MerkantiHolding
p.l.c.

Merkanti Holding p.l.c.
Aragon House Business Centre
Dragonara Road
St. Julians, STJ 3140
Malta

COMPANY ANNOUNCEMENT

Reference: (03/2023)

This is a company announcement issued by Merkanti Holding p.l.c. (C 70823) (the "**Company**") pursuant to the Capital Markets Rules of the Malta Financial Services Authority.

Financial Analysis Summary of Merkanti Holding p.l.c.

The Board of Directors of Merkanti Holding p.l.c. announces that the updated Financial Analysis Summary dated 30 June 2023 as prepared by Curmi & Partners Limited is hereby attached and can also be viewed on the Company's website.

By order of the Board.

____
Name: Dr. Andre Zerafa
For and on behalf of
Ganado Services Limited
Company Secretary
3 July 2023

Merkanti Holding PLC

Financial Analysis Summary
30th June 2023

CURMI &
PARTNERS

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30th June 2023

The Directors
Merkanti Holding p.l.c.
Aragon House Business Centre
Dragonara Road
St Julians
STJ 2140
Malta

Dear Sirs,

Merkanti Holding p.l.c. – Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have prepared the Financial Analysis Summary Update 2023 ("FAS Update June 2023") as an update to the Financial Analysis Summary Update 2022 ("FAS Update June 2022"). A copy of the FAS Update June 2023 is attached to this letter.

The purpose of the financial analysis within the FAS Update June 2023 is that of summarising key financial data appertaining to Merkanti Holding p.l.c. ("the Issuer" or "Merkanti"), in addition to Merkanti Bank Limited ("Merkanti Bank" or "the Bank"), Merkanti (A) International Ltd ("Merkanti A"), Merkanti (D) International Ltd ("Merkanti D"), Merkanti Diesel Limited ("Merkanti Diesel"), and Altmark Industrie Management GmbH ("A.I.M") (collectively, "the Subsidiaries"). The Issuer and the Subsidiaries are collectively referred to as "the Group". The data is derived from various sources, as disclosed, or is based on our own computations as follows:

1. Historical financial data for the three years ended 31st December 2020, 31st December 2021 and 31st December 2022 have been extracted from the Issuer's audited statutory financial statements for the three years in question.
2. The projected financial statements of the Issuer for the financial year ending 31st December 2023 have been extracted from the Issuer's financial projections which were provided by the management of the Issuer.
3. Historical financial data for Merkanti Bank for three years ended 31st December 2020, 31st December 2021 and 31st December 2022 have been extracted from the audited financial statements of Merkanti Bank.
4. Historical financial data for Merkanti (A) and for Merkanti (D) for three years ended 31st December 2020, 31st December 2021 and 31st December 2022 have been extracted from the audited statutory financial statements of Merkanti (A) and Merkanti (D) or provided by management of the Issuer.

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5. Our commentary on the results of the Issuer and of the Group, and on their financial position, is based on the explanations given by the Issuer.
6. The ratios quoted in the FAS Update June 2023 have been computed by us applying the definitions set out in Section 7 of this report.
7. The relevant peers listed in Section 6 of the FAS Update June 2023 have been identified by us. The relevant financial data in respect of such companies has been sourced from publicly available information, mainly the companies' financial statements.

The FAS Update June 2023 is meant to assist potential investors by summarising the more important financial data of the Issuer. The FAS Update June 2023 does not contain all data that is relevant to potential investors and is meant to complement, and not replace, the information made available in the public domain by the Issuer. The FAS Update June 2023 does not constitute an endorsement by our firm of the securities of the Issuer and should not be interpreted as a recommendation to invest in any such securities. We shall not accept any liability for any loss or damage arising out of the use of the FAS Update June 2023. As with all investments, potential investors are encouraged to seek professional advice before investing in the securities of the Issuer.

Yours sincerely

Karl Falzon
Head of Capital Markets
For and behalf of
Curmi & Partners Limited

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1 OVERVIEW OF THE ISSUER

1.1 History and Development of the Issuer

Merkanti Holding plc ("Merkanti Holding" or "the Issuer" or "the Company") is a diversified holding company based in Malta controlled by Scully Royalty Ltd ("Scully Royalty"). Merkanti Holding was converted into a public liability company on 30th May 2019. The Issuer issued a bond on the Malta Stock Exchange ("MSE") amounting to €25 million bearing interest at a rate of 4% per annum and due in 2026 ("the Bond" or "the Bond Issue").

Merkanti Holding is the parent company of: Merkanti (A) International Limited ("Merkanti (A)"), Merkanti (D) International Limited ("Merkanti (D)"), Merkanti Bank Ltd ("Merkanti Bank" or "the Bank"), Merkanti Diesel Limited ("Merkanti Diesel") and Altmark Industrie Management GmbH ("A.I.M."), collectively referred to as "the Group". Merkanti (A) and Merkanti (D), companies which hold real estate in Germany, and A.I.M. which operates as the management company for these entities, are collectively referred to as "the Property Companies". The Property Companies, Merkanti Bank and Merkanti Diesel will be collectively referred to as "the Subsidiaries".

The Issuer's main activities relate to the raising of financing, the lending and advancing of funds to Group companies, and the collection of interest income on advances to, and management fees, from the Subsidiaries, and the acquisition and holding of shares and other assets. Accordingly, the Issuer is dependent on the Group.

In March 2022, the Issuer announced an agreement entered to acquire Sparkasse (Holdings) Malta Ltd, the parent company of Sparkasse Bank Malta plc. Subject to regulatory approval, the Issuer intends on merging the acquired Sparkasse Bank with Merkanti Bank to form a larger independent institution. Management expects that the proposed transaction will be closed or terminated by the first half of 2023, absent an extension to the long-stop date in the Share Purchase Agreement.

1.2 Shareholding of the Issuer

Currently, the Issuer's authorised share capital is €200,000,004, divided into 33,333,334 Ordinary A Shares of €0.10 each and 33,333,334 Ordinary B Shares of €0.10 each. The Company's issued share capital is €50,020,002, divided into 16,673,333 Ordinary A Shares of €0.10 each and 1 Ordinary B Share of €0.10. The shares are paid up and held as follows:

- 16,666,666 Ordinary A Shares held by Scully Royalty

- 6,667 Ordinary A Shares held by Merchants Employees Incentive Corp.

- 1 Ordinary B Share held by Gardaworld CN Ltd

Prior to the above current shareholding structure being in place, on the 24th of June 2022 the Issuer announced that in an extraordinary general meeting held on the same date, certain resolutions were approved relating to changes to the Company's Memorandum and Articles of Association, including inter alia a change in the nominal value of the shares which decreased from €3 to €0.10 per share. It was expected that these proposed changes would not take effect until 3 months from the date of the publication by the Registrar of Companies.

Furthermore, on the 25th of July 2022 the Company announced that it was granted approval by the Malta Financial Services Authority for admissibility to listing on the Official List of the Malta Stock Exchange of 16,673,333 Ordinary A shares in the Company of a nominal value of €3.00 per share, and that concurrently with the listing a distribution by the Issuer's parent company of 49.9% of its shares to its shareholders was expected to take place. However, on the 20th of September 2022 the Company announced that the distribution was postponed due to volatility in global capital markets.

The Issuer's majority shareholder is Scully Royalty, which holds almost all the Ordinary "A" Shares of the Issuer. Scully Royalty is a public company listed on the New York Stock Exchange with ticker symbol SRL. It is a holding company with several investments across a wide range of industries and provides financial services and proprietary capital to enterprises, seeking businesses and assets which offer the potential to increase or unlock value.

As of 31st December 2022, Scully Royalty's share capital amounted to CAD $325,158,000 consisting of 14,822,251 common shares. The main shareholders of Scully Royalty are outlined below:

Scully Royalty Ltd Shareholding as at 20th April 2023	Number of shares	Percentage Shareholding
Peter Kellogg, group[1]	5,293,276	35.7%
Lloyd I. Miller III, trusts	1,842,087	12.4%
Total shares	**14,822,251**	

Source: U.S. Securities and Exchange Commission, Form 20-F, Scully Royalty Limited

1.3 Directors and Management

The Board of Directors consists of five directors who are entrusted with setting the overall direction and strategy of the Company.

As at the date of this financial analysis summary report ("FAS 2023"), the Board of Directors of the Issuer is constituted as follows:

Mario Galea	Independent Non-Executive Director and Chairman
Samuel Morrow	Executive Director
Martin Ware	Executive Director
Benjamin Muscat	Independent Non-Executive Director
Silke Stenger	Independent Non-Executive Director

[1] IAT Reinsurance Company Ltd. and Peter Kellogg are collectively referred to as the "IAT Group", which may be deemed to beneficially own an aggregate of 5,147,283 common shares.

2 OVERVIEW OF THE GROUP

2.1 History and Development of the Group

The Issuer was incorporated as a private limited liability company and was converted to a public limited liability company on 30th May 2019. The Issuer was originally incorporated in 2015 as a holding company for the purpose of the acquisition of Merkanti Bank Ltd ("Merkanti Bank") (formerly known as MFC Merchant Bank and BAWAG Malta Bank Ltd ("BAWAG")).

BAWAG had been fully licensed in Malta since 2003. The acquisition reflected Scully Royalty's strategy to leverage its merchant banking and trade finance platform by offering additional complimentary trade and structured finance products, and other complimentary services. As part of Scully Royalty, the Bank was not expected to engage in retail banking, commercial banking or universal banking, but to focus on specialty banking services.

In late 2018, the Issuer commenced a restructuring process in preparation for the Bond. This restructuring process involved the acquisition of 85% of the two property companies, Merkanti (A) and Merkanti (D). The Property Companies were purchased from an indirect subsidiary of Scully Royalty for a purchase price of €29.5 million and were re-domiciled to Malta in 2019.

In 2019, Merkanti Holding increased its shareholding of the Property Companies by a further 9.9% to 94.9%. In December 2019, a new entity was incorporated, Merkanti Diesel Limited ("Merkanti Diesel"), a special-purpose company that is operating in dispute resolution finance. To date, Merkanti Diesel has financed various claims in Germany. In 2020, Merkanti Holding acquired A.I.M. for a net book value of €161,940. A.I.M. provides management services to the two Property Companies. In 2020, the Issuer also acquired 100% of the shareholding of MFCR Oriental S.A. ("MFCR"), a Uruguay-registered company with its principal business being the origination of merchant banking and trade finance opportunities for Merkanti Bank and the Group. MFCR was sold during 2022.

2.2 Strategic Developments

Management notes that the global economic challenges brought by Covid-19 slowed down the development of certain business areas compared to previous expectations and resulted in the Group holding substantial amounts of liquidity in line with a prudent risk profile, particularly at Merkanti Bank. It is also noted that the impact from the pandemic on the Property Companies was minimal. Additionally, management notes that the more recent economic concerns relating to inflation, rising rates, and the war in Ukraine, have so far not had an evident negative impact on its operations. Due to the Group's approach with respect to seeking businesses and assets which offer the potential to increase or unlock value, certain aspects of the current global macroecnomic challenges could result in opportunities for Merkanti Holding.

In March 2022 the Company announced that it entered an agreement to acquire Sparkasse (Holdings) Malta Ltd ("Sparkasse Holdings"), the parent of Sparkasse Bank Malta plc

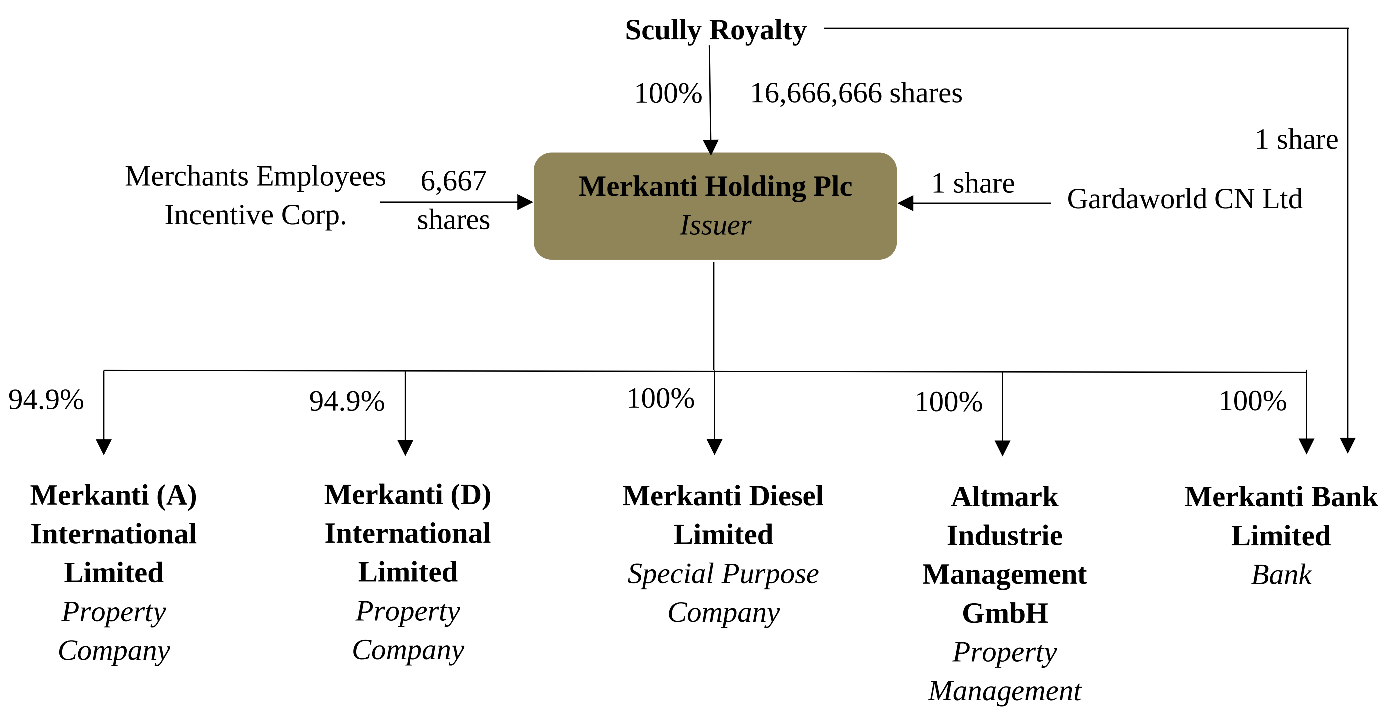
("Sparkasse Bank"), subject to regulatory approval. Upon closing of the proposed transaction, the Group's objective is to merge Merkanti Bank and Sparkasse Bank. The total consideration payable by the Company is expected to be approximately equal to the net tangible asset value (less adjustments) of Sparkasse Holdings. The consideration is expected to be satisfied through cash and liquidity resources available within the Group, or through other means. Payments will include a cash payment at closing of the transaction, three consecutive annual payments of €2.5 million; and a contingent payment, payable upon the recovery of an asset of Sparkasse Bank which was previously written off in its entirety.

The proposed transaction is conditional upon regulatory approval from various regulators, including the European Central Bank, the Malta Financial Services Authority and the Central Bank of Ireland. The long-stop date in the Share Purchase Agreement is in the first half of 2023. Should an extension not be put in place management expects that the transaction shall be closed or terminated by this time.

Management also indicates that as part of a wider streamlining of the Group, and an increasing focus on the expanded banking operations and the industrial property portfolio, minor subsidiaries could be disposed of in the coming periods. The sale of MFCR in July 2022 reflected this strategy.

2.3 Organisational Structure

The current corporate structure of the Group is as follows:



3 MAJOR ASSETS OF THE GROUP

3.1 Merkanti Bank Limited

Merkanti Bank's operations began in February 2016 after the ECB and MFSA approved the acquisition of Merkanti Bank. Before the acquisition, BAWAG primarily focused on corporate banking to generate interest income. After the acquisition, Otto Karasek, the Chief Executive Officer at the time, continued in his role and concentrated on revamping the Bank's business model. This involved changing internal processes, systems, corporate governance structures, and shifting operations towards providing traditional merchant banking services.

Regarding merchant banking, the Bank has been offering advisory and fee-based services, often to related parties. In the first three years, the Bank engaged in a limited number of factoring, loan, trade finance, and merchant banking advisory transactions.

Before issuing bonds, Merkanti Bank decided to enter the trade finance market in addition to generating income from fees and interest through its merchant banking activities. The Bank earns this income by providing credit and risk management, customized financial tools, structured financial solutions, corporate finance services, and occasionally realizing gains from its proprietary investments.

In 2020, the Bank's objective was to maintain a significant level of liquidity to seize potential opportunities. During the year, the Bank finalized new loan facilities, which contributed to additional merchant banking fee income. They also continued lending to Merkanti Diesel, which remained active in the field of dispute resolution finance.

The Bank has continued to invest in the core activities overseen and led by Martin Ware who was appointed as the Bank's CEO in June 2021. To support these efforts and accommodate anticipated growth, the Bank has hired additional personnel experienced in trade finance and merchant banking. They have also implemented new procedures and structures. Additionally, the Bank had planned to upgrade its core banking system, but this plan has been temporarily put on hold pending the completion of the Sparkasse Bank acquisition.

As previously mentioned, in March 2022, Merkanti Holding announced its agreement to acquire the parent company of Sparkasse Bank. Sparkasse Bank provides investment services, custody, and depositary services and is authorized to act as a custodian of retirement schemes. Upon closing of the transaction, and subject to regulatory approval, it is expected that the combined entity will be renamed and rebranded to focus on corporate banking, custody, depositary and investments services in Malta and Ireland. Management believes that combining Sparkasse Bank's existing market presence and product offerings with the resources and capital from Merkanti Bank will establish a solid foundation for growth in the core markets of both banks. Management expects that the proposed transaction will be closed or terminated by the first half of 2023, absent an extension to the long-stop date in the Share Purchase Agreement.

3.1.1 Statement of Comprehensive Income

Merkanti Bank Ltd Extract from Statement of comprehensive income (*€000) - 31 December*	**2020** Actual	**2021** Actual	**2022** Actual
Net interest income	836	1,428	1,697
Net fee and commission income	1,592	1,693	2,297
Trading P&L	(96)	80	965
Gains on disposal	46	(0)	(0)
Other operating income	35	35	35
Operating income	**2,413**	**3,235**	**4,994**
Administrative expenses	(2,209)	(2,781)	(3,010)
Changes in expected credit losses	(63)	49	(36)
Profit before tax	**140**	**503**	**1,948**
Other comprehensive income - net of tax	40	(41)	(637)
Total comprehensive income for the year	**180**	**462**	**1,312**
Total Capital Ratio	*109.5%*	*114.3%*	*82.1%*
CET1 Capital Ratio	*83.6%*	*88.6%*	*67.8%*

Source: Audited financial statements

Despite the challenging economic conditions brought about by the pandemic, the Bank's income generated from merchant banking activities achieved strong growth of 68% in the two-year period between 2020 and 2022, reaching €2.2 million which is equivalent to the amount generated in 2019 prior to the pandemic. In fact, in FY2022, there was a notable increase in the overall net fee and commission income, amounting to €2.3 million (compared to €1.7 million in 2021) reflecting the Bank's strategy to primarily engage in traditional merchant banking services. Factoring fees in the metals sector were a major contributor last year. Net interest income also increased substantially by 19% to €1.7 million, mainly attributable to an increase in interest income on loans to banks and other financial institutions.

In terms of trading, the Bank benefited from favourable movements in the foreign exchange market, resulting in profits of €965k. Administrative expenses rose from €2.8 million in 2021 to €3.0 million in 2022, primarily due to increased staff costs by 43% mainly pertaining to an increase in managerial staff and incurring other employment related costs. Other comprehensive income mainly relates to net fair value movements in financial assets which resulted in a loss of €0.6 million, driven by the impact on fixed income holdings of rises in interest rates. It is expected that such losses are temporary and should be recovered in full by maturity date.

3.1.2 Statement of Financial Position

Merkanti Bank Ltd Statement of financial position (*€000) - 31 December*	2020 Actual	2021 Actual	2022 Actual
Assets			
Loans and advances to banks	3,153	3,779	6,970
Cash and cash equivalents	12,372	9,960	14,573
Investments	8,412	8,288	18,946
Loans and advances to customers	15,930	15,774	13,958
Accrued income and other assets	326	450	1,110
Property, Plant and Equipment	398	301	200
Intangible assets	18	647	943
Total assets	**40,607**	**39,198**	**56,700**
Equity and Liabilities			
Capital and reserves:			
Share Capital	10,000	10,000	10,000
Retained earnings	4,432	4,935	6,884
Fair Value Reserve	90	49	(588)
Total equity	**14,522**	**14,984**	**16,296**
Liabilities:			
Amounts owed to customers	21,064	19,046	30,458
Amounts owed to banks	-	-	4,966
Subordinated liabilities	4,500	4,500	4,500
Other liabilities	521	668	480
Total liabilities	**26,085**	**24,214**	**40,404**
Total equity and liabilities	**40,607**	**39,198**	**56,700**

Source: Audited financial statements

In 2022, the Bank's total assets increased to €56.9 million from €39.2 million in 2021, driven by increases in cash balances and liquid investments. The liquidity position of the Bank was strengthened mainly through an injection of deposits by the ultimate parent company of circa €10 million (+45%).

This 45% increase is attributable to a €10.7 million increase in financial assets measured at fair value through other comprehensive income, which is primarily invested in foreign treasury bills, an increase of €4.6 million in cash holdings (yielding a higher interest rate than prior years in line with the rate hikes seen over the course of 2022), and a net increase of €3.2 million in loans and advances to banks. In 2022, intangible assets continued to increase from €647k to €943k as the implementation of a new core banking system in 2021 was still in development.

In 2019, a portion of the proceeds from the Bond Issue were used by the Issuer to provide a subordinated loan of €4.5 million to Merkanti Bank. This loan qualified as Tier 2 capital for the Bank and had a maturity of 7 years, with a fixed interest rate of 5% per annum. Due to recent amendments in the Capital Requirement Regulations (CRR II), the ability to include tier 2 capital in the Bank's large exposure limits was restricted. The Group is currently exploring various options regarding this instrument and changes to the funding structure, including the return of the deposit to direct the funds towards other opportunities. Regulatory approval for such change has been obtained during 2023.

The amounts owed to customers increased to €30.5 million in 2022 (2021: €19.0 million) mainly due to approximately a €10 million increase in deposits held at the Bank by the ultimate parent company. Management notes that this increased funding is currently intended to partly finance the proposed acquisition of Sparkasse (Holdings) Malta Ltd, should it be undertaken subject to regulatory approval. Among the total amounts owed to customers, €8.0 million represents term deposits primarily subject to fixed interest rates, while the remaining €22.5 million are repayable on call or with short notice and are not subject to interest.

3.2 The Property Companies

Merkanti Holding acquired an 85% shareholding in each of Merkanti (A) and Merkanti (D) in advance of the Bond Issue on 27th December 2018. The Property Companies were thereafter re-domiciled to Malta on 8th July 2019. Prior to the end of 2019, Merkanti Holding increased its interest by a further 9.9% of the issued share capital of Merkanti (A) and Merkanti (D). Accordingly, the Issuer currently holds 94.9% of the ordinary shares of each of the Property Companies.

The Property Companies operate in the industrial real estate leasing sector in Germany and hold assets of a combined value of €31.0 million, yielding a combined rental income of approximately €2.1 million per annum with an annual gross rate of return of 6.6%.

The Property Companies own the real estate situated in Germany described below, which is currently leased out to several tenants on definite or indefinite term contracts. For the year ending 31st December 2022, 93% of Merkanti (A)'s rental income and 98% of Merkanti (D)'s rental income was generated from areas leased out to third party tenants, with the remaining 7% and 2% respectively generated from leases to companies within the Group.

The properties are situated in the region of Saxony-Anhalt, in the central-eastern part of Germany, and borders the states of Brandenburg, Saxony, Thuringia and Lower Saxony. The region is an attractive location for businesses. The industry sector is very diverse and includes automotive supply production and mechanical engineering, information technology, biotechnology, and medical technology. Important corporations are located in the region including Bayer, Total and Dow Chemical.

During 2020, the outbreak of the Covid-19 pandemic resulted in unprecedented socioeconomic effects. However, there was no impact on Merkanti (A) and Merkanti (D) during the year as all tenants were still able to pay rent on time.

Altmark Industrie Management Gmbh ("A.I.M."), prior to May 2022 named Altmark Immobilien Management Gmbh, is the management company for the two property companies and was acquired in 2020 from a related party. The offices are based at the premises of Merkanti (A) and it provides administration, accounting, tax, maintenance and other services to both Merkanti (A) and Merkanti (D), amongst other companies. In 2022, A.I.M. generated revenues amounting to €1.1 million, with part of these revenues arising from management fees for the provision of a service that was previously undertaken by another related party.

3.2.1 Merkanti (A) International Limited

Merkanti (A) owns the largest (as at December 31, 2022: 1,569,341 m², currently: 1,565,480 m²) industrial and commercial park in the German State of Saxony-Anhalt, known as the Industrial and Commercial Park Altmark, located in Arneburg, Germany. There are currently 32 buildings in Industrial and Commercial Park Altmark. This park is traditionally a centre for the pulp and paper industry but that has recently made developments towards sustainable energy, with a large solar park built there in 2014. The Industrial and Commercial Park Altmark is well connected via a railway system, a connection to its own harbour on the river Elbe, and a connection to modern roads for transportation by truck.

The investment property is measured at fair value which was estimated by an external valuation expert. The fair value reflects actual market state, conditions and circumstances as at year end. In 2022, a portion of Merkanti (A)'s land was sold for circa €1.9 million to a neighbouring pulp and paper mill business, in respect of which a profit of €97k was realised upon disposal.

Industrial and Commercial Park Altmark presently yields a rental income of approximately €1.1 million per annum with a combined value in investment property of €22.0 million, thereby achieving a gross rate of return of 5.0%.

Around 40% of the rental income generated by Merkanti (A) in 2022 was generated by tenants operating in the construction industry, whilst another sizeable portion of approximately 36% of rental income was generated from tenants in the wood processing industry. The remaining 24% was generated from various tenants operating in transport and logistics, and property management (mainly intra-group from A.I.M.), with additional small-scale tenants operating in industries such as agriculture and manufacturing.

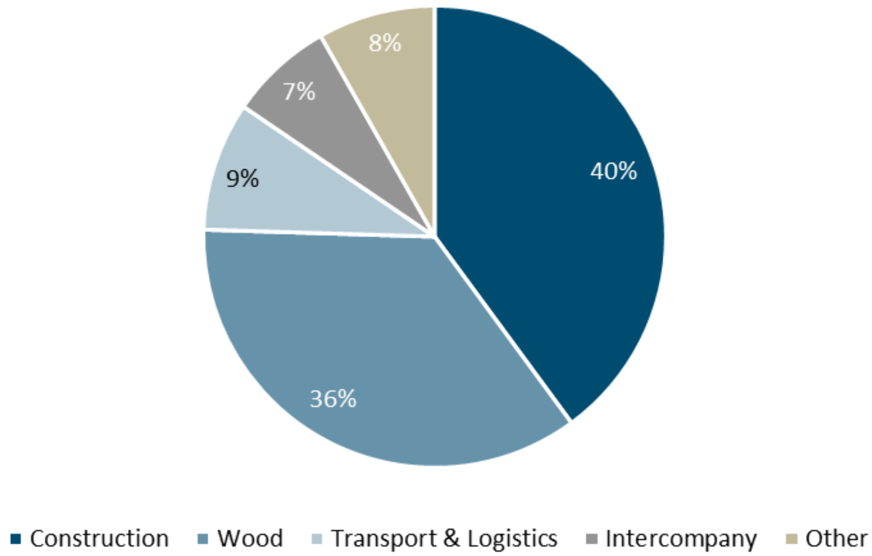


Figure 1: Merkanti (A) – Rental income by industry
Source: Management information

In terms of usage type, the Industrial and Commercial Park Altmark is mainly used for storage purposes, with such warehousing activity making up 79% of rental income during 2022. Approximately 12% of the space is being used as outdoor area whilst the remaining minority is used as office space.

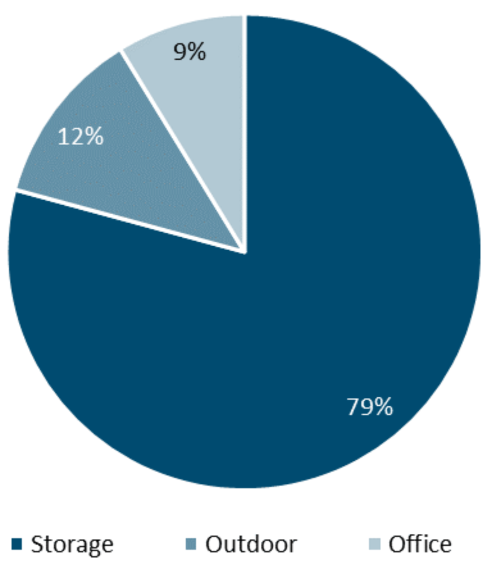


Figure 2: Merkanti (A) – Rental income by usage
Source: Management information

Merkanti (A)'s two largest tenants by rental income accounted for 40% and 33% each of Merkanti (A)'s total rental income in 2022, largely representing the construction and wood processing industries. Two other significant tenants generated 7% each of the remaining 27% of rental income, whilst the remaining 14% of rent was received from 26 smaller tenants.

Tenant 1, specifically operating in the trade of building material, holds seven definite rental agreements with Merkanti (A), with the largest rental agreement yielding €20k monthly running up to 2027. All rental agreements are subject to automatic renewal for further terms, unless the tenant provides Merkanti (A) with written termination notice within the period specified in the relevant agreement. Tenant 2, specifically operating a pulp mill, held eight rental agreements with Merkanti (A) until November 2022, after which a new contract was entered into with a new tenant, still operating a pulp mill, for a higher rent of €14.5k (vs. €12.4k prior to November 2022) and a duration of 66 months.

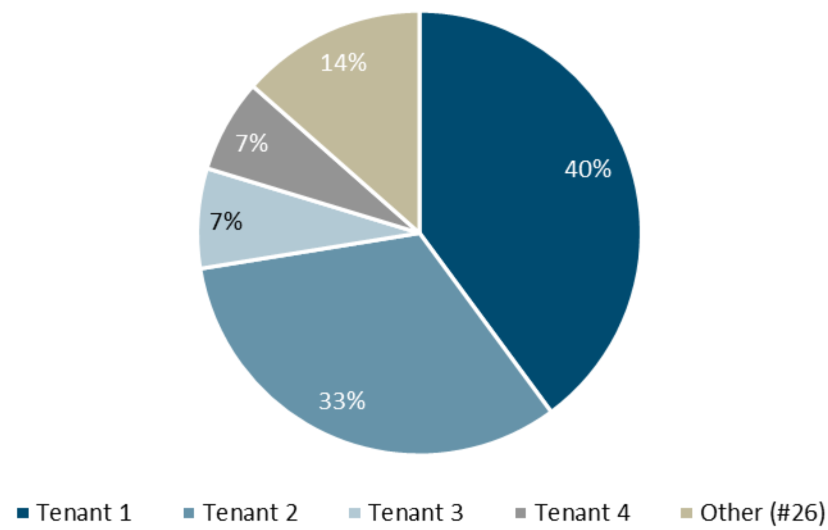


Figure 3: Merkanti (A) – Rental income by tenant
Source: Management information

3.2.1.1 Income Statement

Merkanti (A) Ltd Statements of comprehensive income (€000) - 31 December	2020 Audited	2021 Audited	2022 Audited
Rental Income	**1,066**	**1,043**	**1,072**
Change in the fair value of investment property	487	283	34
Realised gains on disposal of investment property	127	2	97
Repairs and maintenance	(167)	(497)	(358)
Administrative expenses	(737)	(488)	(624)
Other direct operating expenses	(34)	(64)	(39)
Other income	-	90	219
EBITDA	**741**	**368**	**400**
Fair value gains in relation to participation rights	49	(477)	428
Finance income	364	419	419
Finance costs	(439)	(439)	(439)
Profit / (loss) before tax	**715**	**(129)**	**808**
Tax	(169)	(251)	(130)
Profit for the year	**546**	**(380)**	**678**

Source: Management information, Audited financial statements

Total revenue from lease of property remained flat across the 3-year period generating approximately €1.1 million per annum. In 2022, Merkanti (A) continued to generate positive EBITDA in 2022. Fair value losses in relation to participation rights (on basis of an agreement of Merkanti (A) with the Issuer to acquire the right to receive dividends distributed by Merkanti Diesel from profits on a dispute resolution finance portfolio) of €0.5 million contributed to a loss in 2021. However there was a reverse efect in 2022. Operating expenses for the year resulted in relatively normal levels with administrative expenses and repairs and maintenance the main contributors.

In 2022, Merkanti (A) generated €419k in finance income and incurred €439k in finance costs, which were constant from 2021 and still mainly derived from borrowings and advances to and from related parties. Finance costs of €439k reflect the interest payable on the loan of €6.8 million at an interest rate of 6.5% advanced from Merkanti Holding following the Bond Issue. The Company realised €97k in gains on the €1.9 million investment property disposal referenced previously. The increase in other income in 2022 is largely attributable to the receipt of an insurance-related refund.

3.2.1.2 Statement of Financial Position

Merkanti (A) Ltd Statements of financial position (€000) - 31 December	2020 Audited	2021 Audited	2022 Audited
Assets			
Non-Current Assets:			
Investment Property	23,647	23,925	22,029
Loans and advances to banks	4,000	-	-
Total Non-Current Assets	**27,647**	**23,925**	**22,029**
Current Assets:			
Financial assets measured at fair value through P&L	2,623	2,147	1,650
Trade receivables	31	57	17
Other receivables	5,191	5,191	5,191
Accrued interest receivable	364	114	363
Other assets	18	179	6
Loans and advances to banks	-	4,000	4,000
Cash and cash equivalents	469	23	1,786
Total Current Assets	**8,696**	**11,710**	**13,013**
Total assets	**36,343**	**35,635**	**35,042**
Equity and Liabilities			
Capital & Reserves:			
Share Capital	1	1	1
Other reserves	24,173	24,173	24,173
Retained earnings	2,930	1,846	2,124
Total Equity	**27,104**	**26,020**	**26,298**
Liabilities:			
Borrowings	6,750	6,750	6,750
Deferred tax liability	1,096	1,139	1,103
Trade payables	96	52	48
Other payables and accruals	1,295	1,495	684
Current tax liability	2	179	160
Total liabilities	**9,239**	**9,615**	**8,744**
Total equity and liabilities	**36,343**	**35,635**	**35,042**

Source: Management information, Audited financial statements

Merkanti (A)'s total assets amounted to €35.0 million in 2022, €0.6 million less than 2021. Investment property decreased in fair value by €1.9 million following the disposal of a part of the property (referenced in a previous section), as estimated by an external valuation expert reflecting the actual market state, conditions, and circumstances as of 31st December 2022.

Other receivables amount to €5.2 million and relate to amounts due from the ultimate parent company. As of 2022, financial assets measured at fair value through profit or loss relate entirely to equity securities assigned to Merkanti (A) in settlement of receivables due from a related party in 2019, remained flat in 2022. In 2021 and 2020, the value also included the fair value of participation rights relating to the dividends receivable from Merkanti Diesel, with such profits emanating from the settlement of a portfolio of dispute resolution claims financed by the fellow subsidiary. The parties entered into an agreement to reverse the acquisition entered in 2020.

Loans and advances to banks comprise solely of a fixed-term deposit held with Merkanti Bank amounting to €4 million subject to fixed interest of 1.85% per annum, which was recently extended. In terms of funding, part of the proceeds of the Bond were granted as a loan to Merkanti (A), with borrowings amounting to €6.8 million, resulting in net debt amounting to €1.0 million. Total equity as 2022 was €26.3 million and the Company declared dividends of €400k (2021: €704k).

3.2.2 Merkanti (D) International Limited

Merkanti (D) owns the Dessau-Mitte Industrial Park, located in Dessau, Germany. Management indicates that this 111,701m^2 industrial park offers 18 buildings comprising of office and administrative buildings, production halls and warehouses. The Dessau-Mitte Industrial Park is ideally situated for hosting production, engineering and servicing companies, currently housing traditional equipment for cement plants, mills, cooling apparatus, drums and rotary furnaces, as well as broad-based engineering services in the field of cement plants and medical technology. The industrial park benefits from connections to the autobahn, the national railway and the Elbe River. Dessau-Mitte Industrial Park is valued at €8.9 million and presently yields a rental income of approximately €1.0 million, thereby producing an annual gross rate of return of 11.1%.

As indicated in the chart below, the majority (51%) of Merkanti (D)'s revenue generated in 2021 relates to tenants in the transport and logistics industries, mainly from a single packing company. The remaining 47% is rented by companies operating in construction (11%), manufacturing (9%), medical technology (7%) and other sectors represented by smaller scale tenants. The majority (59%) of Merkanti (D)'s investment property is rented for storage usage, while 37% and 4% are used as office and outdoor spaces respectively.

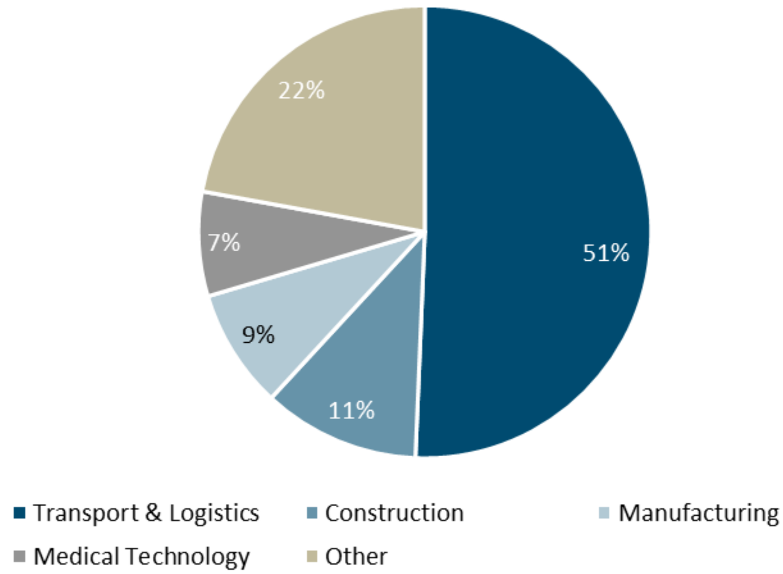


Figure 4: Merkanti (D) – Rental income by industry
Source: Management information

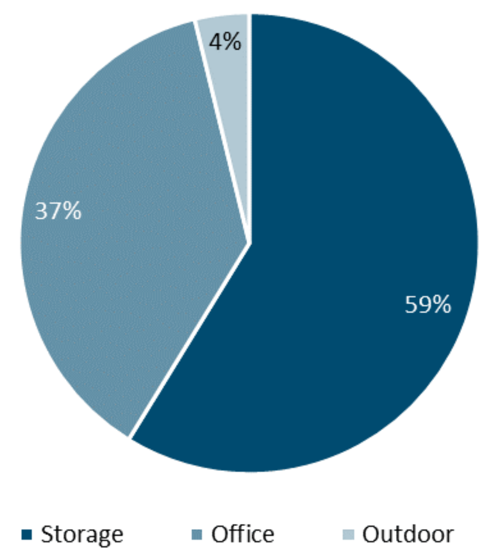


Figure 5: Merkanti (D) – Rental income by usage
Source: Management information

As of 31st December 2022, 48% of the rental income was generated by a packing company holding five definite rental agreements. Tenant 2, which generates 10% of total revenue, operates in cement plant building, whilst Tenant 3 is a medical technology company renting office space.

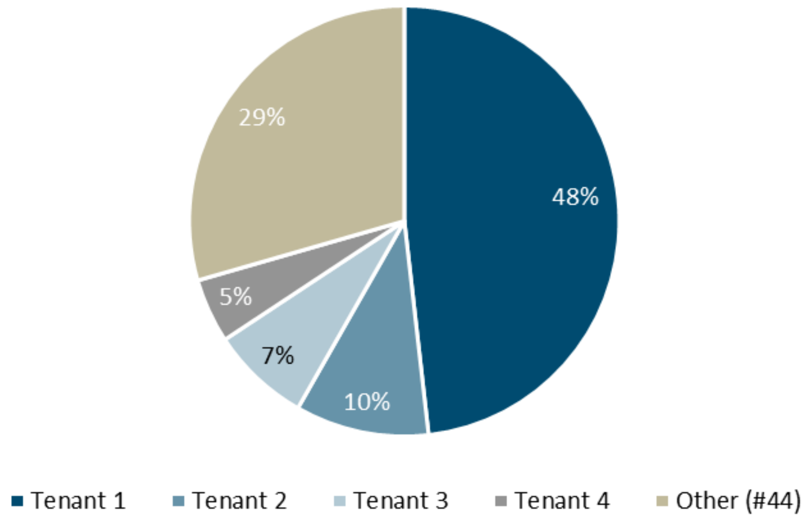


Figure 6: Merkanti (D) – Rental income by tenant
Source: Management information

3.2.2.1 Income Statement

Merkanti (D) Ltd Statements of comprehensive income (€000) - 31 December	**2020** Audited	**2021** Audited	**2022** Audited
Rental Income	**1,013**	**758**	**727**
Changes in fair value of property	(2)	1	(5)
Repairs and maintenance	(220)	(165)	(124)
Administrative expenses	(386)	(327)	(316)
Other direct operating expenses	(236)	(261)	(315)
Other income	18	236	331
EBITDA	**186**	**242**	**299**
Finance Costs	(179)	(179)	(179)
Profit / (loss) before tax	**8**	**101**	**158**
Tax	(29)	(196)	(107)
Profit for the year	**(22)**	**(95)**	**51**

Source: Management information, Audited financial statements

Revenue from rental and lease of properties owned by Merkanti (D) remained relatively flat in 2022 at €727k versus €758k in 2021. Administrative expenses and repairs and maintenance costs continued to decline in 2022 with respect to previous years.

3.2.2.2 Statement of Financial Position

Merkanti (D) Ltd Statements of financial position (€000) - 31 December	**2020** Audited	**2021** Audited	**2022** Audited
Assets			
Non-Current Assets:			
Investment property	8,940	8,941	8,936
Loans and advances to banks	2,000	-	-
Total Non-Current Assets	**10,940**	**8,941**	**8,936**
Current Assets:			
Financial assets measured at fair value through P&L	1,100	1,100	1,100
Trade receivables	19	38	80
Other receivables	85	108	72
Loans and advances to banks	-	2,000	2,000
Cash and cash equivalents	672	601	690
Total Current Assets	**1,876**	**3,996**	**3,941**
Total assets	**12,816**	**12,937**	**12,877**
Equity and Liabilities			
Capital & Reserves:			
Share Capital	1	1	1
Other reserves	6,741	6,741	6,741
Retained earnings	2,007	1,911	1,562
Total Equity	**8,748**	**8,653**	**8,304**
Liabilities:			
Borrowings	2,750	2,750	2,750
Trade payables	104	48	35
Other payables and accruals	134	174	470
Deferred tax liabilities	1,030	1,072	1,123
Current tax liabilities	-	141	105
Accrued expenses and other liabilities	49	99	89
Total liabilities	**4,068**	**4,284**	**4,573**
Total equity and liabilities	**12,816**	**12,937**	**12,877**

Source: Audited financial statements

Total assets as of 31st December 2022 amounted to €12.9 million, remaining flat from the prior year. Loans and advances to banks comprise solely of a fixed-term deposit held with Merkanti Bank amounting to €2 million subject to fixed interest of 1.85% per annum maturing in May 2023. Financial assets measured at fair value through profit or loss, amounting to €1.1 million, consist of equity securities assigned to Merkanti (D) in settlement of receivables due from a related party. Merkanti Holding loaned €2.8 million to Merkanti (D) from the Bond proceeds, thereby leaving a net debt position of €2.1 million in 2022.

3.3 Other Assets

The Company established Merkanti Diesel in December 2019, with the objective of providing dispute resolution finance, with a focus in Germany. This activity typically relates to the provision of funding to individuals and their legal counsels who are making legal claims against large corporations. Merkanti Diesel, fully financed by Merkanti Bank and via agreements with a German dispute resolution funder and three law firms, provided financing to individual legal claims relating to the "Dieselgate" scandal.

As at 2022, total assets of Merkanti Diesel amounted to €1.3 million. Whilst this company generated €1.3 million in operating profits between 2020-2021, realised net fair value losses on financial assets resulted in a loss for 2022 of €0.3 million and a total equity balance of negative €0.3 million.

This performance was driven by delays in the respective court systems. However, management indicates that more recent positive outcomes, where the courts decided in favour of customers notes, have boosted expectations for pending cases. Furthermore, Management notes that whilst this business contributed to the generation of both interest and fee income over recent periods, it is expected that the subsidiary may be sold by the Group to another related party, potentially by the end of 2023.

Altmark Industrie Management GmbH (or "A.I.M.") is a subsidiary which operates as the management company of Merkanti (A) and Merkanti (D) and holds the employees who manage both sites in Germany. As at 31st December 2022, A.I.M held €226k in total assets and registered €1.1 million in sales. In 2022 the Group sold MFCR Oriental S.A., as indicated were the intentions in the FAS 2022, which previously sourced merchant banking opportunities in South America for the Merkanti Group and generated €2.2 million in sales during 2021.

4 INDUSTRY OVERVIEW

4.1 German Industrial Real Estate

The Property Companies own real estate exclusively in the Saxony-Anhalt region of Germany. In this region, logistics plays a central role in the state's business growth strategy, facilitated by an outstanding transportation network. Situated at the heart of Europe, the area offers a vibrant business environment with advantageous location, significant levels of direct investment, and an intricate interconnection of traffic routes capable of handling substantial loads. Saxony-Anhalt boasts extensive links to pan-European transportation routes, serves as an international hub for air cargo through the Leipzig/Halle Airport, possesses one of Europe's most extensive railway networks (spanning approximately 3,100km of tracks and 76 freight transport stations), and features a modern waterway system encompassing the Elbe, Mittelland Canal, Elbe-Havel Canal, and waterway crossings.

The industrial sector in Saxony-Anhalt demonstrates a high degree of specialization, encompassing key markets such as chemistry and bioeconomy, energy, machinery and plant construction, resource efficiency, water technologies, mobility and logistics, food and agriculture, and healthcare and medicine. These sectors are further complemented by cross-sector markets, including information and communication technologies (ICT), key technologies, and the creative economy. The automotive, chemicals, and food industries serve as significant economic driving forces in the region. Notably, the "Middle German Chemical Triangle" houses prominent companies such as Bayer, Total, and Dow Chemical, establishing Saxony-Anhalt as a global leader in polymer production and processing. Remarkably, specialized helmets manufactured in Saxony-Anhalt are even utilized in Formula One racing. Additionally, Saxony-Anhalt has emerged as an innovative and efficient competence centre for the automotive sector[2].

The warehouse market in Germany is poised for expansion in the upcoming years as a result of the growing presence of e-commerce and the need for prompt and efficient goods delivery. With a robust logistics infrastructure in place, Germany is an appealing choice for businesses aiming to establish fulfilment centres. The emergence of omnichannel retail and the growing demand for expedited shipping options like same-day and next-day delivery are projected to fuel the demand for fulfilment warehouses in the country. Nonetheless, the market could encounter obstacles such as rising labour and real estate costs[3].

The COVID-19 pandemic had a significant impact on the global economy and real estate markets, including Germany. The lockdown measures, travel restrictions, and disruptions to supply chains affected the demand for warehouse and commercial properties. However, logistics and e-commerce sectors experienced increased demand due to changing consumer behavior and the acceleration of online shopping trends. This demand has likely positively

[2] Invest, G. T. (2021, May 19). *Saxony-Anhalt*. Retrieved from Germany Trade & Invest: https://www.gtai.de/gtai-en/invest/business-location-germany/federal-states/saxony-anhalt

[3] Waredock. Warehouse Market in Germandy 2023. Retrieved from Waredock: https://www.waredock.com/magazine/warehouse-market-in-germany/

influenced the warehouse market in Saxony-Anhalt, as it is an attractive location for logistics activities.

The previously referenced Waredock report continues to highlight that in 2022, the market for warehousing and logistics space in Germany witnessed a total take-up of approximately 8.5 million square meters. Although this figure fell slightly below the previous year's record of 8.67 million square meters, it still surpassed the five-year average by 19%. Among the sectors driving the demand for space, distribution and logistics companies accounted for the highest share at 34%, followed by retailers at 29%. Manufacturers secured the third position, increasing their portion of total take-up from 19% in 2021 to 27% in 2022.

The demand for space continues to be strong as numerous companies in Germany expand their production, storage, and distribution capabilities to enhance their self-sufficiency and reduce reliance on global factors. Nevertheless, the scarcity of space remains a significant challenge, particularly in several regions where there is a notable shortage of modern logistics facilities and readily available land on short notice.

4.2 Trade Finance

In 2022, trade experienced a recovery; however, its progress was hindered by multiple factors such as the conflict in Ukraine, ongoing COVID-19 restrictions, elevated inflation rates, and a slowdown in economic growth. Although there are increasing concerns, globalization has not been completely reversed but is undergoing transformation. There are indications of a decoupling trend emerging between major players like China and the United States, as well as Russia and Western nations. This shift has the potential to yield advantages in the realm of global trade.

According to the most recent projections from the International Monetary Fund (IMF), the pace of economic growth is expected to slow down, dropping from 3.4% in 2022 to 2.9% in 2023. This deceleration can be attributed to factors such as central banks raising interest rates to combat inflation and the ongoing war in Ukraine, both of which are likely to have a negative impact on economic activity. Furthermore, the persistent high levels of inflation are anticipated to weaken the demand for imports, thereby resulting in a decrease in the volume of international trade. Tightened financial conditions will add pressure on heavily indebted governments and businesses, amplifying vulnerabilities and discouraging investments and trade flows.

The International Chamber of Commerce 2023 Trade report highlighted that in 2023, Europe will continue to reduce its dependence on Russia as it strives to achieve its energy and climate objectives. The conflict in Ukraine has compelled European nations to lessen their reliance on Russian coal, natural gas, and petroleum. Between February 2022 and December 2022, there was a notable decrease of 51% in the value of imports from Russia by the EU.

The demand for services, particularly travel and transport, is anticipated to recover in 2023. With the elimination of China's zero-COVID policy and the strength of the US dollar, steady growth is expected in the tourism sector.

In 2023, the agility of supply chains will be crucial. Businesses will continue to adapt to the uncertainties and volatility of the current environment by adjusting their inventory strategies and diversifying their suppliers. They will also continue to weigh the trade-offs between global and local supply chains[4].

[4] ICC (2023), ICC 2023 Trade report: A fragmenting world

5 PERFORMANCE AND FINANCIAL POSITION OF THE ISSUER

The Issuer operates as a holding company which is mainly involved in the holding of subsidiaries that generate diversified sources of income. Merkanti Holding's main activities relate to the acquisition, the holding and sale of property, shares, and other assets, the raising of financing, raising of capital, the lending and advancing of funds to Group companies, and the collection of interest income on advances to and management fees from the Subsidiaries. It is therefore relevant to note that the Issuer's operations are not restricted to that of a finance company.

The Issuer's standalone audited financial statements for the financial years ended 31st December 2020, 2021, and 2022 have been audited by PwC. This section also includes references to forecasted financial statements provided by management for 2023, which are based on certain assumptions. Events and circumstances my differ from expectations, therefore, actual results may vary considerably from projections.

5.1 Income Statement

Merkanti Holding Plc (Standalone) Statement of comprehensive income (€000) - 31 December	2020 Actual	2021 Actual	2022 Forecast	2022 Actual	2022 Variance	2023 Forecast
Interest and similar income	1,283	1,335	823	1,332	62%	1,333
Interest and similar expense	(1,183)	(1,210)	(1,206)	(1,163)	-4%	(1,116)
Net interest income	**100**	**125**	**(383)**	**170**	**-144%**	**217**
Net fee and commission income	**11**	**429**	**80**	**537**	**572%**	**480**
Rental income	71	76	83	79	-4%	103
Realised gains on asset disposal	-	-	1,133	(51)	n.a.	-
Net trading gains	556	59	(876)	(615)	-30%	-
Dividend income	1,424	668	769	1,806	135%	600
Other operating income	498	531	322	665	107%	20
Operating income	**2,660**	**1,888**	**1,128**	**2,591**	**130%**	**1,420**
Changes in expected credit losses	-	(1)	49	15	-70%	-
Administrative expenses	(2,081)	(1,445)	(992)	(1,135)	14%	(1,100)
Profit/(loss) before tax	**579**	**442**	**186**	**1,471**	**691%**	**320**
Tax expense/ income	49	23	-	(661)	n.a.	(112)
Profit/(loss) for year	**629**	**465**	**186**	**809**	**335%**	**208**

Source: Management information, Audited financial statements

Following the Bond Issue and corporate restructuring implemented in 2019, the Issuer earns interest income on amounts due from the parent, interest income on loans to subsidiaries, fees charged to subsidiaries and other related parties, rental income through lease agreements with subsidiaries, and as from 2020, dividend income.

During 2022, interest income amounted to €1.3 million, in line with the previous year. This income was generated on receivables from Scully Royalty (interest income amounting to €0.5 million) relating to a revolving credit facility of €5.9 million being charged an interest rate of 8.25%, and on the receivables from Subsidiaries (interest income amounting to €0.8 million). The income on the receivables from the Subsidiaries consists of interest receivable on loans to the Property Companies and on the subordinated Tier 2 loan to Merkanti Bank, bearing interest rates of 6.5% and 5.0% respectively.

Similar to interest income, the interest expense remained relatively stable in 2022 with respect to 2021. Last year's forecasts indicated an expected drop in net interest income due to an anticipated repayment of borrowings from subsidiaries. However, this reduction in outstanding receivables did not materialise, and overall interest income remained unaffected. Finance costs at the Issuer level relate to the interest costs payable on the Bond. Net fee and commission income increased to €0.5 million. At the Company level, these fees primarily relate to management, administration, account maintenance and payment services. During 2022, the Company's fee income benefited in particular from advisory services to related parties on transactions and restructuring activity. Other income of €0.7 million mainly includes tax refunds on dividends from subsidiaries and recharges made to the ultimate parent company for expenses paid by the Issuer.

The prospectus issued by the Issuer dated 18th July 2019 had indicated that management fees of €0.3 million were expected to be payable by the Property Companies to the Issuer. However, management notes that following a recent assessment of the corporate structure it has been determined that such fees were giving rise to inefficiencies in terms of taxation, particularly relating to leakages on VAT. Therefore, for tax purposes it was deemed more efficient to utilise dividend payments from the Property Companies to the Issuer. Dividend income is also received from Merkanti Diesel.

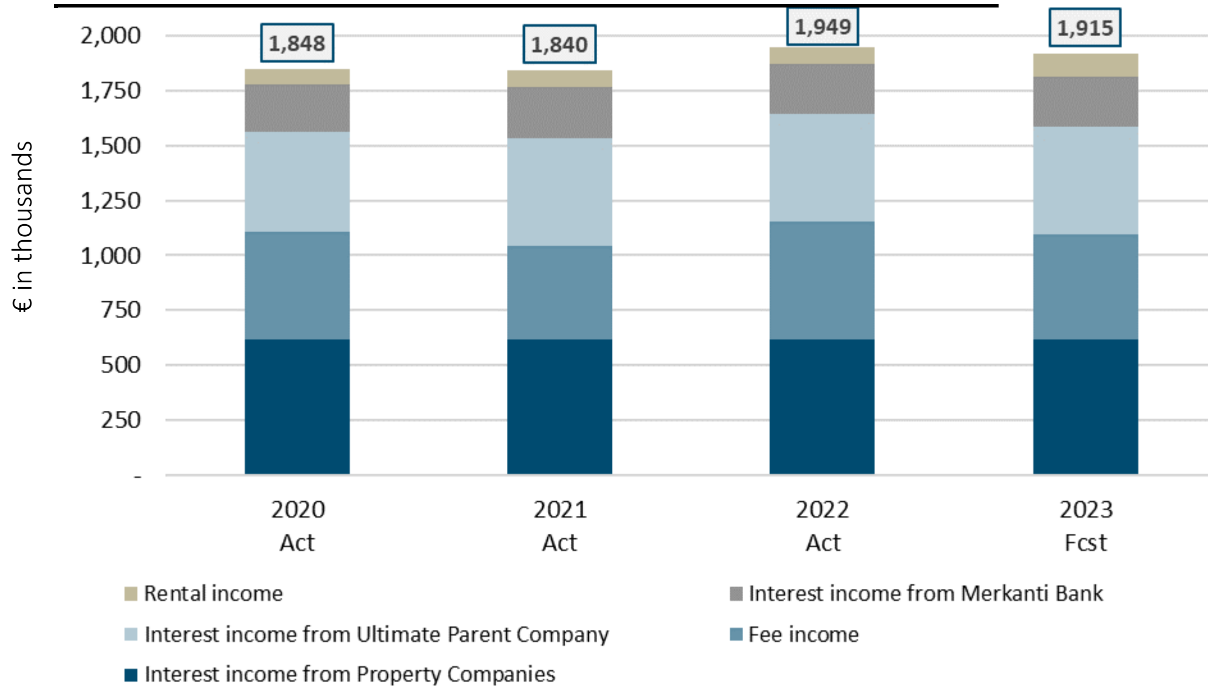


Figure 7: Merkanti Holding plc – Breakdown of Income Streams
Source: Audited financial statements, Management information

Total dividend income received by the Issuer from the Property Companies, amounted to €1.8 million, compared to €0.7 million during the previous year. This increase, partially offset by a net trading loss of €0.6 million contributed to the increase in total operating income to €2.6 million (+40%). The net trading loss relates to the fair value movement from reversing the sale of rights to Merkanti (A) to receive dividends out of profits from a portfolio of dispute claims.

During 2021 the Issuer benefited from a decrease in total administrative expenses from €2.1 million to €1.4 million, mainly due to a decrease of approximately €0.5 million in other administrative expenses such as legal, consulting, and other fees. In 2022, total direct costs and administrative expenses continued to decline to €1.1 million mainly due to a reduction in professional fees.

For 2023 whilst net interest income is expected to increase slightly to €217k in 2023 from €170k in 2022, both dividend income and other operating income are expected to decline significantly. With no dividend payment from Merkanti Diesel projected, the dividend income for the Company is expected to amount to €0.6 million. The expected decline in other operating income is driven by lower levels of recharges made to the ultimate parent and of tax refunds on dividends from subsidiaries.

5.2 Statement of Cash flows

Merkanti Holding Plc (Standalone) Statement of cash flows (€000) - 31 December	2020 Actual	2021 Actual	2022 Forecast	2022 Actual	2022 Variance	2023 Forecast
Net cash generated from / (used in) operating activities	2,572	(935)	15,023	648	-96%	647
Net cash generated from / (used in) investing activities	(1)	(535)	25	(5)	-118%	26
Net cash generated from / (used in) financing activities	(129)	(155)	(50)	(3,732)	7408%	(17)
Net movement in cash and cash equivalents	**2,441**	**(1,625)**	**14,998**	**(3,089)**	**-121%**	**656**
Cash and cash equivalents at beginning of year	5,054	7,495	5,870	5,870	0%	2,781
Cash and cash equivalents at end of year	**7,495**	**5,870**	**20,869**	**2,781**	**-87%**	**3,437**

Source: Management information, Audited financial statements

In 2020, cash inflows from operating activities of €2.6 million were primarily driven by dividends received by the Company and an additional €3.5 million loaned from Merkanti Bank. In 2021, cash used in operating activities amounted to €0.9 million, which is mainly attributable to the lower level of funding from the Bank and lower dividends received.

In 2022, dividend income again contributed significantly to a net cash generation from operating activities to €0.6 million. However, the overall cash from operating activities was substantially lower than the €15.0 million forecasted last year as the previously forecasted repayments of balances from related parties were not implemented, notably €5.9 million due by the ultimate parent company and the €4.5 million subordinated loan due by Merkanti Bank. The purchase of a portfolio of dispute claims during 2021 resulted in an outflow from investing activities of €0.5 million, whilst in 2022 no significant investment outflows were made.

A repayment of fixed interest borrowings was made of €3.6 million towards Merkanti Bank. In turn, this relates to the utilisation of proceeds from a deposit upon its maturity. Whilst the cash balance at the end of the year for the Issuer was substantially lower than what was anticipated in last year's forecasts, at a consolidated level (as referred to in previous sections) the Group's liquidity increased notably via deposits placed at the Bank. In 2023, the Issuer's cash balance is expected to grow by 24%, with management not forecasting any major outflows.

5.3 Statement of Financial Position

Merkanti Holding Plc (Standalone) Statement of financial position (€000) - 31 December	2020 Actual	2021 Actual	2022 Forecast	2022 Actual	2022 Variance	2023 Forecast
Assets						
Non-Current Assets:						
Investments in subsidiaries	50,582	50,582	50,582	50,531	0%	50,531
Other receivables	21,696	22,862	9,450	22,440	137%	21,982
Property, Plant & Equipment	97	72	47	52	10%	26
Right of use assets	573	428	-	284	n.a.	139
Total Non-Current Assets	**72,948**	**73,945**	**60,079**	**73,306**	**22%**	**72,678**
Current Assets:						
Financial assets measured at fair value through P&L	267	802	802	802	0%	802
Deferred tax assets	49	72	72	-	n.a.	-
Accrued income and other assets	1,519	2,052	707	2,743	288%	2,943
Loans and advances to banks	7,495	5,870	20,869	2,781	-87%	3,437
Total Current Assets	**9,331**	**8,796**	**22,450**	**6,327**	**-72%**	**7,183**
Total Assets	**82,279**	**82,741**	**82,529**	**79,633**	**-4%**	**79,861**
Equity and Liabilities						
Capital and Reserves:						
Issued Capital	50,020	50,020	50,020	1,667	-97%	1,667
Retained earnings and other reserves	2,872	3,336	3,930	52,498	1236%	52,706
Total Equity	**52,892**	**53,356**	**53,950**	**54,166**	**0%**	**54,374**
Non-Current Liabilities:						
Borrowings	24,381	24,478	24,580	24,580	0%	24,687
Amounts due from subsidiaries	3,600	3,600	3,600	-	-100%	-
Total Non-Current Liabilities	**27,981**	**28,078**	**28,180**	**24,580**	**-13%**	**24,687**
Current Liabilities:						
Accrued Interest - Bond	364	466	398	479	20%	479
Other payables	62	54	1	75	6414%	75
Other liabilities	-	-	-	-	n.a.	-
Lease liabilities	612	478	-	331	n.a.	169
Derivative liabilities	368	309	-	-	n.a.	-
Current tax liability	-	-	-	2	n.a.	77
Total Current Liabilities	**1,407**	**1,307**	**399**	**887**	**122%**	**800**
Total Liabilities	**29,388**	**29,385**	**28,579**	**25,467**	**-11%**	**25,487**
Total Equity and Liabilities	**82,279**	**82,741**	**82,529**	**79,633**	**-4%**	**79,861**

Source: Management information, Audited financial statements

Total assets of Merkanti Holding amounted to €79.6 million as of 31st December 2022, €3.1 million lower than 2021 mainly due the maturity of the 2.5% fixed interest rate deposit with Merkanti Bank. As per the Company's business model as a holding company, investment in subsidiaries remains the major asset of the Company, totalling €50.6 million. Other receivables, which comprise more than 25% of total assets, amounted to €22.4 million and represent the amounts loaned to subsidiaries and the revolving credit facility advanced to Scully Royalty remaining flat from 2021 levels (and substantially higher than last year's forecast of €9.5 million).

On the funding side, as at the end of 2022, the debt relating to the Bond Issue comprises most of the total liabilities, which amounted to €25.5 million. Total equity remained relatively stable at €54.2 million with respect to previous years, with a redistribution of capital in 2022 in which €48.4 million from share capital was reallocated to the contribution reserve to allow for a greater level of flexibility for any future raising of capital. Overall, besides the repayment of the €3.6 million loan due to Merkanti Bank, the balance sheet as at the end of 2022 was largely in line with the forecasts of last year's FAS 2022. Management forecasts no significant shifts to the Company's financial position as at 31st December 2023.

With respect to the wider group of Scully Royalty, it should be noted that in 2020, Scully Royalty Limited, the Issuer's ultimate parent company and some of its subsidiaries, including the Issuer, were named as defendants in a legal action in a foreign jurisdiction related to an alleged guarantee of the former parent of the SRL group for an amount of approximately €91 million as of December 31st, 2022. Management highlights that the SRL group believes that such claim is without merit and intends to defend this claim. Furthermore, the Company has initiated litigation locally in Malta seeking a declaratory judgment against the plaintiff regarding this claim. In addition, the Company has obtained additional risk mitigation securities for this litigation to mitigate the possibility for any potential loss. Based on the information available, management does not believe that there will be a material adverse effect on the group's financial condition or results of operations as a result of this action. However, due to the inherent uncertainty of litigation, management are not able to provide certainty as to the outcome of these claims.

5.4 Evaluation of Performance and Financial Position

Merkanti Holding Plc (Standalone) Key Ratios	2020 Actual	2021 Actual	2022 Actual	2023 Forecast
Operating Income Margin *(Operating Income / Revenue)*	205.5%	107.1%	141.3%	78.3%
Profit Margin *(Pre-tax profit for the year / Revenue)*	44.8%	25.1%	78.7%	17.6%
Interest Coverage *(Operating Profit before interest expense / Interest Payable)*	1.5x	1.4x	2.3x	1.3x
Return on Assets *(Operating Profit / Average Total Assets)*	0.7%	0.5%	1.8%	0.4%
Return on Capital Employed *(Operating Profit / Average Capital Employed)*	0.7%	0.5%	1.8%	0.4%
Return on Equity *(Profit for the year / Average Total Equity)*	1.2%	0.9%	1.5%	0.4%
Gearing Ratio *(Borrowings / {Total Equity + Borrowings})*	31.6%	31.4%	31.2%	31.2%

Source: Management information, Audited financial statements, Curmi & Partners Ltd

The Issuer is a diversified holding company with subsidiaries operating in the banking and industrial real estate sectors and benefiting from a diversified income stream. Whilst in 2019 the largest components of interest income were derived from the revolving credit facility to the Parent, since 2020 most of the interest income has been derived from loans advanced to subsidiaries (via the proceeds of the Bond), in addition to fees receivable. During more recent periods, dividend income has also become proportionately more prominent.

The general level of profitability level remained healthy at the standalone level of the Company during 2022. Operating and profit margins were substantially enhanced in 2022 particularly by the higher dividend income, which supplemented the strong interest and fee income generated in addition to the positive impact from lower administrative expenses. Interest cover increased to 2.3x as a result of such higher profitability. The balance sheet composition and capital structure, via the gearing ratio, were slightly enhanced with the repayment of a €3.6 million loan.

As is reflected in several ratios, the (standalone) Company’s profitability margins are expected to taper off in 2023 as dividend income is expected to be significantly reduced. From a balance sheet perspective, the Company’s gearing is expected to remain unchanged.

Management expects that the current year and coming periods could be considered as a phase of transition. In terms of the Group’s other major underlying assets, management expects the

Property Companies to continue to generate stable rental income benefiting from the attractiveness of the region and the industrial real estate sector, and that the property valuations will remain relatively stable over business cycles.

Meanwhile management also notes that dividend income is expected to continue to increasingly sustain the Issuer's standalone financial profile, also benefiting from the expected expansion of the banking operations.

6 COMPARABLES

The table below provides an indication of the relative financial performance and debt servicing capability of the Issuer. The credit metrics of the Issuer are hereby compared to those of a selection of finance companies, that in this respect could be considered to have a similar relatively stable earnings profile. The ratios indicated below are calculated using the audited financial statements for FY2022 of each respective company.

To estimate the ability of servicing borrowings, interest coverage is estimated as the ratio of financial income (after adjusting for administrative expenses) to interest payable.

Issuer / Group	Gearing	Interest Coverage
Merkanti Holdings	**31.21%**	**2.25x**
Exalco finance	97.47%	1.10x
Eden Finance	96.02%	1.00x
Dizz Finance	59.04%	1.68x
United Finance	54.00%	1.28x
Tumas Investments	98.67%	1.01x
AX Investments	76.14%	1.26x

Source: Audited financial statements

The table below compares a selection of ratios of Merkanti Holding to a selection of issuers which have issued bonds similarly secured by property. One should note that there is still a variance in the operations of these companies and that of the Issuer, due to the nature and location of the underlying property. Furthermore, certain differences include characteristics of the specific debt instruments.

Issuer / Group	Gearing	Interest Coverage
Merkanti Holdings	**31.21%**	**2.25x**
MedservRegis	49.26%	2.84x
Gap Group plc	74.38%	8.30x
Hili Properties	48.67%	1.78x
International Hotel Investments	43.50%	1.84x
MIDI	43.56%	-0.43x

Source: Audited financial statements

7 GLOSSARY

Income Statement	
Operating Income	Gross operating profit refers to the total revenue less expenses incurred earning that revenue.
EBITDA	Earnings before interest, tax, depreciation, and amortisation (EBITDA) is a measure of operating profitability. It excludes depreciation and amortisation and is viewed as measure of a company's core profitability and cash generating ability.
Balance Sheet	
Non-current assets	Non-current assets are long-term investments, the full value of which will not be realised within the accounting year.
Current assets	Current assets are all assets that are realisable within one year from the statement of financial position date. Such amounts include trade receivables, inventory, cash, and bank balances.
Current liabilities	Current liabilities are liabilities payable within a period of one year from the statement of financial position date and include trade payables and short-term borrowings.
Non-current liabilities	Long-term financial obligations or borrowings that are not due within the present accounting year. Non-current liabilities include long-term borrowings, bonds, and long-term lease obligations.
Total Equity	Total equity includes share capital, reserves, retained earnings and minority interests. It relates to the capital and reserves that are attributable to owners of the company.
Cash Flow Statement	
Cash flow from operating activities	Cash flow from operating activities illustrates the cash-generating abilities of a company’s core activities and includes cash inflows

	and outflows that are related to operating activities.
Cash flow from investing activities	Cash flows from investing activities reflect the change in cash position resulting from investments and divestments.
Cash flow from financing activities	Cash flows from financing activities shows the cash inflows and outflows related to financing transactions with providers of funding, owners, and the creditors.
Operating & Financial Ratios	
Gearing or leverage ratio	The gearing or leverage ratio indicates the relative proportion of borrowings and equity used to finance a company's assets. It is estimated by dividing total borrowings by total borrowings plus total equity, or as the ratio of total borrowings to total equity.
Interest Coverage ratio	Interest coverage ratio is generally calculated by dividing a company's EBITDA, or EBIT (operating profit) of one period by the company's interest expense of the same period. It measures the ability of the borrower to service the finance costs related to borrowings.
Net Debt to EBITDA	This ratio compares financial borrowings and EBITDA as a metric for estimating debt sustainability, financial health and liquidity position of an entity. It compares the financial obligations to the actual cash profits.
Operating Income Margin	Operating income margin is the ratio of operating income to revenue. It measures how much profit is made on revenue after paying for costs incurred to earn revenue.
EBITDA Margin	Similar to operating income margin, EBITDA margin is a measure of profitability that measures the proportion of revenue that is left over after paying for all costs of production incurred in ordinary operations.
Profit Margin	Net profit margin is the ratio of profit for the period to revenues and is a measure of how much of revenues is converted into bottom line profits.

Return on Assets (ROA)	Return on assets is the ratio of profit for the period or operating profit to average total assets for the period. It measures efficiency in using its assets to generate income.
Return on Capital Employed (ROCE)	This ratio measures efficiency in generating income but takes into consideration the sources of financing. Profit for the period or operating profit is divided by the capital employed (fixed assets plus working capital or total assets less current liabilities).
Return on Equity (ROE)	Measures the profitability in terms of how much profit is generated in relation to owners' investment.