MARITIME & MERCHANT
BANK ASA

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Financial Report 31.12.2018

Operation and Strategy

In 2018 Maritime & Merchant Bank ASA (M&M) has continued to strengthen and improve its lending platform and sharpened the focus on the core product; financing of conventional merchant vessels belonging to the main segments dry bulk, tankers, container and gas by providing 1st priority mortgage terms loans. The operation through the year has confirmed our place in the market among the project-oriented customers, however, also new client groups have entered our portfolio. Geographically we have steadily expanded our field of business. Norway, Germany, Greece and Singapore are all important areas for M&M, in addition to UK and other parts of Europe.

We have through the year worked intensively to improve all routines and procedures in order to secure all compliance aspects and to secure swift and professional handling of all received enquiries, credit processing, documentation and disbursements of loans.

The activity has generally been high during the year with an increasing inflow of loan applications. This has resulted in a growth in our loan portfolio from USD 92 mill by end 2017 to USD 249 mill as per 31.12. 2018 evenly distributed among the main shipping segments. M&M is primarily serving the project market and the time that passes from the signing of the loan documentation until disbursement may vary due to operational circumstances beyond our control. However, the Bank focuses on a solid and swift process.

The strategy going forward is unchanged. M&M is working hard to become the preferred project bank within the maritime sector. In order to obtain this position the Bank aims to make a more significant footprint in the market through first class banking craftsmanship combined with solid industrial insight, and swift handling of all procedures until disbursement based on a relation-oriented business philosophy. Our objective is to be a professional partner for our customers in their work for materializing new projects.

Going concern assumption

The financial statements are prepared assuming that the business will continue to operate in the foreseeable future, i.e. under the going concern assumption.

Profit for the period

The profit for the period before tax is USD 1 250 045 and profit after tax is - 336 915. USD 336 915 will be transferred from retained earnings.

Modified Operating result*

	2018
Operating profit before impairments and losses	1 544 822
Depreciation and impairment of fixed and intangible assets	2 378 008
Modified operating result	**3 922 829**

** Contribution from ordinary operations*

Deferred Taxes and payable tax

The Bank's functional currency is in USD. In tax accounting the equity is denominated in NOK, hence, the taxable result will fluctuate with the USDNOK exchange rate.

The USDNOK exchange rate increased from 8.2050 (31.12.2017) to 8.6935 (31.12.2018), which gave a tax accounting profit of NOK 56 745 246, including an FX effect of NOK 45 877 980 from translating the Equity from USD to NOK. The company uses of the tax loss carryforward, thus, the tax payable is 0. Change in deferred tax is USD 1 586 960.

Net interest income and similar income

Net interest income and similar income totalled USD 10 477 470 (USD 2 429 022). The Board of Directors expect net interest income to increase further as a result of higher lending volume.

Total operating expenses before impairments and losses

Total operating expenses before impairments and losses totalled USD 8 507 903 (USD 4 987 051). Salaries and personnel expenses, including social costs, amount to USD 3 989 116 (USD 2 214 544) and account for the largest proportion of the overall operating expenses,

Loan and Loan Loss provisions

Maritime & Merchant Bank ASA has lent USD 249 024 326 (USD 91 827 014) to customers. There has not been any default or credit deterioration on these loans.

After the transition to IFRS 9, the Bank has made USD 702 059 (USD 0) in loss allowance. This includes a one-time implementation effect of USD 407 282 booked directly to Equity. Change in expected loss through the year amounts to USD 294 777 and is primarily caused by increased loan volume.

Deposit

Customer deposits amounted to USD 340 508 503 (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 with a well-functioning HSE system. Sickness absence in 2018 was 0.4% 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.

The Board of Directors consists of three women and four men, in total seven directors. The Bank has employed 38% women and 62% men as of 31.12.2018. The company continuously work to ensure that women and men have equal opportunities, and that no individual shall experience any form of discrimination based on gender, colour, religion, sexual orientation or any other personal preference. The Bank is working actively to promote equality, which is reflected in the business' processes for recruitment and staff/management development.

Environmental reporting
The Company does not pollute the environment.

The Bank screens the standard of the vessels financed in regarding to pollution and safety of the seas.

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

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 EU's 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.

RISK FACTORS

Credit risk
The average weighted quality of the portfolio is moderate risk, and all credits, when granted, had a Default Probability which qualified them to be classified as low or 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.

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. It 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 25% on bulk carriers, 3% on gas carriers, 40% on tankers, 29% on container vessels and specialized 3%.

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 exposures are within the Bank's credit strategy.

Liquidity risk

Maritime & Merchant Bank ASA 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.

	31.12.2018	**31.12.2017**
LCR	444 %	457 %
Deposit coverage *(1)*	78 %	77 %

(1) % of total assets

Interest rate risk

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

Ratios

Ratios	**2018**
Cost/Income	84.93 %
Return on Equity before tax	1.61 %
Net Income Margin	2.96 %
Net Interest Margin	3.10 %
Deposit to loan	137 %
LCR	444 %
NPL Ratio	0 %

Ratio formulas

$$Cost/Income\ Ratio = \frac{Operating\ expences}{Operating\ income}$$

$$Net\ Income\ Margin = \frac{Total\ income}{(Interest\ bearing\ assets\ start\ of\ year + Interest\ bearing\ assets\ end\ of\ year) * 0,5}$$

$$Net\ Interest\ Margin = \frac{Net\ interest\ income}{(Interest\ bearing\ assets\ start\ of\ year + Interest\ bearing\ assets\ end\ of\ year) * 0{,}5}$$

$$NPL\ ratio = \frac{Non\ performing\ exposure\ (loans\ to\ customers)}{Loans\ to\ customers}$$ *(non-performing loan ratio)*

$$Deposit\ to\ loan\ ratio = \frac{Total\ deposits}{Loans\ to\ customers}$$

$$Return\ on\ equity\ before\ tax = \frac{Net\ profit\ before\ tax}{(Equity\ start\ of\ the\ year + New\ equity * Yearfraction)}$$

$$Year\ fraction = \frac{12 - Months\ before\ equity\ issue}{12}$$

Outlook

We expect 2019 to be a new active year with increasing demand for our services. We observe a growing market for M&M, a Bank with high competence and a transaction-oriented scope. Our main client groups are always trying to find interesting investment opportunities in generally shifting and challenging markets. The supply of credit into the sector continues to be reduced from common banking sources, while there is an increase of supply from various platforms operating with unleveraged capital. We believe that the traditional banking alternative we are representing, based on specific shipping competence, personal service and a relationship focus, will continue to be in demand.

Oslo, February 14th, 2019

Board of Directors, Maritime & Merchant Bank ASA

MARITIME & MERCHANT BANK ASA

Statement of Profit & Loss

- In USD	Note	2018 01.01 - 31.12	2017 01.01 - 31.12
Interest income and similar income			
Interest income from loans to and receivables from credit institutions		646 238	284 329
Interest income from loans to customers		14 979 900	2 969 799
Interest income from certificates and bonds		1 928 497	746 679
Total interest income and related income		**17 554 636**	**4 000 807**
Interest expenses and similar expenses			
Interest expences and similar expences of loans to and receivables from credit institutions		-71	-2 560
Interest expences and similar expences on deposits from and liabilities to customers		-5 329 728	-1 561 531
Net interest expenses from financial derivatives		-1 713 133	0
Other fees and commisions		-34 235	-7 694
Total interest expenses and similar expenses		**-7 077 166**	**-1 571 785**
Net interest income and similar income		**10 477 470**	**2 429 022**
Commisions, other fees and income from banking		**309 803**	**0**
Commisions, other fees and expences from banking		**-26 614**	**0**
Gains/losses on foreign exchange and financial instruments			
Net value adjustments and gains/losses on foreign exchange and financial derivatives		-1 182 298	-633 044
Net value adjustments and gains/losses on commercial papers, bonds and other interest bearing securities		465 298	587 861
Net value adjustments and gains/losses on shares and other securities with variable return		1 371	0
Net gains/losses on foreign exchange and financial instruments		**-715 629**	**-45 183**
Other operating income		**7 695**	**10 355**
Net other operating income		**-424 745**	**-34 828**
Total income		**10 052 725**	**2 394 194**
Salaries, administration and other operating expenses			
Salaries and personnell expenses	8	-3 989 116	-2 214 544
Administrative and other operating expenses		-2 140 779	-1 921 180
Net salaries, administration and other operating expenses		**-6 129 895**	**-4 135 724**
Depreciation and impairment of fixed and intangible assets	13	**-2 378 008**	**-851 327**
Total operating expenses before impairments and losses		**-8 507 903**	**-4 987 051**
Operating profit before impairments and losses		**1 544 822**	**-2 592 857**
Loan loss allowance (IFRS 9)	7	**-294 777**	**0**
Profit for the period before tax		**1 250 045**	**-2 592 857**
Payable tax	9	0	0
Change in deferred tax (future tax payment)	9	-1 586 960	1 308 908
Tax expense		**-1 586 960**	**1 308 908**
Result for the period		**-336 915**	**-1 283 949**

MARITIME & MERCHANT BANK ASA

Balance Sheet

Assets - In USD	Note	2018 01.01 - 31.12	2017 01.01 - 31.12
Deposits with central banks	10	**7 448 034**	**0**
Loans to and receivables from credit institutions	10	**66 924 966**	**46 746 274**
Loans to and receivables from customers	7, 10	249 024 326	91 827 014
Loss provisions on loans to customers	7	-702 059	0
Net loans to and receivables from customers		**248 322 267**	**91 827 014**
Commercial papers and bonds			
Commercial papers and bonds valued at fair value	11	112 552 377	102 474 392
Commercial papers and bonds valued at amortised cost		0	5 022 278
Total commercial papers and bonds		**112 552 377**	**107 496 670**
Financial derivatives		**0**	**828 450**
Shares		**49 295**	**0**
Intangible assets			
Deferred tax assets	9	569 403	2 234 866
Other intangible assets	13	2 910 996	4 557 104
Total intangible assets		**3 480 399**	**6 791 970**
Tangible assets			
Machinery and equipment	13	**56 544**	**72 268**
Other assets		**136 735**	**133 944**
Prepaid, not accrued expenses		**255 617**	**120 681**
TOTAL ASSETS		439 226 234	254 017 271

Liabilities and shareholders equity - In USD	Note	2018 01.01 - 31.12	2017 01.01 - 31.12
Deposits from and liabilities to customers	14	340 508 505	194 843 909
Financial derivatives	11,15	9 438 597	445 340
Other liabilities	16	675 845	563 838
Accrued expenses and received unearned income	16	569 655	449 869
Total Liabilities		**351 192 602**	**196 302 956**
Shareholders equity			
Paid-in capital			
Share capital	17	8 630 639	5 590 977
Share premium account	7	82 740 215	55 123 644
Total paid-in capital		**91 370 854**	**60 714 621**
Other equity			
Retained earnings	7	-3 337 222	-3 000 306
Total other equity		**-3 337 222**	**-3 000 306**
Total shareholder equity		**88 033 632**	**57 714 315**
TOTAL LIABILITIES AND EQUITY		439 226 234	254 017 271

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	4 722 471		5 200 004
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
Share issue	3 039 662	28 172 937	-	31 212 599
Share issue costs and other costs		-149 089	-	-149 089
Loss allowance in accordance with IFRS 9	-	-407 282	-	-407 282
Profit (after tax)	-	-	-336 915	-336 915
Equity as per 31.12.2018	8 630 639	82 740 215	-3 337 222	88 033 632

Statement of Cash Flows

- In USD	2018	2017
Cashflow from operational activities		
Profit before tax	1 250 045	-2 592 857
Change in loans to customers excluding accrued interest	-153 496 098	-91 827 014
Change in deposits from customers	145 664 596	194 843 909
Change in certificates and bonds	-5 055 707	-107 496 670
Change in shares, mutual fund units and other securities	-49 295	
Interest income and related income	-17 554 636	-4 000 807
Interest received	14 555 481	5 123 998
Net interest expenses and related expenses	5 364 033	1 571 785
Interest paid	-5 364 033	-1 571 785
Ordinary depreciation	2 378 008	851 327
Change in financial derivatives	9 821 707	-383 110
Change in other assets and other liabilities	-366 729	-1 069 130
Net cash flow from operating activities	**-2 852 628**	**-6 550 354**
Payments for acquisition of assets	-716 176	-950 672
Net cash flow from investing activities	**-716 176**	**-950 672**
Paid in capital	31 212 599	5 200 004
Net cash flow from funding activities	**31 212 599**	**5 200 004**
Effect of exchange rate changes and other	**-17 069**	**62**
Sum cash flow	**27 626 725**	**-2 300 960**
Net change in cash and cash equivalents	**27 626 726**	**-2 300 960**
Cash and cash equivalent as per 01.01.	46 746 274	49 047 234
Cash and cash equivalent as per 31.12.	74 373 000	46 746 274

Notes 31.12.2018

Note 1, Reporting entity

Maritime & Merchant Bank ASA is a company domiciled in Norway. The Bank's registered office is at Haakon VIIs gate 1, 0161 Oslo. The Bank is primarily involved in corporate banking.

Note 2, Basis of accounting

These consolidated financial statements have been prepared in accordance with IFRS. They were authorised for issue by the Bank's Board of Directors on 14th of February 2019. This is the first set of the Bank's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 4.

Note 3, Functional and presentation currency

These consolidated financial statements are presented in USD, which is the Bank's functional currency. The Bank's taxation currency is NOK.

Note 4, Changes in accounting policies

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018, but they do not have a material effect on the Bank's financial statements. Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

Fees and commissions that are not interest rate related will be displayed as Commissions, other fees and income from banking.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 7.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale. Under IFRS 9 derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is

assessed for classification. Bonds and certificates are classified as "Financial assets at fair value through profit or loss" as they are considered so related to the Bank's business model and mandate.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9 credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 5.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Bank used the exemption not to restate comparative periods. The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition. For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 7.

Note 5, Significant accounting policies

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.

Fees and commissions that are not interest rate related will be displayed as Commissions, other fees and income from banking.

Accrual of interest and charges
Interest and commission are 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 expenses and similar expenses of loans to and receivables from customers" using the internal rate of return method.

Tangible fixed assets
Fixed 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 on-going basis in the income statement. Tangible fixed assets are depreciated on a straight-line 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 Bank 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 such 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
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, i.e. 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. This represent no change from previous year.

Classification
Contractual obligations and the business model of the Bank will be used to classify financial assets and liabilities in IFRS 9. The measurement categories are:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through profit or loss

- Financial liabilities measured at amortised cost
- Financial liabilities measured at fair value through profit or loss

Financial assets
The Bank's financial assets and classifications are as follows:

Assets	Classification/Measurement
Cash and deposits with central banks	Amortised cost
Cash and deposits with credit institutions	Amortised cost
Certificates and bonds (liquidity portfolio)	Fair value through profit or loss
Financial derivatives	Fair value through profit or loss
Shares and other securities	Fair value through profit or loss
Loans to customer	Amortised cost

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).

Liabilities	Classification/Measurement
Deposits without fixed terms	Amortised cost
Deposit with fixed terms	Fair value through profit or loss
Debt securities issues with fixed rates	Fair value through profit or loss
Debt securities issues with floating rates	Amortised cost
Financial Derivatives	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 and 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.

Impairment
Policy applicable from 1 January 2018
The Bank recognises loss allowances for EL (expected loss) on the following financial instruments that are not measured at fair value through profit and loss:

- Financial assets that are debt instruments
- Loan commitments issued

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to 12-month or Life-time EL, and the assessment is performed on an individual basis.

12-month EL are the portion of EL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month EL is recognised are referred to as ''Stage 1 financial instruments''.

Life-time EL are the EL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime EL is recognised but which are not credit-impaired are referred to as ''Stage 2 financial instruments''.

Measurement of EL
EL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and EL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired (referred to as ''Stage 3 financial assets''). A financial asset is ''credit-impaired'' when one

or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer
- A breach of contract such as a default or past due event
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise
- It is becoming probable that the borrower will enter bankruptcy or another financial reorganisation
- The disappearance of an active market for a security because of financial difficulties

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Presentation of allowance for EL in the statement of financial position
Loss allowances for EL are presented in the statement of financial position as follows:
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets
- Loan commitments and financial guarantee contracts: generally, as a provision

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Objective evidence of impairment
At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a bank of financial assets was ''impaired'' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably. In addition, a loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:
- Significant financial difficulty of a borrower or issuer
- Default or delinquency by a borrower
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise
- Indications that a borrower or issuer would enter bankruptcy
- The disappearance of an active market for a security
- Observable data relating to a Bank of assets, such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlated with defaults in the Bank.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

Note 6, Standards issued but not yet adopted

Of those standards that are not yet effective, IFRS 16 is expected to have an impact on the Bank's consolidated financial statements in the period of initial application.

IFRS 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Bank has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.

As at 31 December 2018, the Bank's future office rental payments under non-cancellable operating leases amounted to an estimated NOK 10 274 894, on a discounted basis using the Banks funding rate and the length of the contract, which the Bank estimates it will recognise as additional lease liabilities.

RISK

Note 7, Risk

Risk Management and Capital Adequacy

The Capital Adequacy figures for Maritime & Merchant Bank ASA are based on the calculation by means of the standardised approach.

Credit risk

The Bank has chosen the basic approach for calculation credit risk (Risk-Weighted Assets).

Operational risk

The Bank has chosen to apply the basic approach under Pilar 1 for calculating operational risk. This applies a capital requirement of 15 per cent of the annual income reported in the last three years.

Market risk

The market risk of the Bank is modest and is calculated using the standardised approach in Pilar 1.

Capital Adequacy

Amounts in USD - thousands	31.12.2018	31.12.2017
Share capital	8 631	5 591
+ Other reserves	79 740	52 123
- Deferred tax assets and intangible assets	-3 480	-6 792
- This year's result	-337	
- Adjustments to CET1 due to prudential filters	-113	
Common Equity Tier 1 (CET 1)	**84 441**	**50 922**
Calculation basis		
Credit Risks		
+ Bank of Norway	-	-
+ Local and regional authorities	-	-
+ Institutions	13 385	9 349
+ Companies	243 733	96 849
+ Covered bonds	10 177	10 328
+ Shares	49	-
+ Other assets	-	116
Total Credit risks	**267 344**	**116 643**
+ Operational risk	11 669	8 763
+ Counterparty risk derivatives (CVA-risk)	2 619	2 115
Total calculation basis	**281 632**	**127 520**
Capital Adequacy		
Common Equity Tier 1 %	**29.98 %**	**39.93 %**
Total capital %	**29.98 %**	**39.93 %**

Credit Risk

Credit risk is the major risk to the Bank. Maritime & Merchant Bank ASA may face a loss if the borrower is not able to pay interest or principal as agreed upon, provided the pledged collateral is not sufficient to cover the Bank's exposure.

The Bank monitors market developments in segments where it has exposure and takes a proactive approach towards the risks taken.

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.

The Bank uses an internally developed scorecard model for assessing the credit risk in the loan portfolio. The scorecard model predicts Probability of Default (PD), Loss Given Default (LGD) and risk class (from 1 to 10). Default is failure to satisfy the terms of a loan obligation or failure to pay back a loan.

Significant judgements are required when assessing models and assumptions, and resulting estimates are thus uncertain in nature. The model is based on experience and criteria well known in scoring models. The model has not been back tested, due to the Bank's short existence and lack of market data.

Forward looking factors, like expected freight earnings and ship values, are based on one year forward estimates. Time charter rates for each specific segment and interest rates that are used in the model are those prevailing at the time of scoring.

Input in the scoring model for establishing the PD for one specific exposure can either be the actual earnings based on freight contracts entered into, or shipbrokers earnings estimates for the next 12 months, normally expressed in the time charter rates for the period going 12 months forward.

When a loan is granted, the PD is estimated for the full tenor of the loan, and projected future cash flow is based on long term time charter rates for similar tenor (if available) in combination with consideration of low rate scenarios.

Risk classification is done once per year as a minimum in connection with annual renewal of exposures, or more frequently if there are shifts in input factors which are not regarded as temporary.

Risk classes and credit score:

Very low risk	Credit score: 1-2	PD:	0.00 – 0.25%
Low risk	Credit score: 3-4	PD:	0.25 – 1.00%
Medium risk	Credit score: 5-7	PD:	1.00 – 3.00%
High risk	Credit score: 8-9	PD:	3.00 – 8.00%
Loss exposed	Credit score: 10-11	PD:	> 8.00%

Factors in scorecard PD - model:

Quantitative factors:

- Loan to value (LTV) – Equity
- Interest coverage – Cash flow to support interest payment
- Instalment coverage – Cash flow to support instalments
- Current Ratio
- Free Cash

Qualitative factors

- Corporate structure
- Ownership
- Technical management
- Commercial management

Factors in LGD model:

- Age of vessel
- Liquidity of vessel type (specialised tonnage)
- Yard/Country
- Net loan exposure above scrap value
- Enforcement cost
- Jurisdiction
- Corporate complexity
- Covenant Structure

Expected loss (EL)

EL = PD * LGD * EAD

EAD = Exposure at Default (Notional + Accrued Interest - Cash Reserves)

Loss allowance

The EL is performed on an individual basis. After the transition to IFRS 9, provisions have been presented as expected loss over 12 months (Step 1) and expected loss over the life of the instrument (Step 2).

Non-performing commitments (Step 3) are commitments where the customer has not paid due instalments on loans within 90 days of maturity (or as described in Note 5).

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 individual loss provisions under IAS 39 did not change materially 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 ("PD x LGD") with the Probability of Default and Loss Given Default ("PD x LGD") 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 follows 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.

	Step 1	**Step 2**	**Step 3**	
	Classification by first time recognition	**Significantly increase in credit risk since first time recognition**	**Significantly increase in credit risk since first recognition and objective proof of loss**	
	Expected loss next 12 months	**Expected loss over the life of instrument**	**Expected loss over the life of instrument**	**Sum**
Loss allowance as of 1.1.2018	407 282			407 282
Lending to customers 1.1.2018	96 849 292			96 849 292
Changes				
Transfer to Step 1				
Transfer to Step 2	-18 093	18 093		
Transfer to Step 3				
Reclassification*	-41 918	18 239		-23 679
Amortisation	-155 957			-155 957
New commitments	474 413			474 413
Allowance as of 31.12.2018	**665 727**	**36 332**	**-**	**702 059**
Lending to customers 31.12.2018	245 124 326	3 900 000	-	249 024 326
Net Change in Loss Allowance	**258 445**	**36 332**	**0**	**294 777**

Effect of implementing IFRS 9 as of 01.01.2018

Loss allowance according IAS 39: USD 0

Loss allowance according to IFRS 9: USD 407 282 (all in Step 1)

** Reclassification: Change in individual assessments and EL*

Effect and development in loss allowance for IAS 39 and IFRS 9

	31.12.2017	31.12.2017	31.12.2018
Stage	**IAS 39**	**IFRS 9**	**IFRS9**
Stage 1	0	407 282	665 727
Stage 2	0	0	36 332
Stage 3	0	0	0

Loss allowance per credit score as of 2018

Risk Class	Loss Allowance
Very low risk	
Low risk	115 092
Moderate risk	527 011
High risk	59 957
Loss exposed	
Sum	**702 059**

Credit risk: Total
End of year 2018

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with central bank	7 448 034					7 448 034
Deposits with credit institution	66 924 966					66 924 966
Certificates and bonds	112 552 377					112 552 377
Shares and other securities			49 295			49 295
Loans to customers		28 572 139	207 988 020	11 762 108		248 322 267
Total	186 925 377	28 572 139	208 037 315	11 762 108	0	435 296 939
Committed loans, not disbursed			14 166 666			

End of year 2017

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with central bank						
Deposits with credit institution	46 746 274					46 746 274
Certificates and bonds	102 474 392					102 474 392
Shares and other securities						
Loans to customers			96 849 292			96 849 292
Total	149 220 666		96 849 292			246 069 958

Lending to customers by segment

	2018		2017	
Sector	**USD**	**Share %**	**USD**	**Share %**
Bulk	62 080 567	25 %	40 676 703	42 %
Container	72 013 457	29 %	10 653 422	11 %
Tank	99 328 907	40 %	30 023 281	31 %
Gas	7 449 668	3 %	15 495 887	16 %
Specialized	7 449 668	3 %	-	
Offshore	-	0 %		
Sum	**248 322 267**	**100 %**	**96 849 292**	**100 %**

Lending to customers by geographical location

	31.12.2018	
	USD	**Share**
Norway	115 310 050	46 %
Europe (ex Norway)	100 313 229	40 %
Asia	3 997 839	2 %
Oseania	28 701 149	12 %
Total	**248 322 267**	**100 %**

	31.12.2017	
	USD	**Share**
Norway (1)	52 356 271	54 %
Europe	31 075 108	32 %
Bermuda	8 458 717	9 %
Asia	4 959 195	5 %
Total	**96 849 292**	**100 %**

(1) Inclusive bonds valued at amortised cost

Collateral held and other credit enhancements

Lending to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security. The Bank takes collateral in the form of a first priority charge over vessels, pledged cash deposits, assignment of earnings and insurances as well as other liens and guarantees.

The credit worthiness of the corporate customer is based on a combination of the customer’s value adjusted equity and the customer’s cash flow and cash balance. Due to the fact that shipping in general is regarded as a cyclical industry, all loan agreements have provisions related to maximum loan to value, and valuations are assessed on a semi-annual basis, or more often when needed, to establish compliance with the loan agreements.

Valuations of collateral are updated if and when a loan is put on watch list, and the loan is monitored closely.

At 31 December 2018, the net carrying amount of credit-impaired loans amounted to USD 0 (2017: USD 0).

The following table stratify credit exposures from to shipping customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for shipping loans is based on the collateral value of the last appraisal, the Bank's estimation or observable transactions in the market.

For credit-impaired loans the value of collateral is based on the most recent appraisals.

LTV ratio and pledge in vessel

LTV Bracket	Loan Amount	Pledge in vessel
< 40%	38 891 014	38 891 014
40-50%	163 228 753	163 228 753
50-55%	38 327 500	38 327 500
55-60%	7 875 000	7 875 000
>60%	-	

Bonds and certificates: Risk Weight

Risk Weight	2018 Fair Value	2018 Amortised Cost	2017 Fair Value	2017 Amortised Cost
0 %	10 781 255		8 060 705	
10 %	101 771 122		94 413 687	
20 %	-			
100 %	-			5 022 278
Total	**112 552 377**		**102 474 392**	**5 022 278**

Bonds and certificates: Rating

Rating	2018 Fair Value	2017 Fair Value
AAA	10 781 255	99 425 807
AA+	101 771 122	3 048 585
AA	-	
A	-	
Total	**112 552 377**	**102 474 392**

Bonds and certificates: Sector

Sector	2018 Fair Value	2017 Fair Value
Supranational	5 013 743	5 012 120
Local authority	5 767 512	3 048 585
Credit Institutions	101 771 122	94 413 687
Bank	-	
Total	**112 552 377**	**102 474 392**

Interest Rate Risk

Maritime & Merchant Bank ASA has defined guidelines that set limits for the maximum interest rate risk. All exposure on the balance sheet and outside the balance sheet will be assessed, and 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.

The table below shows notional amounts per interest rate period (time bucket).

Notional in USD million (2018)	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years
Deposits with central bank	7				
Deposits with banks	67				
Certificates and bonds	113				
Loans to customers	248				
Derivatives	155				
Sum Assets	**590**				
Deposits	340				
Derivatives	155				
Sum liabilities	**495**				
Net	95				

Currency Risk

All exposure on the balance sheet, outside the balance sheet and estimated income and expense items will be identified. Market exposure will be limited and within limits and authorisations granted by the Board. Routines have been established for on-going monitoring and reporting of the currency risk to the Board of Directors.

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 liabilities are currency matched. The Bank has income in USD and most of the operating cost in NOK. Current strategy is to hedge between 0 and 12 months forward. The following table shows assets and liabilities in other currencies than USD.

Assets (2018)	**NOK**	**EUR**
Deposit with Central Bank	64 749 482	
Deposit with Banks	425 916 623	344 415
Bonds	934 614 378	
Loans	273 377	9 917 088
Derivatives	1 369 589 078	
Other Assets	3 410 916	

Total Assets	**2 798 553 854**	**10 261 504**

Liabilities	**NOK**	**EUR**
Deposits	2 768 465 688	650 000
Derivatives		9 718 750
Other Liabilities	10 523 573	
Total Liabilities	**2 778 989 261**	**10 368 750**

Net Currency	**19 564 593**	**-107 246**
Estimated Monthly Operational Cost	4 366 667	NOK
Number of months with hedging	4,5	

Liquidity Risk

Maritime & Merchant Bank ASA aims to maintain a low liquidity risk, which means high liquidity buffers and good deposit coverage.

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.

Maritime & Merchant Bank ASA has adopted guidelines for management of the Bank's liquidity position to ensure that the Bank maintains a solid liquidity.

End of 2018

	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	7 448 034					7 448 034
Loans and receivables from credit institutions	66 924 966					66 924 966
Loans to and receivables from customers	2 095 859	4 191 717	20 369 961	221 664 731	0	248 322 267
Commercial papers and bonds			11 548 437	101 003 940	0	112 552 376
Shares, funds and other securities					49 295	49 295
Assets	**76 468 858**	**4 191 717**	**31 918 397**	**322 668 670**	**49 295**	**435 296 938**
Deposits from credit institutions						
Deposits from and liabilities to customers	322 137 851			18 370 652		340 508 503
Debt from issuance of bonds						
Subordinated loan capital						
Liabilities	**322 137 851**	**0**	**0**	**18 370 652**	**0**	**340 508 503**
Financial derivatives (net settlement)				**-9 439**		**-9 439**
Total	**-245 668 992**	**4 191 717**	**31 918 397**	**304 288 580**	**49 295**	**87 330 963**

The time buckets are contractual maturity. Assets and liabilities without any time restrictions are put in the "up to 1 month" time bucket.

End of 2017

	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 institutions	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**

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes or systems, from human error, fraud, or external events including legal risk, compliance risk and reputational risk. This type of risk also encompasses administrative risk, i.e. that the day-to-day operations of the Bank do not function properly.

The Bank Measures operational risk through incident reporting on main operational areas. The management team handle incidents in the management meetings. This incident reporting is summarized and communicated to the Risk Committee.

The Bank reduces operational risk through prudent management and supervision by establishing efficient control procedures, a well-established set of routines, a compliance function, as well as insurance cover against attempts at defrauding the Bank.

INCOME AND COSTS

Note 8, Remuneration

Management and Board of Directors

- In USD	Fixed Salary	Other remuneration	Bonus (1)	Total Remuneration	No. Of shares	%	Number of options
Management							
Halvor Sveen (CEO)	427 385	3 045	54 651	485 081	11 063	0.2%	61 102
Per Ugland (CCO)	264 045	3 045	11 002	278 092	-	-	-
Tor Stenumgard (CFO)	264 045	3 045	11 002	278 092	-	-	48 008
Lars Fossen (CRO/CCO)	264 045	3 045	11 002	278 092	-	-	-
Total management	**1 219 520**	**12 180**	**87 657**	**1 319 357**	**11 063**	**0.2%**	**109 110**

(1) In 2018, 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 (2)	%
Board of Directors						
Endre Røsjø, Chair	61 406	-	-	61 406	1 812 642	25.0%
Henning Oldendorff	30 703	-	-	30 703	1 812 642	25.0%
Arne Blystad	30 703	-	-	30 703	559 881	7.7%
Magnus Roth	30 703	-	-	30 703	438 899	6.1%
Ingrid Elvira Leisner	30 703	-	-	30 703	-	-
Karin Thorburn	30 703	-	-	30 703	9 500	0.1%
Guro Elgheim Sivertsen	23 027	-	-	23 027	-	-
Total Board of Directors	**237 948**	**-**	**-**	**237 948**	**4 633 564**	**63.9%**

- In USD	Proposed Fee		Total
Audit Committee			
Ingrid Elvira Leisner, chair	9 825		9 825
Karin Thorburn	6 141		6 141
Guro Elgheim Sivertsen	4 605		4 605
Ingeborg B. Røsjø (1)	1 535		1 535
Risk Committee			
Karin Thorburn, chair	9 825		9 825
Ingrid Elvira Leisner	6 141		6 141
Guro Elgheim Sivertsen	4 605		4 605
Ingeborg B. Røsjø (1)	1 535		1 535
Total Audit and Risk Comm	**44 212**		**44 212**

(1) Ingeborg B. Røsjø served as deputy for Guro Elgheim Sivertsen in the Audit and Risk Committee

Number of Employees

	2018	2017
Number of employees at December 31st	16	12
Number of full-time equivalents	15.2	11.8
Average number of employees	14	9.8
Average number of full-time equivalents	13.6	9.6

Remuneration

- In USD	2018	2017
Salaries	3 088 823	1 593 670
Employer's national insurance contribution	647 752	429 549
Pension expenses	195 526	147 542
Other personnel expenses	57 014	43 783
Salaries and personnel expenses	**3 989 116**	**2 214 544**

Pension Cost

The employees will have the following pension/insurance arrangements covered

Maritime & Merchant Bank ASA 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% additional annual contribution for salaries between 7.1 and 12 G

Remuneration to auditors

The following table shows total audit and other services delivered to the Bank by the appointed auditor. Amounts do not incl. VAT.

- In USD	**2018**	**2017**
Audit fee	36 843	30 764
Assurance services	10 605	12 502
Tax services	2 149	4 538
Other non-audit services	-	15 707
Total	**49 597**	**63 511**

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 16 August 2018.

The Bank's remuneration consists 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 2018, 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 ASA has reviewed the Bank's remuneration practices. The review shows that the remuneration scheme for 2018 complies with chapter 15 of the Financial Institutions Act 2015 and The Financial Supervisory Authority of Norway's circular letter 15/2014.

Incentive Program - Option plan

Maritime & Merchant Bank ASA has established an incentive program in 2018 for certain employees of the Company. The program is implemented with the following main principles:

1. Employees are 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 subscription price (USD 12.75) of the share capital approved on the general meeting in 2018.
3. The exercise period shall be no longer than 5 years.

The cost of the option program in this year's accounts is USD 23 683.

Note 9, Taxation of profit

- in NOK	**2018**	**2017**
Profit before tax, USD translated to NOK	10 867 266	-21 274 392
Translation of Equity to NOK	45 877 980	-21 683 963
Profit before tax NOK	56 745 246	-42 958 354
Permanent differences	-1 328 528	0
Change in temporary differences	-29 465 199	1 920 981
Change in tax loss carryforward	-25 951 519	41 037 373
Taxable profit NOK	0	0
Tax Payable, USD translated into NOK	0	0
Change in deferred tax asset, USD translated in NOK	-13 854 179	10 739 588
Tax expense NOK	-13 854 179	10 739 588

Reconciliation of tax expense

- in USD		
25% of Profit before tax USD	-312 511	648 214
Translation effects to NOK	-1 312 653	660 694
Permanent differences	38 205	0
Tax expense USD	-1 586 960	1 308 908

ASSETS

Note 10, Classification of financial instruments

Amounts in USD thousand	2018 Fair Value	2018 Amortised Cost	2017 Fair Value	2017 Amortised Cost
Deposit with central bank		7 448		
Deposits with credit institution		66 925		46 746
Certificates and bonds	112 552		102 474	5 022
Shares and other securities		49		
Loans to customers		248 322		91 827
Financial derivatives			828	
Total financial assets	**112 552**	**322 745**	**103 303**	**143 596**
Deposits from customers		340 509		194 844
Debt securities issued				
Financial derivatives	9 439		445	
Subordinated loans				
Total financial liabilities	**9 439**	**340 509**	**445**	**194 844**

Note 11, Financial instruments at fair value

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2018

Amounts in USD thousand	Level 1	Level 2	Level 3	Total
Certificates and bonds		106 785	5 768	112 552
Shares and other securities			0	0
Total financial assets	**0**	**106 785**	**5 768**	**112 552**
Financial derivatives		9 439		9 439
Total financial liabilities	**0**	**9 439**		**9 439**

2017

Amounts in USD thousand	Level 1	Level 2	Level 3	Total
Certificates and bonds		99 426	3 049	102 474
Financial derivatives			828	828
Shares and other securities				0
Total financial assets	**0**	**99 426**	**3 877**	**103 303**
Financial derivatives		445		445
Total financial liabilities	**0**	**445**		**445**

Note 12, Financial pledges

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

Note 13, Other intangible assets and tangible assets

- In USD	**2018**		**2017**	
	Other intangible assets	**Fixtures and fittings**	**Other intangible assets**	**Fixtures and fittings**
Acquisition costs 01.01	4 738 840	69 584	4 528 279	1 813
Additions	694 778	21 399	861 590	89 139
Disposal	0	0	0	0
Acquisition costs 31.12	**5 433 618**	**90 983**	**5 389 869**	**90 952**
Accumulated depreciation 31.12	-2 980 764	-54 044	-832 766	-18 684
Accumulated impairment loss 31.12	0	0	0	0
Net carrying value at 31.12	**2 452 853**	**36 939**	**4 557 104**	**72 268**
Depreciation	*-2 343 233*	*-34 774*	*-832 766*	*-18 561*
Economic lifetime	*5 years*	*3 years*	*5 years*	*3 years*

LIABILITIES

Note 14, Deposits

By customer group

In USD	**31.12.2018**
Private	312 260 724
Corporates	28 247 779
Total Customer Deposits	340 508 503

In USD	**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

In USD	**31.12.2018**
Norway	321 116 330
Europe	12 365 443
Outside Europe	7 026 730
Sum Deposits	340 508 503

In USD	**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 15, Other assets and financial derivatives

As of 2018

Amounts in thousand	Nominal Value	Nominal Value	Nominal Value	Positive Market Values	Negative Market Values
	USD	EUR	NOK	USD	USD
Interest Rate Derivatives					
Interest rate swap	0	0	0	0	0
Currency Derivatives					
Cross currency basis swap					
Buy/Sell USD against NOK	155 000		1 274 305	0	9 291
Buy/Sell EUR against NOK		9 719	95 284	0	148
Total Currency Derivatives	**155 000**	**9 719**	**1 369 589**	**0**	**9 439**

As of 2017

Amounts in thousand	Nominal Value	Nominal Value	Nominal Value	Positive Market Values	Negative Market Values
	USD	EUR	NOK	USD	USD
Interest Rate Derivatives					
Interest rate swap	0	0	0	0	0
Currency Derivatives					
Cross currency basis swap					
Buy/Sell USD against NOK	60 000		495 675	828	445
Buy/Sell EUR against NOK		0	0	0	0
Total Currency Derivatives	**60 000**	**0**	**495 675**	**828**	**445**

Note 16, Other Liabilities and accrued cost

- In USD	**31.12.2018**	**31.12.2017**
Trade payables	225 629	231 070
Tax withholdings	163 744	117 915
VAT Payable	52 562	45 988
Other liabilities	233 911	168 865
Total other liabilities	**675 845**	**563 838**
Holiday pay, Employer's NI contributions and salaries	548 806	197 077
Other accrued costs	20 849	252 792
Total accrued costs	**569 655**	**449 869**

Note 17, Share capital and shareholder information

The company has 7 252 333 shares at NOK 10.

The total share capital is NOK 72 523 330. The Company has one share class only.

The Company have 49 shareholders.

The ten largest shareholders of the Company are:

No	**Shareholder**	**Numb. of shares**	**%**
1	Henning Oldendorff	1 812 642	25.0 %
2	Endre Røsjø *	1 812 642	25.0 %
3	Deutsche Bank Aktiengesellschaft	666 700	9.2 %
4	Songa Investment AS	559 881	7.7 %
5	Canomaro Bulk AS	438 899	6.1 %
6	Landmark Capital Pte. Limited	303 702	4.2 %
7	Apollo Asset Limited	197 236	2.7 %
8	Nergaard Investment Partners AS	159 727	2.2 %
9	TD Veen AS	143 821	2.0 %
10	Thabo Energy AS	118 526	1.6 %
	Others	1 038 557	14.3 %
	Total	**7 252 333**	**100 %**

(*) 102 723 shares (1.4 %) owned through Centennial AS