MerkantiHolding
p.l.c.

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

COMPANY ANNOUNCEMENT

Reference: (03/2021)

Approval of the Annual Report and Audited Financial Statements for year ended 31 December 2020

This is a company announcement issued by Merkanti Holding p.l.c. (C 70823) (the "**Company**") pursuant to the Listing Rules issued by the Listing Authority.

Board of Directors Meeting

The Company announces that the Board of Directors has on 29 April 2021, considered and approved the Company's annual report and audited financial statements for the period ended 31 December 2020.

These can be viewed on the Company's website at http://www.merkantiholding.com/

Annual General Meeting

The Annual General Meeting of the Company was held on the 29 April 2021 and at this meeting the Shareholders considered and approved the following resolutions:

Ordinary Resolutions:

1. That the Financial Statements for the year ended 31 December 2020 and the Directors' and Auditors' Report thereon be approved;

2. That the reappointment of PwC Malta as Auditors of the Company be approved and that the Board of Directors be authorised to fix their remuneration;

3. That Mr. Mario Galea and Mr. Benjamin Muscat be re-appointed as Directors of the Company for a one-year period;

Extraordinary Resolutions:

4) that, the Company's memorandum and articles of association be substituted in their entirety with the new memorandum and articles of association approved at the meeting and as previously approved by the MFSA and the Listing Authority.

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Following the Annual General Meeting the Board of Directors of the Company is composed of the following:
Mr. Mario Galea
Mr. Benjamin Muscat
Ms. Silke Stenger
Mr. Martin Ware
Mr. Samuel Morrow

By order of the Board.

Name: Dr. Andre Zerafa
For and on behalf of
Ganado Services Limited
Company Secretary
30 April 2021

MERKANTI HOLDING p.l.c.

Annual Report and Consolidated Financial Statements 31 December 2020

Company Registration Number: C 70823

Directors' report

The board of directors ("the Board") present their report and the audited financial statements of Merkanti Holding p.l.c. (the "Company", formerly MFC Holding Limited) and Merkanti Holding p.l.c. Group - (the "Group", formerly MFC Holding Limited Group), for the year ended 31 December 2020. The subsidiaries include Merkanti Bank Limited (the "Bank", formerly MFC Merchant Bank Limited), Merkanti (A) International Limited ("Merkanti A", formerly MFC (A) Limited), Merkanti (D) International Limited ("Merkanti D", formerly MFC (D) Limited), ("Merkanti A", together with "Merkanti D", the "Property Companies"), Altmark Immobilien Management GmbH ("A.I.M.") the "Property Management Company", Merkanti Diesel Limited ("Merkanti Diesel"), and MFCR Oriental S.A. ("MFCR").

Subsidiaries

The following diagram illustrates the corporate structure of the Group as at 31 December 2020:

Principal activities

Merkanti Holding p.l.c. is a holding and finance company that does not carry on any trading activities apart from the raising of capital and advancing the same to the Group. Accordingly, the Company is economically dependent on the Group. The principal activities of the Group are comprised of the activities of the Bank, the Property Companies and their management Company, the litigation financing Company and the South American Company explained further in the 'Review of the business' section below.

On 12 August 2019, the Company issued €25,000,000 secured bonds carried at a tenor of 7 years with a coupon of 4%. The proceeds of the issuance were utilised to support the expansion of the business of the Bank and the Property Companies. The bond issuance was listed on the Malta Stock Exchange.

Review of the business

2020 has been an unprecedented year in terms of economic uncertainty and volatility brought about by the COVID-19 pandemic. The economic challenges related to COVID-19 have not had a negative impact in terms of late payments, impairments or similar adverse developments on the Bank's credit loan portfolio or the Property Companies' tenants. However, business development was hindered during the year due to the restrictions on travel and other disruptions brought about by the pandemic, and the Group ended the year with substantial amounts of liquidity.

The combination of geopolitical uncertainty and the disruption of certain international supply chains brought about by the COVID-19 crisis caused us to maintain a prudent and cautious approach during the first half of the year with respect to expansion of merchant banking activities and credit loan portfolio development.

Directors' report - continued

Review of the business - continued

During the second half of the year, the Group managed to achieve its targets with additional merchant banking transactions which expanded the balance sheet. From an operating income level, the COVID-19 pandemic limited the Group's ability to capitalise on certain potential merchant banking opportunities, resulting in a decrease in operating profits compared to 2019.

Profit after tax for the year for the Company amounted to €628,812 (2019: loss after tax of €10,631), whilst the Group achieved a profit after tax of €129,160 (2019: €2,916,350). The profits of the Group in 2019 included a revaluation of the Property Companies' real estate €2,069,000, while the profits of the Group in 2020 mainly emanated from the inclusion of the financial results of the Property Companies as well as Merkanti Diesel Limited, which was incorporated in December 2019. The profit contribution from the Bank for the year was approximately €140,000. During the year the Company made the first full annual coupon payment to the bond holders €1,000,000 (2019 €358,688).

Total assets for the Company and the Group stood at €82,279,097 and €89,145,008 respectively (2019: €77,617,080 and €90,964,466).

The Bank is a credit institution licensed by the MFSA under the Banking Act (Chapter 371 of the laws of Malta), in accordance with the credit institution licence granted by the Malta Financial Services Authority. The Bank does not engage in general retail banking, but provides speciality banking services, focused on merchant banking, to customers and group members located in both domestic and non-domestic markets.

The Property Companies are property holding companies that operate in the industrial real estate leasing sector in Germany, together holding assets recently valued at €49.1 million, yielding a combined rental income of approximately €2.1 million per annum. The Property Companies were acquired in 2018 in order to consolidate the Group's income-generating asset base. The acquisition consisted of a share purchase representing 85% of the nominal value of the share capital of the Property Companies. In 2019, the Company increased its position to a total shareholding of 94.9%. Further information on the acquisition is disclosed under Note 9 of the Financial Statements. In 2020, Merkanti Holding acquired Altmark Immobilien Management GmbH (A.I.M.) for a net book value (€161,940). A.I.M. provides management services for the two Property Companies.

The real estate owned by the Property Companies is currently leased out to a number of tenants. Lease agreements in place between the Property Companies and the respective tenants are either open-ended indefinite term contracts or definite term contracts (with a number of definite term rental agreements catering for the automatic renewal of the lease, and with renewal periods ranging from one to six years).

In most cases the lessee has the option to terminate the contract by giving written notice a number of months prior the expiration of the contract, which notice period ranges between 3 to 18 months. For the year ending 31 December 2020, 86% (2019: 95%) of the combined rental income of €2.1 million (2019: €2.2 million) was generated from areas leased out to third party tenants, with the remaining 14% (2019: 5%) generated from leases to related parties.

The impact from the Covid-19 pandemic on the Property Companies for the year under review has been minimal with only one tenant requesting financial assistance. As at the date of this report the situation remains unchanged with tenants continuing to make payments on time.

On 16 December 2019, Merkanti Diesel Ltd was incorporated, as a fully owned subsidiary of Merkanti Holding p.l.c. To date, Merkanti Diesel has financed various legal claims in Germany.

Directors' report - continued

Review of the business - continued

In 2020, Merkanti Holding p.l.c. acquired 100% of the shareholding of MFCR Oriental S.A. ("MFCR") for net book value (approximately €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 Ltd., and the Merkanti Group, sourcing within South America and Asia.

As from the end of the second quarter of 2021, the ability to include tier 2 capital in the Bank's large exposure limits will be restricted with the introduction of the amendments to the Capital Requirement Regulations (known as CRR II). One of the uses of proceeds from the bond issuance in 2019 was to advance a subordinated loan to the Bank which would be included as Tier 2 capital in the Bank's own funds and thus increase the large exposure limits for each customer or groups of connected customers. Due to the changes that were published in the CRR II, the Group is considering potential ways to amend the funding structure to reflect the original intentions of the subordinated loan, including and subject to regulatory approval, converting this amount to additional deposits to place cash collateral for risk exposures, or to convert this subordinated loan into additional tier 1 capital. No decisions or timeline has yet taken place in this regard.

Principal risks and uncertainties

A weakening of the global economy, including capital and credit markets, could adversely affect the Group's business and financial results and have a material adverse effect on its liquidity and capital resources.

The Group's business, by its nature, does not produce predictable earnings and it may be materially affected by conditions in the global financial markets and economic conditions generally. As demand for the Group's products and merchant banking services has historically been determined by general global macro-economic activities, demand and prices for the Group's products and services have historically decreased substantially during economic slowdowns. A significant economic downturn may affect sales and profitability and may adversely affect suppliers and customers. Depending on their severity and duration, the effects and consequences of a global economic downturn could have a material adverse effect on the Group's liquidity and capital resources, including the Group's ability to raise capital, if needed, and otherwise negatively impact our business and financial results.

The Group is subject to global economic, market and business risks with respect to the current COVID 19 Pandemic.

The pandemic is now established globally, however, the final duration and effects are currently uncertain. The Group expects that this pandemic, and any future epidemic or pandemic crises, could result in direct and indirect adverse effects on the industries and geographies in which it operates.

The pandemic is expected to have a negative impact on global, regional and national economies and to disrupt supply chains and otherwise reduce international trade and business activity. This may in turn reduce the level of activity in which certain of the Group's businesses operate and have a negative impact on such businesses' ability to generate revenues or profits. If the pandemic is prolonged, this could amplify the current negative demand and supply chain effects as well as the negative impact on global growth and global financial markets.

Although disruption and effects of the COVID 19 pandemic may be temporary, given the dynamic nature of these circumstances and the worldwide nature of the Group's business and operations, the duration of any business disruption and the related financial impact cannot be reasonably estimated at this time but could materially affect the Group's businesses, results of operations and financial condition.

Directors' report - continued

Principal risks and uncertainties - continued

The Group is subject to strategic and business risk.

Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective financial results.

As the Group is engaged in German property business, this risk category is intimately connected with the overall performance of the global and German economy. In addition, the Group is engaged in the trade finance and merchant banking business, which is intimately connected with the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

The Group may increase its debt in the future.

The Group may continue to fund its operations and future growth by incurring additional debt. A substantial deterioration in operating cash flows and profitability could make it difficult for the Group to service interest payments and principal repayments on its borrowings. The Group could be at risk of default on the occurrence of certain unexpected events. Any failure to satisfy debt obligations could result in a default under the terms of current and future financing arrangements.

The Group's bank subsidiary is subject to regulatory risk.

Merkanti Bank is subject to a number of prudential and regulatory controls, including but not limited to CRD IV, CRR and BRRD, that are designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. Merkanti Bank therefore faces risks associated with an uncertain and rapidly evolving prudential regulatory environment pursuant to which it is required, amongst other things, to maintain adequate capital resources and capital ratios at all times. Any legislative or regulatory actions and any resulting changes required to be made to Merkanti Bank's operations could adversely affect its business.

Merchant banking as a business is competitive, volatile and subject to various risks.

Merkanti Bank's merchant banking business could experience significant periodic variations in revenues and results of operations in the future. The merchant banking business is also highly competitive and certain competitors have substantially greater capital and resources, including access to supply, than Merkanti Bank. If Merkanti Bank is unable to compete effectively, its business and results of operations will be adversely affected

The Group is subject to systematic risk in the global financial system.

The Group is exposed to systemic risk caused by the pandemic, which eventually resulted in a recession effecting corporations and financial instructions worldwide, Due to the high level of interdependence between financial institutions, Merkanti Bank is and will continue to be subject to the risk of deterioration of the (actual or perceived) commercial and financial soundness of other financial services institutions, which is also often referred to as systemic risk. Even the perceived lack of creditworthiness of about a single counterparty may lead to market wide liquidity problems and losses or defaults by other institutions, including Merkanti Bank.

Directors' report - continued

Principal risks and uncertainties - continued

The Group is exposed to litigation risks in its business that are often difficult to assess or quantify.

The Group is exposed to various forms of legal risk arising from its trade finance, merchant banking and other activities. Legal risks arise from the possibility that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise negatively affect the operations or condition of the Group. The Group carries on business in various parts of the world and under different legal systems.

The Group is particularly susceptible to legal risks when entering into structured transactions in emerging markets, where its legal rights might be susceptible to non-enforcement because of uncertainties of the local legal and judicial system.

The Group is exposed to the industrial real estate and property market in Germany.

The industrial real estate market in Germany is, among other things, affected by shifts in demand and supply, changes in general economic conditions, changing supply within a particular area of competing space and attractiveness of real estate relative to other investment choices. Changes in regulatory requirements and applicable laws (such as taxation and planning permits), political conditions, conditions of the financial markets, inflation, interest rate fluctuations, the availability of financing, yields of alternative investments and other factors may also have an adverse effect on the property market and, in turn, the capital values and income streams of the Group.

Future business developments

The Group expects to continue to grow its balance sheet and is considering various alternatives to add leverage to support the future growth plans of the Bank, the Property Companies, and its other subsidiaries

During 2021, the Bank's main business strategy will continue to focus on merchant banking (including specialised lending) activities related to corporate banking business 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 planning to upgrade internal operational systems in order to handle the expected increase in business development momentum throughout 2021.

In addition, the Group is considering various strategic transactions to further expand its product profile and geographical scope, while at the same time maintaining a strong liquidity profile to be able to capitalize on any opportunities which may arise.

Risk management

The Group faces a range of business, financial and operational risks. The Group adopts a robust corporate governance framework with a risk management approach to understand what its risks are, how much risk is acceptable, and to be able to manage it to create value for shareholders while meeting regulatory requirements ensuring integrity, ethical and transparent behaviour.

At a strategic level, the Group's financial risk management objectives are:

i. to ensure appropriate identification of the Group's significant risks;
ii. to ensure that the Group's plans are consistent with its risk appetite;
iii. to optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures; and
iv. to help the Group's Management improve the control and co-ordination of risk taking across the business.

Directors' report - continued

Risk management - continued

A detailed review of the Group's use of financial instruments, its exposure to liquidity risk, credit risk and market risk, and the respective financial risk management objectives and policies is included in Note 2 to the financial statements.

Results and dividends

The income statement is set out on page 25. No dividend is being recommended by the Board. The accumulated retained earned of the Group amounting to €1,321,222 will be carried forward to the next financial year.

Directors

The directors of the Company who held office during the year were:

Samuel Morrow
Mario P Galea (Chairman)
Benjamin Muscat
Silke Stenger
Martin Ware (appointed with effect from 11 November 2020)

In accordance with the Company's articles of association, directors are appointed during the Company's annual general meeting until the next following annual general meeting (unless elected for a longer or shorter period or unless they resign or are removed), at the end of which term they may stand again for re-election. No election may be made for a period exceeding three (3) years. The Articles of Association of the Company clearly set out the procedures to be followed in the appointment of directors.

Responsibilities of Directors for the Financial Statements

The directors are required by the Maltese Companies Act (Cap.386) to prepare financial statements which give a true and fair view of the state of affairs of the Group and the Parent Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business as a going concern.

Material contracts

Other than the contracts specified for and within the Company's prospectus dated July 18, 2019, for the issuance of €25 million of 4% seven year secured bonds, there are no material contracts outstanding.

Directors' report – continued

Going concern

The Directors, as required by Listing Rule 5.62, have considered the Company's operational performance, the statement of Financial Position as at December 31, 2020 as well as the business plans for the coming year, and that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Directors' report – continued

Statement of Responsibility pursuant to the Listing rules issued by the Listing Authority

The Board declares that to the best of their knowledge, the financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and that this director's report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

Approved and signed on behalf of the Board on 29 April 2021 by:

Mario Galea
Chairman

Martin Ware
Director

Registered office
Merkanti Holding p.l.c.
Aragon House Business Centre
Dragonara Road
St Julian's, STJ 2140
Malta

29 April 2021

Statement of Compliance with Corporate Governance Code

The Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, require listed companies to observe The Code of Principles of Good Corporate Governance (the "Code"). Although the adoption of the Code is not obligatory, companies with securities that are listed on a 'regulated market' (and that are subject to the Listing Rules and the Code) are required to include, among other things, in their annual report, a corporate governance statement and a statement by the directors on a company's compliance with the Code, accompanied by a report of the auditors thereon. Companies that do not have any listed equity securities, including Merkanti Holding p.l.c. (the "Company"), are exempt from certain requirements relating to the contents of this corporate governance statement.

Compliance

The Company's Board of Directors (the "Board") believes in the principles espoused by and the adoption of the Code and the Company has endorsed them to the extent that they are considered complementary to the size, nature, and operations of the Company. In particular, the Board believes that, due to the Company's size, operations and particular circumstances – including the fact that it is a holding and finance company and does not have any employees or officers other than the Directors and the company secretary – it is not necessary for the Board to establish the remuneration, nomination and board performance evaluation committees (and the related supporting principles and Code Provisions) that are suggested in the Code, and that the function of these committees can efficiently be undertaken by the board itself as necessary. It should also be noted that the Board's performance is subject to ongoing evaluation and scrutiny of the Board itself (the majority of which is composed by independent non-executive Directors), the Company's shareholder and the market. The shareholders approve the remuneration paid to the directors at the annual general meeting.

The Board

The Board is responsible for devising a strategy, setting policies and the management of the Company. It is also responsible for reviewing internal control procedures, financial performance and business risks facing the Company. The Board is also responsible for ensuring that its operations are in conformity with all relevant rules and regulations. Directors meet regularly, mainly to review the operational and financial performance of the Company, any significant matters arising, and to review internal control processes. Board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting documents, which are circulated in advance of the meeting. All the directors have access to independent professional advice at the Company's expense should they so require and frequently make use of this facility on various issues.

The Company has in place systems whereby the directors obtain timely information from the executive management teams of its subsidiaries, not only at meetings of the Board but at regular intervals or when the need arises.

The Board is currently composed of two executive and three independent non-executive directors, as listed below.

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

The Company Secretary of the Company is Ganado Services Limited (C 10785)

Statement of Compliance with Corporate Governance Code - continued

Internal Controls & Risk Management Systems in relation to Financial Reporting

The Board is responsible for designing, implementing and maintaining internal controls and risk management systems that it deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for reviewing their effectiveness. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In particular, systems and procedures are in place for the Company to control, report, monitor and assess risks and their financial implications, and to take timely corrective actions where necessary, and for the Board to be kept informed in a structured and systematic manner on the operational and financial performance of the Company. Regular financial budgets and strategic plans are prepared, and performance against these plans is actively monitored and reported to the directors on a regular basis. All financial information and forecasts are reviewed by multiple parties as well as the Board to ensure accuracy.

The monitoring of these controls and systems has been delegated to the Audit Committee (as described below). The Board and Audit Committee are satisfied with the effectiveness of the Company's system of internal controls and risk management systems.

Audit Committee

The Board established an Audit Committee (the "Committee") in 2019 to assist the Board in fulfilling its supervisory and monitoring responsibilities. The Committee operates according to detailed terms of reference established by the Board that reflect the requirements of the Listing Rules as well as current good corporate governance best practices. These terms of reference establish its composition, role, responsibilities and function, the parameters of its remit, as well as the basis for the processes that it is required to comply with. The Committee, which is required to meet at least four times a year, is a sub-committee of the Board and is directly responsible and accountable to the Board.

The primary purpose of the Committee is to assist the Directors in conducting their role effectively so that the Company's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. Among other responsibilities, the Committee is responsible for monitoring the financial reporting process and monitoring of the effectiveness of the Company's internal controls and risk management systems in relation to the financial reporting of the Company.

The Audit Committee is composed entirely of independent non-executive Directors (each of which satisfies the independence criteria set out in the Listing Rules). All of the members of the Audit Committee are designated as competent in auditing and/or accounting. Mario Galea has been appointed as the Chairman of the Audit Committee.

The Members of the Audit Committee are:

Mario Galea (Chairman)
Benjamin Muscat (Member)
Silke Stenger (Member)

Statement of Compliance with Corporate Governance Code - continued

Remuneration Statement

In terms of the Company's Memorandum and Articles of Association, it is the shareholders of the Company in the General Meeting who determine the maximum annual aggregate remuneration of the directors. The directors received €110,500 in aggregate for services rendered during 2020 in their capacity as directors of the company. No part of the remuneration paid to the directors is performance based. None of the directors, in their capacity as a director of the Company, is entitled to profit sharing, share options or pension benefits.

Approved and signed on behalf of the Board on 29 April 2021 by:

Mario Galea Chairman of the Board and Audit Committee	Martin Ware Director

Independent auditor's report

To the Shareholders of Merkanti Holding p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position of Merkanti Holding p.l.c. as at 31 December 2020, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Merkanti Holding p.l.c.'s financial statements, set out on pages 23 to 121 comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2020;
- the Consolidated and Parent Company income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report - *continued*

To the Shareholders of Merkanti Holding p.l.c.

Independence

We are independent of the group and the parent company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the parent company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the parent company and its subsidiaries, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 36 to the financial statements.

Our audit approach

Overview

- Overall group materiality: €888,200 which represents approximately 1% of total assets.

- The Group is composed of 7 reporting units.
- The Group engagement team carried out the audit of the financial statements of the parent company as well as the audit of the financial statements of all the subsidiaries of the company, except for 2 entities for which specified procedures were performed on material account balances.

- Valuation of the group's investment property.

Independent auditor's report - *continued*

To the Shareholders of Merkanti Holding p.l.c.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	€888,200
How we determined it	Approximately 1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because in our view it is an appropriate measure for the group. We chose 1% which is within the range of materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €88,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

pwc

Independent auditor's report - continued

To the Shareholders of Merkanti Holding p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of the group's investment property The group's investment property portfolio, which is fair valued on an annual basis in accordance with the requirements of the Group's accounting policy, has a carrying amount of €32.6 million as at 31 December 2020. On an annual basis, the Company's Board of directors determines the fair value of the investment property based on external valuations performed by an independent property valuer using appropriate valuation models comprising the comparative value approach for the respective land component and the capitalised income approach for the respective buildings component. The valuation reports are prepared in accordance with the relevant German regulations, namely the German Building Code (Baugesetzbuch, BauGB) and ImmoWertV. ImmoWertV was published by the German authorities, in order to provide a detailed framework for the determination of market values. In view of the limited number of similar comparable properties and property transactions, comprising sales or rentals in the respective markets in which the properties are located, the valuations are carried out using unobservable inputs. Such unobservable inputs include the capitalisation rate, the growth rate for determining maintainable income, expected service life, land and building specific adjustments and the sales price per square metre specifically for the purposes of the comparative value approach.	As part of our audit we performed the following procedures: • We engaged our own in-house experts to review the valuation approach adopted and the underlying assumptions applied in the property valuations in order to assess the reasonableness of the estimated fair value for the properties. • We evaluated the competence of the external valuer, which included due consideration of qualifications and expertise. • We verified that the requirements underlying the valuation regulations used for the purposes of compiling valuation reports for the group's properties are consistent with the parameters outlined by the Royal Institution of Chartered Surveyors' ('RICS') Valuation, Global Standards (2017), which are in line with the requirements of IFRS 13, 'Fair value measurement'. • With respect to comparable land values, we verified that adequate adjustments have been applied to standard sales prices in view of the lack of comparability within the land classification. • We confirmed that the market rates applied in the valuation model to determine maintainable income are consistent with the average rental rates generated by the group for the respective properties. • We ensured that the capitalisation rates applied by the valuer fall within benchmark market averages attributable to the region of the respective properties.

Key audit matter	How our audit addressed the Key audit matter
The valuation of the group's investment property is inherently subjective principally due to the judgemental nature of the factors mentioned above and the assumptions used in the underlying valuation models. The significance of the estimates and judgements involved warrants specific audit focus in this area. In addition, this year, the risk of estimation uncertainty has been exacerbated by the effects of COVID-19 on property markets around the world. Hence, the extent of judgement and the carrying amount of investment property in the context of the Company's consolidated statement of financial position resulted in this matter being identified as an area of audit focus. Relevant references in the Annual Report and Financial Statements: – Accounting policy: Note 1.8; – Note on non-financial instruments measured at fair value: Note 2.8; and – Note on investment property: Note 10.	• We assessed whether administration costs are adequately considered, whether maintenance expenses applied in the valuation of the property reflect the age of the property and any equipment in use, whether rental failure costs are adequately taken into account, and whether the remaining useful life takes cognisance of the property location, state of construction and possible future economic environment. • We also ensured that object-specific costs such as costs of repairs, renovation and preparation of exterior facilities, together with marketing costs for vacancy periods, are appropriately factored into the valuations. • We assessed the mathematical accuracy of the calculations underlying each fair valuation within the valuation reports. As part of our work, we have taken cognisance of the prevailing economic and market conditions resulting from the uncertainty brought about by the COVID-19 pandemic. In this respect, we have considered the impact that any rental concessions granted to tenants during the year may have had on the reasonableness of the maintainable income assumed within the valuation and critically assessed the extent to which the effects of the pandemic have impacted the capitalisation rate which is determined on the basis of comparable properties in the same geographical region. Based on our work, we concluded that the group's property estimated fair values determined by the independent valuer were within an acceptable range of values.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

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Independent auditor's report - continued

To the Shareholders of Merkanti Holding p.l.c.

How we tailored our group audit scope

The group is composed of 7 reporting units. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industries in which the group operates.

The group audit team performed all of this work by applying the overall group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the consolidated financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, and the Statement of Compliance with Corporate Governance Code (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the Report on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the parent company's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the parent company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the group's and parent company's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report - *continued*

To the Shareholders of Merkanti Holding p.l.c.

Report on other legal and regulatory requirements

The Annual Report and Consolidated Financial Statements 2020 contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the Other information section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report and Consolidated Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 1 to 7) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Independent auditor's report - *continued*

To the Shareholders of Merkanti Holding p.l.c.

Report on other legal and regulatory requirements - continued

Area of the *Annual Report and Consolidated Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
Statement of Compliance with Corporate Governance Code (on pages 8 to 10) The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in the Annual Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Listing Rules. The Statement's required minimum contents are determined by reference to Listing Rule 5.97. The Statement provides explanations as to how the Company has complied with the provisions of the Code, presenting the extent to which the Company has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.	We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Listing Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements. We are also required to assess whether the Statement of Compliance includes all the other information required to be presented as per Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.	In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority. We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the Other information section.

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Independent auditor's report - *continued*

To the Shareholders of Merkanti Holding p.l.c.

Report on other legal and regulatory requirements - continued

Area of the *Annual Report and Consolidated Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us. • the financial statements are not in agreement with the accounting records and returns. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit. We also have responsibilities under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Parent Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Independent auditor's report - continued

To the Shareholders of Merkanti Holding p.l.c.

Appointment

We were first appointed as auditors of the company on 22 August 2018. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years. The company became listed on a regulated market on 16 August 2019.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Fabio Axisa
Partner

29 April 2021

Statements of financial position

		Group		Company	
		As at 31 December			
	Notes	**2020**	2019	**2020**	2019
		€	€	**€**	€
ASSETS					
Balances with Central Bank of Malta and cash	4	**12,371,996**	10,407,301	**-**	-
Loans and advances to banks and other financial institutions	5	**3,944,081**	16,886,346	**7,495,181**	5,053,822
Loans and advances to customers	6	**10,790,149**	3,799,749	**-**	-
Financial assets measured at fair value through profit or loss	7	**6,993,848**	5,172,449	**267,180**	-
Financial assets measured at fair value through other comprehensive income	8	**7,059,549**	6,047,646	**-**	-
Investment in subsidiaries	9	**-**	-	**50,582,087**	50,369,346
Investment property	10	**32,587,000**	35,140,000	**-**	-
Property, plant and equipment	11	**316,933**	229,715	**97,306**	120,854
Intangible assets	12	**17,883**	25,324	**-**	-
Right-of-use assets	13	**583,595**	680,181	**573,083**	650,860
Other receivables	14	**12,435,413**	10,806,180	**21,695,765**	20,015,072
Deferred tax assets	15	**368,649**	-	**49,428**	-
Accrued income and other assets	16	**1,675,912**	1,769,575	**1,519,067**	1,407,126
Total assets		**89,145,008**	90,964,466	**82,279,097**	77,617,080

Statements of financial position - continued

		Group		Company	
		As at 31 December			
	Notes	**2020**	2019	**2020**	2019
		€	€	**€**	€
EQUITY AND LIABILITIES					
Capital and reserves attributable to owners of the parent					
Share capital	17	**50,020,000**	50,000,000	**50,020,000**	50,000,000
Contribution reserve	18	**2,540,000**	2,540,000	**2,540,000**	2,540,000
Fair value reserve	19	**90,027**	50,335	**-**	-
Translation reserve		**(9,599)**	-	**-**	-
(Accumulated losses)/Retained earnings		**(1,321,222)**	(1,423,652)	**331,589**	(297,223)
		51,319,206	51,166,683	**52,891,589**	52,242,777
Non-controlling interests	20	**1,828,475**	1,878,245	**-**	-
Total equity		**53,147,681**	53,044,928	**52,891,589**	52,242,777
Liabilities					
Borrowings	21	**24,380,571**	24,287,159	**27,980,571**	24,287,159
Derivative liabilities	22	**368,149**	64,952	**368,149**	-
Lease liabilities	13	**623,768**	683,141	**612,036**	652,664
Amounts owed to customers	23	**6,985,729**	10,216,459	**-**	-
Deferred tax liabilities	15	**2,133,404**	1,995,557	**-**	-
Current tax liabilities		**383,161**	-	**-**	-
Other payables	24	**582,704**	178,605	**62,334**	101,147
Accrued expenses and other liabilities	25	**539,841**	493,665	**364,418**	333,333
Total liabilities		**35,997,327**	37,919,538	**29,387,508**	25,374,303
Total equity and liabilities		**89,145,008**	90,964,466	**82,279,097**	77,617,080

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 121 were authorised for issue by the board on 29 April 2021 and were signed on its behalf by:

Mario Galea
Chairman

Martin Ware
Executive Director

Income statements

		Group		Company	
		Year ended 31 December			
	Notes	**2020**	2019	**2020**	2019
		€	€	**€**	€
Interest and similar income	27	**1,463,378**	652,981	**1,283,157**	558,662
Interest and similar expense	28	**(1,239,951)**	(427,193)	**(1,183,148)**	(378,275)
Net interest income		**223,427**	225,788	**100,009**	180,387
Fee and commission income	29	**758,211**	2,222,486	**11,150**	404,180
Fee and commission expense	29	**(6,051)**	(1,653)	**-**	(147,800)
Net fee and commission income		**752,160**	2,220,833	**11,150**	256,380
Rental income from investment property	30	**1,996,018**	2,156,201	**70,991**	-
Changes in the fair value of investment property	10	**484,662**	2,069,000	**-**	-
Realised gains on disposal of investment properties	10	**126,884**	-	**-**	-
Net trading gains	31	**777,250**	749,411	**556,386**	-
Realised gains on disposal of financial assets measured at fair value through other comprehensive income		**45,666**	8,958	**-**	-
Revenue from customer contracts	32	**3,003,530**	-	**-**	-
Dividend income	33	**-**	-	**1,423,500**	-
Other operating income	34	**531,114**	104,813	**498,287**	-
Total operating income		**7,940,711**	7,535,004	**2,660,323**	436,767
Cost of sales in respect of revenue from customer contracts	36	**(2,487,576)**	-	**-**	-
Changes in expected credit losses	35	**(58,374)**	(90,612)	**-**	-
Net operating income		**5,394,761**	7,444,392	**2,660,323**	436,767
Administrative expenses	36	**(5,042,670)**	(4,123,727)	**(2,080,889)**	(446,198)
Profit/(loss) before tax		**352,091**	3,320,665	**579,434**	(9,431)
Tax (expense)/income	37	**(222,931)**	(404,315)	**49,378**	(1,200)
Profit/(loss) for the year		**129,160**	2,916,350	**628,812**	(10,631)
Profit attributable to:					
Owners of the parent		**102,430**	2,595,373		
Non-controlling interests	20	**26,730**	320,977		
		129,160	2,916,350		

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

Statements of comprehensive income

	Note	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
		Year ended 31 December			
Profit/(loss) for the year		**129,160**	2,916,350	**628,812**	(10,631)
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Translation differences		**(9,599)**	-	-	-
Fair valuation of financial assets measured at fair value through other comprehensive income					
Net changes in fair value arising during the year, before tax	8	**85,358**	(43,387)	-	-
Reclassification adjustments - net amounts reclassified to profit or loss, before tax	8	**(45,666)**	(8,958)	-	-
Other comprehensive income for the year, net of tax		**30,093**	(52,345)	-	-
Total comprehensive income for the year		**159,253**	2,864,005	**628,812**	(10,631)
Total comprehensive income attributable to:					
Owners of the parent		**132,523**	2,543,028		
Non-controlling interests	20	**26,730**	320,977		
		159,253	2,864,005		

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Notes	Attributable to owners of the parent					Non-controlling interests	Total equity
		Share capital	Contribution reserve	Fair value reserve	Accumulated losses	Total		
		€	€	€	€	€	€	€
Balance at 1 January 2019		**50,000,000**	**2,540,000**	**102,680**	**(4,019,025)**	**48,623,655**	**5,202,619**	**53,826,274**
Comprehensive income								
Profit for the year		-	-	-	2,595,373	2, 595,373	320,977	2,916,350
Other comprehensive income:								
Fair valuation of financial asset measured at fair value through other comprehensive income								
Net changes in fair value arising during the year, net of tax	8	-	-	(43,387)	-	(43,387)	-	(43,387)
Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	8	-	-	(8,958)	-	(8,958)	-	(8,958)
Total comprehensive income		**-**	**-**	**(52,345)**	**2,595,373**	**2,543,028**	**320,977**	**2,864,005**
Transactions with owners in their capacity as owners:								
Reduction in non-controlling interests from acquisition of additional stakes in subsidiaries	20	-	-	-	-	-	(3,645,351)	(3,645,351)
Transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**(3,645,351)**	**(3,645,351)**
Balance at 31 December 2019		**50,000,000**	**2,540,000**	**50,335**	**(1,423,652)**	**51,166,683**	**1,878,245**	**53,044,928**

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

Statements of changes in equity - continued

Group	Notes	Attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Contribution reserve	Fair value reserve	Translation reserve	Accumulated losses	Total		
		€	€	€	€	€	€	€	€
Balance at 1 January 2020		**50,000,000**	**2,540,000**	**50,335**	**-**	**(1,423,652)**	**51,166,683**	**1,878,245**	**53,044,928**
Comprehensive income									
Profit for the year		-	-	-	-	102,430	102,430	26,730	129,160
Other comprehensive income:									
Translation differences		-	-	-	(9,599)	-	(9,599)	-	(9,599)
Fair valuation of financial assets measured at fair value through other comprehensive income									
Net changes in fair value arising during the year, net of tax	8	-	-	85,358	-	-	85,358	-	85,358
Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	8	-	-	(45,666)	-	-	(45,666)	-	(45,666)
Total comprehensive income		**-**	**-**	**39,692**	**(9,599)**	**102,430**	**132,523**	**26,730**	**159,253**
Transactions with owners in their capacity as owners:									
Issue of ordinary shares		20,000	-	-	-		20,000	-	20,000
Dividends paid to non-controlling interests in subsidiaries	20	-	-	-	-	-	-	(76,500)	(76,500)
Transactions with owners in their capacity as owners		**20,000**	**-**	**-**	**-**	**-**	**20,000**	**(76,500)**	**(56,500)**
Balance at 31 December 2020		**50,020,000**	**2,540,000**	**90,027**	**(9,599)**	**(1,321,222)**	**51,319,206**	**1,828,475**	**53,147,681**

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

Statements of changes in equity - continued

Company

	Share capital €	Contribution reserve €	Accumulated losses/ Retained earnings €	Total €
Balance at 1 January 2019	**50,000,000**	**2,540,000**	**(286,592)**	**52,253,408**
Comprehensive income				
Profit for the year	-	-	(10,631)	(10,631)
Balance at 31 December 2019	**50,000,000**	**2,540,000**	**(297,223)**	**52,242,777**
Balance at 1 January 2020	**50,000,000**	**2,540,000**	**(297,223)**	**52,242,777**
Comprehensive income				
Profit for the year	-	-	628,812	628,812
Transactions with owners in their capacity as owners				
Issue of ordinary shares	20,000	-	-	20,000
Balance at 31 December 2020	**50,020,000**	**2,540,000**	**331,589**	**52,891,589**

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

Statements of cash flows

Group		As at 31 December	
	Notes	**2020** **€**	2019 €
Interest, commission, rental and other income received		**3,837,581**	4,657,987
Cash receipts from customers		**2,633,878**	-
Interest and commission expense paid		**(1,123,269)**	(70,141)
Cash payments to employees and suppliers		**(6,325,472)**	(4,264,440)
Cash flows (used in)/generated from operating activities before changes in operating assets and liabilities		**(977,282)**	323,406
Changes in operating assets and liabilities:			
Net increase in loans and advances to customers	6	**(7,047,944)**	(1,234,843)
Increase in loans and advances to customers measured at fair value through profit or loss	7	**(792,600)**	-
Increase in litigation funding assets measured at fair value through profit or loss	7	**(1,454,927)**	-
Net increase in other receivables	14	**(758,825)**	(5,128,710)
Increase in Reserve deposit with Central Bank	4	**(53,969)**	(58,043)
Net decrease/(increase) in other assets	16	**62,850**	(114,492)
Net (decrease)/increase in amounts owed to customers	23	**(3,230,730)**	6,497,597
Net increase/(decrease) in other payables	24	**2,076**	(76,368)
Net decrease in other liabilities	25	**(71,657)**	(74,511)
Net cash (used in)/generated from operating activities		**(14,323,008)**	134,036
Cash flows from investing activities			
Acquisition of additional stakes in subsidiaries		**-**	(3,645,351)
Purchase of investments measured at fair value through profit or loss	7	**(646,903)**	(1,430,254)
Purchase of investments measured as at fair value through other comprehensive income	8	**(4,177,610)**	(3,091,919)
Purchase of investments measured as at amortised cost		**-**	(1,110,425)
Proceeds from disposal of investments measured at fair value through profit or loss	7	**2,364,558**	-
Proceeds from disposal of investments measured at fair value through other comprehensive income	8	**3,188,157**	1,000,000
Proceeds from disposal of investments measured at amortised cost		**-**	1,110,000
Proceeds from disposal of investment properties	10	**3,164,546**	-
Purchase of property, plant and equipment	11	**(200,447)**	(199,303)
Net cash generated from/(used in) investing activities		**3,692,301**	(7,367,252)
Cash flows from financing activities			
Proceeds from borrowings, net of issue costs	21	**-**	24,261,804
Principal element of lease payments	13	**(155,446)**	(60,595)
Paid-up share capital during the year	17	**5,000**	-
Net cash (used in)/generated from financing activities		**(150,446)**	24,201,209
Net movement in cash and cash equivalents		**(10,781,153)**	16,967,993
Effect of exchange rate changes on cash and cash equivalents		**(251,940)**	(70,652)
Cash and cash equivalents at beginning of year	38	**27,242,743**	10,345,402
Cash and cash equivalents at end of year	38	**16,209,650**	27,242,743

Statements of cash flows - continued

Company	Notes	As at 31 December 2020 €	2019 €
Interest, commission, rental and other income received		**630,975**	137,000
Interest and commission expense paid		**(1,062,891)**	(167,387)
Dividends received	33	**1,423,500**	-
Cash payments to suppliers		**(1,876,402)**	(641,808)
Cash flows used in operating activities before changes in operating assets and liabilities		**(884,818)**	(672,195)
Changes in operating assets and liabilities:			
Net increase in other receivables	14	**(260,732)**	(769,984)
Net decrease/(increase) in other assets	16	**160,747**	(56,152)
Net increase in other payables	21, 24	**3,526,305**	64,964
Net increase/(decrease) in other liabilities	25	**30,435**	(2,159)
Net cash from/(used in) operating activities		**2,571,937**	(1,435,526)
Cash flows from investing activities			
Advances to subsidiaries	14	**-**	(14,000,000)
Acquisition of additional stakes in subsidiaries	9	**-**	(3,645,351)
Purchase of property, plant and equipment	11	**(1,189)**	(123,440)
Net cash used in investing activities		**(1,189)**	(17,768,791)
Cash flows from financing activities			
Proceeds from borrowings, net of issue costs	21	**-**	24,261,804
Principal element of lease payments	13	**(134,389)**	(3,665)
Paid-up share capital during the year	17	**5,000**	
Net cash (used in)/from financing activities		**(129,389)**	24,258,139
Net movement in cash and cash equivalents		**2,441,359**	5,053,822
Cash and cash equivalents at beginning of year	38	**5,053,822**	-
Cash and cash equivalents at end of year	38	**7,495,181**	5,053,822

The notes on pages 32 to 121 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements include the financial statements of Merkanti Holding p.l.c ("the Company") and its subsidiary undertakings (together referred to as "the Group"). These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371) enacted in Malta. They have been prepared under the historical cost convention, as modified by the fair valuation of financial assets and financial liabilities measured at fair value through profit or loss including derivative financial instruments, financial assets measured at fair value through other comprehensive income, and investment property.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the Group's accounting policies (see Note 3 – Critical accounting estimates and judgements).

Assessment of going concern assumption

Having satisfied themselves on the financial position and performance of the Group, the Directors have a reasonable expectation that the Company and the Group will continue in operational existence for the foreseeable future.

In determining the appropriateness of the going concern assumption in the preparation of the financial statements, the Directors have considered the impact that the COVID-19 outbreak has had on the results of the Group, which predominantly slowed down the Group's generation of fee income from merchant banking services. Nevertheless, during the second half of 2020, the Group entered into a merchant banking agreement which should give rise to the Group recognising fee income over the next 12 months in line with the levels recognised prior to 2020.

Accordingly, the Directors consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of these financial statements.

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Group adopted amendments to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies impacting the Group's financial performance and position.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning after 1 January 2020. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's Directors are of the opinion that there are no requirements that will have possible significant impact on the Group's financial statements in the period of initial application.

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. The accounting policies of the subsidiaries are consistent with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1. **Summary of significant accounting policies** - continued

1.2 Consolidation - continued

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests, where the acquisition or disposal of partial interests in a subsidiary has no impact on the Group's ability to govern the subsidiary's financial and operating policies, as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Group companies

The results and financial position of foreign operations of the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follow:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets

1.4.1 Initial recognition and measurement

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Accordingly, the Group uses trade date accounting for regular way contracts when recording financial asset transactions.

At initial recognition, the Group measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1.4.2 Classification and subsequent measurement

The Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets - continued

1.4.2 Classification and subsequent measurement - continued

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

Based on these factors the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 1.5. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading gains/(losses)'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net trading gains/(losses)'. Debt instruments that contain contractual terms that give rise on specified dates to cash flows that are not consistent with a basic lending arrangement and thus fail the solely payments of principal and interest test are 'mandatorily' measured at FVPL. Interest income from these financial assets, including those that are mandatorily measured at FVPL, is included in 'Interest and similar income' using the effective interest rate method.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets - continued

1.4.2 Classification and subsequent measurement – continued

Debt instruments - continued

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition - the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(a) *Business model assessment*

Key management personnel determine the Group's business model by considering the way financial instruments are managed in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management.

1. Summary of significant accounting policies - continued

1.4 Financial assets - continued

1.4.2 Classification and subsequent measurement – continued

Debt instruments - continued

The information that will be considered in such assessment includes:

- the objectives for the portfolio including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- the method for the evaluation of the performance of the portfolio and how such performance is reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Debt securities that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Such debt securities are disclosed within these financial statements as 'Financial instruments designated at fair value through profit or loss'.

(b) *Cash flows that represent solely payment of principal and interest (SPPI)*

In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending agreement. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets - continued

1.4.2 Classification and subsequent measurement - continued

Debt instruments - continued

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

- contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
- leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
- contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and whether the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
- features that modify consideration for the time value of money (for example, periodic reset of interest rates).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal.

Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, are recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the income statement.

1. **Summary of significant accounting policies** - continued

1.5 Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ('ECLs') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowances for such losses at each reporting date. The measurement of ECLs reflects:

i. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
ii. the time value of money; and
iii. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 2.2.3 provides more detail of how the expected credit loss allowance is measured.

Expected credit loss allowances are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- financial instrument with both a drawn and undrawn component, whereby the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position against the carrying amount of the asset because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented within other comprehensive income.

1.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.7 Derivative financial instruments

The Group deploys no hedging strategies that achieve hedge accounting in terms of IFRS 9.

Derivative financial instruments, including currency forward swaps, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values for currency swaps are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

The Group principally uses currency swaps as a hedge of foreign exchange risk thereby entering into commitments to exchange one set of cash flows for another. These derivative transactions provide effective economic hedges under the Group's risk management policies.

1. **Summary of significant accounting policies** - continued

1.7 Derivative financial instruments - continued

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss under 'Net trading gains/(losses)'.

1.8 Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields or for capital appreciation or both and is not occupied by the Group. Investment property also includes property that is being constructed or developed for future use as investment property, when such identification is made.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

These valuations are reviewed annually by professional valuers. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

1. Summary of significant accounting policies - continued

1.8 Investment property - continued

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group decides to dispose of an investment property without development, the Group continues to treat the property as an investment property. Similarly, if the Group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

1.9 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Computer equipment	25
Office improvements and equipment	10-25
Others	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.10 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable (Note 1.11).

1.11 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

1.12 Other receivables

Other receivables comprise amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.5). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1. **Summary of significant accounting policies** - continued

1.13 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.15 Financial liabilities

1.15.1 Initial recognition and measurement

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability.

1. **Summary of significant accounting policies** - continued

1.15 Financial liabilities - continued

1.15.2 Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and
- financial guarantee contracts and loan commitments (see Note 1.17).

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, debt securities in issue together with other liabilities.

1.15.3 Derecognition

The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1. Summary of significant accounting policies - continued

1.16 Other payables

Other payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.17 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are issued by the Group to financial institutions and other entities on behalf of customers to secure micro-loans and other credit related products.

Financial guarantee contracts are initially measured at fair value and subsequently measured at higher of:

- the amount of the loss allowance (calculated as described in Note 1.5); and
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision (Note 35).

1.18 Contingent liabilities

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

1. Summary of significant accounting policies - continued

1.19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'Interest and similar income' and 'Interest and similar expense' in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition - the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset;
- financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

1.20 Fee and commission income and expense

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees and investment management fees are recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

1. Summary of significant accounting policies - continued

1.21 Rental income

Rental income from investment property

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

1.22 Sales of goods and services

Revenue from customer contracts comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Revenues are recognised in accordance with the provision of goods or services, provided that collectability of the consideration is probable.

IFRS 15 requires that at contract inception the goods or services promised in a contract with a customer are assessed and each promise to transfer to the customer the good or service is identified as a performance obligation. Promises in a contract can be explicit or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), i.e. the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. Contract assets, like trade receivables, are subject to impairment for credit risk. The recoverability of contract assets is also verified, especially to cover the risk of impairment should the contract be interrupted.

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from customers or amounts invoiced and paid for goods or services not transferred yet, such as contracts payable in advance or prepaid packages (previously recognised in deferred income).

1. **Summary of significant accounting policies** - continued

1.22 Sales of goods - continued

The Group measures revenue on a basis that reflects the amount of consideration that it expects to be entitled to; this measurement of revenue is however limited to amounts to which the Group has enforceable rights, and it excludes amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation, which occurs when it transfers control of a promised good or service to a customer. Control of a promised good or service is transferred to a customer when the customer is able to direct the use of the promised good or service. A performance obligation is satisfied at a point in time unless it meets certain criteria that indicate that it is satisfied over time.

Management has determined that none of the Group's contracts with customers contain a significant financing component as the period between the recognition of revenue and the payment due date is of less than one year.

1.23 Dividend income

Dividend income is recognised when the right to receive payment is established.

1.24 Other operating income

Other operating income is recognised on an accrual basis unless collectibility is in doubt.

1.25 Leases

The Group is the lessee

The Group has lease agreements in place related to the leases of property used as office space and computer hardware. At the inception of a contract, the Group assesses if the contract is or contains a lease and hence conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For leases of property, the Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease liabilities arising from such contracts are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate, which is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

The Group measures the associated right-of-use assets at an amount equal to the lease liability at the date at which the leased asset is made available for use. The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group elects not to recognise right-of-use assets and lease liabilities for low value leases or leases with a term shorter than 12 months. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

1. Summary of significant accounting policies - continued

1.26 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value less expected credit loss allowances. In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks.

1.27 Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors of the parent company, which is the Group's chief operating decision-maker in accordance with the requirements of IFRS 8, Operating Segments.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available.

2. Financial risk management

2.1 Introduction

The Group's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the entity's financial performance.

The Board of directors oversees credit, market, funding and liquidity, operational and strategic business risks. The Group has developed an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns.

The Group's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Board is responsible for the overall effectiveness of the risk management function, which function is however carried out by all the members of the Group's management.

The Group's treasury function is responsible for managing assets, liabilities and the overall financial position and is also responsible for the management of funding and liquidity risks. The Group's risk oversight function has the overall responsibility for the development of the entity's risk strategy and the implementation of risk principles, framework, policies and related limits.

2.2 Credit Risk

2.2.1 Introduction

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; accordingly, management carefully manages its exposure to this risk. Credit exposures arise principally through the Group's participation in credit loan and receivables transactions, mainly with Scully Royalty Limited or entities within the Scully Royalty group, through the Group's transactions with correspondent banks, and through its investments in debt securities and other exposures arising from its investing activities.

2. **Financial risk management** - continued

2.2 Credit Risk - continued

2.2.1 Introduction - continued

The current financial year has been characterised by unprecedented economic conditions as a result of the COVID-19 outbreak. COVID-19 has severely impacted local economies around the world with measures taken to contain the spread of the virus triggering significant disruptions to businesses worldwide and leading to a global economic slowdown, resulting in a general heightened level of credit risk.

In controlling and mitigating the attributed heightened level of credit risk from the outbreak, the Group assessed its credit exposure from loans and advances to customers as well as its receivables from related parties on a name by name basis to determine any credit deterioration within its portfolio. As at 31 December 2020, credit risk from 95.88% of the Group's loans and advances to customers and other receivables is attributable to Scully Royalty Ltd or entities within the Scully Royalty group, while 4.12% is attributable to third parties.

As at 31 December 2020, the Scully Royalty group had not been adversely affected by the pandemic. Moreover, the third parties to which the Group is exposed have displayed a continued ramp-up in business during 2020 when compared to both 2018 and 2019, and accordingly, did not display any signs of increased credit risk since the outbreak of the COVID-19 pandemic. In addition, as at 31 December 2020, 27.15% of the Group's receivables from third parties are secured by term deposits placed with the Group.

As an indirect impact of COVID-19 on financial markets, the Group incurred fair value losses amounting to €94,560 in respect of a debt securities portfolio that was held principally for the purpose of selling in the near term, and accordingly designated at fair value through profit or loss. These losses were primarily registered during Q1 of 2020, and are recorded in profit or loss within 'Net trading gains'.

2.2.2 Credit risk measurement

The measurement of credit exposure for risk management purposes considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to Note 2.2.3 for more details.

The Group's financial assets primarily comprise the following three portfolios upon which credit risk is assessed: investments in debt securities, loans and advances to banks and other financial institutions and loans and advances to/receivables from related parties. Where published ratings are issued by external rating agencies, such as Standard & Poor's, Fitch and Moody's, mainly in respect of issuers of debt securities and other companies, the Group refers to such ratings to

2. Financial risk management - continued

2.2.2 Credit risk measurement - continued

determine the probability of default of individual counterparties. These published grades are continuously monitored and updated. Where published ratings are not available, a credit risk modelling solution, developed by an external vendor, is used to determine implied credit ratings. Implied credit ratings are determined on the basis of exposure-specific characteristics, including financial performance and qualitative characteristics captured through a scorecard. The implied ratings are calibrated with the rating scales as defined by the recognised external rating agencies, which in turn allow for the determination of the probability of default attributable to each individual unrated counterparty.

In determining the probability of default of individual counterparties, the Group distinguishes between exposures considered 'investment-grade' defined by recognized external rating agencies as a rating between AAA to BBB- (Standard & Poor's, Fitch) and Aaa to Baa3 (Moody's), and 'non-investment grade' exposures.

2.2.3 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

i. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
ii. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit - impaired. Please refer to Note 2.2.3.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
iii. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to Note 2.2.3.2 for a description of how the Group defines credit-impaired and default.
iv. Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 2.2.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
v. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 2.2.3.4 includes an explanation of how the Group has incorporated this in its ECL models.
vi. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

The expected credit loss requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered 'stage 1'. Financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'stage 2' and financial assets for which there is objective evidence of impairment, thus considered to be in default or otherwise credit-impaired, would be classified as 'stage 3'.

2. Financial risk management - continued

2.2.3 Expected credit loss measurement - continued

The Group recognises loss allowances at an amount equal to 12-month ECL for debt securities measured at amortised cost and FVOCI and counterparty banks that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when it is considered 'investment-grade', defined by recognised external rating agencies as a rating between AAA to BBB- (Standard & Poor's and Fitch) and Aaa-Baa3 (Moody's).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired financial assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

2.2.3.1 Significant increase in credit risk

The Group's assessment to determine the extent of increase in credit risk of a financial instrument since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument.

To determine whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Such analysis is based on the Group's historical experience, credit assessment and forward-looking information. A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the counterparty is more than 30 days past due on its contractual repayments.

In the case of certain of its portfolios of financial assets (specifically loans and advances to banks and investments in debt securities), the Group applies the low credit risk simplification to all its exposures considered 'investment-grade', thus they are not subject to the SICR assessment. Moving from 'investment-grade' to 'non-investment grade' does not automatically mean that there has been a SICR.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.2 Definition of default and credit-impaired assets

The Group applies the definition of default in a consistent manner with internal credit risk management practices for the relevant instruments and the definition considers qualitative and quantitative factors where appropriate. The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the criteria below.

The Group determines that a financial instrument is credit-impaired (in default and in stage 3 for IFRS 9 purposes) by considering relevant objective evidence, when it meets one or more of the below criteria:

- contractual payments of either principal or interest are past due for more than 90 days for any material credit obligations to the Group;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons of an enduring nature relating to the borrower's financial condition, which indicates the borrower is in significant financial difficulty (unlikeliness to pay criteria); and
- the loan is otherwise considered to be in default. If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Therefore, the definitions of credit-impaired and default are aligned so that stage 3 represents all loans which are considered defaulted or credit-impaired.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Group's expected loss calculations.

The Group considers certain financial assets, mainly loans and advances to banks and other financial institutions, investments in debt securities and other receivables respectively, to be in default when a payment due (including a coupon payment) is not effected.

2.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). These three components are multiplied together effectively calculating the forward-looking ECL, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

The PD, EAD and LGD parameters are estimated through the use of internally developed statistical models on the basis of market available data, adjusted to reflect forward-looking information as described below.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques - continued

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

Market data is used in order to develop the PDs in respect of the Group's portfolios of financial assets, including loans and advances to banks and other financial institutions, loans and advances to customers and investment securities. If a counterparty or exposure migrates between internal rating grades or external credit ratings, then this will lead to a change in the associated PD.

The conditional PD is adjusted to consider forward-looking information through macroeconomic modelling. In this respect, and as described in further detail in section 2.2.3.4., during the year, PDs used in the calculation of expected credit loss adjustments were re-aligned to reflect the change in macro-economic variables as a result of the COVID-19 pandemic. In particular, PDs adopted during the financial year were adjusted as a result of negative GDP forecasts indicated in the World Economic Outlook forecasts published by the IMF.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is the gross carrying amount at default.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis;
- for revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group 's recent default data.

The Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents expected credit losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral values (if any) at the time it is expected to be realised and the time value of money. The LGD is determined based on the factors which impact the recoveries made post default.

Given that its portfolio of loans and advances to banks and other financial institutions and investments in debt securities is generally unsecured, and in respect of loans and advances to customers, the Group has no history of defaults, the LGD for the Group's exposures is set at levels based on market available data for similar exposure classes.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques - continued

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. In the case of revolving credit facilities, provided that such facilities do not have a fixed term or repayment structure, the Group defines the lifetime of such exposures as 12 months, in case the next substantive credit review is within the next 12 months.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. Refer to Note 2.2.3.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

2.2.3.4 Forward-looking information incorporated in the ECL model

The calculation of ECL incorporates forward-looking information. The Group performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD may vary by portfolio.

In this respect, as part of its methodology for the application of forward looking economic information into the calculation of ECL, the Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments (namely, loans and advances to banks, loans and advances to customers, including loans and advances to group companies and investment securities) and, using an analysis of historical data, has analysed relationships between macro-economic variables, credit risk and credit losses. The key drivers, for both 2019 and 2020, are predominantly EEA-average gross domestic product (GDP) at constant prices and EEA-average terms of trade of goods and services (ToD).

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Three possible scenarios are considered to capture non-linearity across credit portfolios. The 'base line' scenario represents the most-likely outcome. It is based on authoritative sources forecasting these economic variables referred to above and providing the best estimate view of the economy. Apart from the 'base line' scenario, the Group considers two other macro-economic scenarios – Upside and Downside scenarios – which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The more optimistic and more pessimistic scenarios are economically plausible and will not necessarily be as severe as scenarios used in stress testing.

Each scenario is weighted by a probability of occurrence, determined by a combination of macroeconomic research and expert credit judgement, taking account the range of possible outcomes each chosen scenario represents. The Group measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3).

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.4 Forward-looking information incorporated in the ECL model - continued

These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

In response to the outbreak of the COVID-19 pandemic, the Group performed an assessment in order to determine whether the use of the standard framework as described above remains appropriate in light of the extraordinary economic conditions being experienced currently. In the light of the nature of the Group's limited number of exposures, and specifically since credit risk from the Group's loans and advances to customers emanates principally from the credit risk attributable to the Scully Royalty group and from a single third party whose performance improved following the outbreak of the pandemic, management has concluded that the Group's framework remains appropriate.

The following table presents these macro-economic variables referred to above for the following three forecasted years and the probabilities assigned to each of the Central, Upside and Downside scenarios.

Macro-economic variables	ECL Scenario	Probability	2020	2021	2022	2023
EEA-average gross	Base	50%	-7.51%	2.33%	2.41%	2.00%
domestic product (GDP)	Upside	25%	-7.01%	2.83%	2.91%	2.50%
at constant prices	Downside	25%	-8.01%	1.83%	1.91%	1.50%
World-average gross	Base	50%	-3.03%	2.33%	2.41%	2.00%
domestic product (GDP)	Upside	25%	-2.53%	2.83%	2.91%	2.50%
at constant prices	Downside	25%	-3.53%	1.83%	1.91%	1.50%
EEA-average terms of	Base	50%	0.10%	-0.07%	0.03%	0.01%
trade of goods and	Upside	25%	0.60%	-0.02%	0.53%	0.51%
services (ToD).	Downside	25%	-0.40%	-1.20%	-0.47%	-0.49%

- The 'Base' Scenario reflects the current economic condition (i.e. recession) in light of the COVID-19 impact;
- The 'Downside' Scenario is based on subdued economic activity assuming that the economic recession, and consequently GDP, will decline up to 50 basis points from the base scenario; and
- The 'Upside' Scenario is based on the assumption that economic recovery will be better than anticipated leading to a 50 basis point improvement in forecasted GDP from the base case.

The weightings assigned to each economic scenario were 50% for the 'Base' scenario, 25% for the 'Downside' scenario and 25% for the 'Upside' scenario, for both 2018 and 2019. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The economic scenarios were simulated over a full economic cycle.

The Board, after taking into account the impact of COVID-19, considers that the above probability weightings assigned to the respective scenarios reflect an unbiased evaluation of range of possible outcomes.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.4 Forward-looking information incorporated in the ECL model - continued

As with any macro-economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of uncertainty and therefore, the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

As at 31 December 2020, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the baseline and downside scenarios described above for the loan portfolio, applying a 100% weighting to each scenario.

In this respect, if the ECL outcome was estimated solely on the basis of the base and downside scenarios respectively, the credit loss allowances in respect of the loan portfolios would amount to €138,282 and €172,193, compared to a weighted average credit loss allowances estimated at year end amounting to €142,662. In view of this, as at 31 December 2020, the sensitivity impact was not considered to be significant.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an ongoing basis.

2.2.4 Maximum exposure to credit risk

An 'exposure' is defined as the amount at risk arising from the Group's assets and off-balance sheet items. The Group's maximum credit risk with respect to on- and off-balance sheet items can be classified into the following categories:

- Financial assets recognised on-balance sheet comprising principally investments in debt securities and loans and advances to banks, customers and group companies. The maximum exposure to credit risk of these financial assets equals their gross carrying amounts.

- Financial guarantee contracts entered into on behalf of third parties. Such exposures are deemed to carry the same credit risk as loans and advances to customers. The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon.

- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner in respect of loans and advances.

The following tables set out the Group's and Company's credit risk exposures, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, as well as an analysis by staging classification:

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.4 Maximum exposure to credit risk - continued

	Group					
		2020			2019	
	Stage Classification	Gross Exposure €	ECL Allowance €	Stage Classification	Gross Exposure €	ECL allowance €
Credit risk exposures relating to on-balance sheet assets:						
Financial assets measured as FVPL:						
Debt and other non-fixed income securities		559,518	-		2,345,811	-
Litigation funding assets		2,624,550	-		76,638	-
Loans and advances to customers		792,600	-		-	-
Subject to IFRS 9 impairment allowances						
Financial assets measured at FVOCI:						
Debt securities	Stage 1	7,059,549	(428)	Stage 1	6,047,646	(2,107)
Financial assets measured at amortised cost:						
Balances with Central Bank of Malta	Stage 1	12,370,996	-		10,406,301	-
Loans and advances to banks and other financial institutions	Stage 1	3,949,666	(5,585)	Stage 1	16,893,485	(7,139)
Loans and advances to customers	Stage 1	10,932,811	(142,662)	Stage 1	3,884,867	(85,118)
Other receivables	Stage 1	12,533,678	(98,265)	Stage 1	10,904,445	(98,265)
Accrued income and other assets	Stage 1	1,380,485	-	Stage 1	1,149,129	-
Credit risk exposure		**52,203,853**	**(246,940)**		51,708,322	(192,629)

	Company					
		2020			2019	
	Stage Classification	Gross Exposure €	ECL allowance €	Stage Classification	Gross Exposure €	ECL allowance €
Credit risk exposures relating to on-balance sheet assets:						
Subject to IFRS 9 impairment allowances						
Financial assets measured at amortised cost:						
Loans and advances to banks and other financial institutions	Stage 1	7,495,181	-	Stage 1	5,053,822	-
Other receivables	Stage 1	21,794,030	(98,265)	Stage 1	20,015,072	(98,265)
Accrued income and other assets	Stage 1	1,408,444	-	Stage 1	923,014	-
Credit risk exposure		**30,697,655**	**(98,265)**		25,991,908	(98,265)

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.4 Maximum exposure to credit risk - continued

As part of its litigation funding activities, the Group could be a creditor of, and subject to direct or indirect credit risk from, a claimant, a defendant, both or other parties. Accordingly, litigation funding assets are considered by the Group to be subject to credit risk.

As at 31 December 2020 and 31 December 2019, there were no purchased or credit-impaired assets which are subject to the IFRS 9 impairment requirements.

Debt securities measured at FVOCI as at 31 December 2020 consisted of Malta Government Stock (MGS), as well as securities issued by a local credit institution. Debt securities measured at FVOCI as at 31 December 2019 consisted of Malta Government Stock (MGS), as well as securities issued by a local credit institution and a foreign corporate. The credit loss allowances in respect of MGS debt securities were deemed insignificant.

2.2.5 Credit concentration risk

Within the Group, concentration risk of losses results from inadequate diversification of the credit exposures. This risk is managed by actively measuring, reporting and monitoring on a regular and ongoing basis risk concentration levels against reasonable thresholds for counterparties, products, and territories.

In order to manage its principal risk exposures arising from its financial assets, primarily its loans and advances to customers, the Group compiles and updates credit review reports in respect of these financial assets. Where available, reference is also made to external reviews of primary borrowers.

Credit concentration risk by geographical region

The geographical concentration of the Group's and Company's financial assets as at the end of the reporting period is analysed below. For the purposes of the table below, the Group has allocated exposures to regions based on the country of domicile of the respective counterparties or customers.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Credit concentration risk - continued

	Group				Company			
	Malta	Other EU countries	Rest of world	Total	Malta	Other EU countries	Rest of world	Total
	€	€	€	€	€	€	€	€
As at 31 December 2020								
Financial assets measured at FVPL	-	3,417,150	559,518	3,976,668	-	-	-	-
Financial assets measured at FVOCI	7,059,549	-	-	7,059,549	-	-	-	-
Balances with Central Bank of Malta	12,370,996	-	-	12,370,996	-	-	-	-
Loans and advances to banks and other financial institutions	3,155,526	788,324	231	3,944,081	7,495,181	-	-	7,495,181
Loans and advances to customers	-	-	10,790,149	10,790,149	-	-	-	-
Other receivables	-	62,549	12,372,864	12,435,413	14,942,461	-	6,753,304	21,695,765
Accrued income and other assets	68,058	100,610	1,211,817	1,380,485	550,102	-	858,342	1,408,444
	22,654,129	**4,368,633**	**24,934,579**	**51,957,341**	**22,987,744**	**-**	**7,611,646**	**30,599,390**
As at 31 December 2019								
Financial assets measured at FVPL	-	774,721	1,647,728	2,422,449	-	-	-	-
Financial assets measured at FVOCI	5,509,736	537,910	-	6,047,646	-	-	-	-
Balances with Central Bank of Malta	10,406,301	-	-	10,406,301	-	-	-	-
Loans and advances to banks and other financial institutions	732,551	16,153,795	-	16,886,346	214,786	4,839,036	-	5,053,822
Loans and advances to customers	-	15,000	3,784,749	3,799,749	-	-	-	-
Other receivables	-	131,108	10,675,072	10,806,180	14,000,000	-	6,015,072	20,015,072
Accrued income and other assets	60,493	279,802	808,834	1,149,129	252,485	267,180	403,349	923,014
	16,709,081	**17,892,336**	**16,916,383**	**51,517,800**	**14,467,271**	**5,106,216**	**6,418,421**	**25,991,908**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Credit concentration risk - continued

Credit concentration risk by industry sector

Loans and advances to customers, gross of allowances, are analysed by industry concentration as follows:

	Group 2020	Group 2019
	€	€
Electricity, gas, steam and air conditioning supply	-	227,879
Financial and insurance activities	**2,650,000**	2,665,000
Activities related to mining lease royalties	**7,763,602**	-
Wholesale and retail	**519,209**	413,388
Professional, scientific and technical activities	-	578,600
	10,932,811	3,884,867

Other receivables, gross of allowances, are analysed by industry concentration as follows:

	Group 2020	Group 2019	Company 2020	Company 2019
	€	€	€	€
Financial and insurance activities	**11,386,986**	10,773,337	**10,654,578**	10,515,072
Industrial, commercial and service Companies	**777,040**	131,108	**11,139,452**	9,500,000
Wholesale and retail	**369,652**	-	-	-
	12,533,678	10,904,445	**21,794,030**	20,015,072

Credit concentration risk by name

The majority of Group's and Company's lending exposures comprised of exposures to entities within the Scully Royalty Group. As at 31 December 2020, 95.88% (2019: 99.01%) of the Group's loans and advances to customers and other receivables is attributable to Scully Royalty Ltd or entities within the Scully Royalty Group, while 4.12% is attributable to third parties. Despite, the high level of exposure towards the Scully Royalty Group, the Group has determined that as at 31 December 2020, its exposures are fully performing and do not show any signs of increased credit risk.

As at 31 December 2020, 99.93% (2019: 100%) of Company's other receivables is attributable to Scully Royalty Ltd or entities within the Scully Royalty Group.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Information on credit quality of other financial assets

In the normal course of business, the Group places funds, carries out transactions and enters into forward foreign exchange contracts mainly with listed international banks and local banks with a strong credit standing, subject to the application of a limit framework.

As part of its treasury management activities the Group invests in listed sovereign bonds issued by local and foreign governments, in listed debt securities issued by foreign credit institutions and in other debt securities. These transactions are monitored through the practical use of exposure limits.

External ratings such as Moody's ratings or their equivalents are used for monitoring these credit risk exposures.

At the end of the reporting period, none of the Group's financial assets which are subject to the IFRS 9 impairment requirements were past due or impaired.

The following table shows the total carrying amount of debt securities held by the Group analysed by credit rating based on Moody's equivalent ratings:

At 31 December 2020	Central government	Institutions	Corporates	Total
	€	€	€	€
A1 to A3	6,948,549	-	-	6,948,549
Not rated	-	111,000	-	111,000
Total	**6,948,549**	**111,000**	**-**	**7,059,549**

At 31 December 2019	Central government	Institutions	Corporates	Total
	€	€	€	€
A1 to A3	4,941,236	-	-	4,941,236
Baa1 to Baa3	-	568,500	-	568,500
Ba1 to B3	993,901	-	537,911	1,531,812
Caa1 to C	653,826	-	-	653,826
Total	**6,588,963**	**568,500**	**537,911**	**7,695,374**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.7 Loss allowances

Reconciliation of 12-month and lifetime ECL provision

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- transfers between 'Stage 1' and 'Stage 2' or 'Stage 3' due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL – albeit, no stage transfers have occurred during neither 2020 not 2019;
- additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models. In this respect, the effect on ECL of any movements in gross carrying or notional amounts are included in the table below as 'changes to risk parameters';
- impacts on the measurement of ECL due to changes made to models and assumptions;
- discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis in case of Stage 3 exposures;
- foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- financial assets written off during the period and write-offs of allowances related to assets that were written off during the period.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.7 Loss allowances - continued

Reconciliation of 12-month and lifetime ECL provision - continued

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period for the Group:

	Group 2020 Stage 1 12-month ECL €
Loans and advances to banks and other financial institutions at amortised cost	
Loss allowance as at 1 January 2020	7,139
Additional allowance attributable to financial assets originated during the year	5,260
Changes to risk parameters (model inputs PDs/LGDs/EADs)	(1,042)
Impact of derecognition of assets	(5,772)
Total net P&L impact during the year	**(1,554)**
Loss allowance as at 31 December 2020	**5,585**
Loans and advances to customers at amortised cost	
Loss allowance as at 1 January 2020	85,118
Additional allowances for new loans and advances	52,740
Changes to risk parameters (model inputs PDs/LGDs/EADs)	23,716
Impact of derecognition of assets	(14,849)
Total net P&L charge during the year	**61,607**
Changes due to foreign exchange movements	(4,063)
Loss allowance as at 31 December 2020	**142,662**
Other receivables	
Loss allowance as at 1 January 2020	98,265
Total net P&L charge during the year	**-**
Loss allowance as at 31 December 2020	**98,265**
Debt securities measured at FVOCI	
Loss allowance as at 1 January 2020	2,107
Additional allowances for new debt securities	329
Impact of derecognition of assets	(2,008)
Total net P&L impact during the year	**(1,679)**
Loss allowance as at 31 December 2020	**428**

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.7 Loss allowances - continued

	Group 2019 Stage 1 12-month ECL €
Loans and advances to banks and amortised other financial institutions at cost	
Loss allowance as at 1 January 2019	-
Changes to risk parameters (model inputs PDs/LGDs/EADs)	7,139
Total net P&L charge during the year	**7,139**
Loss allowance as at 31 December 2019	**7,139**
Loans and advances to customers at amortised cost	
Loss allowance as at 1 January 2019	4,034
Additional allowances for new loans and advances	33,854
Changes to risk parameters (model inputs PDs/LGDs/EADs)	47,512
Total net P&L charge during the year	**81,366**
Changes due to foreign exchange movements	(282)
Loss allowance as at 31 December 2019	**85,118**
Other receivables	
Loss allowance as at 1 January 2019	98,265
Total net P&L charge during the year	-
Loss allowance as at 31 December 2019	**98,265**
Debt securities measured at FVOCI	
Loss allowance as at 1 January 2019	-
Additional allowances attributable to acquired debt securities	2,008
Changes to risk parameters (model inputs PDs/LGDs)	99
Total net P&L charge during the year	2,107
Loss allowance as at 31 December 2019	**2,107**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.7 Loss allowances - continued

Changes in the gross carrying amount that contributed to changes in loss allowance

The following table explains changes in the gross carrying amount or fair value of the financial assets to help explain their significance to the changes in the loss allowance for the same portfolios as discussed above.

	Group 2020 Stage 1 12-month ECL €
Loans and advances to banks and financial institutions at amortised cost	
Gross carrying amount as at 1 January 20	16,893,485
New financial assets originated during the year	3,121,956
Changes in gross carrying amounts during the year	(5,574,600)
Derecognition of assets during the year	(10,491,175)
Gross carrying amount as at 31 December 2020	**3,949,666**
Loans and advances to customers at amortised cost	
Gross carrying amount as at 1 January 2020	3,884,867
New financial assets originated or purchased	7,763,602
Changes in gross carrying amounts during the year	(122,057)
Derecognition of assets during the year	(593,601)
Gross carrying amount as at 31 December 2020	**10,932,811**
Other receivables	
Gross carrying amount as at 1 January 2020	10,904,445
New financial assets originated or purchased	1,615,580
Changes in gross carrying amounts during the year	13,653
Gross carrying amount as at 31 December 2020	**12,533,678**
Debt securities measured at FVOCI	
Fair value as at 1 January 2020	6,047,646
Purchases and fair value changes	4,214,435
Derecognition of assets during the year	(3,202,532)
Fair value as at 31 December 2020	**7,059,549**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.7 Loss allowances - continued

	Group 2019 Stage 1 12-month ECL €
Loans and advances to banks and other financial institutions at amortised cost	
Gross carrying amount as at 1 January 2019	10,344,402
Changes in gross carrying amounts during the year	6,549,083
Gross carrying amount as at 31 December 2019	**16,893,485**
Loans and advances to customers at amortised cost	
Gross carrying amount as at 1 January 2019 2019	2,650,025
New financial assets originated or purchased	1,006,988
Changes in gross carrying amounts during the year	227,854
Gross carrying amount as at 31 December 2019	**3,884,867**
Other receivables	
Gross carrying amount as at 1 January 2019	7,869,280
New financial assets originated or purchased	4,660,000
Derecognition of assets during the year	(1,624,835)
Gross carrying amount as at 31 December 2019	**10,904,445**
Debt securities measured at FVOCI	
Fair value as at 1 January 2019	4,053,115
Purchases and fair value changes	3,017,300
Derecognition of assets during the year	(1,022,769)
Fair value as at 31 December 2019	**6,047,646**

Changes in gross carrying amount arising from foreign-exchange and other movements were not deemed significant.

The Company's loans and advances to banks and other financial institutions and other receivables as at 31 December 2020 approximate the amounts as at 31 December 2019. As a result, the ECL in respect of these balances as at 31 December 2020 remained in line with that as at 31 December 2019.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Write-off policy

The Group writes off financial assets when it determines that these are uncollectible, it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This is generally the case when the Group determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs.

2.3 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

(a) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the respective group entity's functional currency.

The Group manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. To the extent that such matching is not possible, the Group hedges its open foreign exchange exposures by entering into foreign exchange forward contracts with terms matching those of the hedged items.

2. Financial risk management - continued

2.3 Market risk - continued

The following tables summarise the Group's exposure to foreign currency risk at 31 December. Included in the tables are the Group's financial instruments at carrying amounts, categorised by currency.

		Group	
	EUR	Other currencies	Total
	€	€	€
As at 31 December 2020			
Financial assets			
Financial assets measured at FVPL	3,417,150	3,576,698	6,993,848
Financial assets measured at FVOCI	7,059,549	-	7,059,549
Balances with Central Bank of Malta	12,370,996	-	12,370,996
Loans and advances to banks and other financial institutions	1,260,432	2,683,649	3,944,081
Loans and advances to customers	10,292,668	497,481	10,790,149
Other receivables	12,065,761	369,652	12,435,413
Accrued interest income and other assets	1,378,926	1,559	1,380,485
Total financial assets	**47,845,482**	**7,129,039**	**54,974,521**
Financial liabilities			
Borrowings	24,380,571	-	24,380,571
Lease liabilities	623,768	-	623,768
Amounts owed to customers	2,834,000	4,151,729	6,985,729
Other payables	255,411	327,293	582,704
Accrued interest payable and other liabilities	539,841	-	539,841
Derivative liabilities	368,149	-	368,149
Total financial liabilities	**29,001,740**	**4,479,022**	**33,480,762**
Net on-balance sheet position	**18,843,742**	**2,650,017**	

2. Financial risk management - continued

2.3 Market risk - continued

(a) Foreign exchange risk - continued

	EUR €	Group Other currencies €	Total €
As at 31 December 2019			
Financial assets			
Financial assets measured at FVPL	76,638	5,095,811	5,172,449
Financial assets measured at FVOCI	5,509,735	537,911	6,047,646
Balances with Central Bank of Malta	10,406,301	-	10,406,301
Loans and advances to banks	14,346,035	2,540,311	16,886,346
Loans and advances to customers	2,613,822	1,185,927	3,799,749
Other receivables	10,806,180	-	10,806,180
Accrued interest income and other assets	1,101,536	47,593	1,149,129
Total financial assets	**44,860,247**	**9,407,553**	**54,267,800**
Financial liabilities			
Borrowings	24,287,159	-	24,287,159
Lease liabilities	683,141	-	683,141
Amounts owed to customers	6,420,284	3,796,175	10,216,459
Other payables	178,605	-	178,605
Accrued interest payable and other liabilities	558,617	-	558,617
Total financial liabilities	**32,127,806**	**3,796,175**	**35,923,981**
Net on-balance sheet position	**12,732,441**	**5,611,378**	
Net on-balance sheet position	**12,732,441**	**5,611,378**	
Notional of derivative financial instruments	-	(528,914)	
Residual exposure	**12,732,441**	**5,082,464**	

The net exposure to foreign exchange rates as at 31 December 2020 and 2019 arises principally in respect of securities which are denominated in US$. Although these securities are equity in nature, they have still been included within the above tables, since movements in the foreign currency component of these financial instruments is presented in profit or loss as part of any fair value movements. Under the scenario that the euro appreciates against the USD from 1.2271 to 1.4271 (2019: 1.1234 to 1.3234) the impact recognised in profit or loss would amount to a loss of €422,841 (2019: €415,595). If on the other hand, the euro depreciates against the USD to 1.0000 the impact recognised in profit or loss would amount to a profit of € 685,202 (2019: €339,350).

Typically, the Company does not take on any exposure to foreign currency transactions. As at 31 December 2020 the Company's only exposure to foreign currencies is by virtue of its investment in securities of a related party denominated in US$. As at 31 December 2019 the Company only had one immaterial exposure in respect of receivables denominated in USD.

2. Financial risk management - continued

2.3 Market risk - continued

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates either through the re-pricing of floating rate instruments or through the maturity and replacement of fixed rate instruments. Fair value interest rate risk is the risk that the value of a fixed rate financial instrument will fluctuate because of changes in market interest rates. The Group's exposures analysed by their fixed or floating nature as at 31 December is shown below:

	Group		
	Floating Rates €	**Fixed rates €**	**Total €**
At 31 December 2020			
Interest-bearing assets			
Financial assets measured at FVPL:			
Loans and advances to customers	-	792,600	792,600
Financial assets measured at FVOCI:			
Debt securities	-	7,059,549	7,059,549
Financial assets measured at amortised cost:			
Balances with Central Bank of Malta and cash	12,370,996	-	12,370,996
Loans and advances to banks and other financial institutions	1,260,432	-	1,260,432
Loans and advances to customers	3,074,236	7,715,913	10,790,149
Other receivables	-	10,552,727	10,552,727
	16,705,664	**26,120,789**	**42,826,453**
Interest-bearing liabilities			
Borrowings	-	24,380,571	24,380,571
Lease liabilities	-	623,768	623,768
	-	**25,004,339**	**25,004,339**
Net exposure	**16,705,664**	**1,116,450**	**17,822,114**

2. Financial risk management - continued

2.3 Market risk - continued

(b) Interest rate risk - continued

	Floating Rates €	Group Fixed rates €	Total €
At 31 December 2019			
Interest-bearing assets			
Financial assets measured at FVPL:			
Debt securities	-	1,647,728	1,647,728
Financial assets measured at FVOCI:			
Debt securities	-	6,047,646	6,047,646
Financial assets measured at amortised cost:			
Balances with Central Bank of Malta and cash	10,406,301	-	10,406,301
Loans and advances to banks	16,886,346	-	16,886,346
Loans and advances to customers	3,217,322	567,427	3,784,749
Other receivables	-	9,762,954	9,762,954
	30,509,969	**18,025,755**	**48,535,724**
Interest-bearing liabilities			
Borrowings	-	24,287,159	24,287,159
Lease liabilities	-	683,141	683,141
Amounts owed to customers	-	2,324,661	2,324,661
	-	**27,294,961**	**27,294,961**
Net exposure	**30,509,969**	**(9,269,206)**	**21,240,763**

As at 31 December 2020 and 2019, the remaining balance in respect of financial asset measured at FVPL, loans and advances to banks and other financial institutions, other receivables, and amounts owed to customers, are non-interest bearing and accordingly are not included in the above table.

Financial instruments issued at fixed rates potentially expose the Group to fair value interest rate risk. Loans and advances to customers, other receivables, borrowings and amounts owed to customers are measured at amortised cost and are therefore not subject to fair value interest rate risk, even though a substantial part of these instruments are subject to fixed interest rates.

The Group's instruments which are subject to fixed interest rates and that are fair valued comprise principally the Group's debt securities measured at FVOCI and loans and advances to customers measured at FVTPL. This exposes the Group to the risk of losses arising from fair value interest rate risk. The Group manages its interest rate risk by using sensitivity analysis utilising modified duration, which measures the potential loss in market value arising from a 200 basis-point upward parallel shift in yields, as required by banking regulatory and industry practices. The estimated impact of an immediate 200 basis point increase in yields as at 31 December 2020 on the fair valuation of the Group's fixed rate securities amounts to a loss of €0.14m (2019: €0.20m).

Financial assets and liabilities issued at variable rates expose the Group to cash flow interest rate risk. As outlined above, the Group was also exposed to cash flow interest rate risk principally in respect of certain financial assets that were subject to floating interest rates.

2. **Financial risk management** - continued

2.3 Market risk - continued

(b) Interest rate risk - continued

Taking cognisance of the nature of the Group's financial assets as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Group's net floating rate assets.

At the end of the reporting period, if interest rates had increased by 1% (assuming a parallel shift of 100 basis points in yields, which is deemed more relevant for the measurement of cashflow interest rate risk) with all other variables held constant, in particular foreign currency exchange rates, the pre-tax result for the year would increase by €0.16m (2019: increase by €0.25m). Taking into account the current low interest rate environment at 31 December 2020, the Group does not expect interest rates to decrease by a further 100 basis points. Accordingly, the disclosure relating to an assumed decrease in interest rates by a 100 basis points is not deemed necessary.

The Company's exposures analysed by their fixed or floating nature as at 31 December is shown below:

		Company	
	Floating Rates €	Fixed rates €	Total €
At 31 December 2020			
Interest-bearing assets			
Loans and advances to banks and other financial institutions	3,003	-	3,003
Amounts due from the ultimate parent company	-	5,892,727	5,892,727
Amounts due from subsidiaries	-	14,000,000	14,000,000
	3,003	**19,892,727**	**19,895,730**
Interest-bearing liabilities			
Borrowings	-	24,287,159	24,287,159
Lease liabilities	-	612,036	612,036
	-	**24,899,195**	**24,899,195**
Net exposure	**3,003**	**(5,006,468)**	**(5,003,465)**

As at 31 December 2019, 'Amounts due from the ultimate parent company' includes a revolving credit facility amounting to €5,102,954 which is subject to a fixed interest rate of 6% and the 'Amounts due from subsidiaries' include subordinated loans amounting to €14,000,000 bearing interest at fixed rates ranging from 4% to 6.5%. The Company's payables as at 31 December 2019 include €25 million Secured Bonds which are subject to 4% fixed interest rate. These instruments are carried at amortised cost.

In the context of the above, the Company's exposure to interest rate risk as at 31 December 2020 and 2019 is not considered significant. Accordingly, a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

2. **Financial risk management** - continued

2.3 Market risk - continued

(b) Interest rate risk - continued

The following table summarises the Group's exposures to interest rate risk. It includes the Group's principal financial instruments at carrying amounts, categorised by re-pricing dates, taking cognisance of the instruments' interest rate terms. The re-pricing period in respect of the Group's interest-bearing assets and liabilities subject to fixed interest rates is equivalent to the remaining period to maturity.

			Group		
	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2020					
Financial assets					
Financial assets measured at FVPL	-	-	-	792,600	792,600
Financial assets measured at FVOCI	-	-	619,740	6,439,809	7,059,549
Balances with Central Bank of Malta	12,370,996	-	-	-	12,370,996
Loans and advances to banks	1,260,432	-	-	-	1,260,432
Loans and advances to customers	-	497,481	-	10,292,668	10,790,149
Other receivables	10,552,727	-	-	-	10,552,727
	24,184,155	**497,481**	**619,740**	**17,525,077**	**42,826,453**
Financial liabilities					
Borrowings	-	-	-	24,380,571	24,380,571
Lease liabilities	36,562	95	108,700	478,411	623,768
	36,562	**95**	**108,700**	**24,858,982**	**25,004,339**
Interest rate gap	**24,147,593**	**497,386**	**511,040**	**(7,333,905)**	
Cumulative gap	**24,147,593**	**24,644,979**	**25,156,019**	**17,822,114**	

2. Financial risk management - continued

2.3 Market risk - continued

(b) Interest rate risk - continued

	Group				
	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2019					
Financial assets					
Financial assets measured at FVPL	-	-	-	1,647,728	1,647,728
Financial assets measured at FVOCI	-	568,500	-	5,479,146	6,047,646
Balances with Central Bank of Malta	10,406,301	-	-	-	10,406,301
Loans and advances to banks	16,886,346	-	-	-	16,886,346
Loans and advances to customers	227,793	390,708	3,166,248	-	3,784,749
Other receivables	4,660,000	-	5,102,954	-	9,762,954
	32,180,440	**959,208**	**8,269,202**	**7,126,874**	**48,535,724**
Financial liabilities					
Borrowings	-	-	-	24,287,159	24,287,159
Lease liabilities	38,887	-	91,674	552,580	683,141
Amounts owed to customers	2,324,661	-	-	-	2,324,661
	2,363,548	**-**	**91,674**	**24,839,739**	**27,294,961**
Interest rate gap	**29,816,892**	**959,208**	**8,177,528**	**(17,712,865)**	
Cumulative gap	**29,816,892**	**30,776,100**	**38,953,628**	**21,240,763**	

As at 31 December 2020, all of the Group's 'Other receivables' (2019: €4,660,000) are repayable on demand.

(c) Price risk

The Group's and Company's exposure to equity securities price risk arises from investments held by the Group measured at FVPL, which as at 31 December 2020 predominantly included equity securities in a related party, valued at €3,017,180 (2019: €2,750,000) for the Group and €267,180 for the Company. In view of the carrying amount of these investments in the context of the Group's and Company's total assets, the directors have determined that the exposure to price risk from these investments is not considered significant. Accordingly, a sensitivity analysis for equity price risk disclosing how profit or loss and equity would have been affected by changes in variables that would impact the value of these instruments at the end of the reporting period is not deemed necessary, as the directors are of the opinion that the net impact would be insignificant.

2. Financial risk management - continued

2.4 Other risk attributable to financial assets that are mandatorily measured at FVTPL

The Group's financial instruments that are mandatorily measured at fair value through profit or loss comprise of:

- The Group's equity investment in the ordinary shares issued by a related party;
- A fixed income loan that has a profit participation feature enabling the Group to participate in any profit earned as a result of the activity being financed;
- Debt-like instruments issued by special purpose vehicles set up specifically to finance certain litigation claims; and
- Direct litigation funding assets.

The Group's equity investment is exposed to equity price risk, as referred to within part (c) of section 2.3 Market risk.

The loan with a profit participation feature is exposed to both credit risk as well as interest rate risk, by virtue of a fixed interest rate element within the contractual agreement. These risks are assessed as part of the Group's credit risk and interest rate risk management frameworks and considered within the respective disclosures in sections 2.2 and 2.3 respectively. In addition, the Group is also exposed to model risk, which is the potential for adverse consequences from business decisions informed by models.

Funding of legal claims is undertaken by the Group both directly, in which the Group, through its subsidiary Merkanti Diesel Ltd, provides financing to a portfolio of clients to fund costs associated with opening legal claims against defendants, and indirectly, in which the Group subscribes to securities issued by special purpose vehicles set up specifically to finance certain litigation claims. In order to manage this risk, the Group typically seeks to provide financing for groups of homogenous cases thereby ensuring that its risk is adequately diversified, leading to a lower risk of loss generally associated with multi-case portfolios. In addition, the Group seeks to finance cases that have relatively short tenors, which are typically are settled within one or two years.

In this respect, the directors have determined that in view of the immateriality of these assets relative to the Group's asset base, the risks described above are not significant. Accordingly, a sensitivity analysis disclosing the effect of changes to key unobservable inputs is not deemed necessary by the directors.

2. Financial risk management - continued

2.5 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments.

The Group manages this risk by maintaining a strong base of shareholders' capital considering the stage of its operations. The Group manages its asset base with liquidity in mind and monitors future cash flows and changes in available liquidity on a regular basis.

The Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- short term placements with other banks; and
- unencumbered Malta Government stocks amounting to €6,948,549 (2019: €4,941,236) that are readily acceptable as collateral for open market operations with the European Central Bank.

Liquidity is managed by the Group's treasury function through the Group's liquidity management process. Liquidity management includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios underlying the statement of financial position against internal and regulatory requirements as applicable; and
- managing the concentration and profile of debt maturities.

Moreover, sources of liquidity are regularly reviewed by the treasury function to maintain a diversification by provider, product and term. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for short-term liquidity management. Medium-term liquidity management is a regular subject at the meetings of the Board of directors. Built on cash flow projections on a monthly and quarterly basis, the Board steers the medium-term liquidity position of the Group and proactively sets actions to avoid any liquidity gaps.

2. Financial risk management - continued

2.4 Liquidity risk - continued

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity.

	Group				
	Within one month €	Within three months over one month €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2020					
Financial assets					
Financial assets measured at FVPL	-	-	-	1,352,118	1,352,118
Financial assets measured at FVOCI	-	-	619,740	6,439,809	7,059,549
Balances with Central Bank of Malta and other banks	12,258,984	-	-	-	12,258,984
Loans and advances to banks and other financial institutions	3,944,081	-	-	-	3,944,081
Loans and advances to customers	-	497,481	-	10,292,668	10,790,149
Other receivables	11,464,741	121,020	369,652	480,000	12,435,413
Accrued interest income and other assets	1,223,775	6,100	50,000	100,610	1,380,485
	28,891,581	**624,601**	**1,039,392**	**18,665,205**	**49,220,779**
Financial liabilities					
Borrowings	-	-	-	24,380,571	24,380,571
Lease liabilities	36,562	95	108,700	478,411	623,768
Amounts owed to customers	6,985,729	-	-	-	6,985,729
Other payables	341,024	241,680	-	-	582,704
Accrued interest payable and other liabilities	206,108	-	333,733	-	539,841
	7,569,423	**241,775**	**442,433**	**24,858,982**	**33,112,613**
Maturity gap	**21,322,158**	**382,826**	**596,959**	**(6,193,777)**	
Cumulative gap	**21,322,158**	**21,704,984**	**22,301,943**	**16,108,166**	

2. Financial risk management - continued

2.5 Liquidity risk - continued

	Within one month €	Within three months over one month €	Group Within one year but over three months €	More than one year €	Total €
As at 31 December 2019					
Financial assets					
Financial assets measured at FVPL	-	-	-	2,345,811	2,345,811
Financial assets measured at FVOCI	-	568,500	-	5,479,146	6,047,646
Balances with Central Bank of Malta and other banks	10,348,258	-	-	-	10,348,258
Loans and advances to banks	16,886,346	-	-	-	16,886,346
Loans and advances to customers	227,793	390,708	3,166,248	15,000	3,799,749
Other receivables	5,703,226	-	5,102,954	-	10,806,180
Accrued interest income and other assets	647,656	-	6,563	494,910	1,149,129
	33,813,279	**959,208**	**8,275,765**	**8,334,867**	**51,383,119**
Financial liabilities					
Borrowings	-	-	-	24,287,159	24,287,159
Lease liabilities	38,887	-	91,674	552,580	683,141
Amounts owed to customers	10,216,459	-	-	-	10,216,459
Other payables	178,605	-	-	-	178,605
Accrued interest payable and other liabilities	-	162,246	331,419	64,952	558,617
	10,433,951	**162,246**	**423,093**	**24,904,691**	**35,923,981**
Maturity gap	**23,379,328**	**796,962**	**7,852,672**	**(16,569,824)**	
Cumulative gap	**23,379,328**	**24,176,290**	**32,028,962**	**15,459,138**	

As at 31 December 2020 and 2019, the remaining balance of financial assets measured at FVPL relate to non-fixed income securities and equity instruments that have no fixed date of repayment and are accordingly not included in the tables above.

2. Financial risk management - continued

2.5 Liquidity risk - continued

	Company				
	Within one month €	Within three months over one month €	Within year but over three months €	More than one year €	Total €
As at 31 December 2020					
Financial assets					
Loans and advances to banks and other financial institutions	7,495,181	-	-	-	7,495,181
Other receivables	6,290,804	-	924,961	14,480,000	21,695,765
Accrued interest income and other assets	858,342	550,102	-	-	1,408,444
	14,644,327	**550,102**	**924,961**	**14,480,000**	**30,599,390**
Financial liabilities					
Borrowings	-	-	-	27,980,571	27,980,571
Lease liabilities	32,389	-	101,630	478,017	612,036
Other payables	62,334	-	-	-	62,334
Accrued interest payable and other liabilities	30,685	-	333,733	-	364,418
	125,408	**-**	**435,363**	**28,458,588**	**29,019,359**
Maturity gap	**14,518,919**	**550,102**	**489,598**	**(13,978,588)**	
Cumulative gap	**14,518,919**	**15,069,021**	**15,558,619**	**1,580,031**	
As at 31 December 2019					
Financial assets					
Loans and advances to banks	5,053,822	-	-	-	5,053,822
Other receivables	912,118	-	5,102,954	14,000,000	20,015,072
Accrued interest income and other assets	-	519,665	-	403,349	923,014
	5,965,940	**519,665**	**5,102,954**	**14,403,349**	**25,991,908**
Financial liabilities					
Borrowings	-	-	-	24,287,159	24,287,159
Lease liabilities	31,113	-	79,742	541,809	652,664
Other payables	101,146	-	-	-	101,146
Accrued interest payable and other liabilities	-	-	333,333	-	333,333
	132,259	**-**	**413,075**	**24,828,968**	**25,374,302**
Maturity gap	**5,833,681**	**519,665**	**4,689,879**	**(10,425,619)**	
Cumulative gap	**5,833,681**	**6,353,346**	**11,043,225**	**617,606**	

2. Financial risk management - continued

2.5 Liquidity risk - continued

The following table analyses the Group's principal undiscounted cash flows payable under non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	Group					
	Within one month €	Within three months over one month €	Within one year but over three Months €	More than one year €	Total €	Carrying amount €
As at 31 December 2020						
Borrowings	-	-	666,267	30,000,000	30,666,267	24,380,571
Lease liabilities	42,397	100	124,022	505,385	671,904	623,768
Amounts owed to customers	6,985,729	-	-	-	6,985,729	6,985,729
Other payables	341,024	241,680	-	-	582,704	582,704
Accrued interest payable and other liabilities	206,108	-	333,733	-	539,841	539,841
	7,575,258	**241,780**	**1,124,022**	**30,505,385**	**39,446,445**	**33,112,613**
As at 31 December 2019						
Borrowings	-	-	700,000	31,000,000	31,700,000	24,287,159
Lease liabilities	41,037	-	113,488	593,774	748,299	683,141
Amounts owed to customers	10,216,508	-	-	-	10,216,508	10,216,459
Other payables	178,605	-	-	-	178,605	178,605
Accrued interest payable and other liabilities	-	162,246	331,419	-	493,665	493,665
	10,436,150	**162,246**	**1,144,907**	**31,593,774**	**43,337,077**	**35,859,029**

In addition to the above, as at 31 December 2020, the Company has an outstanding derivative liability (Note 22) which is valued at €368,149, the timing of which depends on upon the settlement of certain business, but which is expected to occur within one (1) year from the end of the financial reporting period.

As at 31 December 2020 and 2019, all of the Group's assets, other than for investment property, which is pledged in favour of bond holders (Note 21), are available to support potential future funding and collateral needs.

The Company's principal liabilities comprise borrowings as reflected within the tables above. The differences between the Company's payables, lease liabilities and accruals with respect to those of the Group are deemed immaterial. Accordingly, the Company's undiscounted cash flows payable under non-derivative financial liabilities analysed into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date are principally reflected in the tables.

2. Financial risk management - continued

2.6 Operational risk - continued

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Company's Board of directors is primarily responsible for the development and implementation of policies and procedures to ensure that operational risks are managed effectively.

The Group mitigates the possibility of impact risk events through the implementation of a business continuity plan, which encompasses risk mitigation achieved through back-up information security infrastructures, back-up disaster recovery sites and insurance covers over particular business risks.

Such systems enable the Group to operate on an ongoing basis and limit losses in the event of severe business disruption.

2.7 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amounts of dividends paid to shareholders.

The Group monitors the level of capital on the basis of the ratio of borrowings to total capital. Total borrowings, as shown in the consolidated statement of financial position, consist of the listed bonds issued to the general public (refer to Note 21). Total capital is the aggregate of total equity, as reflected in the consolidated statement of financial position, and borrowings. As at 31 December 2020 and 2019, the Group's total borrowings amounted to €25 million and its total capital amounted to €78 million, consisting of total equity and borrowings. Hence the Group's borrowings/capital ratio at 31 December 2020 and 2019 amounted to 32%.

The Group manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital, computed by reference to amounts reported in the consolidated statement of financial position, is maintained taking cognisance of the Group's respective financial obligations and commitments arising from operational requirements. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the Directors.

One of the Company's principal subsidiaries is a credit institution, which is regulated by the Malta Financial Services Authority. The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above the prescribed minimum level at all times. During the year ended 31 December 2020, the bank has complied with all such externally imposed regulatory capital requirements.

2. Financial risk management - continued

2.8 Fair value of financial instruments and non-financial instruments - continued

Financial instruments measured at fair value - continued

The following table analyses financial instruments that are measured in the statement of financial position at fair value, by level of the following fair value measurement hierarchy. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Group's financial instruments that are measured at fair value.

	Level 1 €	Level 2 €	Level 3 €	Total €
As at 31 December 2020				
Assets				
Financial assets measured at FVPL:				
Non-fixed income instruments	-	-	559,518	559,518
Litigation funding assets	-	-	2,624,550	2,624,550
Equity instruments	-	-	3,017,180	3,017,180
Loans and advances to customers	-	-	792,600	792,600
Financial assets measured at FVOCI:				
Debt and other fixed income instruments	7,059,549	-	-	7,059,549
Total financial assets at fair value	**7,059,549**	**-**	**6,993,848**	**14,053,397**
Liabilities				
Derivative financial instruments	-	-	368,149	368,149
Total financial liabilities at fair value	**-**	**-**	**368,149**	**368,149**
As at 31 December 2019				
Assets				
Financial assets measured at FVPL				
Debt and other fixed income instruments	-	1,647,728	-	1,647,728
Non-fixed income instruments	-	-	698,083	698,083
Litigation funding assets	-	-	76,638	76,638
Equity instruments	-	-	2,750,000	2,750,000
Financial assets measured at FVOCI	5,509,736	537,910	-	6,047,646
Total financial assets at fair value	**5,509,736**	**2,185,638**	**3,524,721**	**11,220,095**
Liabilities				
Derivative financial instruments	-	64,952	-	64,952
Total financial liabilities at fair value	**-**	**64,952**	**-**	**64,952**

There were no transfers between levels 1, 2 and 3 during the year.

2. Financial risk management - continued

2.8 Fair value of financial instruments and non-financial instruments - continued

Financial instruments measured at fair value - continued

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

As at 31 December 2020 and 31 December 2019, instruments included in level 1 principally comprise of debt instruments issued by the Government of Malta and debt instruments issued by local credit institutions which are listed on the Malta Stock Exchange.

(b) Financial instruments in level 2

Fair values of instruments included in level 2 are based on quoted prices but in markets that are not active. As at 31 December 2019, instruments included in level 2 comprises foreign sovereign debt securities and foreign corporate debt securities that were either trading at a significant discount and or had a spread substantially wider than the industry average.

Fair values for the Group's derivative contracts were determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to were determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used were supported by observable market prices or rates since their variables include only data from observable markets. The Group's derivative financial instruments were accordingly categorised as level 2 instruments.

(c) Financial instruments in level 3

Fair values of instruments included in level 3 consist of instruments for which a valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes unlisted equity and debt securities that have failed the solely payments of principal and interest test and are therefore mandatorily measured at fair value. They also include litigation funding assets, which represent financing by the Group to fund a portfolio of homogenous legal cases, as well as a derivative liability which entitles the holder of an option written by Merkanti Holding p.l.c. to buy 36.25% of the shares of Merkanti Diesel Ltd. As a result, the holder of the option, has a claim on the equity of Merkanti Diesel Limited, which is the entity through which the portfolio of legal claims is funded, thereby giving the third party a claim on the net gains recorded by Merkanti Diesel Limited in respect of this portfolio.

In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the instruments held is derived using a range of modelling approaches. Unobservable inputs and assumptions in respect of the loan and debt securities that have failed the SPPI test include cash inflows under different scenarios, the timing of such cashflows, the probability outcomes under the different scenarios and the discount rate.

2. Financial risk management - continued

2.8 Fair value of financial instruments and non-financial instruments - continued

Financial instruments measured at fair value - continued

The fair value of the equity securities held by the Group is derived using the residual income method. The principal unobservable inputs and assumptions in this regard include the revenue growth rate over the explicit period, the in-perpetuity growth rate and the discount rate.

The key unobservable inputs with respect to the litigation funding assets and non-fixed income securities relate to the assumptions in respect of the likelihood of a positive outcome and the potential settlement value, while the unobservable inputs relating to loans and advances to customers that are measured at fair value include the timing of cashflows, the probability outcomes under different scenarios and the discount rate.

The following table presents the changes in level 3 items:

	Non-fixed income securities	Litigation funding assets	Equity instruments €	Loans and advances to customers €	Total €
At 1 January 2019	-	-	-	-	-
Additions/Acquisitions	484,571	76,638	2,750,000	-	3,311,209
Net movement in fair value	212,657	-	-	-	212,657
Foreign exchange adjustments	855	-	-	-	855
At 31 December 2019	**698,083**	**76,638**	**2,750,000**	**-**	**3,524,721**
At 1 January 2020	698,083	76,638	2,750,000	-	3,524,721
Additions/Acquisitions	-	1,454,926	267,180	792,600	2,514,706
Disposals	(82,469)	-	-	-	(82,469)
Net movement in fair value	(34,016)	1,092,986	-	-	1,058,970
Foreign exchange adjustments	(22,080)	-	-	-	(22,080)
At 31 December 2020	**559,518**	**2,624,550**	**3,017,180**	**792,600**	**6,993,848**

There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2020 and 2019.

In view of the immateriality of the Level 3 assets in the context of the Group's balance sheet, the disclosures required in respect of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair values to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary by the directors.

Financial instruments not measured at fair value

Loans and advances to banks and customers as well as other receivables are carried at amortised cost in the statement of financial position. The directors consider the carrying amounts of loans and advances to customers and banks and of the Group's and Company's other receivables to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods.

2. **Financial risk management** - continued

2.8 Fair value of financial instruments and non-financial instruments - continued

Financial instruments measured at fair value - continued

The fair value of amounts owed to customers is also estimated to approximate the amortised cost since they are all repayable at call. With regards to the €25 million 4% Secured Bonds as disclosed under Note 21, the fair value of these liabilities as at 31 December 2020 was €25,002,500 (2019: €25,100,000). These estimates are considered level 1 fair value estimates.

Non-financial instruments measured at fair value

The Group's land and buildings within investment property, were revalued on 31 December 2020 and 2019 by an external valuation expert having appropriate recognised professional qualifications and experience in the location and category of the property being valued.

The Directors have reviewed the carrying amounts of the properties as at 31 December 2020, on the basis of the valuations carried out by the independent property valuers.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites together with their development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

At 31 December 2020 and 2019 the carrying amounts of the Group's investment property was adjusted to reflect the properties' estimated open market value on an individual asset level.

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined above as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

Investment property comprises commercial property leased out as offices and industrial premises to third parties including the Group's related parties (Note 39). All the recurring property fair value measurements at 31 December 2020 and 2019 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels on the date the event or change in circumstances that causes the transfer occurs. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2020 and 2019.

A reconciliation from the opening balance to the closing balance of investment property for recurring fair value measurements is reflected in the table in Note 10.

2. **Financial risk management** - continued

2.8 **Fair value of financial instruments and non-financial instruments** - continued

Non-financial instruments measured at fair value - continued

Valuation processes

The valuations of the properties are performed annually on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

• information provided by the Group which is derived from the Group's financial systems and is subject to the Group's overall control environment; and
• assumptions and valuation models used by the valuers - the assumptions are typically market-related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Executive Officer (CEO) of the Company. This includes a review of fair value movements over the period.

Valuation techniques

The external valuations of the Level 3 investment property have been performed using the comparative value approach for the purpose of valuing land and using the traditional investment method of valuation based on the capitalised maintainable income approach for the purpose of valuing the buildings. The valuations have been performed using the unobservable inputs described below:

(i) Comparative value approach for developed and undeveloped land

Comparable land values per sqm	derived from the Regional Authorities for Survey and Geoinformation covering Saxony-Anhalt as at 31 December 2019.
Other land specific adjustments	object-specific costs and income affecting the ultimate value of the real estate at hand, including decreases in market value of land area affected by any form of contamination.

(ii) Capitalised maintainable income approach for buildings

Maintainable income	the maintainable income is equivalent to the expected income which the valuer expects the property to generate in the foreseeable future, being the gross yield which the property is able to generate less an appropriate level of management costs, including: administrative costs, maintenance expenses and rental failure costs, deemed necessary for the operation of the buildings.
Capitalisation rate	based on average real estate rental yield rates observed by the valuer for comparable properties in the respective regions. Since the properties comprise a mixture of uses, a weighted rental yield was applied by the valuer.

2. Financial risk management - continued

2.8 Fair value of financial instruments and non-financial instruments - continued

Non-financial instruments measured at fair value - continued

Expected service (useful) life	based on the valuer's best estimate of the remaining useful life of the buildings, after taking into consideration the location, the state of construction and possible economic utilisation of the buildings.
Other building specific adjustments	object-specific costs and income affecting the ultimate value of the real estate at hand, including repairs and maintenance costs and vacancy costs.

	At 31 December 2020			
	Fair value €'000	**Valuation technique**	**Significant unobservable input**	**Range of unobservable inputs**
Description by class				
Land	**20,921**	Comparative value approach	Comparable land values per sqm	€10-€20 per sqm
Buildings - current use as third party offices, production and storage facilities	**13,292**	Capitalised maintainable income approach	Maintainable income	€555,000 - €696,000 p.a.
			Capitalisation rate	6.75%-7%
			Expected service (useful) life	10-20 years
Land and building specific adjustments	**(1,626)**			
Total fair value	**32,587**			

2. Financial risk management - continued

2.8 Fair value of financial instruments and non-financial instruments - continued

Non-financial instruments measured at fair value - continued

	At 31 December 2019			
	Fair value €'000	Valuation technique	Significant unobservable input	Range of unobservable inputs
Description by class				
Land	**23,249**	Comparative value approach	Comparable land values per sqm	€10-€20 per sqm
Buildings - current use as third party offices, production and storage facilities	**13,679**	Capitalised maintainable income approach	Maintainable income	€596,000 - €691,000 p.a.
			Capitalisation rate	6.75%-7%
			Expected service (useful) life	10-20 years
Land and building specific adjustments	**(1,788)**			
Total fair value	**35,140**			

The higher the maintainable income per annum and the comparable land value per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate the higher the fair value. The highest and best use of the properties reflected in the tables above is equivalent to their current use.

3. Critical accounting estimates, and judgments in applying accounting policies

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

The directors believe there are no areas involving a higher degree of judgment that have the most significant effect on the amounts recognised in the financial statements; and there are no key assumptions and other key sources of estimation uncertainty relating to estimates that require directors' most difficult, subjective or complex judgments.

4. Balances with Central Bank of Malta and cash

	Group	
	2020	2019
	€	€
Cash in hand	**1,000**	1,000
Balances held with Central Bank of Malta	**12,370,996**	10,406,301
	12,371,996	10,407,301

Balances held with Central Bank of Malta include reserve deposits relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB amounting to €112,012 (2019: €58,043) bearing interest at 0% per annum. Overnight deposits with the Central Bank of Malta amounting to €12,258,984 (2019: €10,348,258) were subject to a negative interest rate of 0.5% per annum.

5. Loans and advances to banks and other financial institutions

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Repayable on call and at short notice	**3,944,081**	16,886,346	**7,495,181**	5,053,822

Loans and advances with a contractual maturity of three months or less are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 38). As at 31 December 2020, an expected credit loss ("ECL") allowance amounting to €5,585 was accounted for in accordance with the requirements of IFRS 9 (2019: €7,139).

6. Loans and advances to customers

	Group 2020 €	2019 €
Gross loans and advances	**10,932,811**	3,884,867
Allowance for credit losses	**(142,662)**	(85,118)
Carrying amount as at 31 December	**10,790,149**	3,799,749

Loans and advances to customers at 31 December 2020 include credit exposures with related parties amounting to €10,413,602 (2019: €3,869,867) prior to ECL, €7,763,602 of which is a result of a purchased receivables transaction exposing the Group to credit risk to a third party.

Movements in expected credit loss allowances during 2020 and 2019 were as follows:

	Group 2020 €	2019 €
At beginning of year	**85,118**	4,034
Change in expected credit losses (Note 35)	**61,607**	81,366
Changes due to foreign exchange movements	**(4,063)**	(282)
At end of year	**142,662**	85,118

7. Financial assets measured at fair value through profit or loss

	Group	
	2020	2019
	€	€
Financial assets designated at fair value through profit or loss		
Debt and other fixed income instruments	**-**	1,647,728
Financial assets mandatorily measured at fair value through profit or loss		
Non-fixed income securities	**559,518**	698,083
Litigation funding assets	**2,624,550**	76,638
Equity instruments	**3,017,180**	2,750,000
Loans and advances to customers	**792,600**	-
	6,993,848	5,172,449
Analysed by issuer:		
- foreign general governments	**-**	1,647,728
- other issuers	**6,993,848**	3,524,721
	6,993,848	5,172,449
Listing status:		
- foreign listed	**-**	1,647,728
- unlisted	**6,993,848**	3,524,721
	6,993,848	5,172,449

The debt and other fixed income instruments held as at 31 December 2019 consisted of USD denominated debt securities issued by foreign sovereigns. These investments were acquired with a view to sell in the short term in anticipation of expected gains from changes in market prices taking cognisance of the purchase price being significantly below par. The investments were disposed of during 2020. The fair value loss resulting on disposal of these investments is included within 'Net trading gains' (Note 31).

As at 31 December 2020, the Group's financial instruments that are mandatorily measured at fair value through profit or loss comprise non-fixed income securities issued by special purpose vehicles set up specifically to finance certain litigation claims, a fixed interest loan that also has a profit participation feature that enables the Group to participate in any profit earned as a result of the activity being financed, and loans advanced to fund litigation claims amounting to €2,624,550 (2019: €76,638). They are mandatorily measured at fair value as they have failed the SPPI test. Financial instruments that are mandatorily measured at fair value through profit or loss also comprise equity securities issued by a related party with a carrying amount of €3,017,180 (2019: 2,750,000).

As at 31 December 2020, the Company's financial instruments that are mandatorily measured at fair value through profit or loss consisted solely of the investment in equity securities issued by a related party with a carrying amount of €267,180.

7. Financial assets measured at fair value through profit or loss - continued

The movement in financial assets measured at fair value through profit or loss is summarised as follows:

	Group 2020 €	2019 €
At 1 January	**5,172,449**	684,179
Additions/Acquisitions	**3,161,610**	3,756,892
Disposals	**(2,364,558)**	-
Net movement in fair value	**998,426**	731,905
Foreign exchange adjustments	**25,921**	(527)
At 31 December	**6,993,848**	5,172,449

Towards the end of 2020, the Company acquired equity securities issued by a related party for a consideration of €267,180. There were no movements in the fair value of these securities between the acquisition date and the end of the reporting period.

8. Financial assets measured at fair value through other comprehensive income

	Group 2020 €	2019 €
Debt and other fixed income instruments	**7,059,549**	6,047,646
Analysed by issuer:		
- local general government	**6,948,549**	4,941,236
- local credit institutions	**-**	568,500
- other issuers	**111,000**	537,910
	7,059,549	6,047,646
Listing status:		
- listed on Malta Stock Exchange	**7,059,549**	5,509,736
- listed elsewhere	**-**	537,910
	7,059,549	6,047,646

8. Financial assets measured at fair value through other comprehensive income - continued

The movement in financial assets measured at fair value through other comprehensive income may be summarised as follows:

	Group	
	2020	2019
	€	€
At 1 January	**6,047,646**	4,053,115
Acquisitions	**4,177,610**	3,091,919
Disposals/redemptions	**(3,188,157)**	(1,000,000)
Amortisation	**(73,152)**	(85,349)
Net fair value movements	**39,692**	(52,345)
Foreign exchange adjustments	**55,910**	40,306
At 31 December	**7,059,549**	6,047,646

As at 31 December 2020, an expected credit loss ("ECL") allowance amounting to €428 was accounted for in accordance with the requirements of IFRS 9 (2019: €2,107).

9. Investments in subsidiaries

	Company	
	2020	2019
	€	€
At 1 January	**50,369,346**	46,722,881
Additions through incorporation	**-**	1,114
Acquisitions of additional stakes in subsidiaries	**-**	3,645,351
Acquisitions from other related parties	**212,741**	-
At 31 December	**50,582,087**	50,369,346

The subsidiaries at 31 December 2020, whose results and financial position affected the figures of the Group, are shown below:

Name of company	**Registered office**
Merkanti Bank Limited	Aragon House Business Centre, Dragonara Road St Julian's, STJ 3140, Malta
Merkanti (A) International Limited	Aragon House Business Centre, Dragonara Road St Julian's, STJ 3140, Malta
Merkanti (D) International Limited	Aragon House Business Centre, Dragonara Road St Julian's, STJ 3140, Malta
Merkanti Diesel Limited	Aragon House Business Centre, Dragonara Road St Julian's, STJ 3140, Malta
Altmark Immobilien Management Gmbh	Sanner Strasse 2 39596 Arneburg, Germany
MFCR Oriental S.A.	Juncal 1378 (1301) Montevideo, Uruguay

9. Investments in subsidiaries - continued

On 28 May 2020, Merkanti Holding p.l.c. entered into a share purchase agreement to acquire 100% of the issued share capital of Altmark Immobilien Mangement GmbH ('AIM') from IEM Service Co. Ltd, a related party, effective from 1 January 2020. AIM provides property management services to Merkanti (A) International Limited and Merkanti (D) International Limited and is incorporated under the Laws of the Germany.

On 1 July 2020, Merkanti Holding p.l.c. entered into a share purchase agreement with IEM Service Co. Ltd, a related party, to acquire 100% of the issued share capital of MFCR Oriental S.A., effective from 1 January 2020. MFCR Oriental S.A. is a company involved in the purchase and re-sale of a specific commodity, incorporated under the Laws of the Uruguay.

1 January 2020 is accordingly considered to be the date upon which control of AIM and MFCR Oriental S.A. was transferred to the Group. Accordingly, these subsidiaries are fully consolidated from 1 January 2020.

Details of the purchase consideration and the net assets acquired are as follows:

	AIM €	MFCR Oriental S.A. €
Purchase consideration in settlement of receivables from a related party	161,940	50,801
Fair value of net assets acquired:		
Loans and advances to banks and other financial institutions	132,857	33,375
Property, plant and equipment	125,833	-
Right-of-use asset	1,488	-
Inventories	-	336,479
Other receivables	37,536	206,694
Accrued income and other assets	3,659	678
Lease liabilities	(1,500)	-
Current tax liabilities	-	(1,519)
Deferred tax liabilities	(7,903)	-
Other payables	(81,840)	(524,906)
Accrued expenses and other liabilities	(48,190)	-
Net identifiable assets acquired	**161,940**	**50,801**

The acquired businesses contributed revenues of €3,199,621 and net loss of €239,374 to the group for the period from 1 January to 31 December 2020.

9. Investments in subsidiaries - continued

On 16 December 2019, Merkanti Diesel Ltd was incorporated, as a fully owned subsidiary of Merkanti Holding p.l.c. Merkanti Diesel Ltd was set up specifically to finance a portfolio of homogenous litigation claims in Germany.

As at 31 December 2020 and 2019, the Company held 100% of the Ordinary shares of Merkanti Diesel Ltd. However, as referred to in more detail in Note 22, during 2020, Merkanti Holding p.l.c. entered into an agreement in which it granted an option to a third party to acquire 435 shares (36.25%) in Merkanti Diesel Ltd. The option is exercisable upon settlement of all litigation claims within the portfolio referred to above at an exercise price of €1.00. Simultaneously, upon the exercise of the option, Merkanti Holding p.l.c. retained the right to re-acquire these shares at the net tangible asset value of Merkanti Diesel Ltd.

During both 2020 and 2019, the Company held 100% of the Ordinary shares of Merkanti Bank Limited.

On 27 December 2019, Merkanti Holding p.l.c. entered into a share purchase agreement to acquire 85% of the issued Ordinary share capital of Merkanti (A) International Limited and 85% of the issued Ordinary share capital of Merkanti (D) International Limited, both being property companies which were incorporated under the Laws of the Marshall Islands at the time. These two property companies were redomiciled to Malta with effect from 8 July 2019. Subsequently and prior to the end of 2019, Merkanti Holding p.l.c. for fiscal and tax planning purposes, determined to increase its interest by a further 9.9% of the issued Ordinary share capital of Merkanti (A) International Limited and a further 9.9% of the issued Ordinary share capital of Merkanti (D) International Limited. Accordingly, as at 31 December 2019, the Company held 94.9% (2018: 85%) of the Ordinary shares of both Merkanti (A) International Limited and Merkanti (D) International Limited.

The consideration in respect of the additional 9.9% investment in these two property companies amounted to €3,645,351, which was equal to the proportionate amount derecognised in non-controlling interests.

	MERKANTI (A) Limited	**MERKANTI (D) Limited**
	€	**€**
Fair value of initial 85% equity holding as at acquisition date	21,646,892	7,834,613
Fair value of additional 9.9% equity holding	2,732,345	913,006
	24,379,237	**8,747,619**

Disclosure of financial information related to non-controlling interests in the Group's activities and cash flows as required by IFRS 12 is not being made on the basis that non-controlling interests are not considered material to the Group.

10. Investment property

	Group 2020 €	Group 2019 €
At 1 January	**35,140,000**	33,071,000
Disposals	**(3,037,662)**	-
Changes in fair value	**484,662**	2,069,000
At 31 December	**32,587,000**	35,140,000

During 2020, the Group disposed of a part of its investment property, in respect of which a profit of €126,884 was realised upon disposal.

The Group's investment property is measured at fair value. The fair value as at 31 December 2020 and as at 31 December 2019 was estimated by an external valuation expert reflecting the actual market state, conditions and circumstances as at the reporting date.

11. Property, plant and equipment

Group

	Computer equipment €	Office improvements and equipment €	Others €	Total €
At 1 January 2019				
Cost	317,429	109,022	19,538	445,989
Accumulated depreciation	(268,192)	(81,623)	(19,538)	(369,353)
Net book amount	49,237	27,399	-	76,636
Year ended 31 December 2019				
Opening net book amount	49,237	27,399	-	76,636
Additions	71,782	127,522	-	199,304
Disposals	(2,749)	-	(18,964)	(21,713)
Depreciation charge	(35,242)	(10,983)	-	(46,225)
Depreciation released on disposals	2,749	-	18,964	21,713
Closing net book amount	85,777	143,938	-	229,715
At 1 January 2020				
Cost	386,462	236,544	574	623,580
Accumulated depreciation	(300,685)	(92,606)	(574)	(393,865)
Net book amount	**85,777**	**143,938**	**-**	**229,715**

11. Property, plant and equipment - continued

Group

	Computer equipment €	Office improvements and equipment €	Others €	Total €
Year ended 31 December 2020				
Opening net book amount	85,777	143,938	-	229,715
Additions	40,561	159,886	-	200,447
Disposals	(3,259)	(38,779)	-	(42,038)
Depreciation charge	(39,018)	(55,592)	-	(94,610)
Depreciation released on disposal	1,082	22,337	-	23,419
Closing net book amount	**85,143**	**231,790**	**-**	**316,933**
At 31 December 2020				
Cost	423,764	357,651	574	781,989
Accumulated depreciation	(338,621)	(125,861)	(574)	(465,056)
Net book amount	**85,143**	**231,790**	**-**	**316,933**

Company

	Office improvements and equipment €
Year ended 31 December 2019	
Opening net book amount	-
Additions	123,440
Depreciation charge	(2,586)
Closing net book amount	**120,854**
At 1 January 2020	
Cost	123,440
Accumulated depreciation	(2,586)
Net book amount	**120,854**
Year ended 31 December 2020	
Opening net book amount	120,854
Additions	1,189
Depreciation charge	(24,737)
Closing net book amount	**97,306**
At 31 December 2020	
Cost	124,629
Accumulated depreciation	(27,323)
Net book amount	**97,306**

12. Intangible assets

Group

	Computer software €
At 1 January 2019	
Cost	263,238
Accumulated amortisation	(226,763)
Net book amount	36,475
Year ended 31 December 2019	
Opening net book amount	36,475
Amortisation charge	(11,151)
Closing net book amount	25,324
At 31 December 2019	
Cost	263,238
Accumulated amortisation	(237,914)
Net book amount	**25,324**
Year ended 31 December 2020	
Opening net book amount	25,324
Amortisation charge	(7,441)
Closing net book amount	**17,883**
At 31 December 2020	
Cost	263,238
Accumulated amortisation	(245,355)
Net book amount	**17,883**

13. Right-of-use assets and lease liabilities

The Group and the Company lease computer hardware and office space. The lease contracts are for fixed periods but have extension options. In this respect, the extension periods have been included in determining lease terms.

Leases are recognised as a right-of-use ('ROU') asset and a corresponding liability at the date at which the leased asset is available for use by the Group. The right-of-use asset is recognised at an amount equal to the lease liability at the date at which the leased asset is made available for use, and subsequently depreciated till the earlier of the end of the useful life or the ROU asset or the end of the lease term.

As at 31 December 2020, the Group does not have leases with contract terms shorter than one year and leases of low-value items, for which the Group has elected not to recognise right-of-use assets.

Right-of-use-assets		**Group**		**Company**
	2020	2019	**2020**	2019
	€	€	**€**	€
At 1 January	**680,181**	-	**650,860**	-
Impact of adoption of IFRS 16	**-**	87,407	**-**	-
Additions	**69,054**	656,329	**67,566**	656,329
Depreciation	**(165,640)**	(63,555)	**(145,343)**	(5,469)
At 31 December	**583,595**	**680,181**	**573,083**	**650,860**

The carrying amounts of the ROU asset in respect of office premises has not been disclosed separately from the ROU asset in respect of computer hardware since the lease in respect of computer hardware is not deemed significant.

The lease liabilities were initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, which represents the rate that the Company or its subsidiaries would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The movement in lease liabilities is analysed below:

		Group		**Company**
	2020	2019	**2020**	2019
	€	€	**€**	€
At 1 January	**683,141**	87,407	**652,664**	-
Additions	**69,066**	656,329	**67,566**	656,329
Interest expense on lease liability	**27,007**	7,208	**26,195**	2,168
Principal element of lease payments	**(155,446)**	(67,803)	**(134,389)**	(5,833)
At 31 December	**623,768**	683,141	**612,036**	652,664

13. Right-of-use assets and lease liabilities - continued

Lease liabilities are split into maturity groupings as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Current	**145,357**	130,561	**134,019**	110,855
Non-current	**478,411**	552,580	**478,017**	541,809
At 31 December 2020	**623,768**	683,141	**612,036**	652,664

The income statement reflects the following amounts relating to leases:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Depreciation charge of right-of-use-assets	**165,640**	63,555	**145,343**	5,469
Interest expense	**27,007**	7,208	**26,195**	2,168
Lease termination expenses	**-**	141,207	**-**	-

The total cash payments for leases of the Group in 2010 was €209,010, of which €141,207 is related to a property lease which was entered into during 2019 and which was terminated prior to the end 2019.

14. Other receivables

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Trade receivables	**432,201**	131,108	**-**	-
Amounts due from ultimate parent company	**11,386,986**	10,773,337	**6,137,078**	6,113,337
Amounts due from other related parties	**699,491**	-	**699,491**	-
Amounts due from subsidiaries	**-**	-	**14,942,461**	14,000,000
Amount due from a shareholder	**15,000**	-	**15,000**	-
	12,533,678	10,904,445	**21,794,030**	20,113,337
Allowance for credit losses	**(98,265)**	(98,265)	**(98,265)**	(98,265)
	12,435,413	10,806,180	**21,695,765**	20,015,072

Amounts due from the ultimate parent company consist of a revolving credit facility granted by the Company amounting to €5,892,727 (2019: €5,102,954) which is subject to an interest rate of 8.25% (2019: 6%), and a loan amounting to €244,351 (2019: €1,010,383) which is repayable on demand and is not subject to interest. At Group level, amounts due from the ultimate parent also include a loan amounting to €4,660,000 (2019: €4,660,000) granted by a subsidiary which is repayable on demand and subject to an interest rate of 7.375% and receivables amounting to 589,908 which is repayable on demand and is not subject to interest.

14. Other receivables - continued

Amounts due from subsidiaries include the provision of subordinated loans amounting to €14,000,000 bearing interest at rates ranging between 5% and 6.5% (2019: 4% and 6.5%) and receivables amounting to €942,461 which not subject to interest.

As at 31 December 2020, amounts due from other related parties are repayable on demand and not subject to interest.

15. Deferred taxes

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts determined after appropriate offsetting are shown in the statement of financial position:

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Deferred tax assets	**368,649**	-	**49,428**	-
Deferred tax liabilities	**(2,133,404)**	(1,995,557)	-	-
	(1,764,755)	(1,995,557)	**49,428**	-

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (2019: 35%) in relation to the Maltese jurisdiction, being the effective tax rate at Company level, and 15.825% (2019: 15.825%) in respect of the German fiscal authority.

Under Maltese corporate income tax rules, refunds are available to shareholders of Maltese companies following the distribution of profits to the shareholders. The 'standard' refund amounts to six-sevenths of the tax paid in Malta, resulting in a net post-refund effective tax rate in Malta typically amounting to 5%. This effective tax rate has been utilised for the purpose of the consolidated financial information.

Deferred tax assets and liabilities are attributable to the following:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Unremitted earnings	**319,221**	-	-	-
Unabsorbed tax losses	**49,428**	-	**49,428**	-
Fair valuation of properties	**(2,133,404)**	(1,995,557)	-	-
	(1,764,755)	(1,995,557)	**49,428**	-

15. Deferred tax - continued

The deferred tax liability relates predominantly to deferred tax liabilities arising on the investment properties of the Group's subsidiaries Merkanti (A) International Limited and Merkanti (D) International Limited.

The deferred tax liability is calculated on the difference between the balance sheet value of the investment property, being the fair value as per the external valuation report, less the tax cost as stipulated by the local German GAAP, which would be the capital gain recognised upon the sale of these assets. This difference is multiplied by the German tax rate of 15.825%.

These two companies were redomiciled to Malta with effect from 8 July 2019, and as a result became subject to Maltese income tax.

For Maltese income tax purposes, any unrealised fair value gains derived from the revaluation of the investment properties of the Group's subsidiaries Merkanti (A) International Limited and Merkanti (D) International Limited should also result in a deferred tax liability. Such deferred tax liability should be calculated by multiplying the fair value gains, being the difference between the value of the immovable properties as at year end less their cost of acquisition, with the standard corporate rate of tax in Malta of 35%.

However, for Maltese income tax purposes, in terms of Article 4A of the Maltese Income Tax Act (Chapter 123, Laws of Malta), there is an election for immovable properties to be deemed to be assets acquired by the companies on the date of their redomiciliation to Malta at a cost which is deemed to be their market value as at that date.

Furthermore, when calculating the capital gain for Maltese income tax purposes derived upon the future transfer of any of the immovable properties, the companies are able to claim relief from tax suffered in Germany by way of a tax credit against the Maltese income tax liability, if any. As a result, as at 31 December 2020 and 2019, no tax liability is expected to arise in Malta over the foreseeable future and accordingly the German tax rate remains suitable for determining the Group's deferred tax liability in this respect.

The deferred tax asset in respect of unremitted earnings arises as a result of profits earned by Merkanti Diesel Ltd, and is calculated as the difference between the Maltese corporate income tax rate of 35% to which the profits earned by Merkanti Diesel Ltd are subject, and the effective tax rate of 5% at consolidated level, which difference represents the amount of the Malta tax refund available to Merkanti Holding p.l.c. following a dividend distribution by Merkanti Diesel Ltd. This tax asset has not been offset against current tax liabilities arising in respect of profits earned by Merkanti Diesel Ltd as the balances are not expected to be settled on a net basis.

The deferred tax asset amounting to €49,428 pertains to unabsorbed tax losses of the Company as at 31 December 2020.

The recognised deferred tax asset and liabilities are expected to be recovered or settled after more than 12 months from the end of the reporting period.

15. Deferred tax - continued

The movements in deferred tax assets and liabilities, which are all recognised in profit or loss, are analysed below:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
As at 1 January	**(1,995,557)**	-	-	-
Deferred tax liabilities arising from acquisitions of subsidiaries	-	(1,671,397)	-	-
Deferred tax asset arising in respect of unremitted earnings	**319,221**	-	-	-
Deferred tax asset arising in respect of unabsorbed tax losses	**49,428**	-	**49,428**	-
Deferred tax liabilities arising on the fair valuation of properties	**(137,847)**	(324,160)	-	-
As at 31 December	**(1,764,755)**	(1,995,557)	**49,428**	-

At 31 December 2020, the Group had unutilised tax losses amounting to €63.3 million (2019: €63.5 million) on which no deferred tax asset was recognised in the statement of financial position in view of the uncertainty of realisation of these tax benefits. Similarly, as at 31 December 2020, the Company had unutilised tax losses amounting to €909,986 (2019: €72,212) on which no deferred tax asset was recognised Tax losses have no expiry date and can be carried forward indefinitely.

16. Accrued income and other assets

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Accrued interest and other income receivable	**1,380,485**	1,149,129	**1,408,444**	923,014
Other assets	**105,798**	502,778	**72,476**	450,934
Prepayments	**189,629**	117,668	**38,147**	33,178
	1,675,912	1,769,575	**1,519,067**	1,407,126

17. Share capital

	2020 €	2019 €
Authorised		
100,000,000 (2019: 100,000,000) Ordinary shares of €1 each	**100,000,000**	100,000,000
Issued and fully paid up shares		
50,000,000 (2019: 50,000,000) Ordinary shares of €1 each	**50,000,000**	50,000,000
Issued but not fully paid up shares		
20,000 (2019: nil) Ordinary shares of €1 of which €0.25 is paid	**20,000**	-
Total shares issued	**50,020,000**	50,000,000

By the virtue of resolution dated 10 September 2020 and with effect on 20 October 2020, the Company's shareholders approved the increase in issued share capital by €20,000 though the allotment of 20,000 shares at €1 per share to Merchants Employees Incentive Corp, a third party. Out of these, 25% have been fully paid up and the remaining 75% have been called and are accordingly included under 'Other receivables' (Note 14). The Company's shares issued until 31 December 2019 are fully paid.

18. Contribution reserve

	2020 €	2019 €
At beginning and end of year	**2,540,000**	2,540,000

The contribution reserve relates to the amount paid by the ultimate parent company on behalf of Merkanti Holding p.l.c. as part of the consideration to acquire Merkanti Bank in 2016. This contributed amount is free from all claims, charges, liens, equities and encumbrances and it is made as a contribution into the distributable reserves of Merkanti Holding p.l.c. The contribution is irrevocable and unconditional.

19. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial investments measured at fair value through other comprehensive income, net of any deferred taxes. This reserve is non-distributable.

20. Non-controlling interests

	Group	
	2020	2019
	€	€
At beginning of year	**1,878,245**	5,202,619
Impact of increase of additional stakes in subsidiaries	**-**	(3,645,351)
Share of profits attributable to non-controlling interests	**26,730**	320,977
Dividends distributed during the year	**(76,500)**	-
At end of year	**1,828,475**	1,878,245

On 30 December 2020, Merkanti (A) International Limited and Merkanti (D) International Limited declared and paid dividends amounting to €1,000,000 and €500,000 respectively to the ordinary shareholders in accordance with their proportionate shares held in these property companies.

21. Borrowings

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Non-current				
€25 million 4% Bonds 2026	**24,380,571**	24,287,159	**24,380,571**	24,287,159
Amounts due from subsidiaries	**-**	-	**3,600,000**	-
Total borrowings	**24,380,571**	24,287,159	**27,980,571**	24,287,159

As at 31 December 2020, the amounts due from subsidiaries are subject to fixed interest of 2.5% and mature on 30 June 2022.

By virtue of an offering memorandum dated 18 July 2019, the Company issued €25,000,000 secured bonds with a face value of €100 each. The bonds have a coupon interest of 4% which is payable annually in arrears on 12 August of each year. The bonds are redeemable at par and are due for redemption on 12 August 2026. The bonds are secured by real estate owned by the property companies within the Group by means of the German Law Mortgages, the Pledges of shares and the Pledges of Deposited Monies. The bonds were admitted on the Official List of the Malta Stock Exchange on 16 August 2019. The quoted market price as at 31 December 2020 for the bonds was €100.01 (2019: €100.4), which in the opinion of the directors fairly represents the fair value of these financial liabilities. At the end of the reporting period, none of the bonds were held by company directors.

21. **Borrowings** - continued

The bonds are measured at the amount of the net proceeds adjusted for the amortisation of the difference between the net proceeds and the redemption value of such bonds, using the effective yield method as follows:

	Group and Company	
	2020	2019
	€	€
Original face value of bonds issued	**25,000,000**	25,000,000
Bond issue costs	**738,196**	738,196
Accumulated amortisation	**(118,767)**	(25,355)
Unamortised bond issue costs	**619,429**	712,841
Amortised cost and closing carrying amount of the bonds	**24,380,571**	24,287,159

22. Derivative liabilities

During 2020, the Company entered into an agreement in which it granted an option to a third party to acquire 435 shares (36.25%) in a fully owned subsidiary, exercisable upon settlement of all litigation claims within a portfolio of claims held by the subsidiary at an exercise price of €1.00, and simultaneously, upon the exercise of the option, retaining the right to re-acquire all of the shares at the net tangible asset value of the said subsidiary ('the underlying'). As at 31 December 2020, this contract has given rise to a derivative liability with a fair value of €368,149, which has been largely determined by reference to the net asset position of the said subsidiary.

The derivative liabilities as at 31 December 2019 relates to the forward purchase of GBP 450,000 against the euro at a forward foreign exchange rate of 0.8749. The currency derivative has been entered to hedge the foreign currency exposure arising in respect of an investment denominated in GBP.

23. Amounts owed to customers

Group	**2020**	2019
	€	€
Call accounts	**6,985,729**	10,216,459

Amounts owed to customers include an amount of €3,795,470 (2019: €4,989,345) due by the Group to related parties. As at 31 December 2020, all amounts owed to customers were not subject to interest. As at 31 December 2019, amounts owed to customers are not subject to interest except for amounts owed to third parties amounting to €2,324,661 which were subject to an interest rate of 0.75%.

Amounts owed to customers are classified as liabilities measured at amortised cost.

24. Other payables

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Trade payables	**582,704**	178,605	**62,334**	101,147
	582,704	178,605	**62,334**	101,147

25. Accrued expenses and other liabilities

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Accrued interest and fee expense	**333,733**	331,419	**333,983**	333,333
Accrued expenses and other payables	**206,108**	162,246	**30,435**	-
	539,841	493,665	**364,418**	333,333

26. Contingent liabilities and commitments

Legal proceedings

The Scully Royalty Limited (SRL) group is subject to routine litigation incidental to its business and is named from time to time as a defendant in various legal actions arising in connection with its activities, certain of which may include large claims for punitive damages. Due to the size, complexity and nature of SRL group's operations, various legal and tax matters are outstanding. Scully Royalty Limited, the Company's ultimate parent company and certain of its subsidiaries, including the Company, have been named as a defendant in a legal action in a foreign jurisdiction relating to an alleged guarantee of the former parent of the SRL group in the amount of approximately €43 million. On the basis of legal advice, the directors of the Company believe that such a claim in respect of the Company is without merit.

The directors intend to vigorously defend such claim. Moreover, the Company 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.

26. Contingent liabilities and commitments - continued

Operating lease commitments – where the Group is a lessor

The operating lease agreements entered into by the Group with the tenants of its properties typically either have a maturity of between one to three years and are non-cancellable, or alternatively are entered into on an indefinite basis but are cancellable by the tenant at notice of up to six-months.

During 2020, the Company has also entered into an arrangement with one of its subsidiaries to sub-lease part of the premises which it leases. The lease between Merkanti Holding p.l.c. and the landlord of the offices and the sub-lease agreement are both for a term of 5 years.

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
- Not later than one year	**1,296,841**	1,093,714	**74,965**	-
- Later than one year and not later than three	**549,196**	846,212	**152,676**	-
- Later than three years and not later than five	**21,080**	26,006	**94,795**	-
	1,867,117	1,965,932	**322,436**	-

27. Interest income

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
On financial assets measured at fair value through other comprehensive income:				
- coupon interest	**123,154**	154,504	-	-
- net amortisation of premiums and discounts	**(73,152)**	(85,349)	-	-
On investment securities measured at amortised				
- coupon interest	-	12,305	-	-
- net amortisation of premiums and discounts	-	(422)	-	-
On financial assets designated at fair value through profit or loss				
- coupon interest	**31,346**	45,448	-	-
On financial assets mandatorily measured at fair value through profit or loss	**100,611**	-	-	-
On financial assets measured at amortised cost:				
On loans and advances to banks and other financial institutions	**2,982**	16,316		-
On loans and advances to customers	**479,773**	203,987		-
On receivables from ultimate parent company	**798,664**	306,177	**454,993**	306,177
On receivables from subsidiaries	-	-	**828,164**	252,485
On other receivables	-	15	-	-
	1,463,378	652,981	**1,283,157**	558,662

28. Interest expense

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
On amounts owed to banks and other financial institutions	**71,930**	23,466	**-**	-
On amounts owed to related parties	**17,541**	-	**63,541**	-
On amounts owed to customers	**30,061**	20,412	**-**	-
On borrowings	**1,093,412**	376,107	**1,093,412**	376,107
On lease liabilities	**27,007**	7,208	**26,195**	2,168
	1,239,951	427,193	**1,183,148**	378,275

29. Fee and commission income and expense

(a) Fee and commission income

The Group derives revenue from the provision of services over time, as follows:

	Group 2020 €	Group 2019 €
Merchant banking fees	**492,494**	2,077,712
Fee income on factoring services	**6,550**	18,908
Other fee income	**259,167**	125,866
	758,211	2,222,486

(b) Fee and commission expense

	Group 2020 €	Group 2019 €
Other fee expense	**6,051**	1,653

The Company's fee and commission income and expense relate to merchant banking services provided during 2020 and 2019.

30. Rental income from investment property

Rental income is generated through lease agreements entered into by Merkanti A and Merkanti D in respect of their investment property. The Company also generates rental income through a sub-lease agreement with one of its subsidiaries.

31. Net trading gains

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Net fair value losses on derivative financial instruments	**(365,453)**	(64,952)	**(368,149)**	-
Fair value movements on financial instruments mandatorily measured at FVPL	**1,147,161**	731,905	**-**	-
Foreign exchange differences	**(4,458)**	82,458	**-**	-
Other income	**-**	-	**924,535**	-
	777,250	749,411	**556,386**	-

The Company entered into an agreement in which it granted an option to a third party to acquire 435 shares (36.25%) in a fully owned subsidiary, exercisable upon settlement of all litigation claims within the portfolio of the fully owned subsidiary. As at 31 December 2020, this contract has given rise to a derivative liability with a fair value of €368,149, which has been largely determined by reference to the net asset position of the said subsidiary (Note 22).

During 2020, the Company has also entered into an agreement to sell the right to receive dividends out of profits emanating from this business, irrespective of the option agreement referred to above, to Merkanti (A) International Limited for a fixed consideration of €924,535, included within 'Other income'.

32. Revenue from customer contracts

The Group derives revenue from the sale of commodities. These revenues derive from a single external customer and are recognised at the point in time when control of the commodities has transferred, being when the commodities are delivered to the customer and the customer has full discretion over the use of the commodities, and there is no unfulfilled obligation that could affect the customer's acceptance of the commodities. This occurs upon delivery, which marks the point at which the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the commodities in accordance with the sales contract.

33. Dividend income

Dividend income represents dividends received by the Company from its subsidiaries Merkanti A and Merkanti D.

34. Other operating income

Other income relates primarily to recharges made to related parties for expenses paid by the Company to certain officers and other professional service firms.

35. Changes in expected credit losses

	Group 2020 €	Group 2019 €
Change in expected credit losses:		
- loans and advances to banks	**(1,554)**	7,139
- loans and advances to customers	**61,607**	81,366
- financial assets measured at FVOCI	**(1,679)**	2,107
	58,374	90,612

36. Expenses by nature

	Group 2020 €	Group 2019 €	Company 2020 €	Company 2019 €
Cost of sales in respect of revenue from customer contracts	**2,487,576**	-	-	-
Staff costs				
- Staff salaries	**1,538,455**	637,113	-	-
- Social security costs	**37,164**	24,642	-	-
- Other staff costs	**110,696**	537,710	-	-
Directors' emoluments	**509,330**	425,630	**81,922**	49,725
Repairs and maintenance	**337,399**	648,573	**11,445**	-
Professional fees	**897,055**	262,060	**1,084,981**	372,500
Marketing costs	**188,131**	25,817	-	-
Utilities and janitorial expenses	**150,968**	206,155	**8,139**	-
Information technology	**181,314**	170,347	**10,742**	-
Property administration expenses	-	450,000		-
Short-term lease expenses	-	141,207	**38,137**	-
Depreciation of property, plant and equipment (Note 11)	**94,610**	46,225	**24,737**	2,586
Amortisation of intangible assets (Note 12)	**7,441**	11,151	-	-
Depreciation of right-of-use assets (Note 13)	**165,640**	63,555	**145,343**	5,469
Insurance costs	**59,532**	53,121	-	-
Taxes and licenses	**85,297**	84,738	-	-
Other administrative expenses	**679,638**	335,683	**675,443**	15,918
Total direct costs and administrative expenses	**7,530,246**	4,123,727	**2,080,889**	446,198

Other administrative expenses mainly comprise other services or expense items which are incurred in the course of the Group's operations.

As at 31 December 2020, professional fees amounting to €480,000 included above have been recharged by the Company to related parties (Note 34).

36. Administrative expenses - continued

Average number of persons employed by the Group throughout the financial year:

	Group 2020	2019
- Managerial	**11**	9
- Clerical	**12**	4
	23	13

Auditor's remuneration

Fees charged by the auditor for services rendered during the financial year relate to the following:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Annual statutory audit	**116,500**	92,500	**4,000**	4,000
Audit of the consolidated financial statements	**-**	-	**20,000**	13,500
Tax services	**8,435**	6,550	**8,435**	6,550
Other non-audit services	**-**	98,500	**-**	98,500

37. Tax expense/(income)

The Group's and Company's tax expense/(income) recognised in profit or loss is analysed below:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Current tax expense	**453,733**	80,155	**-**	1,200
Deferred tax (income)/expense	**(230,802)**	324,160	**(49,378)**	-
	222,931	404,315	**(49,378)**	1,200

37. Tax expense/(income) - continued

The tax on the Group's and Company's profit before tax, differs from the theoretical amount that would arise using the effective tax rate applicable to the Group as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Profit before tax	**352,091**	3,320,665	**579,434**	(9,431)
Tax on profit at 35%	**123,232**	673,941	**202,802**	(3,301)
Tax effect of:				
Application of different tax rates in overseas jurisdictions	**118,742**	-	-	-
Expenses not deductible for tax purposes	**177,549**	77,133	**250,950**	4,501
Income not subject to tax	-	-	**(821,625)**	-
Utilisation of unabsorbed tax losses carried forward from previous years	**(61,464)**	(346,759)	-	-
Unrecognised deferred tax movements in respect of unutilised tax losses arising during the year	**184,093**	-	**318,495**	-
Application of lower effective tax rate applicable in respect of unremitted earnings	**(319,221)**	-	-	-
	222,931	404,315	**(49,378)**	1,200

38. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with contractual maturities of not more than three months and which form an integral part of the Group's cash management:

	Group		Company	
	2020	2019	**2020**	2019
	€	€	**€**	€
Balances with Central Bank of Malta (Note 4)	**12,258,984**	10,348,258	-	-
Cash in hand (Note 4)	**1,000**	1,000	-	-
Loans and advances to banks and other financial institutions (Note 5)	**3,949,666**	16,893,485	**7,495,181**	5,053,822
	16,209,650	27,242,743	**7,495,181**	5,053,822

Non-cash transactions

During 2020, equity securities valued at €267,180 and classified at year end as investments measured at FVPL were assigned to the Company in settlement of receivables from a third party for the same amount. The acquisition of investments in subsidiaries during the year amounting to €212,741 were also assigned to the Company in settlement of other assets from a related party.

38. Cash and cash equivalents - continued

During 2019, equity securities valued at €2,750,000 and classified at year end as investment measured at FVPL were assigned to the Group in settlement of receivables from related parties for the same amount.

39. Related party transactions

Related parties of the Group include the ultimate parent company, Scully Royalty Limited, all entities controlled by the ultimate parent, key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Company's directors.

During the year, the Group carried out the following transactions in the ordinary course of business with the ultimate parent company and its controlled entities and at year end had the following balances with these entities:

		Group		Company	
		2020	2019	**2020**	2019
	Note	**€**	€	**€**	€
Assets					
Loans and advances to banks and other financial institutions:	5				
- Balances with a subsidiary bank		**-**	-	**7,492,178**	5,053,822
Loans and advances to customers:	6				
- Loans to ultimate parent company		**2,650,000**	2,650,000	**-**	-
- Loans to other related parties		**7,763,602**	1,219,867	**-**	-
Equity instruments measured at FVPL issued by other related parties	7	**3,017,180**	2,750,000	**267,180**	-
Other receivables:	14				
- Amounts due from ultimate parent company		**11,386,986**	10,773,337	**6,137,078**	6,113,337
- Amounts due from other related		**699,491**	-	**699,491**	
- Amounts due from subsidiaries		**-**	-	**14,942,461**	14,000,000
Accrued income and other assets:	16				
- Accrued income from ultimate parent company		**1,210,259**	411,638	**858,342**	403,349
- Accrued income from other related		**1,599**	362,076	**-**	-
- Accrued income from subsidiaries		**-**	-	**550,102**	252,485
Liabilities					
Borrowings from subsidiaries	21	**-**	-	**3,600,000**	-
Amounts owed to customers:	23				
- Amounts owed to ultimate parent		**5,160**	1,057	**-**	-
- Amounts owed to related parties		**3,790,310**	4,988,288	**-**	-
Other payables:					
- Payables to minority interests		**76,500**	-	**-**	-
- Payables to ultimate parent company		**1,904**	-	**-**	-
- Payables to other related parties		**39,598**	8,810	**-**	-

39. Related party transactions - continued

		Group		Company	
		2020	2019	**2020**	2019
	Note	**€**	€	**€**	€
Income statement					
Interest income:	27				
- On loans to and receivables from ultimate parent company		**948,223**	454,202	**454,993**	306,177
- On loans to and receivables from other related parties		**330,214**	55,962	**-**	-
- On loans to and receivables from Subsidiaries		**-**	-	**828,164**	252,485
Interest expense:	28				
- On amounts owed to other related parties		**40,869**	15,790	**17,541**	-
- On borrowings from subsidiaries		**-**	-	**46,000**	-
Fee and commission income:	29				
- From ultimate parent company		**32,090**	987,203	**-**	-
- From other related parties		**608,824**	727,800	**-**	137,000
Fee and commission expense from subsidiaries	29	**-**	-	**-**	137,000
Rental income:	30	**-**	358,234	**70,991**	-
- From ultimate parent company		**6,417**	223,631	**-**	-
- From other related parties		**-**	99,406	**-**	-
- From subsidiaries		**-**	-	**70,991**	-
Net trading gains	31	**-**	-	**924,535**	-
Dividend income from subsidiaries	33	**-**	-	**1,423,500**	-
Other operating income:	34				
- From other related parties		**480,000**	-	**480,000**	-
- From subsidiaries		**-**	-	**18,287**	-
Administrative expenses	36				
- Expenses paid to other related parties		**293,842**	605,194	**293,842**	348,300
- Compensation of key management personnel		**89,840**	-	**89,840**	-
- Expenses paid to subsidiaries		**-**	-	**987,999**	-

Loans and advances to other related parties comprise of purchased receivable transactions exposing the Group to credit risk to a third party.

Accrued income and other assets comprise of interests and fees receivable.

In addition, as indicated in Note 38, during 2020, equity securities issued by a related party, valued at €267,180 and classified at year end as investments measured at FVPL were assigned to the Company in settlement of consultancy services that were performed by the Company for a third party.

Also, during 2020, the Company acquired 100% of the shares in AIM and MFCR Oriental S.A. from a subsidiary of Scully Royalty Limited. The consideration of the acquisition amounting to €212,741 was received in settlement of receivables that were outstanding as at 31 December 2019.

The administrative expense of the Group includes costs amounting to €284,017 that were paid on behalf of related parties for services granted by a consultancy company owned by one of the Company's key management personnel and salaries of key management personnel amounting to €89,840. The administrative expense of the Company also includes costs amounting to €129,600 that were paid to a subsidiary for the mercantile services provided to the Company. These expenses have been reimbursed to other related parties and are accordingly included above within 'Other operating income'.

39. Related party transactions - continued

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 36 to these financial statements. Directors' emoluments comprise solely of short-term employee benefits.

40. Segmental information

The Group provides a comprehensive range of services to its customers, which are organised into the following reportable segments in terms of IFRS 8, 'Operating Segments'.

i) banking and financial services, through which the Group provides niche merchant banking services;
ii) property rental & management activities, which involves the leasing and management of industrial space for storage and production facilities as well as for office space; and
iii) physical commodities trading, through which the Group purchases and distributes a specific commodity.

The Board considers the reportable segments referred to above to represent the most appropriate information for the users of the financial statements to best evaluate the nature and financial effects of the business activities in which the Group engages, and the economic environments in which it operates.

The financial information for the reportable segments in relation to the year ended 31 December 2020 is presented in the table below. Since the physical commodities trading activities were acquired by the Group in July 2020, the Group had two reportable segments during the year ended 31 December 2019.

40. Segmental information - continued

	Group As at 31 December 2020			
	Banking and financial services €	Property rental and management activities €	Physical commodities trading €	Total €
Segment total assets	**54,854,068**	**33,598,954**	**372,765**	**88,825,787**
Segment equity	**13,548,110**	**39,066,360**	**533,211**	**53,147,681**

	Group As at 31 December 2020			
	Banking and financial services €	Property rental and management activities €	Physical commodities trading €	Total €
Interest and similar income	1,463,378	-	-	**1,463,378**
Interest and similar expense	(781,363)	(458,588)	-	**(1,239,951)**
Net interest income	682,015	(458,588)	-	**223,427**
Fee and commission income	758,211	-	-	**758,211**
Fee and commission expense	(6,051)	-	-	**(6,051)**
Net fee and commission income	752,160	-	-	**752,160**
Rental income from investment property	-	1,996,018	-	**1,996,018**
Changes in the fair value of investment property	-	484,662	-	**484,662**
Net trading gains	777,250	-	-	**777,250**
Realised gains on disposal of financial assets measured at fair value through other comprehensive income	45,666	-	-	**45,666**
Realised gains on disposal of investment properties	-	126,884	-	**126,884**
Revenue from customer contracts	-	-	3,003,530	**3,003,530**
Other operating income	514,906	16,208	-	**531,114**
Total operating income	2,771,997	2,165,184	3,003,530	**7,940,711**
Changes in expected credit losses	(58,374)	-	-	**(58,374)**
Cost of sales in respect of revenue from customer contracts	-	-	(2,487,576)	**(2,487,576)**
Net operating income	2,713,623	2,165,184	515,954	**5,394,761**
Administrative expenses	(3,210,964)	(1,811,630)	(20,076)	**(5,042,670)**
Reportable (loss)/profit before tax	**(497,341)**	**353,554**	**495,878**	**352,091**

40. Segmental information - continued

	Group As at 31 December 2019		
	Banking and financial services	Property rental and management activities	Total
	€	€	€
Segment total assets	**49,966,621**	**40,997,845**	**90,964,466**
Segment equity	**13,928,313**	**38,740,508**	**52,668,821**

	Group As at 31 December 2019		
	Banking and financial services	Property rental and management activities	Total
	€	€	€
Interest and similar income	652,981	-	**652,981**
Interest and similar expense	(269,471)	(157,722)	**(427,193)**
Net interest income	383,510	(157,722)	**225,788**
Fee and commission income	2,222,486	-	**2,222,486**
Fee and commission expense	(1,653)	-	**(1,653)**
Net fee and commission income	2,220,833	-	**2,220,833**
Rental income from investment property	-	2,156,201	**2,156,201**
Changes in the fair value of investment property	-	2,069,000	**2,069,000**
Net trading gains	749,411	-	**749,411**
Realised gains on disposal of financial assets measured at fair value through other comprehensive income	8,958	-	**8,958**
Other operating income	34,737	70,076	**104,813**
Operating income	3,397,449	4,137,555	**7,535,004**
Changes in expected credit losses	(90,612)	-	**(90,612)**
Administrative expenses	(2,567,427)	(1,556,300)	**(4,123,727)**
Reportable profit before tax	**739,410**	**2,581,255**	**3,320,665**

41. Statutory information

Merkanti Holding p.l.c. is a limited liability company and was incorporated in Malta on 28 May 2015, having its registered address at Aragon House Business Centre, Dragonara Road, St Julian's, STJ 3140, Malta.

The immediate and ultimate parent company of Merkanti Holding p.l.c. is Scully Royalty Limited (formerly MFC Bancorp Ltd), a company registered in The Cayman Islands under the registration number HS-323455 and having its registered office at Harneys Services (Cayman) Limited, 4th Floor Harbour Place, 103 South Church Street, Grand Cayman KY1-1002, Cayman Islands. Scully Royalty Limited is listed on the New York Stock Exchange (NYSE:SRL).