Merkanti Holding PLC

Financial Analysis Summary
30th June 2022

CURMI & PARTNERS

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Finance House,
Princess Elizabeth Street,
Ta' Xbiex, XBX 1102 , Malta

T (+356) 2134 7331
W curmiandpartners.com
E info@curmiandpartners.com

30th June 2022

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 2022 ("FAS Update June 2022") as an update to the Financial Analysis Summary Update 2021 ("FAS Update June 2021"). A copy of the FAS Update June 2022 is attached to this letter.

The purpose of the financial analysis within the FAS Update June 2022 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"), Altmark Industrie Management GmbH ("A.I.M") and MFCR Oriental S.A. ("MFCR") (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 2019, 31st December 2020 and 31st December 2021 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 2022 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 2019, 31st December 2020 and 31st December 2021 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 2019, 31st December 2020 and 31st December 2021 have been extracted from the audited statutory financial statements of Merkanti (A) and Merkanti (D).
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.

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E info@curmiandpartners.com

6. The ratios quoted in the FAS Update June 2022 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 2022 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 2022 is meant to assist potential investors by summarising the more important financial data of the Issuer. The FAS Update June 2022 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 2022 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 2022. 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"), Altmark Industrie Management GmbH ("A.I.M.") and MFCR Oriental S.A. ("MFCR"), 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, Merkanti Diesel, and MFCR 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 currently expects that the acquisition will be effective in 2023.

1.2 Shareholding of the Issuer

The Issuer's authorised share capital is €200,000,004, divided into 33,333,334 Ordinary A Shares of €3 each and 33,333,334 Ordinary B Shares of €3 each. The Company's issued share capital is €50,020,002, divided into 16,673,333 Ordinary A Shares of €3 each and 1 Ordinary B Share of €3 each. 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

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 is expected that these proposed changes shall not take effect until 3 months from the date of the publication by the Registrar of Companies.

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 2021, Scully Royalty's share capital amounted to CAD $365,600,000 consisting of 14,779,302 common shares. The main shareholders of Scully Royalty are outlined below:

Scully Royalty Ltd Shareholding as at 26th April 2022	Number of shares	Percentage Shareholding
Peter Kellogg, group[1]	5,147,283	34.7%
Lloyd I. Miller III, trusts	1,842,087	12.4%
Nantahala Capital Management, LLC	807,089	5.4%
Total shares	**14,816,757**	

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 2022"), 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 €29.5million 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 for a net book value of €50,801. MFCR is a Uruguay-registered company with its principal business being the origination of merchant banking and trade finance opportunities for Merkanti Bank and the Group.

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

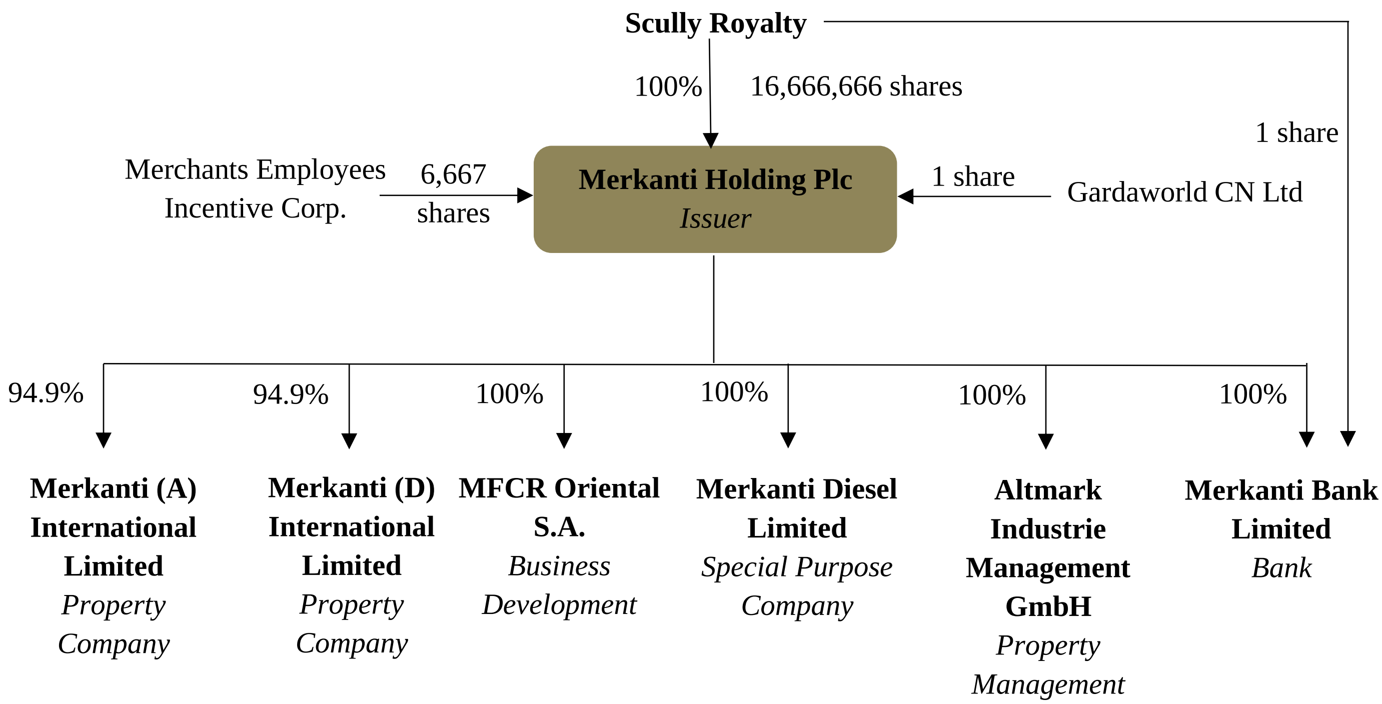
("Sparkasse Bank"), subject to regulatory approval. Upon closing of the proposed transaction, the Group's objective is to merge Merkanti Bank and Sparkasse Bank to form a larger independent institution with projected total assets of €1.1billion.

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 €2.5million; and a contingent payment, payable upon the recovery of an asset of Sparkasse Bank which was previously written off in its entirety.

Management also indicates that as part of a wider streamlining of the Group, certain minor subsidiaries could be disposed of in the coming periods, with focus remaining on the expanded banking operations and the industrial property portfolio.

2.3 Organisational Structure

The corporate structure of the Group as of 31st December 2021 was 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. Prior to the acquisition, BAWAG's operations primarily related to the provision of corporate banking with the goal of generating interest income. Following the acquisition, Otto Karasek, who was Chief Executive Officer, continued in his role and focused on revamping the Bank's business model by changing internal procedures, systems, corporate governance structures and shifting operations towards the provision of traditional merchant banking services.

With respect to merchant banking, the Bank has been providing advisory and fee related services, typically to related parties. In the first 3 years of operation, the Bank engaged in a limited number of factoring, loan, trade finance and merchant banking advisory transactions.

Prior to the Bond Issue, Merkanti Bank decided to access the trade finance market in addition to generating fee and interest income from its merchant banking activities. The Bank earns fee and interest income from its merchant banking activities by providing credit and risk management, customised financial tools, structured financial solutions and corporate finance services, in addition to realising gains on its proprietary investments from time to time.

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 further support these efforts and accommodate the expected growth, the Bank has hired additional personnel with experience in trade finance and merchant banking, in addition to the implementation of new procedures and structures. Management also notes that the Bank committed to the upgrade of its core banking system upgrade, which is currently being developed, though this plan has been idled subject to the closing of the Sparkasse Bank acquisition.

During 2020, the objective of the Bank was to maintain a substantial level of liquidity with the expectation of capitalizing on potential opportunities that could arise. However, the Bank adapted a cautious approach and passed on several opportunities in 2020 as the risk to return ratio was not appropriate. Last year was characterised by the finalisation of new loan facilities from which additional merchant banking fee income was achieved, in addition to continued lending to Merkanti Diesel which remained active in the dispute resolution finance area.

As mentioned in previous sections, in March 2022 Merkanti Holding announced an agreement to acquire the parent of Sparkasse Bank. Sparkasse Bank provides investment services and custody and depositary services, and is authorised to act as 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 the combination of the existing market presence and product offerings of Sparkasse Bank with the investment in resources and capital from Merkanti Bank, will create a solid foundation for growth in banks' core markets. Based on 31st December 2021 financial information, the new larger independent entity will have combined Own Funds of circa €60million, total assets of €1.1billion, assets under custody of €8.5 billion, and revenues of €17million.

3.1.1 Statement of Comprehensive Income

Merkanti Bank Ltd Extract from Statement of comprehensive income *(€000) - 31 December*	**2019** Actual	**2020** Actual	**2021** Actual
Net interest income	236	836	1,428
Net fee and commission income	2,304	1,592	1,693
Trading P&L	749	(96)	80
Gains on disposal	9	46	(0)
Other operating income	35	35	35
Operating income	**3,333**	**2,413**	**3,235**
Administrative expenses	(2,459)	(2,209)	(2,781)
Changes in expected credit losses	(91)	(63)	49
Profit before tax	**783**	**140**	**503**
Total comprehensive income for the year	**731**	**180**	**462**
Total Capital Ratio	*97.95%*	*109.51%*	*114.31%*
CET1 Capital Ratio	*73.51%*	*83.58%*	*88.64%*

Source: Audited financial statements

Following Scully Royalty's formal takeover of BAWAG in 2016, the Bank's operations shifted from primarily trade finance and forfaiting to traditional merchant banking services. Fee and commission income increased proportionately compared to interest income. In fact, net fee and commission income increased significantly based on advisory services provided to several related parties within the Scully Royalty group.

During FY2021, net interest income increased significantly to €1.4million (2020: €0.8million) primarily driven by the increase in interest received on loans and advances to customers. Net fee and commission income increased by 6.3% to €1.5million, mainly generated from merchant banking services and factoring transactions.

The performance of the merchant banking activities in 2021 is noted as robust, given the challenging economic environment that arose during that period because of the pandemic.

In 2021, the Bank benefitted from its proprietary trading mainly through favourable movements in the foreign exchange market, yielding €84k profits. Administrative expenses increased from €2.2million in 2020 to €2.8million in 2021, which is attributable mainly to other administrative expenses such as maintenance and marketing. Other increases were related to staff costs (increased from €1.0million to €1.2million), IT costs and professional fees.

3.1.2 Statement of Financial Position

Merkanti Bank Ltd Statement of financial position (*€000) - 31 December*	2019 Actual	2020 Actual	2021 Actual
Assets			
Loans and advances to banks	11,218	3,153	3,779
Cash and cash equivalents	10,407	12,372	9,960
Investments	8,393	8,412	8,288
Loans and advances to customers	5,600	15,930	15,774
Accrued income and other assets	559	326	450
Property, Plant and Equipment	138	398	301
Intangible assets	25	18	647
Total assets	**36,341**	**40,607**	**39,198**
Equity and Liabilities			
Capital and reserves:			
Share Capital	10,000	10,000	10,000
Retained earnings	4,292	4,432	4,935
Fair Value Reserve	50	90	49
Total equity	**14,342**	**14,522**	**14,984**
Liabilities:			
Amounts owed to customers	17,208	21,064	19,046
Subordinated liabilities	4,500	4,500	4,500
Other liabilities	226	521	668
Derivative financial instruments	65	-	-
Total liabilities	**21,999**	**26,085**	**24,214**
Total equity and liabilities	**36,341**	**40,607**	**39,198**

Source: Audited financial statements

Following the acquisition in 2016, the Bank was restructured via a formal capital reduction process leading to a downsizing in both total assets and total equities. With activities primarily focused on merchant banking services with related parties, on-balance sheet exposure was kept at a minimum in subsequent years.

Total assets remained constant at €39.2million in 2021 with loans and advances to customers the main component. Cash and cash equivalents include deposits with the Central Bank of Malta amounting to €3.5million withdrawable on demand and subject to a negative interest rate of 0.5%. The remaining balance consists of money market placements. Loans and advances to customers include credit exposures with related parties of €7.0million and €8.8million with third parties. In 2021, intangible assets grew from €18k to €0.6million following the development of a new core banking system.

During 2019, part of the proceeds raised from the Bond Issue were utilised by the Issuer to grant a subordinated loan to Merkanti Bank amounting to €4.5million, which qualifies as Tier 2 capital for the Bank. This subordinated loan has a maturity of 7 years and is subject to a fixed interest of 5% per annum. Due to the recent introduction of amendments in the Capital Requirement Regulations (CRR II), the Group is currently considering various options in relation to this funding instrument, including potential repayment or the conversion into additional deposits to place as cash collateral, or into additional tier 1 capital.

Amounts owed to customers include an amount of €18.6million due by the Bank to related parties, with an amount of €11.8million term deposits mostly subject to fixed interest rates while the remainder of €7.2million are repayable at call and short notice.

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 valued at €32.9 million, yielding a combined rental income of approximately €2.1 million per annum with an annual gross rate of return of 6.4%.

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 2021, 92% of Merkanti (A)'s rental income and 97% of Merkanti (D)'s rental income was generated from areas leased out to third party tenants, with the remaining 8% and 3% respectively was 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. As at the date of this document, the situation remains unchanged, with tenants continuing to make payments 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 2021, A.I.M. generated revenues amounting to €1.1million, 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 (1,671,856m^2) 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 2020, a small portion of Merkanti (A)'s property was sold for circa €3million to a major pulp and paper company that is expecting to stimulate demand for properties in the area, and unutilized buildings at Merkanti (A), by suppliers.

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 €23.9 million, thereby achieving a gross rate of return of 4.7%.

Around 39% of the rental income generated by Merkanti (A) in 2021 was generated by wood processing industry tenants, whilst another equal portion of approximately 39% of rental income was generated from the construction industry. The remaining 22% 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.

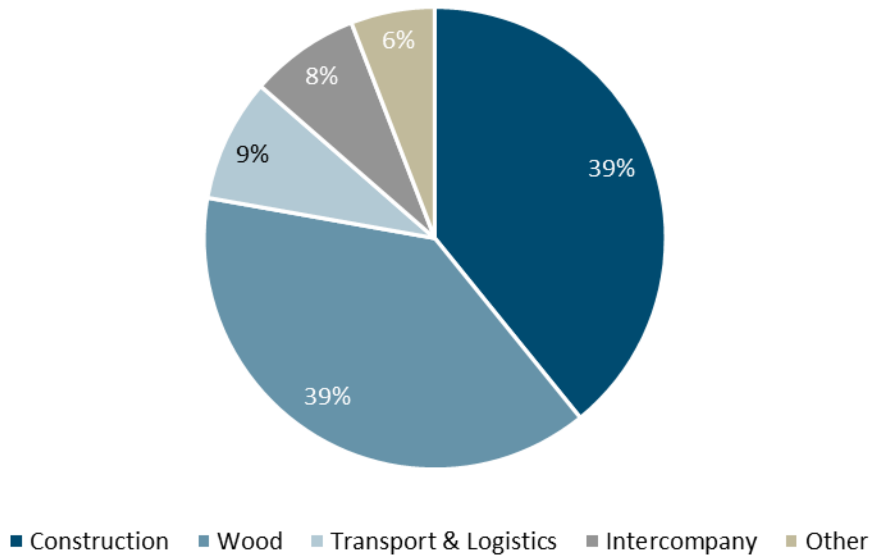


Figure 1: Merkanti (A) – Rental income by industry
Source: Management information

In terms of usage type, the Industrial and Commercial Park Altmark is mainly used for storage purposes, with activity making up 78% of rental income during 2021. Approximately 13% of the space is being used as outdoor area whilst the remaining minority is used as office space.

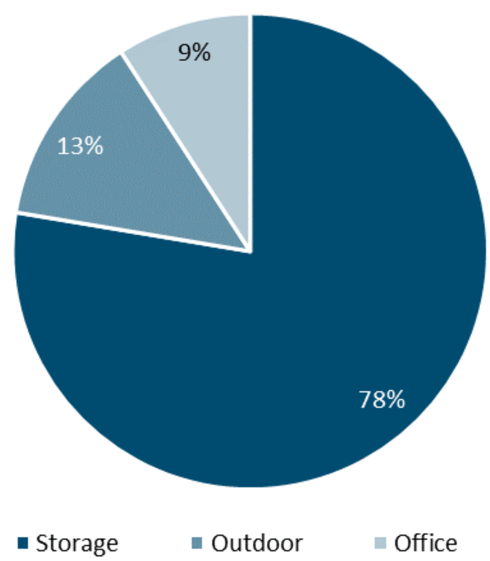


Figure 2: Merkanti (A) – Rental income by usage
Source: Management information

Merkanti (A)'s two largest tenants by rental income accounted for 39% each of Merkanti (A)'s total rental income in 2021, largely representing the construction and wood processing industries. Two other significant tenants generated 8% each of the remaining 22% of rental income, whilst the remaining 7% of rent was received from 28 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, holds eight rental agreements with Merkanti (A), of which four are definite and four are indefinite, with the largest agreement yielding €12.4k per month, running till 2023, and subject to automatic extension unless requested otherwise.

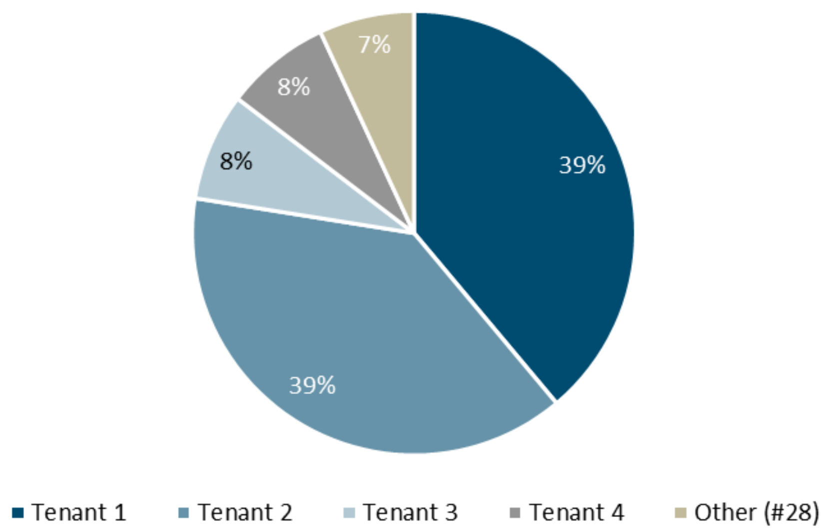


Figure 3: Merkanti (A) – Rental income by tenant
Source: Management information

3.2.1.1 Income Statement

Merkanti (A) Ltd Statements of comprehensive income (€000) - 31 December	2019 Audited	2020 Audited	2021 Audited
Rental Income	**1,282**	**1,066**	**1,131**
Change in the fair value of investment property	1,985	487	283
Realised gains on disposal of investment property	-	127	2
Fair value gains in relation to participation rights	-	49	(477)
Repairs and maintenance	(242)	(167)	(497)
Other direct operating expenses	(33)	(34)	(64)
Administrative expenses	(373)	(737)	(488)
EBITDA	**2,619**	**790**	**(110)**
Finance costs	(135)	(439)	(439)
Finance income	1	364	419
Other income	-	-	2
Profit / (loss) before tax	**2,485**	**715**	**(129)**
Tax	(393)	(169)	(251)
Profit for the year	**2,091**	**546**	**(380)**

Source: Management information, Audited financial statements

Total revenue from lease of property decreased from €1.3million in 2019 to €1.1million in 2020 as the company sold part of the investment property over the year, and as an additional third-party tenant, which generated around €72k of rental income, cancelled a contract on 30th June 2020. In 2021, rental income remained relatively flat with respect to 2020.

In 2021, repairs and maintenance rose to €0.5million from €0.2million in 2020. This significant increase was a result of the planned repairs and improvements of a roof which was previously postponed because of the pandemic, with no long-term increase expected in this respect. Administrative expenses returned to a more normalized level of €0.5million in 2021 from €0.8million in 2020 due to several outstanding sales commissions incurred in 2020.

Significant fair value losses of €0.5million in relation to the fair value of a participation right (on basis of an agreement of Merkanti (A) with the Issuer to acquire the right to receive dividends distributed by another subsidiary from profits on a dispute resolution finance portfolio), in addition to an increase in repairs and maintenance were the main recurring items that contributed to the notable deterioration in profitability. Merkanti (A) generated €0.4million in finance income in 2021, a 15% increase from the €0.4million generated in 2020 with this increase of €55k entirely derived from interest income on term deposits held with a fellow subsidiary. In 2021, finance costs of €0.4million remained flat from 2020 as these reflect the interest payable on the loan of €6.75million at an interest rate of 6.5% advanced from Merkanti Holding following the Bond Issue.

3.2.1.2 Statement of Financial Position

Merkanti (A) Ltd Statements of financial position (€000) - 31 December	2019 Audited	2020 Audited	2021 Audited
Assets			
Non-Current Assets:			
Investment Property	26,198	23,647	23,925
Loans and advances to banks	-	4,000	-
Total Non-Current Assets	**26,198**	**27,647**	**23,925**
Current Assets:			
Financial assets measured at fair value through P&L	1,650	2,623	2,147
Trade receivables	34	31	57
Other receivables	4,660	5,191	5,191
Accrued interest receivable	-	364	114
Other assets	58	18	3
Current tax receivables	-	-	175
Loans and advances to banks	-	-	4,000
Cash and cash equivalents	2,905	469	23
Total Current Assets	**9,307**	**8,696**	**11,710**
Total assets	**35,505**	**36,343**	**35,635**
Equity and Liabilities			
Capital & Reserves:			
Share Capital	1	1	1
Other reserves	24,174	24,173	24,173
Retained earnings	3,384	2,930	1,846
Total Equity	**27,558**	**27,104**	**26,020**
Liabilities:			
Borrowings	6,750	6,750	6,750
Deferred tax liability	1,008	1,096	1,139
Trade payables	41	96	52
Other payables and accruals	148	1,295	1,495
Current tax liability	-	2	179
Total liabilities	**7,947**	**9,239**	**9,615**
Total equity and liabilities	**35,505**	**36,343**	**35,635**

Source: Management information, Audited financial statements

Merkanti (A)'s total assets amounted to €35.6million in 2021, €0.7million less than 2020, mainly because of lower cash and cash equivalents which is a consequence of the negative EBITDA generated. Investment property increased in fair value by €0.3million as estimated by an external valuation expert reflecting the actual market state, conditions, and circumstances as of 31st December 2021. Within the current value of investment property of €23.9million, the land value decreased to €17.4million from €18.7million in 2020 and the value of buildings currently used as third-party offices, production and storage facilities increased to €7.3million from €5.9million in 2020.

Other receivables amount to €5.2million and relate to amounts due from the ultimate parent company. Financial assets measured at fair value through profit or loss include €0.5million (2020: €1.0million) in 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 remaining €1.7million, which represents equity securities assigned to Merkanti (A) in settlement of receivables due from a related party in 2019, remained flat in 2021 from 2020 levels.

Loans and advances to banks comprise solely of a fixed-term deposit held with Merkanti Bank amounting to €4million subject to fixed interest of 1.85% per annum and which matures on 2nd May 2022. In terms of funding, part of the proceeds of the Bond were granted as a loan to Merkanti (A), with borrowings amounting to €6.8million, resulting in net debt amounting to €2.7million.

3.2.2 Merkanti (D) International Limited

Merkanti (D) owns the Dessau-Mitte Industrial Park, located in Dessau, Germany. Management indicates that this 111,688m^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 €8.9million and presently yields a rental income of approximately €1.0million, thereby producing an annual gross rate of return of 11.1%.

As indicated in the chart below, the majority (53%) 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 (12%), manufacturing (8%), medical technology (7%) and other sectors represented by smaller scale tenants. The majority (60%) of Merkanti (D)'s investment property is rented for storage usage, while 36% and 4% are used as office and spaces respectively.

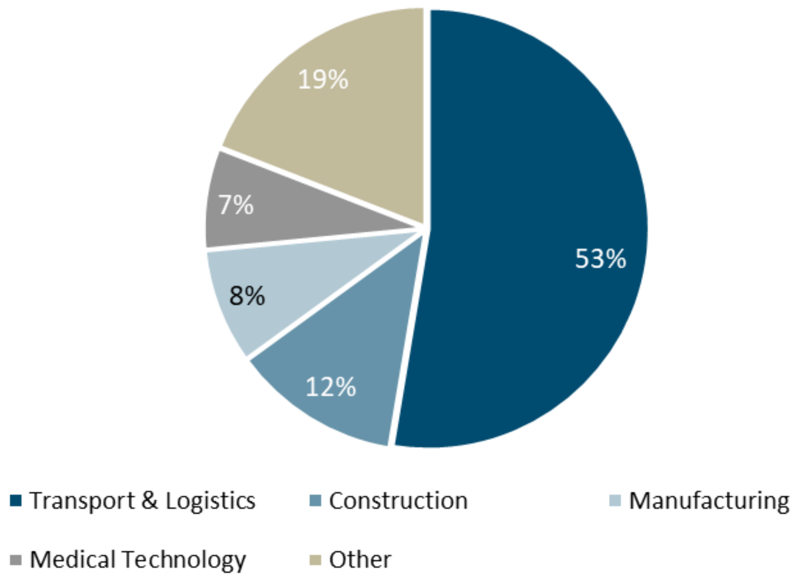


Figure 4: Merkanti (D) – Rental income by industry
Source: Management information

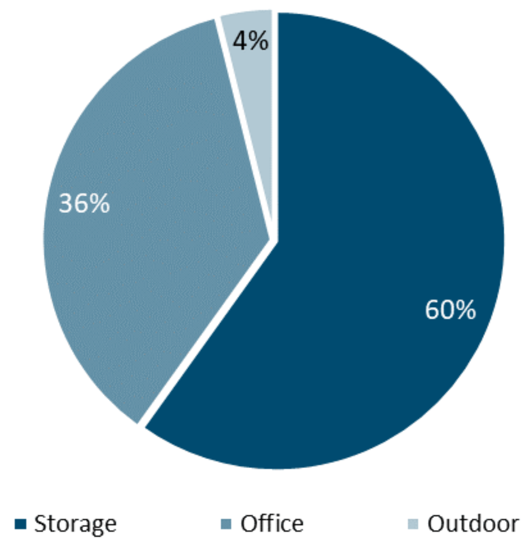


Figure 5: Merkanti (D) – Rental income by usage
Source: Management information

Most of the rental income is generated by a packing company which holds five definite rental agreements which are expected to mature in September 2022. Tenant 2, which generates 10% of total revenue, operates in cement plant building, whilst Tenant 3 is a medical technology company renting office space.

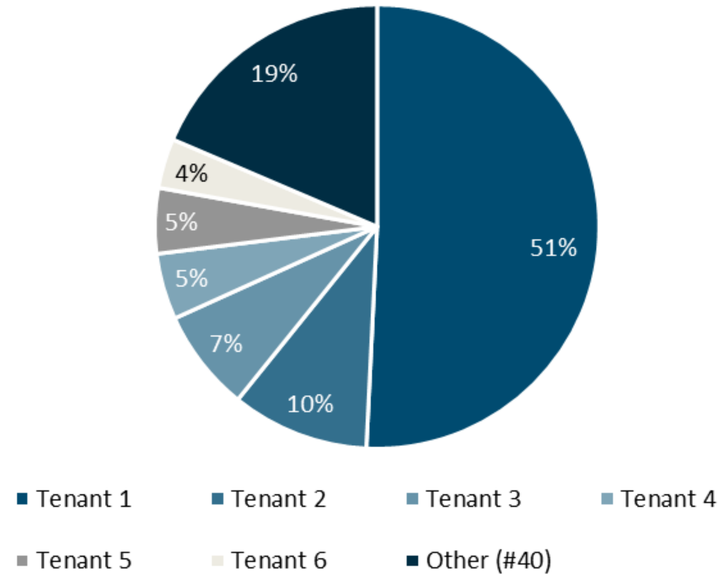


Figure 6: Merkanti (D) – Rental income by tenant
Source: Management information

3.2.2.1 Income Statement

Merkanti (D) Ltd Statements of comprehensive income (€000) - 31 December	**2019** Audited	**2020** Audited	**2021** Audited
Rental Income	**928**	**1,013**	**994**
Changes in fair value of property	84	(2)	1
Repairs and maintenance	(376)	(220)	(165)
Other direct operating expenses	(236)	(236)	(261)
Administrative expenses	(351)	(386)	(327)
Other income	-	-	-
EBITDA	**49**	**168**	**242**
Finance Costs	(55)	(179)	(179)
Other income	69	18	38
Profit / (loss) before tax	**63**	**8**	**101**
Tax	(10)	(29)	(196)
Profit for the year	**53**	**(22)**	**(95)**

Source: Management information, Audited financial statements

Revenue from rental and lease of properties owned by Merkanti (D) remained relatively flat in 2021 at €1.0 million. Administrative expenses decreased by €59k to €0.3million in 2021, mainly attributable to a decrease in marketing expenses of €50k.

3.2.2.2 Statement of Financial Position

Merkanti (D) Ltd Statements of financial position (€000) - 31 December	2019 Audited	2020 Audited	2021 Audited
Assets			
Non-Current Assets:			
Investment property	8,942	8,940	8,941
Loans and advances to banks	-	2,000	-
Total Non-Current Assets	**8,942**	**10,940**	**8,941**
Current Assets:			
Financial assets measured at fair value through P&L	1,100	1,100	1,100
Trade receivables	40	19	38
Other receivables	57	85	258
Loans and advances to banks	-	-	2,000
Derivative financial instruments net fair value gain	-	-	-
Prepaid expenses	0	0	0
Cash and cash equivalents	2978	672	601
Total Current Assets	**4,175**	**1,876**	**3,996**
Total assets	**13,117**	**12,816**	**12,937**
Equity and Liabilities			
Capital & Reserves:			
Share Capital	1	1	1
Other reserves	6,741	6,741	6,741
Retained earnings	2,528	2,007	1,911
Total Equity	**9,270**	**8,748**	**8,653**
Liabilities:			
Borrowings	2,750	2,750	2,750
Trade payables	37	104	48
Other payables and accruals	56	134	149
Deferred tax liabilities	987	1,030	1,072
Current tax liabilities	-	-	141
Accrued expenses and other liabilities	18	49	124
Total liabilities	**3,847**	**4,068**	**4,284**
Total equity and liabilities	**13,117**	**12,816**	**12,937**

Source: Audited financial statements

Total assets as of 31st December 2021 amounted to €12.9million, remaining flat from the prior year. Loans and advances to banks comprise solely of a fixed-term deposit held with Merkanti Bank amounting to €2million subject to fixed interest of 1.85% per annum and which matured on 2nd May 2022. Financial assets measured at fair value through profit or loss, amounting to €1.1million, consist of equity securities assigned to Merkanti (D) in settlement of receivables due from a related party. Merkanti Holding loaned €2.8million to Merkanti (D) from the Bond proceeds, thereby leaving a net debt position of €2.1million in 2021.

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 the end of 2021, total assets of Merkanti Diesel amounted to €1.9million, with total profits generated throughout 2020 and 2021 amounting €1.1million. 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.

MFCR Oriental S.A. is another subsidiary of the Issuer. This entity is registered in Uruguay, and its main function is to source merchant banking opportunities in South America for the Merkanti Group, financed and coordinated through Merkanti Bank. The main trade that this company operates is the supply of aspartame from China to a confectionary producer in Argentina. Management indicates that similarly to the plans for Merkanti Diesel, the Group is considering plans to sell MFCR Oriental and that it will also no longer form part of the Merkanti Group. This subsidiary generated revenues of €2.2million during 2021.

4 INDUSTRY OVERVIEW

4.1 German Industrial Real Estate

The real estate in Germany owned by the Property Companies is all located in the Saxony-Anhalt region in Germany. In this region, logistics is at the heart of the state's business growth strategy – and a world-class transportation network is the driver. The area is a dynamic business environment set at the heart of Europe with an excellent location, high levels of direct investment, unique interlocking of all traffic routes that can cope with heavy loads. Saxony-Anhalt has numerous connections to pan-European traffic routes, is an international hub for air cargo via the Leipzig/Halle Airport, has one of the densest rail networks in Europe (with around 3,100km of track systems and 76 freight transport stations); and has one of the most modern waterway networks in Europe with the Elbe, Mittelland Canal, Elbe-Havel Canal and waterway cross.

The industrial sector in Saxony-Anhalt is highly specialized. It includes the chemistry and bioeconomy lead markets as well as energy, machinery and plant construction, resource efficiency, water technologies, mobility and logistics, food and agriculture, and health care and medicine. These sectors are complemented by the information and communication technologies (ICT), key technologies, and creative economy cross-sector markets. The major economic driving forces are the automotive, chemicals, and food industry sectors. While the flourishing chemical sector in the "Middle German Chemical Triangle" includes big names including Bayer, Total and Dow Chemical, the state has established itself as a globally leading competence centre in the field of polymer production and processing. Special-purpose helmets produced in Saxony-Anhalt are even used in Formula One racing. Saxony-Anhalt has developed to become an innovative and efficient automotive sector competence centre[2].

The Covid-19 pandemic has had little impact on the warehouse market in Germany. There was neither a huge demand for warehouse space nor has the crisis caused demand to slump. In the medium term, it is expected that the demand for warehouse facilities will rise, driven by an even stronger future realignment of the global supply chain, the introduction of buffer storage and the rise of e-commerce[3].

According to JLL, a global commercial real estate services company, almost 861,000sqm, 16% more than the equivalent period last year, was taken up in rentals in the first three months of 2022, indicating that the momentum from the end of 2021 was successfully carried over, also signalling the initial improvement in the economic situation. JLL is also expecting an annual take-up of around 3.27 million sqm, around the same level as the previous year. Rental trends in the largest cities are dominated by two current trends: good quality, sustainable offices to offer employees a good working environment; and the additional strain on office tenants

[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. (2021, May 19). Warehouse Market in Germandy 2021. Retrieved from Waredock: https://www.waredock.com/magazine/warehouse-market-in-germany/

derived from rising energy costs. JLL expects that by the end of the year, nominal price rents in the most prominent office locations will increase by a further 2.5%.

Average rental yields for office space are expected to reach 2.5% for the top cities in Germany such as Berlin and Munich. As presented in the 'PwC Real Estate Investor Survey' in Germany, as of March 2022, the annual market rent growth rate for office space of Saxony-Anhalt is estimated at 2.0%.

The transaction volume in the investment German real estate market (commercial and residential) continued its volume rally in February 2022, amounting to approximately €9.0billion between January and February 2022, according to a report by Savills. Since the beginning of the year till end February 2022, a total of €17.6billion have been transacted on the German real estate investment market. Such high transaction volumes have never been seen before.

Another research publication by DZ HYP AG, one of the largest banks in Germany in terms of total assets, indicates that office rental rates are stagnating after rising sharply over many years because of lack of supply. Despite this, as well as an uncertain future demand for office space, rental rates are not falling, and a moderate rise in vacancies suggests that the office market should remain stable. Due to the pandemic, a large part of the office stock has stood empty since March 2020 with most office staff working from home.

4.2 Trade Finance and Merchant Banking

At first the Covid-19 pandemic did not have a systemic impact on the availability of trade financing; however, its rapid spread worldwide created an unprecedented environment for trade, disrupting economic activity and the overall flow of goods. The global trade finance market size was valued at $8.9trillion in 2019, however due to Covid-19, the market dropped to $7.6trillion in 2020, but it is expected to reach $11.6trillion by the end of 2028, growing at a CAGR of 5.4% during the forecast period 2022-2028[4].

Based on the Boston Consultancy Group's analysis, together with contribution from existing institutions providing trade finance services, it was expected that trade flows would decline due to the pandemic, whilst the recovery is expected to be gradual over the coming years. Vaccine roll-out in the US and EU has accelerated the recovery, with European exports meeting their pre-pandemic levels in Q2 2021, over a year after the pandemic commenced[5].

The turbulence seen at the start of 2022 caused by the Russian invasion of Ukraine has severely dented the rate of recovery from the pandemic. The WTO announced its revision of merchandise global trade growth forecast for 2022 from 4.7% to 3%. Lockdowns in China in Q1 2022, following the spread of the new Omicron Covid-19 variant, have also adversely impacted the outlook for 2022.

[4] QYReseach, Valuates Reports, 2022
[5] International Chamber of Commerce, March 2022

In a study by Coalition Greenwich (a research subsidiary of S&P), trade finance revenues for the largest trade transaction banks were up by 10% in 2021 and are expected to continue growing in 2022. The same study indicated that the largest contributors to this strong growth have been the newly reached record-high commodity prices and higher interest rates. Countering these key drivers, sanctions against Russia are compromising this growth given that Russia accounted for 1.9% and 1.4% of global exports and imports respectively in 2020.

Notwithstanding the growing trade finance business volumes worldwide, a trade financing gap still exists. In fact, this financing gap has been widening ever since the financial crisis, given that major global banks restricted the extent of providing finance to developing markets. A study by the WTO in 2021 estimates the global trade finance gap at $1.7trillion in 2020, 15% higher than a 2018 estimate of $1.5trillion. The gap is believed to have widened significantly following the Covid-19 crisis as the likelihood of trade finance applications being rejected rose significantly due to increased uncertainties on economic stability. Unmet demand for trade finance represents a loss of global trade and worldwide economic growth.

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 2019, 2020, and 2021 have been audited by PricewaterhouseCoopers. This section also includes references to forecasted financial statements provided by management for 2022, 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	**2019** Actual	**2020** Actual	**2021** Actual	**2021** Forecast	**2021** Variance	**2022** Forecast
Interest and similar income	559	1,283	1,335	1,329	0.5%	823
Interest and similar expense	(378)	(1,183)	(1,210)	(1,212)	(0)	(1,206)
Net interest income	**180**	**100**	**125**	**117**	**6.9%**	**(383)**
Fee and commission income	404	11	429	460	-6.8%	80
Fee and commission expense	(148)	-	-	-	-	-
Net fee and commission income	**256**	**11**	**429**	**460**	**-6.8%**	**80**
Rental income	-	71	76	94	-18.7%	83
Realised gains on asset disposal	-	-	-	-	-	1,133
Net trading gains	-	556	59	(8)	-	(876)
Dividend income	-	1,424	668	850	0.0%	769
Other operating income	-	498	531	-	-	322
Operating income	**437**	**2,660**	**1,888**	**1,513**	**24.8%**	**1,128**
Changes in expected credit losses	-	-	(1)	-	-	49
Administrative expenses	(446)	(2,081)	(1,445)	(1,195)	20.9%	(992)
Profit/(loss) before tax	**(9)**	**579**	**442**	**318**	**39.2%**	**186**
Tax expense/ income	(1)	49	23	-	-	-
Profit/(loss) for year	**(11)**	**629**	**465**	**318**	**46.3%**	**186**

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, and as from last year, dividend income.

During 2021, interest income amounted to €1.3million (+4%). In line with the previous year, this income was generated on receivables from Scully Royalty (interest income amounting to

€0.5million) relating to a revolving credit facility of €5.9million being charged an interest rate of 8.25%, and on the receivables from Subsidiaries (interest income amounting to €0.8million). 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 2021 with respect to 2020. Finance costs at the Issuer level relate to the interest costs payable on the Bond.

Net fee and commission income increased to €0.4million. At the Company level, these fees primarily relate to management, administration, account maintenance and payment services. Other income of €0.5million, includes recharges made to related parties for expenses paid by the Issuer, and also increased (+6%).

The prospectus issued by the Issuer dated 18th July 2019 had indicated that management fees of €0.3million 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 payment from the Property Companies to the Issuer.

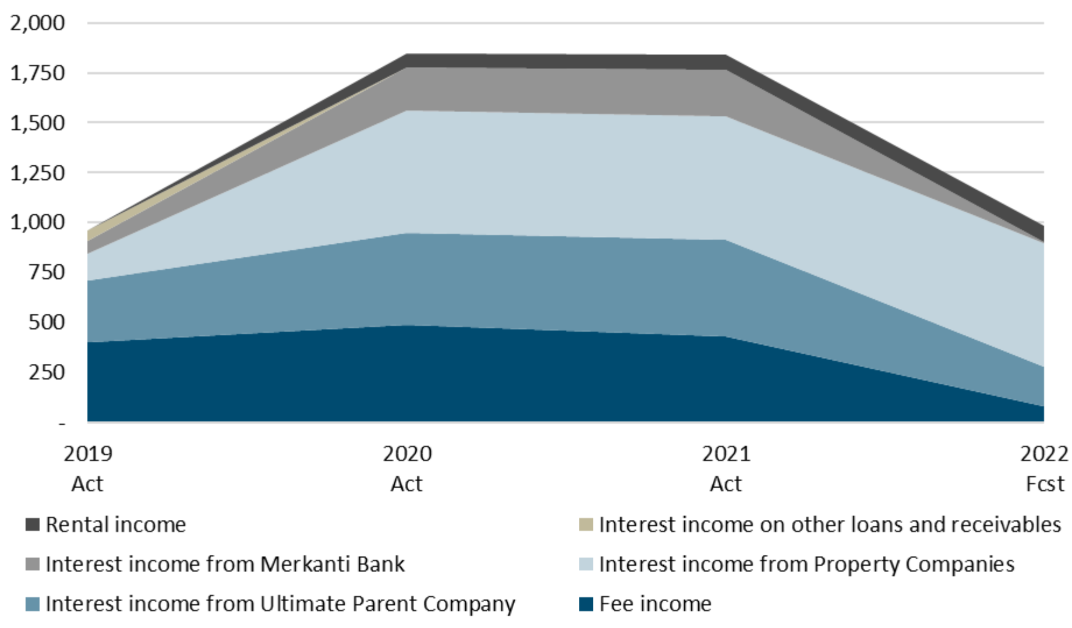


Figure 7: Merkanti Holding plc – Breakdown of Income Streams
Source: Audited financial statements, Management information

Total dividend income received by the Issuer from the Property Companies, amounted to €0.7million, compared to €1.4million during the previous year. This decline, in addition to a lower level of net trading income (2021: €59k vs 2020: €0.6million) contributed to the decrease in total operating income to €1.9million (-29%).

The lower trading income relates to the movement from agreements entered by the Company concerning the dispute resolution claims business. The income for 2020 had reflected the sale of rights to Merkanti (A) to receive dividends out of profits from a portfolio of dispute claims to Merkanti (A), with the relevant income being recognised upfront by the Company.

In 2020, administrative expenses experienced a substantial increase to €2.1million from €0.5million in 2019. The increase was mainly due to a rise in professional fees which are recharged to related parties for expenses paid by the Issuer to certain officers and other professional service firms (including auditors), as well as due to sub-contracted consulting fees related to future expected business development.

On the other hand, during 2021 the Issuer benefited from a decrease in total administrative expenses from €2.1million to €1.4million, mainly due to a decrease of approximately €0.5million in other administrative expenses such as legal, consulting, and other fees. Profit for the year amounted to €0.5million.

Management expects net interest income to be negative during 2022, with finance costs unchanged at €1.2milllion whilst interest income is projected to decline to €0.8million. Management notes that the expected decrease in interest income will be driven by the expected repayment of balances due by the parent and by the subsidiaries during the year. Management fees earned are forecasted at €0.3million (hereby included in other operating income). Realised gains on disposals are expected to amount to €1.1million, with such expected disposals reflecting the plan to streamline the group around core activities of banking and industrial real estate.

Meanwhile, for 2022 administrative expenses are expected to continue to decrease from €1.5million to €1.0million, due to lower professional and consulting expenses. Management expects to generate a profit for the year of €0.2million.

5.2 Statement of Cash flows

Merkanti Holding Plc (Standalone) Statement of cash flows (€000) - 31 December	2019 Actual	2020 Actual	2021 Actual	2021 Forecast	2021 Variance	2022 Forecast
Net cash generated from / (used in) operating activities	(1,436)	2,572	(935)	(132)	609.6%	15,023
Net cash generated from / (used in) investing activities	(17,769)	(1)	(535)	-	-	25
Net cash generated from / (used in) financing activities	24,258	(129)	(155)	101	n.a.	(50)
Net movement in cash and cash equivalents	**5,054**	**2,441**	**(1,625)**	**(31)**	**5166.6%**	**14,998**
Cash and cash equivalents at beginning of year	-	5,054	7,495	0	-	5,870
Cash and cash equivalents at end of year	**5,054**	**7,495**	**5,870**	**(31)**	**n.a.**	**20,869**

Source: Management information, Audited financial statements

The cashflows in 2019 represent the bond proceeds, which in turn funded the advances made to subsidiaries. In 2020, cash inflows from operating activities increased to €2.6million, primarily driven by dividends received by the Company and an additional €3.5million loaned from Merkanti Bank, with the year-end balance for that year of €7.5million including €3.6million of deposits by Merkanti Holding at the Bank.

In 2021, cash used in operating activities amounted to of €0.9million, which is mainly attributable to the lower level of funding from the Bank and lower dividends received. The purchase of a portfolio of dispute claims during 2021 resulted in an outflow from investing activities of €0.5million, whilst the cash and cash equivalents as at the end of 2021 totalled €5.9million.

The notable variances between projected statement of cash flows and actual results are mostly related to the substantial declines in dividends received and the purchase of dispute claims assets, which was not included in original projections.

In terms of major cash flow movements expected for 2022, management forecasts currently anticipate that Scully Royalty will repay its outstanding balance of €5.9million, whilst Merkanti Bank will repay the subordinated loan of €4.5million. These expected movements constitute the major inflows of liquidity at the Company level, in addition to any additional capital raises which may be considered by the company from time to time. Cash generated from operating activities is expected to amount to €15million, with the overall cash and cash equivalents balance as at the end of the year expected at €20.9million.

5.3 Statement of Financial Position

Total assets of Merkanti Holding amounted to €82.7million as of 31st December 2021, 0.6% higher than 2019. As per the Company's business model as a holding company, investment in subsidiaries remains the major asset of the Company, totalling €50.6million. Other receivables, which comprise more than 25% of total assets, amounted to €22.9million and represent the amounts loaned to subsidiaries and the revolving credit facility advanced to Scully Royalty.

Merkanti Holding Plc (Standalone) Statement of financial position (€000) - 31 December	2019 Actual	2020 Actual	2021 Actual	2021 Forecast	2021 Variance	2022 Forecast
Assets						
Non-Current Assets:						
Investments in subsidiaries	50,369	50,582	50,582	50,582	0.0%	50,582
Other receivables	20,015	21,696	22,862	21,677	-5.2%	9,450
Property, Plant & Equipment	121	97	72	72	0.0%	47
Right of use assets	651	573	428	428	0.0%	-
Total Non-Current Assets	**71,156**	**72,948**	**73,945**	**72,760**	**-1.6%**	**60,079**
Current Assets:						
Financial assets measured at fair value through P&L	-	267	802	267	-66.7%	802
Deferred tax assets	-	49	72	49	-31.3%	72
Accrued income and other assets	1,407	1,519	2,052	2,016	-1.7%	707
Loans and advances to banks	5,054	7,495	5,870	7,464	27.1%	20,869
Total Current Assets	**6,461**	**9,331**	**8,796**	**9,797**	**11.4%**	**22,450**
Total Assets	**77,617**	**82,279**	**82,741**	**82,557**	**-0.2%**	**82,529**
Equity and Liabilities						
Capital and Reserves:						
Issued Capital	50,000	50,020	50,020	50,020	0.0%	50,020
Retained earnings and other reserves	2,243	2,872	3,336	3,190	-4.4%	3,930
Total Equity	**52,243**	**52,892**	**53,356**	**53,210**	**-0.3%**	**53,950**
Non-Current Liabilities:						
Borrowings	24,287	24,381	24,478	24,481	0.0%	24,580
Amounts due from subsidiaries	-	3,600	3,600	3,600	0.0%	3,600
Total Non-Current Liabilities	**24,287**	**27,981**	**28,078**	**28,081**	**0.0%**	**28,180**
Current Liabilities:						
Accrued Interest - Bond	333	364	466	334	-28.3%	398
Other payables	101	62	54	49	0.0%	1
Other liabilities	-	-	-	28	0.0%	-
Lease liabilities	653	612	478	478	0.0%	-
Derivative liabilities	-	368	309	377	21.8%	-
Total Current Liabilities	**1,087**	**1,407**	**1,307**	**1,265**	**-3.2%**	**399**
Total Liabilities	**25,374**	**29,388**	**29,385**	**29,347**	**-0.1%**	**28,579**
Total Equity and Liabilities	**77,617**	**82,279**	**82,741**	**82,557**	**-0.2%**	**82,529**

Source: Management information, Audited financial statements

On the funding side, as at the end of 2021, the debt relating to the Bond Issue comprises most of the total liabilities, which amounted to €29.4million. Total equity remained basically unchanged at €53.4million. Overall, the balance sheet as at the end of 2021 was largely in line with the forecasts of last year's FAS 2021.

For 2022, management expects that the overall balance sheet will remain relatively unchanged. However, it is expected that whilst the cash balance will rise to €20.9million, the receivables balance will decline to €13.4million and accrued income and other assets will decline to €0.7million, reflecting the expected repayment of balances and accrued interest due from subsidiaries and other related parties.

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 €43million. In the second half of 2021, Scully Royalty Group were informed of a proposed amendment to the claim which, if allowed, would increase the amount to approximately €91 million as of December 31st, 2021. 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, which is currently in appeal. 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	2019 Actual	2020 Actual	2021 Actual	2022 Forecast
Operating Income Margin *(Operating Income / Revenue)*	45.4%	205.5%	107.1%	124.9%
Profit Margin *(Profit for the year / Revenue)*	-1.0%	44.8%	25.1%	20.6%
Interest Coverage *(Operating Profit before interest expense / Interest Payable)*	1.0x	1.5x	1.4x	1.1x
Return on Assets *(Operating Profit / Average Total Assets)*	0.0%	0.7%	0.5%	0.2%
Return on Capital Employed *(Operating Profit / Average Capital Employed)*	0.0%	0.7%	0.5%	0.2%
Return on Equity *(Profit for the year / Average Total Equity)*	0.0%	1.2%	0.9%	0.3%
Gearing Ratio *(Borrowings / {Total Equity + Borrowings})*	31.7%	31.6%	31.4%	31.3%

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 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 2021. However, operating and profit margins declined as the higher interest and fee income generated, combined with lower administrative expenses, did not sufficiently compensate for the lower level of dividends and net trading income. Interest cover was almost unchanged at 1.4x. The balance sheet composition and capital structure remained broadly unchanged, with a stable gearing ratio.

During 2022, the lower interest receivable due to expected repayments of outstanding balances due from subsidiaries and from Scully Royalty, are expected to result in a deterioration in profitability. This is reflected in certain ratios. Whilst the operating margin will benefit from the proportionately larger decline in revenue (gross interest and fees) compared to operating income, in turn resulting in an increase in the % margins, the standalone Company's interest cover and returns are expected to decrease. The debt to total capital is expected to remain basically unchanged.

Management expects that the current year and coming periods could be considered as a phase of transition. The consolidated group is expected to expand via the previously announced acquisition of Sparkasse Bank Malta, which management believes will add scale and operational scope, thereby increasing value for stakeholders. 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 FY2021 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	**31.45%**	**1.37x**
Exalco finance	97.66%	1.09x
Eden Finance	96.01%	1.00x
Dizz Finance	60.51%	1.70x
United Finance	54.79%	1.34x
Tumas Investments	98.70%	1.01x
AX Investments	76.37%	1.18x

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	**31.45%**	**1.37x**
MedservRegis	47.93%	2.22x
Gap Group plc	77.86%	7.79x
Hili Properties	44.58%	1.39x
Pendergardens Developments	40.67%	2.31x
International Hotel Investments	43.91%	0.59x
MIDI	36.78%	0.85x

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.