

Financial Report

30.06.2017



**MARITIME & MERCHANT
BANK ASA**

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Operation and Strategy

The Company is a niche bank for the shipping and offshore industry. The strategy is to combine first class banking craftsmanship with deep industrial and market insight for building up a diversified and profitable portfolio of loans secured by 1st priority mortgage in liquid and standardized ships. Our customers are ship-owning companies in Norway and abroad. Our sole product is secured lending and we will emphasize to offer a swift handling of the enquiries by account managers with the prudent competence and experience. We emphasize our ability to tailor make the financing structures in line with the profile of each single project as long as our customers are fulfilling our lending criteria in accordance with our credit policy. We are generally financing up to 50% of the purchase price/fair market value, however it will be the total collateral package that will determine the final leverage of the project. Besides being experienced and reputable in the maritime sector, our customers must undergo our Know Your Customer (KYC) procedures to qualify as customers.

The funding of the Company will consist of equity and deposits in the first phase of the operation. The Company will plan to issue bonds as a part of its funding.

Statement regarding capital increase

The company conducted a capital increase of USD 5 200 000 in March, in which the share capital was increased by USD 477 533 to USD 5 590 977, and the remaining amount was recorded as share premium.

Deficit for the period

The net income for the company is showing a deficit of USD 1 860 624 (USD - 653 959 in Q2 and - 1 206 665 in Q1).

Outlook

The Company consider that the market for ship-financing is growing in general and is providing interesting business opportunities for our services. The combination of a limited supply of credit to our target customers and growing investment activities in several segments should give a sound platform for growth during the forthcoming period. We have focused primarily on our domestic market during the upstart phase of the operation, but will gradually direct our focus towards a broader international customer base.

We still regard most of the second-hand values in the shipping market to be depressed and even on a historically low level in some segments. We are closely monitoring the various market trends and developments for assessing where we are in the cycle. Structural overcapacity on the supply side have hampered most of the respective markets over many years, but there are signs that we are approaching an improved market balance within the next 12-24 months. The offshore industry remains in a challenging situation with lay-ups and uncertainty of the current development. Lack of arm-length sales makes it very difficult to determine fair market values.

The Company entered the market for deposits from both retail and corporate sector based on our on-line solution during the second quarter and the volumes of the deposits have been and in line with the expectations of the Company.

Oslo, August 17th 2017

Board of Directors, Maritime & Merchant Bank ASA

Profit & Loss

<i>- In USD</i>	Note	2017 01.04 - 30.06	2017 01.01 - 30.06	2016 Full year
Interest income and related income				
Interest from loans to customers		504 517	564 985	
Interest from certificates and bonds		39 257	46 371	
Interest from loans to and receivables from credit institutions		56 647	137 916	1 603
Total interest income and related income	3	600 421	749 272	1 603
Interest expenses				
Interest expences and similar expences of loans to and receivables from credit institutions		-695	-2 809	-40 527
Interest expences and similar expences of loans to and receivables from customers		-103 814	-103 814	
Other fees and commisions		-1 627	-1 627	
Net interest expenses and related expenses	3	-106 136	-108 250	-40 527
Net gains / losses on foreign exchange				
Net value adjustments and gains/ losses on foreign exchange and financial derivatives		-378 437	-398 232	53 023
Net gains / losses on foreign exchange	4	-378 437	-398 232	53 023
Net gains / losses on financial instruments				
Net value adjustments and gains/ losses on commercial papers, bonds and other interest- bearing securities		446 393	457 693	
Net gains / losses on financial instruments	4	446 393	457 693	0
Total income		562 241	700 483	14 098
Salaries and general administration expenses				
Salaries and personnell expenses		-483 544	-1 121 211	-329 643
Administrative expenses		-758 936	-758 936	
Net salaries and general administration expenses		-1 242 480	-1 880 147	-329 643
Depreciation of fixed and intangible assets				
Depreciation		-243 052	-472 473	-123
Total depreciation of fixed and intangible assets		-243 052	-472 473	-123
Other operating expenses				
Other operating expenses		269 332	-208 487	-1 389 756
Total other operating expenses		269 332	-208 487	-1 389 756
Total operating expenses		-1 216 200	-2 561 107	-1 719 522
Operating result		-653 959	-1 860 624	-1 705 424
Loan loss provisions		0	0	0
Profit / (Loss) for the periode before tax		-653 959	-1 860 624	-1 705 424
Income tax (25 %)		163 490	465 156	389 622
Income tax		163 490	465 156	389 622
Profit / Loss for the periode		-490 469	-1 395 468	-1 315 802
Allocations				
Transferred from retained earnings		-490 469	-1 395 468	-1 315 802
Total allocations		-490 469	-1 395 468	-1 315 802

Balance Sheet

<u>Assets</u>		2017	2016
<u>- In USD</u>	<u>Note</u>	<u>30.06</u>	<u>31.12</u>
Lending to and receivables from credit institutions			
Lending to customers	1, 6	31 313 953	0
Lending to and receivables from credit institutions	6	44 063 661	49 047 234
Total lending to and receivables from credit institutions		75 377 614	49 047 234
Intangible assets			
Deferred tax assets		1 391 114	925 958
Other intangible assets		4 292 930	4 528 279
Total intangible assets		5 684 044	5 454 237
Tangible assets			
Machinery and equipment		56 830	1 813
Total tangible assets		56 830	1 813
Certificates, bonds and other receivables			
Commercial papers and bonds valued at market value	2, 6	39 899 099	
Commercial papers and bonds valued at amortised cost	2, 6	5 007 473	
Certificates, bonds and other receivables		44 906 572	0
Expenses paid on advance			
Earnet, not received income, and prepaid expenses		294 679	0
Prepaid, not accrued expenses		100 430	64 263
Total prepaid expenses		395 109	64 263
Other assets			
Financial derivatives			
Other assets		161 462	
Total other assets		161 462	0
TOTAL ASSETS		126 581 631	54 567 546
Liabilities and shareholders equity			
<u>- In USD</u>		<u>30.06.2017</u>	<u>31.12.2016</u>
Liabilities			
Deposits from and liabilities to customers			
Deposits from and liabilities to customers		62 418 102	0
Total deposits from and liabilities to customers		62 418 102	0
Other liabilities		4 970 613	769 281
Total other liabilities		4 970 613	769 281
Accrued expenses and received unearned income			
Accrued expenses and received unearned income		1 590 118	
Total accrued expenses and received unearned income		1 590 118	0
Total Liabilities		68 978 833	769 281
Shareholders equity			
Paid-in capital			
Share capital		5 590 977	5 113 444
Share premium account		55 123 645	50 401 178
Total paid-in capital		60 714 622	55 514 622
Retained earnings			
Retained earnings		-3 111 824	-1 716 357
Total retained earnings		-3 111 824	-1 716 357
Total shareholder equity	9	57 602 798	53 798 265
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		126 581 631	54 567 546

Statement of equity

<i>- In USD</i>	Share capital	Share premium	Retained earnings	Total equity
Equity as per 31.12.2015	442 191	3 751 164	-400 555	3 792 800
Share issue	79 593	1 241 673		1 321 266
Share issue	4 591 659	45 408 342	-	50 000 001
Profit	-	-	-1 315 802	-1 315 802
Equity as per 31.12.2016	5 113 444	50 401 178	-1 716 357	53 798 265
Share issue	477 533	4 722 467		5 200 000
Profit	-	-	-1 395 468	-1 395 468
Equity as per 30.06.2017	5 590 978	55 123 644	-3 111 825	57 602 798

Statement of Cashflows

	2017	2016
<i>- In USD</i>	30.06	31.12
CASHFLOW FROM OPERATIONAL ACTIVITIES		
Profit before tax	-1 860 624	-1 705 424
Change in lending to customers	-31 313 953	
Change in deposits from and liabilities to customers	62 418 102	
Change in certificates and bonds	-44 906 572	
Interest income and related income	-749 272	
Interest received	454 593	
Net interest expenses and related expenses	108 250	
Interest paid	-5 462	
Ordinary depreciation	472 473	123
Change in accounts payable	4 201 332	529 621
Change in other assets and other liabilities	1 289 700	48 796
Net cash flow from operating activities	-9 891 433	-1 126 884
CASHFLOW FROM INVESTMENT ACTIVITIES		
Payments for acquisition of assets	-292 141	-1 077 437
Net cash flow from investing activities	-292 141	-1 077 437
CASHFLOW FROM FINANCIAL ACTIVITIES		
Proceeds from issuance of long-term liabilities		-361 123
Proceeds from share issue	5 200 000	51 321 267
Net cash flow from financial activities	5 200 000	50 960 144
Effect of exchange rate changes on bank deposits, cash, etc.	-9	21
Net change in bank deposits, cash and cash equivalents	-4 983 583	48 755 844
Bank deposits, cash and cash equivalents as per 01.01	49 047 234	291 390
Bank deposits, cash and cash equivalents as per 30.06	44 063 651	49 047 234

Notes 30.06.2017Accounting principles

The financial statements of Maritime & Merchant Bank ASA for 30.06.2017 has been prepared in accordance with the simplified application of international accounting standards according to the Norwegian Accounting Act § 3.9 with additional disclosure requirements laid down in legislation and regulations.

The interim financial report for Q2 2017 has been prepared in accordance with chapter 9 in the regulation of financial reporting for banks and financial institutions.

Financial statement figures are stated in USD, unless otherwise stated.

Financial instruments

Maritime & Merchant Bank ASA has during 2017 invested in Bonds. The majority of the financial assets are classified as "Financial assets at fair value through profit or loss" as they were designated on initial recognition to be measured at fair value with fair value changes in profit or loss.

These financial assets are, subsequent to initial recognition, measured at fair value.

Financial assets with fixed or determinable payments that are not quoted in an active market, other than designated on initial recognition as assets at fair value through profit or loss are classified as "Loans and receivables". Financial assets with fixed or determinable payments that Maritime & Merchant Bank ASA intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss are classified as "Held-to-maturity" investments. Loans and receivables and Held-to-maturity investments are measured at amortised cost.

Financial derivatives are classified as "Held for trading" and are, subsequent to initial recognition, measured at fair value.

There has been no other changes to accounting principles in 2017.

Note 1 Lending to customers

Maritime & Merchant Bank ASA has lent USD 31 313 953 to customers. There has not been any defaults or impairment on these loans. In addition, loans of USD 14 500 000 has been granted, but not paid out as at 30.06.2017.

Note 2 Certificates and bonds

Bond portfolio measured at fair value through profit or loss.

Issuer	Risk Weight	Currency	Notional	Market value	Market Value USD
Covered Bonds	0	USD	5 000 000	5 007 833	5 007 833
Local and regional authorities	0	NOK	25 000 000	24 996 687	2 980 409
Covered Bonds	0,1	NOK	195 000 000	195 587 124	23 320 272
Companies	0,2	NOK	32 000 000	32 021 679	3 818 013
Local and regional authorities	0,2	NOK	40 000 000	40 027 557	4 772 572
Sum market value USD bond portfolio measured at fair value through profit or loss					39 899 099

Bonds measured at amortised cost

Issuer	Currency	Notional	Book value	Book value USD
Corporates	USD	5 000 000	5 000 000	5 007 473
Book value USD bond portfolio measured at fair value through profit or loss				39 899 099
Book value USD bonds measured at amortised cost				5 007 473
Sum book value bonds USD				44 906 572

Note 3 Net interest income and related income

Interest from loans to customers	504 517
Interest from certificates and bonds	39 257
Interest from loans to and receivables from credit institutions	56 647
Total interest income and related income	600 421

Interest expences and similar expences of loans to and receivables from credit institutions	-695
Interest expences and similar expences of loans to and receivables from customers	-103 814
Other fees and commisions	-1 627
Net interest expences and related expences	-106 136

Note 4 Net gains / losses on financial instruments and foreign exchange

Net value adjustments and gains/ losses on foreign exchange and financial derivatives	-378 437
Net value adjustments and gains/ losses on commercial papers, bonds and other interest- bearing securities	446 393
Interest rate and currency derivatives	0
Customer deposits	0

Note 5 Risk

The bank focuses on control and management of the bank's total risk. The main risk areas are described below.

Credit risk

See note 6.

Liquidity risk

The bank's objective is low liquidity risk, which means high liquidity buffers and good deposit coverage. Maritime & Merchant Bank is a newly established bank and our ability to issue securities is still very limited. This implicates that the bank needs to hold larger liquidity buffers than the average for Norwegian banks. Also see note 7.

Market risk

The bank shall not take positions in the currency and the fixed income market, and exposures that occur shall as far as possible be hedged. All exposure on the balance sheet, outside the balance sheet and estimated income and expense items will be covered. Market exposure will be limited and within limits and authorizatons granted by the board.

The bank's revenues are in USD, while operating costs are in NOK. The estimated exposure is hedged for the current year, and the unused hedge amount is booked as agio / disagio.

The bank will be exposed to changes in market value of bonds and certificates. This risk should be low to moderate and the portfolio should have high market liquidity.

A framework for the composition of this portfolio has been established, as well as limits for single issuers.

Operational Risk

The bank reduces operational risk through good governance and good control routines, well established framework and a risk- and compliance function.

Other risk factors

The bank continuously assesses changes which may affect risk factors.

Note 6 Credit risk and segments

The bank had per June 30th 2017, eight client commitments (loans) which was granted by the Board of Directors and approved by the borrowers, of which six were disbursed. The total committed exposure per June 30th 2017 was USD 45 813 953.

The aggregate drawn commitments added up to USD 31 313 953, while USD 14 500 000 is expected to be drawn in the third quarter of 2017.

The average weighted quality of the portfolio is Moderate Risk, and all credits, when granted, had an Expected Default Frequency which qualified them to be classified as Moderate Risk. The credit portfolio has a risk concentration around the mid point.

The majority of the commitments is secured with ship mortgages within 50 % of appraised values, and in combination with an estimated Moderate Expected Default Frequency, this provides for a sound credit portfolio with a marginal potential for future losses.

None of the commitments are classified as High Risk exposure.

The total committed portfolio was distributed with 49 % on dry bulk, 18 % on gas and 32 % on tankers.

The portfolio is distributed in risk classes according to official rating, collateral and internal risk classification.

Lending to customers and bonds	USD
Low Risk	39 899 099
Moderate risk	36 321 426
High risk	0
Loss Exposed	0
Sum	76 220 525

Financial Institutions:	USD
AA (Moody's)	44 063 661

Securities:

Risk Classification	Rating	Risk Weight	Currency	Notional	MarketValue	< 3 mnth
Very low to no risk	AAA	0	USD	5 000 000	5 007 833	
Very low to no risk	AA+	0	NOK	25 000 000	24 996 687	
Very low risk	AAA	0,1	NOK	195 000 000	195 587 124	
Low Risk	AA-	0,2	NOK	32 000 000	32 021 679	
Low Risk	Not Rated	0,2	NOK	40 000 000	40 027 557	
Sum NOK				292 000 000	292 633 047	-
Sum USD				5 000 000	5 007 833	-

Risk Classification	< 6 mnth	< 1 year	1 - 2 year	2 - 3 year	3 - 4 year	4 - 5 year
Very low to no risk					5 007 946	
Very low to no risk					24 996 687	
Very low risk	0			30 199 640	94 721 293	70 666 191
Low Risk	32 021 679					
Low Risk	40 027 557					
Sum NOK	72 049 236	0	0	30 199 640	119 717 980	70 666 191
Sum USD	0	0	0	0	5 007 946	0

Bonds measured at amortised cost

Risk Classification	Type	Risk Weight	Currency	Notional	Collateral Type
Moderate	Collateralised	100 %	USD	5 000 000	Bulk carriers

Note 7 Liquidity risk

Maritime & Merchant Bank aims to maintain a low liquidity risk. The bank has limited access to all financing markets, and the Norwegian deposit market is the main source of funding. This means that the bank needs a relatively large liquidity buffer, consisting of placement in other banks and securities with high quality and liquidity.

The bank's liquidity level is assessed by calculating the Liquidity Coverage Ratio (LCR) and the Net Stable Financing Ratio (NSFR). These ratios say something about the short liquidity level and the level of stable funding.

The bank calculates liquidity surplus, which appears as available funding less future liabilities within the defined time interval and required liquidity buffers.

Forecasts for these indicators are made for the next 12 months, which provide as basis for the size of the liquidity buffers.

Liquidity surplus: NOK 125.032.782 (USD 14.907.927)

	30.06.2017	31.03.2017	
LCR	495 %	313 %	
NSFR	195 %	387 %	
Deposit coverage	49 %	0 %	(% of total assets)

The bank's liquidity management follows guidelines and frameworks set by the bank's board, which are again based on recommendations from the Norwegian Financial Supervisory Authority.

The Bank has devised guidelines and framework for managing liquidity risk. In addition, the bank has established forecasts for financing needs, liquidity and preparedness plans for potential liquidity crises.

Note 8 Financial instruments**Cross Currency Basis Swap**

Description	Start	Maturity	NOK	USD	Year	Value NOK
Buy/Sell USD	11.07.2017	12.10.2020	126 150 000	15 000 000	3,275	-46 370

Note 9 Share capital and shareholder information

The company has 4 804 286 shares at NOK 10.

The total share capital is NOK 48 042 860. The Company has one share class only.

Statement regarding capital increase

The company conducted a capital increase of USD 5 200 000 in March, in which the share capital was increased by USD 477 533 to USD 5 590 977, and the remaining amount was recorded as share premium.

The shareholders of the Company are

No	Shareholder	Numb. Of shares	%
1	Henning Oldendorff	1 201 071	25 %
2	Endre Røsjø *	1 201 071	25 %
3	Songa Trading Inc.	559 881	12 %
4	Canomaro Bulk AS	438 899	9 %
5	Landmark Capital Pte. Ltd	174 852	4 %
6	Nergaard Investment Partners AS	159 727	3 %
7	Apollo Asset Ltd.	158 036	3 %
8	Thabo Energy AS	118 526	2 %
9	Euroclear Bank S.A.	118 526	2 %
10	TD Veen AS	94 821	2 %
	Others	578 876	12 %
Total		4 804 286	100 %

(*) 102 723 shares (2 %) owned through Centennial AS

Note 10 - Capital Adequacy

<i>Amounts in USD - thousands</i>	<i>30.06.2017</i>	<i>31.12.2016</i>
Share capital	5 591	5 113
+ Other reserves	52 012	48 685
- Deferred tax assets and intangible assets	-5 684	-5 454
Common Equity Tier 1 (CET 1)	51 919	48 344
+ Additional Tier 1 Capital (hybrid / perpetual)	-	-
Tier 1 Capital	51 919	48 344
+ Subordinated loan capital	-	-
Tier 2 Capital	51 919	48 344
Total Capital	51 919	48 344
Calculation basis		
Credit Risks		
+ Bank of Norway	-	-
+ Local and regional authorities	954	-
+ Institutions	9 576	785
+ Companies	35 458	-
+ Covered bonds	2 334	-
+ Shares of mutual funds	-	-
+ Other assets	299	-
Total Credit risks	48 622	785
+ Operational risk	8 706	8 763
+ Counterparty risk derivatives (CVA-risk)	463	-
Total calculation basis	57 791	9 548
Capital Adequacy		
Common Equity Tier 1 %	89,84 %	506,34 %
Tier 2 Capital	89,84 %	506,34 %
Total capital %	89,84 %	506,34 %