Merkanti Holding PLC

Financial Analysis Summary

30th June 2021

CURMI & PARTNERS

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30th June 2021

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 2021 ("FAS Update June 2021") as an update to the Financial Analysis Summary Update 2020 ("FAS Update June 2020"). A copy of the FAS Update June 2021 is attached to this letter.

The purpose of the financial analysis within the FAS Update June 2021 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 Immobilien 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 2018, 31st December 2019 and 31st December 2020 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 2021 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 2018, 31st December 2019 and 31st December 2020 have been extracted from the audited financial statements of Merkanti Bank.
4. Historical financial data for Merkanti (A) and for Merkanti (D) for years ended 31st December 2018 have been extracted from reporting packages provided by management, whilst those of year ended 31st December 2019 and 31st December 2020 have been extracted from the Merkanti (A) and Merkanti (D)'s audited statutory financial statements.
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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6. The ratios quoted in the FAS Update June 2021 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 2021 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 2021 is meant to assist potential investors by summarising the more important financial data of the Issuer. The FAS Update June 2021 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 2021 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 2021. 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

CURMI & PARTNERS

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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, fully owned and 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 Immobilien Management GmbH ("A.I.M.") and MFCR Oriental S.A. ("MFCR"), collectively referred to as "the Group". Merkanti (A) and Merkanti (D) are companies which hold real estate in Germany and are collectively referred to as "the Property Companies". The Property Companies, Merkanti Bank, Merkanti Diesel, A.I.M. and MFCR will be collectively referred to as "the Subsidiaries".

The Issuer's main activities relate to the acquisition, the holding and sale of property, shares and other assets, 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. Accordingly, the Issuer is dependent on the Group.

1.2 Shareholding of the Issuer

The Issuer's authorised share capital is EUR 100,000,000, divided into ninety-nine million, nine hundred ninety-nine thousand, nine hundred and ninety-nine (99,999,999) Ordinary "A" Shares of EUR 1 (€1) each and one (1) Ordinary "B" Share of EUR 1 (€1) each. The Issuer's issued share capital is forty-nine million, nine hundred ninety-nine thousand, and nine hundred and ninety-nine (49,999,999) Ordinary "A" Shares of EUR 1 (€1) each, all fully paid up and one (1) Ordinary "B" Share of EUR 1 (€1), fully paid up.

The Issuer's majority shareholder is Scully Royalty, which holds almost all of 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.

Scully Royalty's share capital consists of US$450,000 divided into 300,000,000 common shares, of which 12,554,801 are outstanding, and 150,000,000 preference shares of US$0.001 par value each. The main shareholders of Scully Royalty are outlined below:

Scully Royalty Ltd Shareholding as at 29th April 2021	Number of shares	Percentage Shareholding
IAT Group[1]	4,372,480	34.9%
Lloyd I. Miller III	1,862,523	14.8%
Nantahala Capital Management, LLC	753,885	6.0%
Total shares	12,554,801	100%

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

1.3 Directors and management

The Board of Directors consists of four 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 2021"), 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

Samuel Morrow leads the growth of the Group's merchant banking and trade finance activities, along with the Bank's Chief Executive Officer, Martin Ware.

[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 4,372,480 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 (formerly known as MFC Merchant Bank and BAWAG Malta Bank Ltd ("BAWAG")).

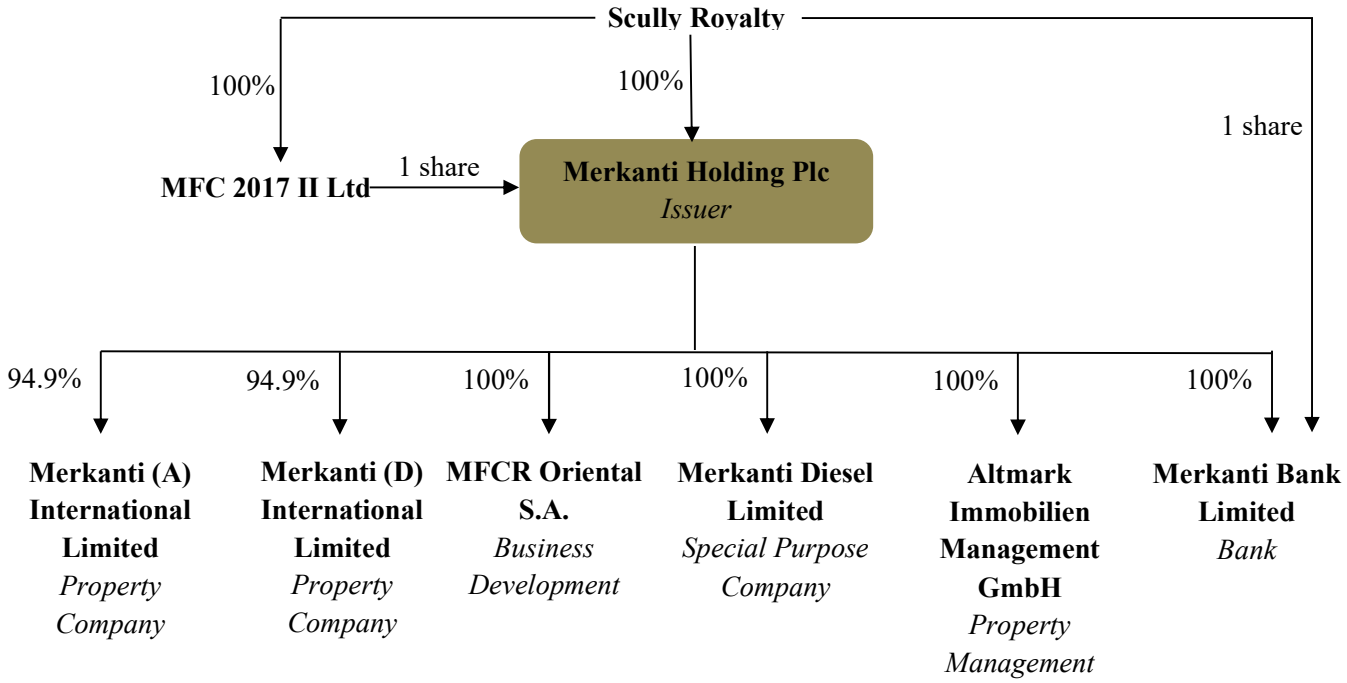
BAWAG had been fully-licensed in Malta since 2003. The acquisition reflected Scully Royalty's strategy to leverage its merchant banking and trade finance platform by offering additional complimentary trade and structured finance products, and other complimentary services. As part of Scully Royalty, the 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 the area of litigation funding. To date, Merkanti Diesel has financed various legal 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, sourcing within South America and Asia.

2.2 Organisational Structure

The corporate structure of the Group as at 31st December 2020 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 also access the trade finance market in addition to generating fee and interest income from its merchant banking activities. The Bank expects to earn 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.

This investment in and growth of the Bank's activities is overseen and led by Samuel Morrow, and Martin Ware who was appointed as the Bank's Chief Executive Officer in June 2021. To further support these efforts, the Bank has hired additional personnel with experience in trade finance and merchant banking, revamped its procedures and structures, and updated its systems to accommodate the expected growth. The Bank plans to continue recruiting staff to implement the expansion of its merchant banking and trade finance activities.

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, management notes that the Bank adapted a cautious approach and passed on a number of opportunities in 2020 as the risk to return ratio was not appropriate. Although the economic challenges brought about by Covid-19 have repriced the business, the trade finance environment remains challenging. Going forward the Bank's main business strategy will continue to focus on merchant banking activities related to corporate banking with the objective of improving fee related income and also enhance its asset allocation structure with related loan and treasury business. The Bank is also in the process of upgrading internal operational systems in order to handle the expected increase in business development momentum.

The initial months of 2021 were characterised by a continuation of the development of the Bank's litigation finance portfolio, namely the development of underlying claim settlements and onboarding new litigation finance claims. Furthermore, management notes that the Bank progressed further on the finalisation of new loan facilities that were being discussed during 2020 and that additional merchant banking fee income is expected to be booked in the coming months. Interest income is expected to benefit from US dollar factoring facilities, whilst no adverse movements in terms of credit losses were registered during 2021 so far. In May 2021 Merkanti Bank received an administrative penalty of €0.3million by the Financial Intelligence Analysis Unit (FIAU) relating to deficiencies in relation to certain internal administrative processes, including customer risk assessment, due diligence and ongoing monitoring of transactions. Management notes that the Bank had already committed to the upgrade of its core banking system upgrade which is now underway, and should be fully operational by Q1 2022. Furthermore, management indicates that it does not expect these measures to have a significant impact on performance and profitability going forward.

3.1.1 Statement of Comprehensive Income

Merkanti Bank Ltd Financial Statements	2018	2019	2020
Extracts of Statements of comprehensive income (€000) - 31 December	Audited	Audited	Audited
Total Net Interest Income	204	236	836
Total net fee and commission income	2,242	2,304	1,592
Operating Income	2,474	3,333	2,413
Changes in expected credit losses	11	(91)	(63)
Administrative expenses	(1,864)	(2,459)	(2,209)
Net Operating Income	610	874	204
Profit before tax	**621**	**783**	**140**
Total comprehensive income for the year	**621**	**731**	**180**
Total Capital Ratio	110.39%	97.95%	109.51%
CET1 Capital Ratio	110.39%	73.51%	83.58%

Source: Audited financial statements of Merkanti Bank Limited as at 31 December 2018 to 2020

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 on the basis of advisory services provided to a number of related parties within the Scully Royalty group.

During FY2020, net interest income increased significantly to €0.8million (2019: €0.2million), mainly as the Bank's customer loan portfolio increased from €5.6million in 2019 to €15.9million in 2020. The increase in interest income is also a result of the non-interest income component forming part of the new loan facilities being accounted for as interest income (not fee income). On the other hand, net fee and commission income decreased by 30.9% to €1.6million as merchant banking fees and fee income on factoring services decreased for the year as Covid-19 limited the Bank's ability to capitalise on certain potential merchant banking opportunities.

The Bank was also impacted by volatility in financial markets, which in particular resulted in a deterioration in terms of movements in financial instruments classified as at fair value through profit or loss, compared to the strong gains achieved the previous year. Other staff costs declined from €538k in 2019 to €114k in 2020 as expatriate ex-employees were engaged by Merkanti Bank up till 2019. Other staff salaries increased by 32.5% (to €844k) as a result of payroll movements (new staff, salary changes etc). Profit for the year amounted to €0.1million in FY2020, 82.1% lower than FY2019, mainly due to the lower fee and commission income and net trading losses for the year.

3.1.2 Statement of Financial Position

Merkanti Bank Ltd Financial Statements	2018	2019	2020
Extracts of Statement of financial position (€000) - 31 December	Audited	Audited	Audited
Loans and advances to customers	2,646	5,600	15,930
Cash and cash equivalents	1	10,407	12,372
Investments	4,737	8,393	8,412
Total assets	**17,358**	**36,341**	**40,607**
Total equity	**13,612**	**14,342**	**14,522**
Amounts owed to customers	3,642	17,208	21,064
Total borrowings	3,642	21,708	25,564
Total liabilities	**3,746**	**21,999**	**26,085**

Source: Audited financial statements of Merkanti Bank Limited as at 31 December 2018 to 2020

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.

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.

The introduction of amendments in the Capital Requirement Regulations (CRR II) limits the inclusion of Tier 2 capital in the Bank's large exposure limited. Because of these changes, the Group is considering potential ways to amend the funding structure to reflect the original intentions of the subordinated loan, subject to regulatory approval. The Bank is considering converting this amount to additional deposits to place cash collateral for risk exposures, or to convert this subordinated loan into additional Tier 1 capital. Additionally, deposit funding at the Bank increased further to over €21million, consisting primarily of amounts due by the Bank to related parties which totalled €17.9million (2019: €13.8million).

Total assets of the Bank continued to grow, amounting to €40.6million in FY2020. Loans and advances to banks decreased substantially, from €11.2million in FY2019 to €3.2million FY2020; but this was offset by the increase in loans and advances to customers to €15.9million (2019: €5.6million). The latter includes credit exposures with related parties amounting to €15.6million (prior to expected credit losses), and €7.8million of this amount is a result of a purchase receivables transaction exposing the Bank to credit risk to a third party. The €7.8million transaction refers to factoring of iron ore royalty payments related to an iron ore mine. During 2020, the Bank entered into a sub-lease agreement with Merkanti Holding for the new offices, which resulted in an increase in the right-of-use assets from €29k to €303k. Balances with the Central Bank of Malta also increased marginally to €12.4million, as did financial assets measured at fair value through other comprehensive income which totalled €7.1million (2019: €6.0million), as the Bank increased its investments in Malta Government Stocks.

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 €32.6 million, yielding a combined rental income of approximately €2.1 million per annum.

The Property Companies own the real estate situated in Germany described below, which is currently leased out to a number of tenants on definite or indefinite term contracts. For the year ending 31st December 2020, 92% of Merkanti (A)'s rental income and 96% of Merkanti (D)'s rental income was generated from areas leased out to third party tenants, with the remaining 8% and 4% respectively was generated from leases to related parties.

The properties are situated in the region of Saxony-Anhalt, in the central-eastern part of Germany, and borders the states 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 FY2020, the outbreak of the Covid-19 pandemic resulted in unprecedented socioeconomic effects. However, the impact of the Covid-19 pandemic on Merkanti (A) and Merkanti (D) during the year was minimal with only one (non-material) tenant of Merkanti (A) requesting financial assistance. All tenants of Merkanti (D) continued to make payments on time. As at the date of this financial analysis summary, the situation remains unchanged, with tenants continuing to make payments on time.

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.

Industrial and Commercial Park Altmark presently yields a rental income of approximately €1.1 million per annum. As per the valuation on 31st December 2020, the property is valued at €23.6

million. This valuation is lower than that of 2019 (€26.2million) as Merkanti (A) disposed of a part of the investment property over the year.

Around 44% of the rental income generated by Merkanti (A) in 2020 was generated by wood processing industry tenants, whilst another 34% of rental income was generated from the construction industry. The rest was generated from various tenants operating in the property management and transport industries, with additional small-scale tenants operating in industries such as engineering and manufacturing.

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.

In terms of usage type, the Industrial and Commercial Park Altmark is mainly used for production or storage purposes, with activity making up 76% of rental income during 2020. Approximately 15% of the space is being used as basement or outdoor area whilst the remaining minority is used for office and archiving purposes.

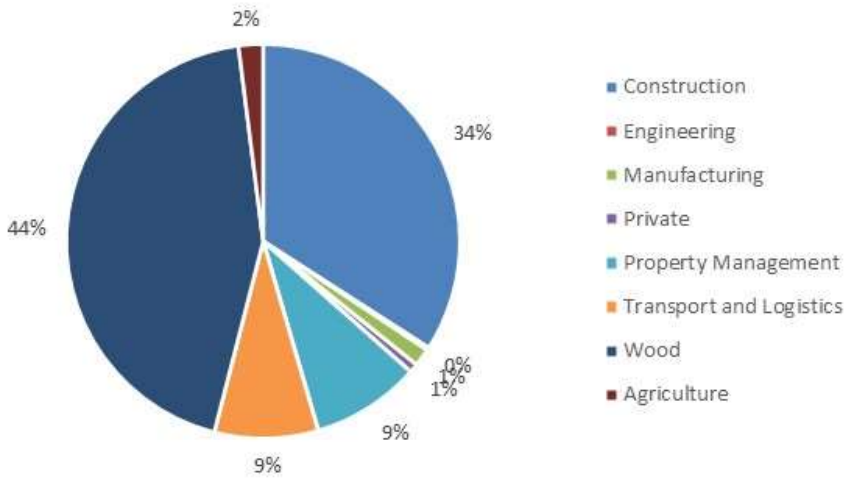


Figure 1: Merkanti (A) Rental Income by Industry

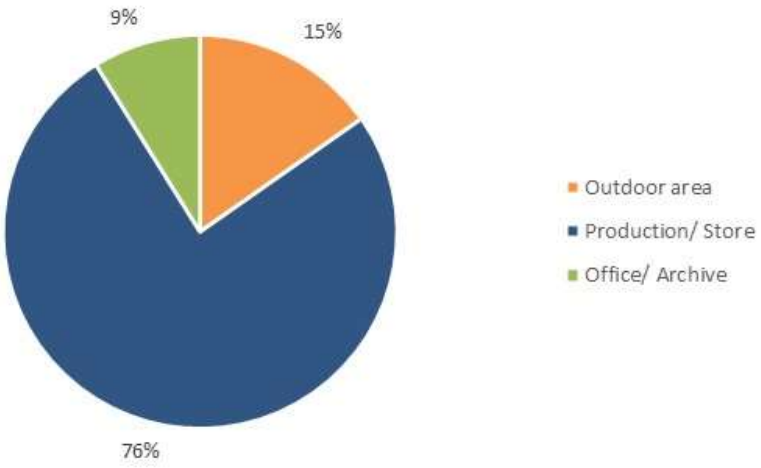


Figure 2: Merkanti (A) Rental Income by type of use

Merkanti (A)'s largest tenant by rental income accounted for 37% of Merkanti (A)'s total rental income in 2020, whereas the second largest tenant by rental income accounted for 34% of Merkanti (A)'s total rental income in 2020.

The largest tenant holds eight rental agreements with Merkanti (A), four of which are for indefinite terms and the other four expire in 2021 or 2022. These rental agreements are subject to automatic renewal for further terms, unless the lessee provides Merkanti (A) with written termination notice within the time period specified in the relevant agreement.

The second largest tenant has five rental agreements with Merkanti (A) and each of them have different, defined terms. Two rental agreements are fixed term which expire in 2021, and one of these will not be automatically renewed for further terms unless specifically agreed to by both parties. The other rental agreements expire in 2021 and 2022 and each of them are subject to automatic renewal of one to five years.

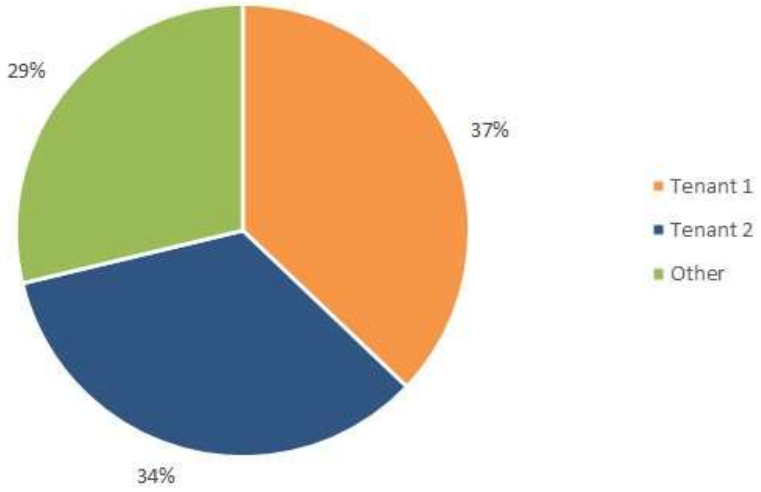


Figure 3: Merkanti (A) Rental income by tenant

3.2.1.1 Income Statement

Merkanti (A) Ltd *Statements of comprehensive income (€000) - 31 December*	**2018** Mgt Accounts	**2019** Audited	**2020** Audited
Rental Income	**1,210**	**1,282**	**1,066**
Change in the fair value of investment property	-	1,985	487
Realised gains on disposal of investment properties	-	-	127
Fair value gains in relation to participation right	-	-	49
Repairs and maintenance	(288)	(242)	(167)
Other direct property operating expenses	(32)	(33)	(34)
Administrative expenses	(371)	(373)	(737)
Bad debts written off	(634)	-	-
EBITDA	**(115)**	**2,619**	**790**
Finance costs	-	(135)	(439)
Finance income	-	1	364
Other income	2	-	-
Profit/ (Loss) before tax	**(112)**	**2,485**	**715**
Tax	17	(393)	(169)
Profit for the year	**(95)**	**2,091**	**546**

Source: Management accounts of Merkanti (A) International Limited as at 31 December 2018, Audited financial statements of Merkanti (A) International Limited as at 31 December 2020

Total net revenue from rental and lease of property decreased from €1.3 million in 2019 to €1.1 million 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.

Repairs and maintenance amounted to €0.2 million, 31.0% lower than the previous year. Administrative expenses increased substantially to €0.7million as sales commissions, which weren't previously incurred, were incurred in FY2020, whilst short-term lease expenses, professional fees and other administrative expenses also increased.

The investment property was revalued in 2019 in preparation of a sale of a small portion of property in 2020. The valuation of the investment property undertaken resulted in a gain in the fair value of investment property of €2.0million. During 2020, Merkanti (A) disposed of part of the investment property, in respect of which a profit of €0.1million was realised upon disposal. Furthermore, management notes that a neighbouring property is scheduled to build a new sawmill to complement an existing papermill. A third-party evaluation of Merkanti (A) considered this additional activity and demand in the area as beneficial for the area, resulting in the upward revaluation of the fair value of the investment property of €0.5million.

Merkanti (A) generated €0.4million in finance income in 2020, the majority of which representing interest income on amounts due from the ultimate parent company. Finance costs of €0.4million 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. Lower rental income, higher administrative and finance costs reduced profit before tax to €0.7million (2019: €2.5million). Excluding the change in fair value of investment property, profit for the year amounted to €59k.

3.2.1.2 Statement of Financial Position

Merkanti (A) Ltd *Statements of financial position (€000) - 31 December*	2018 Audited	2019 Audited	2020 Audited
ASSETS			
Investment Property	24,213	26,198	23,647
Financial assets measured at fair value through profit (	0	1,650	2,623
Trade receivables	16	34	31
Other receivables	1,650	4,660	5,191
Accrued interest receivable	-	-	364
Other assets	0	58	18
Cash and Cash equivalents	368	2,905	4,469
Total assets	**26,248**	**35,505**	**36,343**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners			
Share Capital	1	1	1
Other reserves	24,174	24,174	24,173
Retained earnings	1,293	3,384	2,930
Shareholder's funds	**25,467**	**27,558**	**27,104**
LIABILITIES			
Borrowings	-	6,750	6,750
Deferred tax liabilities	694	1,008	1,096
Trade payables	42	41	96
Other payables and accruals	45	148	1,295
Current tax liability	-	-	2
Total liabilities	**781**	**7,947**	**9,239**
Total equity and liabilities	**26,248**	**35,505**	**36,343**

Source: Audited accounts of Merkanti (A) International Limited as at 31 December 2020

Merkanti (A)'s total assets amounted to €36.3million in 2020. Investment property accounted for the largest component of Merkanti (A)'s balance sheet, amounting to €23.6 million as at 31st December 2020. Part of the land was sold over the year to the neighbouring papermill, which has plans to build a new sawmill on site, as mentioned in Section 3.2.1.1. This, in turn, should increase demand for service suppliers to the new sawmill. Other receivables increased to €5.2million (2019: €4.7million), which includes a €4.7million loan advanced by the company to Scully Royalty at an interest rate of 7.375% (the remaining amount is not subject to interest).

Financial assets measured at fair value through profit or loss include €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 litigation claims financed by the fellow subsidiary. The remaining €1.7million represent equity securities assigned to Merkanti (A) in settlement of receivables due from a related party in 2019.

Merkanti (A) held a high level of liquidity, with €4.5million in cash and cash equivalents. The sale of investment property mentioned above generated cash flows from investing activities of €3.2million, thereby significantly impacting the company's cash balance at the end of the year. 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 €2.3million. Total equity amounted to €27.1million which included other reserves of €24.2million and retained earnings of €2.9million.

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 presently yields a rental income of approximately €1.0million. The property was valued at €8.9 million as at 31st December 2020.

As indicated in the chart below, the majority (26%) of Merkanti (D)'s revenue generated in 2020 relates to tenants in the transport and logistics industries, including coach operators and packing companies. Rental of production and storage space makes up the majority of Merkanti (D)'s rental income (56%); whilst the remaining space is used as office space, an outdoor area and basements.

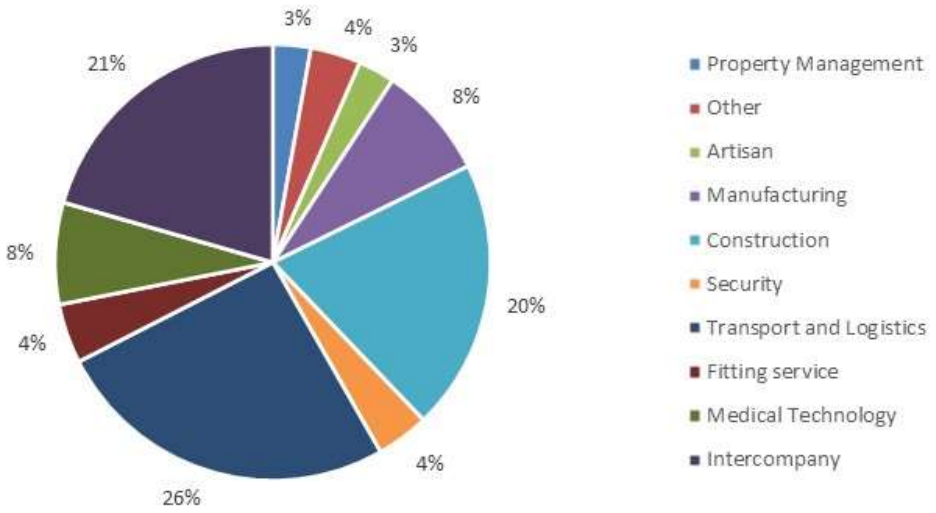


Figure 4: Merkanti (D) Rental income by industry

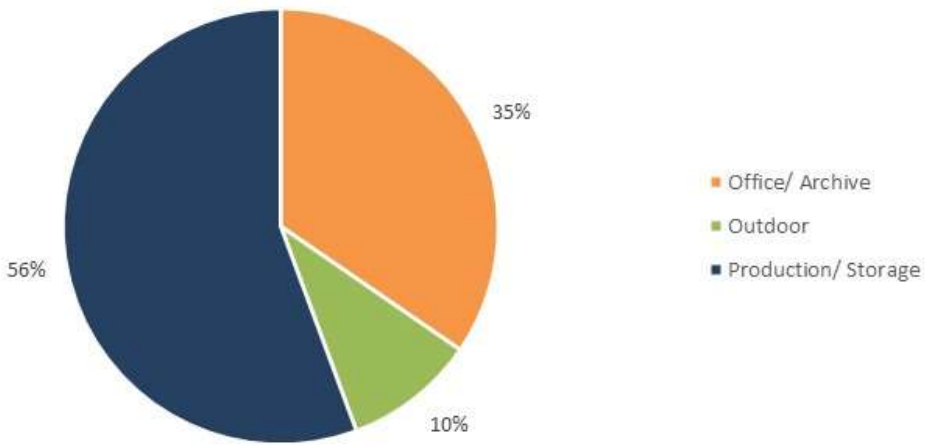


Figure 5: Merkanti (D) Rental income by type of use

The majority of the rental income is generated by a packing company which holds four definite rental agreements which are expected to mature in September 2021, and may be extended by a further 6 months. Tenant 2 in Figure 6 below, which generates 15% of total revenue, is a group entity. It should also be noted that the lease with Scully Royalty was terminated as of 14th January 2020, as a new third party tenant in the logistics sector leased the premises. Both Tenant 1 and Tenant 2 in Figure 6 below, which generate 45% of total revenue, are group entities.

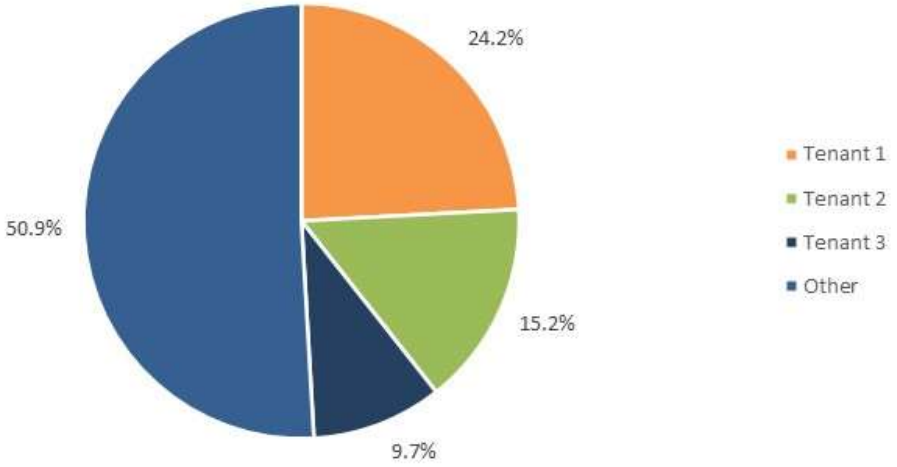


Figure 6: Merkanti (D) Rental income by tenant

3.2.2.1 Income Statement

Merkanti (D) Ltd *Statements of comprehensive income (€000) - 31 December*	**2018** Mgt Accounts	**2019** Audited	**2020** Audited
Rental Income	1,189	928	1,013
Changes in fair value of property	-	84	(2)
Repairs and maintenance	(422)	(376)	(220)
Other direct property operating expenses	(143)	(236)	(236)
Administrative expenses	(844)	(351)	(388)
Other income	456	-	-
EBITDA	**237**	**49**	**166**
Finance Costs	-	(55)	(179)
Other income	-	69	18
Profit/ (Loss) before tax	**237**	**63**	**6**
Tax	(38)	(10)	(29)
Profit for the year	**198**	**53**	**(24)**

Source: Management accounts of Merkanti (D) International Limited as at 31 December 2018, Audited accounts of Merkanti (D) International Limited as at 31 December 2020

Net revenue from rental and lease of properties owned by Merkanti (D) increased from €0.9 million in 2019 to €1.0 million in 2020. Administrative expenses increased by 10.4% to €0.4million as the company incurred higher marketing and other administrative expenses. Repairs and maintenance costs decreased during 2019, with management noting that typically

these amounts entail improvement expenditures (including items such preparing for solar panels, lift upgrades) which would normally be capitalised.

The higher rental income and the trends in costs mentioned above increased operating profit marginally to €0.2million. The full year of interest incurred on borrowings from Merkanti Holding resulted in the company incurring a loss for the year of €24k.

A large space of Merkanti (D) was vacated in 2019, and was then rented out through 2020; therefore an expected improvement in rental income is expected in 2021. Furthermore, management envisages gradual improvement of rental income for the foreseeable future.

3.2.2.2 Statement of Financial Position

Merkanti (D) Ltd *Statements of financial position (€000) - 31 December*	**2018** Mgt Accounts	**2019** Audited	**2020** Audited
ASSETS			
Investment Property	8858	8942	8940
Financial assets measured at fair value through profit anc	-	1,100	1,100
Trade receivables	33	40	19
Other receivables	600	57	85
Derivative financial instruments net fair value gain	-	-	-
Prepaid expenses	0	0	0
Cash and cash equivalents	865	2978	2672
Total assets	**10,356**	**13,117**	**12,816**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners			
Share Capital	1	1	1
Other reserves	6,741	6,741	6,741
Retained earnings	2,475	2,528	2,007
Shareholder's funds	**9,217**	**9,270**	**8,748**
LIABILITIES			
Borrowings	-	2,750	2,750
Trade payables	91	37	104
Other payables and accruals	-	56	134
Deferred tax liabilities	977	987	1,030
Accrued expenses and other liabilities	71	18	49
Total liabilities	**1,139**	**3,847**	**4,068**
Total equity and liabilities	**10,356**	**13,117**	**12,816**

Source: Management accounts of Merkanti (D) International Limited as at 31 December 2018, Audited accounts of Merkanti (D) International Limited as at 31 December 2020

Merkanti (D)'s asset base is significantly lower than that of Merkanti (A), reflecting the lower value of the underlying investment property of Merkanti (D). 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 €2.75million to Merkanti (D) from the Bond proceeds, thereby decreasing the net debt position to €78k (2019: net cash position of €0.2million). Shareholders' funds amounted to €8.7million in 2020, and consisted of other reserves of around €6.7 million and retained earnings of €2.0million.

3.3 Merkanti Diesel Limited

Following the approval by the Board of Directors of Merkanti Holding, the Company established Merkanti Diesel in December 2019, with the objective of providing litigation financing, with a focus in Germany. Litigation financing typically relates to the provision of funding to individuals and their legal counsels who are making legal claims against large corporations.

Merkanti Diesel is a subsidiary of the Company, fully financed by Merkanti Bank, which via an agreement with a German litigation funder and two law firms, has provided financing to approximately 1,200 individual legal claims in Germany based upon the "Dieselgate" scandal. Management indicates that an amount of €1.7million has been drawn as at December 31, 2019. Management also notes that prospects for this business are encouraging going forward, allowing for the generation of both interest income from the financing activities and additionally fee income in collaboration with more law firms.

As at 31st December 2020, Merkanti Holding held 100% of the ordinary shares of Merkanti Diesel Ltd., though in 2019, the Issuer entered into an agreement in which it granted an option to a third party to acquire 435 shares to its partner in the "Dieselgate" portfolio for an exercise price of €1.00. Upon the exercise of this option, the Issuer retained the right to re-acquire these shares at the net tangible asset value of Merkanti Diesel.

Total assets of Merkanti Diesel amount to €2.6million and mainly consist of financial assets measured at fair value through profit or loss. On the funding side, the main liability amounts to €1.5million and relates to amounts due to other related parties. The company made a profit for the year amounting to €1.0million, arising from gain on disposal of investments and changes in the fair value of investments.

3.4 Altmark Immobilien Management GmbH

In FY2020 the Issuer acquired 100% of the issued share capital of Altmark Immobilien Management GmbH ("A.I.M.") from a related party. A.I.M. is the management company for the two Property Companies and is incorporated under the laws in Germany. 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 2020, A.I.M. generated revenues amounting to €1.1million. Part of the revenues arise from management fees paid to A.I.M. for the provision of a service that was previously undertaken by a related party. Furthermore, Merkanti Holding will be charging a service fee to A.I.M. for the provision on a Managing Director as of May 2021.

Total assets of the company amounted to €280k which mainly include property, plant and equipment, and cash and cash equivalents.

3.5 MFCR Oriental S.A.

MFCR Oriental S.A. is registered in Uruguay, and its main function is to bring trade finance and merchant banking transactions to Merkanti Bank. MFCR sources merchant banking opportunities in South America for the Merkanti Group. The main trade that the company operates is the supply of aspartame from China to a confectionary producer in Argentina (generating a turnover of €3million). MFCR's business is financed and coordinated through Merkanti Bank, though it is expected that the aspartame business will cease at some point over the next twelve months, as tastes and preference change away from artificial sweeteners.

At Group level, Merkanti Holding received €3.0million revenues from customer contracts and paid €2.5million in costs relating to these customer contracts. These contracts relate to the supply of aspartame from China to Argentina, which trade was carried out by MFCR Oriental.

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 a number of 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.

In 2020, Germany's Saxony Anhalt exported €16billion, making it the 10th largest exporter out of the 16 exporters in Germany. In 2020 the top exports of Saxony Anhalt were pharmaceutical products (€1.58billion), plastics (€1.12billion), other chemical final products (€1.06billion), semi-finished products of copper and copper (€803million), and other prefabricated chemicals (€801million). On the other hand, Saxony Anhalt imported €15.8billion, making it the 11th largest importer out of the 16 importers in Germany. In 2020 top imports of Saxony Anhalt were petroleum oil and petroleum gases (€2.49billion), pharmaceutical products (€1.6billion), estimations for non-response (€888million), copper and copper alloys including waste (€686million), and plastics (€602million). In January 2021 Saxony-Anhalt exported €1.35billion

and imported €1.31billion, resulting in a positive trade balance of €40.4million. Between January 2020 and January 2021 the exports of Saxony-Anhalt have decreased by $43.2million (-3.11%) from €1.39billion to €1.35billion, while imports decreased by €84.5million (-6.08%) from €1.39billion to €1.31billion[2].

The industrial sector in Saxony-Anhalt is highly specialized. It includes the chemistry and bio-economy 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[3].

Germany's manufacturing sector contributes much more to GDP than that of most of its European peers, its output constituting roughly 24% of gross value added. As globalization gained momentum in recent decades, this has been the key factor behind Germany's export strength and the driving force for GDP growth[4]. According to provisional results of the Federal Statistical Office (Destatis), compared with February 2020, which was the month before restrictions were imposed due to the Corona pandemic in Germany, new orders in March 2021 were 9.1% higher in seasonally and calendar adjusted terms[5].

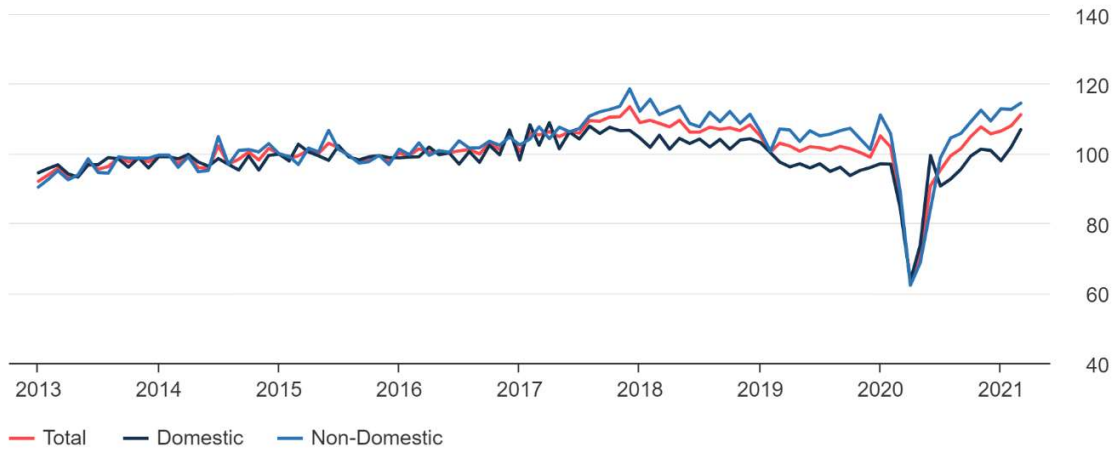


Figure 7: Index of new orders in manufacturing (Volume Index 2015=100; seasonally and calendar adjusted)
Source: Federal Statistical Office (Destatis)

[2] OEC. (2021, January). *Saxony Anhalt*. Retrieved from OEC: https://oec.world/en/profile/subnational_deu/saxony-anhalt
[3] 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
[4] IHS Markit . (2020, December 23). *Germany's manufacturing sector – an unlikely saviour in the pandemic?* Retrieved from IHS Markit: https://ihsmarkit.com/research-analysis/germanys-manufacturing-sector-unlikely-saviour-pandemic.html
[5] Destatis. (2021, May 18). Manufacturing in March 2021: new orders up 3.0% on the previous month. Retrieved from Destatis https://www.destatis.de/EN/Press/2021/05/PE21_214_421.html;jsessionid=F805C4D1A1B9E17E4EADAE1D51CDE487.live712

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[6].

4.2 Trade Finance and Merchant Banking

Trade finance is a critical element for cross-border trade, and in many cases the movement of goods across borders, particularly in emerging markets, cannot occur without it. The pandemic has affected most sectors of the global economy through both supply and demand shocks. The financial sector has not been spared, whether through potential loan quality challenges or increased demand for finance. Both global and local financial systems have been impacted, putting further pressure on trade finance. In the same way that trade supply and demand has been affected, trade finance has suffered. This is a significant concern, as trade finance provides essential short-term liquidity, and additional trade finance will be urgently required when demand for traded goods begins to recover.

The global trade finance market size was valued at $8,942.27billion in 2019, due to Covid-19, the market dropped to $7,616.52billion in 2020, and it is expected to reach $10,426.67billion by the end of 2026, growing at a CAGR of 5.37% during the forecast period 2020-2026[7]. Increasing worldwide import and export is the main factor that is expected to increase the trade finance market size in the coming years. Developing technologies such as optical character recognition (OCR) to read container numbers, radio frequency identification (RFID), and quick response (QR) codes to identify and track shipments, enhance the digitization of trading documents, and in turn, is expected to act as a catalyst for the growth of trading finance market size. Strategic development and the implementation of structuring and pricing methods are expected to provide growth opportunities for the trade finance market size.

Prior to COVID-19, the trade finance gap was already large and continuing to expand. In 2018, the global trade finance gap reached an estimated $1.5trillion. And the gap has been pronounced in emerging market and developing economies. As of 2019, the trade finance gap in Africa was estimated at $82billion. The Developing Asia trade finance gap is estimated at $700billion[8].

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

[7] Valuates Reports. (2021, February 08). *Trade Finance Market Size is Projected to Reach USD 10426.67 Billion by 2026 at CAGR 5.37%*. Retrieved from Valuates Reports: https://www.prnewswire.com/in/news-releases/trade-finance-market-size-is-projected-to-reach-usd-10426-67-billion-by-2026-at-cagr-5-37-valuates-reports-876449882.html#:~:text=The%20global%20Trade%20Finance%20market,the%20forecast%20period%202020%2D2026

[8] International Finance Corporation. (November 2020). *Why Trade Finance Matters - Especially Now.* International Finance Corporation. Retrieved from International Finance Corporation: https://www.ifc.org/wps/wcm/connect/be423213-dd33-418f-b41a-09882f529cff/Trade-Finance-matters-COVID-19.pdf?MOD=AJPERES&CVID=nnxGNyA

As the health crisis developed and persisted, banks experienced an increase in failures by traders to fulfil payments, including in industries and sectors beyond those initially impacted by lockdowns, such as airlines, aeronautics and tourism. It quickly became evident that one-off extensions of terms of payment by creditors would be insufficient to alleviate the trade finance crisis. Based on the experience of the 2008-09 crisis, governments, export credit agencies and international financial institutions, including multilateral development banks, rapidly intervened to support private markets. Multilateral development banks have provided record amounts of trade finance guarantees and liquidity in developing countries, while governments have implemented payment deferral schemes. Large central banks have supplied foreign exchange resources to other central banks through swap agreements. Efforts to date have been substantial, but challenges remain in 2021, connected first with how to support the importation and exportation of vaccines against COVID-19, and then with how to encourage the recovery of trade flows[9].

The COVID-19 pandemic has affected all facets of international trade. This is also true of trade finance, an asset class that is critical to trade, yet also particularly vulnerable during crises, despite its low-risk nature. While 80% of world trade relies on trade finance, its supply is under severe pressure. For emerging market and developing economies (EMDE), trade finance demand has weakened temporarily, despite continued increases in some countries (as operating cash flow will most likely remain relatively scarce in the short term). Looking forward, trade finance will be critical to help restart production and trade when the globe emerges from this pandemic. Constraints with trade finance, which are evidenced via an expanding trade finance gap, create direct constraints to trade itself, and so also to the speed and magnitude of the global EMDE economic recovery from COVID-19.

[9] Auboin, M. (2021). *Trade finance, gaps and the covid-19 pandemic: a review of events and policy responses to date.* Switzerland: Economic Research and Statistics Division, World Trade Organization.

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 2018, 31st December 2019 and 31st December 2020 have been audited by PricewaterhouseCoopers. This section also includes references to forecast financial statements provided by management for 2021, 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*	**2018** Actual	**2019** Actual	**2020** Actual	**2020** Management information*	**2020** FAS 2020	Variance from Actual	**2021P** Projected
Interest and similar income	78	559	1,283	1,283	1,327	-3.3%	1,329
Interest and similar expense	-	(378)	(1,183)	(1,183)	(1,149)	3.0%	(1,212)
Net interest income	**78**	**180**	**100**	**100**	**178**	**-43.9%**	**117**
Fee and commission income	-	404	11	491	962	-98.8%	460
Fee and commission expense	-	(148)	-	-	(421)	-	-
Net fee and commission income	**-**	**256**	**11**	**491**	**542**	**-97.9%**	**460**
Rental income	-	-	71	71	88	-19.3%	94
Net trading gains	-	-	556	556	-	-	(8)
Dividend Income	-	-	1,424	1,424	-	0.0%	850
Other operating income	-	-	498	18	-	0.0%	-
Operating income	**78**	**437**	**2,660**	**2,660**	**808**	**229.3%**	**1,513**
Changes in expected credit losses	517	-	-	-	-	-	-
Administrative expenses	(16)	(446)	(2,081)	(2,081)	(498)	317.6%	(1,195)
Profit/(loss) before tax	**578**	**(9)**	**579**	**579**	**310**	**87.2%**	**318**
Tax expense/ income	(1)	(1)	49	49	(0)	-	-
Profit/(loss) for year	**578**	**(11)**	**629**	**629**	**310**	**103.2%**	**318**

Source: Audited accounts of Merkanti Holding plc (Standalone) as at 31 December 2018 to 2020, Management information
**Management's estimates include fee income receivable by Merkanti Holding of €480k in Fee and commission income which in the audited financial statements is included in Other operating income*

Prior to 2018, the Issuer's main assets consisted solely of its shareholding in the Bank and amounts due from its parent company. The Issuer did not receive any dividends from the Bank and therefore, the only source of income generated between 2016 and 2018 related to interest income generated on the amounts due. The interest expense, on the other hand, related to amounts due by the Issuer to the Bank, which balance was settled following the reduction in the Bank's share capital in February 2017.

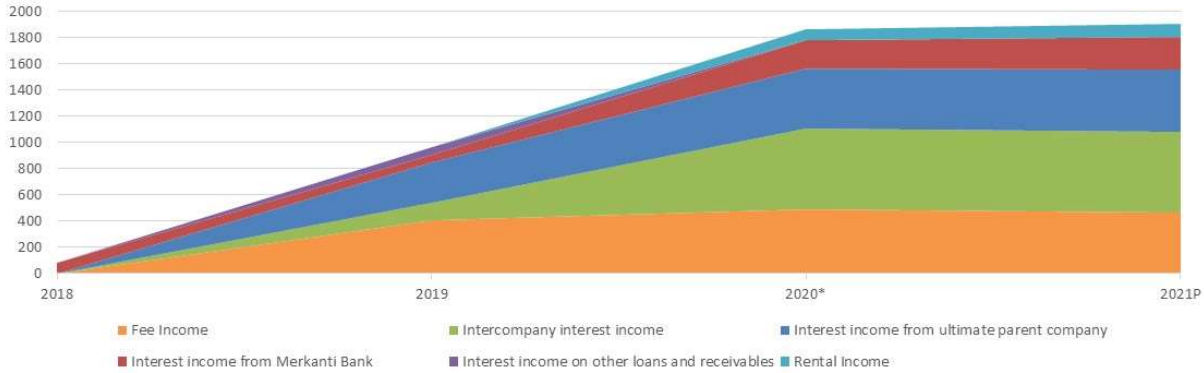
During 2020, net interest income amounted to €0.1million. Interest income was generated on receivables from Scully Royalty (interest income amounting to €0.5million) relating to a revolving credit facility of €5.9million being charged an interest rate of 8.25% (2019: 6%), and on receivables from Subsidiaries (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.

Interest expenses amounted to €1.2million, with the main interest expense relating to the interest payable on the Bond. Management notes that €0.5million relating to a fee payable to Merkanti Holding by a Scully Royalty group entity for services rendered were classified as other operating income in the financial statements, as indicated in the table above. 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 acquire A.I.M. from a related party, and for the Property Companies to pay fees directly to A.I.M.

Operating income increased significantly, from €0.4million in 2019 to €2.7million in 2020. Dividend income by the Issuer from the Property Companies, amounting to €1.4million was the main contributor to the increase in operating income. Additionally, the Issuer benefited from net trading gains amounting to €0.6million, reflecting the net impact of other income (+€0.9million) and a derivative liability of (-€0.4million).

The Issuer entered into an agreement to sell the right to receive dividends out of profits (equivalent to 63.75% of total pay out) emanating from a portfolio of litigation claims to Merkanti (A), with the relevant income being recognised upfront by the Company. Additionally, in relation to this portfolio of assets the Company also entered into an agreement with a third party granting this party an option to acquire the balance of the shares and respective dividends in Merkanti Diesel, leading to the derivative liability.

The above movements, as well as recharges made to related parties for expenses paid by the Issuer, drove the significant increase in operating income.



**2020 numbers are based on management information*
Source: Audited Financial Statements of Merkanti Holdings plc 2018-2020, Management information, Curmi & Partners Ltd

Administrative expenses increased substantially in 2020 to €2.1million (2019: €0.5million). The increase is 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.

Management expected management fee agreements between Merkanti Holding and the Property Companies to be applicable as from 2020, however these weren't charged as management fees are being paid to A.I.M., a subsidiary of Merkanti Holding, for tax purposes as discussed in Section 3.4. This was one of the variances from the projections in the 2020 Financial Analysis Summary ("FAS 2020"). Furthermore, Merkanti Holding will be charging a service fee to A.I.M. for the provision on a Managing Director as of May 2021.

Management notes that the Issuer was not expecting to receive dividends and income from the agreement to sell the right to receive dividends out of profits emanating from a portfolio of litigation claims, mentioned previously. On the other hand, rental income was slightly lower than expected given that some of the land was sold as explained in Section 3.2.1.

Net interest income is projected to amount to €0.1million in 2021, representing interest receivable on the advances from the Issuer to the Subsidiaries and to the parent company, and the interest payable on the outstanding Bond. The Company expects to generate net fees and commissions amounting to €0.5million, including the receivable from the Scully Royalty group entity for services rendered.

Administrative expenses are expected to be lower at €1.2million as the Company is expecting lower fee expenses and legal and professional fees. Management also expects Merkanti Holding to receive dividend income of €0.9million, €0.6million being received from Merkanti (A) and €0.3million from Merkanti (D). Profit for the year is projected to increase to €0.3million.

5.2 Statement of Cash flows

Merkanti Holding Plc *Standalone Statement of cash flows (€000) - 31 December*	2018 Actual	2019 Actual	2020 Actual	2020 FAS 2020	Variance	2021P Projected
Net cash generated from operating activities	(0.1)	(1,436)	2,572	60	4165%	(132)
Net cash used in investing activities	-	(17,769)	(1)	3,600	-	-
Net cash used used in financing activities	-	24,258	(129)	1,082	-112%	101
Net movement in cash and cash equivalents	(0.1)	5,054	2,441	4,743	-49%	(31)
Cash and cash equivalents at beginning of year	0	0	5054	5054	0%	7495
Cash and cash equivalents at end of year	-	5,054	7,495	9,797	-23%	7,464

Source: Audited accounts of Merkanti Holding plc (Standalone) as at 31 December 2018 to 2020, Management information

Prior to 2019 the Issuer's cash flows reflected its limited trading activities. The Issuer previously prepared financial statements in accordance with the General Accounting Principles for Small and Medium Enterprises Rules, and therefore, were not required to issue cash flow statements. The cashflows in 2019 represent the bond proceeds and the advances made to subsidiaries.

In 2020, cash inflows from operating activities increased to €2.6million (2019: cash outflow of €1.4million) as a result of the dividends received and an additional €3.6million loaned from Merkanti Bank. Cash used in financing activities mainly relate to lease payments on computer hardware and office space. Cash and cash equivalents as at the end of 2020 amounted to €7.5million, including €3.6million deposits by Merkanti Holding at the Bank.

When compared to the projections provided in the FAS 2020, the major variance relates to cash from operating activities as the Issuer did not receive the management fees as anticipated and interest income was lower than forecasted. On the other hand, dividends received were not included in the forecasts. It was projected that financing inflows would be driven by balances deposited by related parties at Merkanti Holding but these were moved to Merkanti Bank (from Merkanti Holding). In 2021, the Issuer is expected to end the year with a cash balance of €7.5million.

5.3 Statement of Financial Position

Merkanti Holding Plc *Standalone Statement of financial position (€000) - 31 December*	2018 Actual	2019 Actual	2020 Actual	2020 FAS 2020	Variance	2021P Projected
ASSETS						
Non-current assets						
Investments in subsidiary/ subsidiaries	46,723	50,369	50,582	50,369	-0.4%	50,582
Other receivables	5,472	20,015	21,696	19,985	-7.9%	21,677
Property, Plant & Equipment	-	121	97	96	-1.2%	72
Right of use assets	-	651	573	520	-9.3%	428
Allowance for credit losses	-	-	-	330	-	-
Total Non-current assets	52,195	71,156	72,948	71,299	-2.3%	72,760
Current Assets						
Financial assets measured at fair value through pr	0	0	267	0	-100%	267
Deferred tax assets	0	0	49	0	-1	49
Accrued income and other assets	97	1,407	1,519	348	-77.1%	2,016
Loans and advances to banks	-	5,054	7,495	6,197	-17.3%	7,461
Cash and cash equivalents	-	-	-	-	-17.3%	3
Total Current Assets	97	6,461	9,331	6,544	-29.9%	9,797
Total Assets	52,292	77,617	82,279	77,844	-5.4%	82,557
EQUITY AND LIABILITIES						
Capital and Reserves						
Issued Capital	50,000	50,000	50,020	50,000	0.0%	50,020
Retained earnings and other reserves	2,253	2,243	2,872	2,552	-11.1%	3,190
Total Equity	52,253	52,243	52,892	52,552	-0.6%	53,210
Non-current liabilities						
Borrowings	-	24,287	24,381	24,381	0.0%	24,481
Amouts due from subidiaries	-	-	3,600	-	-100.0%	3,600
Total non-current liabilities	-	24,287	27,981	24,381	-12.9%	28,081
Current liabilities						
Accrued Interest - Bond	18	333	364	333	-8.5%	334
Borrowings	-	-	-	-	-	-
Trade and other payables	18	101	62	5	-91.3%	49
Current tax liability	2	-	-	11	-	-
Other liabilities	-	-	-	16	-	28
Lease liabilities	-	653	612	545	-11.0%	478
Derivative liabilities	-	-	368	-	0.0%	377
Total current liabilities	38	1,087	1,407	911	-35.3%	1,265
Total liabilities	38	25,374	29,388	25,291	-13.9%	29,347
Total equity and liabilities	52,292	77,617	82,279	77,844	-5.4%	82,557

Source: Audited accounts of Merkanti Holding plc (Standalone) as at 31 December 2018 to 2020, Management information

Total assets of Merkanti Holding amounted to €82.3million as at 31st December 2020, 6.0% 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 also comprise 29.7% of total assets, amounting to €21.7million, and represents the amounts loaned to subsidiaries from the proceeds of the Bond Issue and the revolving credit facility referred to in Section 5.1. Other receivables also include €0.7million due from a related party for services that Merkanti Holding provided during the year, related to the rectification on the purchase price for the shares in Merkanti (A) and Merkanti (D). Total assets were slightly higher than projected, mainly due to higher accrued interest and a larger amount loaned to banks.

On the funding side, as at the end of 2020, the debt relating to the Bond Issue comprise most of the total liabilities, which amounted to €29.4million. Total equity remained constant at €52.9million. Non-current liabilities increased by €3.6million as Merkanti Holding drawn down this amount from Merkanti Bank, which was further deposited at the Bank.

In 2021, the Issuer's balance sheet is expected to remain relatively unchanged, with total assets amounting to €82.6million.

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. Management highlights that the SRL group believes that such claim is without merit and intends to defend this claim. The Issuer has initiated litigation locally in Malta seeking a declaratory judgment against the plaintiff in regards to 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 *Key Ratios*	2018 Actual	2019 Actual	2020 Actual	2020 As per FAS 2020	2020 FAS 2020 (revised)*	2021P Projected
Operating Income Margin (Operating Income / Revenue)	100%	45%	206%	54%	35%	85%
Profit Margin (Profit for the year / Revenue)	745%	-1%	45%	14%	14%	18%
Interest Coverage (Operating Profit before interest expense / Interest Payable)	N/A	1.0x	1.5x	2.1x	1.3x	1.3x
Return on Assets (Operating Profit / Average Total Assets)	0.1%	0.0%	0.7%	1.6%	0.4%	0.4%
Return on Capital Employed (Operating Profit / Average Capital Employed)	0.1%	0.0%	0.7%	1.6%	0.4%	0.4%
Return on Equity (Profit for the year / Average Total Equity)	1.1%	0.0%	1.2%	0.6%	0.6%	0.6%
Debt-to-Total Capital (Borrowings / {Total Equity + Borrowings})	0.0%	31.7%	31.6%	31.7%	31.7%	31.5%

Source: Audited accounts of Merkanti Holding plc as at 31 December 2018 to 2020, Management information, Curmi & Partners Ltd

**There are minor variances between the FY2020 forecasts as presented in FAS 2020 compared to the FY2020 forecasts as illustrated in the FAS 2021 (FAS 2020 (revised)), primarily driven by the assumed allocation of certain expenses which in FAS 2020 were included in administrative expenses instead of fee and commission expense as per revised FY2020 forecasts. The revised FY2020 forecasts are considered to be more indicative of such forecasts.*

The Issuer is a diversified holding company, with subsidiaries operating in the banking and industrial real estate sectors. Prior to the Bond Issue, Merkanti Holding generated income solely on interest earned on amounts owed by related parties. However, after the Bond Issue, the Issuer benefits from a diversified income stream on the basis of an enhanced asset base.

Whilst in 2019 the largest components of interest income derived from the revolving credit facility to the Parent, in 2020 the majority of the interest income was derived from loans advanced to subsidiaries (via the proceeds of the Bond).

Dividend income and net trading income, both of which were not projected for in the FAS 2020, increased operating income significantly, causing the operating income margin[10] to increase significantly to 206%. On the other hand, the more moderate improvement at profit margin level to 45% reflects the impact of the increase in administrative expenses. Interest cover was at 1.5x in FY2020, lower than projected given the higher than expected administrative expenses.

The higher operating profit and profit for the year increased return on assets, return on capital employed and return on equity. Gearing (debt-to-total capital), which does not include the

[10] Operating income / (Interest income + Fee income)

funding of €3.6million from Merkanti Bank, remained flat between FY2019 and FY2020, and is expected to remain constant during 2021.

With respect to the underlying assets, the Group's 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. The economic challenges related to Covid-19 did not have a major impact on the operations of the Issuer and its' subsidiaries, however the negative impact on global, regional and national economies may reduce the level of activity on which the Issuer and its' Subsidiaries operate, and have generally resulted in a cautious approach with respect to seeking growth.

Whilst Merkanti Bank's operations remained subdued during 2019, the Bank continued to hold relatively large amounts of liquidity throughout 2020 particularly due to the impact of Covid-19. However, management notes that it expects to be able to benefit increasingly from opportunities in the coming periods, both in merchant banking and trade finance. At the standalone level of the Issuer, the financial profile is expected to remain relatively stable. Management notes that whilst dividend income sustained the Company's profitability for 2020 and is also expected to become more regular going forward, such payments will be driven by the level of sustainability at the subsidiaries, with interest and fee income continuing to provide visibility.

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 similarly relatively stable earnings profile. The ratios indicated below are calculated using the audited financial statements for FY 2020 of each respective company.

Issuer/ Group	Gearing	Interest Coverage*
Merkanti Holdings	31.55%	1.49x
Exalco Finance	97.95%	1.08x
Eden Finance	96.01%	1.00x
Dizz Finance	62.18%	1.51x
United Finance	60.73%	1.28x
Tumas Investments	98.72%	1.01x
AX Investments	68.22%	1.18x

**In order to estimate the ability to service the borrowings, interest coverage is estimated as the ratio of financial income (after adjusting for administrative expenses) to interest payable.*
Source: Exalco Finance plc Audited Financial Statements 2020, Eden Finance plc Audited Financial Statements 2020, Dizz Finance plc Audited Financial Statements 2020, United Finance plc Audited Financial Statements 2020, Tumas Investments plc Audited Financial Statements 2020, AX Investments plc Audited Financial Statements 2020

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	31.55%	1.49x
Medserv	92.80%	0.84x
Gap	83.68%	2.24x
Hili Properties	58.70%	1.48x
Pendergardens Developments	42.37%	1.84x
International Hotel Investments	43.54%	-0.61x
MIDI	36.39%	-0.41x

Source: International Hotel Investments Audited Financial Statements 2020, Pendergardens Developments plc Audited Financial Statements 2020, MIDI Plc Audited Financial Statements 2020, Medserv plc Audited Financial Statements 2020, GAP Group plc Audited Financial Statements 2020, Hili Properties plc Audited Financial Statements 2020

7 GLOSSARY

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.
Cash flow from investing activities	Cash flows from investing activities reflect the change in cash position resulting from investments and divestments.
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.
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.
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.
Non-current assets	Non-current assets are long-term investments, the full value of which will not be realised within the accounting year.
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.

Financial Ratios	
Current ratio	The current ratio measures the ability to pay short term debts over the next 12 months. It compares a company's current assets to its current liabilities.
Debt to total capital ratio	The Issuer's interest-bearing borrowings divided by the Issuer's total capital, with total capital being the sum of interest-bearing borrowings plus total equity.
EBITDA Margin	Similarly to operating 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.
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.
Gross Profit Margin	Gross profit margin is the ratio of gross profit to revenue. It is the percentage by which gross profits exceed cost of sales, and is a measure of profitability at the most fundamental level.
Interest Cover ratio	The Issuer's operating income divided by the Issuer's interest expenses for the same period.
Net 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.
Operating Income Margin	Operating 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.
Quick ratio	Similar to the current ratio, the quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. It excludes inventories from current assets.
Return on Assets (ROA)	Return on assets is the ratio of profit for the period or operating income 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 or operating income 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.