Maritime & Merchant Bank ASA

Financial Report

31.03.2018

MARITIME & MERCHANT
BANK ASA

Table of Contents

Financial Report 31.03.2018

Operation and Strategy

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

The first full year of operation for the Company confirmed that there is a responsive market for a niche bank in the maritime sector. The total supply of credit to the shipping sector has gradually been reduced over the last 10 years and the inflow of enquiries to the bank has been steadily growing and has resulted in approved credits and disbursement of close to USD 130 million. The funding model based on on-line deposits has functioned to our satisfaction.

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

Deficit for the period

The net income for the company before tax is showing a deficit of USD 550 381 for the period.

Modified Operation result

Operating result	- 454 730
Depreciation	707 760
Modified Operating result	**253 030**

Net interest income

Net interest income totalled USD 1 776 117. The Board of Directors is of the view that the net interest income will increase further in 2018 as a result of higher volume of lending.

Operating expenses

Operating expenses totalled to USD 2 276 389. Salaries and other personnel costs account for the largest proportion of the overall operating expenses for the bank, amounting to USD 778 169.

Loan and Loan Loss provisions

Maritime & Merchant Bank ASA has lent USD 128 221 664 to customers *(Inclusive bonds valued at amortised cost)*. There has not been any a default or credit detoriation on these loans. After the transition to IFRS 9, the Bank has made the following loss provisions:

- Loss allowance as of 01.01.2018 USD 407 282
- Loss allowance as of 31.03.2018 USD 502 933

Provisions for losses are calculated based on the expected loss (EL) using the method as described in the 2017 annual report.

Deposit

Customer deposits amounted to USD 246 388 126.

Corporate Governance and Corporate Social Responsibilities (CSR)

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

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

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

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

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

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

RISK FACTORS

Credit risk

The average weighted quality of the portfolio is Moderate Risk, and all credits, when granted, had an Default Probability which qualified them to be classified as 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.

None of the commitments are classified as High Risk exposure.

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

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

The portfolio is distributed in risk classes according to official rating, collateral and internal risk classification.
The total committed portfolio was distributed with 45 % on bulk carriers, 12 % on gas carriers, 32 % on tankers and 11 % on container vessels.

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

Liquidity risk

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

	31.03.2017	**31.12.2017**	**30.09.2017**	**30.06.2017**	**31.03.2017**
LCR	560 %	457 %	338 %	495 %	313 %
Deposit coverage *(1)*	80 %	77 %	72 %	49 %	0 %

(1) % of total assets

Interest rate risk

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

Market risk

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

Operational risk

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

Outlook

The bank has experienced a steady growth in granted credits during 1st quarter, a development that has continued into the 2nd quarter. The market is generally active both domestically and among our international customers and we expect a continued strong activity going forward. Even though there are distinct variances in the freight income in the different segments, there is a sustained activity among the shipowners and investors for materializing new projects with a corresponding demand for financial solutions. The overall reduction of credit supply towards the maritime sector seems to follow the same development trends we have observed over the last years. Maritime & Merchant Bank has a focus on small and mid-sized customers and we expect a growing demand for financing from these customer groups through coming years. The sentiment in the offshore sector is gradually picking up in view of rising oil prices, but still a way to go due to structural overcapacity in various segments. Maritime & Merchant Bank will continue to refine and optimize our lending platform in order to serve the market in a best possible manner and to offer financial solutions that creates values both for the customer and the bank.

Oslo, May 14th 2018

Board of Directors, Maritime & Merchant Bank ASA

Profit & Loss

- In USD	Note	2018 01.01 - 31.03	2017 01.01 - 31.03	2017 01.01 - 31.12
Interest income and related income				
Interest from loans to customers		2 317 569	60 468	2 969 799
Interest from certificates and bonds		548 057	7 114	746 679
Interest from loans to and receivables from credit institutions		69 875	81 269	284 329
Total interest income and related income		**2 935 500**	**148 851**	**4 000 807**
Interest expenses				
Interest expences and similar expences of loans to and receivables from credit institutions		0	-2 114	-2 560
Interest expences and similar expences of loans to and receivables from customers		-1 145 367		-1 561 531
Other fees and commisions		-14 016		-7 694
Net interest expenses and related expenses		**-1 159 383**	**-2 114**	**-1 571 785**
Net gains / losses on foreign exchange				
Net value adjustments and gains/ losses on foreign exchange and financial derivatives		42 888	-19 795	-633 044
Net gains / losses on foreign exchange		**42 888**	**-19 795**	**-633 044**
Net gains / losses on financial instruments				
Net value adjustments and gains/ losses on commercial papers, bonds and other interest- bearing securities		2 654	11 300	587 861
Net gains / losses on financial instruments		**2 654**	**11 300**	**587 861**
Other operating income				
Other operating income		0	**0**	10 355
Total other operating income		**0**	**0**	**10 355**
Total income		**1 821 659**	**138 242**	**2 394 194**
Salaries and general administration expenses				
Salaries and personnell expenses		-965 075	-637 667	-2 214 544
Administrative expenses		-603 555	0	-1 436 692
Net salaries and general administration expenses		**-1 568 629**	**-637 667**	**-3 651 236**
Depreciation and impairment of fixed and intangible assets				
Depreciation and impairment		-707 760	-229 421	-851 327
Total depreciation and impairment of fixed and intangible assets		**-707 760**	**-229 421**	**-851 327**
Other operating expenses				
Other operating expenses		0	-477 819	-484 488
Total other operating expenses		**0**	**-477 819**	**-484 488**
Total operating expenses		**-2 276 389**	**-1 344 907**	**-4 987 051**
Operating result		**-454 730**	**-1 206 665**	**-2 592 857**
Loan loss provisions (IFRS - 9)	8	-95 651	0	0
Loss for the period before tax		**-550 381**	**-1 206 665**	**-2 592 857**
Income tax		871 044	301 666	1 308 908
Income tax	13	**871 044**	**301 666**	**1 308 908**
Result for the period after tax		**320 663**	**-904 999**	**-1 283 949**
Allocations				
Transferred from retained earnings		320 663	-904 999	-1 283 949
Total allocations		**320 663**	**-904 999**	**-1 283 949**

Balance

Assets

- In USD	Note	31.03.2018	31.03.2017	31.12.2017
Cash and balances at central bank		**7 742 932**	**0**	**0**
Lending to and receivables from credit institutions				
Lending to customers	1, 4, 5	123 216 419	8 236 819	91 827 014
Lending to and receivables from credit institutions	4, 5	36 454 130	40 679 941	46 746 274
Total lending to and receivables from credit institutions		**159 670 550**	**48 916 760**	**138 573 288**
Certificates, bonds and other receivables				
Commercial papers and bonds valued at market value	2, 4, 5	120 007 184	4 073 887	102 474 392
Commercial papers and bonds valued at amortised cost	2, 4, 5	5 005 245	0	5 022 278
Certificates, bonds and other receivables		**125 012 429**	**4 073 887**	**107 496 670**
Shares		**52 159**	**0**	**0**
Intangible assets				
Deferred tax assets		3 238 905	1 227 625	2 234 866
Other intangible assets	10	4 572 275	4 301 865	4 557 104
Total intangible assets		**7 811 181**	**5 529 490**	**6 791 970**
Tangible assets				
Machinery and equipment		0	91 469	72 268
Total tangible assets		**0**	**91 469**	**72 268**
Other assets				
Financial derivatives	6	4 108 792		828 450
Other assets		2 471 599		133 944
Total other assets		**6 580 391**	**0**	**962 394**
Expenses paid in advance				
Prepaid, not accrued expenses		149 163	242 135	120 681
Total prepaid expenses		**149 163**	**242 135**	**120 681**
TOTAL ASSETS		**307 018 805**	**58 853 741**	**254 017 271**

Liabilities and shareholders equity

- In USD	Note	31.03.2018	31.03.2017	31.12.2017
Liabilities				
Deposits from and liabilities to customers				
Deposits from and liabilities to customers		246 388 126	0	194 843 909
Total deposits from and liabilities to customers		**246 388 126**	**0**	**194 843 909**
Other liabilities				
Financial derivatives	6			445 340
Other liabilities	11	2 451 328	760 473	563 838
Total other liabilities		**2 451 328**	**760 473**	**1 009 178**
Accrued expenses and received unearned income				
Accrued expenses and received unearned income	11	551 654		449 869
Total accrued expenses and received unearned income		**551 654**	**0**	**449 869**
Total Liabilities		**249 391 108**	**760 473**	**196 302 956**
Shareholders equity				
Paid-in capital				
Share capital		5 590 977	5 590 977	5 590 977
Share premium account		54 716 362	55 123 645	55 123 644
Total paid-in capital		**60 307 339**	**60 714 622**	**60 714 621**
Retained earnings				
Retained earnings		-2 679 643	-2 621 355	-3 000 306
Total retained earnings		**-2 679 643**	**-2 621 355**	**-3 000 306**
Total shareholder equity	7, 9	**57 627 696**	**58 093 268**	**57 714 315**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**307 018 805**	**58 853 741**	**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	4 722 467		5 200 000
Profit	-	-	-1 283 949	-1 283 949
Equity as per 31.12.2017	5 590 977	55 123 644	-3 000 306	57 714 315
Share issue	-	-	-	-
Write-downs (Phase 1) on loans accordance with IFRS 9	-	-407 282	-	-407 282
Profit	-	-	320 663	320 663
Equity as per 31.03.2018	5 590 977	54 716 362	-2 679 643	57 627 696

Subsequent events

In April the Bank completed a Share Issue of USD 31 677 071.

Statement of Cash flows

- In USD	2018 31.03	2017 31.03	2017 31.12
CASHFLOW FROM OPERATIONAL ACTIVITIES			
Profit before tax	-550 381	-1 206 665	-2 592 857
Change in lending to customers	-32 192 816	-8 236 819	-91 827 014
Change in deposits from and liabilities to customers	51 544 217		194 843 909
Change in certificates and bonds	-17 213 425	-4 073 887	-107 496 670
Interest income and related income	-2 935 501		-4 000 807
Interest received	2 935 501		5 123 998
Net interest expenses and related expenses	*1 159 383*		1 571 785
Interest paid	*-1 159 383*		-1 571 785
Ordinary depreciation	803 411	229 421	851 327
Change in accounts payable	1 989 276	-8 808	-205 443
Change in financial derivatives	-3 725 682		-383 110
Change in other assets and other liabilities	-2 853 627	-177 872	-863 687
Net cash flow from operating activities	**-2 199 027**	**-13 474 630**	**-6 550 354**
CASHFLOW FROM INVESTMENT ACTIVITIES			
Payments for acquisition of assets	57 097	-89 656	-950 672
Net cash flow from investing activities	**57 097**	**-89 656**	**-950 672**
CASHFLOW FROM FINANCIAL ACTIVITITES			
Proceeds from issuance of long-term liabilities			
Proceeds from Write downs IFRS 9 / Share issue	-407 282	5 200 000	5 200 000
Net cash flow from financial activities	**-407 282**	**5 200 000**	**5 200 000**
Effect of exchange rate changes on lending to and receivables from credit institutions	**0**	**-3 006**	**66**
Net change in lending to and receivables from credit institutions	-2 549 212	-8 367 293	-2 300 960
Lending to and receivables from credit institutions as per 01.01	46 746 274	49 047 234	49 047 234
Lending to and receivables from credit institutions	**44 197 062**	**40 679 941**	**46 746 274**

Notes 31.03.2018

Accounting principles
The financial statements of Maritime & Merchant Bank ASA for 31.03.2018 has been prepared in accordance with the simplified application of international accounting standards according to the Norwegian Accounting Act § 3.9 with additional disclosure requirements laid down in legislation and regulations.

The financial report for 31.03.2018 has been prepared in accordance with chapter 9 in the regulation of financial reporting for banks and financial institutions. Financial statement figures are stated in USD, unless otherwise stated.

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

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

Tangible fixed assets
Material assets are classified as tangible fixed assets and valued at acquisition cost less accumulated depreciation and write-downs. Acquisition cost includes expenses related directly to the acquisition. Repairs and maintenance are expensed on an ongoing basis in the income statement. Tangible fixed assets are depreciated on a 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 group pension savings scheme of the individual employee. The bank has no further commitments beyond the payment of the annual contribution.

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

tax accounting the equity is denominated in NOK, hence the taxable result will fluctuate with the USDNOK exchange rate.

Statement of Cash Flows

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

Translation of transactions in foreign currencies

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

Financial instruments

Maritime & Merchant Bank ASA has during 2017 and 2018 invested in Bonds. The majority of the financial assets are classified as "Financial assets at fair value through profit or loss" as they were designated on initial recognition to be measured at fair value with fair value changes in profit or loss.

Financial assets with fixed or determinable payments that are not quoted in an active market, other than designated on initial recognition as assets at fair value through profit or loss are classified as "Loans and receivables". Financial assets with fixed or determinable payments that Maritime & Merchant Bank ASA intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss are classified as "Held-to-maturity" investments. Loans and receivables and Held-to-maturity investments are measured at amortised cost.
Financial assets and liabilities are recognised in the balance sheet on the trading date, ie at the point in time when the bank becomes party to the contractual provisions of the instrument. Financial assets are removed from the balance sheet when the contractual obligations have been sold, cancelled or have expired.

Classification

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

Financial assets

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

Financial liabilities

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

Financial assets and liabilities at fair value through profit or loss

Assets and liabilities in this category are:

- Commercial papers and bonds held for liquidity purpose
- Financial Derivatives
- Cash deposits and loans to credit institutions
- Debt securities in issue with fixed rates of interest
- Deposits from customers with fixed interest rate

Loans and receivables recorded at amortised cost

Assets and liabilities in this category are:

- Loans and receivables are financial assets that have fixed or determinable payments, and are not traded on an active market.
- Bonds that have fixed or determinable payments, and are not traded on an active market.

- Deposits by customers and credit institutions without locked-in interest rates and other financial liabilities, that are not specified as liabilities valued at fair value through profit or loss.

Measurement

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

Fair value measurement

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

Financial assets and liabilities traded in an active market, quoted prices are used. In so far as no quoted prices for the instrument are obtainable, the instrument will be decomposed and valued on the basis of the prices of the individual components. This applies to the majority of derivatives such as forward exchange contracts and interest rate swaps, as well as to certificates and bonds.

In the case of other financial instruments such as deposits and loans by customers and credit institutions with locked-in rates, contractual cash flows are determined, discounted by the market rate including a credit risk margin at the reporting date.

Amortised cost measurement

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

Writing down of financial assets

See information in the Financial Report 31.12.2017.

Note 1, Lending to customers

Maritime & Merchant Bank ASA has lent USD 128 221 664 *(1)* to customers. There has not been any a default or credit detoriation on these loans. After the transition to IFRS 9, the Bank has made the following loss provisions:

- Loss allowance as of 01.01.2018 USD 407 282
- Loss allowance as of 31.03.2018 USD 502 933

Provisions for losses are calculated based on the expected loss (EL) using the method as described in the 2017 annual report.

(1) Inclusive bonds valued at amortised cost.

Note 2, Certificates and Bonds

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

Issuer	Risk Weight	Currency	Notional	Market value	Market Value USD
European Investment Bank	0 %	USD	5 000 000	5 010 890	5 010 890
Local and regional authorities	0 %	NOK	25 000 000	25 015 000	3 225 328
Covered Bonds	10 %	NOK	827 000 000	830 836 535	107 124 544
Credit Institutions	20 %	NOK	36 000 000	36 036 720	4 646 422
Sum market value USD bond portfolio measured at fair value through profit or loss					120 007 184

Bonds measured at amortised cost

Issuer	Currency	Notional	Book value
Corporates	USD	5 000 000	5 005 245

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

Note 3, Risk

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

Credit risk

See note 4.

Liquidity risk

The bank's objective is low liquidity risk, which means high liquidity buffers and good deposit coverage. Maritime & Merchant Bank is a newly established bank and our ability to issue securities is still very limited. This implicates that the bank needs to hold larger liquidity buffers than the average for Norwegian banks. Also see note 5.

Market risk

The bank shall not take positions in the currency and the fixed income market, and exposures that occur shall as far as possible be hedged.

Currency Risk

All exposure on the balance sheet, outside the balance sheet and estimated income and expense items will be covered. Market exposure will be limited and within limits and authorisations granted by the board.
Funding in NOK is swapped to USD using cross currency basis swaps, with duration around 3 to 3.5 years. Using cross currency swaps match funding in NOK with lending in USD. Assets and liabilities are currency matched.

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

Credit Spread risk
The bank will be exposed to changes in market value of bonds and certificates. This risk should be low to moderate and the portfolio should have high market liquidity. Credit spread risk is measured using Solvency II methodology. The credit spread risk is low to moderate.

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

Interest Rate Risk
All exposure on the balance sheet and outside the balance sheet will be covered. Market exposure will be limited and within limits and authorisations granted by the board.
There has been no interest rate risk other than normal risk arising from banking activities, i.e. shorter than 3-month maturity. All loans and deposits are without fixed rate terms, and no loans have interest rate period longer than 3 months.

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

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

Note 4, Credit risk and segments

The total committed exposure per 31.03.2018 was USD 128 221 664 *(1)*. There has not been any a default or credit detoriation on these loans. After the transition to IFRS 9, the Bank has made the following loss provisions:

- Loss allowance as of 01.01.2018 USD 407 282
- Loss allowance as of 31.03.2018 USD 502 933

Provisions for losses are calculated based on the expected loss (EL) using the method as described in the 2017 annual report.
(1) Inclusive bonds valued at amortised cost.

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

The majority of the commitments are, on disbursement date, secured with ship mortgages within 50 % of appraised values in addition to security in cash and earnings, and in combination with an estimated Moderate Default Probability, this provides for a sound credit portfolio with a marginal potential for future losses.

None of the commitments are classified as High Risk exposure.

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

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

The portfolio is distributed in risk classes according to official rating, collateral and internal risk classification. The total committed portfolio was distributed with 45 % on bulk carriers, 12 % on gas carriers, 32 % on tankers and 11 % on container vessels.

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

Risk classes and credit score:

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

Lending to customers and bonds:	Loans USD	Bonds USD	Total USD
Low Risk		120 007 184	120 007 184
Moderate risk	123 216 419	5 005 245	128 221 664
High risk	0	0	0
Loss Exposed	0	0	0
Sum	123 216 419	125 012 429	248 228 848

Lending to and recievables from credit institutions:	USD
AA (Moodys)	36 454 130

Securities:

Risk Classification	Rating	Risk Weight	Currency	Notional	Market Value
Very low to no risk	AAA	0 %	USD	5 000 000	5 010 890
Very low to no risk	AA+	0 %	NOK	25 000 000	25 015 000
Very low risk	AAA	10 %	NOK	827 000 000	830 836 535
Very low risk	AAA	20 %	NOK	-	-
Low Risk	A	20 %	NOK	36 000 000	36 036 720
Sum NOK				888 000 000	891 888 255
Sum USD				5 000 000	5 010 890

Risk Classification	< 3mnth	<1 Year	1-5 Years	5+ Years	Total
Very low to no risk	-	-	5 010 890	-	5 010 890
Very low to no risk	-	-	25 015 000	-	25 015 000
Very low risk	241 331 865	0	569 424 870	20 079 800	830 836 535
Low Risk	36 036 720	-	-	-	36 036 720
Low Risk		-	-	-	-
Sum NOK	277 368 585	0	594 439 870	20 079 800	891 888 255
Sum USD			5 010 890		5 010 890

Bonds measured at amortised cost:

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

Note 5, Liquidity risk

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

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

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

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

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

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

Note 6, Financial derivatives

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

Cross Currency Basis Swap

			USD in maturity Buckets			Market Value
Decription	NOK	USD	<1 Year	1-3 Years	3-5 Years	USD
Buy / Sell USD	691 380 000	85 000 000	-	30 000 000	55 000 000	4 108 802
Numer of Contracts:	5					

Note 7, Share capital and shareholder information

The company has 4 804 286 shares at NOK 10.
The total share capital is NOK 48 042 860. The Company has one share class only.

The shareholders of the Company are:

No	Shareholder	Numb. Of shares	%
1	Henning Oldendorff	1 201 071	25 %
2	Endre Røsjø *	1 201 071	25 %
3	Songa Trading Inc.	559 881	12 %
4	Canomaro Bulk AS	438 899	9 %
5	Landmark Capital Pte. Ltd	225 302	5 %
6	Nergaard Investment Partners AS	159 727	3 %
7	Apollo Asset Ltd.	158 036	3 %
8	Thabo Energy AS	118 526	2 %
9	Euroclear Bank S.A.	118 526	2 %
10	TD Veen AS	94 821	2 %
	Others	528 426	11 %
	Total	**4 804 286**	**100 %**

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

Note 8 Loss provisions

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 installments on loans within 90 days of maturity.

	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**
Loss allowance as of 1.1.2018	407 282	0	0
Lending to custmers 1.1.2018 (1)	*96 849 292*	*0*	*0*
Changes			
Transfer to Step 1	0	0	0
Transfer to Step 2	0	0	0
Transfer to Step 3	0	0	0
Amortizations	-		
New committments	95 651		
Allowance as of 31.03.2018	**502 933**	**0**	**0**
Lending to custmers 31.03.2018 (1)	*128 221 664*	*0*	*0*
Net Change in Loss allowance	**95 651**	**0**	**0**

(1) Inclusive bonds valued at amortised cost.

Provisions for losses are calculated based on the expected loss (EL) using the method as described in the 2017 annual report.

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)
Net effect on loss allowance: USD 407 282 (all in Step 1)

Note 9, Capital Adequacy

Amounts in USD - thousands	31.03.2018	31.03.2017	31.12.2017
Share capital	5 591	5 591	5 591
+ Other reserves	52 037	52 502	52 123
- Defered tax assets and intangible assets	-7 811	-5 529	-6 792
Common Equity Tier 1 (CET 1)	**49 817**	**52 564**	**50 922**
+ Additional Tier 1 Capital (hybrid / perpetual)	-	-	-
Tier 1 Capital	**-**	**-**	**-**
+ Subordinated loan capital	-	-	-
Tier 2 Capital	**-**	**-**	**-**
Total Capital	**49 817**	**52 564**	**50 922**
Calculation basis			
Credit Risks			
+ Bank of Norway	-	-	-
+ Local and regional authorities	-	-	-
+ Institutions	10 449	8 136	9 349
+ Companies	117 617	7 400	96 849
+ Covered bonds	10 722	117	10 126
+ Shares of mutual funds	52	-	-
+ Other assets	1 380	837	116
Total Credit risks	**140 220**	**16 489**	**116 440**
+ Operational risk	4 233	8 763	8 763
+ Counterparty risk derivatives (CVA-risk)	5 672	-	2 115
Total calculation basis	**150 124**	**25 252**	**127 318**
Capital Adequacy			
Common Equity Tier 1 %	**33,18 %**	**208,15 %**	**40,00 %**
Total capital %	**33,18 %**	**208,15 %**	**40,00 %**

Note 10, Tangible and other intangible fixed assets

	Other intangible assets
Acquisition costs 01.01.2018	5 389 869
Additions	722 932
Disposal	0
Acquisition costs 31.03.2018	**6 112 801**
Accumulated depreciation 31.03.18	-1 540 526
Accumulated impairment loss 31.03.18	**-**
Net carrying value at 31.12.18	**4 572 275**
Depreciation	*-1 540 526*
Economic lifetime	*5 years*
Depreciation schedule	*Linear*

Note 11, Other Liabilities and accrued cost

	31.03.2018
Payment transfer services	-
Trade paybles	919 160
Tax withholdings	143 620
VAT Payable	13 610
Other liabilities	1 374 936
Other liabilities	**2 451 326**
Holiday pay, Employer's NI contributions and salaries	532 213
Other accrued costs	19 340
Accrued costs	**551 553**

Note 12, Financial Pledges

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

Note 13, Taxation of profit

	USD
Loss for the period before tax	-550 381
Taxrelated agio	-2 933 795
Basis for tax	**-3 484 176**
Tax 25 %	871 044

In tax accounting the equity is denominated in NOK, hence the taxable result will fluctuate with the USDNOK exchange rate. When USDNOK depreciate, the taxable result will be more negative than the USD result.