



Bank of Valletta

Office of the Company Secretary

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COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Bank of Valletta p.l.c. pursuant to the Capital Markets Rules issued by the Malta Financial Services Authority:

Quote

Sale of a portfolio of non-performing loans

Reference is made to Company Announcement No. 461 wherein the Bank announced that it was in advanced negotiations to sell a portfolio of long-standing non-performing loans (the “**Portfolio**”) with a view to strengthening its capital and liquidity buffers.

The Bank is now pleased to announce that it has entered into an assignment agreement (the “**Assignment Agreement**”) pursuant to which it has assigned its rights, title, interest and benefits to the Portfolio to a third-party acquirer (the “**Acquirer**”) for a consideration of €26 million (the “**Transaction**”). The consideration reflects, amongst other things, the reduced creditworthiness of the underlying borrowers, the recovery risk inherent in the Portfolio and the cost to acquire and manage the Portfolio over the recovery period.

The Acquirer, a Maltese public limited liability company established as a securitisation cell company in terms of the Securitisation Cell Companies Regulations (Subsidiary Legislation 386.16, laws of Malta), was selected on the basis of a formal offer submitted as part of a bidding process conducted by the Bank.

Composition of the Portfolio

Supported by external advisors, the Bank selected the Portfolio using pre-defined criteria. The Portfolio is comprised of 707 non-performing loans (“**NPLs**”) across 245 borrowers, the majority of which have been granted commercial loans to finance business activities across a number of different industries. The Portfolio also includes personal loans, credit card loans, home loans, encroached savings and current accounts and other debts. The Portfolio is significantly biased towards loans and facilities that have been in default for a long period of time, with 90% of the Portfolio comprised of loans and facilities that have been in default for 5 years or longer.

Benefits of the Transaction

The primary purpose of the Transaction is to generate income from NPLs which may have either been completely written off or provided for, in large part, in previous years. The current net book value of the Portfolio reported in the Bank’s balance sheet is in the region of €5 million. In this regard, the Transaction is expected to have a positive impact of approximately €18 million on the Bank’s profitability for financial year 2023, representing the difference between the accumulated expected credit loss (provisions) and the actual realised loss following the Transaction. The amount of €18 million realised in 2023 is net of a provision of €2 million representing potential liabilities arising from the Acquirer’s right to make a claim for compensation under certain specific circumstances in terms of the Assignment Agreement.

The Transaction will also improve the Bank's NPL-ratio in line with regulatory requirements, aligning itself better to peer European banks. In addition, the Transaction is expected to render other benefits to the Bank, such as an improvement in the asset quality of the Bank's credit portfolio as well as removing the need for further provisioning against these debts. The Transaction will also improve the Bank's operational efficiency due to a release of resources which are currently dedicated to lengthy debt collection processes, court proceedings and the ongoing management of the collateral held by the Bank, including their eventual disposal.

Next steps

The Bank will be formally notifying each respective borrower of the assignment in the coming days. The Bank also expects that a representative of the Acquirer will be contacting each borrower to set out the terms of the new relationship since, as a result of the Transaction, the Acquirer has replaced the Bank as creditor in respect of each NPL.

For the purposes of article 2(1)(b)(i) of Commission Implementing Regulation (EU) 2016/1055, the Bank hereby announces that this company announcement includes 'inside information' in terms of Regulation (EU) 596/2014 (the Market Abuse Regulation).

Unquote



Dr. Ruth Spiteri Longhurst B.A., LL.D.
Company Secretary

19th December 2023