MerkantiHolding
p.l.c.

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

COMPANY ANNOUNCEMENT

Reference: (04/2024)

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

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

The Board of Directors of Merkanti Holding p.l.c. announces that the updated Financial Analysis Summary dated 29 June 2024 as prepared by Curmi & Partners Limited is hereby attached and can also be viewed on the Company's website.

By order of the Board.

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Name: Stephanie Sciberras
For and on behalf of
Ganado Services Limited
Company Secretary
30 June 2024

Merkanti Holding PLC

Financial Analysis Summary

29th June 2024

CURMI & PARTNERS

29th June 2024

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 2024 ("FAS Update June 2024") as an update to the Financial Analysis Summary Update 2023 ("FAS Update June 2023"). A copy of the FAS Update June 2024 is attached to this letter.

The purpose of the financial analysis within the FAS Update June 2024 is that of summarising key financial data appertaining to Merkanti Holding p.l.c. ("the Issuer" or "Merkanti"), in addition to Merkanti Bank Limited ("Merkanti Bank" or "the Bank"), Merkanti (A) International Ltd ("Merkanti A"), Merkanti (D) International Ltd ("Merkanti D"), Merkanti Diesel Limited ("Merkanti Diesel"), and Altmark Industrie Management GmbH ("A.I.M") (collectively, "the Subsidiaries"). The Issuer and the Subsidiaries are collectively referred to as "the Group". The data is derived from various sources, as disclosed, or is based on our own computations as follows:

1. Historical financial data for the three years ended 31st December 2021, 31st December 2022 and 31st December 2023 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 2024 and 31st December 2025 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 2021, 31st December 2022 and 31st December 2023 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 2021, 31st December 2022 and 31st December 2023 have been extracted from the financial statements of Merkanti (A) and Merkanti (D) or provided by management of the Issuer.

5. Our commentary on the results of the Issuer and of the Group, and on their financial position, is based on the explanations given by the Issuer.
6. The ratios quoted in the FAS Update June 2024 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 2024 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 2024 is meant to assist potential investors by summarising the more important financial data of the Issuer. The FAS Update June 2024 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 2024 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 2024. 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

Table of Contents

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" or "the Ultimate Parent"). Merkanti Holding was converted into a public liability company on 30th May 2019. The Issuer issued a bond on the Malta Stock Exchange ("MSE") amounting to €25 million bearing interest at a rate of 4% per annum and due in 2026 ("the Bond" or "the Bond Issue").

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

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

1.2 Shareholding of the Issuer

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

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

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

- 1 Ordinary B Share held by Gardaworld CN Ltd

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

Furthermore, on the 25th of July 2022 the Company announced that it was granted approval by the Malta Financial Services Authority for admissibility to listing on the Official List of the

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

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

As of 31st December 2023, Scully Royalty's share capital amounted to CAD $325,158,000 consisting of 14,822,251 common shares. The main shareholders of Scully Royalty are outlined below:

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

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

1.3 Directors and Management

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

As at the date of this financial analysis summary report ("FAS 2024"), the Board of Directors of the Issuer is constituted as follows:

Mario P 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

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

[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.

a holding company for the purpose of the acquisition of Merkanti Bank Ltd ("Merkanti Bank") (formerly known as MFC Merchant Bank and BAWAG Malta Bank Ltd ("BAWAG")).

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

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

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

2.2 Strategic Developments

As could be expected, the effects of a global economic downturn could have an adverse impact on the Group's profitability, liquidity and capital resources. This is particularly due to the potential impact on demand for merchant banking services, with for example disruptions to international trade being considered. However, management also notes that on the basis of the Group's approach with respect to seeking assets which offer the potential to increase or unlock value, periods characterised by global macroeconomic challenges could result in opportunities for Merkanti Holding.

Historically, whilst Covid-19 slowed down the development of certain business areas (particularly within banking) compared to previous expectations and resulted in the Group holding substantial amounts of liquidity, it is also noted that the impact from the pandemic, and more recently, elevated inflation and geopolitical tensions, on the Property Companies. was minimal.

In March 2022, the Issuer had announced that it entered into a Share Purchase Agreement ("the SPA") to acquire Sparkasse (Holdings) Malta Ltd, the parent company of Sparkasse Bank Malta plc., subject to regulatory approval. However, in July 2023 it was further announced that the proposed transaction would not close, and that it was mutually agreed to terminate the SPA.

It is noted that the decision to not proceed with the acquisition was not related to the regulatory approval process, but was driven by timing considerations, in particular due to the impact of substantial shifts in the interest rate environment during that period. Additionally, the termination of the SPA did not materially impact the financial results of the Company, beyond the impairment of minor capitalized costs associated with the transaction in the first half of 2023.

In May 2024, the Company announced that it intends to propose certain changes to the terms and conditions of the Bond (“Proposed Amendments"), and subsequently further announced that it will be holding a meeting for bondholders on 3 July 2024, for the purpose of considering and approving such amendments. The changes primarily consist of an increase in the interest rate payable on the Bond from 4.00% to 5.70% per annum, and a 7-year extension of the term of the bond.

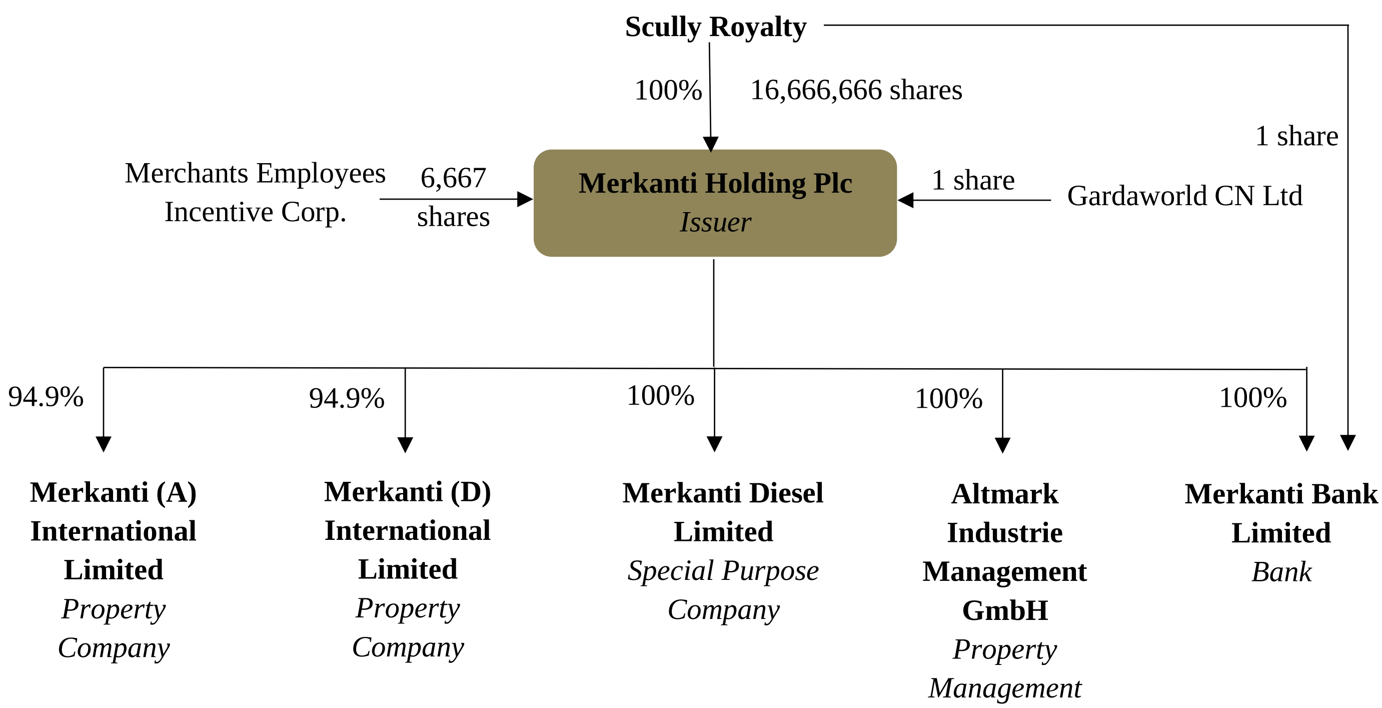
The purpose of the Proposed Amendments is to give bondholders the opportunity to retain their long-term participation in the Company at an interest rate that is more in line with current market conditions, whilst allowing the Group to re-diversify its balance sheet with long-term debt in a more cost and time efficient manner compared to a refinancing on the basis of a new issuance of bonds. In turn, this is related to the particularly high costs and complicated process that the re-registration of new security in Germany would entail. In this respect, management highlights that the Bond shall remain fully secured throughout the extended term, with the Proposed Amendments having no effect on the security package underlying the Bond, namely the first ranking uncertificated land charge granted under German law on the underlying industrial property assets owned by the Property Companies.

Below are the key aspects relating to the Proposed Amendments:

- An increase in the interest rate payable on the Bond from 4.00% to 5.70% per annum
- A 7-year extension of the term (maturity date) from August 12, 2026 to August 12, 2033
- Any bonds purchased by the Issuer may be re-sold by the Issuer within a period of 60 days and, if they are not re-sold within such period, they will be cancelled. Currently, any bonds purchased must be cancelled and may not be re-issued or re-sold

2.3 Organisational Structure

The current corporate structure of the Group is as follows:



3 MAJOR ASSETS OF THE GROUP

3.1 Merkanti Bank Limited

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

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

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

The Bank continued to invest in the core activities overseen and led by Martin Ware who was appointed as the Bank's CEO in June 2021. Investments include additional personnel experienced in trade finance and merchant banking, in addition to new procedures and structures. Additionally, the Bank has started the process to upgrade many of its core systems.

3.1.1 Statement of Comprehensive Income

Merkanti Bank Ltd Extract from Statement of comprehensive income (*€000) - 31 December*	**2021** Actual	**2022** Actual	**2023** Actual
Net interest income	1,428	1,697	2,971
Net fee and commission income	1,693	2,297	1,490
Trading P&L	80	965	402
Gains on disposal	(0)	(0)	-
Other operating income	35	35	486
Operating income	**3,235**	**4,994**	**5,348**
Administrative expenses	(2,781)	(3,010)	(2,859)
Changes in expected credit losses	49	(36)	(102)
Profit before tax	**503**	**1,948**	**2,387**
Other comprehensive income - net of tax	(41)	(637)	273
Total comprehensive income for the year	**462**	**1,312**	**2,660**
Total Capital Ratio	*114.3%*	*82.1%*	*85.6%*
CET1 Capital Ratio	*88.6%*	*67.8%*	*85.6%*

Source: Audited financial statements

Net interest income increased substantially over recent years, from €1.4 million in 2021 to €3.0 million in 2023 (+108%). This improved performance was mainly attributable to an increase in interest income on loans to banks, other financial institutions and deposits held with the Central Bank of Malta. On the other hand, the Bank's net income from fees and commission declined by 12% in the same period, mainly driven by a decline in merchant banking fees of 3%.

In terms of trading, the Bank’s income from foreign exchange in 2023 was that of €402k, which represented an annual decline of 58% due to lower volumes. However, since 2021, income from foreign exchange increased four-fold from €80k. The bank’s other income increased substantially in 2023 to €486k from €35k due to due amounts received from litigation. Administrative expenses rose from €2.8 million in 2021 to €2.9 million in 2023, despite the decline in personnel to 11 from 13 with the reduction mainly due to a lower clerical headcount, as the bank essentially changed the composition of administrative expenses relating to professional fees. Other comprehensive income mainly relates to net fair value movements in financial assets which resulted in a gain of €0.3 million, driven by the impact on fixed income holdings due to expectations of lower interest rates.

3.1.2 Statement of Financial Position

Merkanti Bank Ltd Statement of financial position (€000) - 31 December	2021 Actual	2022 Actual	2023 Actual
Assets			
Loans and advances to banks	3,779	6,970	6,549
Balances with Central Bank of Malta and cash	9,960	14,573	27,980
Investments	8,288	18,946	7,739
Loans and advances to customers	15,774	13,958	13,375
Accrued income and other assets	450	1,110	1,880
Property, Plant and Equipment	301	200	107
Intangible assets	647	943	922
Total assets	**39,198**	**56,700**	**58,551**
Equity and Liabilities			
Capital and reserves:			
Share Capital	10,000	10,000	10,000
Retained earnings	4,935	6,884	9,271
Fair Value Reserve	49	(588)	(315)
Total equity	**14,984**	**16,296**	**18,956**
Liabilities:			
Amounts owed to customers	19,046	30,458	34,336
Amounts owed to banks	-	4,966	4,966
Subordinated liabilities	4,500	4,500	-
Other liabilities	668	480	293
Total liabilities	**24,214**	**40,404**	**39,594**
Total equity and liabilities	**39,198**	**56,700**	**58,551**

Source: Audited financial statements

In 2023 the Bank's total assets increased to €58.6 million which reflects an increase of €19.2 million compared to 2021. Since 2021, the constitution of the bank's balance sheet shifted to more liquid assets, primarily cash. In fact, cash balances increased to €28.0 million from €10.0 million, mainly due to an increase in deposits of €20.3 million, and comprised almost 48% of the bank's total asset base as the remainder of the bank's assets essentially declined in proportion. The movements in the bank's asset base from 2022 to 2023 showed a positive shift of €13.4 million in cash balances while investments declined by €11.2 million to €7.7 million as the bank held its exposure of local sovereign bonds and other unlisted instruments while the bank's foreign treasury bill holding, which totalled €11.4 million in 2022, matured during the year.

The banks total liabilities increased during the two-year period from €24.2 million to €39.6 million. The increase was predominantly driven by the increase in the bank's deposit base to €39.3 million from €19.0 million with the increase mostly occurring in 2022. In fact, the amounts owed to customers increased to €34.3 million in 2023 (2021: €19.0 million) mainly due to approximately a €10 million increase in deposits held at the Bank by the Scully Royalty. Management notes that this increased funding was originally intended to partly finance the previously proposed acquisition of Sparkasse (Holdings) Malta Ltd. Among the total amounts owed to customers, €8.0 million represents term deposits primarily subject to fixed interest rates, while the remaining €26.3 million are repayable on call or with short notice and are not subject to interest.

In 2019, a portion of the proceeds from the Bond Issue were used by the Issuer to provide a subordinated loan of €4.5 million to Merkanti Bank. This loan qualified as Tier 2 capital for the Bank and had a maturity of 7 years, with a fixed interest rate of 5% per annum. Due to recent amendments in the Capital Requirement Regulations (CRR II), the ability to include Tier 2 capital in the Bank's large exposure limits was restricted.

On this basis, the subordinated loan has been repaid by the Bank, with the proceeds currently being deposited back until such funds will be directed towards other opportunities. Regulatory approval for this transfer was obtained during 2023.

3.2 The Property Companies

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

The Property Companies operate in the industrial real estate leasing sector in Germany and hold assets of a combined value of €30.1 million, yielding a combined rental income of approximately €1.6 million per annum with an annual gross rate of return of 5.3%.

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 2023, 93% 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 7% and 3% respectively generated from leases to companies within the Group.

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

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

Altmark Industrie Management Gmbh ("A.I.M."), prior to May 2022 named Altmark Immobilien Management Gmbh, is the management company for the two property companies and was acquired in 2020 from a related party. The offices are based at the premises of Merkanti (A) and it provides administration, accounting, tax, maintenance and other services to both Merkanti (A) and Merkanti (D), amongst other companies.

3.2.1 Merkanti (A) International Limited

Merkanti (A) owns the largest (1,509,358 m^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 2022, a portion of Merkanti (A)'s land was sold for circa €1.9 million to a neighbouring pulp and paper mill business, in respect of which a profit of €97k was realised upon disposal.

Industrial and Commercial Park Altmark presently yields a rental income of approximately €1.1 million per annum with a combined value in investment property of €21.6 million, thereby achieving a gross rate of return of 5.1%.

Around 39% of the rental income generated by Merkanti (A) in 2023 was generated by tenants within the construction industry, whilst another sizeable portion of approximately 29% of rental income was generated from tenants in the manufacturing industry. The remaining 32% 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.

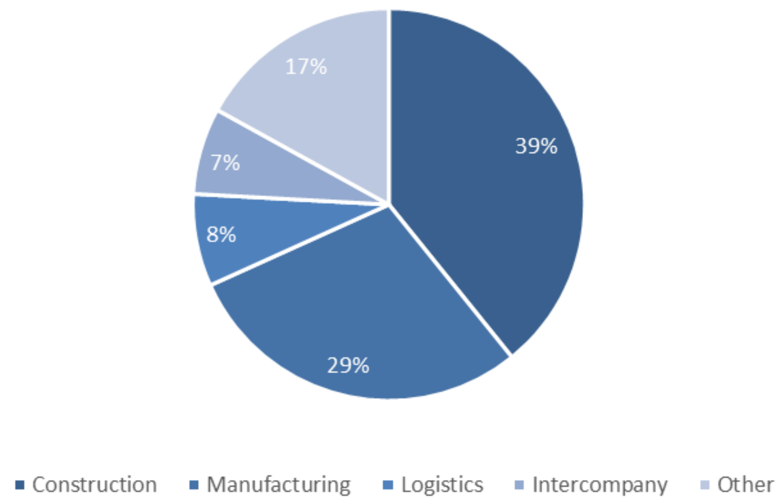


Figure 1: Merkanti (A) – Rental income by industry
Source: Management information

In terms of usage type, the Industrial and Commercial Park Altmark is mainly used for storage purposes, with such warehousing activity making up 63% of rental income during 2023. Approximately 25% of the space is being used as outdoor area whilst the remaining minority is used as office space.

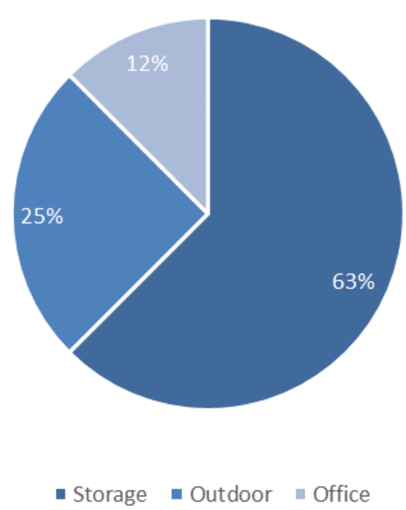


Figure 2: Merkanti (A) – Rental income by usage
Source: Management information

Merkanti (A)'s two largest tenants by rental income accounted for 25% and 19% each of Merkanti (A)'s total rental income in 2023, largely representing the logistics and manufacturing industries. Other significant tenants generated 18%, 11% and 6% respectively with each of the remaining tenants, totalling 35, representing 20% of rental income.

Tenant 1 holds several definite rental agreements with Merkanti (A), with the largest rental agreement yielding €3.6k monthly. 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, also held several rental agreements with Merkanti (A) until November 2022, after which a new contract was entered into with a new tenant, still operating a pulp mill, for a higher rent of €14.5k (vs. €12.4k prior to November 2022) and a duration of 66 months.

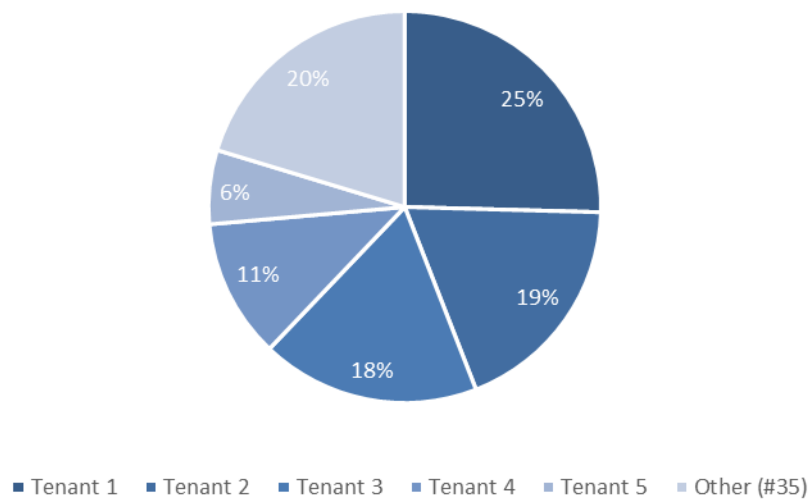


Figure 3: Merkanti (A) – Rental income by tenant
Source: Management information

3.2.1.1 Income Statement

Merkanti (A) Ltd Statements of comprehensive income (€000) - 31 December	2021 Audited	2022 Audited	2023 Draft Audited
Rental Income	**1,043**	**1,072**	**1,087**
Change in the fair value of investment property	283	34	379
Realised gains on disposal of investment property	2	97	(43)
Repairs and maintenance	(497)	(358)	-
Administrative expenses	(488)	(624)	(1,379)
Other direct operating expenses	(64)	(39)	-
Other income	90	219	460
EBITDA	**368**	**400**	**503**
Fair value gains in relation to participation rights	(477)	428	36
Finance income	419	419	442
Finance costs	(439)	(439)	(439)
Profit / (loss) before tax	**(129)**	**808**	**543**
Tax	(251)	(130)	(215)
Profit for the year	**(380)**	**678**	**327**

Source: Management information and financial statements

Total revenue from lease of property remained relatively flat across the 3-year period generating approximately €1.1 million per annum. In 2023, Merkanti (A) continued to generate positive EBITDA and bottom line profitability. Fair value gains also contributed to the €0.5million in operating profit, with such movements in fair value reflecting increases in occupancy rates and certain enhancements to the properties.

On the other hand, during 2023 administrative expenses more than doubled as the property company undertook certain measures that were required to prepare certain areas of the property for sales which included the demolition of certain properties.

In 2023, Merkanti (A) generated €442k in finance income and incurred €439k in finance costs, which were constant from 2021 and still mainly derived from borrowings and advances to and from related parties. Finance costs of €439k reflect the interest payable on the loan of €6.8 million at an interest rate of 6.5% advanced from Merkanti Holding following the Bond Issue. The Company realised €43k in losses on the €1.9 million on investment property. The increase in other income in 2023 is largely attributable to recharge of common and other ancillary costs to third parties.

3.2.1.2 Statement of Financial Position

Merkanti (A) Ltd Statements of financial position (€000) - 31 December	2021 Audited	2022 Audited	2023 Draft Audited
Assets			
Non-Current Assets:			
Investment Property	23,925	22,029	21,564
Trade & receivables	-	-	1,686
Loans and advances to banks	-	-	-
Total Non-Current Assets	**23,925**	**22,029**	**23,250**
Current Assets:			
Financial assets measured at fair value through P&L	2,147	1,650	-
Trade receivables	57	17	4,770
Other receivables	5,191	5,191	-
Accrued interest receivable	114	363	-
Other assets	179	6	-
Loans and advances to banks	4,000	4,000	4,000
Cash and cash equivalents	23	1,786	2,312
Total Current Assets	**11,710**	**13,013**	**11,082**
Total assets	**35,635**	**35,042**	**34,332**
Equity and Liabilities			
Capital & Reserves:			
Share Capital	1	1	1
Other reserves	24,173	24,173	24,173
Retained earnings	1,846	2,124	1,501
Total Equity	**26,020**	**26,298**	**25,675**
Liabilities:			
Borrowings	6,750	6,750	6,750
Deferred tax liability	1,139	1,103	1,095
Trade payables	52	48	-
Other payables and accruals	1,495	684	601
Current tax liability	179	160	211
Total liabilities	**9,615**	**8,744**	**8,657**
Total equity and liabilities	**35,635**	**35,042**	**34,332**

Source: Management information and financial statements

Merkanti (A)'s total assets amounted to €34.3 million in 2023, €0.7 million less than 2022. Investment property decreased in fair value by €0.5 million following the disposal of a part of the property (referenced in a previous section), as estimated by an external valuation expert reflecting the actual market state, conditions, and circumstances as of 31st December 2023.

Trade and other receivables primarily consist of balances due from Scully Royalty (€4.8million), on which the Company currently earns 7.375%. Loans and advances to banks comprise solely of a fixed-term deposit held with Merkanti Bank amounting to €4.0 million subject to fixed interest of 2.85% per annum, which was recently extended. In terms of funding, part of the proceeds of the Bond were granted as a loan to Merkanti (A), with borrowings amounting to €6.8 million, resulting in net debt amounting to €4.4 million. Total equity as 2023 was €25.7 million as the Company declared dividends of €950k (2022: €400k).

3.2.2 Merkanti (D) International Limited

Merkanti (D) owns the Dessau-Mitte Industrial Park, located in Dessau, Germany. Management indicates that this 111,701m^2 industrial park offers 18 buildings comprising of office and administrative buildings, production halls and warehouses. The Dessau-Mitte Industrial Park is ideally situated for hosting production, engineering and servicing companies, currently housing traditional equipment for cement plants, mills, cooling apparatus, drums and rotary furnaces, as well as broad-based engineering services in the field of cement plants and medical technology. The industrial park benefits from connections to the autobahn, the national railway and the Elbe River. Dessau-Mitte Industrial Park is valued at €8.5 million and presently yields a rental income of approximately €0.5 million, thereby producing an annual gross rate of return of 5.80%.

As indicated in the chart below, 16% of Merkanti (D)'s revenue generated in 2023 relates to tenants in the manufacturing sector. A further 28% is generated from tenants operating in the construction sector while 10% is generated from tenants that operate within the medical technology sector. The remaining 47% is rented to companies operating in various sectors.

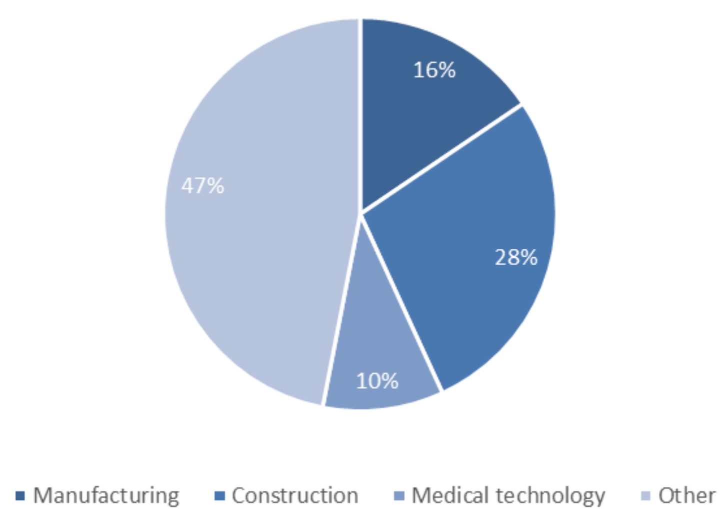


Figure 4: Merkanti (D) – Rental income by industry
Source: Management information

As of 31st December 2023, 15% of the rental income was generated from a packing company holding several rental agreements. Tenant 2, which generates 13% of total revenue, operates a cement plant building, whilst Tenant 3, which provides medical technology services, leases office space. Tenant 4 operates within the steel construction industry while tenant 5 is a voluntary humanitarian organisation.

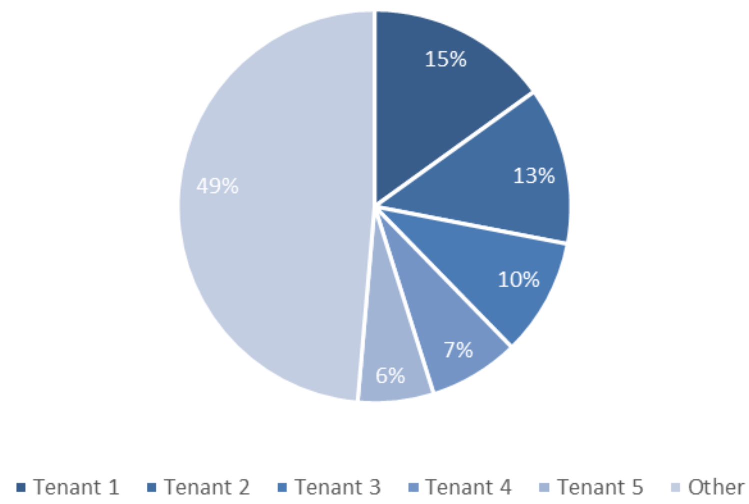


Figure 5: Merkanti (D) – Rental income by tenant
Source: Management information

3.2.2.1 Income Statement

Merkanti (D) Ltd Statements of comprehensive income (€000) - 31 December	2021 Audited	2022 Audited	2023 Draft Audited
Rental Income	**758**	**727**	**560**
Changes in fair value of property	1	(5)	(419)
Repairs and maintenance	(165)	(124)	-
Administrative expenses	(327)	(316)	(920)
Other direct operating expenses	(261)	(315)	-
Other income	236	331	332
EBITDA	**242**	**299**	**(447)**
Net trading income	-	-	24
Finance Income	38	38	53
Finance Costs	(179)	(179)	(179)
Profit / (loss) before tax	**101**	**158**	**(549)**
Tax	(196)	(107)	30
Profit for the year	**(95)**	**51**	**(519)**

Source: Management information and financial statements

Revenue from rental and lease of properties owned by Merkanti (D) declined in 2023 to €560k versus €727k in 2022 due to the expiration of a contract with a main tenant that was not renewed. Management notes that this development is being considered as a temporary situation, and furthermore indicates that a number of measures are being implemented to promote this property asset and enhance occupancy and rates, including advertising and investments in environmental improvements.

Fair value losses amounted to €419k in 2023 due to the decline in rental income. Administrative expenses and repairs and maintenance costs increased substantially to €920k in 2023 compared to €316k in 2022 as the property company incurred expenditure related to the maintenance and procurement of equipment.

3.2.2.2 Statement of Financial Position

Merkanti (D) Ltd Statements of financial position (€000) - 31 December	2021 Audited	2022 Audited	2023 Draft Audited
Assets			
Non-Current Assets:			
Investment property	8,941	8,936	8,517
Loans and advances to banks	-	-	-
Trade & other receivables	-	-	1,124
Total Non-Current Assets	**8,941**	**8,936**	**9,641**
Current Assets:			
Financial assets measured at fair value through P&L	1,100	1,100	-
Trade receivables	38	80	99
Other receivables	108	72	-
Loans and advances to banks	2,000	2,000	2,000
Cash and cash equivalents	601	690	338
Total Current Assets	**3,996**	**3,941**	**2,456**
Total assets	**12,937**	**12,877**	**12,097**
Equity and Liabilities			
Capital & Reserves:			
Share Capital	1	1	1
Other reserves	6,741	6,741	6,741
Retained earnings	1,911	1,562	694
Total Equity	**8,653**	**8,304**	**7,435**
Liabilities:			
Borrowings	2,750	2,750	2,750
Trade payables	48	35	766
Other payables and accruals	174	470	-
Deferred tax liabilities	1,072	1,123	1,059
Current tax liabilities	141	105	86
Accrued expenses and other liabilities	99	89	-
Total liabilities	**4,284**	**4,573**	**4,661**
Total equity and liabilities	**12,937**	**12,877**	**12,097**

Source: Management information and financial statements

Total assets as of 31st December 2023 amounted to €12.1 million, declining from the prior year. Loans and advances to banks comprise solely of a fixed-term deposit held with Merkanti Bank amounting to €2.0 million subject to fixed interest of 1.85% per annum maturing in May 2023.

Merkanti Holding loaned €2.8 million to Merkanti (D) from the Bond proceeds, thereby leaving a net debt position of €2.4 million in 2023.

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. This company is currently in "run-off" and is not expected to generate material proceeds for the group in the future.

4 INDUSTRY OVERVIEW

4.1 German Industrial Real Estate

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

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

[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

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

According to BNP Paribas report, the German logistics market saw a 26% decline in take-up compared to 2022, totalling 6.3 million m². Although the demand situation is slightly more subdued due to economic and geopolitical uncertainties, the overall performance remains good (-9 % compared to the ten-year average). In recent years, retail companies have been among the most important drivers of take-up due to the steadily increasing importance of the e-commerce sector, whereas they are currently only in third place in the industry ranking with around 21% of market share. The production sector achieved the highest share of take-up ever at around 40 % and secured first place in the sector ranking. The upward trend in rents has continued across all locations. On average, prime rents rose by 9 % and average rents by 11 % over the past 12 months[4].

The State Administrative Office reported record growth in industrial project approvals, with 84 applications in 2023 compared to 49 in 2022. The region is becoming an important hub for the semiconductor industry. Intel is investing 17 billion euros to develop a leading-edge semiconductor fab mega-site in Magdeburg, Saxony-Anhalt, expected to start production by 2027[5]. Sioux Technologies and Avnet are also making substantial investments, with Sioux building a research centre in Barleben and Avnet constructing a distribution centre in Bernburg[6].

The German logistics market report by BNP Paribas noted that 2024 started with subdued activity, the weakest since 2010, with a take-up of 18% below the previous year and 31% below the ten-year average. The ongoing economic downturn, rising rents, increased cost awareness among occupiers, longer review processes, and a low supply of adequate space in metropolitan areas have contributed to this decline. Occupiers are increasingly extending existing leases rather than seeking new spaces, reflecting a strategic response to the current economic and market challenges. This trend highlights the importance of tenant retention and flexibility in lease agreements for warehouse rental companies. However, the first quarter is traditionally the weakest in terms of take-up, so a slight increase is expected in the second quarter.

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

[4] BNP Paribas, Logistics market Germany (Q4 2023 update). Retrieved from: https://www.realestate.bnpparibas.de/en/market-reports/logistics-market/germany-at-a-glance-q4-2023

[5] Intel Corp (2022, March 15). Retrieved from: https://www.intel.com/content/www/us/en/newsroom/news/eu-news-2022-release.html#gs.b3e0yu

[6] Invest, G. T. (2024, February 21). Saxony-Anhalt. Retrieved from Germany Trade & Invest: https://www.gtai.de/en/invest/business-location-germany/fdi/top-investments-in-2023-in-saxony-anhalt-1085864

4.2 Trade Finance

The global economy has demonstrated resilience despite grappling with the highest inflation rates in decades while also achieving steady economic growth as inflation gradually returns to target levels. In 2023, global trade fell by 3% to $31 trillion after peaking in 2022, driven by reduced demand in developed economies and weaker trade in East Asia and Latin America. Trade in goods dropped by 5%, while services grew by 8%, fuelled by a nearly 40% surge in tourism and travel-related services. Despite the overall decline, trade-in electric vehicles grew by 60%, highlighting shifting market demands and preferences[7]. Inflation and relatively high interest rates were a check on growth, with many trade finance teams reporting negative or neutral effects and reducing demand for payables finance. Half of the banks in Europe taking part in this survey conducted by Demica (50%) said geopolitical risks had adversely affected asset growth throughout 2023, and 44% pointed to the same effect from the economic uncertainty that prevailed through the year. The final quarter of 2023 showed signs of stabilisation suggesting a recovery phase[8].

According to the most recent projections from the International Monetary Fund (IMF), the pace of economic growth is expected to grow at 3.2% during 2024 and 2025, at the same pace as in 2023. A slight acceleration in advanced economies is anticipated, with growth rising from 1.6% in 2023 to 1.7% in 2024 and 1.8% in 2025. This will be offset by a modest slowdown in emerging markets and developing economies, where growth is projected to decrease from 4.3% in 2023 to 4.2% in both 2024 and 2025. Global inflation is forecast to decline steadily, from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. However, logistical challenges, geopolitical tensions, and the need to secure critical minerals pose risks to the optimistic outlook. Conflicts between Hamas and Israel, along with ongoing attacks in key shipping routes in the Red Sea and Russia’s continuing invasion of Ukraine, and the growing risk of further supply shocks[9].

In the coming quarters, stable labour markets, though cooling, are expected to bolster real income growth and consumption. This recovery in consumption will help counterbalance the impact of necessary fiscal support reductions and stimulate investment as monetary policy loosens. As private demand gradually strengthens, sustaining disinflation will depend on a rebound in labour productivity and restoring profit margins to pre-crisis levels. In advanced European economies, risks to achieving a soft landing are evenly balanced. However, risks remain predominantly on one side for many Central, Eastern, and Southeastern European economies due to ongoing high wage growth, persistent core inflation, and elevated inflation expectations[10].

[7] UNCTAD Global Trade update (2024, March). Retrievd from https://unctad.org/publication/global-trade-update-march-2024

[8] Demica (2024, April 22). Demica’s 2024 Benchmark Report for Banks in Trade Finance retrieved from https://www.demica.com/resource/demicas-2024-benchmark-report-for-banks-in-trade-finance/

[9] IMF (2024, April 16). World Economic Outlook : Steady but slow resilience and divergence

[10] IMF (2024, May 24). IMF's Regional Economic Outlook for Europe: Turning the Recovery into Enduring 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 2021, 2022, and 2023 have been audited by PwC. This section also includes references to forecasted financial statements provided by management for 2024 and 2025, 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	**2021** Actual	**2022** Actual	**2023** Forecast	**2023** Actual	**2023** Variance	**2024** Forecast	**2025** Forecast
Interest and similar income	1,335	1,332	1,333	1,258	-6%	1,300	1,375
Interest and similar expense	(1,210)	(1,163)	(1,116)	(1,116)	-	(1,150)	(1,425)
Net interest income	**125**	**170**	**217**	**143**	**-34%**	**150**	**(50)**
Net fee and commission income	**429**	**537**	**480**	**138**	**-71%**	**150**	**150**
Rental income	76	79	103	102	-1%	100	100
Realised gains on asset disposal	-	(51)	-	-	-	-	-
Net trading gains	59	(615)	-	(537)	-	-	-
Dividend income	668	1,806	600	1,234	106%	525	650
Other operating income	531	665	20	919	4495%	750	850
Operating income	**1,888**	**2,591**	**1,420**	**1,997**	**41%**	**1,675**	**1,700**
Changes in expected credit losses	(1)	15	-	39	-	-	-
Administrative expenses	(1,445)	(1,135)	(1,100)	(1,553)	41%	(1,251)	(1,250)
Profit/(loss) before tax	**442**	**1,471**	**320**	**483**	**51%**	**424**	**450**
Tax expense/ income	23	(661)	(112)	(11)	-90%	-	-
Profit/(loss) for year	**465**	**809**	**208**	**472**	**127%**	**424**	**450**

Source: Management information, Audited financial statements

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

Interest income decreased by 6% to €1.3 million during 2023. This income was generated on receivables from Scully Royalty (€0.5million) relating to a revolving credit facility of €5.9 million being charged an interest rate of 8.25%, and on the receivables from Subsidiaries (€0.8 million). The income on the receivables from the Subsidiaries consists of interest receivable on loans to the Property Companies, and for the period until August 2023 on the subordinated Tier 2 loan to Merkanti Bank, bearing interest rates of 6.5% and 5.0% respectively. Interest expenses declined in 2023, in line with forecasts. This was due to an anticipated repayment of borrowings from subsidiaries. Finance costs at the Issuer level relate to the interest costs payable on the Bond. This borrowing cost is now expected to increase as reflected in management forecasts for 2024 and 2025, reflecting the impact of an increased interest rate from 4.00% to 5.70%, which is in turn driven by the Proposed Amendments.

Net fee and commission income decreased by 74%to €0.1 million. Management notes that this decline was driven by the particularly high level of fees and commissions generated during 2022. At the Company level, these fees primarily relate to management, administration, account maintenance and payment services. During 2022, the Company's fee income had benefited in particular from advisory services to related parties on transactions and restructuring activity, which were not at same level during 2023

On the other hand, during 2023 the Company benefited from an increase in other operating income to €0.9 million (+38%). This amount consists of recharges to the Ultimate Parent for expenses paid for professional service on behalf of Scully Royalty, and recharges to third parties for expenses paid in relation to ancillary costs incurred by the Group's property companies. Net trading losses stood at €0.5 million during 2023,

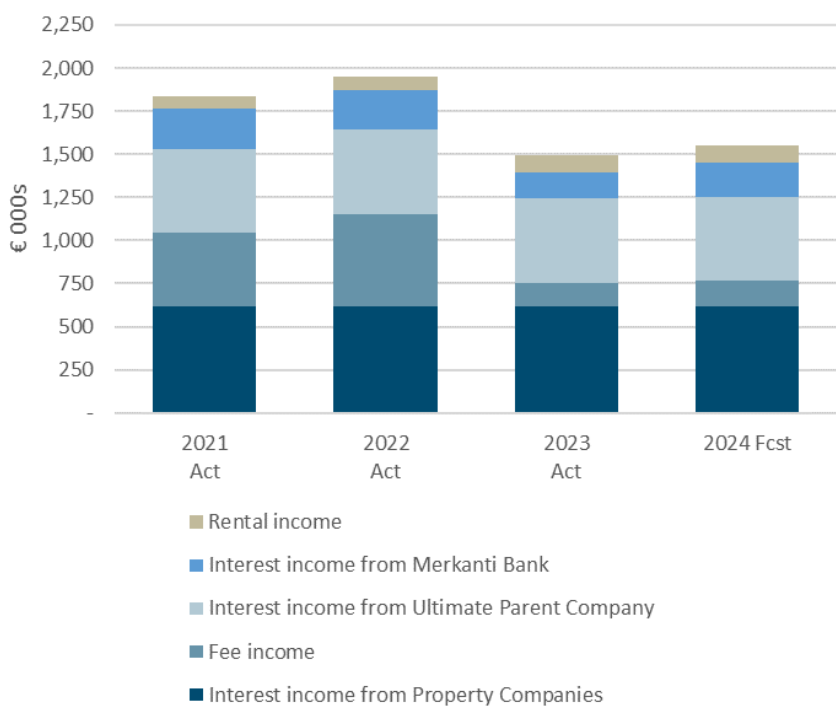


Figure 7: Merkanti Holding plc – Breakdown of Income Streams
Source: Audited financial statements, Management information

The decrease in dividend income was the main driver of the lower operating income registered during 2023. Additionally, a sizeable increase in administrative expenses contributed to the decline in profit before tax to €0.5million (-67%). After declining progressively over the previous two years, administrative expenses increased by €0.4 million to €1.6 million. Notably, costs during 2023 include an amount of €0.4million relating to the impairment of capitalised costs associated with the transaction in the first half of 2023. Management highlights that this expense was a one-off item. Going forward, management expects net interest income to amount to €150k for 2024, before declining to a negative amount as the interest expense increases (following the change in terms of the Bond. Projected dividend income is expected to decrease for each of the forecast period years, with higher levels of other operating income partly compensating for the decline.

5.2 Statement of Cash flows

Merkanti Holding Plc (Standalone) Statement of cash flows (€000) - 31 December	2021 Actual	2022 Actual	2023 Forecast	2023 Actual	2023 Variance	2024 Forecast	2025 Forecast
Net cash generated from / (used in) operating activities	(935)	648	647	1,867	188%	(1,824)	(425)
Net cash generated from / (used in) investing activities	(535)	(5)	26	1,048	3959%	29	(80)
Net cash generated from / (used in) financing activities	(155)	(3,732)	(17)	(171)	906%	(30)	55
Net movement in cash and cash equivalents	**(1,625)**	**(3,089)**	**656**	**2,744**	**318%**	**(1,825)**	**(450)**
Cash and cash equivalents at beginning of year	7,495	5,870	2,781	2,781	0%	7,325	5,500
Cash and cash equivalents at end of year	**5,870**	**2,781**	**3,437**	**5,525**	**61%**	**5,500**	**5,050**

Source: Management information, Audited financial statements

In 2022, the overall cash generated from operating activities was lower than forecast, since previously forecasted repayments of balances from related parties were not implemented, including €5.9 million due by the Scully Royalty and the €4.5 million subordinated loan due by Merkanti Bank.

On the other hand, net cash generated from operating activities during 2023 (€1.9 million), exceeded management forecasts. This amount mainly reflects the net impact of the proceeds received as repayment of the subordinated loan. This inflow compensated for outflows including the extension of a term loan granted placed with the Bank with a maturity of 5 months and subject to a fixed interest rate.

The other major cash flow movement for the year at the Company standalone level consisted of the dividends received (€1.1 million), which resulted in an overall net positive movement in cash balances of €2.7 million. This compares to the negative movement of €3.1 million registered in 2022, and to the previous 2023 forecast of +€0.6 million.

5.3 Statement of Financial Position

Merkanti Holding Plc (Standalone) Statement of financial position (€000) - 31 December	2021 Actual	2022 Actual	2023 Forecast	2023 Actual	2023 Variance	2024 Forecast	2025 Forecast
Assets							
Non-Current Assets:							
Investments in subsidiaries	50,582	50,531	50,531	50,531	0%	50,531	50,531
Other receivables	22,862	22,440	21,982	19,170	-13%	21,639	22,601
Property, Plant & Equipment	72	52	26	29	10%	-	80
Right of use assets	428	284	139	139	0%	-	700
Total Non-Current Assets	**73,945**	**73,306**	**72,678**	**69,868**	**-4%**	**72,170**	**73,912**
Current Assets:							
Financial assets measured at fair value through P&L	802	802	802	267	-67%	-	-
Deferred tax assets	72	-	-	-	-	-	-
Accrued income and other assets	2,052	2,743	2,943	2,634	-11%	2,650	2,650
Loans and advances to banks	5,870	2,781	3,437	7,325	113%	5,500	5,050
Total Current Assets	**8,796**	**6,327**	**7,183**	**10,227**	**42%**	**8,150**	**7,700**
Total Assets	**82,741**	**79,633**	**79,861**	**80,095**	**0%**	**80,320**	**81,612**
Equity and Liabilities							
Capital and Reserves:							
Issued Capital	50,020	1,667	1,667	1,667	0%	1,667	1,667
Retained earnings and other reserves	3,336	52,498	52,706	52,970	1%	53,395	53,845
Total Equity	**53,356**	**54,166**	**54,374**	**54,638**	**0%**	**55,062**	**55,512**
Non-Current Liabilities:							
Borrowings	24,478	24,580	24,687	24,687	0%	24,475	24,562
Amounts due from subsidiaries	3,600	-	-	-	-	-	-
Total Non-Current Liabilities	**28,078**	**24,580**	**24,687**	**24,687**	**0%**	**24,475**	**24,562**
Current Liabilities:							
Accrued Interest - Bond	466	479	479	-	-100%	783	783
Other payables	54	75	75	-	-100%	-	-
Other liabilities	-	-	-	591	-	-	-
Lease liabilities	478	331	169	169	-	-	755
Derivative liabilities	309	-	-	-	-	-	-
Current tax liability	-	2	77	11	-86%	-	-
Total Current Liabilities	**1,307**	**887**	**800**	**770**	**-4%**	**783**	**1,538**
Total Liabilities	**29,385**	**25,467**	**25,487**	**25,457**	**0%**	**25,258**	**26,100**
Total Equity and Liabilities	**82,741**	**79,633**	**79,861**	**80,095**	**0%**	**80,320**	**81,612**

Source: Management information, Audited financial statements

Total assets of Merkanti Holding amounted to €80.1 million as of 31st December 2023 (2022: €80.1million). In line with previous years and with the Company's business model as a holding company, the investments in subsidiaries constitute the major assets, amounting to an unchanged €50.5 million.

There was a shift in the relative proportions of other assets on the balance sheet compared to 2022. Other receivables registered a decline by 15% to €19.2 million, whereby an increase in the amounts due from Scully Royalty was more than compensated for by lower balances due from subsidiaries of (€10.5 million) and other related parties (nil). Notably, the subordinated loan to the Bank was repaid by the subsidiary and not extended, with management indicating that elevated liquidity from the proceeds was maintained due to the potential outlay for the previously proposed acquisition.

Advances to the Ultimate Parent include primarily a revolving credit facility of €5.9million (unchanged) subject to a fixed interest rate of 8.25%. Other balances due from Scully Royalty as at 31st December 2023 consisted of (1) a €1.9million advance in relation to an agreement with the Ultimate Parent, in which the latter indemnified the Group for any losses, claims, and expenses in relation to its investments in the dispute resolution funding business, and (2) a reimbursement invoice of €0.9million. Whilst these advances are not subject to interest, they are repayable on demand, with management indicating that they were settled in January 2024.

Meanwhile, as at the end of 2023 the balance of loans to banks, namely amounts repayable on call and at short notice, increased by circa €4.7 million to €5.5million. This balance reflects the additional liquidity maintained by the Company following the repayment by the Bank of the subordinated loan. Management projections for the forecast period indicate the utilisation of a portion of this liquidity, resulting in increases in other receivables to €21.6 million by end 2024.

In terms of funding, whilst total equity amounted to €54.6 million (2022: €54.2 million), as expected the Bond accounted for basically all the Company's obligations as at 31st December 2023. As published in recent company announcements during May and June 2024, and further illustrated in earlier sections of the FAS 2024, the Group has proposed certain amendments to the terms and conditions of the Bond. Management highlights that should such amendments be approved, the Company's balance sheet will benefit from consolidation via an extension its long-term debt, implemented in a cost-effective manner.

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. Management highlights that the SRL group believes that such claim is without merit and intends to defend this claim. Furthermore, the Company has initiated litigation locally in Malta seeking a declaratory judgment against the plaintiff regarding this claim. In addition, the Company has obtained additional risk mitigation securities for this litigation to mitigate the possibility for any potential loss. Based on the information available, management does not believe that there will be a material adverse effect on the group's financial condition or results of operations as a result of this action. However, due to the inherent uncertainty of litigation, management are not able to provide certainty as to the outcome of these claims.

5.4 Evaluation of Performance and Financial Position

Merkanti Holding Plc (Standalone) Key Ratios	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast
Operating Income Margin *(Operating Income / Revenue)*	205.5%	107.1%	138.5%	143.0%	115.5%	111.5%
Profit Margin *(Pre-tax profit for the year / Revenue)*	44.8%	25.1%	78.7%	34.6%	29.3%	29.5%
Interest Coverage *(Operating Profit before interest expense / Interest Payable)*	1.5x	1.4x	2.3x	1.4x	1.4x	1.3x
Return on Assets *(Operating Profit / Average Total Assets)*	0.7%	0.5%	1.8%	0.6%	0.5%	0.6%
Return on Capital Employed *(Operating Profit / Average Capital Employed)*	0.7%	0.5%	1.8%	0.6%	0.5%	0.6%
Return on Equity *(Profit for the year / Average Total Equity)*	1.2%	0.9%	1.5%	0.9%	0.8%	0.8%
Gearing Ratio *(Borrowings / {Total Equity + Borrowings})*	31.6%	31.4%	31.2%	31.1%	30.8%	30.7%

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. At the standalone level, dividends received from subsidiaries have been the main source of income over recent periods, whilst the Company also generates income on loans advanced to subsidiaries and to the Ultimate parent in addition to fees receivable.

A decline in profitability at the Company level was experienced during 2023 compared to the previous year. However, it is relevant to note that operating margins were particularly enhanced in 2022, driven by the substantially higher levels of dividends received in addition to robust fee income. In this respect, management highlights the fact that fees and commissions receivable are impacted by the relatively irregular nature of the certain activities the Company engages in.

Bottom line profitability for 2023 was also negatively impacted by the rise in administrative expenses, as reflected in a lower interest cover and returns ratios. Management forecasts for the Company indicate that an expected decrease in administrative expenses will compensate for lower projected dividends receivable and, as from 2025 in particular, for the climb in the interest payable expense, resulting in a generally stable performance for 2024 and 2025. From a balance sheet perspective, the Company's gearing is expected to remain basically unchanged unchanged.

At the wider Group level, management notes that the Group's strategy is to seek opportunities, both organic and inorganic, whilst remaining prudent and adhering to its risk management principles. This is also reflected in recent strategic developments, such as the previously proposed acquisition of Sparkasse (Holdings) Malta Ltd which was eventually not pursued, in addition to the maintenance of elevated levels of liquidity. With respect to the banking business, the intention of the Group is to grow the balance sheet, where specific opportunities are deemed attractive. Meanwhile, management also aims to further optimize the utilization of its industrial real estate assets in Germany.

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 FY2023 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 Plc	**31.1%**	**1.4x**
Exalco Finace Plc	22.4%	4.9x
United Finance Plc	66.2%	0.6x
GAP Group plc	60.4%	36.6x
AX Real Estate Plc	50.9%	1.7x
Malta Properties Company Plc	35.5%	2.6x
Stivala Group Finance Plc	6.1%	10.4x
MIDI PLC	36.7%	-0.3x

Source: Guarantor 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.