Maritime & Merchant Bank ASA

Financial Report

31.12.2019

MARITIME & MERCHANT BANK ASA

Table of Contents

Financial Report 31.12.2019

The eventual consequences from a full-scale commercial war between China and United States dominated most of the headlines describing the prospects for seaborne trade in 2019. Interference in the free trade of the world via tariffs, sanctions and blockades are mostly negative news for the shipping industry. However, the dialogue between China and USA concerning the regulation of trade going forward seem to have turned to a pragmatic modus towards the end of the year and it appears that the parties are motived for establishing mutual acceptable principles for the future trade between the two nations.

IMO 2020 and the conversion to low sulphur fuel oil from 1st of January 2020 has been in the limelight throughout the year. The scrubber investment case has been subject to a lot of media exposure and debate. As the date for the fuel conversion got closer in time the tanker market started to react and the owners could sail into the new year with a solid tailwind. With the prevailing price gap between the low sulphur fuel and the traditional bunker it is fair to say that investments in scrubbers have been a financial success so far, but the development of the fuel price picture going forward will then be decisive in the longer perspective.

The dry bulk market experienced a longed upswing around the turn of the half year, but weakened significantly during last quarter and left as usual some question marks regarding the further development. The trade related to Chinese steel production and the domestic economic growth are vital issues in that context and cause various uncertainties for the short-term prospects. On the positive side, a broadened trade base between China and USA, as mentioned above and a manageable newbuilding order book (about 9%) could lead to a recovery in the dry bulk market during next year.

In the traditional feeder segment in the container trade we have seen a rather flat development throughout the year and with rates under a certain pressure, while Panama/post-Panamax has continued on a very positive trend. In addition, a number of larger container vessels have been taken out of the market due to scrubber installations and thus contributed to the supply side in the market. However, the container market will, like the dry bulk market, be positively influenced if the Sino-American trade find a sustained solution.

During our third operational year the Bank has further strengthened and expanded the platform in order to secure our ability to serve our customers in all important global shipping hubs professionally. We are meeting increasing regulatory demands by adding on top competence to our team. Our aim is to be regarded as a leading specialized bank within the shipping industry and we feel that we have left a footprint in the market describing us as solution oriented and fast-acting. We have strong ambitions to develop the Bank further and expand our customer base all over the world. The shipping industry is constantly faced with changing market conditions due to global economic development, geo-political and regulatory issues. We aim to be a partner for our customers in order to materialize projects and to seek opportunities created by the various fluctuations taking place. The ability to adapt will once again be a bearing point for all players involved in the global shipping trade.

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.

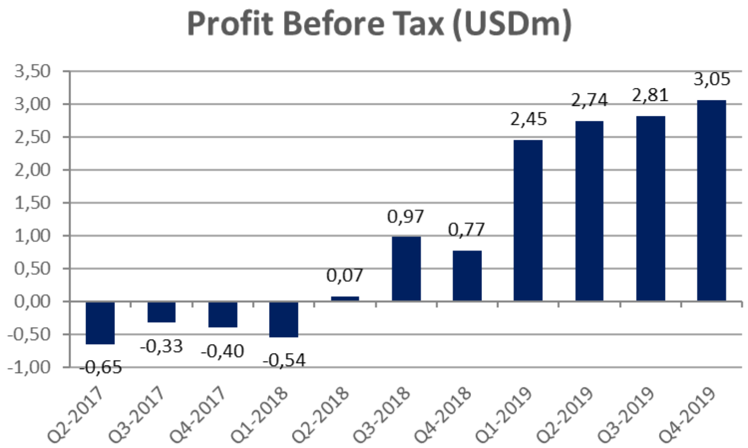
Profit for the period (1.1-31.12)

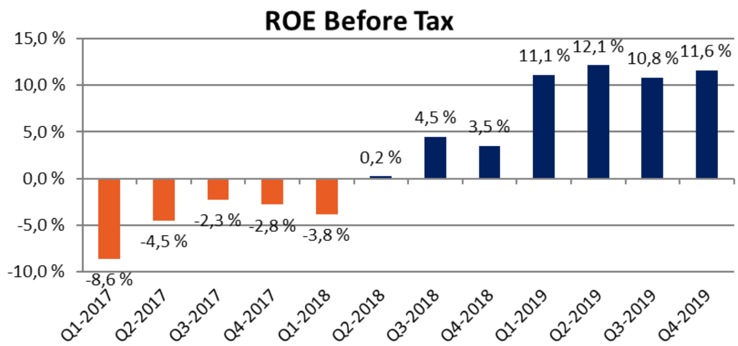
The profit for the period before tax is USD 11 060 054 (USD 1 250 045) and profit after tax is USD 8 076 684 (USD - 336 915).

	2019	2018	2017
Interest Income	28 886 306	17 554 636	4 011 162 *
Interest Expense	-10 716 432	-7 077 166	-1 670 489 *
Net Interest Income	**18 169 875**	**10 477 470**	**2 340 673**
Other Income	460 441	-424 745	53 521 *
Total Income	**18 630 316**	**10 052 725**	**2 394 194**
Operating Expense	-7 449 329	-8 507 903	-4 987 051
Operating Income	**11 180 987**	**1 544 822**	**-2 592 857**
Loss Allowance	-120 932	-294 777	-
Profit before Tax	**11 060 054**	**1 250 045**	**-2 592 857**
Tax	-2 983 371	-1 586 960	1 308 908
Profit after Tax	**8 076 684**	**-336 915**	**-1 283 949**
Lending to customers	295 124 509	249 024 326	91 827 014

(*) Restated in accordance with changed accounting practice

The following charts display the quarterly result before tax and ROE before tax respectively.





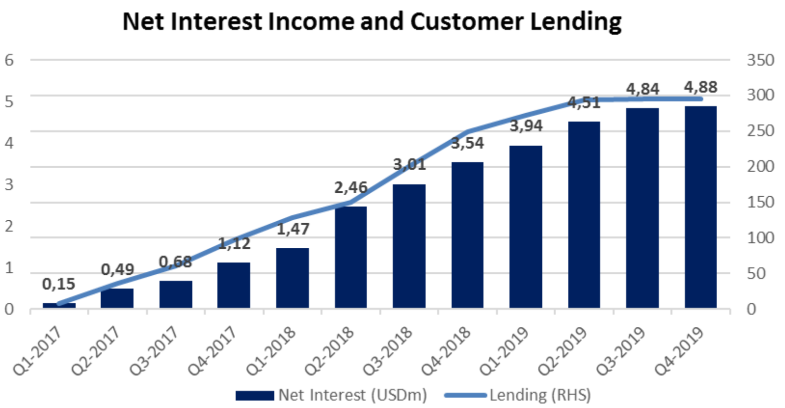
<u>Deferred Taxes and payable tax</u>

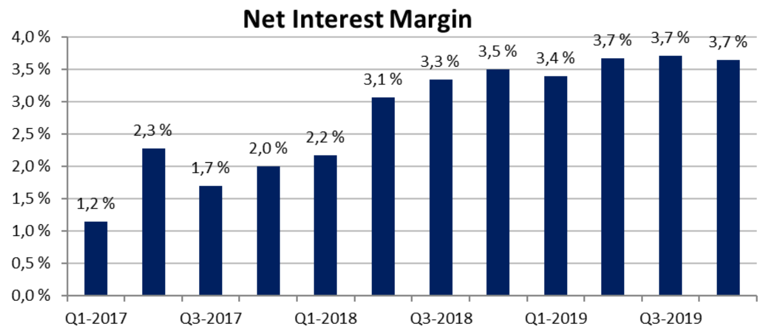
The Bank’s functional currency is in USD. In tax accounting the equity is denominated in NOK, hence, the taxable result will fluctuate with the USDNOK exchange rate (See note 8 and Appendix 2).

Net interest income and related income (1.1-31.12)

Net interest income and related income totalled USD 18 169 875 (USD 10 477 470). The Board of Directors expect Net Interest Income to increase further as a result of higher lending volume.

Net interest income increased from 2018 to 2019 due to higher lending volumes and a slightly improved Net Interest Margin.





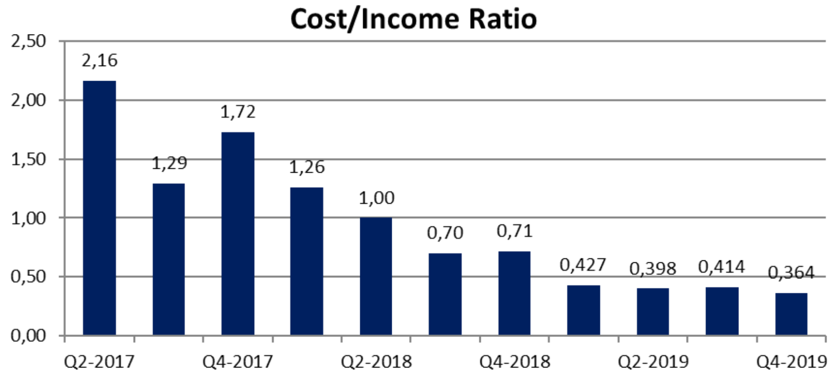
Total operating expenses before impairments and losses (1.1-31.12)

Operating expenses before impairments and losses totalled USD 7 449 329 (USD 8 507 903).
Salaries and personnel expenses, including social costs, amounted to USD 4 501 034 (USD 3 989 116) and account for the largest proportion of the overall operating expenses. Higher salaries and personnel cost are due to increased number of employees.
Total depreciation and impairment of fixed and intangible assets amounted to USD 1 200 342 (USD 2 378 008).

	2019	**2018**	**2017**
Salaries and Personnel Cost	4 501 034	3 989 116	2 214 544
Other Operating Expenses and Depreciation	2 948 296	4 518 787**	2 772 507
Total Operating Expenses	7 449 330	8 507 903	4 987 051
Average employees*	16.9	13.6	9.6

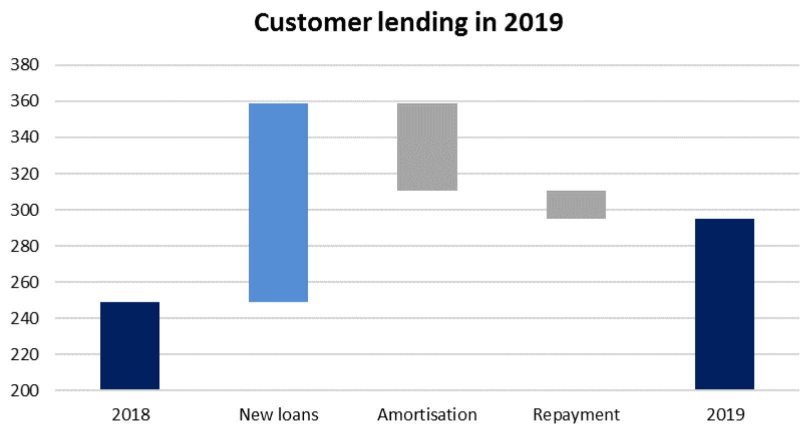
* Average number of full-time equivalents

** Change of new core banking platform



Loan and Loan Loss provisions

Maritime & Merchant Bank ASA has lent USD 295 124 509 (USD 249 024 326) to customers. There has not been any default or significant credit deterioration on loans.

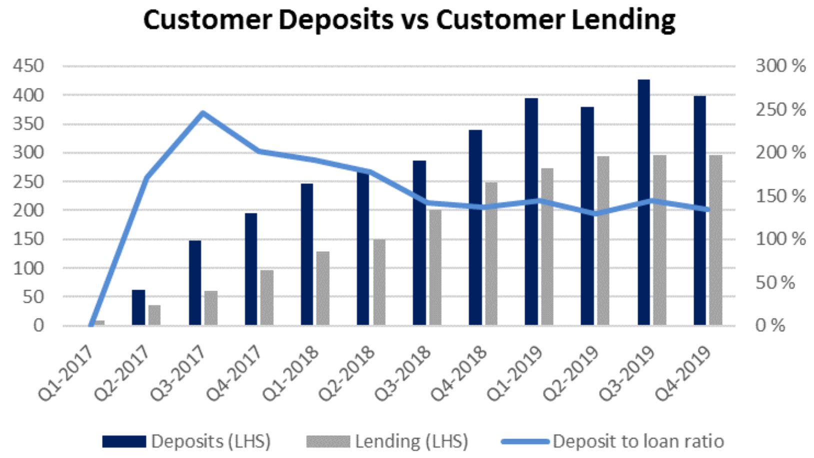


The Bank has made USD 822 991 (USD 702 059) in loss allowance (IFRS 9). Change in loss allowance through the year amounts to USD 120 932.

Loss allowance (in USD)	**31.12.2019**	**30.09.2019**	**30.06.2018**	**31.12.2018**
Step1	822 991	681 018	735 366	665 727
Step2		27 295	120 810	36 322
Step3				
Sum	822 991	708 313	856 176	702 059
Impairments	0	0	0	0

Deposit

Customer deposits amounted to USD 398 238 850 (USD 340 508 505) by December 31st, 2019.



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 2019 was 0.5% 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 four women and five men, in total nine directors. The Bank has employed 37% women and 63% men as of 31.12.2019. 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

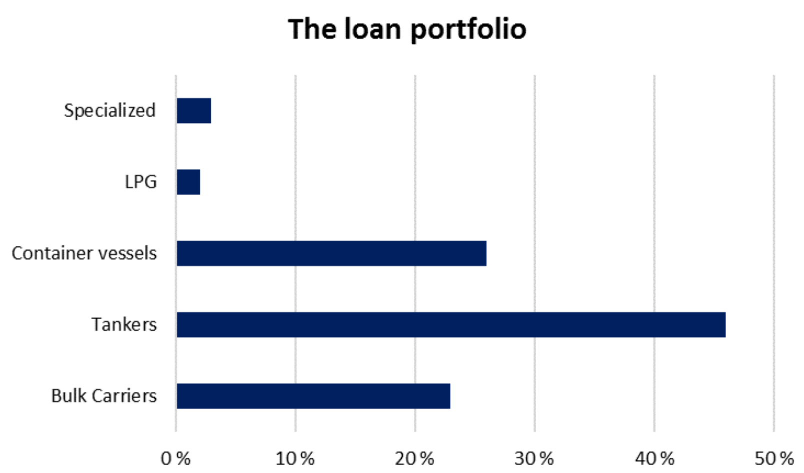
The average weighted quality of the portfolio is moderate risk, and all credits, when granted, had a Default Probability which qualified them to be classified as low or moderate risk. The credit portfolio has a risk concentration around the mid-point.

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 loan portfolio is diversified and is distributed on bulk carriers (23%), tankers (46%), container vessels (26%), LPG (gas) (2%) 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 have been equity and NOK deposits. The Bank has liquidity portfolio/buffers well above minimum requirement. Liquidity stress tests show satisfactory liquidity.

	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018	31.12.2017
LCR	636%	586%	513%	585%	444%	457%
Deposit Ratio *(1)*	77%	77%	77%	76%	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 ongoing 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	2019	2018
Cost/Income Ratio	39.98%	84.63%*
Return on Equity before tax	11.77%	1.61%
Net Income Margin	3.91%	2.96%
Net Interest Margin	3.81%	3.10%
Deposit to loan Ratio	135%	137%
LCR	636%	444%
NPL Ratio	0%	0%
Equity Ratio (CET1)	33.13%	29.98%

(*) Corrected from 84,93%

Ratio formulas, se Appendix 1

Outlook

The global GDP for 2019 is by International Monetary Fund (IMF) estimated to be 2.9% and the respective figures for 2020 and 2021 are 3.3% and 3.4% respectively. These forecasts, in combination with a supply side which looks brighter than for many years (since 2002/03) in terms of newbuilding orders, is a rational for being cautiously optimistic for the development in the main shipping segments. We expect that it will be an active market for shipping investments in 2020 with a project-oriented focus and we are looking forward being a part of this and are ready to meet an increased demand for our services.

Oslo, 2020, February 14th

Board of Directors, Maritime & Merchant Bank ASA

Statement of Profit & Loss

- In USD	*Note*	2019 01.01 - 31.12	2018 01.01 - 31.12
Interest income and related income			
Interest and other operating income from loans to customers		25 154 631	14 979 900
Interest from certificates and bonds		2 557 478	1 928 497
Interest from loans to and receivables from credit institutions		1 174 197	646 238
Total interest income and related income		**28 886 306**	**17 554 636**
Interest expenses			
Interest and related expenses of loans to and receivables from customers		-8 377 592	-5 329 798
Net interest expenses from financial derivatives		-2 210 013	-1 713 133
Other fees and commissions		-128 826	-34 235
Net interest expenses and related expenses		**-10 716 432**	**-7 077 166**
Net interest income and related income		**18 169 875**	**10 477 470**
Commissions, other fees and income from banking		614 559	317 498
Commissions, other fees and expenses from banking		-66 808	-26 614
Net value adjustments on foreign exchange and financial derivatives		98 425	-715 629
Net value adjustments on interest-bearing securities		-185 735	
Total income		**18 630 316**	**10 052 725**
Salaries, administration and other operating expenses			
Salaries and personnel expenses		-4 501 034	-3 989 116
Administrative and other operating expenses		-1 747 954	-2 140 779
Net salaries, administration and other operating expenses		**-6 248 988**	**-6 129 895**
Total depreciation and impairment of fixed and intangible assets	12	**-1 200 342**	**-2 378 008**
Total operating expenses		**-7 449 329**	**-8 507 903**
Operating result		**11 180 987**	**1 544 822**
Loan loss provisions (IFRS - 9)	5, 6	-120 932	-294 777
Profit (+) / Loss (-) for the period before tax		**11 060 054**	**1 250 045**
Income tax	5, 8	-2 983 371	-1 586 960
Result for the period after tax		**8 076 684**	**-336 915**

Balance Sheet

Assets		2019	2018
- In USD	Note	31.12.2019	31.12.2018
Cash and balances at Central Bank		**7 432 474**	**7 448 034**
Lending to and receivables from credit institutions		**63 052 606**	**66 924 966**
Lending to customers		295 124 509	249 024 326
Loss provisions on loans to customers	5	-822 991	-702 059
Net lending to cutomers		**294 301 518**	**248 322 267**
Certificates, bonds and other receivables			
Commercial papers and bonds valued at market value	5, 6	151 334 685	112 552 377
Commercial papers and bonds valued at amortised cost		0	0
Certificates, bonds and other receivables		**151 334 685**	**112 552 377**
Shares		**45 270**	**49 295**
Intangible assets			
Deferred tax assets	8	0	569 403
Other intangible assets	12	2 036 782	2 910 996
Total intangible assets		**2 036 782**	**3 480 399**
Fixed assets			
Fixed assets	4, 12	940 232	56 544
Total fixed assets		**940 232**	**56 544**
Other assets			
Financial derivatives	9, 10	581 080	0
Other assets		21 665	136 735
Total other assets		**602 746**	**136 735**
Expenses paid in advance			
Prepaid, not accrued expenses		299 755	255 617
Total prepaid expenses		**299 755**	**255 617**
TOTAL ASSETS		**520 046 068**	**439 226 234**

Liabilities and shareholders equity			
- In USD		31.12.2019	31.12.2018
Liabilities			
Deposits from and liabilities to customers			
Deposits from and liabilities to customers	13	398 238 850	340 508 505
Total deposits from and liabilities to customers		**398 238 850**	**340 508 505**
Other liabilities			
Financial derivatives	9, 10, 14	8 579 392	9 438 597
Other liabilities	15	4 355 395	675 845
Total other liabilities		**12 934 787**	**10 114 442**
Accrued expenses and received unearned income			
Accrued expenses and received unearned income	15	714 110	569 655
Total accrued expenses and received unearned income		**714 110**	**569 655**
Total Liabilities		**411 887 746**	**351 192 602**
Shareholders equity			
Paid-in capital			
Share capital	16	9 708 655	8 630 639
Share premium account		94 148 865	83 296 586
Total paid-in capital		**103 857 520**	**91 927 225**
Other Equity			
Retained earnings, other		-438 660	-556 371
Retained earnings		4 739 462	-3 337 221
Total other equity		**4 300 802**	**-3 893 592**
Total shareholder equity		**108 158 322**	**88 033 633**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**520 046 068**	**439 226 234**

Statement of Equity

- In USD	Share capital	Share premium	Retained earnings	Retained earnings, other	Total equity
Loss allowance in accordance with IFRS 9				-407 282	-407 282
Share issue	3 039 662	28 172 937		-172 771	31 039 828
Employee stock option				23 683	23 683
Profit	0	0	-336 915		-336 915
Equity as per 31.12.2018	8 630 639	83 296 586	-3 337 222	-556 370	88 033 634
Share issue	1 078 016	10 852 279		-164 303	11 765 992
Employee stock option				282 013	282 013
Profit			8 076 684		8 076 683
Equity as per 31.12.2019	9 708 655	94 148 865	4 739 462	-438 660	108 158 322

Statement of Cash Flows

- In USD	2019	2018
Cashflow from operational activities		
Profit before tax	11 060 054	1 250 045
Change in loans to customers excluding accrued interest	-45 550 976	-153 496 098
Change in deposits from customers	57 730 345	145 664 596
Change in certificates and bonds	-38 782 308	-5 055 707
Change in shares, mutual fund units and other securities	4 025	-49 295
Change in financial derivatives	-1 440 286	9 821 707
Change in other assets and other liabilities	580 386	-366 729
Interest income and related income	-28 886 306	-17 554 635
Interest received	28 337 099	14 555 481
Net interest expenses and related expenses	10 716 432	5 364 033
Interest paid	-10 716 432	-5 364 033
Ordinary depreciation	1 200 342	2 378 008
Other non-cash items	117 414	
Net cash flow from operating activities	**-15 630 211**	**-2 852 627**
Payments for acquisition of assets	-54 010	-716 176
Net cash flow from investing activities	**-54 010**	**-716 176**
Issuance of equity	11 930 295	31 212 599
Lease payments	-296 695	
Net cash flow from financing activities	**11 633 600**	**31 212 599**
Effect of exchange rate changes and other	**162 701**	**-17 069**
Sum cash flow	**-3 887 921**	**27 626 727**
Net change in cash and cash equivalents	-3 887 921	27 626 727
Cash and cash equivalent as per 01.01	74 373 001	46 746 274
Cash and cash equivalent as per 31.12	**70 485 080**	**74 373 001**
Cash at Central Bank	7 432 474	7 448 034
Lending to and receivables from credit institutions	63 052 606	66 924 966
Sum cash and cash equivalent	70 485 080	74 373 000

Notes 31.12.2019

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 2020. 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

IFRS 16 Leases

The Bank adopted IFRS 16 Leases from January 1st, 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.

As at January 1st, 2019, the Bank's future office rental payments under non-cancellable operating leases amounted to NOK 10 466 415, 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.

Effect of IFRS 16, Leases

The only lease that is affected by the IFRS-16 implementation is office rental.

Details

Fixed Lease payments per quarter:	NOK 679 942
Expiry date:	31.12.2022
Borrowing rate:	2.1%
Right-to-use asset:	NOK 10 466 415 (as of January 1st, 2019)
Lease liability:	NOK 10 466 415 (as of January 1st, 2019)

Changes in Profit & Loss statement for 2019 using 2019 vs 2018

Item (USD)	2018 policy	2019 policy	Change
Interest expenses	0	-21 090	-21 090
Administrative and other operating expenses	-311 145	0	311 145
Depreciation	0	-299 343	-299 343
Sum in USD	- 311 145	-320 433	-9 288

Changes in Balance sheet for 2019 using 2019 vs 2018

Assets	2018 policy	2019 policy	Change
Right to use assets (USD)	0	891 154	891 154

Liabilities	2018 policy	2019 policy	Change
Other Liabilities (USD)	0	900 582	900 582

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.

Lease, right to use assets

Office rental

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.

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.

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).

The liquidity portfolio represents a significant part of our operation, and fair value is monitored and managed. Certificates and bonds are on that basis classified as "Fair value through profit or loss".

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
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'' (See Note 6).

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
Where there have been renegotiations with substantially different terms, or there has been a substantial modification of the terms of an existing loan, this transaction is accounted for as an extinguishment of the original loan and the recognition of a new loan. A gain or loss from extinguishment of the original loan is recognised in profit or loss.

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 Loss allowance 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.

RISK

Note 6, 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 1000 USD	**31.12.2019**	**31.12.2018**
Share capital	9 709	8 631
+ Other reserves	98 450	79 740
- Deferred tax assets and intangible assets	- 2 037	-3 480
- This year's result	0	-337
- Adjustments to CET1 due to prudential filters	- 161	-113
Common Equity Tier 1 (CET 1)	**105 961**	**84 441**
Calculation basis		
Credit Risks		
+ Bank of Norway	-	-
+ Local and regional authorities	-	-
+ Institutions	11 613	13 385
+ Companies	271 531	243 733
+ Covered bonds	13 662	10 177
+ Shares	45	49
+ Other assets	1 262	-
Total Credit risks	**298 112**	**267 344**
+ Operational risk	19 423	11 669
+ Counterparty risk derivatives (CVA-risk)	2 342	2 619
Total calculation basis	**319 878**	**281 632**
Capital Adequacy		
Common Equity Tier 1 %	**33.13 %**	**29.98 %**
Total capital %	**33.13 %**	**29.98 %**

The Bank does not expect any significant changes in Capital Adequacy as a result of changes in the regulations in relation to additional buffer requirements that will be implemented in the legislation from 2022.

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

<u>Qualitative factors</u>
- Corporate structure
- Ownership
- Technical management
- Commercial management

<u>Factors in LGD model:</u>
- 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)

<u>Loss allowance</u>
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.

Reclassification of commitments from Stage 2 to Stage 1, is based on an individual assessment. However, there must be some objective evidence that the commitment has recovered.

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.

Loss allowance is Expected Loss adjusted for macro scenarios.

<u>Macro scenarios</u>
Expected Loss from the Bank’s risk score model will be adjusted with a macro scenario factor (MF). The Bank estimates three macro-economic scenarios consisting of factors that will or can

have an impact on shipping markets and value appraisal of vessels financed in our portfolio in the respective markets. Each scenario gets assigned a probability and a factor. The factor represent change in Expected Loss or Loss Allowance. The forecast, probability assignment and factor estimation are based on own judgment and experience.
The probability weighted macro factor (MF) will be multiplied with the Expected Loss and give Loss Allowance (or Macro Scenario adjusted Expected Loss). The factor (MF) is calculated to be 1,14.

Exposure in the scenario model is the same as at year-end (31.12.2019).

Loss Allowance and Impairments

Loss allowance	**31.12.2019**	**30.09.2019**	**30.06.2018**	**31.12.2018**
Step1	822 991	681 018	735 366	665 727
Step2		27 295	120 810	36 322
Step3				
Sum	822 991	708 313	856 176	702 059
Impairments	0	0	0	0

Loss allowance sensitivity

The macro scenarios impact on Probabilities of Default (PDs) result in the following sensitivity in Expected Loss Allowance calculation.

Scenario	**Change in Loss allowance**
Vessel value up 30%	-172 691
Vessel value down 30%	+492 060

Positive numbers represent increased loss allowance (Increased cost)

Loss allowance per credit score

Risk Class	**2019**	**2018**
Very low risk	-	-
Low risk	150 643	115 092
Moderate risk	672 348	527 011
High risk	-	59 957
Loss exposed	-	-
Sum	**822 991**	**702 059**

31.12.2019

	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 31.12.2018	665 727	36 332	-	702 059
Lending to customers 31.12.2018	245 124 326	3 900 000	-	249 024 326
Changes				
Transfer to Step 1	6 645	- 6 645	-	
Transfer to Step 2	-	-	-	
Transfer to Step 3	-	-	-	
Reclassification [1)]	- 32 826	- 26 833		- 59 659
Amortisation	- 114 615	- 2 854		- 117 469
New commitments	196 991			196 991
Scenario Adjustment	101 069			101 069
Allowance as of 31.12.2019	**822 991**	**-**	**-**	**822 991**
Lending to customers 31.12.2019	295 124 509	-	-	295 124 509
Net Change in Loss allowance	**157 264**	**-36 332**	**0**	**120 932**

1) *Reclassification: Change in Expected Loss calculation*

31.12.2018

	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
				0
Changes				0
Transfer to Step 1	- 18 093	18 093	-	0
Transfer to Step 2	-	-	-	0
Transfer to Step 3	-	-	-	0
Reclassification [1)]	- 41 918	18 239		-23 679
Amortization	-155 957			-155 957
New commitments	474 413			474 413
				0
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**

(1) Change in Expected Loss calculation

Credit risk: Total

End of Year 2019

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with Central Bank	7 432 474					7 432 474
Deposits with credit institution	63 052 606					63 052 606
Certificates and bonds	151 334 685					151 334 685
Shares and other securities			45 270			45 270
Loans to customers		77 808 751	217 315 758	0		295 124 509
Total	221 819 765	77 808 751	217 361 028	0	0	516 989 544

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			

Lending to customers by segment

	2019		2018	
Sector	**USD**	**Share %**	**USD**	**Share %**
Bulk	66 888 122	23 %	62 080 567	25 %
Container	78 080 591	26 %	72 013 457	29 %
Tank	136 094 014	46 %	99 328 907	40 %
Gas	6 222 709	2 %	7 449 668	3 %
Specialized	7 839 073	3 %	7 449 668	3 %
Offshore	-			
Sum	**295 124 509**	**100 %**	**248 322 267**	**100 %**

Lending to customers by geographical location

	31.12.2019		31.12.2018	
	USD	Share	USD	Share
Norway	132 343 006	45 %	115 310 050	46 %
Europe (ex Norway)	92 926 107	31 %	100 313 229	40 %
Asia	11 943 477	4 %	3 997 839	2 %
Oceania	39 988 541	14 %	28 701 149	12 %
Central America	13 994 067	5 %		
Liberia	3 929 311	1 %		
Total	**295 124 509**	**100 %**	**248 322 267**	**100 %**

<u>Collateral held and other credit enhancements</u>

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 December 31st, 2019, the net carrying amount of credit-impaired loans amounted to USD 0 (2018: USD 0).

The following table stratify credit exposures 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 (semi-annual), 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

	2019		**2018**	
LTV Bracket	**Loan Amount**	**Pledge in vessel**	**Loan Amount**	**Pledge in vessel**
< 40%	78 587 464	78 587 464	38 891 014	38 891 014
40-50%	125 521 153	125 521 153	163 228 753	163 228 753
50-55%	88 639 252	88 639 252	38 327 500	38 327 500
55-60%	2 376 640	2 376 640	7 875 000	7 875 000
>60%	-		-	
Sum	295 124 509		248 322 267	

Bonds and certificates: Risk Weight

	2019		**2018**	
Risk Weight	Fair Value	Amortised Cost	Fair Value	Amortised Cost
0 %	14 710 190		10 781 255	
10 %	136 624 495		101 771 122	
20 %	-		0	
100 %	-			
Total	**151 334 685**		**112 552 377**	

Bonds and certificates: Rating

	2019	**2018**
Rating	**Fair Value**	**Fair Value**
AAA	148 484 335	109 669 300
AA+	2 850 350	2 883 077
AA	0	
A	0	
Total	**151 334 685**	**112 552 377**

Bonds and certificates: Sector

Sector	2019 Fair Value	2018 Fair Value
Supranational	6 848 949	5 013 743
Local authority	7 963 314	5 767 512
Credit Institutions	136 522 422	101 771 122
Bank	0	0
Total	**151 334 685**	**112 552 377**

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 (2019)	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	63				
Certificates and bonds	151				
Loans to customers	295				
Derivatives	192				
Sum Assets	**709**				
Deposits	398				
Derivatives	192				
Sum liabilities	**590**				
Net	119				

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 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 (2019)	NOK	EUR
Deposit with Central Bank	65 277 223	
Deposit with Banks	307 577 604	351 309
Bonds	1 286 756 822	
Loans		8 642 850
Derivatives	1 686 874 841	
Other Assets	11 460 499	
Total Assets	**3 357 946 990**	**8 994 159**

Liabilities	NOK	EUR
Deposits	3 293 885 167	650 000
Derivatives		8 333 750
Other Liabilities	43 782 215	
Total Liabilities	**3 337 667 382**	**8 983 750**

Net Currency	**20 279 607**	**10 409**	
Estimated Monthly Operational Cost		4 556 083	NOK
Number of months with hedging		4.5	

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 2019

USD	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	7 432 474					7 432 474
Loans and receivables from credit institutions	63 052 606					63 052 606
Loans to and receivables from customers	6 105 000	5 469 000	43 510 000	240 040 509	0	295 124 509
Commercial papers and bonds		10 378 298	28 004 615	112 951 772	0	151 334 685
Shares, funds and other securities					45 270	45 270
Assets	**76 590 080**	**15 847 298**	**71 514 615**	**352 992 281**	**45 270**	**516 989 544**
Deposits from credit institutions						
Deposits from and liabilities to customers	376 496 421		2 415 000	19 327 429		398 238 850
Debt from issuance of bonds						
Subordinated loan capital						
Liabilities	**376 496 421**	**0**	**2 415 000**	**19 327 429**	**0**	**398 238 850**
Financial derivatives (net settlement)			-695 871	687 872		-7 998
Total	**-299 906 340**	**15 847 298**	**68 403 744**	**334 352 724**	**45 270**	**118 742 696**

End of 2018

USD	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.

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 7, Remuneration

Management and Board of Directors - 2019

- In USD	Fixed Salary	Other remuneratio	Bonus *(1)*	**Total Remuneration**	No. Of shares	%	Number of options
Management							
Halvor Sveen (CEO)	409 740	2 819	36 482	449 042	11 063	0.1%	61 102
Per Ugland (CCO)	284 278	2 819	23 690	310 788	-	-	-
Tor Stenumgard (CFO)	255 850	2 819	21 321	279 991	-	-	48 008
Lars Fossen (CRO/CCO)	284 278	2 819	23 690	310 788	-	-	-
Total management	**1 234 147**	**11 278**	**105 183**	**1 350 607**	**11 063**	**0.1%**	**109 110**

(1) In 2019, it was agreed that all employees would be paid an extra 1 month's salary.

- In USD	Proposed Fee	Other Remuneratio	Bonus	**Total Remuneration**	No. Of shares *(2)*	%
Board of Directors						
Endre Røsjø, Chair	56 856	-	-	56 856	2 041 979	25.0%
Henning Oldendorff	28 428	-	-	28 428	2 041 979	25.0%
Arne Blystad	28 428	-	-	28 428	559 881	6.9%
Nikolaus Oldendorff	28 428	-	-	28 428	431 394	5.3%
Magnus Roth	28 428	-	-	28 428	438 899	5.4%
Ingrid Elvira Leisner	28 428	-	-	28 428	-	-
Karin Thorburn	28 428			28 428	9 500	0.1%
Vibeke Gwendoline Fængsrud	28 428			28 428	-	-
Linda Christin Hoff	28 428	-	-	28 428	-	-
Total Board of Directors	**284 278**	**-**	**-**	**284 278**	**5 523 632**	**67.6%**

- In USD	Proposed Fee			**Total**
Audit Committee				
Ingrid Elvira Leisner, chair	9 097			9 097
Karin Thorburn	6 254			6 254
Vibeke Gwendoline Fængsrud	6 254			6 254
Risk Committee				
Karin Thorburn, chair	9 097			9 097
Ingrid Elvira Leisner	6 254			6 254
Vibeke Gwendoline Fængsrud	6 254			6 254
Total Audit and Risk Committee	**43 210**			**43 210**

Management and Board of Directors - 2018

- In USD	Fixed Salary	Other remuneratio	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 Remuneratio	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**

Number of Employees

	2019	**2018**
Number of employees at December 31st	19	16
Number of full-time equivalents	18.6	15.2
Average number of employees	17.5	14
Average number of full-time equivalents	16.9	13.6

Remuneration

- In USD	**2019**	**2018**
Salaries	3 520 405	3 088 823
Employer's national insurance contribution	700 168	647 752
Pension expenses	210 987	195 526
Other personnel expenses	69 473	57 014
Salaries and personnel expenses	**4 501 034**	**3 989 116**

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	**2019**	**2018**
Audit fee	66 847	36 843
Assurance services	3 373	10 605
Tax services	5 924	2 149
Other non-audit services	5 916	-
Total	**82 060**	**49 597**

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 August 16th, 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 2019, it was decided by the Board of Directors that all employees would be paid an extra 1 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 2019 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 282 013 (23 683).

Note 8, Taxation of profit

- in NOK	2019	2018
Profit before tax, USD translated to NOK	97 219 185	10 867 266
Translation of Equity to NOK	12 189 762	45 877 980
Profit before tax NOK	109 408 947	56 745 246
Permanent differences	-4 467 092	-1 328 528
Change in temporary differences	-37 446 533	-29 465 199
Change in tax loss carryforward	-52 932 876	-25 951 519
Taxable profit NOK	14 562 446	0
Tax Payable, USD translated to NOK	-3 640 611	0
Change in deferred tax assets, USD translated to NOK	-4 950 105	-13 854 179
Change in deferred tax, USD translated to NOK	-17 644 748	
Tax expense NOK	-26 235 464	-13 854 179
Tax expense USD	-2 983 371	-1 586 960

ASSETS

Note 9, Classification of financial instruments

	2019		2018	
Amounts in USD 1000	Fair Value	Amortised Cost	Fair Value	Amortised Cost
Deposit with Central Bank		7 432		7 448
Deposits with credit institution		63 053		66 925
Certificates and bonds	151 335		112 552	
Shares and other securities		45		49
Loans to customers		295 125		248 322
Financial derivatives	581			
Total financial assets	**151 916**	**365 655**	**112 552**	**322 745**
Deposits from customers		398 239		340 509
Debt securities issued				
Financial derivatives	8 579		9 439	
Subordinated loans				
Total financial liabilities	**8 579**	**398 239**	**9 439**	**340 509**

Note 10, 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.

2019

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds	0	143 371	7 963	151 335
Shares and other securities	0	0	0	0
Financial derivatives	0	581	0	581
Total financial assets	**0**	**143 952**	**7 963**	**151 916**
Financial derivatives	0	8 579	0	8 579
Total financial liabilities	**0**	**8 579**	**0**	**8 579**

2018

Amounts in USD 1000	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**

Note 11, Financial pledges

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

Note 12, Other intangible assets and fixed assets

- In USD	**31.12.2019**		**31.12.2018**	
	Other intangible assets	**Property, plant and equipment**	**Other intangible assets**	**Fixed Assets**
Cost or valuation at 01.01	4 348 846	110 589	5 258 562	96 641
Exchange and other adjustments	-49 218	-15 292		
Introduction of right to use-asset		1 203 936		
Additions	18 590	35 420	633 198	13 948
Disposals	0	0		
Cost or valuation at end of period	**4 318 219**	**1 334 653**	**5 891 761**	**110 589**
Accumulated depreciation and impairment at 01.01.	-1 437 850	-54 044	-637 531	-19 270
Exchange and other adjustments	14 669	-1 811		
Depreciation charge this year	-858 256	-338 566	-2 343 233	-34 774
Disposals				
Accumulated depreciation and impairment at end of period	**-2 281 437**	**-394 421**	**-2 980 764**	**-54 044**
Balance sheet amount at end of period	**2 036 782**	**940 232**	**2 910 996**	**56 544**
Economic lifetime	*5 years*	*3 years*	*5 years*	*3-4 years*
Depreciation schedule	*Linear*	*Linear*	*Linear*	*Linear*

Fixed assets	**31.12.2019**	**31.12.2018**
Right to use assets	891 154	0
Other	49 078	56 544
Sum fixed assets	**940 232**	**56 544**

LIABILITIES

Note 13, Deposits

By customer group

	31.12.2019	31.12.2018
Private	375 671 296	312 260 723
Corporates	22 567 553	28 247 779
Total customer deposits	398 238 850	340 508 501

Customers deposits by geographical location

	31.12.2019	31.12.2018
Norway	378 078 043	321 116 328
Europe	11 475 725	12 365 443
Outside Europe	8 685 082	7 026 730
Sum Deposits	398 238 850	340 508 501

Note 14, Other assets and financial derivatives

As of 2019

Amounts in 1000	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	190 000		1 605 155	558	8 512
Buy/Sell EUR against NOK		8 334	81 720	23	67
Total Currency Derivatives	**190 000**	**8 334**	**1 686 875**	**581**	**8 579**

As of 2018

Amounts in 1000	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**

Note 15, Other Liabilities and accrued cost

- In USD	**31.12.2019**	**31.12.2018**
Account payables	166 780	225 628
Tax withholdings	258 917	163 744
VAT payable	26 261	52 562
Tax payable	413 993	
Deferred tax	2 006 476	
Lease liability	900 582	
Other liabilities	582 387	233 911
Total other liabilities	**4 355 396**	**675 845**
Holiday pay and other accrued salaries	584 145	548 806
Other accrued costs	129 965	20 849
Total accrued costs	**714 110**	**569 655**

Note 16, Share capital and shareholder information

The Company has 8 170 048 shares at NOK 10.

The total share capital is NOK 81 700 480. The Company has one share class only.

The Company have 58 shareholders.

The ten largest shareholders of the Company are:

No	Shareholder	Numb. of shares	%
1	Henning Oldendorff	2 041 979	25.0 %
2	Endre Røsjø *	2 041 979	25.0 %
3	Deutsche Bank Aktiengesellschaft	666 700	8.2 %
4	Songa Investment AS	559 881	6.9 %
5	Canomaro Bulk AS	438 899	5.4 %
6	Landmark Capital Pte. Limited	303 702	3.7 %
7	Apollo Asset Limited	227 236	2.8 %
8	Klaveness Marine Finance	159 727	2.2 %
9	Nergaard Investment Partners AS	171 265	2.1 %
10	TD Veen AS	143 821	1.8 %
	Others	1 397 663	17.1 %
	Total	**8 170 049**	**100 %**

(*) 102 723 shares (1.3 %) owned through Centennial AS

Note 17, Country by country reporting

Country	Norway
Name	Maritime & Merchant Bank ASA
Address	Haakon VII gate, 0161 Oslo, Norway
Turnover	USD 28 886 306
Number of employees	19
Result before tax	USD 11 060 054
Received public support and subsidies	USD 0

Appendices

Appendix 1, Alternative Performance Measures

Formulas for calculation of Alternative Performance Measures

Ratio formulas

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

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

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

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

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

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

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

$$Deposit\ ratio = \frac{Total\ deposits}{Total\ Assets}$$

LCR = Liquid assets relative to net liquidity outflow in a 30-day stress scenario.

Appendix 2, Tax and USDNOK currency rate

The Bank's functional currency is 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 8.6935 to 8.7939 in 2019, which increased the taxable result with NOK 12 189 762 (USD 1 386 161) from end of 2018.

USDNOK(End 2018: 8.6935)	8.5982	8.5201	9.0730	8.7939
	Q1-19 (YTD)	**Q2-19 (YTD)**	**Q3-19 (YTD)**	**Q4-19 (YTD)**
	USD	**USD**	**USD**	**USD**
Profit Before Tax	2 451 543	5 191 419	8 006 263	11 060 056
Initial IFRS-9 Allowance	-388 657	-392 222	-368 318	-380 008
Cost related to equity issue			-154 901	-159 818
Non-deductible items				27 089
Tax related agio on equity	-975 745	-1 792 181	4 418 571	1 386 161
Basis for Tax Calculation	**1 087 141**	**3 007 017**	**11 901 614**	**11 933 481**
Calculated Tax (25%)	271 785	751 754	2 975 404	2 983 370
Effective Tax rate	11 %	14 %	37 %	27 %
	NOK	**NOK**	**NOK**	**NOK**
Profit Before Tax	21 078 857	44 231 149	72 640 820	97 261 030
Initial IFRS-9 Allowance	-3 341 749	-3 341 749	-3 341 749	-3 341 749
Cost related to equity issue			-1 405 421	-1 405 420
Non-deductible items				238 219
Tax related agio on equity	-8 389 651	-15 269 469	40 089 695	12 189 762
Basis for Tax Calculation	**9 347 457**	**25 619 931**	**107 983 345**	**104 941 843**
Calculated Tax (25%)	2 336 864	6 404 983	26 995 836	26 235 461

Quarterly and year to date effective tax rate and change in USDNOK