PARLAMENT TA' MALTA

IT-TLETTAX-IL LEĠIŻLATURA

P.L. 4243

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Raymond Scicluna
Skrivan tal-Kamra

Parliamentary Secretary for Financial Services, Digital Economy and Innovation
Hon. Silvio Schembri MP
Office of the Prime Minister
Auberge de Castille
Valletta VLT 1061

26 November 2019

Dear Mr. Minister,

The Malta Financial Services Authority (hereinafter referred to as "MFSA") had, with effect from 26 April 2016, appointed PricewaterhouseCoopers (hereinafter referred to as "PwC") as Competent Person in terms of Articles 29(1)(c) and 29(1)(d) of the Banking Act and in terms of Article 15A(1)(b) and 15A(1)(c) of the Investment Services Act to perform the following functions in respect of the business of Nemea Bank plc (hereinafter referred to as the "Bank"), a credit institution licenced in terms of the Banking Act and the Investment Services Act having company registration number C45026:

i. to take charge of all assets of Nemea Bank plc, including any assets relating directly to its investment services business, any interest arising from advances or loans made or credit facilities given, for the purpose of safeguarding the interests of depositors, investment services clients and creditors; and
ii. to assume control of the Bank's banking and investment services business and to continue carrying on that business until such time as the MFSA may direct.

In view of its role as Competent Person of Nemea Bank plc, PwC is required to present six-monthly reports of its activities and accounts of all transactions carried out by PwC in the performance of its functions, to the Minister for Finance in accordance with Article 29(3)(e) of the Banking Act.

PwC is hereby attaching copies of all the Competent Person six-monthly reports covering the period from 26 April 2016 (appointment) to 30 June 2019 (end of the most recent six-month period), which had been submitted in satisfaction of this requirement.

Yours sincerely,

FAxisa

Fabio Axisa
Partner

*PricewaterhouseCoopers, 78 Mill Street, Qormi QRM3101. Malta*
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# Nemea Bank plc

**Competent Person Report:**

*April 2016 to December 2016*

Data Classification Policy: Restricted use (DC2)

pwc

# Contents

# 1. Key events

# Key events

- 26 April 2016 – MFSA appoints PwC as Competent Person and imposes a daily withdrawal limit of €250 for all the Bank's depositors
- 26 April 2016 – MFSA informs the Bank about the decisions referred to above
- 27 April 2016 – MFSA issues Public Notice in respect of the appointment of the Competent Person and the limit imposed on daily withdrawals by the Bank's depositors
- 18 July 2016 – MFSA issues Public Notice to publicise its decision to raise the limit on daily withdrawals by Bank depositors to €2,500 per day thus relaxing the earlier restrictions

# 2. Financial information

# Statement of financial position

| | as at 31 December 2016 € | as at 31 October 2016 € | as at 26 April 2016 € | as at 1 January 2016 € |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Balances with Central Bank of Malta, treasury bills and cash | **38,074,951** | 38,672,535 | 10,106,223 | 6,528,636 |
| Financial assets at fair value through profit and loss | **1,109,922** | 1,097,852 | 1,171,800 | 1,059,940 |
| Available-for-sale financial instruments | **-** | - | 5,401,050 | 3,194,650 |
| Loans and advances to banks | **175,200** | 172,211 | 22,345,803 | 22,117,722 |
| Loans and advances to customers: | | - | | |
| - Corporate portfolio | **7,379,063** | 9,183,285 | 10,045,339 | 11,368,534 |
| - Retail portfolio | **1,625,640** | 1,633,007 | 1,650,765 | 2,671,253 |
| - Group companies | **1,555,613** | 1,555,613 | 1,555,613 | 1,554,913 |
| - AASA portfolio | **5,962,182** | 6,831,841 | 15,718,724 | 16,407,566 |
| Impairment of loans and advances: | | - | | |
| - Corporate portfolios | **(2,653,408)** | (2,929,556) | (1,469,489) | (1,469,489) |
| - Retail portfolio | **(742,557)** | (742,557) | (743,150) | (1,043,150) |
| - Group companies | **-** | - | - | - |
| - AASA portfolio | **(1,278,119)** | (921,774) | (483,893) | (483,893) |
| Intangible assets | **262,635** | 309,146 | 266,235 | 244,460 |
| Property, plant and equipment | **147,688** | 158,848 | 192,458 | 164,189 |
| Deferred tax asset | **2,158,714** | 1,899,006 | 898,524 | 941,725 |
| Prepayments and accrued income | **567,048** | 459,286 | 762,983 | 517,380 |
| Other assets | **1,025,605** | 572,182 | 938,315 | 1,546,423 |
| **TOTAL ASSETS** | **55,370,177** | 57,950,925 | 68,357,300 | 65,320,859 |

Upon obtaining control over the Bank's activities, the Competent Person shifted balances held with credit institutions from term placements to overnight deposits and eventually placed the majority of the Bank's overnight liquidity with the Central Bank of Malta, giving rise to significant increase in balances held with the CBM from c. €6.5 million to c. €38.1 million.

The Bank also liquidated its holdings in Malta Government Stocks.

The Competent Person also commenced a number of credit management activities as follows:

i. the run-off of the AASA micro-loan portfolio (i.e. maturing loans repaid by customers were not replaced by the issuance of new loans). Accordingly the portfolio value decreased from c. €15.7 million to c. €5.9 million;

ii. direct contact with a number of corporate and retail customers in order to negotiate early repayments of a number of facilities resulting in loan balances decreasing from c. €11.7 million to c. €9 million by the end of 2016; and

iii. re-assessed and revised specific accounting provisions in respect of a number of borrowers.

The Bank also acts as fund manager of Nordic Investment Funds (SICAV) Ltd in which it holds a direct holding in the form of units issued valued at c. €1.1 million (shown under financial assets at FVTPL).

# Statement of financial position (cont'd)

| | as at 31 December 2016 € | as at 31 October 2016 € | as at 26 April 2016 € | as at 1 January 2016 € |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Called up share capital | **8,500,000** | 8,500,000 | 5,500,000 | 5,500,000 |
| Other reserves | **220,302** | 220,302 | 264,570 | 279,948 |
| Accumulated losses | **(3,894,025)** | (3,403,124) | (1,584,487) | (1,670,362) |
| **TOTAL EQUITY** | **4,826,277** | 5,317,178 | 4,180,083 | 4,109,586 |
| | | | | |
| **LIABILITIES** | | | | |
| Amounts owed to customers | **49,386,974** | 51,655,839 | 62,150,092 | 59,937,445 |
| Deferred tax liability | **-** | - | 3,039 | - |
| Current tax liability | **144,073** | 144,073 | 144,073 | 144,073 |
| Accruals and deferred income | **752,412** | 771,509 | 829,824 | 1,005,175 |
| Other liabilities | **260,441** | 62,326 | 1,050,188 | 124,580 |
| **TOTAL LIABILITIES** | **50,543,900** | 52,633,747 | 64,177,216 | 61,211,273 |
| | | | | |
| **TOTAL LIABILITIES AND TOTAL EQUITY** | **55,370,177** | 57,950,925 | 68,357,299 | 65,320,859 |

Subsequent to the MFSA's notification of appointment of the Competent Person, customer deposit withdrawals were the only transactions with depositors. Such withdrawals were permitted only in line with the limits imposed by the MFSA. By the end of 2016, the Bank's customer deposit portfolio decreased from c. €62.2 million to c. €49.4 million.

Additionally, during the period, the Bank capitalised an amount owed to its parent company amounting to €3 million and converted it into equity, thereby increasing the called up share capital to €8.5 million by the end of 2016.

The movement in other liabilities during the year is attributable to a deposit effected very close to the appointment of the Competent Person by a customer amounting to c. €900,000 which was held in suspense by the Bank until the Competent Person resolved not to accept the deposit in line with the MFSA's mandate, subsequent to which the funds were remitted back to the customer.

The Bank's other reserves also decreased as a result of movements in the fair value reserve on holdings of Malta Government Stocks.

# Income statement

| Income statement | for the year ended 1 January 2016 to 31 December 2016 € | for the period 27 April 2016 to 31 December 2016 € | for the period 1 January 2016 to 26 April 2016 € | for the period 27 April 2016 to 31 October 2016 € |
|---|---|---|---|---|
| **Interest receivable:** | | | | |
| - on loans and advances to the Central Bank of Malta & other banks | **31,174** | **(735)** | 31,909 | (1,591) |
| - on loans and advances to related parties | **39,480** | **32,126** | 7,354 | 24,256 |
| - on loans and advances to retail customers | **68,774** | **46,699** | 22,075 | 35,181 |
| - on loans and advances to corporate customers | **524,938** | **344,245** | 180,693 | 283,992 |
| - on AASA loans | **7,001,316** | **4,433,627** | 2,567,689 | 4,040,339 |
| - on debt and other fixed income instruments | **48,074** | **5,423** | 42,651 | 5,423 |
| Total interest receivable | **7,713,756** | **4,861,385** | 2,852,371 | 4,387,600 |
| **Interest payable:** | | | | |
| - on deposits held with Central Bank of Malta and other banks | **(73,170)** | **(71,889)** | (1,281) | (55,105) |
| - on customer deposits | **(1,328,225)** | **(897,739)** | (430,486) | (685,320) |
| - on AASA loans | **(5,388,958)** | **(3,536,050)** | (1,852,909) | (3,284,450) |
| Total interest payable | **(6,790,353)** | **(4,505,678)** | (2,284,676) | (4,024,875) |
| **Net interest income** | **923,403** | **355,707** | 567,696 | 362,725 |
| Net fee and commission income | **202,817** | **47,291** | 155,527 | 45,942 |
| Trading profits | **204,632** | **92,772** | 111,860 | 80,702 |
| Fund management income | **266,196** | **104,775** | 161,421 | 84,102 |
| Other items | **19,033** | **(2,602)** | 21,635 | (1,958) |
| **Total operating income** | **1,616,081** | **597,943** | 1,018,139 | 571,513 |

As can be illustrated, the majority of the Bank's revenue is derived from interest income on loans to customers, predominantly the AASA micro-loan portfolio, which amounted to c. €7 million during 2016.

As a direct cost, the Bank is charged fees (generally as a % of the total portfolio value on an ongoing basis) by AASA Oy/Yleislaina Oy with respect to origination and ongoing servicing of the portfolio on behalf of the Bank. Such costs amounted to c. €5.4 million in 2016.

The Bank's investment services activities also enable it to generate the following income:

i. Fund management fees with respect to the management of the Nordic Investment Funds (SICAV) Ltd which amounted to c. €266,000 in 2016; and

ii. Trading profits, which represent fair value gains on the Bank's direct holdings in the Fund, amounting to c. €205,000 in the same year.

The Bank to generate total operating income amounting to c. €1.6 million during 2016.

# Income statement (cont'd)

| Income statement | for the year ended 1 January 2016 to 31 December 2016 | for the period 27 April 2016 to 31 December 2016 | for the period 1 January 2016 to 26 April 2016 | for the period 27 April 2016 to 31 October 2016 |
|---|---|---|---|---|
| | € | € | € | € |
| Staff costs | **(1,257,529)** | **(827,265)** | (430,264) | (596,392) |
| General administrative expenses | **(1,562,397)** | **(1,163,952)** | (398,444) | (779,639) |
| Amortisation on intangible fixed assets | **(182,121)** | **(146,110)** | (36,011) | (79,599) |
| Depreciation on property, plant and equipment | **(73,403)** | **(52,099)** | (21,304) | (36,954) |
| Provision for impairment of loans and advances | **(1,981,285)** | **(1,981,285)** | - | (1,901,087) |
| **Total operating expenses** | **(5,056,735)** | **(4,170,710)** | (886,023) | (3,393,671) |
| **Loss/profit before tax** | **(3,440,654)** | **(3,572,767)** | 132,116 | (2,822,158) |
| Tax credit/(charge) | **1,216,989** | **1,263,229** | (46,240) | 1,003,522 |
| **(Loss)/profit after tax** | **(2,223,665)** | **(2,309,538)** | 85,876 | (1,818,636) |
| **Other comprehensive income** | | | | |
| **(Loss)/profit after tax** | **(2,223,665)** | **(2,309,538)** | 85,876 | (1,818,636) |
| Net (losses)/gains on available-for-sale financial assets | **(59,646)** | **(44,268)** | (15,378) | (44,268) |
| **Total comprehensive income** | **(2,283,311)** | **(2,353,806)** | 70,498 | (1,862,904) |

Subsequent to its appointment as Competent Person, PwC re-assessed and revised specific accounting provisions in respect of a number of borrowers (as explained in further detail in the Operational Developments Section).

This resulted in an increase in impairment allowances on loans advances for the year amounting to c. €2.0 million.

General and administration expenses predominantly comprise office rent, professional & legal services fees, regulatory fees, IT related costs and other general expenses.

Total general administration expenses during the 8 months from end April to December 2016 amounted to c. €1.1 million, of which, c. €467,000 comprises Competent Person fees.

By way of breakdown, general administrative expenses are analysed in further detail on the following page.

Taxation impacts relate to deferred tax asset recognition in respect of losses registered and provisions for impairment recognised; with deferred tax asset of €2.2 million recognised at year end.

# Analysis of general administrative expenses

The Bank's general administrative expenses for the year ended 31 December 2016 are analysed in the following table:

| For the period | Jan-Dec 16<br>€ | Apr-Dec 16<br>€ | Jan-Apr 16<br>€ | Apr-Oct 16<br>€ |
|---|---|---|---|---|
| Legal fees | 60,802 | 53,848 | 6,962 | 32,076 |
| Competent person fees | 467,568 | 467,568 | - | 300,107 |
| Other administration costs | 1,034,027 | 642,536 | 391,482 | 447,456 |
| **Total general administrative expenses** | **1,562,397** | **1,163,952** | **398,444** | **779,639** |

General administration expenses include fees charged by the Competent Person in line with its mandate.

The Bank also incurs legal fees which represent fees charged by the Bank's legal representatives in Malta and Finland with respect to their involvement in matters involving litigation, court action and other general legal advice. During 2016, this involved assistance with the Bank's first legal action by a depositor, [ ]. Legal fees also include judicial fees incurred by the Bank as a result of such court action.

# Analysis of movements in loan portfolio

| Period April 2016 to December 2016 | Dec-16 | | | Apr-16 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 1 | **1,310,897** | **-** | **1,310,897** | 1,932,172 | - | 1,932,172 | (621,275) | - |
| Client 2 | **1,203,125** | **1,203,125** | **-** | 1,234,375 | 274,308 | 960,067 | (31,250) | 928,817 |
| Client 3 (€1,180,000) | **1,180,000** | **-** | **1,180,000** | 1,180,000 | - | 1,180,000 | - | - |
| Client 3 (€800,000) | **-** | **-** | **-** | 800,000 | - | 800,000 | (800,000) | - |
| Client 4 (€2,250,000) | **1,147,959** | **234,277** | **913,682** | 2,250,000 | - | 2,250,000 | (1,102,041) | 234,277 |
| Client 4 (€200,000) | **102,041** | **20,825** | **81,216** | 200,000 | - | 200,000 | (97,959) | 20,825 |
| Client 5 | **940,000** | **208,891** | **731,109** | 940,000 | 208,891 | 731,109 | - | - |
| Client 6 | **911,290** | **411,290** | **500,000** | 911,290 | 911,290 | - | - | (500,000) |
| Client 7 | **600,000** | **300,000** | **300,000** | 600,000 | 300,000 | 300,000 | - | - |
| Client 8 | **508,750** | **500,000** | **8,750** | 522,500 | - | 522,500 | (13,750) | 500,000 |

# Analysis of movements in loan portfolio (cont'd)

| Period April 2016 to December 2016 | Dec-16 | | | Apr-16 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 9 (€300,000) | **247,164** | **-** | **247,164** | 254,326 | - | 254,326 | (7,162) | - |
| Client 9 (€75,000) | **63,989** | **-** | **63,989** | 65,676 | - | 65,676 | (1,687) | - |
| Client 10 | **209,407** | **209,407** | **-** | 210,000 | 210,000 | - | (593) | (593) |
| Client 11 | **200,000** | **200,000** | **-** | 200,000 | 200,000 | - | - | - |
| Client 12 | **139,500** | **-** | **139,500** | 147,250 | - | 147,250 | (7,750) | - |
| Client 13 | **75,000** | **75,000** | **-** | 75,000 | 75,000 | - | - | - |
| Client 14 | **52,308** | **-** | **52,308** | 53,778 | - | 53,778 | (1,470) | - |
| Client 15 | **41,723** | **-** | **41,723** | 42,878 | - | 42,878 | (1,154) | - |
| Client 16 | **38,400** | **-** | **38,400** | 42,900 | - | 42,900 | (4,500) | - |
| Client 17 | **19,782** | **19,782** | **-** | 19,782 | 19,782 | - | - | - |
| Client 18 | **7,184** | **7,184** | **-** | 7,184 | 7,184 | - | - | - |
| Client 19 | **6,184** | **6,184** | **-** | 6,184 | 6,184 | - | - | - |
| Client 20 | **-** | **-** | **-** | 809 | - | 809 | (809) | - |
| **Total** | **9,004,703** | **3,395,965** | **5,608,738** | 11,696,104 | 2,212,639 | 9,483,465 | (2,691,400) | 1,183,326 |

# Analysis of movements in AASA portfolio

The outstanding balance of micro-loans acquired by Nemea from AASA Oy/Yleislaina Oy (out of loans granted by AASA/Yleislaina) still outstanding within the portfolio are reflected in the table below:

| As at | 31-Dec-16 | 26-Apr-16 |
|---|---|---|
| | € | € |
| Current | 5,091,801 | 15,512,544 |
| 1-30 days | 160,367 | 77,478 |
| 31-60 days | 123,180 | 44,024 |
| 61-90 days | 104,062 | 32,908 |
| 91-360 days | 461,273 | 50,787 |
| >360 days | 21,499 | 983 |
| Total gross loans | 5,962,182 | 15,718,724 |
| | | |
| Provision for impairment | | |
| - Specific provision | (440,795) | (483,893) |
| - Collective provision | (837,324) | - |
| Total provision | (1,278,119) | (483,893) |
| | | |
| **Net Carrying Amount** | **4,684,063** | **15,234,831** |

In calculating provisions on micro-loans forming part of the AASA portfolio, the Bank adopts the following high level approach:

(i) Specific provisioning on non-performing loans which comprises of a full provision on those NPLs where the Bank deems that the amounts due by the customers are unrecoverable; and

(ii) Collective provisioning on the remaining portfolio balances where the Bank calculates a general provision at a collective portfolio level on all other balances by estimated credit loss allowances as a percentage of the remaining portfolio (including current loans) on the basis of best management judgement.

# Analysis of movements in AASA portfolio

The amounts due to the Bank in respect of AASA contractual arrangements attributable to customer repayments and reimbursement of non-performing loans identified as non-performing within a prescribed period subsequent to acquisition (which amounts are not reflected within the portfolio balances highlighted on the previous page) are reproduced in the table below:

| As at | 31-Dec-16<br>€ | 26-Apr-16<br>€ |
|---|---|---|
| **Other amounts due from AASA** | **411,631** | **717,997** |

# 3. Operational developments

# Reconfiguration of approval rights

- All transactions carried out by the bank require approval by PwC as Competent Person prior to execution. Accordingly in collaboration with Nemea Bank's IT team we reconfigured all operational systems to ensure that no transactions are executed without PwC's formal approval, amending authorisation or approval rights.
- In particular, no SWIFT transactions can be executed without PwC approval and accordingly the custody of SWIFT keys was transferred to PwC to be utilised upon authorisation of SWIFT transactions.
- We also managed reconfiguration of the front-end of the Bank's operational systems to ensure no bank customers or other third parties can execute any transactions with the bank without our prior acknowledgement and approval.
- Subsequent to appointment as Competent Person, we took control over all activities of the Bank, including lending, deposit handling, payments and treasury management activities, with a view to controlling all these processes. To the extent practicable, the operational processes were modified to facilitate processing, in accordance with the bank's procedures, by the bank's employees but subject to PwC's approval for all processes. System access and approval rights have been modified to facilitate these processes.

# Deposit withdrawal process

- The only permitted transactions between the bank and its depositors comprise daily withdrawals in line with the limits imposed by the MFSA. No other transactions are permitted and hence all other front end system options have been suppressed through intervention of the Bank's IT function on the systems.
- A daily process has been structured such that all withdrawal requests received or submitted prior to a cut off time on a particular day are processed on that same day with same value date subject to approval by PwC through manual direct intervention, and subject to approval by the correspondent bank. Straight through withdrawals have been suspended through the intervention of the Bank's IT function. The correspondent bank has put in place a rigorous process to assess and authorise all such withdrawals.
- Daily reconciliation process between requests received and withdrawals effected has been put in place; with automated and manual checks to ensure that all withdrawal requests are legitimate and in line with the MFSA withdrawal limits. Daily reporting of withdrawals by depositors is being submitted to the MFSA.
- PwC has maintained active communication with all depositors that have been in touch, including replies to phone calls (a call centre has been manned throughout all business hours), to email correspondence and to more formal correspondence through lawyers in a limited number of cases. A standard communication to all depositors has been issued to explain the status and situation on a regular basis.

# Treasury and liquidity management

Establishing control over the Bank's liquidity management by PwC in conjunction with the Bank's staff was necessary in view of 2 key objectives:

1) Ensuring that sufficient liquidity is available at all times to manage and execute all legitimate customer deposit withdrawals in line with the daily withdrawal limits imposed by the MFSA;

2) Protect the Bank from the likely legal actions by a number of key depositors (including one depositor with a deposit in the region of €10 million), considering the stance taken by such depositors in correspondence with the Competent Person and the Bank, and taking cognisance of the fact that one likely action could comprise garnishee orders thus blocking the Bank's liquidity. With the existing structure of funding and investments, the major depositor could essentially cripple the bank if garnishee orders are executed attacking all sources of liquidity and investments of the Bank. This risk was confirmed by the Bank's legal advisors (Ganado Advocates) and in conjunction with the legal advisors we structured an arrangement whereby all liquidity is placed with one institution (as a garnishee order by the key depositor would only block funds up to the extent of the deposit in substance) and potentially with an institution which is well versed with the situation of the Bank. The local core domestic banks were approached by the Bank's office in charge of bank relationships, but no interest was demonstrated by all such banks. Hence we resolved to go ahead with the Central Bank of Malta in this respect, notwithstanding the negative interest rate to be applied in relation to € balances. We sought approval from the MFSA; MFSA approved this arrangement.

# Treasury and liquidity management

- The Bank's holdings of Malta Government Stocks, term placements with banks, overnight/call accounts with banks and other liquid funds have been converted/transformed, as much as practicable, into liquid funds placed with the CBM to consolidate funds with one party and partially counter potential actions by Bank's significant deposit customers as outlined above.
- The Bank gradually shifted the balances held with other credit institutions from term placements to overnight deposits; as maturing term placements were not being rolled over.
- Term placements have accordingly been decreased and some even terminated with the exception of foreign currency placement with a specific bank.
- All liquidity is being placed with the Central Bank of Malta, covering EUR (subject to negative interest rates), USD and GBP, hence giving rise to significant balances held with the CBM.

# Lending portfolio activity

The Bank has a limited number of corporate and retail term loans (refer to analysis of movements in loan portfolio on the previous pages) and in view of the fact that no further loans or advances are permitted, the only transactions possible with lending customers are the handling of loan repayments. The loan book comprises a limited number of term loans to corporates and individuals, mainly Finnish.

Our role as Competent Person has thus focused significantly on the recoverability of the loan book of the entity, which loan book represents the key residual asset of Nemea, with a view to maximizing, to the extent practicable, repayments of or recoveries from such loans. PwC carried out an assessment to determine the recoverability of the Bank's exposures with a view to formulate recovery strategies e.g. through legal proceedings where necessary.

In conjunction with local and Finnish legal advisors:

1) we confirmed the existence and validity of the collateral as claimed in the respective client file;

2) we ensured that the collateral as per sanction letter or agreement has been perfected and if not, we investigated as to the reasons why this has not occurred; and

3) we confirmed the strength of and legal implications emanating from the collateral held by the bank.

# Lending portfolio activity

We engaged an independent Finnish real estate valuer to appraise the market value of property assets held as collateral for specific exposures.

Our findings in respect of a number of exposures comprise:

1) Collateral which the bank's management claimed was in place was in certain cases not in place or not effective;

2) Collateral to be obtained as per sanction letter or the loan facility was not secured;

3) Collateral or ranking was changed after underwriting with the shareholders of the bank being the ones effecting these changes without informing the governance structures of the Bank;

4) The legal and economic strength of certain collateral items resulted weaker than claimed by management taking into account the input of legal advisors in Finland engaged by the Competent Person; and

# Lending portfolio activity

5) Property valuations as per the independent valuers engaged by the Competent Person were always significantly lower than valuations the Bank previously held, which were in general too optimistic, too much weighted in favour of future development potential and were mainly commissioned directly by the Bank's customers.

These findings will have an impact on the next phase of recovery actions, including legal actions, and on the level of provisioning for impairment in the financial statements of the entity.

# AASA portfolio activity

The Bank had entered into agreements with AASA Oy/Yleislaina Oy (the parties) to purchase loans to Finnish/Estonian individuals which would have been originated by AASA Oy/Yleislaina Oy. Upon appointment as Competent Person, no further purchases under this agreement were deemed possible and accordingly only customer repayments are to be processed.

The arrangement has been structured in a very strange manner and very much pro AASA Oy/Yleislaina Oy. This arrangement is very difficult to manage by the Bank in view of the following circumstances:

1) No details about individual loans acquired by Nemea are provided to the Bank;
2) AASA Oy/Yleislaina Oy decide on and actually implement what credit actions to pursue for recovery purposes;
3) The Bank is totally dependent on information provided by the parties on status, recovery actions etc, with no direct access to systems;
4) All customers repay AASA Oy/Yleislaina Oy directly and the parties divert interest and capital repayments to the bank post receipt in line with reporting to the Bank with the Bank only in a position to match incoming funds to such reports; and

# AASA portfolio activity

5) AASA Oy/Yleislaina Oy carry out all servicing and accounting in respect of such portfolio with total dependence of the Bank on such parties.

We are managing the interaction with AASA Oy/Yleislaina Oy directly as Competent Person. The parties are claiming that in view of cessation of purchases of loans under the agreements, the Bank is deemed to have breached the terms of the contract. We are obviously arguing this is solely attributable to regulatory actions and cannot be ascribed as a breach of contract.

In the meantime the shareholding structure of AASA Oy/Yleislaina Oy has been modified without obtaining Nemea's consent. In our view this entitles Nemea to request repurchase of the portfolio at face value plus a management fee. We have made the position of the Bank clear, with legal advisors involved, but the other parties claim this is not the case. We will follow up on this, potentially escalating legal action.

We have also proposed that AASA/Yleislaina acquire the portfolio voluntarily, but the parties are not interested in such a transaction at this point in time.

# Credit management activities

We started handling directly the interaction with the Bank's customers within the Bank's corporate and retail portfolio (comprising a limited number of customers). Communication with a number of these customers is proving to be difficult, particularly with those that appear to have personal or business relationships with the Bank's shareholders and who are in arrears in relation to principal and interest repayments. Some customers are even avoiding contact and accordingly legal action might be instituted by the bank in certain cases.

We also handled directly the remittance of loan repayment requests to borrowers in accordance with the contractual arrangements with the clients with a view to enhancing and maximising collections from customers.

We managed the following principal repayments from the Bank's key customers within the loan portfolio:

i. loan repayments amounting to c. €1.2 million from Client 4 in line with the terms and conditions of the contract with the borrower;

ii. loan repayments of c. €800,000 in full and final settlement of one loan to Client 3; and

iii. offsetting deposits due to Client 1 against loan receivable amounts due from the same customer tor the amount of c. €600,000 in respect of the loan exposures to Client 1.

# Provisions for impairment on loans and advances

PwC also commenced review of impairment provisions as recorded in the financial statements of the entity to challenge whether these reflect the amounts actually expected to be recovered, on a prudent basis. This doesn't imply that the Competent Person will not pursue the recovery of amounts which have been provided for.

Hence during the period to 31 December 2016 the Competent Person re-assessed and revised specific accounting provisions in respect of a number of borrowers in order to more accurately reflect the Bank's position in this respect. More specifically, the following changes in provisions for impairment were deemed necessary:

i. recognised a specific provision amounting to c. €250,000 on the residual amount due by Client 4 after establishing the actual ranking of creditors in respect of property held as collateral and the valuation of the property held as collateral by an independent real estate valuer (both actions initiated by the Competent Person) taking into account the status on arrears;

ii. increased the specific provision on Client 2 by c. €900,000 giving rise to a full provision of c. €1.2 million on the exposure in view of the fact that the same property is utilised as collateral for another exposure of Nemea Bank (Client 5 exposure) and the valuation of the property as per independent real estate valuer (commissioned by the Competent Person) is not sufficient to provide cover in respect of the other exposure hence rendering Client 2 exposure effectively unsecured;

# Provisions for impairment on loans and advances

iii. recognised a specific provision amounting to c. €500,000 on Client 8 exposure (representing full provision on the exposure) in view of arrears and the fact that the exposure is effectively unsecured notwithstanding the information contained within the client file; and

iv. release in the specific provision in respect of the exposure to Client 6 from a full provision of c. €911,000 to c. €411,000 (release of €500,000) taking cognisance of the perfection of the mortgage on a vessel owned by the company effected during this period and the valuation of the vessel by an independent appraiser commissioned by the Bank. Both actions were instigated by the Competent Person.

# 4. Update on litigation and court action

# First legal action by a depositor

**Mr. Messaging Limited vs. Nemea Bank plc**

**Overview of the case**

Mr. Messaging Limited had deposits with Nemea Bank. Following regulatory notices issued by the MFSA, depositors were allowed to withdraw their deposits subject to a daily limit on withdrawals. Mr. Messaging Limited failed to withdraw funds in accordance with the daily limit imposed by the MFSA. Eventually, given the Bank's licence withdrawal by the ECB, Mr. Messaging could only claim under the Depositor Compensation Scheme. Consequently, Mr. Messaging Limited filed a lawsuit against Nemea for the repayment of the remaining amount of €313.823.35.

**Developments:** *Sworn application submitted on 28/11/2016.*

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Data Classification Policy: Restricted use (DC 2)

# Nemea Bank plc

**Competent Person Report:**
*January 2017 to June 2017*

Data Classification Policy: Restricted use (DC2)

# Table of contents

# 1. Key events

# Key events

26 April 2016 – MFSA appoints PwC as Competent Person and imposes a daily withdrawal limit of €250 for all the Bank's depositors

26 April 2016 – MFSA informs the Bank about the decisions referred to above

27 April 2016 – MFSA issues Public Notice in respect of the appointment of the Competent Person and the limit imposed on daily withdrawals by the Bank's depositors

18 July 2016 – MFSA issues Public Notice to publicise its decision to raise the limit on daily withdrawals by Bank depositors to €2,500 per day thus relaxing the earlier restrictions

20 January 2017 – MFSA communicates its decision to propose to the European Central Bank the withdrawal of Nemea Bank's licence

23 March 2017 – ECB implements the withdrawal of the banking licence of Nemea Bank

30 March 2017 – Determination by the MFSA regarding Nemea's inability to repay all liabilities hence invoking the intervention of the Depositor Compensation Scheme to compensate depositors amounts up to €100,000 per depositor

# 2. Financial information

# Statement of financial position

| | as at 30 June 2017 € | as at 31 December 2016 € |
|---|---|---|
| **ASSETS** | | |
| Balances with Central Bank of Malta, treasury bills and cash | **35,203,793** | 38,074,951 |
| Financial assets at fair value through profit and loss | **1,118,397** | 1,109,922 |
| Impairment of financial assets at fair value through profit and loss | **(559,198)** | - |
| Loans and advances to banks | **170,622** | 175,200 |
| Loans and advances to customers: | | |
| - Corporate portfolio | **7,273,516** | 7,379,063 |
| - Retail portfolio | **1,611,138** | 1,625,640 |
| - Group companies | **1,555,613** | 1,555,613 |
| - AASA portfolio | **4,688,957** | 5,962,182 |
| Impairment of loans and advances: | | |
| - Corporate portfolios | **(3,638,165)** | (2,653,408) |
| - Retail portfolio | **(1,042,557)** | (742,557) |
| - Group companies | **(774,124)** | - |
| - AASA portfolio | **(1,210,844)** | (1,278,119) |
| Intangible assets | **-** | 262,635 |
| Property, plant and equipment | **107,068** | 147,688 |
| Deferred tax asset | **-** | 2,158,714 |
| Prepayments and accrued income | **512,902** | 567,048 |
| Other assets | **1,729,297** | 1,025,605 |
| **TOTAL ASSETS** | **46,746,415** | 55,370,177 |

During the first 6 months of 2017, the following key changes to the Bank's asset base occurred :

i. a haircut to the fair value of the Bank's holdings in the Nordic Investment Funds (SICAV) Ltd was assigned by the Competent Person in view of the uncertainty surrounding the fund and the valuation of its assets;

ii. the movement in the AASA micro-loan portfolio amounting to c. €1.3 million is solely attributable to customer repayments;

iii. the remainder of the Bank's loan portfolio comprising loans to corporate & retail customers and related parties remained stable during the period;

iv. the deferred tax asset amounting to c. €2.2 million was reversed by the Competent Person in view of the withdrawal of the Bank's licence (i.e. the uncertainty of the Bank's ability to generate future profits); and

v. an increase in AASA arrangement related balances amounting to c. €700,000 (shown under 'other assets') also occurred noted during the period in view of the amounts withheld by AASA (further explained in the coming pages).

# Statement of financial position (cont'd)

| | as at 30 June 2017 € | as at 31 December 2016 € |
|---|---|---|
| **EQUITY** | | |
| Called up share capital | **8,500,000** | 8,500,000 |
| Other reserves | **220,302** | 220,302 |
| Accumulated losses | **(10,880,203)** | (3,894,025) |
| **TOTAL EQUITY** | **(2,159,901)** | 4,826,277 |
| | | |
| **LIABILITIES** | | |
| Amounts owed to customers | **13,397,072** | 49,386,974 |
| Amounts owed to Depositor Compensation Scheme | **35,082,922** | - |
| Current tax liability | **144,073** | 144,073 |
| Accruals and deferred income | **121,232** | 752,412 |
| Other liabilities | **161,017** | 260,441 |
| **TOTAL LIABILITIES** | **48,906,316** | 50,543,900 |
| | | |
| **TOTAL LIABILITIES AND TOTAL EQUITY** | **46,746,415** | 55,370,177 |

An increase of c. €6.9 million in accumulated losses was registered by the Bank as a result of significant losses registered during the six month period ended 30 June 2017.

Additionally, a liability amounting to €35.1 million was recognised by the Bank subsequent to the compensation of amounts up to €100,000 per depositor settled by the Depositor Compensation Scheme. This resulted in a corresponding decrease in amounts owed to customers.

# Income statement

| | for the period 1 January 2017 to 30 June 2017 € | for the period 27 April 2016 to 31 December 2016 € |
|---|---|---|
| **Interest receivable:** | | |
| - on loans and advances to the Central Bank of Malta & other banks | **1,745** | (735) |
| - on loans and advances to related parties | **23,353** | 32,126 |
| - on loans and advances to retail customers | **33,607** | 46,699 |
| - on loans and advances to corporate customers | **202,743** | 344,245 |
| - on AASA loans | **587,248** | 4,433,627 |
| - on debt and other fixed income instruments | **-** | 5,423 |
| Total interest receivable | **848,696** | 4,861,385 |
| **Interest payable:** | | |
| - on deposits held with Central Bank of Malta and other banks | **(60,575)** | (71,889) |
| - on customer deposits | **(303,115)** | (897,739) |
| - on AASA loans | **(480,217)** | (3,536,050) |
| Total interest payable | **(843,907)** | (4,505,678) |
| **Net interest income** | **4,789** | 355,707 |
| Net fee and commission income | **611** | 47,291 |
| Trading profits | **8,475** | 92,772 |
| Fund management income | **99,595** | 104,775 |
| Other items | **(52,343)** | (2,602) |
| **Total operating income** | **61,127** | 597,943 |

As can be illustrated, the Bank's interest income generated during the 6 month period ended 30 June 2017 amounted to c. €849,000, which is significantly lower than the comparative period. This is primarily due to the fact that the Bank allowed its AASA micro-loan portfolio to run-off, as a result of which interest income from the portfolio decreased from €4.4 million in the previous period to only c. €587,000 within the current period.

The Bank also continued to earn fund management fees with respect to the management of the Nordic Investment Funds (SICAV) Ltd which amounted to c. €99,500 during the period.

# Income statement (cont'd)

| | for the period 1 January 2017 to 30 June 2017 € | for the period 27 April 2016 to 31 December 2016 € |
|---|---|---|
| Staff costs | **(558,130)** | (827,264) |
| General administrative expenses | **(1,169,495)** | (1,163,952) |
| Amortisation on intangible fixed assets | **(52,449)** | (146,110) |
| Depreciation on property, plant and equipment | **(25,581)** | (52,100) |
| Provision for impairment of loans and advances | **(3,082,936)** | (1,981,285) |
| **Total operating expenses** | **(4,888,591)** | (4,170,711) |
| **Loss before tax** | **(4,827,464)** | (3,572,768) |
| (Deferred tax charge)/current tax credit | **(2,158,714)** | 1,263,229 |
| **Loss after tax** | **(6,986,177)** | (2,309,539) |

Staff payroll costs for the period decreased by c. €269,000 compared to the prior period, mainly due to the fact that the Bank's staff complement started declining during the period with a number of resignations, which posts were not occupied again.

Additionally, the Bank further increased its impairment allowances on loans advances to customers by c. €3 million during the period, subsequent to further re-assessment by the Competent Person (including valuation of security held as collateral by an independent professionally qualified valuer appointed by the Competent Person).

During the period, the Bank's general administrative expenses remained comparable to the prior period and amounted to c. €1.2 million. The Bank's general administrative expenses are analysed in further detail on the following page.

# Analysis of general administrative expenses

The Bank's general administrative expenses for the period ended 30 June 2017 are analysed in the following table:

| For the period | Jan-Jun 17<br>€ | Apr-Dec 16<br>€ |
|---|---|---|
| Legal fees | 162,818 | 53,848 |
| Competent person fees | 214,972 | 467,568 |
| Other administration costs | 791,705 | 642,536 |
| **Total general administrative expenses** | **1,169,495** | **1,163,952** |

General administration expenses include fees charged by the Competent Person in line with its mandate.

The Bank also incurs legal fees which represent fees charged by the Bank's legal representatives in Malta and Finland with respect to their involvement in matters involving litigation, court action and other general legal advice. Legal fees also include judicial fees incurred by the Bank as a result of such court action.

# Analysis of movements in loan portfolio

| Period from January 2017 to June 2017 | Jun-17 | | | Jan-17 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 1 | **1,278,124** | **-** | **1,278,124** | 1,310,897 | - | 1,310,897 | (32,773) | - |
| Client 2 | **1,203,125** | **1,203,125** | **-** | 1,203,125 | 1,203,125 | - | - | - |
| Client 3 (€1,180,000) | **1,180,000** | **-** | **1,180,000** | 1,180,000 | - | 1,180,000 | - | - |
| Client 4 (€2,250,000) | **1,147,959** | **470,733** | **677,226** | 1,147,959 | 234,277 | 913,682 | - | 236,456 |
| Client 4 (€200,000) | **29,267** | **29,267** | **-** | 102,041 | 20,825 | 81,216 | (72,774) | 8,442 |
| Client 5 | **940,000** | **940,000** | **-** | 940,000 | 208,891 | 731,109 | - | 731,109 |
| Client 6 | **911,290** | **411,290** | **500,000** | 911,290 | 411,290 | 500,000 | - | - |
| Client 7 | **600,000** | **600,000** | **-** | 600,000 | 300,000 | 300,000 | - | 300,000 |
| Client 8 | **508,750** | **508,750** | **-** | 508,750 | 500,000 | 8,750 | - | 8,750 |
| Client 9 (€300,000) | **242,343** | **-** | **242,343** | 247,164 | - | 247,164 | (4,821) | - |
| Client 9 (€75,000) | **62,853** | **-** | **62,853** | 63,989 | - | 63,989 | (1,136) | - |

# Analysis of movements in loan portfolio (cont'd)

| Period from January 2017 to June 2017 | Jun-17 | | | Jan-17 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 10 | **209,407** | **209,407** | **-** | 209,407 | 209,407 | - | - | - |
| Client 11 | **200,000** | **200,000** | **-** | 200,000 | 200,000 | - | - | - |
| Client 12 | **135,625** | **-** | **135,625** | 139,500 | - | 139,500 | (3,875) | - |
| Client 13 | **75,000** | **75,000** | **-** | 75,000 | 75,000 | - | - | - |
| Client 14 | **51,179** | **-** | **51,179** | 52,308 | - | 52,308 | (1,129) | - |
| Client 15 | **40,682** | **-** | **40,682** | 41,723 | - | 41,723 | (1,041) | - |
| Client 16 | **35,900** | **-** | **35,900** | 38,400 | - | 38,400 | (2,500) | - |
| Client 17 | **19,782** | **19,782** | **-** | 19,782 | 19,782 | - | - | - |
| Client 18 | **7,184** | **7,184** | **-** | 7,184 | 7,184 | - | - | - |
| Client 19 | **6,184** | **6,184** | **-** | 6,184 | 6,184 | - | - | - |
| **Total** | **8,884,654** | **4,680,722** | **4,203,932** | 9,004,703 | 3,395,965 | 5,608,738 | (120,049) | 1,284,757 |

# Analysis of movements in AASA portfolio

The outstanding balance of micro-loans acquired by Nemea from AASA Oy/Yleislaina Oy (out of loans granted by AASA/Yleislaina) still outstanding within the portfolio are reflected in the table below:

| As at | 30-Jun-17<br>€ | 31-Dec-16<br>€ | 26-Apr-16<br>€ |
|---|---|---|---|
| Current | 2,980,001 | 5,091,801 | 15,512,544 |
| 1-30 days | 243,781 | 160,367 | 77,478 |
| 31-60 days | 218,482 | 123,180 | 44,024 |
| 61-90 days | 118,959 | 104,062 | 32,908 |
| 91-360 days | 930,336 | 461,273 | 50,787 |
| >360 days | 197,398 | 21,499 | 983 |
| Total gross loans | 4,688,957 | 5,962,182 | 15,718,724 |
| | | | |
| Provision for impairment | | | |
| - Specific provision | (417,593) | (440,795) | (483,893) |
| - Collective provision | (793,251) | (837,324) | - |
| Total provision | (1,210,844) | (1,278,119) | (483,893) |
| | | | |
| **Net Carrying Amount** | **3,478,113** | **4,684,063** | **15,234,831** |

In calculating provisions on micro-loans forming part of the AASA portfolio, the Bank adopts the following high level approach:

(i) Specific provisioning on non-performing loans which comprises of a full provision on those NPLs where the Bank deems that the amounts due by the customers are unrecoverable; and

(ii) Collective provisioning on the remaining portfolio balances where the Bank calculates a general provision at a collective portfolio level on all other balances by estimated credit loss allowances as a percentage of the remaining portfolio (including current loans) on the basis of best management judgement.

# Analysis of movements in AASA portfolio

The amounts due to the Bank in respect of AASA contractual arrangements attributable to customer repayments and reimbursement of non-performing loans identified as non-performing within a prescribed period subsequent to acquisition (which amounts are not reflected within the portfolio balances highlighted on the previous page) are reproduced in the table below. Kindly also refer to page 17 whereby the amounts withheld by AASA and hence reflected within the receivables below are explained in detail.

| As at | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|
| | € | € | € |
| **Other amounts due from AASA** | **1,524,480** | **411,631** | **717,997** |

# 3. Operational developments

# Determination by MFSA and compensation by DCS

Determination by the MFSA regarding Nemea's inability to repay all liabilities has been announced during the period, hence invoking the intervention of the Depositor Compensation Scheme to compensate depositors for amounts up to €100,000 per depositor.

In our role as the Competent Person for Nemea Bank, pursuant to regulation 20 of the Depositor Compensation Scheme Regulations, we set up in motion in conjunction with the Scheme a process to facilitate the compensation process by the DCS by:

1) providing all the information about the depositors of Nemea to the DCS which information was deemed necessary for the purposes of effecting the compensation;

2) reconciling the data submitted to the Scheme to the bank's internal records and the Scheme's records;

3) reconciling the compensation amounts actually effected by the DCS to the bank's records to ensure there is agreement on the liability to the Scheme by both parties; and

4) provided further information and assistance to communicate with a number of depositors in respect of whom compensation was not effected successfully in the initial attempts.

# AASA portfolio activity

Communication with AASA Oy/Yleislaina Oy was followed up but discussions remain difficult. A number of meetings have been held in this respect.

AASA are making 2 further claims and have withheld payments due to the bank amounting to c. €1 million (reflected as other assets within the balance sheet of Nemea Bank as dues from customer portfolio have been adjusted) out of customer repayments in view of:

1) Alleged error in computing interest income attributable to the bank as AASA is claiming interest is due to the bank on a cash basis, which claim cannot be backed by a clause located in the agreements in place;

2) Partial refund of payment effected to the Bank in prior years in view of ceased purchases of loans which according to the Bank is not refundable; a photo of a document signed by one of the shareholders of the bank has been produced to sustain offset of such refund against dues to the bank but this document is very dubious and a copy of this document cannot be located within the bank's records.

We rejected vigorously both claims.

We are also experiencing difficulties in obtaining information from AASA in order to assess and understand the credit management and recovery actions undertaken by AASA on behalf of the bank.

The possibility of initiating legal action is being considered in conjunction with the bank's legal advisors.

# Credit management activities

Communication with Client 2, one of the bank's loan customers, has stalled and the collateral position has weakened following the bankruptcy proceedings initiated with respect to Entity A. The client has been in arrears for a period of time and hence legal action has been triggered.

Legal actions have been initiated by the bank against Client 7 and Client 4 – refer to detail in coming pages.

# Provisions for impairment of loans and advances

During the period, PwC re-assessed and revised specific accounting provisions in respect of a number of borrowers in order to more accurately reflect the Bank's position in this respect. More specifically, the following changes were reflected:

i. increased the specific provision of Client 4 from c. €250,000 to c. €500,000 after a more detailed assessment of the implications of findings in relation to the actual ranking of creditors in respect of the residual property held as collateral and the valuation of the residual property held as collateral by an independent real estate valuer. Taking into account the status on arrears with the client being in arrears on one of the two loans and the fact the communication with the said client stalled, legal action against the client has been initiated.

ii. increased the specific provision on exposure to Client 7 from €300,000 to a full provision of €600,000 as the loan matured without being repaid during the period and communication with Client 7 is proving to be difficult as the customer is avoiding contact. Client 7 is also one of the shareholders of [ ], with which entity the Bank has a contractual arrangement, and the bank is having difficulties in its relationship with [ ]. Legal action against Client 7 has been initiated.

# Provisions for impairment of loans and advances

iii. increased the specific provision on Client 5 exposure from c. €209,000 to a full provision of €940,000 as bankruptcy proceedings were initiated in respect of the parent company of the borrower ([Entity A]) thereby reducing the chances of recovery taking cognisance of the indebtedness of the Entity A group. The principal collateral held by the Bank is property owned directly by a subsidiary of Entity A. The client has been in arrears for a period of time.

iv. recognised a specific provision amounting to c. €800,000 on the exposure to Related Party (i.e. the loan issued to the Bank's parent company) representing 50% of the exposure to the debtor which was previously not provided for. The withdrawal of the licence is likely to give rise to a situation where the parent of the bank will not honour its commitments. Also the collateral position has weakened significantly following the developments at the level of Entity A.

# 4. Update on litigation and court action

# Developments in respect of court cases initiated by a depositor

**Mr. Messaging Limited vs. Nemea Bank plc**

**Overview of the case**

Mr. Messaging Limited had deposits with Nemea Bank. Following regulatory notices issued by the MFSA, depositors were allowed to withdraw their deposits subject to a daily limit on withdrawals. Mr. Messaging Limited failed to withdraw funds in accordance with the daily limit imposed by the MFSA. Eventually, given the Bank's licence withdrawal by the ECB, Mr. Messaging could only claim under the Depositor Compensation Scheme. Consequently, Mr. Messaging Limited filed a lawsuit against Nemea for the repayment of the remaining amount of €313.823.35.

**Developments:** *No material developments during the period.*

# Bank initiated lawsuits against specific defaulting customers

### Nemea Bank plc vs. Jukka Svensk

Jukka Svensk took a loan from Nemea pursuant to a loan agreement for the amount of €600,000. Jukka Svensk defaulted on the payments of the said loan. A lawsuit was filed by Nemea for the repayment of the loan for the amount of €645,720 (inclusive of interest to date of filing).

**Developments:** *Sworn application filed on 24/05/2017.*

### Nemea Bank plc vs. Linerik OY and Henrik Lindfors

Linerik OY took a loan from Nemea Bank plc for €2,050,000 and Henrik Lindfors acted as personal guarantor on the said loan. Respondents defaulted on the payments of the said loan. Lawsuit instituted for the repayment of the loan for €1,249,578.99 (including principal and interest to date of lawsuit).

**Developments:** *Sworn application filed on 24/05/2017.*

### Nemea Bank plc vs. Liberi OY and Pasi Tapani Tinnila

Liberi OY took two loans from Nemea Bank plc amounting to €200,000 (Loan 1) and €2,250,000 (Loan 2). Pasi Tinnila acted as personal guarantor on the said loans. Respondents defaulted on the payments of the loans. The bank filed a lawsuit for the repayment of the said loans for €29,978.89 (Loan 1) and €1,188,437.31 (Loan 2), both including principal and interest to date of lawsuit.

**Developments:** *Sworn application filed on 24/05/2017.*

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# Nemea Bank plc

**Competent Person Report:**
*July 2017 to December 2017*

Data Classification Policy: Restricted use (DC2)

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# 1. Key events

# Key events

26 April 2016 – MFSA appoints PwC as Competent Person and imposes a daily withdrawal limit of €250 for all the Bank's depositors

26 April 2016 – MFSA informs the Bank about the decisions referred to above

27 April 2016 – MFSA issues Public Notice in respect of the appointment of the Competent Person and the limit imposed on daily withdrawals by the Bank's depositors

18 July 2016 – MFSA issues Public Notice to publicise its decision to raise the limit on daily withdrawals by Bank depositors to €2,500 per day thus relaxing the earlier restrictions

20 January 2017 – MFSA communicates its decision to propose to the European Central Bank the withdrawal of Nemea Bank's licence

23 March 2017 – ECB implements the withdrawal of the banking licence of Nemea Bank

30 March 2017 – Determination by the MFSA regarding Nemea's inability to repay all liabilities hence invoking the intervention of the Depositor Compensation Scheme to compensate depositors amounts up to €100,000 per depositor

# 1. Financial information

# Statement of financial position

| | as at 31 December 2017 € | as at 30 June 2017 € |
|---|---|---|
| **ASSETS** | | |
| Balances with Central Bank of Malta, treasury bills and cash | **35,877,816** | 35,203,793 |
| Financial assets at fair value through profit and loss | **882,006** | 1,118,397 |
| Impairment of financial assets at fair value through profit and loss | **(441,003)** | (559,198) |
| Loans and advances to banks | **-** | 170,622 |
| Loans and advances to customers: | | |
| - Corporate portfolio | **7,107,096** | 7,273,516 |
| - Retail portfolio | **1,567,234** | 1,611,138 |
| - Group companies | **1,555,613** | 1,555,613 |
| - AASA portfolio | **4,020,171** | 4,688,957 |
| Impairment of loans and advances: | | |
| - Corporate portfolios | **(3,624,416)** | (3,638,165) |
| - Retail portfolio | **(1,042,556)** | (1,042,557) |
| - Group companies | **(787,874)** | (774,124) |
| - AASA portfolio | **(1,351,332)** | (1,210,844) |
| Property, plant and equipment | **85,684** | 107,068 |
| Prepayments and accrued income | **496,034** | 512,902 |
| Other assets | **1,379,406** | 1,729,297 |
| **TOTAL ASSETS** | **45,723,879** | 46,746,415 |

During the 6 months ended 31 December 2017, the following key changes to the Bank's asset base occurred:

i. the movement in the Bank's loan portfolio is solely attributable to customer repayments, including c. €700,000 in repayments on the AASA micro-loan portfolio;

ii. accordingly, the Bank's balances with the Central Bank of Malta increased by c. €700,000 during the period, mainly as a result of loan repayments received (reduced through payment of the Bank's expenses during the period);

iii. no significant changes to the Bank's impairment allowances in respect of loans and advances to customers were effected during the period;

iv. the fair value of the Bank's holdings in the Nordic Investment Funds (SICAV) Ltd was revised during the period, resulting in a lower valuation of the bank's units amounting to c. €882,000 at 31 December 2017.

# Statement of financial position (cont'd)

| | as at 31 December 2017 € | as at 30 June 2017 € |
|---|---|---|
| **EQUITY** | | |
| Called up share capital | **8,500,000** | 8,500,000 |
| Other reserves | **220,302** | 220,302 |
| Accumulated losses | **(11,508,734)** | (10,880,203) |
| **TOTAL EQUITY** | **(2,788,432)** | (2,159,901) |
| | | |
| **LIABILITIES** | | |
| Amounts owed to customers | **12,804,975** | 13,397,072 |
| Amounts owed to Depositor Compensation Scheme | **35,217,715** | 35,082,922 |
| Current tax liability | **144,073** | 144,073 |
| Accruals and deferred income | **125,051** | 121,232 |
| Other liabilities | **220,497** | 161,017 |
| **TOTAL LIABILITIES** | **48,512,310** | 48,906,316 |
| | | |
| **TOTAL LIABILITIES AND TOTAL EQUITY** | **45,723,879** | 46,746,415 |

Predominantly, the Bank's overall funding position remained stable during the period, with the key movements being the following:

i. a change in the value of loans and advances to customers as a result foreign exchange rate fluctuations (mainly attributable to a customer deposit amounting to c. $10 million); and

ii. an increase in accumulated losses to c. €11.5 million as a result of losses registered by the Bank during the period.

# Income statement

| | for the period 1 July 2017 to 31 December 2017 € | for the period 1 January 2017 to 30 June 2017 € |
|---|---|---|
| **Interest receivable:** | | |
| - on loans and advances to the Central Bank of Malta & other banks | **-** | 1,745 |
| - on loans and advances to related parties | **23,740** | 23,353 |
| - on loans and advances to retail customers | **33,588** | 33,607 |
| - on loans and advances to corporate customers | **202,810** | 202,743 |
| - on AASA loans | **346,844** | 587,248 |
| Total interest receivable | **606,982** | 848,696 |
| **Interest payable:** | | |
| - on deposits held with Central Bank of Malta and other banks | **(71,666)** | (60,575) |
| - on customer deposits | **-** | (303,115) |
| - on AASA loans | **(275,137)** | (480,217) |
| Total interest payable | **(346,803)** | (843,907) |
| **Net interest income** | **260,179** | 4,789 |
| Net fee and commission income | **122** | 610 |
| Trading (losses)/profit | **(236,391)** | 8,475 |
| Fund management income | **6,696** | 99,595 |
| Other items | **(27,659)** | (52,342) |
| **Total operating income** | **2,947** | 61,127 |

As can be illustrated, the Bank's interest income generated during the 6 month period ended 31 December 2017 amounted to c. €607,000 which is approximately in line with the prior period, mainly arising from interest income on corporate loans and the AASA micro-loan portfolio.

Following the withdrawal of the licence, no interest is payable on the residual deposits hence impacting positively net interest income.

The Bank also recognised a negative fair value movement in the value of the units in Nordic Investment Funds (SICAV) Ltd amounting to c. €236,000, presented under trading losses.

# Income statement (cont'd)

| | for the period 1 July 2017 to 31 December 2017 € | for the period 1 January 2017 to 30 June 2017 € |
|---|---|---|
| Staff costs | **(193,033)** | (558,130) |
| General administrative expenses | **(228,508)** | (1,169,495) |
| Amortisation on intangible fixed assets | **-** | (52,449) |
| Depreciation on property, plant and equipment | **(21,759)** | (25,581) |
| Provision for impairment of loans and advances | **(188,178)** | (3,082,936) |
| **Total operating expenses** | **(631,478)** | (4,888,591) |
| **Loss before tax** | **(628,531)** | (4,827,464) |
| Deferred tax charge | **-** | (2,158,714) |
| **Loss after tax** | **(628,531)** | (6,986,178) |

A further decrease in staff payroll costs amounting to c. €365,000 may be noted, mainly owing to the fact that the Bank further reduced its staff complement during the period. The bank terminated the residual staff members during this six month period.

Additionally, the Bank further increased its impairment allowances on loans and advances to customers by c. €188,000 during the period, subsequent to further re-assessment by the Competent Person (including provisions on the AASA loan portfolio).

Total general administration expenses amounted to €228,000, of which, c. €103,000 comprises Competent Person fees.

By way of breakdown, general administrative expenses are analysed in further detail on the following page.

# Analysis of general administrative expenses

The Bank's general administrative expenses for the year ended 31 December 2017 are analysed in the following table:

| For the period | Jul-Dec 17<br>€ | Jan-Jun 17<br>€ |
|---|---|---|
| Legal fees | 69,312 | 162,818 |
| Competent person fees | 103,569 | 214,972 |
| Other administration costs | 55,627 | 791,705 |
| **Total general administrative expenses** | **228.508** | **1,169,495** |

General administration expenses include fees charged by the Competent Person in line with its mandate.

The Bank also incurs legal fees which represent fees charged by the Bank's legal representatives in Malta and Finland with respect to their involvement in matters involving litigation, court action and other legal advice. Legal fees also include judicial fees incurred by the Bank as a result of such court action.

Other administration costs increased drastically following the termination of the residual staff members and termination of the property lease arrangement in respect of office space. Operations from the bank's office were formally terminated from July 2017 – all activities from then onwards have been taken over by PwC as Competent Person as no employees were retained. This had a major impact on a number of administrative expense types.

# Analysis of movements in loan portfolio

| Period from July 2017 to December 2017 | Dec-17 | | | Jul-17 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 2 | **1,203,125** | **1,203,125** | **-** | 1,203,125 | 1,203,125 | - | - | - |
| Client 3 (€1,180,000) | **1,180,000** | **-** | **1,180,000** | 1,180,000 | - | 1,180,000 | - | - |
| Client 4 (€2,250,000) | **1,147,959** | **470,733** | **677,226** | 1,147,959 | 470,733 | 677,226 | - | - |
| Client 4 (€200,000) | **29,267** | **29,267** | **-** | 29,267 | 29,267 | 0 | - | - |
| Client 1 | **1,125,446** | **-** | **1,125,446** | 1,278,124 | - | 1,278,124 | (152,678) | - |
| Client 5 | **940,000** | **940,000** | **-** | 940,000 | 940,000 | - | - | - |
| Client 6 | **911,290** | **411,290** | **500,000** | 911,290 | 411,290 | 500,000 | - | - |
| Client 7 | **600,000** | **600,000** | **-** | 600,000 | 600,000 | - | - | - |
| Client 8 | **495,000** | **495,000** | **-** | 508,750 | 508,750 | - | (13,750) | (13,750) |

# Analysis of movements in loan portfolio (cont'd)

| Period from July 2017 to December 2017 | Dec-17 | | | Jul-17 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 9 (€300,000) | **237,518** | **-** | **237,518** | 242,343 | - | 242,343 | (4,825) | - |
| Client 9 (€75,000) | **61,716** | **-** | **61,716** | 62,853 | - | 62,853 | (1,137) | - |
| Client 10 | **209,407** | **209,407** | **0** | 209,407 | 209,407 | 0 | - | - |
| Client 11 | **200,000** | **200,000** | **-** | 200,000 | 200,000 | - | - | - |
| Client 12 | **135,625** | **-** | **135,625** | 135,625 | - | 135,625 | - | - |
| Client 13 | **75,000** | **75,000** | **-** | 75,000 | 75,000 | - | - | - |
| Client 14 | **50,047** | **-** | **50,047** | 51,179 | - | 51,179 | (1,132) | - |
| Client 15 | **39,780** | **-** | **39,780** | 40,682 | - | 40,682 | (902) | - |
| Client 17 | **19,782** | **19,782** | **(0)** | 19,782 | 19,782 | (0) | - | - |
| Client 18 | **7,184** | **7,184** | **(0)** | 7,184 | 7,184 | (0) | - | - |
| Client 19 | **6,184** | **6,184** | **(0)** | 6,184 | 6,184 | (0) | - | - |
| Client 16 | **-** | **-** | **-** | 35,900 | - | 35,900 | (35,900) | - |
| **Total** | **8,674,330** | **4,666,972** | **4,007,358** | 8,884,654 | 4,680,722 | 4,203,932 | (210,324) | (13,750) |

# Analysis of movements in AASA portfolio

The outstanding balance of micro-loans acquired by Nemea from AASA Oy/Yleislaina Oy (out of loans granted by AASA/Yleislaina) still outstanding within the portfolio are reflected in the table below:

| As at | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|
| | € | € | € | € |
| Current | 752,259 | 2,980,001 | 5,091,801 | 15,512,544 |
| 1-30 days | 291,949 | 243,781 | 160,367 | 77,478 |
| 31-60 days | 275,993 | 218,482 | 123,180 | 44,024 |
| 61-90 days | 331,725 | 118,959 | 104,062 | 32,908 |
| 91-360 days | 1,698,314 | 930,336 | 461,273 | 50,787 |
| >360 days | 669,931 | 197,398 | 21,499 | 983 |
| Total gross loans | 4,020,171 | 4,688,957 | 5,962,182 | 15,718,724 |
| Provision for impairment | | | | |
| - Specific provision | (561,075) | (417,593) | (440,795) | (483,893) |
| - Collective provision | (790,257) | (793,251) | (837,324) | - |
| Total provision | (1,351,332) | (1,210,844) | (1,278,119) | (483,893) |
| **Net Carrying Amount** | **2,668,839** | **3,478,113** | **4,684,063** | **15,234,831** |

In calculating provisions on micro-loans forming part of the AASA portfolio, the Bank adopts the following high level approach:

(i) Specific provisioning on non-performing loans which comprises of a full provision on those NPLs where the Bank deems that the amounts due by the customers are unrecoverable; and

(ii) Collective provisioning on the remaining portfolio balances where the Bank calculates a general provision at a collective portfolio level on all other balances by estimated credit loss allowances as a percentage of the remaining portfolio (including current loans) on the basis of best management judgement.

# Analysis of movements in AASA portfolio

The amounts due to the Bank in respect of AASA contractual arrangements attributable to customer repayments and reimbursement of non-performing loans identified as non-performing within a prescribed period subsequent to acquisition (which amounts are not reflected within the portfolio balances highlighted on the previous page) are reproduced in the table below. The amounts also include balances withheld by AASA in an unauthorised manner according to the bank.

| As at | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|
| | € | € | € | € |
| **Other amounts due from AASA** | **1,533,839** | **1,524,480** | **411,631** | **717,997** |

# 2. Operational developments

# Credit management activities

The Competent Person has negotiated early repayment terms with Client 1 in respect of an amount of c. €153,000. In order to facilitate this, PwC worked in conjunction with Nordia Law, which acted as the Bank's Finnish legal counsel, to arrange release of collateral requested by the borrower in the context of the repayment being effected.

Communication with Client 1 and Client 3 has been effectively managed during the period to secure eventual recovery of the amounts due from these two customers, which remain the only two major customers which can be considered performing within the portfolio.

In view of lack of progress registered with AASA Oy, legal action against the entity has been initiated.

# Administrative measures following withdrawal of licence

In view of the fact that the licence of the Bank has been withdrawn, a number of administrative measures were taken by the Competent Person to reduce the administrative costs of the entity and simultaneously retain the basic infrastructure necessary to safeguard future reporting and other responsibilities:

1) managed the resignation of a significant part of the employees;

2) terminated the residual number of employees subject to 3 month notice period;

3) terminated the lease of the office without incurring the penalties and notice period established in the agreement subject to exiting on an agreed upon date.

# 3. Update on litigation and court action

# Nemea initiated court action in respect of AASA arrangement

**Nemea Bank plc vs. AASA Oy/Yleislaina Oy**

Nemea instituted a case for breach of contractual terms by AASA Oy/Yleislaina Oy (the respondents) and for the repayment of outstanding sums lent to the respondents under the terms of various contracts entered into between the Parties.

**Developments:** *Sworn application submitted. The parties submitted evidence regarding the preliminary plea raised by the respondents in respect of the jurisdiction of the First Hall Civil Court to hear the case. Nemea submitted Fabio Axisa's affidavit together with documentary evidence.*

# Developments in respect of court cases initiated by a depositor

## Mr. Messaging Limited vs. Nemea Bank plc

### Overview of the case

Mr. Messaging Limited had deposits with Nemea Bank. Following regulatory notices issued by the MFSA, depositors were allowed to withdraw their deposits subject to a daily limit on withdrawals. Mr. Messaging Limited failed to withdraw funds in accordance with the daily limit imposed by the MFSA. Eventually, given the Bank's licence withdrawal by the ECB, Mr. Messaging could only claim under the Depositor Compensation Scheme. Consequently, Mr. Messaging Limited filed a lawsuit against Nemea for the repayment of the remaining amount of €313.823.35.

**Developments:** *No material developments during the period.*

# Developments in respect of court cases initiated by the Bank

## Nemea Bank plc vs. Jukka Svensk

Jukka Svensk took a loan from Nemea pursuant to a loan agreement for the amount of €600,000. Jukka Svensk defaulted on the payments of the said loan. A lawsuit was filed by Nemea for the repayment of the loan for the amount of €645,720 (inclusive of interest to date of filing).

**Developments:** *No material developments during the period.*

## Nemea Bank plc vs. Linerik OY and Henrik Lindfors

Linerik OY took a loan from Nemea Bank plc for €2,050,000 and Henrik Lindfors acted as personal guarantor on the said loan. Respondents defaulted on the payments of the said loan. Lawsuit instituted for the repayment of the loan for €1,249,578.99 (including principal and interest to date of lawsuit).

**Developments:** *No material developments during the period.*

## Nemea Bank plc vs. Liberi OY and Pasi Tapani Tinnila

Liberi OY took two loans from Nemea Bank plc amounting to €200,000 (Loan 1) and €2,250,000 (Loan 2). Pasi Tinnila acted as personal guarantor on the said loans. Respondents defaulted on the payments of the loans. The Bank filed a lawsuit for the repayment of the said loans for €29,978.89 (Loan 1) and €1,188,437.31 (Loan 2), both including principal and interest to date of lawsuit.

**Developments:** *No material developments during the period.*

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# Nemea Bank plc

**Competent Person Report:**
*January 2018 to June 2018*

Data Classification Policy: Restricted use (DC2)

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# Table of contents

# 1. Key events

# Key events

26 April 2016 – MFSA appoints PwC as Competent Person and imposes a daily withdrawal limit of €250 for all the Bank's depositors

26 April 2016 – MFSA informs the Bank about the decisions referred to above

27 April 2016 – MFSA issues Public Notice in respect of the appointment of the Competent Person and the limit imposed on daily withdrawals by the Bank's depositors

18 July 2016 – MFSA issues Public Notice to publicise its decision to raise the limit on daily withdrawals by Bank depositors to €2,500 per day thus relaxing the earlier restrictions

20 January 2017 – MFSA communicates its decision to propose to the European Central Bank the withdrawal of Nemea Bank's licence

23 March 2017 – ECB implements the withdrawal of the banking licence of Nemea Bank

30 March 2017 – Determination by the MFSA regarding Nemea's inability to repay all liabilities hence invoking the intervention of the Depositor Compensation Scheme to compensate depositors amounts up to €100,000 per depositor

# 2. Financial information

# Statement of financial position

| | as at 30 June 2018 € | as at 31 December 2017 € |
|---|---|---|
| **ASSETS** | | |
| Balances with Central Bank of Malta, treasury bills and cash | **37,514,792** | 35,877,816 |
| Financial assets at fair value through profit and loss | **705,065** | 882,006 |
| Impairment of financial assets at fair value through profit and loss | **(352,533)** | (441,003) |
| Loans and advances to customers: | | |
| - Corporate portfolio | **6,096,892** | 7,107,096 |
| - Retail portfolio | **1,559,332** | 1,567,234 |
| - Group companies | **1,555,613** | 1,555,613 |
| - AASA portfolio | **3,656,400** | 4,020,171 |
| Impairment of loans and advances: | | |
| - Corporate portfolios | **(2,864,042)** | (3,624,416) |
| - Retail portfolio | **(1,042,556)** | (1,042,556) |
| - Group companies | **(1,548,248)** | (787,874) |
| - AASA portfolio | **(1,481,793)** | (1,351,332) |
| Property, plant and equipment | **76,130** | 85,684 |
| Prepayments and accrued income | **425,837** | 496,034 |
| Other assets | **1,142,987** | 1,379,406 |
| **TOTAL ASSETS** | **45,443,876** | 45,723,879 |

During the period, the Bank's balances with the Central Bank of Malta increased by €1.64 million mainly attributable to the following activities:

i. The repayments of loans and advances to customers amounting to €1.4 million (out of which €0.9 million is due to the successful negotiation of repayment of a loan which was fully provided for, and €0.4 million due to the repayments of AASA loans); and

ii. The receipt of €0.24 million from other amounts owed to the Bank by AASA (as reflected in the reduction of 'Other assets').

The provisions on loans and advances to customers decreased during the period mainly due to the following reasons:

i. The reversal of €0.94 million in specific provisions as a result of the repayment of the loan referred to above;

ii. An increase of €0.76 million in the specific provision on the loan to Related Party, rendering such loan fully-provided for; and

iii. An increase of €0.13 million in the specific provision on AASA loans attributable to an increase in NPLs.

The fair value of the direct holding in Nordic Investment Funds (SICAV) Ltd (shown under financial assets at FVTPL) decreased by c. €177,000.

# Statement of financial position (cont'd)

| | as at 30 June 2018 € | as at 31 December 2017 € |
|---|---|---|
| **EQUITY** | | |
| Called up share capital | **8,500,000** | 8,500,000 |
| Other reserves | **220,302** | 220,302 |
| Accumulated losses | **(11,920,730)** | (11,508,734) |
| **TOTAL EQUITY** | **(3,200,428)** | (2,788,432) |
| | | |
| **LIABILITIES** | | |
| Amounts owed to customers | **13,057,655** | 12,804,975 |
| Amounts owed to Depositor Compensation Scheme | **35,217,715** | 35,217,715 |
| Current tax liability | **144,073** | 144,073 |
| Accruals and deferred income | **163,246** | 125,051 |
| Other liabilities | **61,616** | 220,497 |
| **TOTAL LIABILITIES** | **48,644,305** | 48,512,310 |
| | | |
| **TOTAL LIABILITIES AND TOTAL EQUITY** | **45,443,876** | 45,723,879 |

Between 31 December 2017 and 30 June 2018, the Bank's total liabilities increased by c. €132,000. This increase is mainly due to the following reasons:

i. An increase of €253,000 in the carrying amount of customer deposits denominated in US$ (amounting to c. US$10 million) due to exchange differences; and

ii. A decrease in other liabilities during the period of €156,000, mainly attributable to the payment of professional & legal services fees.

The Bank's accumulated losses increased by c. €412,000 as a result of the losses incurred during the period.

# Income statement

| | for the period 1 January 2018 to 30 June 2018 € | for the period 1 July 2017 to 31 December 2017 € |
|---|---|---|
| **Interest receivable:** | | |
| - on loans and advances to the Central Bank of Malta & other banks | **(64)** | - |
| - on loans and advances to related parties | **23,353** | 23,740 |
| - on loans and advances to retail customers | **33,078** | 33,588 |
| - on loans and advances to corporate customers | **179,194** | 202,810 |
| - on AASA loans | **186,391** | 346,844 |
| Total interest receivable | **421,952** | 606,982 |
| **Interest payable:** | | |
| - on deposits held with Central Bank of Malta | **(70,880)** | (71,666) |
| - on AASA loans | **(164,742)** | (275,137) |
| Total interest payable | **(235,622)** | (346,803) |
| Net interest income | **186,330** | 260,179 |
| Fee and commission expenses | **(613)** | 122 |
| Trading losses | **(176,940)** | (236,391) |
| Fund management income | **37,124** | 6,696 |
| Other items | **20,542** | (27,659) |
| **Total operating income** | **66,443** | 2,947 |

As illustrated, the majority of the Bank's revenue during the 6-month period ended 30 June 2018 is derived from interest income on loans to customers, predominantly the AASA micro-loan portfolio and the corporate portfolios, which amounted to €186,000 and €179,000 respectively.

As a direct cost, the Bank is charged fees (generally as a % of the total portfolio value on an ongoing basis) by AASA Oy/Yleislaina Oy with respect to origination and ongoing servicing of the portfolio on behalf of the Bank. Such costs amounted to c. €165,000 during the period.

The Bank's investment services activities resulted in trading losses, which represent fair value losses on the Bank's direct holdings in the Fund, amounting to €177,000.

During the same period the Bank earned fund management fees with respect to the management of the Fund amounting to c. €37,000.

The Bank generated total operating income amounting to €66,000.

# Income statement (cont'd)

| | for the period 1 January 2018 to 30 June 2018 € | for the period 1 July 2017 to 31 December 2017 € |
|---|---|---|
| Staff costs | **(800)** | (193,033) |
| General administrative expenses | **(211,610)** | (228,508) |
| Depreciation on property, plant and equipment | **(9,768)** | (21,759) |
| Provision for impairment of loans and advances | **(256,261)** | (188,178) |
| **Total operating expenses** | **(478,439)** | (631,478) |
| | | |
| **Loss before tax** | **(411,996)** | (628,531) |
| | | |
| Tax charge | - | - |
| | | |
| **Loss after tax** | **(411,996)** | (628,531) |

During the 6-month period ended 30 June 2018, PwC re-assessed and revised specific accounting provisions in respect of a number of borrowers (as explained in further detail in the Operational Developments Section).

This resulted in an increase in impairment allowances on loans and advances to customers amounting to €256,000.

General and administration expenses predominantly comprise office rent, professional & legal services fees, regulatory fees, IT related costs and other general expenses.

Total general administration expenses amounted to €212,000, of which €45,000 relates to Competent Person fees.

By way of breakdown, total general administration expenses are analysed in further detail on the following page.

# Analysis of general administrative expenses

The Bank's general administrative expenses for the year ended 30 June 2018 are analysed in the following table:

| For the period | Jan-Jun 18<br>€ | Jul-Dec 17<br>€ |
|---|---|---|
| Legal fees | 80,610 | 69,312 |
| Competent person fees | 45,595 | 103,569 |
| Other administration costs | 85,405 | 55,627 |
| **Total general administrative expenses** | **211,610** | **228.508** |

General administration expenses include fees charged by the Competent Person in line with its mandate.

The Bank also incurs legal fees which represent fees charged by the Bank's legal representatives in Malta and Finland with respect to their involvement in matters involving litigation, court action and other general legal advice. Legal fees also include judicial fees incurred by the Bank as a result of such court action.

# Analysis of movements in loan portfolio

| Period from January 2018 to June 2018 | Jun-18 | | | Jan-18 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 2 | **1,203,125** | **1,203,125** | **-** | 1,203,125 | 1,203,125 | - | - | - |
| Client 3 (€1,180,000) | **1,180,000** | **-** | **1,180,000** | 1,180,000 | - | 1,180,000 | - | - |
| Client 4 (€2,250,000) | **1,147,959** | **650,359** | **497,600** | 1,147,959 | 470,733 | 677,226 | - | 179,626 |
| Client 4 (€200,000) | **29,267** | **29,267** | **0** | 29,267 | 29,267 | 0 | - | - |
| Client 1 | **1,055,251** | **-** | **1,055,251** | 1,125,446 | - | 1,125,446 | (70,195) | - |
| Client 6 | **911,290** | **411,290** | **500,000** | 911,290 | 411,290 | 500,000 | - | - |
| Client 7 | **600,000** | **600,000** | **-** | 600,000 | 600,000 | - | - | - |
| Client 8 | **495,000** | **495,000** | **-** | 495,000 | 495,000 | - | - | - |

# Analysis of movements in loan portfolio (cont'd)

| Period from January 2018 to June 2018 | Jun-18 | | | Jan-18 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 9 (€300,000) | **232,650** | **-** | **232,650** | 237,518 | - | 237,518 | (4,868) | - |
| Client 9 (€75,000) | **60,568** | **-** | **60,568** | 61,716 | - | 61,716 | (1,148) | - |
| Client 10 | **209,407** | **209,407** | **-** | 209,407 | 209,407 | 0 | - | - |
| Client 11 | **200,000** | **200,000** | **-** | 200,000 | 200,000 | - | - | - |
| Client 12 | **135,625** | **-** | **135,625** | 135,625 | - | 135,625 | - | - |
| Client 13 | **75,000** | **75,000** | **-** | 75,000 | 75,000 | - | - | - |
| Client 14 | **49,084** | **-** | **49,084** | 50,047 | - | 50,047 | (963) | - |
| Client 15 | **38,848** | **-** | **38,848** | 39,780 | - | 39,780 | (932) | - |
| Client 17 | **19,782** | **19,782** | **-** | 19,782 | 19,782 | (0) | - | - |
| Client 18 | **7,184** | **7,184** | **-** | 7,184 | 7,184 | (0) | - | - |
| Client 19 | **6,184** | **6,184** | **-** | 6,184 | 6,184 | (0) | - | - |
| Client 5 | **-** | **-** | **-** | 940,000 | 940,000 | - | (940,000) | (940,000) |
| **Total** | **7,656,224** | **3,906,598** | **3,749,626** | 8,674,330 | 4,666,972 | 4,007,358 | (1,018,106) | (760,374) |

# Analysis of movements in AASA portfolio

The outstanding balance of micro-loans acquired by Nemea from AASA Oy/Yleislaina Oy (out of loans granted by AASA/Yleislaina) still outstanding within the portfolio are reflected in the table below:

| As at | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Current | 285,220 | 752,259 | 2,980,001 | 5,091,801 | 15,512,544 |
| 1-30 days | 32,432 | 291,949 | 243,781 | 160,367 | 77,478 |
| 31-60 days | 15,231 | 275,993 | 218,482 | 123,180 | 44,024 |
| 61-90 days | 11,814 | 331,725 | 118,959 | 104,062 | 32,908 |
| 91-360 days | 1,890,838 | 1,698,314 | 930,336 | 461,273 | 50,787 |
| >360 days | 1,420,865 | 669,931 | 197,398 | 21,499 | 983 |
| Total gross loans | 3,656,400 | 4,020,171 | 4,688,957 | 5,962,182 | 15,718,724 |
| | | | | | |
| Provision for impairment | | | | | |
| - Specific provision | (694,292) | (561,075) | (417,593) | (440,795) | (483,893) |
| - Collective provision | (787,501) | (790,257) | (793,251) | (837,324) | - |
| Total provision | (1,481,793) | (1,351,332) | (1,210,844) | (1,278,119) | (483,893) |
| | | | | | |
| **Net Carrying Amount** | **2,174,607** | **2,668,839** | **3,478,113** | **4,684,063** | **15,234,831** |

In calculating provisions on micro-loans forming part of the AASA portfolio, the Bank adopts the following high level approach:

(i) Specific provisioning on non-performing loans which comprises of a full provision on those NPLs where the Bank deems that the amounts due by the customers are unrecoverable; and

(ii) Collective provisioning on the remaining portfolio balances where the Bank calculates a general provision at a collective portfolio level on all other balances by using estimated credit loss allowances as a percentage of the remaining portfolio (including current loans) on the basis of best management judgement.

# Analysis of movements in AASA portfolio

The amounts due to the Bank in respect of AASA contractual arrangements attributable to customer repayments and reimbursement of non-performing loans identified as non-performing within a prescribed period subsequent to acquisition (which amounts are not reflected within the portfolio balances highlighted on the previous page) are reproduced in the table below. The amounts also include balances withheld by AASA.

| As at | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **Other amounts due from AASA** | **1,238,003** | **1,533,839** | **1,524,480** | **411,631** | **717,997** |

# 3. Operational developments

# Credit management activities

During the period under review, PwC negotiated the repayment of amounts due by Client 5 with the administrator appointed in the bankruptcy proceedings of the parent company of the Bank's customer (Entity A). The Bank received a repayment of c. €900,000 which was accepted in full and final settlement of the total exposure thereby giving rise to a release in provisions of an equivalent amount considering the loan was fully provided for.

Further repayments have been secured from Client 1.

Following cessation of repayments during the current period (last repayment effected in the preceding six month period) by Client 8, legal action against this client is being considered, though legal advice in this respect is to pursue in discussions with client to secure recovery in alternative ways considering the effectively unsecured status of the debt.

Legal action against Client 11 initiated as following commencement of court case against Client 2 (fully owned by Client 11), communication stalled. To date legal action had not been commenced to focus on recovery attempts with respect to the larger exposure to Client 2.

# Provisions for impairment of loans and advances

During the period, PwC also re-assessed and revised specific accounting provisions in respect of a number of borrowers in order to more accurately reflect the Bank's position in this respect:

i. increased the specific provision on Client 4 from c. €500,000 to c. €700,000 after a more detailed assessment of the implications of the actual ranking of creditors in respect of the residual property held as collateral and the valuation of the residual property held as collateral by an independent real estate valuer; and

ii. Increased the specific provision of Related Party (i.e. the loan issued to the Bank's parent company) from c. €800,000 to c. €1.6 million, representing a full provision of the total exposure to the debtor. It is unlikely that the parent will honour its commitments in this respect taking into account the relationship with the Bank's shareholders following the licence withdrawal. Discussions are being held with Nemea's legal advisors on the merits of initiating legal action.

# 4. Update on litigation and court action

# Bank initiated lawsuits against specific defaulting customers

## Nemea Bank plc vs. Henrik Lindfors

Henrik Lindfors took a loan from Nemea Bank plc for €200,000 and defaulted on the payment of the said loan.

**Developments:** *Lawsuit instituted for the repayment of the loan for €202,616.67 (including principal and interest to date of lawsuit) on 19 April 2018.*

# Developments in respect of court cases initiated by Nemea

## Nemea Bank plc vs. AASA Oy/Yleislaina Oy

Nemea instituted a case for breach of contractual terms by AASA Oy/Yleislaina Oy (the respondents) and for the repayment of outstanding sums lent to the respondents under the terms of various contracts entered into between the Parties.

**Developments:** *The respondents are to conclude their cross-examination of Fabio Axisa's affidavit in the next sitting and court will proceed with a preliminary decision in connection with the competence of the court.*

## Nemea Bank plc vs. Jukka Svensk

Jukka Svensk took a loan from Nemea pursuant to a loan agreement for the amount of €600,000. Jukka Svensk defaulted on the payments of the said loan. A lawsuit was filed by Nemea for the repayment of the loan for the amount of €645,720 (inclusive of interest to date of filing).

**Developments:** *After various attempts to communicate with the respondent (Mr. Svensk), efforts were made to appoint a curator. Dr. Noel Bartolo was appointed as such.*

## Nemea Bank plc vs. Linerik OY and Henrik Lindfors

Linerik OY took a loan from Nemea Bank plc for €2,050,000 and Henrik Lindfors acted as personal guarantor on the said loan. Respondents defaulted on the payments of the said loan. Lawsuit instituted for the repayment of the loan for €1,249,578.99 (including principal and interest to date of lawsuit).

**Developments:** *Requested the Court to extend the period during which the plaintiff can present evidence. Such request was accepted by the Court.*

# Developments in respect of court cases initiated by Nemea

## Nemea Bank plc vs. Liberi OY and Pasi Tapani Tinnila

Liberi OY took two loans from Nemea Bank plc amounting to €200,000 (Loan 1) and €2,250,000 (Loan 2). Pasi Tinnila acted as personal guarantor on the said loans. Respondents defaulted on the payments of the loans. The Bank filed a lawsuit for the repayment of the said loans for €29,978.89 (Loan 1) and €1,188,437.31 (Loan 2), both including principal and interest to date of lawsuit.

**Developments:** *Exhibited a note with two affidavits which are to be notified to the respondent companies according to law.*

# Developments in respect of court cases initiated by a depositor

## Mr. Messaging Limited vs. Nemea Bank plc

### Overview of the case

Mr. Messaging Limited had deposits with Nemea Bank. Following regulatory notices issued by the MFSA, depositors were allowed to withdraw their deposits subject to a daily limit on withdrawals. Mr. Messaging Limited failed to withdraw funds in accordance with the daily limit imposed by the MFSA. Eventually, given the Bank's licence withdrawal by the ECB, Mr. Messaging could only claim under the Depositor Compensation Scheme. Consequently, Mr. Messaging Limited filed a lawsuit against Nemea for the repayment of the remaining amount of €313.823.35.

**Developments:** *No material developments during the period.*

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# Nemea Bank plc

## Competent Person Report:
*July 2018 to December 2018*

Data Classification Policy: Restricted use (DC2)

# Table of contents

# 1. Key events

# Key events

26 April 2016 – MFSA appoints PwC as Competent Person and imposes a daily withdrawal limit of €250 for all the Bank’s depositors

26 April 2016 – MFSA informs the Bank about the decisions referred to above

27 April 2016 – MFSA issues Public Notice in respect of the appointment of the Competent Person and the limit imposed on daily withdrawals by the Bank’s depositors

18 July 2016 – MFSA issues Public Notice to publicise its decision to raise the limit on daily withdrawals by Bank depositors to €2,500 per day thus relaxing the earlier restrictions

20 January 2017 – MFSA communicates its decision to propose to the European Central Bank the withdrawal of Nemea Bank’s licence

23 March 2017 – ECB implements the withdrawal of the banking licence of Nemea Bank

30 March 2017 – Determination by the MFSA regarding Nemea’s inability to repay all liabilities hence invoking the intervention of the Depositor Compensation Scheme to compensate depositors amounts up to €100,000 per depositor

# 2. Financial information

# Statement of financial position

| | as at 31 December 2018 € | as at 30 June 2018 € |
|---|---|---|
| **ASSETS** | | |
| Balances with Central Bank of Malta, treasury bills and cash | **37,701,932** | 37,514,792 |
| Financial assets at fair value through profit and loss | **724,432** | 705,065 |
| Impairment of financial assets at fair value through profit and loss | **(362,216)** | (352,533) |
| Loans and advances to customers: | | |
| - Corporate portfolio | **5,964,731** | 6,096,892 |
| - Retail portfolio | **1,551,365** | 1,559,332 |
| - Group companies | **1,555,613** | 1,555,613 |
| - AASA portfolio | **3,386,188** | 3,656,400 |
| Impairment of loans and advances: | | |
| - Corporate portfolios | **(2,864,042)** | (2,864,042) |
| - Retail portfolio | **(1,042,556)** | (1,042,556) |
| - Group companies | **(1,548,248)** | (1,548,248) |
| - AASA portfolio | **(2,315,476)** | (1,481,793) |
| Property, plant and equipment | **-** | 76,130 |
| Prepayments and accrued income | **373,664** | 425,837 |
| Other assets | **1,676,568** | 1,142,987 |
| **TOTAL ASSETS** | **44,801,955** | 45,443,876 |

The Competent Person continued to perform a number of credit management activities detailed as follows:

i. secure repayments of receivables due from AASA in respect of underlying micro-loans;

ii. chase and collect a number of loan repayments due; and

iii. re-assess and revise the specific accounting provisions on the AASA portfolio which increased by c. €820,000 as a result of movements in the portfolio value and composition, as well as, specifically increasing the provisions on non-performing loans.

The Bank also acts as fund manager of Nordic Investment Funds (SICAV) Ltd in which it holds a direct holding amounting to c. €0.7 million (shown under financial assets at FVTPL).

During the period, the Competent Person also deposited a sum of €500,000 as security with respect to the court process and asset seizure in respect of the loan facility to Client 6. This is reflected within the 'other assets' line item on the balance sheet.

# Statement of financial position (cont'd)

| | as at 31 December 2018 € | as at 30 June 2018 € |
|---|---|---|
| **EQUITY** | | |
| Called up share capital | **8,500,000** | 8,500,000 |
| Other reserves | **220,302** | 220,302 |
| Accumulated losses | **(12,814,013)** | (11,920,730) |
| **TOTAL EQUITY** | **(4,093,711)** | (3,200,428) |
| | | |
| **LIABILITIES** | | |
| Amounts owed to customers | **13,221,956** | 13,057,655 |
| Amounts owed to Depositor Compensation Scheme | **35,217,715** | 35,217,715 |
| Current tax liability | **144,073** | 144,073 |
| Accruals and deferred income | **261,022** | 163,246 |
| Other liabilities | **50,900** | 61,616 |
| **TOTAL LIABILITIES** | **48,895,666** | 48,644,305 |
| | | |
| **TOTAL LIABILITIES AND TOTAL EQUITY** | **44,801,955** | 45,443,876 |

In view of the freeze on customer deposits and the compensation by the DCS, the only movements in amounts owed to customers reported during the period pertain to foreign exchange movements on a deposit amounting to c. $10 million.

Overall, the Bank's liability position remained consistent throughout the period, with its major liability items comprising a payable of c. €35.2 million to the Depositor Compensation Scheme and €13.2 million in customer deposits which were not eligible for compensation.

During the period, the Bank's accumulated losses attained the reported level of €12.8 million as at 31 December 2018.

The increase in accruals and deferred income is attributable to accruals for legal fees and professional services fees.

# Income statement

| | for the period 1 July 2018 to 31 December 2018 € | for the period 1 January 2018 to 30 June 2018 € |
|---|---|---|
| **Interest receivable:** | | |
| - on loans and advances to the Central Bank of Malta & other banks | **169,749** | (64) |
| - on loans and advances to related parties | **23,740** | 23,353 |
| - on loans and advances to retail customers | **33,204** | 33,078 |
| - on loans and advances to corporate customers | **166,257** | 179,194 |
| - on AASA loans | **152,826** | 186,391 |
| Total interest receivable | **545,776** | 421,952 |
| **Interest payable:** | | |
| - on deposits held with Central Bank of Malta | **(67,468)** | (70,880) |
| - on AASA loans | **(118,045)** | (164,742) |
| Total interest payable | **(185,513)** | (235,622) |
| Net interest income | **360,263** | 186,330 |
| Fee and commission expenses | **(621)** | (613) |
| Trading profits / (losses) | **19,367** | (176,940) |
| Fund management income | **47,565** | 37,124 |
| Other items | **14,166** | 20,542 |
| **Total operating income** | **440,740** | 66,443 |

The majority of the Bank's revenue is derived from interest income on loans to customers, calculated at c. €0.5m.

The Bank's investment services activities also enable it to earn the following income:

i. Fund management fees with respect to the management of the Nordic Investment Funds (SICAV) Ltd which amounted to c. €48,000 in the period; and

ii. Trading profits, which represent fair value gains on the Bank's direct holdings in the Fund, amounting to c. €19,000.

The above enabled the Bank to generate total operating income amounting to c. €440,000.

# Income statement (cont'd)

| | for the period 1 July 2018 to 31 December 2018 € | for the period 1 January 2018 to 30 June 2018 € |
|---|---|---|
| Staff costs | **(800)** | (800) |
| General administrative expenses | **(246,535)** | (211,610) |
| Depreciation on property, plant and equipment | **(4,776)** | (9,768) |
| Provision for impairment of loans and advances | **(1,081,913)** | (256,261) |
| **Total operating expenses** | **(1,334,024)** | (478,439) |
| **Loss before tax** | **(893,283)** | (411,996) |
| Tax charge | - | - |
| **Loss after tax** | **(893,283)** | (411,996) |

As previously mentioned, the Competent Person assessed and increased the specific provision on the AASA portfolio by c. €750,000. This resulted in an overall provision of €2.3 million on AASA micro-loans.

General and administration expenses predominantly comprise professional & legal services fees, regulatory fees, IT related costs and other general expenses.

Total general administration expenses amounted to c. €246,000 of which c. €144,000 comprises Competent Person fees.

By way of breakdown, general administration expenses are analysed in further detail on the following page.

# Analysis of general administrative expenses

The Bank's general administrative expenses for the year ended 31 December 2018 are analysed in the following table:

| For the period | Jul-Dec 18<br>€ | Jan-Jun 18<br>€ |
|---|---|---|
| Legal fees | 87,703 | 80,610 |
| Competent person fees | 144,114 | 45,595 |
| Other administration costs | 14,718 | 85,405 |
| **Total general administrative expenses** | **246,535** | **211,610** |

General administration expenses include fees charged by the Competent Person in line with its mandate.

The Bank also incurs legal fees which represent fees charged by the Bank's legal representatives in Malta and Finland with respect to their involvement in matters involving litigation, court action and other general legal advice. Legal fees also include judicial fees incurred by the Bank as a result of such court action.

# Analysis of movements in loan portfolio

| Period from July 2018 to December 2018 | Dec-18 | | | Jul-18 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 2 | **1,203,125** | **1,203,125** | **-** | 1,203,125 | 1,203,125 | - | - | - |
| Client 3 (€1,180,000) | **1,180,000** | **-** | **1,180,000** | 1,180,000 | - | 1,180,000 | - | - |
| Client 4 (€2,250,000) | **1,147,959** | **650,359** | **497,600** | 1,147,959 | 650,359 | 497,600 | - | - |
| Client 4 (€200,000) | **29,267** | **29,267** | **-** | 29,267 | 29,267 | - | - | - |
| Client 1 | **923,089** | **-** | **923,089** | 1,055,251 | - | 1,055,251 | (132,162) | - |
| Client 6 | **911,290** | **411,290** | **500,000** | 911,290 | 411,290 | 500,000 | - | - |
| Client 7 | **600,000** | **600,000** | **-** | 600,000 | 600,000 | - | - | - |
| Client 8 | **495,000** | **495,000** | **-** | 495,000 | 495,000 | - | - | - |

# Analysis of movements in loan portfolio (cont'd)

| Period from July 2018 to December 2018 | Dec-18 | | | Jul-18 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 9 (€300,000) | **227,776** | **-** | **227,776** | 232,650 | - | 232,650 | (4,874) | - |
| Client 9 (€75,000) | **59,420** | **-** | **59,420** | 60,568 | - | 60,568 | (1,148) | - |
| Client 10 | **209,407** | **209,407** | **-** | 209,407 | 209,407 | - | - | - |
| Client 11 | **200,000** | **200,000** | **-** | 200,000 | 200,000 | - | - | - |
| Client 12 | **135,625** | **-** | **135,625** | 135,625 | - | 135,625 | - | - |
| Client 13 | **75,000** | **75,000** | **-** | 75,000 | 75,000 | - | - | - |
| Client 14 | **47,922** | **-** | **47,922** | 49,084 | - | 49,084 | (1,162) | - |
| Client 15 | **38,066** | **-** | **38,066** | 38,848 | - | 38,848 | (782) | - |
| Client 17 | **19,782** | **19,782** | **-** | 19,782 | 19,782 | - | - | - |
| Client 18 | **7,184** | **7,184** | **-** | 7,184 | 7,184 | - | - | - |
| Client 19 | **6,184** | **6,184** | **-** | 6,184 | 6,184 | - | - | - |
| **Total** | **7,516,096** | **3,906,598** | **3,609,498** | 7,656,224 | 3,906,598 | 3,749,626 | (140,128) | - |

# Analysis of movements in AASA portfolio

The outstanding balance of micro-loans acquired by Nemea from AASA Oy/Yleislaina Oy (out of loans granted by AASA/Yleislaina) still outstanding within the portfolio are reflected in the table below:

| As at | 31-Dec-18 | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|---|---|
| | € | € | € | € | € | € |
| Current | 92,587 | 285,220 | 752,259 | 2,980,001 | 5,091,801 | 15,512,544 |
| 1-30 days | 16,141 | 32,432 | 291,949 | 243,781 | 160,367 | 77,478 |
| 31-60 days | 25,635 | 15,231 | 275,993 | 218,482 | 123,180 | 44,024 |
| 61-90 days | 22,116 | 11,814 | 331,725 | 118,959 | 104,062 | 32,908 |
| 91-360 days | 440,933 | 1,890,838 | 1,698,314 | 930,336 | 461,273 | 50,787 |
| >360 days | 2,788,776 | 1,420,865 | 669,931 | 197,398 | 21,499 | 983 |
| Total gross loans | 3,386,188 | 3,656,400 | 4,020,171 | 4,688,957 | 5,962,182 | 15,718,724 |
| | | | | | | |
| Provision for impairment | | | | | | |
| - Specific provision | (1,529,761) | (694,292) | (561,075) | (417,593) | (440,795) | (483,893) |
| - Collective provision | (785,715) | (787,501) | (790,257) | (793,250) | (837,324) | - |
| Total provision | (2,315,476) | (1,481,793) | (1,351,332) | (1,210,844) | (1,278,119) | (483,893) |
| | | | | | | |
| **Net Carrying Amount** | **1,070,712** | **2,174,607** | **2,668,839** | **3,478,113** | **4,684,063** | **15,234,831** |

In calculating provisions on micro-loans forming part of the AASA portfolio, the Bank adopts the following high level approach:

(i) Specific provisioning on non-performing loans which comprises of a full provision on those NPLs where the Bank deems that the amounts due by the customers are unrecoverable; and

(ii) Collective provisioning on the remaining portfolio balances where the Bank calculates a general provision at a collective portfolio level on all other balances by using estimated credit loss allowances as a percentage of the remaining portfolio (including current loans) on the basis of best management judgement.

# Analysis of movements in AASA portfolio

The amounts due to the Bank in respect of AASA contractual arrangements attributable to customer repayments and reimbursement of non-performing loans identified as non-performing within a prescribed period subsequent to acquisition (which amounts are not reflected within the portfolio balances highlighted on the previous page) are reproduced in the table below. The amounts presented also include balances withheld by AASA in an unauthorised manner according to the Bank. Legal action has been initiated in this respect.

| As at | 31-Dec-18 | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|---|---|
| | € | € | € | € | € | € |
| **Other amounts due from AASA** | **1,232,212** | **1,238,003** | **1,533,839** | **1,524,480** | **411,631** | **717,997** |

# 3. Operational developments

# Credit management activities

PwC has negotiated early repayment terms with Client 1 with respect to an amount of c. €132,000. In order to enable this, PwC collaborated with Nordia Law, which acted as the Bank's Finnish legal counsel, to arrange release of collateral requested by the borrower subsequent to the repayment being effected.

The Competent Person also initiated formally the process for arrest of a yacht ([ ]) which was held as security against a loan issued to Client 6. The vessel, over which Nemea holds a mortgage, was arrested in Finland and will subsequently go through the process of being sold by court approved private sale. In order to execute the arrest, the Bank was required to deposit a sum of €500,000 as security with respect to the court and legal process.

Competent Person assessed the recoverability of the balances due under the AASA portfolio and further increased the provisions for impairment by an additional c. €750,000 in view of:

1) Lack of progress in discussions with AASA and lack of visibility into AASA's recovery activities;

2) Length of time period required to go through legal proceedings with AASA; and

3) Continued worsening of ageing analysis of portfolio and declined payment behaviour statistics.

# Other operational activities

The Competent Person has continued to act as fund manager to the Nordic Investment Funds (SICAV) Ltd (the Fund) with a view to safeguarding the financial position of the Bank and third party investors in the fund. This included collaboration with [ ] as Administrators and [ ].

The fund manager focused on:

1) Submitting oral and written reports/updates to the board of directors on the fund's investments;

2) Securing the repayment on maturity of a limited number of fund investments;

3) Monitoring the position in relation to the other investments, the majority of which are instruments issued by clients of the bank and hence full provision was required in respect of such investments; and

4) Assessing the appropriate timing for disposal of the sole residual asset of the fund comprising the ordinary shares in [ ], a minor stake in a Finnish listed entity by regular monitoring of market movements with the support of Finnish investment bank/broker engaged to support the fund in respect of monitoring and eventually seeking for disposal opportunities.

# 4. Update on litigation and court action

# Overview of court cases

## Nemea Bank plc vs. AASA Oy/Yleislaina Oy

Nemea instituted a case for breach of contractual terms by AASA Oy/Yleislaina Oy (the respondents) and for the repayment of outstanding sums lent to the respondents under the terms of various contracts entered into between the Parties.

**Developments:** *No material developments during the period.*

## Mr. Messaging Limited vs. Nemea Bank plc

Mr. Messaging Limited had deposits with Nemea Bank. Following regulatory notices issued by the MFSA, depositors were allowed to withdraw their deposits subject to a daily limit on withdrawals. Mr. Messaging Limited failed to withdraw funds in accordance with the daily limit imposed by the MFSA. Eventually, given the Bank's licence withdrawal by the ECB, Mr. Messaging could only claim under the Depositor Compensation Scheme. Consequently, Mr. Messaging Limited filed a lawsuit against Nemea for the repayment of the remaining amount of €313.823.35.

**Developments:** *Examination of Mr. Andrew Portelli who testified on MFSA imposed directives and of Mr. Aldo Gordano who testified on the depositor compensation scheme.*

## Nemea Bank plc vs. Jukka Svensk

Jukka Svensk took a loan from Nemea pursuant to a loan agreement for the amount of €600,000. Jukka Svensk defaulted on the payments of the said loan. A lawsuit was filed by Nemea for the repayment of the loan for the amount of €645,720 (inclusive of interest to date of filing).

**Developments:** *No material developments during the period.*

# Overview of court cases

## Nemea Bank plc vs. Henrik Lindfors

Henrik Lindfors took a loan from Nemea Bank plc for €200,000 and defaulted on the payment of the said loan. Lawsuit instituted for the repayment of the loan for €202,616.67 (including principal and interest to date of lawsuit).

**Developments:** *Requested the Court to appoint a curator since the defendant had not been notified of the proceedings. Informed the Court that Dr. Helga Buttigieg Debono was willing to accept the appointment to act as a curator for the defendant.*

## Nemea Bank plc vs. Linerik OY and Henrik Lindfors

Linerik OY took a loan from Nemea Bank plc for €2,050,000 and Henrik Lindfors acted as personal guarantor on the said loan. Respondents defaulted on the payments of the said loan. Lawsuit instituted for the repayment of the loan for €1,249,578.99 (including principal and interest to date of lawsuit).

**Developments:** *Presented the Court with the proof of evidence. The curator of the defendant, Dr. Helga Buttigieg Debono informed the Court that the legal representative of Henrik Lindfors expressed the intention of the defendant to contest the claims of the plaintiff.*

## Nemea Bank plc vs. Liberi OY and Pasi Tapani Tinnila

Liberi OY took two loans from Nemea Bank plc amounting to €200,000 (Loan 1) and €2,250,000 (Loan 2). Pasi Tinnila acted as personal guarantor on the said loans. Respondents defaulted on the payments of the loans. The bank filed a lawsuit for the repayment of the said loans for €29,978.89 (Loan 1) and €1,188,437.31 (Loan 2), both including principal and interest to date of lawsuit.

**Developments:** *Since Pasi Tapani Tinnila had not been notified with the latest of evidence, although already served with the sworn application, the Court ordered the plaintiff to make another attempt to notify Pasi Tapani Tinnila with the said acts.*

# Overview of court cases

## Action against Client 6

Client 6 took a loan from Nemea Bank plc amounting to €1,000,000. As security for the said loan a mortgage was registered over the yacht owned by Client 6 named [ ] in favour of Nemea Bank plc. Respondents defaulted on the payments of the said loan.

**Developments:** *In terms of Maltese law of procedure, a judicial letter was filed to render the mortgage an executive title. A subsequent judicial letter was filed annexing thereto additional documents in connection with the arrest of the vessel in Finland in favour of the mortgagee (Nemea Bank plc). Subsequently, an application was filed in the court registry of the First Hall Civil Court in order to obtain a European Enforcement order and proceed with the sale of the vessel through the execution authorities in Finland. The precautionary arrest of the vessel was converted into an executive arrest.*

## Action against Client 8 and [ ]

A loan agreement dated 17 December 2014 was entered between Nemea Bank plc and the debtor under which €616,542.19 remained outstanding. Payment requests were sent to the Debtor prior to the relevant due dates, on 21 November 2016, 20 March 2017, and 12 June 2017 followed by a call-in letter on 20 July 2017. The borrower Client 8 is now undergoing liquidation proceedings and the Finnish court appointed an Administrator accordingly.

**Developments:** *Nemea lodged a formal claim in the bankruptcy proceedings of Client 8.*

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# Nemea Bank plc

**Status report:**

*January 2019 to June 2019*

Data Classification Policy: Restricted use (DC2)

# Table of contents

# 1. Key events

# Key events

26 April 2016 – MFSA appoints PwC as Competent Person and imposes a daily withdrawal limit of €250 for all the Bank's depositors

26 April 2016 – MFSA informs the Bank about the decisions referred to above

27 April 2016 – MFSA issues Public Notice in respect of the appointment of the Competent Person and the limit imposed on daily withdrawals by the Bank's depositors

18 July 2016 – MFSA issues Public Notice to publicise its decision to raise the limit on daily withdrawals by Bank depositors to €2,500 per day thus relaxing the earlier restrictions

20 January 2017 – MFSA communicates its decision to propose to the European Central Bank the withdrawal of Nemea Bank's licence

23 March 2017 – ECB implements the withdrawal of the banking licence of Nemea Bank

30 March 2017 – Determination by the MFSA regarding Nemea's inability to repay all liabilities hence invoking the intervention of the Depositor Compensation Scheme to compensate depositors amounts up to €100,000 per depositor

# 2. Financial information

# Statement of financial position

| | as at 30 June 2019 € | as at 31 December 2018 € |
|---|---|---|
| **ASSETS** | | |
| Balances with Central Bank of Malta, treasury bills and cash | **38,928,737** | 37,701,932 |
| Financial assets at fair value through profit and loss | **-** | 724,432 |
| Impairment of financial assets at fair value through profit and loss | **-** | (362,216) |
| Loans and advances to customers: | | |
| - Corporate portfolio | **5,540,371** | 5,964,731 |
| - Retail portfolio | **1,543,425** | 1,551,365 |
| - Group companies | **1,555,613** | 1,555,613 |
| - AASA portfolio | **3,231,755** | 3,386,188 |
| Impairment of loans and advances: | | |
| - Corporate portfolios | **(2,864,042)** | (2,864,042) |
| - Retail portfolio | **(1,042,556)** | (1,042,556) |
| - Group companies | **(1,548,248)** | (1,548,248) |
| - AASA portfolio | **(2,368,203)** | (2,315,476) |
| Prepayments and accrued income | **387,055** | 373,664 |
| Other assets | **1,644,474** | 1,676,568 |
| **TOTAL ASSETS** | **45,008,381** | 44,801,955 |

The Competent Person disposed of the investment in the Nordic Investment Funds (SICAV) Ltd through redemption of the units held in the fund for proceeds amounting to c. €0.7 million as at 31 December 2018 (reflected under financial assets at FVTPL).

The Competent Person continued to:

i. collect receivables due from AASA in respect of underlying micro-loans; and

ii. have direct contact with a number of corporate and retail customers in order to negotiate or facilitate repayment of a number of facilities resulting in loan balances decreasing from c. €9.1 million to €8.6 million by the end of June 2019.

There were no revisions to impairments on loans and advances to customers (excluding the AASA portfolio) during the period under review.

# Statement of financial position (cont'd)

| | as at 30 June 2019 € | as at 31 December 2018 € |
|---|---|---|
| **EQUITY** | | |
| Called up share capital | **8,720,302** | 8,720,302 |
| Accumulated losses | **(12,606,954)** | (12,814,013) |
| **TOTAL EQUITY** | **(3,886,652)** | (4,093,711) |
| | | |
| **LIABILITIES** | | |
| Amounts owed to customers | **13,278,604** | 13,221,956 |
| Amounts owed to Depositor Compensation Scheme | **35,217,715** | 35,217,715 |
| Current tax liability | **144,073** | 144,073 |
| Accruals and deferred income | **203,592** | 261,022 |
| Other liabilities | **51,047** | 50,898 |
| **TOTAL LIABILITIES** | **48,895,033** | 48,895,666 |
| | | |
| **TOTAL LIABILITIES AND TOTAL EQUITY** | **45,008,381** | 44,801,955 |

In respect of customer deposits, the only movement reported during the period pertains to foreign exchange movements, mainly driven by differences on a deposit amounting to c. $10 million.

Overall, the Bank's liability position remained consistent throughout the period, with its major liability items comprising a payable of c. €35.2 million to the Depositor Compensation Scheme and €13.2 million in customer deposits as at 30 June 2019.

During the period, the Bank's accumulated losses also remained stable, with the level registered at €12.6 million as at 30 June 2019.

# Income statement

| | for the period 1 January 2019 to 30 June 2019 € | for the period 1 July 2018 to 31 December 2018 € |
|---|---|---|
| **Interest receivable:** | | |
| - on loans and advances to the Central Bank of Malta & other banks | **77,323** | 169,749 |
| - on loans and advances to related parties | **23,353** | 23,740 |
| - on loans and advances to retail customers | **32,478** | 33,204 |
| - on loans and advances to corporate customers | **158,066** | 166,257 |
| - on AASA loans | **80,852** | 152,827 |
| Total interest receivable | **372,072** | 545,776 |
| **Interest payable:** | | |
| - on deposits held with Central Bank of Malta | **(49,794)** | (67,468) |
| - on AASA loans | **(62,378)** | (118,045) |
| Total interest payable | **(112,172)** | (185,513) |
| Net interest income | **259,900** | 360,264 |
| Fee and commission expenses | **(500)** | (621) |
| Trading profits | **283,206** | 19,367 |
| Fund management income | **27,021** | 47,565 |
| Other items | **(433)** | 14,167 |
| **Total operating income** | **569,194** | 440,741 |

Subsequent to winding down of the majority of its lending business, since appointment of the Competent Person in 2016 the key element of the Bank's revenue is derived from interest income on specific corporate customers, which amounted to c. €158,000 during the period.

The Bank also incurred expenses of c. €50,000 on balances held with the Central Bank of Malta in view of negative interest rates charged.

Prior to disposal of its holdings in the Fund, the Bank's investment services activities also enabled it to earn the following income:

i. Fund management fees with respect to the management of the Fund which amounted to c. €27,000 in 2019; and

ii. Trading profits, which represent disposal/fair value gains on the Bank's direct holdings in the Fund, amounting to c. €283,000.

The Bank's total operating income for the period was €569,000 with a reported profit of €207,000.

# Income statement (cont'd)

| | for the period 1 January 2019 to 30 June 2019 € | for the period 1 July 2018 to 31 December 2018 € |
|---|---|---|
| Staff costs | **(800)** | (800) |
| General administrative expenses | **(154,660)** | (246,535) |
| Depreciation on property, plant and equipment | **-** | (4,776) |
| Provision for impairment of loans and advances | **(206,675)** | (1,081,913) |
| **Total operating expenses** | **(362,135)** | (1,334,024) |
| **Loss before tax** | **207,059** | (893,283) |
| Tax charge | - | - |
| **Loss after tax** | **207,059** | (893,283) |

General and administration expenses predominantly comprise professional & legal services fees, regulatory fees, IT related costs and other general expenses.

Total general administration expenses amounted to c. €155,000, of which, c. €57,000 relate to Competent Person fees.

By way of breakdown, general administrative expenses are analysed in further detail on the following page.

# Analysis of general administrative expenses

The Bank's general administrative expenses for the year ended 30 June 2019 are analysed in the following table:

| As at | Jan-Jun 19<br>€ | Jul-Dec 18<br>€ |
|---|---|---|
| Legal fees | 78,729 | 87,703 |
| Competent person fees | 57,442 | 144,114 |
| Other administration costs | 18,489 | 14,718 |
| **Total general administration expenses** | **154,660** | **246,535** |

General administration expenses include fees charged by the Competent Person in line with its mandate.

The Bank also incurs legal fees which represent fees charged by the Bank's legal representatives in Malta and Finland with respect to their involvement in matters involving litigation, court action and other general legal advice. Legal fees also include judicial fees incurred by the Bank as a result of such court action.

# Analysis of movements in loan portfolio

| Period from January 2019 to June 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun-19 | | | Jan-19 | | | Movements | |
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 2 | **1,203,125** | **1,203,125** | **-** | 1,203,125 | 1,203,125 | - | - | - |
| Client 3 (€1,180,000) | **1,180,000** | **-** | **1,180,000** | 1,180,000 | - | 1,180,000 | - | - |
| Client 4 (€2,250,000) | **1,147,959** | **650,359** | **497,600** | 1,147,959 | 650,359 | 497,600 | - | - |
| Client 4 (€200,000) | **29,267** | **29,267** | **-** | 29,267 | 29,267 | 0 | - | - |
| Client 6 | **911,290** | **411,290** | **500,000** | 911,290 | 411,290 | 500,000 | - | - |
| Client 7 | **600,000** | **600,000** | **-** | 600,000 | 600,000 | - | - | - |
| Client 1 | **498,728** | **-** | **498,728** | 923,089 | - | 923,089 | (424,361) | - |
| Client 8 | **495,000** | **495,000** | **-** | 495,000 | 495,000 | - | - | - |

# Analysis of movements in loan portfolio (cont'd)

| Period from January 2019 to June 2019 | Jun-19 | | | Jan-19 | | | Movements | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Total Provision | Net Carrying Amount | Gross Carrying Amount | Total Provision | Net Carrying Amount | Loan repayments | Provisions |
| Client 9 (€300,000) | **222,859** | **-** | **222,859** | 227,776 | - | 227,776 | (4,917) | - |
| Client 9 (€75,000) | **58,260** | **-** | **58,260** | 59,420 | - | 59,420 | (1,160) | - |
| Client 10 | **209,407** | **209,407** | **-** | 209,407 | 209,407 | - | - | - |
| Client 11 | **200,000** | **200,000** | **-** | 200,000 | 200,000 | - | - | - |
| Client 12 | **135,625** | **-** | **135,625** | 135,625 | - | 135,625 | - | - |
| Client 13 | **75,000** | **75,000** | **-** | 75,000 | 75,000 | - | - | - |
| Client 14 | **46,542** | **-** | **46,542** | 47,922 | - | 47,922 | (1,380) | - |
| Client 15 | **37,584** | **-** | **37,584** | 38,066 | - | 38,066 | (483) | - |
| Client 17 | **19,782** | **19,782** | **-** | 19,782 | 19,782 | - | - | - |
| Client 18 | **7,184** | **7,184** | **-** | 7,184 | 7,184 | - | - | - |
| Client 19 | **6,184** | **6,184** | **-** | 6,184 | 6,184 | - | - | - |
| **Total** | **7,083,796** | **3,906,598** | **3,177,198** | 7,516,096 | 3,906,598 | 3,609,498 | (432,300) | - |

# Analysis of movements in AASA portfolio

The outstanding balance of micro-loans acquired by Nemea from AASA Oy/Yleislaina Oy (out of loans granted by AASA/Yleislaina) still outstanding within the portfolio are reflected in the table below:

| As at | 30-Jun-19 | 31-Dec-18 | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| Current | 14,009 | 92,587 | 285,220 | 752,259 | 2,980,001 | 5,091,801 | 15,512,544 |
| 1-30 days | 3,908 | 16,141 | 32,432 | 291,949 | 243,781 | 160,367 | 77,478 |
| 31-60 days | 3,156 | 25,635 | 15,231 | 275,993 | 218,482 | 123,180 | 44,024 |
| 61-90 days | 5,285 | 22,116 | 11,814 | 331,725 | 118,959 | 104,062 | 32,908 |
| 91-360 days | 223,496 | 440,933 | 1,890,838 | 1,698,314 | 930,336 | 461,273 | 50,787 |
| >360 days | 2,981,901 | 2,788,776 | 1,420,865 | 669,931 | 197,398 | 21,499 | 983 |
| Total gross loans | 3,231,755 | 3,386,188 | 3,656,400 | 4,020,171 | 4,688,957 | 5,962,182 | 15,718,724 |
| | | | | | | | |
| Provision for impairment | | | | | | | |
| - Specific provision | (1,583,610) | (1,529,761) | (694,292) | (561,075) | (417,593) | (440,795) | (483,893) |
| - Collective provision | (784,593) | (785,715) | (787,501) | (790,257) | (793,251) | (837,324) | - |
| Total provision | (2,368,203) | (2,315,476) | (1,481,793) | (1,351,332) | (1,210,844) | (1,278,119) | (483,893) |
| | | | | | | | |
| **Net Carrying Amount** | **863,552** | **1,070,712** | **2,174,607** | **2,668,839** | **3,478,113** | **4,684,063** | **15,234,831** |

In calculating provisions on micro-loans forming part of the AASA portfolio, the Bank adopts the following high level approach:

(i) Specific provisioning on non-performing loans which comprises of a full provision on those NPLs where the Bank deems that the amounts due by the customers are unrecoverable; and

(ii) Collective provisioning on the remaining portfolio balances where the Bank calculates a general provision at a collective portfolio level on all other balances by using estimated credit loss allowances as a percentage of the remaining portfolio (including current loans) on the basis of best management judgement.

# Analysis of movements in AASA portfolio

The amounts due to the Bank in respect of AASA contractual arrangements attributable to customer repayments and reimbursement of non-performing loans identified as non-performing within a prescribed period subsequent to acquisition (which amounts are not reflected within the portfolio balances highlighted on the previous page) are reproduced in the table below. The amounts below include balances withheld by AASA in an unauthorised manner.

| As at | 30-Jun-19 | 31-Dec-18 | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 | 31-Dec-16 | 26-Apr-16 |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| **Other amounts due from AASA** | **1,192,217** | **1,232,212** | **1,238,003** | **1,533,839** | **1,524,480** | **411,631** | **717,997** |

# 3. Operational developments

# Credit management activities

PwC has negotiated early repayment terms with Client 1 with respect to an amount of c. €425,000. In order to enable this, PwC collaborated with Nordia Law, which acted as the Bank's Finnish legal counsel to arrange release of collateral requested by the borrower subsequent to the repayment being effected. PwC negotiated an updated loan repayment schedule with the borrower in respect of the remaining balance of the exposure which amounted to c. €500,000 post early repayments.

Relationships with AASA continue to be strained in view of the court proceedings and other matters. AASA has intimated its intentions to terminate the servicing arrangement between both parties and has given notice in this respect. The Competent Person will be seeking to reject this stance through the continued involvement of the legal advisors as this would impact negatively on the Bank in view of the control over portfolio information by AASA. However, in view of the [ ] and the fact that it appears to be unlikely to achieve a reasonable outcome with AASA, the Competent Person will seek to engage another servicing and collection company.

# Other operational activities

**Nordic Investment Funds (SICAV) Ltd (previously Nemea Credit Opportunities Fund)**

Since appointment as Competent Person, PwC has acted as fund manager to the Nordic Investment Funds (SICAV) Ltd (the Fund) with a view to safeguarding the financial position of the Bank and third party investors in the fund. [ ] acted as administrators throughout the process and provided ongoing reporting in relation to the fund.

The fund manager proposed the sale of the residual asset of the fund ([ ] ordinary shares) through a Finnish investment bank/broker engaged to assist the fund in the process and subsequently the sale was executed. PwC is seeking to terminate the fund management agreement between the Fund and Nemea Bank in a legally acceptable manner.

Nemea redeemed the units held by the entity in the fund and received proceeds of c. €650,000.

# 4. Update on litigation and court action

# Overview of court cases

## Nemea Bank plc vs. AASA Oy/Yleislaina Oy

Nemea instituted a case for breach of contractual terms by AASA Oy/Yleislaina Oy (the respondents) and for the repayment of outstanding sums lent to the respondents under the terms of various contracts entered into between the Parties.

**Developments:** *No material developments during the period.*

## Mr. Messaging Limited vs. Nemea Bank plc

Mr. Messaging Limited had deposits with Nemea Bank. Following regulatory notices issued by the MFSA, depositors were allowed to withdraw their deposits subject to a daily limit on withdrawals. Mr. Messaging Limited failed to withdraw funds in accordance with the daily limit imposed by the MFSA. Eventually, given the Bank's licence withdrawal by the ECB, Mr. Messaging could only claim under the Depositor Compensation Scheme. Consequently, Mr. Messaging Limited filed a lawsuit against Nemea for the repayment of the remaining amount of €313.823.35.

**Developments:** *Cross examination of Rex Ellis and Robin Sullivan (UBOs of Mr. Messaging Limited). Fabio Axisa testified by way of affidavit together with documentary evidence in support of claim and also testified in cross-examination by applicants. No submission of final note was made by the Applicants. Nemea (the respondent) filed an application bringing this to the attention of the court and requesting the court permission to submit its responsive final note of submissions following submissions by the applicants. Judgement expected to be delivered in difett ostacolo by the end of the year.*

# Overview of court cases

## Nemea Bank plc vs. Henrik Lindfors

Henrik Lindfors took a loan from Nemea Bank plc for €200,000 and defaulted on the payment of the said loan. Lawsuit instituted for the re-payment of the loan for €202,616.67 (including principal and interest to date of lawsuit).

**Developments:** *Since all the attempts to communicate with Dr. Helga Buttigieg Debono failed, requested the Court to appoint another curator for the defendant. Service of bundle to curators appointed to represent the defendant. Dr. J. Ellis has been served, pending next sitting.*

## Nemea Bank plc vs. Linerik OY and Henrik Lindfors

Linerik OY took a loan from Nemea Bank plc for €2,050,000 and Henrik Lindfors acted as personal guarantor on the said loan. Respondents defaulted on the payments of the said loan. Lawsuit instituted for the repayment of the loan for €1,249,578.99 (including principal and interest to date of lawsuit).

**Developments:** *The defendant failed to present his replies to the formal claims of the plaintiff. On this basis, the Court decided to proceed with delivering its judgement. Judgement was delivered. No appeal filed from the defendant. Nemea Bank plc is waiting for the execution of judgement in Finland against judgement debtors.*

## Nemea Bank plc vs. Jukka Svensk

Jukka Svensk took a loan from Nemea pursuant to a loan agreement for the amount of €600,000. Jukka Svensk defaulted on the payments of the said loan. A lawsuit was filed by Nemea for the repayment of the loan for the amount of €645,720 (inclusive of interest to date of filing).

**Developments:** *Nemea submitted an affidavit by Fabio Axisa together with documentary evidence. The curator made various attempts to communicate with the respondent; none were successful. The court reached a final decision in favour of Nemea Bank. The execution of the judgment by the Maltese Court in Finland is being carried out.*

# Overview of court cases

## Nemea Bank plc vs. Liberi OY and Pasi Tapani Tinnila

Liberi OY took two loans from Nemea Bank plc amounting to €200,000 (Loan 1) and €2,250,000 (Loan 2). Pasi Tinnila acted as personal guarantor on the said loans. Respondents defaulted on the payments of the loans. The Bank filed a lawsuit for the repayment of the said loans for €29,978.89 (Loan 1) and €1,188,437.31 (Loan 2), both including principal and interest to date of lawsuit.

**Developments:** *Fabio Axisa confirmed the contents of the affidavit presented by him and took the witness stand. Dr. Antoine Cremona on behalf of the plaintiff submitted documents in connection with the service of all acts of the case and an update of interest that has accrued on the capital being claimed in the case. Since the respondents were in a state of contumacy, the Court accorded 20 days to the respondents to present a note of submissions. Judgement was delivered. No appeal filed from the defendant. Nemea Bank plc is waiting for the execution of judgement in Finland against judgement debtors.*

## Action against Client 6

Client 6 took a loan from Nemea Bank plc amounting to €1,000,000. As security for the said loan a mortgage was registered over the yacht owned by Client 6 named [ ] in favour of Nemea Bank plc. Respondents defaulted on the payments of the said loan.

**Developments:** *The vessel is in the process of being sold by court approved private sale. The proceeds of such sale will be remitted to Nemea Bank plc. Given that Nemea Bank plc held a mortgage in its favour, Nemea Bank plc simply proceeded to render that mortgage an executive title thereby dispensing with the need to institute formal judicial proceedings.*

# Overview of court cases

### Action against Client 8 and [ ]

A loan agreement dated 17 December 2014 was entered between Nemea Bank plc and the debtor under which €616,542.19 remained outstanding. Payment requests were sent to the debtor prior to the relevant due dates, on 21 November 2016, 20 March 2017, and 12 June 2017 followed by a call-in letter on 20 July 2017. The borrower Client 8 is now undergoing liquidation proceedings and the Finnish court appointed an Administrator accordingly.

**Developments:** *Follow up email communication with the Administrator during the period. Additional follow up is scheduled for the period up to the end of the year.*

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