



Financial report and statements

Consolidated report for investors and partners for the year ended **2022**

- **About Us**
- **From the Chief Executive Officer – CEO**
- **Strategic Report**
- **Report from the Supervisory Board**
- **Supervisory Board**
- **Financials**
- **Auditor's Statement and Closure**

About Us

Our purpose, our value and our ambition

Merco Bank comprises of digital decentralized banking and wealth management, private banking and a global banking and markets business. We are strongly connected to the rest of the international financial institutions and leverages this network to support investors, investing partners, associates and customers and grow revenue particularly across key trade corridors around the world.

Our purpose

To be where the growth is; connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people to fulfil their hopes and dreams and realize their ambitions.

Our values

Our values define who we are as an Organisation - We are dependable, standing firm for what is right and delivering on our commitments. We are open to different ideas and cultures, and value diverse perspectives. We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

Our ambition

Deeply rooted and providing a unique gateway to the world. We are investing in growth and innovation to make banking simple, safe and sustainable, and be the bank of choice for our investors, investing partners, associates, customers and communities through the generations. We are more so, creating a feasible means for people around the globe to participate in simplified investment opportunities through a decentralized economy while we offer a comprehensive set of banking products and services to support retail customers' everyday banking needs through a selection of channels. We offer full banking services, mortgages, unsecured lending, wealth solutions and general insurance.

We also supports investors, investing partners, associates, customers and communities with tailored financial products and services to allow them to operate efficiently and to grow, with a strong relationship focus and also support clients with investment management; including advisory, discretionary and brokerage services. We also offer private wealth solutions, comprising trusts and estate planning, designed to protect wealth and preserve it for future generations. This is as well as a full range of decentralized lending and banking services.

From the Chief Executive Officer - CEO

Compared to previous years, this year is the pivot year for us like so many others in the industry

Dear Shareholders,

This year was a pivotal year for us. Compared to the previous year, we more than tripled our net profit and produced our best results in a decade. This puts us exactly where we wanted to be at this point when we announced our strategy in the previous summer. We have laid the foundation for sustainable growth by delivering what we promised in a disciplined manner.

- In our business divisions, we have focused on our core strengths and withdrew from non-core segments. This strategy is bearing fruit. Although we discontinued activities such as equities trading, our revenues in the full year rose higher than it was the year before. It is particularly gratifying that all four core businesses contributed to this revenue growth last year.
- Despite the cost of our transformation, we reduced our total non-interest expenses compared to what it was the previous year. Our cost-income ratio fell from 105 to 85 percent in this period. Over the past three years, we recognized more revenue in transformation-related effects. This means we have put behind us 95 percent of the total of these effects we anticipate by the end of next year. Nevertheless, we continued to invest in technology and growth and, in particular, strengthened our controls, on which we spent more than we did in the last three years.
- We finished the year with a common equity top tier capital ratio above 15 percent despite absorbing the transformation-related effects and significant changes in the measurement of regulatory capital. We successfully offset an impact of basis 135 points on our capital ratio arising from these regulatory effects.
- We managed to do this with our existing resources and without asking you, our shareholders, for additional capital. Many market observers did not believe this was possible in mid-year. And this now puts us in a position to distribute capital to you again. This year, we will propose a dividend of 25 cents per share to the annual general meeting.

This track record of execution has given us a strong tailwind. We have created a virtuous cycle in which the positive effects reinforce each other. The successes of recent years have significantly improved our reputation, and our employees' trust in our bank is strong again. This new self-confidence and restored pride are felt by our clients, which has a positive effect on our business.

With the Russian invasion of Ukraine, war returned to the heart of Europe. We cannot yet fully assess the full impact of this war on the political world order, on the global economy, on our clients and on our bank. However, we as a reputable financial institution have proven in the pandemic crisis that we

are stable and that we are there for our clients in difficult times with our strong balance sheet and our first-class risk management. We intend to focus even more strongly on the needs of our clients as we now embark on the next stage of our strategy. This is not about revolution, but evolution. We will continue to build on what we have done successfully over the last three years and become even more efficient.

At the same, we must steadily change and improve the way we work to fulfil our potential and be what we have aspired to be for more than a decade: your very own Merco Bank. A bank that is the first point of contact for corporations, institutional investors, retail clients and affluent clients in all financial matters, with a global network and local expertise, unique risk management and an outstanding ability to create solutions, modern technical platforms and a strong product suite. The events in Ukraine are a depressing illustration of how uncertain the geopolitical situation has become. This is compounded by profound macroeconomic shifts: the historically unprecedented phase of fiscal and monetary stimulus, low or even negative interest rates and ever higher debt is coming to an end, in the view of our economists. At the same time, the decades-long trend of globalization is stalling and we are experiencing a regionalization and fragmentation of global supply chains that seemed hardly possible just a few years ago.

Finally, the reversal of the population pyramid will significantly accelerate in coming years and decades, with serious consequences for already stretched labor markets and pension systems. All of this is happening at a time when our clients are undergoing a profound transformation; the transition to a sustainable, climate-friendly and increasingly digital economy. We are convinced that, precisely in times like these, the expertise and competence of the bank is particularly needed and that we can be part of the solution for our clients.

Overall, we are ideally positioned to support our clients globally in a solution-oriented manner. And we have shown during the pandemic what we can achieve when we put clients' needs at the center of everything we do. This position of strength is what fuels our optimism for the coming years. We are convinced that we have great potential in all areas. But we also know that we need to invest to leverage this potential. We need to invest in technology, invest in our global network and in local knowledge, but also invest in our advisory capacities and our product and management expertise.

By strengthening our position as a global decentralized investment bank, we have laid the foundation. If we implement this strategy with the same discipline, we have shown in implementing our strategy in previous years, we will become exactly what you expect us to be: a strong bank playing a leading role in shaping the future of banking.

Regards,



Dr. Lefteris Max

Chief Executive Officer – CEO,
Merco Bank – Merco Trustees LLC.

Strategic Report

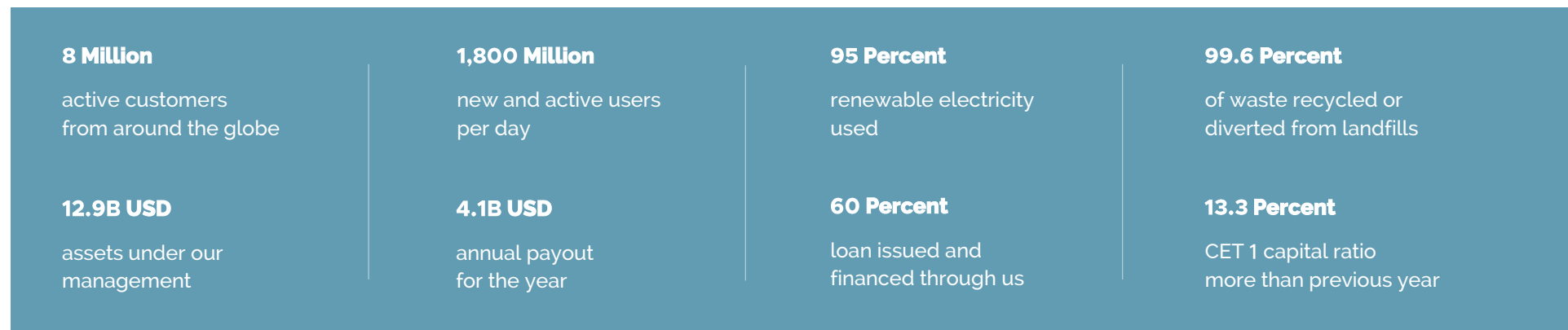
Key elements of the report and context for the related financial statements

About this report

The strategic report outlines the key elements of the annual report and provides context for the related financial statements. It is also designed to help members of the company assess how the directors have performed their duty under the international companies act.

The report highlights key financial and non-financial metrics which help to explain the business's performance over the past year. It also highlights the external environmental factors affecting the business along with our position in the international banking market. We try at all times to treat all of our stakeholders fairly and meet our environmental responsibilities. Sustainability and our strategic direction are inseparable, and we continue to embed sustainability across our business.

2022 highlight



We are uniquely placed as a leading scale challenger bank. Our business model focuses on customer loyalty and our core business franchise. We are a large customer-focused bank and possess the scale and breadth of proposition to challenge other decentralized banks around the globe.

We serve our customers through digital channels, alongside a network of branches and corporate business centers.

Our business model

What we do

Provide financial products and services - consumer auto finance, unsecured loans, banking and savings accounts, investment and insurance products for individuals and specialized services for companies.

How we do it

Build strong customer relationships - leveraging our experience and scale to drive customer loyalty. Offer a differentiated proposition - anticipating customer needs and tailoring our products and services to be more meaningful and relevant. Take a prudent approach to risk - making the right lending decisions. Identifying, assessing, managing and reporting the risks which could impact our business, results, reputation or sustainability.

Our competitive advantage

Leading scale challenger bank - an optimized footprint and scale in our core banking businesses combined with an innovative mindset. Resilient balance sheet and prudent approach - strength of capital and liquidity demonstrated by the lowest CET 1 drawdown in the annual international markets stress tests. International expertise for companies around the world - helping several companies around the world expand into newer markets

Strategic review

Our refined priorities are aligned to our strategy. We are focused on customer loyalty, simplification, improved efficiency and sustainable growth, while being the best bank for all our stakeholders. Our four strategic priorities are set out below.

Our strategic priorities

- Grow customer loyalty by providing an outstanding customer experience.
- Simplify and digitize the business for improved efficiency and returns.
- Invest in our people and ensure they have the skills and knowledge to thrive
- Further embed sustainability across our business.

Becoming a more responsible bank

At Merco Bank, we understand that the decisions we take have an impact on society, the world economy, and our environment. We continue to embed sustainability across our business, focusing on four pillars, which are explained below.

- Create a thriving workplace that attracts, retains and rewards the most talented and committed people.
- Drive sustainable economic growth, financial inclusion and positive socio-economic impact.
- Drive inclusive digitalization and use technology in a way that creates value for all of our stakeholders.
- Uphold the highest ethical standards and fight financial crime.

Risk management overview

Information on our principal risks and uncertainties is set out in the risk review by type of risk, with more detail by business segment. When reading the risk review and the other sections of the annual report, you should refer to the 'forward-looking statements' section. We regularly review the top risks that could affect our customers and shareholders. Risks actively monitored over the year include:

- **Financial crime** - we recognize that financial crime activities can have a significant impact on our customers. Criminals are also increasingly using the financial system to launder the profits of illegal activity such as human trafficking and terrorism. Significant investment in ongoing enhancement continues to be made to our financial crime control framework, and to key controls including anti-bribery and corruption measures, customer risk assessment, and screening and transaction monitoring.
- **Managing a complex change agenda** - as part of our business planning strategy we have continued to invest in a project portfolio that supports risk, regulatory and growth requirements. In order to effectively manage our complex change agenda, we have established robust processes and controls that allow us to track any potential issues and mitigate implementation risk. In delivering key projects, we keep pace with developments in the regulatory environment and technological advances, whilst focusing on maintaining our market position and remaining competitive.
- **Cyber attacks** - this year, threats from the external cyber environment continued to evolve, due to heightened geopolitical tension, and active well-established cybercrime groups. We monitor a range of cyber threats including attacks on payment systems, ATM networks and customer data where insider threat and network intrusion are the most common attack methods; an emerging threat from a new method, aimed at breaching organizations' on-line customer services, such as internet banking and causing denial of service.

Report from the Supervisory Board

Our efforts to create a sustainable means for all



The Management Board reported to us regularly, without delay and comprehensively on all matters with relevance for our bank, and in particular on business policies and strategy, in addition to other fundamental issues relating to the company's management and culture, corporate planning and control, compliance and compensation systems. It reported to us on the financial development, earnings and risk situation, the bank's liquidity, capital and risk management, the appropriate technical and organizational resources as well as events that were of significant importance to the bank. We were involved in decisions of fundamental importance.

As in previous years, the management board provided us, in accordance with our requests, with enhanced reporting on several topic areas. Thus, the management board regularly reported to us on the prevention of money laundering and the related controls. We deliberated on these matters intensively and regularly, together with the management board and also with external experts. Furthermore, the Supervisory Board received reports on the progress made in the bank's sustainability strategy and its contribution to achieving global climate objectives.

The supervisory board chairman and the five other committee chairs maintained regular contact with the management board between the meetings. They also consulted each other on the agendas of the various meetings of the committees they chair and discussed topics of key strategic importance to the bank. Furthermore, upcoming decisions were deliberated on and prepared in discussions conducted regularly between the management board and the chairman of the supervisory board as well as the chairs of the supervisory board committees. There were a total of 50 meetings of the supervisory board and its committees. When necessary, resolutions were passed by circulation voting procedure between the meetings.

Corporate governance

The composition of the supervisory board and its committees is in accordance with the requirements of the Cypriot Banking Act as well as regulatory governance standards. The suitability of each individual member was assessed internally by the Nomination Committee. The European Central Bank also reviews the professional qualifications and the personal reliability of our members within the framework of its **"Fit and Proper"** assessment. At the time of this report, this assessment was available for all members and the European Central Bank's review had not yet been completed. The suitability assessment covers the expertise, reliability and time available of each individual member. In addition, there was an assessment of the entire supervisory board's knowledge, skills and experience that are necessary for the performance of its tasks - collective suitability.

The Joint Supervisory Team and the Nomination Committee continually monitor the suitability of the supervisory board members. The chairman of the supervisory board and the chairpersons of all the committees are independent in accordance with the Terms of Reference applicable from time to time. They coordinated their work continually and consulted each other regularly and – as required – on an ad hoc basis between the meetings in order to ensure the exchange of information necessary to capture and assess all relevant case matters and risks in the performance of their tasks. An open and trustful atmosphere marked the cooperation in the committees.

The committee chairpersons reported regularly at the meetings of the supervisory board on the work of the individual committees. Regularly before the meetings of the supervisory board, the representatives of the employees and the representatives of the shareholders conducted preliminary discussions separately. Before or at the end of the meetings of the supervisory board and its committees, discussions were regularly held in "**Executive Sessions**" without the participation of the management board.

At several meetings of the Nomination Committee and of the supervisory board in plenum, we addressed the assessment prescribed by law of the management board and the supervisory board for the financial year, which also comprises the self-assessment according to the Cypriot Corporate Governance Code. The Declaration of Conformity pursuant to Section 161 of the Stock Corporation Act, which we had last issued with the management board in October 2021, was reissued in October 2022.

Training and further educative measures

We held several training sessions again this year. They were conducted in most cases by external subject matter experts, but also by internal experts. In accordance with our adjusted profile of requirements for supervisory board members, the training topics we focused on were anti-money laundering, environmental, social and governance issues, as well as digital assets and currencies. For the new members that joined the supervisory board, extensive induction courses tailored to them individually were developed and carried out to facilitate their induction into office.

We thank the members of the management board and the supervisory board who left last year for their dedicated work and their constructive assistance to the company during the past years. We would also like to thank the bank's employees for their great personal dedication.

Regards,



Victor Witter M.

Chairman,
Supervisory Board,
Merco Bank – Merco Trustees LLC.

Supervisory Board

Our brains keeping the system running

Victor Witter M.

Chairman,
Supervisory Board.

Paul Mulendore H.

Deputy Chairman,
Supervisory Board.

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Maria Zhakarova R.

Secretary,
Supervisory Board.

Mayree Macbeth L.

Auditor,
Supervisory Board.

Georgios Lings.

Procurement Officer,
Supervisory Board.

Michael Oban M.

Nicosia, Cyprus.

Anthonia Cinelli S.

Berlin, Germany.

Pat Beth T.

Budapest, Hungary.

Committees

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- Chairman's Committee.
- Nomination Committee.
- Integrity Committee.
- Risk Committee.
- Compensation Committee.
- Control Committee.

Financials

Our efforts in figures

Merco Bank offers a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world. This investment, financial and related products are spread across these groups of instruments:

- ETFs – Exchange Traded Funds
- Mutual Funds
- Stocks and bonds and
- Spreads.

In addition, the bank has a country and regional organizational layer and structure to facilitate a consistent implementation of global strategies. The bank has operations or dealings with existing and potential customers in most countries in the world. These operations and dealings include working through subsidiaries and branches, representative offices and account managers and representatives assigned to serve customers where and when needed.

The members have not required the company to obtain an audit of its financial statements for the period through the year ended 2022.

ETFs – Exchange Traded Funds are types of investment funds that holds a basket of assets such as stocks, bonds, commodities, or a combination of these, and are traded on stock exchanges like individual stocks. ETFs aim to provide a return that tracks the performance of a specific market index, such as the S and P 500, or a specific sector, such as technology or healthcare. For the year ended 2022, the bank realized and paid out profit amounting to **848 Million United states Dollar – 848M USD** from ETFs to its clients.

Mutual Funds are investment vehicles that pool together money from multiple investors to buy a diversified portfolio of assets, such as stocks, bonds, or other securities. The mutual fund is managed by a professional or certified investment and assets management firm or related financial institution who is responsible for making investment decisions and managing the portfolio on behalf of the fund's investors. For the year ended 2022, the bank realized and paid out profit amounting to **609 Million United states Dollar – 609M USD** from mutual funds to its clients.

Stocks, also known as equities, are securities that represent ownership in a corporation. When an individual buys a stock, they become a part owner of the corporation and are entitled to a portion of the company's profits and assets. Stocks are bought and sold on stock exchanges, and the price of a stock is determined by supply and demand in the market. Stocks can be a form of investment, as they have the potential to generate income through dividends and capital appreciation.

In the other case, **bonds** are debt securities that represent a loan made by an investor to a borrower, such as a corporation or government. When an investor buys a bond, they are effectively lending money to the borrower in exchange for periodic interest payments and the eventual return of the principal. Bonds are often used as a form of investment, providing a relatively stable and predictable stream of income through interest payments. Unlike stocks, which represent ownership in a corporation and carry more market risk, bonds are considered to be less risky investments and are often used as a part of a diversified investment portfolio. Bonds are considered to be a lower risk investment option for generating income. For the year ended 2022, the bank realized and paid out profit amounting to **1.39 Billion United states Dollar – 1.39B USD** from stocks and bonds jointly to its clients.

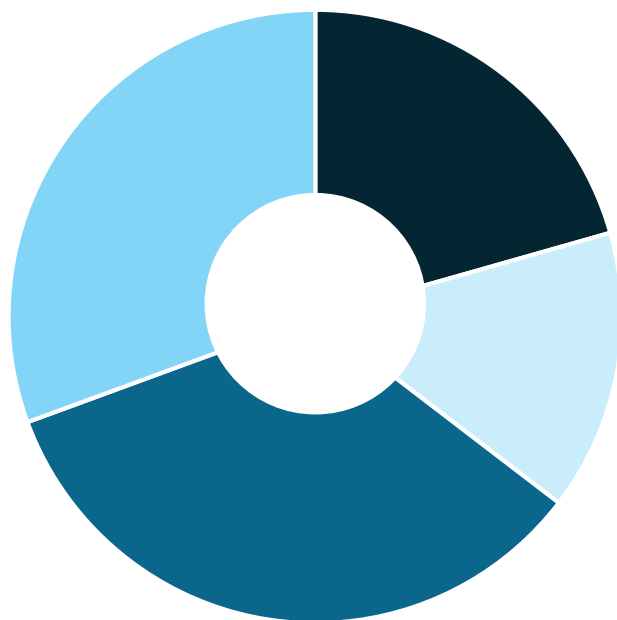
Spreads refers to the difference between two prices or rates. This difference can be expressed as a percentage or as an absolute value. Some common examples of spreads in finance include:

- Bid-ask spread - the difference between the highest price a buyer is willing to pay for a security and the lowest price a seller is willing to accept.
- Yield spread - the difference between the yield of one bond and the yield of another bond.
- Credit spread - the difference between the yield of a benchmark treasury bond and the yield of a bond with a lower credit rating.
- Interest rate spread - the difference between the interest rate charged by a lender and the interest rate paid to depositors.
- Option spread - the difference between the strike price of two options of the same underlying asset.

Spreads can be used by investment and assets management institutions to make decisions for their investors, investing partners and clients and to measure the risk and potential reward of a particular investment. They can also be used to express the cost of borrowing or the profitability of a particular trade or investment. For the year ended 2022, the bank realized and paid out profit amounting to **1.253 Billion United states Dollar – 1.253B USD** from spreads to its clients.

Investments in these instruments are also spread across the energy markets, digital real estates, agro markets, mining and exploration and other similar profitable markets.

Instrument	ETFs - B USD	Mutual Funds - B USD	Stocks and bonds - B USD	Spreads - B USD	Total
Annual Yield	0.848	0.609	1.39	1.253	4.1B USD
Percentage	20.6	14.8	34	30.6	100 Percent



- Exchange Traded Funds
- Mutual Funds
- Stocks and bonds
- Spreads

4.1B USD
total annual payouts in profits to investors

12.9B USD
valued of total assets under management

The **financials** section of this report is a summary of the bank's efforts in figures to meet up on its responsibilities and obligations to its investor, investing partners and customers or clients.

Auditor's Statement and Closure

Our efforts in figures

We have audited the attached remuneration report of Merco Bank, prepared to comply with **Cypriot Stock Corporation Act** for the fiscal year ended 2022 and the related disclosures.

Responsibilities of the executive directors and the supervisory board

The executive directors and supervisory board of the bank are responsible for the preparation of the remuneration report and the related disclosures in compliance with the requirements of the regulation and act. In addition, the executive directors and supervisory board are responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report and the related disclosures that are free from material misstatement, whether due to fraud or error.

The preparation of the consolidated financial statements requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

Estimates and judgements that are considered important to the portrayal of our financial condition including, where applicable.

Responsibility of the auditor

Our responsibility is to express an opinion on this remuneration report and the related disclosures based on our audit. We conducted our audit in compliance with **Cypriot Generally Accepted Standards for Financial Statement Audits** promulgated by the **Institute of Public Auditors** in Cyprus. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report and the related disclosures are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts in the remuneration report and the related disclosures. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the remuneration report and the related disclosures, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the remuneration report and the related disclosures in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the accounting policies

used and the reasonableness of accounting estimates made by the executive directors and supervisory board, as well as evaluating the overall presentation of the remuneration report and the related disclosures.

In our opinion, on the basis of the knowledge obtained in the audit, the remuneration report for the fiscal year ended 2022 and the related disclosures comply, in all material respects, with the financial reporting provisions.

Yours in service,

Vic Edgar H.

Independent auditor,
Limassol, Cyprus.

Forward-looking Statements

The bank and its subsidiaries as the case applies may from time to time make written or oral forward-looking statements. The bank makes written forward-looking statements in this consolidated annual report and may also make forward-looking statements in its periodic reports to the SEC, in its offering circulars and prospectuses, in press releases and in other written materials and in oral statements made by its officers, directors or employees to third parties. Examples of such forward-looking statements include, but are not limited to:

- projections or expectations of revenues, costs, profit or loss, earnings or loss per share, dividends, capital structure or other financial items or ratios
- statements of plans, objectives or goals of the bank or its management, including those related to products or services
- statements of future economic performance, and
- statements of assumptions underlying such statements

Words such as 'believes', 'anticipates', 'expects', 'intends', 'aims', 'plans', 'targets' and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements are not statements of historical or current facts; they cannot be objectively verified, are speculative and involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Merco Bank cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the bank or any entity authorized on its behalf.

