must be given in Panels B and C. **The person whose name appears in Panel B shall, for all intents and purposes, be deemed to be the registered holder of the New Shares (vide note 7 below). Dividends, if any, will be paid by direct credit to the bank account (which must be a Euro denominated bank account held with a local bank) bearing the IBAN (which must be a valid one) indicated by the Applicant in Panel F, or to such other bank account indicated by the Shareholder/s to the MSE.**
4. Applicants who are non-resident in Malta for tax purposes must indicate their passport number in Panel B and the relative box in Panel A must also be marked appropriately.
5. Applications in the name and for the benefit of minors shall be allowed provided that they are signed by both parents or by the legal guardian/s and accompanied by a public registry birth certificate of the minor in whose name and for whose benefit the Application Form is submitted (the birth certificate is not required if the minor already holds securities which are listed on the MSE). The relative box in Panel A must also be marked appropriately. Any New Shares allocated pursuant to such an Application shall be registered in the name of the minor as Shareholder, with dividends (if any) payable to the parents or legal guardian/s signing the Application Form until such time as the minor attains the age of eighteen (18) years, following which any dividends shall be payable directly to the registered holder, provided that the Issuer has been duly notified in writing of the fact that the minor has attained the age of eighteen (18) years. In the case that the Issuer has not been notified in writing that the minor has attained eighteen (18) years of age, any dividends will continue to be paid by the Issuer to the parents or legal guardian/s of the minor.
6. In the case of a body corporate, the name of the entity (exactly as registered with the Registry of Companies) and the registration number are to be inserted in Panel B. Applications must be signed by duly authorised representatives of the body corporate/body of persons indicating the capacity in which he/she/they are signing. The relative box in Panel A must also be marked appropriately.
7. **APPLICANTS WHO ALREADY HOLD SECURITIES ON THE MSE ARE TO INDICATE THEIR MSE ACCOUNT NUMBER IN PANEL B. APPLICANTS ARE TO NOTE THAT ANY NEW SHARES ALLOTTED TO THEM WILL BE RECORDED BY THE MSE IN THE MSE ACCOUNT QUOTED IN THIS APPLICATION FORM EVEN IF THE DETAILS OF THE APPLICANT, AS HELD BY THE CSD, DIFFER FROM ANY OR ALL OF THE DETAILS APPEARING OVERLEAF. A SEPARATE REQUEST BY THE APPLICANT TO CHANGE THESE DETAILS AS RECORDED AT THE MSE WILL HAVE TO BE AFFECTED.**

Upon submission of an Application Form, Shareholders who opt to have an online e-portfolio facility (by marking the relative box in Panel B), will receive by mail at their registered address a handle code to activate the new e-portfolio login. Registration for the e-Portfolio facility requires a mobile number to be provided on the Application Form. The Shareholder's statement of holdings evidencing entitlement to Shares held in the Register of Members and registration advices evidencing movements in such register will be available through the said e-portfolio facility on <https://eportfolio.borzamalta.com.mt/>. Further detail on the e-portfolio may be found on <https://eportfolio.borzamalta.com.mt/Help>
8. Applications must be for a minimum of 1,000 New Shares and thereafter in multiples of 100 New Shares.
9. Applications must be accompanied by the relevant subscription amount in Euro, corresponding to the number of Lapsed Rights applied for. In the event that the cheque accompanying an Application Form to be made payable to 'The Registrar - Bank of Valletta p.l.c.' is not honoured on the first presentation, the Issuer, the Registrar and any Authorised Financial Intermediary reserve the right to invalidate the relative Application.
10. Authorised Financial Intermediaries are to submit completed Application Forms representing the total amount allocated in terms of the subscription agreement with respect to the Intermediaries Offer as mentioned in Section 8 of the Securities Note by latest 14:00 hours on 6 December 2017.
11. In terms of the Subscription Agreement with respect to the Intermediaries Offer, an Authorised Financial Intermediary may, at its sole discretion, not accept an Application or accept an Application for fewer New Shares than those applied for.
12. The Issuer reserves the right to refuse any Application which appears to be in breach of the Terms and Conditions of the Offer as contained in the Prospectus.
13. By completing and delivering an Application Form you, as the Applicant/s acknowledge that:
 - a. the Issuer may process the personal data that you provide in the Application Form in accordance with the Data Protection Act (Cap. 440 of the laws of Malta);
 - b. the Issuer may process such personal data for all purposes necessary for and related to the New Shares applied for; and
 - c. you have the right to request access to and rectification of the personal data relating to you, as processed by the Issuer. Any such requests must be made in writing and addressed to the CSD. The request must be signed by yourself as the Applicant to whom the personal data relates.

The value of investments may increase as well as decrease and past performance is not an indication of future performance. Prospective investors are urged to read the Prospectus with particular reference to the sections entitled "Risk Factors" as contained in the Prospectus. Prospective Investors should seek independent financial advice before deciding to invest in the new shares.

ANNEX 4 - ACCOUNTANT'S REPORT



KPMG
Portico Building
Marina Street
Pietà PTA 9044
Malta
Telephone (+356) 2563 1000
Fax (+356) 2566 1000
Website www.kpmg.com.mt

The Directors
Bank of Valletta p.l.c.
58, Zachary Street
Valletta, VLT 1130
Malta

25 October 2017

Dear Sirs,

Accountant's Report on the Prospective Financial Information of Bank of Valletta p.l.c.

We report on the prospective financial information of Bank of Valletta p.l.c., which cover the three-month period 1 October 2017 to 31 December 2017 (hereinafter referred to as the "Prospective Financial Information" or the "Forecasts"). The Prospective Financial Information has been approved by the Bank on 19 October 2017 and is set out in section 10.2 of Bank of Valletta p.l.c.'s Registration Document under the columns marked as 'Forecast' in the 'Statements of Profit or Loss' and in the 'Statements of Financial Position'. The Registration Document is expected to be issued in November 2017.

Director's Responsibility

It is the Director's responsibility to prepare the Prospective Financial Information, together with the material assumptions on which they are based, in accordance with the requirements of Commission Regulation (EC) No 809/2004 of 29 April 2004, as subsequently amended.

Accountants' Responsibility

It is our responsibility to provide the opinion required by Annex IV item 9.2 of EU Regulation EC809/2004.

Since the Prospective Financial Information and the assumptions on which they are based relate to the future they may be affected by unforeseen events. The variation between forecast and actual results may be material. We are not required to express, nor do we express, any opinion on the possibility of achievement of the results set out in the Prospective Financial Information or on the underlying assumptions.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed, to the fullest extent permitted by law, we do not



Bank of Valletta p.l.c.

Accountant's Report on the Prospective Financial Information of Bank of Valletta p.l.c.
25 October 2017

assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report.

Work performed

We have carried out our work in accordance with ISAE 3000, "Assurance Engagement other than Audits or Reviews of Historical Financial Information".

Our work included an evaluation of the procedures undertaken by the Directors in compiling the Prospective Financial Information, and the consistency of the Prospective Financial Information with the accounting policies of Bank of Valletta p.l.c.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the Prospective Financial Information has been properly compiled on the basis of the underlying stated assumptions set out under the section entitled 'Introduction to the Forecasts' in section 10.2 of the above mentioned Registration Document.

Opinion

In our opinion:

- a) The Prospective Financial Information of Bank of Valletta p.l.c. for the three month period 1 October 2017 to 31 December 2017 has been properly compiled on the basis of the underlying stated assumptions; and
- b) The basis of accounting is consistent with the accounting policies of Bank of Valletta p.l.c.

Without qualifying our opinion, we draw attention to the fact that the Prospective Financial Information is not intended to, and does not, provide all the information and disclosures necessary and does not purport to give a true and fair value of the results of the operations and the financial position of Bank of Valletta p.l.c. in accordance with International Financial Reporting Standards as adopted by the EU.

This opinion is solely intended to be relied upon by you for the purposes of the Registration Document, which Registration Document is expected to be issued in November 2017. Readers are cautioned that the Prospective Financial Information may not be appropriate for purposes other than that described above.

Yours sincerely

David Caruana (Partner) for and on behalf of

KPMG

Certified Public Accountants

