Financial Report

31.12.2017

MARITIME & MERCHANT
BANK ASA

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Operation and Strategy

Maritime & Merchant Bank ASA (M&M) is a niche bank for the maritime sector. The bank is offering term loans for financing of conventional types of ships. All loans are secured by 1st priority mortgages in addition to other types of collaterals. We are normally financing about 50% of the market value (when the loan was granted). M&M is serving customers from all parts of the world and our target market is the small and middle-sized shipowners. By combining deep industrial and market insight with solid banking craftmanship we have created an efficient platform for prudent credit analysis and efficient processing of the loans.

The first full year of operation for the Company confirmed that there is a responsive market for a niche bank in the maritime sector. The total supply of credit to the shipping sector has gradually been reduced over the last 10 years and the inflow of enquiries to the bank has been steadily growing during 2017 and has resulted in approved credits and disbursement of close to USD 100 million. The funding model based on on-line deposits has functioned to our satisfaction.

We will continue to strengthen our competence platform going forward for further improvement and refining of all our routines and processes related to the quality assurance of the handling of the credit applications, analytical work and the disbursements of loans.

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 1 283 949 and USD 1 283 949 is proposed transferred from retained earnings.

Modified Operation result

Operating result	-2 592 857
Depreciation	851 327
Up Front Fees (1)	1 919 369
Modified Operating result	**177 839**

(1) Up Front Fees which has been received but not recognized as income

Net interest income
Net interest income totaled USD 2 429 022. The Board of Directors is of the view that the net interest income will increase in 2018 as a result of higher volume of lending.

Operating expenses
Operating expenses in 2017 totalled to USD 4 987 051. Salaries and other personnel costs account for the largest proportion of the overall operating expenses for the bank, amounting to USD 2 214 544.

Loan and Loan Loss provisions
Maritime & Merchant Bank ASA has lent USD 96 849 292 to customers *(Inclusive bonds valued at amortised cost)*. There has not been any defaults or impairment on these loans
IFRS 9
The Bank's preliminary calculations show that the transition to IFRS 9 will result in an allowance in step 1 only and in the range of USD 400.000 to 475 000, based on individual assessment.

Deposit
At the year-end 2017, customer deposits amounted to USD 194 843 909.

Work environment, equality and discrimination.
The Board considers the work environment in the bank to be good. The bank is focusing on creating a good work environment that makes it an attractive workplace. This is regarded as a criterion of success for the operation and development of the business. The bank has established a HR function and a ruleset for the working environment and will work on develop a well-functioning HSE system. Sickness absence in 2017 was 1.4% in Maritime & Merchant Bank ASA. No serious occupational accidents or incidents resulting in significant material damage or personal injury have occurred or been reported during the year. In the company's Board, three of the seven members are women. The proportion of women among the employees is 30% in Maritime & Merchant Bank ASA as of 31.12.2017. The company will continue to ensure that women and men have equal advancement opportunities, and continue to develop working conditions that are satisfactory for both men and women. The group is working actively to promote equality, ensure equal opportunities and rights, and impede discrimination. This is reflected in the business' processes for recruitment and staff/ management development.

Environmental reporting
The Company does not pollute the environment.

Corporate Governance and Corporate Social Responsibilities (CSR)
Maritime & Merchant Bank ASA's main target in relation to Corporate Governance is matters related to ownership of clients, Anti Money Laundering and KYC (Know Your Customer) information.

The bank has developed an extensive template / questionnaire which is sent to each potential corporate customer prior to opening of a business relationship. The bank has from its start up in December 2016 implemented the EUs 4e directive (4th AMLD active from 26.06.2017), which implies a full scanning and approval of all Beneficial Owners holding more than 10 %.

The Bank has, in certain cases, refused client relationship due to the lack of transparency to ultimate ownership.

As to CSR matters, the bank has a limited number of external suppliers, mainly related to IT services and insurances. The Bank has not established any specific routines to CSR check its suppliers as those are well established and reputed companies within the EU/EEA.

All loan agreements with the Bank's customers have clauses and restrictions related to the customers' compliance with international laws and regulations as well as international sanctions.

The Bank has also focus on the standard of the vessels financed, in relation to pollution and safety of the seas.

RISK FACTORS

Credit risk

The average weighted quality of the portfolio is Moderate Risk, and all credits, when granted, had an Default Probability 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 (when the loan was granted) in addition to security in cash and earnings, and in combination with an estimated moderate Default Probability, this provides for a sound credit portfolio with a marginal potential for future losses.

None of the commitments are classified as High Risk exposure.

In addition to estimating the Default Probability, we also estimate the Loss Given Default on each exposure. Based on the low leverage of financing in combination with financing non-specialized tonnage with strict covenants, the average weighted Loss Given Default for the loan portfolio, is very satisfactory.

The Bank's estimated risk cost, Expected Loss, is calculated as Probability of Default multiplied with Loss Given Default, and is included in all internal return on capital estimations in connection with granting new loans.

The portfolio is distributed in risk classes according to official rating, collateral and internal risk classification.
The total committed portfolio was distributed with 41 % on bulk carriers, 16 % on gas carriers, 31 % on tankers and 11 % on container vessels.

The Bank's internal credit strategy has limits for maximum exposure to the various shipping segments, and Acceptable Risk Criteria form guidelines for the lending strategy. All present loan exposure fell within the Bank's credit strategy

Liquidity risk

Maritime & Merchant Bank has adopted guidelines for management of the bank's liquidity position to ensure that the bank maintains a solid liquidity. The bank has a low liquidity risk profile. Main funding sources in the first years of operation has been equity and NOK deposits. The bank has liquidity portfolio/buffers well above minimum requirement. Liquidity stress tests show satisfactory liquidity.

	31.12.2017	**30.09.2017**	**30.06.2017**	**31.03.2017**
LCR	457 %	338 %	495 %	313 %
NSFR	203 %	197 %	195 %	387 %
Deposit coverage *(1)*	77 %	72 %	49 %	0 %

(1) % of total assets

Interest rate risk

Maritime & Merchant Bank has defined guidelines that set limits for the maximum interest rate risk. Any exposure exceeding the interest rate risk limits shall be mitigated by using hedging instruments. Routines have been established for on-going monitoring and reporting of the interest rate risk to the Board of Directors.

Market risk
Maritime & Merchant Bank has developed guidelines and limits for counterparty exposure, maturity per counterpart, average duration of portfolio and foreign exchange risk. Exposure to foreign exchange risk (not USD) is hedged.

Operational risk
Maritime & Merchant Bank has established operational risk policy and guidelines. Contingency plans have been established, and insurance is (professional responsibility, crime and BOD responsibility) purchased in order to reduce risk.

Outlook
There is generally a cautious optimism within the maritime sector. Various segments are still hampered by structural overcapacity on the supply side keeping the freight rates at low historic levels with corresponding asset values, while there has been a significant improvement in other parts of the industry. The offshore industry is showing various signs of improvement in view of the increase in oil prices, while most of the assets values are still depressed.

In spite of the fact that some of the shipping segments are still surrounded by a fair amount of uncertainties, there has been a strong interest for investing in the sector world-wide which has resulted in a high number of transactions effectuated with a corresponding need for financing. We regard it as likely that this development will continue in 2018. Various key indicators for the development in the global economy looks promising for the global GDP growth during the next 12 months.

A majority of the major shipping banks continued their work during 2017 in order to reduce their exposure towards the shipping and offshore sector as a result of both regulatory measurements and various other structural shifts in the market. The consequence of this will be a more segmented supply of credit to the maritime sector to the various customer groups according to their size and profile and the active banks within the sector must adapt to this development. We are of the opinion that M&M has a business concept and a competence platform which enable the bank to take part in this development in a successful manner.

Oslo, February 19th 2018

Board of Directors, Maritime & Merchant Bank ASA

Profit & Loss

- In USD	Note	2017 01.01 - 31.12	2016 01.01 - 31.12
Interest income and related income			
Interest from loans to customers		2 969 799	
Interest from certificates and bonds		746 679	
Interest from loans to and receivables from credit institutions		284 329	1 603
Total interest income and related income		**4 000 807**	**1 603**
Interest expenses			
Interest expences and similar expences of loans to and receivables from credit institutions		-2 560	-40 527
Interest expences and similar expences of loans to and receivables from customers		-1 561 531	
Other fees and commisions		-7 694	
Net interest expenses and related expenses		**-1 571 785**	**-40 527**
Net gains / losses on foreign exchange			
Net value adjustments and gains/ losses on foreign exchange and financial derivatives		-633 044	53 023
Net gains / losses on foreign exchange		**-633 044**	**53 023**
Net gains / losses on financial instruments			
Net value adjustments and gains/ losses on commercial papers, bonds and other interest- bearing securities		587 861	
Net gains / losses on financial instruments		**587 861**	**0**
Other operating income			
Other operating income		10 355	
Total other operating income		**10 355**	**0**
Total income		**2 394 194**	**14 098**
Salaries and general administration expenses			
Salaries and personnell expenses	10, 11, 12	-2 214 544	-329 643
Administrative expenses	13	-1 436 692	
Net salaries and general administration expenses		**-3 651 236**	**-329 643**
Depreciation and impairment of fixed and intangible assets			
Depreciation and impairment		-851 327	-123
Total depreciation and impairment of fixed and intangible assets		**-851 327**	-123
Other operating expenses			
Other operating expenses		-484 488	-1 389 756
Total other operating expenses		**-484 488**	**-1 389 756**
Total operating expenses		**-4 987 051**	**-1 719 522**
Operating result		**-2 592 857**	**-1 705 424**
Loan loss provisions		0	0
Loss for the period before tax		**-2 592 857**	**-1 705 424**
Income tax	19	1 308 908	389 622
Income tax		**1 308 908**	**389 622**
Loss for the period		**-1 283 949**	**-1 315 802**
Allocations			
Transferred from retained earnings		-1 283 949	-1 315 802
Total allocations		**-1 283 949**	**-1 315 802**

Balance Sheet

Assets - In USD	Note	31.12.2017	31.12.2016
Lending to and receivables from credit institutions			
Lending to customers	1, 4, 5, 8	91 827 014	0
Lending to and receivables from credit institutions	4, 5	46 746 274	49 047 234
Total lending to and receivables from credit institutions		**138 573 288**	**49 047 234**
Certificates, bonds and other receivables			
Commercial papers and bonds valued at market value	2, 4, 5, 8	102 474 392	
Commercial papers and bonds valued at amortised cost	2, 4, 5, 8	5 022 278	
Certificates, bonds and other receivables		**107 496 670**	**0**
Intangible assets			
Deferred tax assets	19	2 234 866	925 958
Other intangible assets	15	4 557 104	4 528 279
Total intangible assets		**6 791 970**	**5 454 237**
Tangible assets			
Machinery and equipment		72 268	1 813
Total tangible assets		**72 268**	**1 813**
Other assets			
Financial derivatives	6	828 450	
Other assets		133 944	
Total other assets		**962 394**	**0**
Expenses paid in advance			
Prepaid, not accrued expenses		120 681	64 263
Total prepaid expenses		**120 681**	**64 263**
TOTAL ASSETS		**254 017 271**	**54 567 547**

Liabilities and shareholders equity - In USD	Note	31.12.2017	31.12.2016
Liabilities			
Deposits from and liabilities to customers			
Deposits from and liabilities to customers	16	194 843 909	
Total deposits from and liabilities to customers		**194 843 909**	**0**
Other liabilities			
Financial derivatives	6	445 340	
Other liabilities	17	563 838	769 281
Total other liabilities		**1 009 178**	**769 281**
Accrued expenses and received unearned income			
Accrued expenses and received unearned income	17	449 869	
Total accrued expenses and received unearned income		**449 869**	**0**
Total Liabilities		**196 302 956**	**769 281**
Shareholders equity			
Paid-in capital			
Share capital		5 590 977	5 113 444
Share premium account		55 123 644	50 401 178
Total paid-in capital		**60 714 621**	**55 514 622**
Retained earnings			
Retained earnings		-3 000 306	-1 716 357
Total retained earnings		**-3 000 306**	**-1 716 357**
Total shareholder equity	7, 9	**57 714 315**	**53 798 265**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**254 017 271**	**54 567 547**

Statement of equity

- In USD	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	-	-	-1 283 949	-1 283 949
Equity as per 31.12.2017	5 590 977	55 123 644	-3 000 306	57 714 315

Statement of Cashflows

- In USD	2017 31.12	2016 31.12
CASHFLOW FROM OPERATIONAL ACTIVITIES		
Profit before tax	-2 592 857	-1 705 424
Change in lending to customers	-91 827 014	
Change in deposits from and liabilities to customers	194 843 909	
Change in certificates and bonds	-107 496 670	
Interest income and related income	-4 000 807	
Interest received	5 123 998	
Net interest expenses and related expenses	1 571 785	
Interest paid	-1 571 785	
Ordinary depreciation	851 327	123
Change in accounts payable	-205 443	529 621
Change in financial derivatives	-383 110	
Change in other assets and other liabilities	-863 687	48 796
Net cash flow from operating activities	**-6 550 354**	**-1 126 884**
CASHFLOW FROM INVESTMENT ACTIVITIES		
Payments for acquisition of assets	-950 672	-1 077 437
Net cash flow from investing activities	**-950 672**	**-1 077 437**
CASHFLOW FROM FINANCIAL ACTIVITITES		
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 lending to and receivables from credit institutions	**66**	**21**
Net change in lending to and receivables from credit institutions	-2 300 960	48 755 844
Lending to and receivables from credit institutions as per 01.01	49 047 234	291 390
Lending to and receivables from credit institutions as per 31.12.	**46 746 274**	**49 047 234**

Notes 31.12.2017

Accounting principles
The financial statements of Maritime & Merchant Bank ASA for 31.12.2017 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 financial report for 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.

Recognition of interest Interest income is recognised using the internal rate of return method. This involves recognising nominal interest with the addition of the amortisation of arrangement fees less direct arrangement costs. The recognition of interest by the internal rate of return method is used both for balance sheet items valued at amortised cost and for balance sheet items valued at fair value through profit or loss. Interest income on written down credit commitments is calculated as the internal rate of return on the written down value.

Accrual of interest and charges Interest and commission is recognised in the income statement as it is earned as income or accrues as expense. Charges that are direct payment for services rendered are taken to income when they are paid. Arrangement fees are included in the cash flows when calculating amortised costs and recognised as income in the line item "Interest expences and similar expences of loans to and receivables from customers" using the internal rate of return method.

Tangible fixed assets Material assets are classified as tangible fixed assets and valued at acquisition cost less accumulated depreciation and write-downs. Acquisition cost includes expenses related directly to the acquisition. Repairs and maintenance are expensed on an ongoing basis in the income statement. Tangible fixed assets are depreciated on a straightline basis over their expected useful life. Fixtures and fittings etc. and computer equipment are amortised over a period of 3 years. The residual values and useful lives of the assets are assessed on an annual basis and adjusted as necessary. The need for write-downs is also assessed on a regular basis.

Intangible assets Purchased software/licences are classified as intangible assets and recognised in the balance sheet at acquisition cost with the addition of the expenses required to make the software ready for use. These are amortised in line with the duration of the contracts and the expected economic life of the asset. The development of software is recorded in the balance sheet and, where the value is assessed as substantial and is expected to have lasting value, it is amortised over the course of its estimated useful life. The residual values and useful lives of the assets are assessed on an annual basis and adjusted as necessary. The need for write-downs is also assessed on a regular basis

Pensions The bank has a defined contribution pension scheme for its employees and the scheme is managed by a life assurance company. The bank pays an annual contribution to the group pension savings scheme of the individual employee. The bank has no further commitments beyond the payment of the annual contribution.

Taxes The year's tax cost comprises taxes payable for the financial year as well as changes in deferred tax on temporary differences. Temporary differences are the differences between the accounting and tax values of balance sheet items. Deferred tax is determined using the tax rates and tax rules applicable on the reporting date and that it is assumed will be applied when the deferred tax asset is realised or when the deferred tax is settled. Deferred tax asset is recognised in the balance sheet in so far as it is probable that it can be charged to future taxable income. In tax accounting the equity is denominated in NOK, hence the taxable result will fluctuate with the USDNOK exchange rate.

Statement of Cash Flows The Statement of Cash Flows has been prepared using the indirect method

Translation of transactions in foreign currencies The financial statements are presented in USD, which is also the functional currency of the bank. Monetary items in foreign currencies are translated at the rate of exchange applicable on the balance sheet date. Changes in value as a consequence of changes in the rate of exchange between the transaction date and the balance sheet date are recognised in the income statement.

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.

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 assets and liabilities are recognised in the balance sheet on the trading date, ie at the point in time when the bank becomes party to

the contractual provisions of the instrument. Financial assets are removed from the balance sheet when the contractual obligations have been sold, cancelled or have expired.

Classification
On initial recognition, financial instruments are classified in one of the following categories:

Financial assets
- Financial assets at fair value through profit or loss.
- Lending and receivables recognised at amortised cost.

Financial liabilities
- Financial liabilities designated to be measured at fair value, with value changes recognised in profit or loss.
- Other financial liabilities recognised at amortised cost.

Financial assets and liabilities at fair value through profit or loss
Assets and liabilities in this category are:
- Commercial papers and bonds held for liquidity purpose
- Financial Derivatives
- Cash deposits and loans to credit institutions
- Debt securities in issue with fixed rates of interest
- Deposits from customers with fixed interst rate

Loans and receivables recorded at amortised cost
Assets and liabilities in this category are:
- Loans and receivables are financial assets that have fixed or determinable payments, and are not traded on an active market.
- Bonds that have fixed or determinable payments, and are not traded on an active market.
- Deposits by customers and credit institutions without locked-in interest rates and other financial liabilities, that are not specified as liabilities valued at fair value through profit or loss.

Measurement
All financial assets that are not recognised at fair value through profit or loss are initially recognised in the balance sheet at fair value with the addition of transaction costs. Other liabilities recognised at amortised cost are initially recognised in the balance sheet at fair value less transaction costs. Financial assets and liabilities recognised at fair value through profit or loss are recognised at the time of acquisition at fair value and transaction costs are recognised in the income statement. Financial assets and liabilities at fair value through profit or loss are measured in subsequent periods at fair value. Loans and receivables and other financial commitments are measured at amortised cost using the effective interest method.

Fair value measurement
Fair value is the price that would be received by selling an asset or a liability can be settled in a transaction between independent parties. The going concern assumption is applied in the calculation and a provision for the credit risk associated with the instrument is included in the valuation. Financial instruments are measured at the price within the bid-ask spread where a corresponding market risk can be shown to be present to a sufficient degree of probability.

Financial assets and liabilities traded in an active market, quoted prices are used. In so far as no quoted prices for the instrument are obtainable, the instrument will be decomposed and valued on the basis of the prices of the individual components. This applies to the majority of derivatives such as forward exchange contracts and interest rate swaps, as well as to certificates and bonds.
In the case of other financial instruments such as deposits and loans by customers and credit institutions with locked-in rates, contractual cash flows are determined, discounted by the market rate including a credit risk margin at the reporting date.

Amortised cost measurement
Financial instruments that are not measured at fair value are measured at amortised cost and income is calculated using the effective rate of interest of the instrument (internal rate of return). The internal rate of return is determined by discounting contractual cash flows within the anticipated term. The cash flow includes arrangement fees and direct transaction costs not payable by the customer, as well as any residual value at the end of the anticipated term. Amortised cost is the present value of these cash flows discounted at the internal rate of return.

Writing down of financial assets
If objective evidence of the impairment of loans can be identified, the write-down on loans is calculated as the difference between the accounting value in the balance sheet and the present value of estimated future cash flows discounted by the internal rate of return of the asset. The internal rate of return applied is the internal rate of return of the asset before objective evidence of impairment is identified. Objective evidence of impairment includes significant financial problems on the part of a debtor, payment default or other material breaches of contract, circumstances in which it is viewed as likely that a debtor will commence upon debt restructuring negotiations or where other material circumstances have occurred. Writing down reduces the value of the loan as recorded in the balance sheet and the changes in estimated value during the period are recognised in the income statement in the line item "Losses on loans and guarantees etc.". Interest calculated using the internal rate of return on the written down value of the asset is included in the line item "Net interest income". Loans are also valued collectively.

Standards, amendments and interpretations of existing standards that have not yet come into force where the bank has decided against early adoption.

IFRS 9

Classification and measurement
The Bank has completed the assessment of the impact of the Standard on classification and measurement (applicable from 2018).
The new standard will not affect the classification and measurement category for either financial assets or financial liabilities.

Loans are classified using the Business model of the bank and an assessment of the characteristics of the contractual cash flows that aims to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding (SPPI-test).

Impairment losses on loans and advances
Under current rules, write-downs for losses will only take place when there is objective proof that a loss event has occurred after the loan has been granted. According to IFRS 9, loss provisions will be recognized based on the expected credit loss (EL). The measurement of the provision for Expected loss depends on whether credit risk has increased significantly since first-time capitalization.
At initial disbursement and when credit risk has not increased significantly after initial capitalization or the instrument has low credit risk on the reporting date, an allowance equal to 12-month expected loss ("Step 1") has to be recognised.
If credit risk has increased significantly after initial recognition but there is no objective proof of loss, an allowance of expected loss over the entire lifetime ("Step 2") has to be made. The accumulated expected loss in "Step 1" and "Step 2" replaces current group allowance. The individual loss provisions under IAS 39 will not change significantly upon the transition to IFRS 9 ("Step 3").

In assessing what constitutes a significant increase in credit risk, the bank, in addition to the standard's presumption of financial Assets that have cash flows that have been due for more than 30 days are subject to significantly increased credit risk, assumed qualitative and quantitative indicators. The most important quantitative indicator the bank assess is whether it has been a significant increase in credit risk determined by comparing the original likelihood of default and loss given default ("PDxLGD") with the probability of default and loss given default ("PDxLGD") at the reporting date. However, when assessing significant increase in credit risk for IFRS 9 purposes, loss given default is not included in the assessment.Based on this the Bank has defined that a doubling in the probability of default or an absolute change of 1% constitutes a significant increase in credit risk. The bank uses an internally developed scorecard model for assessing the credit risk in the loan portfolio. Among factors used are loan to value, cash flow, free cash and qualitative elements. The scorecard model predict probability of default (PD), loss given default (LGD) and risk class (from 1 to 10). Significant judgements are required when assessing models and assumptions, and resulting estimates are thus uncertain in nature.

The bank follow qualitative and quantitative indicators on a regular basis, and in any situation where there is a suspicion that there have been conditions of negative importance for the commitment / customer.

The Bank's preliminary calculations show that the transition to IFRS 9 will result in an allowance in step 1 only and in the range of USD 400.000 to 475 000, based on individual assessment.

IFRS 15 Revenue from contracts with customers deals with revenue recognition. The standard specifies the identification of the individual performance obligations within the contract with the customer. A performance obligation may take the form of a good or service. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for the 2018 financial year, but earlier application is permitted. The standard will not have a significant effect on the financial statements of the bank.

Note 1 Lending to customers

Maritime & Merchant Bank ASA has lent USD 96 849 292 to customers *(1)*. There has not been any defaults or impairment on these loans.
(1) Inclusive bonds valued at amortised cost.

Note 2 Certificates and bonds

Bond portfolio is measured at fair market value. Valuation is based on not listed but observable prices for assets or liabilities either direct (for example prices) or indirectly (for example, derived from credit spreads and interest rates)

Issuer	Risk Weight	Currency	Notional	Market value	Market Value USD
European Investment Bank	0 %	USD	5 000 000	5 012 120	5 012 120
Local and regional authorities	0 %	NOK	25 000 000	25 013 642	3 048 585
Covered Bonds	10 %	NOK	771 000 000	774 664 300	94 413 686
Local and regional authorities	20 %	NOK	-	-	-
Sum market value USD bond portfolio measured at fair value through profit or loss					102 474 392

Bonds measured at amortised cost

Issuer	Currency	Notional	Book value
Corporates	USD	5 000 000	5 022 278

The Bank and a company, to which the Bank has exposure through a bond holding, have a common board member. The bonds the bank is holding are collateralized in vessels within acceptable risk criteria.

	Book value USD
Book value USD bond portfolio measured at fair value through profit or loss	102 474 392
Book value USD bonds measured at amortised cost	5 022 278
Sum book value bonds USD	107 496 670

Note 3 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 4.

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 5.

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.

<u>Currency Risk</u>
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 authorisations granted by the board.

Funding in NOK is swapped to USD using cross currency basis swaps, with duration around 3 to 3,5 years. Using cross currency swaps match funding in NOK with lending in USD. Assets and liabilites are currency matched.

<u>Tax and currency risk</u>
In tax accounting the equity is denominated in NOK, hence the taxable result will fluctuate with the USDNOK exchange rate. When USDNOK depreciate, the taxable result will be more negative than the USD result.

<u>Credit Spread risk</u>
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. Credit spread risk is measured using Solvency II metodology. The credit spread risk is low to moderate.

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

<u>Interest Rate Risk</u>
All exposure on the balance sheet and outside the balance sheet will be covered. Market exposure will be limited and within limits and authorisations granted by the board.

There has been no interest rate risk other than normal risk arising from banking activities, i.e. shorter than 3-month maturity. All loans and deposits are without fixed rate terms, and no loans have interest rate period longer than 3 months.

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

Other risk factors
The bank continuously assesses changes which may affect risk factors.

Note 4 Credit risk and segments

The total committed exposure per December 31th 2017 was USD 96 849 292. There is so far not identified any objective evidence off any loss event.

The average weighted quality of the portfolio is Moderate Risk, and all credits, when granted, had an Expected Default Probability 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, on disbursement date, secured with ship mortgages within 50 % of appraised values in addition to security in cash and earnings, and in combination with an estimated Moderate Default Probability, this provides for a sound credit portfolio with a marginal potential for future losses.

None of the commitments are classified as High Risk exposure.

In addition to estimating the Default Probability, we also estimate the Loss Given Default on each exposure. Based on the low leverage of financing in combination with financing non-specialized tonnage with strict covenants, the average weighted Loss Given Default for the loan portfolio, is very satisfactory.

The Bank's estimated risk cost, Expected Loss, is calculated as Default Probability multiplied with Loss Given Default, and is included in all internal return on capital estimations in connection with granting new loans.

The portfolio is distributed in risk classes according to official rating, collateral and internal risk classification.
The total committed portfolio was distributed with 41 % on bulk carriers, 16 % on gas carriers, 31 % on tankers and 11 % on container vessels.

The Bank's internal credit strategy has limits for maximum exposure to the various shipping segments, and Acceptable Risk Criteria form guidelines for the lending strategy. All present loan exposure fell within the Bank's credit strategy.

Risk classes and credit score:

Low risk	Credit score: 1-4
Medium risk	Credit score: 5-7
High risk	Credit score: 8-10

Lending to customers and bonds:	Loans USD	Bonds USD	Total USD
Low Risk		102 474 392	102 474 392
Moderate risk	96 849 292	0	96 849 292
High risk	0	0	0
Loss Exposed	0	0	0
Sum	96 849 292	102 474 392	199 323 684

Lending to and recievables from credit institutions:	USD
AA (Moodys)	46 746 274

Securities:

Risk Classification	Rating	Risk Weight	Currency	Notional	Market Value
Very low to no risk	AAA	0 %	USD	5 000 000	5 012 120
Very low to no risk	AA+	0 %	NOK	25 000 000	25 013 642
Very low risk	AAA	10 %	NOK	771 000 000	774 664 300
Very low risk	AAA	20 %	NOK	-	-
Low Risk	Not Rated	20 %	NOK	-	-
Sum NOK				796 000 000	799 677 941
Sum USD				5 000 000	5 012 120

Risk Classification	< 3mnth	<1 Year	1-5 Years	5+ Years	Total
Very low to no risk	-	-	5 012 120	-	5 012 120
Very low to no risk	-	-	25 013 642	-	25 013 642
Very low risk	-	215 671 882	538 954 117	20 038 300	774 664 300
Low Risk	-	-	-	-	-
Low Risk	-	-	-	-	-
Sum NOK		215 671 882	563 967 759	20 038 300	799 677 941
Sum USD			5 012 120		5 012 120

Bonds measured ar amortised cost:

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

Lending to customers by geographical location

	31.12.2017
Norway *(1)*	52 356 271
Europe	31 075 108
Bermuda	8 458 717
Asia	4 959 195
Total	**96 849 292**

(1) Inclusive bonds valued at amortised cost

Note 5 Liquidity risk

Maritime & Merchant Bank aims to maintain a low liquidity risk. The bank has limited access capital 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 describe 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.

Maturity and liquidity items

	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Over 5 years	Total
Cash and claims on central banks						
Loans and receivables from credit inst	46 746 274					46 746 274
Loans to and receivables from customers*			8 502 504	88 346 788		96 849 292
Commercial papers and bonds			26 284 222	73 747 964	2 442 206	102 474 392
Shares, funds and other securities						
Assets	**46 746 274**	**0**	**34 786 726**	**162 094 752**	**2 442 206**	**246 069 958**
Deposits from credit institutions						
Deposits from and liabilities to customers	188 528 562			6 315 347		194 843 909
Debt from issuance of bonds						
Subordinated loan capital						
Liabilities	**188 528 562**	**0**	**0**	**6 315 347**	**0**	**194 843 909**
Financial derivatives (net settlement)				383 100		383 100
Total	**-141 782 288**	**0**	**34 786 726**	**156 162 505**	**2 442 206**	**51 609 149**

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 developede guidelines and a framework for managing liquidity risk. In addition, the bank has established forecasts for financing needs, liquidity and action plans for potential liquidity crises.

Note 6 Financial derivatives

Financial derivatives are measured at fair market value. Valuation is based on observable prices for assets or liabilities either direct (for example prices) or indirectly (for example, derived from excange rates, basis swap prices and interest rates).

Cross Currency Basis Swap

			USD in maturity Buckets			Market Value
Decription	**NOK**	**USD**	**<1 Year**	**1-3 Years**	**3-5 Years**	**USD**
Buy / Sell USD	**495 675 000**	**60 000 000**	-	**15 000 000**	**45 000 000**	**383 110**

Numer of Contracts: 3

Note 7 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	225 302	5 %
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	528 426	11 %
	Total	**4 804 286**	**100 %**

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

Note 8 - Category Financial Instruments

	Financial instruments measured at fair value through profit and loss	Financial instruments valued at amortised cost	Financial Instruments Total
Cash and claims on central banks	0	0	0
Loans and receivables from credit inst	46 746 274		46 746 274
Loans to and receivables from customers		91 827 014	91 827 014
Commercial papers and bonds	102 474 392	5 022 278	107 496 670
Financial derivatives	828 450		828 450
Shares, funds and other securities	0	0	0
Assets	**150 049 116**	**96 849 292**	**246 898 408**
Deposits from credit institutions	0	0	0
Deposits from and liabilities to customers	194 843 909	0	194 843 909
Debt from issuance of bonds	0	0	0
Subordinated loan capital	0	0	0
Financial derivatives	445 340	0	445 340
Liabilities	**195 289 249**	**0**	**195 289 249**

Note 9 - Capital Adequacy

Amounts in USD - thousands	31.12.2017	31.12.2016
Share capital	5 591	5 113
+ Other reserves	52 123	48 685
- Defered tax assets and intangible assets	-6 792	-5 454
Common Equity Tier 1 (CET 1)	**50 922**	**48 344**
+ Additional Tier 1 Capital (hybrid / perpetual)	-	-
Tier 1 Capital	**50 922**	**48 344**
+ Subordinated loan capital		-
Tier 2 Capital	**50 922**	**48 344**
Total Capital	**50 922**	**48 344**
Calculation basis		
Credit Risks		
+ Bank of Norway	-	-
+ Local and regional authorities	-	-
+ Institutions	9 349	785
+ Companies	96 849	-
+ Covered bonds	9 441	-
+ Shares of mutual funds	-	-
+ Other assets	116	-
Total Credit risks	**115 756**	**785**
+ Operational risk	8 763	8 763
+ Counterparty risk derivatives (CVA-risk)	2 115	-
Total calculation basis	**126 633**	**9 548**
Capital Adequacy		
Common Equity Tier 1 %	**40,21 %**	**506,34 %**
Total capital %	**40,21 %**	**506,34 %**

Note 10 - Remunerations etc.

- In USD	Fixed Salary	Other remuneration	Bonus (1)	Total Remuneration	No. Of shares	%
Management						
Halvor Sveen (CEO)	302 099	2 267	12 696	317 062	11063	0,2 %
Per Ugland (CCO)	198 050	2 078	9 902	210 031	-	-
Tor Stenumgard (CFO)	198 050	2 078	9 902	210 031	-	-
Lars Fossen (CRO/CCO)	198 050	2 078	9 902	210 031	-	-
Steinar Sæther (COO)	198 050	2 078	9 902	210 031	-	-
Total management	**1 094 299**	**10 580**	**52 306**	**1 157 184**	**11 063**	**0,2 %**

(1) In 2017, it was agreed that all employees would be paid an extra ½ month's salary

- In USD	Proposed Fee	Other Remuneration	Bonus	Total Remuneration	No. Of shares (1)	%
Board of Directors						
Endre Røsjø, Chair	-	-	-	-	1 201 071	25 %
Henning Oldendorff	-	-	-	-	1 201 071	25 %
Arne Blystad	-	-	-	-	559 881	12 %
Magnus Roth	-	-	-	-	438 899	9 %
Guro Elgheim Sivertsen	12 188	-	-	12 188	94 821	2 %
Ingrid Elvira Leisner	24 375	-	-	24 375	-	-
Karin Thorburn	24 375	-	-	24 375	-	-
Ingeborg B. Røsjø *(2)*	12 188	-	-	12 188	-	-
Total Board of Directors	**73 126**	**-**	**-**	**73 126**	**3 495 743**	**72,8 %**

(1) Shares owned directly or via limited companies in which the person in question or his / her employer has a controlling interest

(2) Ingeborg B. Røsjø served as deputy for Guro Elgheim Sivertsen

- In USD	Proposed Fee	Total
Audit Committee		
Ingrid Elvira Leisner, chair	9 750	9 750
Guro Elgheim Sivertsen	3 047	3 047
Karin Thorburn	6 094	6 094
Ingeborg B. Røsjø *(1)*	3 047	3 047
Risk Committee		
Karin Thorburn, chair	9 750	9 750
Ingrid Elvira Leisner	6 094	6 094
Guro Elgheim Sivertsen	3 047	3 047
Ingeborg B. Røsjø *(1)*	3 047	3 047
Total Audit and Risk Committee	**43 876**	**43 876**

(1) Ingeborg B. Røsjø served as deputy for Guro Elgheim Sivertsen

Declaration on remuneration

Background

It is set out in section 15-2 (4) in regulation to the Financial Institutions Act 2015 that financial undertakings shall undertake a review of their remuneration practices at least once per annum. The undertaking shall prepare a written report concerning each annual review. The report shall be reviewed by independent control functions. The bank uses the internal auditor from RSM Norge AS to perform the independent control function.

Description of the remuneration scheme

Maritime & Merchant Bank ASA has established a remuneration scheme covering all employees described in the document "Remuneration Policy". This policy was adopted by the board of directors on 15 December 2016.

The Bank's remuneration consist of the following main elements:
- Fixed salary
- Pension and insurance arrangements
- Other expense cover (to be agreed)
- Resignation compensation

The remuneration will be the respective employees agreed annual salary. The remuneration shall be competitive and be comparable to equivalent positions in other banks comparable to the Bank, and reflect the employee's tasks, responsibility and obtained goals. The remuneration will normally be up for evaluation once per year.In 2017, it was decided by the board of directors that all employees would be paid an extra ½-month's salary. Such limited benefit or additional payments as part of a general, non-discretionary policy is pursuant to circular letter 15/2014 from The Financial Supervisory Authority of Norway concerning remuneration schemes in financial institutions exempted from the special regulation of remuneration schemes.

The bank has fewer than 50 employees and less than NOK 5 billion in total assets, which means it does not need to have a separate remuneration committee.

Review

Maritime & Merchant Bank has reviewed the bank's remuneration practices. The review shows that the remuneration scheme for 2017 complies with chapter 15 of the Financial Institutions Act 2015 and The Financial Supervisory Authority of Norway's circular letter 15/2014.

New Incentive Program

Maritime & Merchant Bank ASA contemplates to establish a new incentive program in 2018 for certain key employees of the Company. The program is contemplated implemented with the following main principles:

1. Select key employees may be granted a number of options at the board's discretion. The total number of options under the program is limited to 400 000 shares in the Company (as adjusted for certain capital amendments).
2. The strike price for options under the program shall be equal to the final subscription price of the share capital approved on the general meeting in 2018.
3. The exercise period shall be no longer than 5 years.

Note 11 Pension Cost

The employees will have the following pension / insurance arrangements covered:

Maritime & Merchant Bank is required to have an occupational pension scheme pursuant to the Act concerning occupational pension schemes and has a scheme that complies with the provisions of the Act. The bank has a defined contribution pension scheme for all employees, which is managed by life assurance company Storebrand Livsforsikring AS.

Occupational Injury and Occupational Disease Insurance: 30 G
- Group Life Insurance: 40 G
- Health Insurance: To be covered by the bank
- Business and Leisure Travel Insurance: To be covered by the bank
- Defined Contribution Pension: 7 % annual contribution up to 7.1 G and 10 % annual contribution for salaries between 7.1 and 12 G

Note 12 - Renumeration

	2017
Salaries	1 593 670
Employer's national insurance contribution	429 549
Pension expenses	147 542
Other personnel expenses	43 783
Salaries and personell expenses	**2 214 544**

Note 13 - Renumeration to auditors

The following table shows total audit and other services delivered to the Bank by the appointed audito

	2017	2016
Audit fee	30 764	10 218
Assurance services	12 502	
Tax services	4 538	
Other non-audit services	15 707	
Total	63 511	10 218

Note 14 Number of Employees

	2017
Number of employees at 31. Dec.	12
Number of full-time equivalents at 31. Dec	11,8
Average number of employees	9,8
Average number of full-time equivalents	9,6

Note 15 Tangible and other intangible fixed assets

	Fixtures and fittings	Other intangible assets
Acquisition costs 01.01.2017	1 813	4 528 279
Additions	89 139	861 590
Disposal	0	0
Acquisition costs 31.12.2017	**90 952**	**5 389 869**
Accumulated depreciation 31.12.17	-18 684	-832 766
Accumulated impairment loss 31.12.17	-	-
Net carrying value at 31.12.17	**72 268**	**4 557 104**
Depreciation	*-18 561*	*-832 766*
Economic lifetime	*3 years*	*5 years*
Depreciation schedule	*Linear*	*Linear*

Note 16 Deposits by customer groups

	31.12.2017
Private	182 991 788
Other	4 068 046
Foreign	7 784 075
Total customer, principal	194 843 909

Customers deposits by geographical location

	31.12.2017
Eastern Norway	58 316 771
Oslo	58 999 903
Southern Norway	11 623 362
Western Norway	39 869 112
Northern and Central Norway	18 250 686
Foreign	7 784 075
Total customer, principal	194 843 909

Note 17 Other Liabilities and accrued cost

	31.12.2017
Payment transfer services	-
Trade paybles	231 070
Tax withholdings	117 915
VAT Payable	45 988
Other liabilities	168 865
Other liabilities	**563 838**
Holiday pay, Employer's NI contributions and salaries	197 077
Other accrued costs	252 792
Accrued costs	**449 869**

Note 18 Financial Pledges

The Bank has pledged NOK 105 millions of bonds as collateral for financial derivatives.

Note 19 - Taxation of profit

Specification	31.12.2017	31.12.2016
Profit before tax	-2 592 857	-1 705 424
+ Permanent and other differencies	-	53 242
Translation difference with tax effect	-2 582 523	-
Change in temporary differences	234 776	-497
- Loss carryforward	4 940 604	1 652 679
= Taxable income	-	-

Specification of tax charge	31.12.2017	31.12.2016
Calculated tax on ordinary income	-	-
+/- adjustments from previous years	-	-
+/- Change in defered tax	1 308 908	389 622
= Tax expense	1 308 908	389 622

Temporary differences / Deferred tax asset	31.12.2017	31.12.2016
Fixed assets	-790	-785
Non-current receivables	-112 231	-
Financial instruments	-122 541	-
Loss carryforward	-8 703 908	-3 763 305
Total	-8 939 469	-3 764 090
Tax rates	25 %	25 %
Defered tax assets (deferred tax assets are recognized in 2016 and 2017)	2 234 866	925 958