



Maritime & Merchant Bank ASA  
Financial Report  
30.06.2020



MARITIME & MERCHANT  
BANK ASA

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## Financial Report 30.06.2020

### **Shipping market outlook**

The severe implications caused by the Covid-19 virus continued to dominate the global economy and the geopolitical picture during 2<sup>nd</sup> quarter. The overall situation is still characterized by steep increases in unemployment rates and a massive overall reduction in industrial production. The figures from IMF for industrial production for the month of April for the OECD area showed a drop of 21.9%. IMF has adjusted its forecast for the world economy growth further downwards from -3% to -4.9%. There are still fairly large differences to what extent the respective countries in the world have managed to get the virus under control enabling a reopening of economic activity.

World seaborne trade 2020 is estimated to decrease with 670 million tons\* compared to the 2019 figures (-6%). The negative figures are about evenly spread for the different shipping segments, while container represents the largest fall with 9%\*. The sharp drop in cargo volumes has consequently resulted in a continued downwards pressure on the freight rates, in particular for dry bulk and container, while tankers continued with its strong performance most of the 2<sup>nd</sup> quarter.

The weak freight markets in combination with negative economic forecast caused a negative sentiment in market for sale and purchase of ships. Average S&P prices over the first half year show dry bulk down 10%\*, tankers down 7%\* and containers down 7%\*. It is though important to note that the sale and purchase market has become increasingly complex in view of the current situation, including a widening price idea between sellers and buyers making valuations of tonnage an even more difficult item. The various quarantine regulations and travelling restrictions have represented obstacles for a normal sale and purchase activity and the number of transactions completed has so far this year showed a trend which is about 40% lower than 2019. However, we have seen over the recent week that the activity is gradually picking up and the general expectation is that we will see a further normalization of the activity and number of transactions concluded going forward.

The depressed atmosphere in the dry bulk and container markets have over the last weeks been replaced with a cautious optimism. In the dry bulk sector this is mainly caused by the increase in iron ore transportation and expectations of upscaled steel production which gave the cape-size bulker earnings a longed boost which also has influenced positively the other size segments within dry cargo. The gradual reopening of ports and terminals represents all in all a positive factor for the container trade and the number of fixtures has been increasing steadily with charterers positioning themselves for a more positive development during the second half of this year, resulting in an increasing number of vessels out of idle position. The booming tanker rates came to an end as expected in the course of June, and the picture is currently a mixed one with large variations in earnings between the different segments and with corresponding uncertainty as to forecasts for the second half of this year.

The Bank has continued with home office during the 2<sup>nd</sup> quarter, being a part of the Contingency Plan and have otherwise followed the directives from the Government regarding travelling restrictions and the general advices for the daily life. Operations have been stable without any significant down-time or problems.

Our focus is to continue to take care of the Bank's employees and the Bank's customers in a challenging time. All credit commitments are closely monitored and followed with a focus on liquidity. We are cooperating closely with our customers for finding good solutions where needed for getting by the problems caused by the virus and the turbulent markets. In view of what is said above, the cautious optimistic view on second half of 2020 is to a certain degree shared by the Bank and we will work together with clients in order to materialize new projects going forward.

(\* *Clarksons Research: Shipping Intelligence Weekly & Covid-19\_Shipping Impact Assessment*)

**Profit for the period (01.01-30.06)**

The profit for the period before tax is USD 2 279 982 (USD 5 191 419) and profit after tax\* is USD 1 709 987 (USD 4 439 665).

Net interest income and related income totalled USD 8 275 518 (USD 8 452 585), and other Income (including financial derivatives and fixed income instruments) was USD -566 723 (USD 641 686).

Operating expenses before impairments and losses totalled USD 3 607 351 (USD 3 748 737). The Cost/Income ratio came in at 46.8% (39.8%).

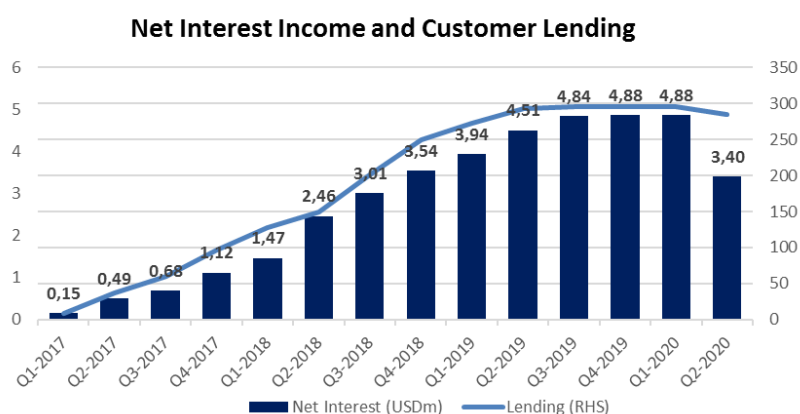
For the first half of the year, loss allowance (Expected Loss) corresponding to USD 1 821 463 (USD 151 116) were expensed.

(\* see Deferred Taxes and payable tax below

	2020 Q2	2019 Q2	2020 YTD	2019 YTD	2019 01.01 - 31.12
Interest Income	5 409 279	7 276 450	12 652 906	13 912 540	28 886 306
Interest Expense	-2 010 200	-2 765 701	-4 377 389	-5 459 955	-10 716 432
<b>Net Interest Income</b>	<b>3 399 078</b>	<b>4 510 749</b>	<b>8 275 518</b>	<b>8 452 585</b>	<b>18 169 875</b>
Other Income	651 879	158 634	-566 723	641 686	460 441
<b>Total Income</b>	<b>4 050 957</b>	<b>4 669 383</b>	<b>7 708 795</b>	<b>9 094 271</b>	<b>18 630 316</b>
Operating Expense	-1 796 141	-1 860 125	-3 607 351	-3 748 737	-7 449 329
<b>Operating Result</b>	<b>2 254 816</b>	<b>2 809 258</b>	<b>4 101 444</b>	<b>5 345 534</b>	<b>11 180 987</b>
Loss Allowance	-1 203 113	-69 384	-1 821 463	-154 116	-120 932
<b>Profit Before Tax</b>	<b>1 051 703</b>	<b>2 739 875</b>	<b>2 279 981</b>	<b>5 191 418</b>	<b>11 060 054</b>
Tax	-262 926	-479 969	-569 996	-751 754	-2 983 371
<b>Profit After Tax</b>	<b>788 777</b>	<b>2 259 906</b>	<b>1 709 986</b>	<b>4 439 664</b>	<b>8 076 684</b>

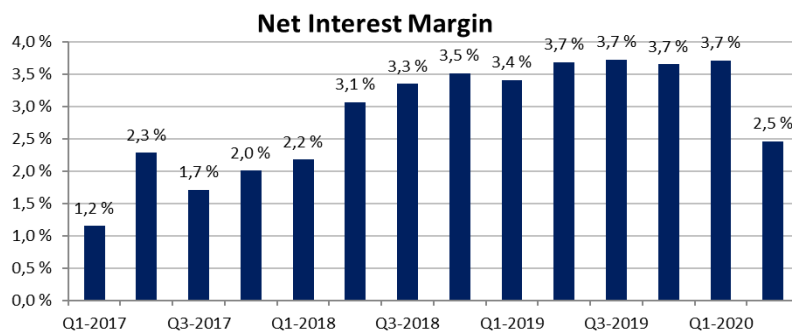
**Net interest income and related income**

Net interest income and related income totalled USD 3.4 million in Q2 (USD 4.51 million in Q2 2019). This correspond to a decrease from USD 4.88 million in Q1 2020.

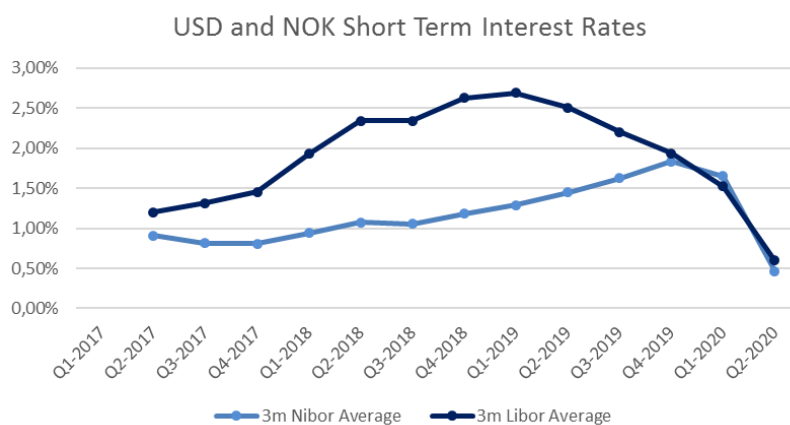


Net interest margin fell from 3.7% in Q1 to 2.5% in Q2 (3.7% in Q2-2019). Lower interest rates (money market rates) in USD and NOK resulted in lower interest income on the Banks interest rate bearings assets. The Bank lowered the deposit rates two times during Q2, but none of them will have any effect before 28<sup>th</sup> of July (0.2%) and 6<sup>th</sup> of August (0.2%).

Lower interest rate income, unchanged deposit rates and lower lending volumes had all a negative impact on the Net Interest Income and Net Interest Margin.



Money market rates (daily average) in USD and NOK fell through the second quarter.



(Source: Infront, Maritime & Merchant Bank ASA)

**Net other Income**

Net other income amounted to USD 651 879 in Q2 2020 (USD 158 634 in Q2-2019 and USD -1 218 602 in Q1-2020).

Value adjustments on derivatives and hedging instrument in Q2 was USD 565 814 due to an depreciation of the USD against NOK. An abnormal USD appreciation against NOK in the Q1 led to a negative value adjustment of USD 1 137 222. Value adjustment YTD is USD -571 408 (USD 317 075 in Q2-2019). A further depreciation of USD against NOK will improve the value adjustment.

The principle of assessing financial instruments measured at fair value may lead to significant variation of the Bank's result between quarters.

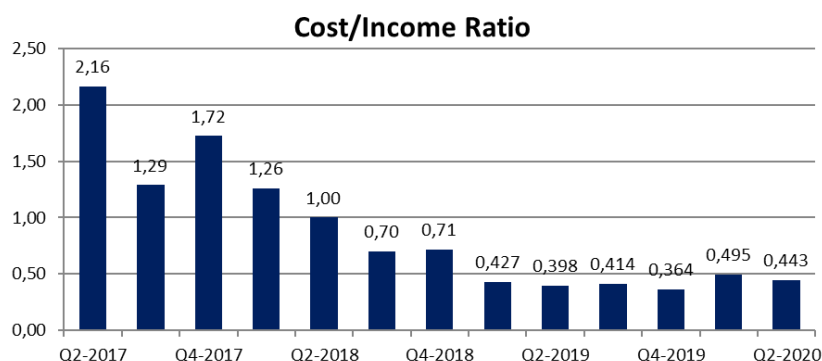
Net commissions amounted to USD 134 581 in Q2 (USD 84 674 in Q2-2019 and USD 112 555 in Q1-2020).

**Total operating expenses before impairments and losses**

Operating expenses before impairments and losses totalled USD 1 796 141 in Q2 (USD 1 860 125 in Q2-2019). Salaries and personnel expenses, including social costs, amounted to USD 1 170 405 (USD 1 129 262 in Q2-2019) and account for the largest proportion of the overall operating expenses.

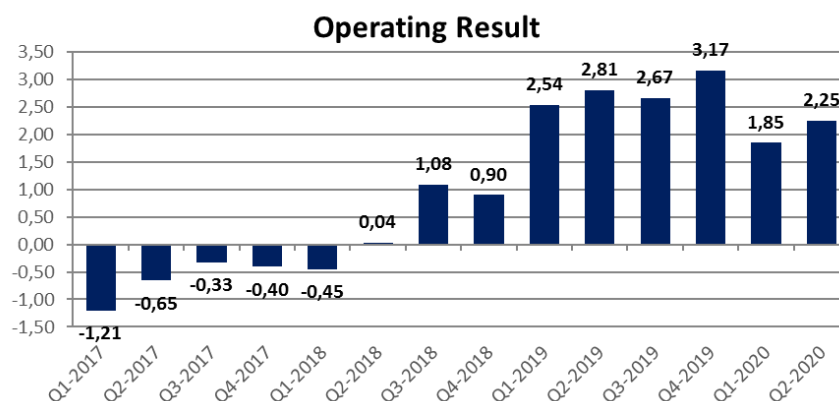
Total depreciation and impairment of fixed and intangible assets amounted to USD 265 408 (USD 304 503 in Q2-2019).

The Cost/Income ratio came in at 44.3% in Q2 (39.8 in Q2-2019).



**Operating result**

Operating result in Q2 amounted to USD 2 254 816 (USD 2 809 258 in Q2-2019), this is an improvement of USD 408 188 from Q1.



**Loan and Loan Loss provisions**

Maritime & Merchant Bank ASA has lent USD 284 818 995 (USD 293 223 159 in Q2-2019) to customers.

The Bank has made USD 2 644 454 (USD 856 176) in loss allowance (IFRS 9). Change in loss allowance through the year amounts to USD 1 821 463 (USD 154 117).

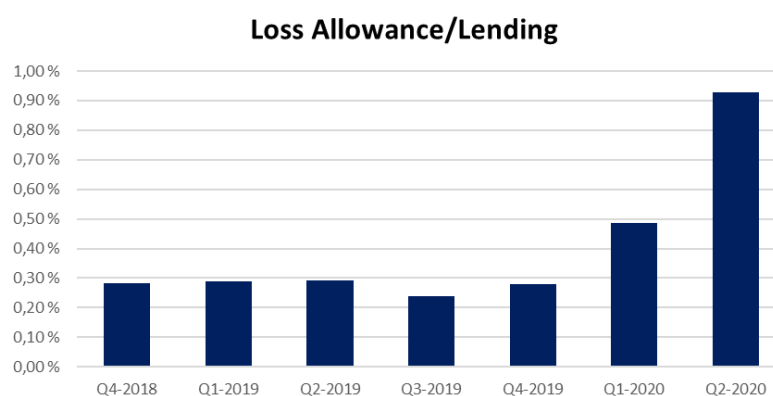
The credit quality of a majority of the loans to the bulker and container segments have deteriorated due to the reduction in cargoes to be lifted in those segments and reduced rates as well as uncertainty regarding future market conditions.

In the second quarter, revised risk classifications on individual commitments, migration of single commitments to stage 2 and 3 led to an increased loss allowance overall compared with the previous quarter.

The majority of the commitments (77%) are in stage 1 (96% in Q2-2019 and 90% in Q1-2020). Loss allowance increased with USD 1 203 113 from Q1 to Q2.

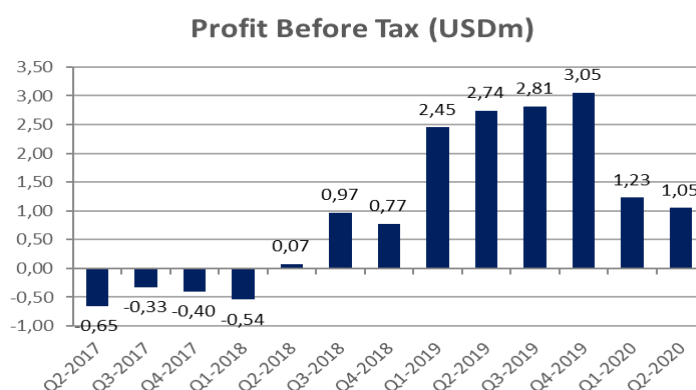
The bank has only one defaulted exposure by the end of the quarter and Non-performing loans amount to 0.8% of total lending.

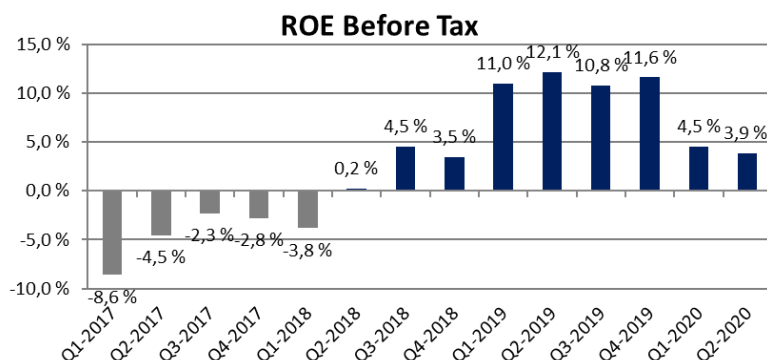
Loss allowance	30.06.2020	30.06.2019	31.12.2019	31.12.2018
Step 1	681 501	735 366	822 991	665 727
Step 2	1 178 117	120 810		36 322
Step 3	784 836			
Sum	2 644 454	856 176	822 991	702 059
Allowance/Loans Ratio	0.93%	0.29%	0.28%	0.28%
Impairments	0	0	0	0
Non performing Loans	2 282 135	0	0	0



**Profit before tax**

Profit before tax amounted to USD 1 051 703 in Q2 (USD 2 739 875 in Q2-2019). Return on equity before tax was 3.9% (12.1% in Q2-2019).





**Deferred Taxes and payable tax**

The Bank operates with USD as functional currency.

In the tax accounting, both P&L and the major part of assets and liabilities are being converted from USD to NOK, including any effect currency fluctuations would have on the equity of the Bank.

The extreme volatility of the NOK against the USD caused by the Covid-19 virus have given the Bank an unintended volatility in the tax expense, due to currency gains/losses related to our equity.

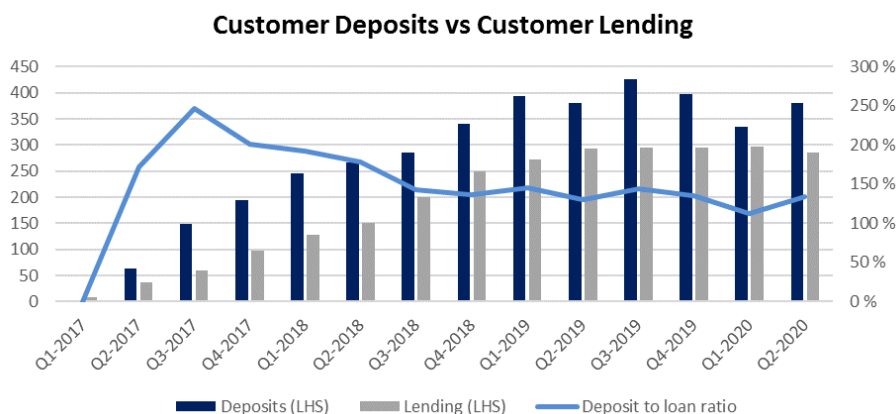
In the first quarter NOK weakened about 20%, resulting in an extra taxable income (not real income) of NOK 184 658 703. During the second quarter the NOK strengthen about 7%, which reduced the unintended taxable income with NOK 81 540 559.

The Bank has started a process for a rule adjustment for the basis of tax calculation that prevents unintended effects for the future. Common 25% corporate tax rate is used in the present accounts.

Note 5, Tax Calculation, shows both present and previous tax calculation methods.

**Deposit and Liquidity**

Customer deposits amounted to USD 380 740 624 in Q2-2020 (USD 380 338 762 in Q2-2019).



The deposit to loan ratio was 134% (113% in Q1% and 130% in Q2-2019) at the end of the first half of the year.

The bank raised an F-loan from Norges Bank of NOK 200 million in March maturing in September 2020 and NOK300 maturing in March 2021. In total, loans from the central bank amounted to NOK 500 million. The collateral is provided for the loans in the form of bonds.



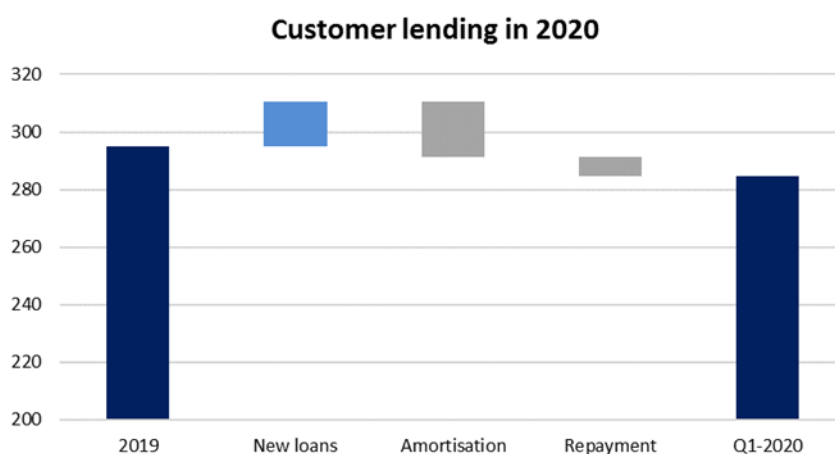
The liquidity situation has been good throughout the second quarter. There has been good interest in bank deposits. Surplus liquidity of about USD 288 million was mainly invested in interest-bearing securities, deposits in major banks and in Norges Bank. The securities investments are in supranational institutions and covered bonds.

The Bank's short-term liquidity risk measured by LCR was 405% (above a minimum requirement of 100%), and the long-term liquidity risk measured by NSFR was 175% (above a minimum requirement of 100%).

### **Total Assets and Lending**

Total assets ended at USD 573 378 128 in Q2 (USD 493 519 990 in Q2-2019).

Lending to customer declined from USD 293 223 159 in Q2-2019 (USD 295 124 509 in Q4-2019) to USD 284 818 994 in in Q2-2020. The reduction is due to early repayment and temporary stricter lending criteria post Covid-19. The lending criteria will be back to normal in third quarter 2020.



### **Solvency**

Core equity ratio (CET1) was 33.81% in Q2-2020 (29.70% in Q2-2019).

The Bank has not issued any subordinated or perpetual bonds.

The Bank did not pay any dividend for 2019.

## ***Risk factors***

### **Credit risk**

The average weighted quality of the portfolio is moderate risk, but the whole portfolio has migrated from a strong concentration around the mid-point to a more diversified distribution with a tail into high risk classification – the average risk for both bulkers and container vessels have migrated to higher risk classes through the quarter, while tankers and gas has been stable or migrated into lower risk classes.

All commitments are secured with 1<sup>st</sup> priority mortgage on vessels, and the large majority of those were secured within 50% of appraised values when granted, and in combination with an estimated moderate Default Probability, this provided for a sound credit portfolio with a limited potential for future losses.

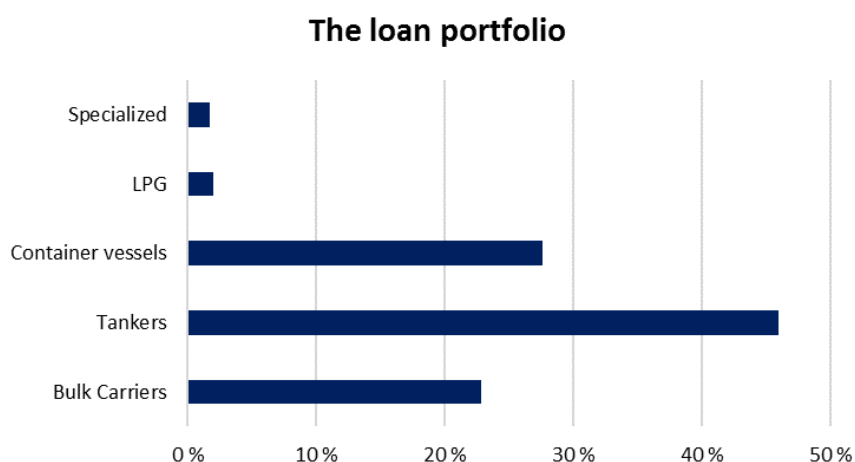
The credit quality of a majority of the loans to the bulker and container segments have deteriorated due to the reduction in cargoes to be lifted in those segments and reduced rates. The large majority of the vessels financed by the Bank in those segments, have however, traded through turbulent times, and the vessels'

values for most clients still have a good margin in relation to the outstanding exposures. The bank has only one defaulted exposure by the end of the quarter.

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 Loss Given Default for the loan portfolio is 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 (22.8%), tankers (45.9%), container vessels (27.6%), LPG (gas) (2%) and specialized (1.7%).



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 were within the Bank's credit strategy when granted.

**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 are equity and NOK deposits. The Bank has liquidity portfolio/buffers well above minimum requirement. Liquidity stress tests show satisfactory liquidity.

	30.06.2020	30.06.2019	31.12.2019	31.12.2018
LCR	405%	513%	636%	444%
Deposit Ratio (1)	66%	77%	77%	78%

(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**

<b>Ratios</b>	<b>YTD 2020</b>	<b>YTD 2019</b>	<b>2019</b>
Cost/Income Ratio	46.8%	39.8%	39.98%
Return on Equity before tax	4.21%	12.1%	11.77%
Net Income Margin	2.83%	3.82%	3.91%
Net Interest Margin	3.04%	3.68%	3.81%
Deposit to loan Ratio	134%	130%	135%
LCR	405%	513%	636%
NPL Ratio	0.8%	0%	0%
Equity Ratio (CET1)	33.8%	29.7%	33.1%

*Ratio formulas, se Appendix 1*

### **Outlook**

The time required for restoring the global industry activities and seaborne trade in general will be crucial for an eventual upswing in freight rates for the dry bulk and container sectors, which hopefully could result in positive development during second half 2020. We will continue to work together with our clients in order to manoeuvre through these trying times. We are convinced that with common efforts we will be able to overcome the challenging times.

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**Oslo, August 13<sup>th</sup>, 2020**

Board of Directors, Maritime & Merchant Bank ASA

## Income Statement

	Note	2020	2019	2020	2019	2019
		01.04 - 30.06	01.04 - 30.06	01.01 - 30.06	01.01 - 30.06	01.01 - 31.12
<i>- In USD</i>						
<b>Interest income and related income</b>						
Interest and other operating income from loans to customers		4 832 993	6 486 325	11 065 185	12 342 621	25 154 631
Interest from certificates and bonds		555 027	574 058	1 328 222	1 108 555	2 557 478
Interest from loans to and receivables from credit institutions		21 259	216 067	259 500	461 364	1 174 197
<b>Total interest income and related income</b>		<b>5 409 279</b>	<b>7 276 450</b>	<b>12 652 906</b>	<b>13 912 540</b>	<b>28 886 306</b>
<b>Interest expenses</b>						
Interest and related expenses of loans to and receivables from customers		-1 853 231	-1 995 635	-3 866 209	-3 928 042	-8 377 592
Net interest expenses from financial derivatives		-114 068	-662 820	-422 160	-1 315 056	-2 210 013
Other fees and commissions		-42 902	-107 245	-89 020	-216 857	-128 826
<b>Net interest expenses and related expenses</b>		<b>-2 010 200</b>	<b>-2 765 701</b>	<b>-4 377 389</b>	<b>-5 459 955</b>	<b>-10 716 432</b>
<b>Net interest income and related income</b>		<b>3 399 078</b>	<b>4 510 749</b>	<b>8 275 518</b>	<b>8 452 585</b>	<b>18 169 875</b>
Commissions, other fees and income from banking		142 237	132 956	262 914	312 598	614 559
Commissions, other fees and expenses from banking		-7 656	-48 284	-15 778	-55 816	-66 808
Net value adjustments on foreign exchange and financial derivatives		565 814	68 072	-571 408	317 075	98 425
Net value adjustments on interest-bearing securities		-48 516	5 889	-242 451	67 829	-185 735
<b>Total income</b>		<b>4 050 957</b>	<b>4 669 383</b>	<b>7 708 795</b>	<b>9 094 271</b>	<b>18 630 316</b>
<b>Salaries, administration and other operating expenses</b>						
Salaries and personnel expenses		-1 170 405	-1 129 262	-2 339 467	-2 272 765	-4 501 034
Administrative and other operating expenses		-360 328	-426 360	-719 600	-863 231	-1 747 954
<b>Net salaries, administration and other operating expenses</b>		<b>-1 530 733</b>	<b>-1 555 622</b>	<b>-3 059 067</b>	<b>-3 135 996</b>	<b>-6 248 988</b>
Total depreciation and impairment of fixed and intangible assets	8	-265 408	-304 503	-548 284	-612 741	-1 200 342
<b>Total operating expenses</b>		<b>-1 796 141</b>	<b>-1 860 125</b>	<b>-3 607 351</b>	<b>-3 748 737</b>	<b>-7 449 329</b>
<b>Operating result</b>		<b>2 254 816</b>	<b>2 809 258</b>	<b>4 101 445</b>	<b>5 345 535</b>	<b>11 180 987</b>
Loan loss provisions (IFRS - 9)	4	-1 203 113	-69 384	-1 821 463	-154 116	-120 932
<b>Profit (+) / Loss (-) for the period before tax</b>		<b>1 051 703</b>	<b>2 739 875</b>	<b>2 279 982</b>	<b>5 191 419</b>	<b>11 060 054</b>
Income tax	5	-262 926	-479 969	-569 996	-751 754	-2 983 371
<b>Result for the period after tax</b>		<b>788 777</b>	<b>2 259 907</b>	<b>1 709 987</b>	<b>4 439 665</b>	<b>8 076 684</b>

- Income tax: See page 4 "Deferred taxes and payable tax" and Note 5 "Estimated taxation of profit"
- Income tax will affect "Result after Tax", "Total Equity" and "Other Liabilities" (Tax)

## Balance Sheet

<b>Assets</b>		<b>2020</b>	<b>2019</b>	<b>2019</b>
<i>- In USD</i>	<b>Note</b>	<b>30.06.2020</b>	<b>30.06.2019</b>	<b>31.12.2019</b>
<b>Cash and balances at Central Bank</b>		<b>6 721 788</b>	<b>7 625 881</b>	<b>7 432 474</b>
<b>Lending to and receivables from credit institutions</b>		<b>110 776 137</b>	<b>72 592 089</b>	<b>63 052 606</b>
<b>Lending to customers</b>	4	284 818 995	293 223 159	295 124 509
Loss provisions on loans to customers	4	-2 644 454	-856 176	-822 991
<b>Net lending to customers</b>		<b>282 174 541</b>	<b>292 366 983</b>	<b>294 301 518</b>
<b>Certificates, bonds and other receivables</b>				
Commercial papers and bonds valued at market value	4,6	170 413 130	116 445 266	151 334 685
Commercial papers and bonds valued at a amortised cost		0	0	0
<b>Certificates, bonds and other receivables</b>		<b>170 413 130</b>	<b>116 445 266</b>	<b>151 334 685</b>
<b>Shares</b>		<b>76 152</b>	<b>46 016</b>	<b>45 270</b>
<b>Intangible assets</b>				
Deferred tax assets		0	0	0
Other intangible assets	8	1 450 033	2 526 520	2 036 782
<b>Total intangible assets</b>		<b>1 450 033</b>	<b>2 526 520</b>	<b>2 036 782</b>
<b>Fixed assets</b>				
Fixed assets	8	729 880	1 139 448	940 232
<b>Total fixed assets</b>		<b>729 880</b>	<b>1 139 448</b>	<b>940 232</b>
<b>Other assets</b>				
Financial derivatives		658 336	462 493	581 080
Other assets	9	19 454	43 050	21 665
<b>Total other assets</b>		<b>677 790</b>	<b>505 543</b>	<b>602 746</b>
<b>Expenses paid in advance</b>				
Prepaid, not accrued expenses		358 677	272 244	299 755
<b>Total prepaid expenses</b>		<b>358 677</b>	<b>272 244</b>	<b>299 755</b>
<b>TOTAL ASSETS</b>		<b>573 378 128</b>	<b>493 519 990</b>	<b>520 046 068</b>
<b>Liabilities and shareholders equity</b>				
<i>- In USD</i>		<b>30.06.2020</b>	<b>30.06.2019</b>	<b>31.12.2019</b>
<b>Liabilities</b>				
Loans and deposits from credit institutions		51 344 623	0	
Deposits from and liabilities to customers		380 740 624	380 338 762	398 238 850
<b>Total loans and deposits</b>		<b>432 085 247</b>	<b>380 338 762</b>	<b>398 238 850</b>
<b>Other liabilities</b>				
Financial derivatives	9	26 778 314	6 036 547	8 579 392
Other liabilities	10	3 619 636	1 792 275	4 355 395
<b>Total other liabilities</b>		<b>30 397 950</b>	<b>7 828 822</b>	<b>12 934 787</b>
<b>Accrued expenses and received unearned income</b>				
Accrued expenses and received unearned income	10	947 736	922 646	714 110
<b>Total accrued expenses and received unearned income</b>		<b>947 736</b>	<b>922 646</b>	<b>714 110</b>
<b>Total Liabilities</b>		<b>463 430 933</b>	<b>389 090 230</b>	<b>411 887 746</b>
<b>Shareholders equity</b>				
<b>Paid-in capital</b>				
Share capital	11	9 708 655	9 708 655	9 708 655
Share premium account		94 148 865	94 148 864	94 148 865
<b>Total paid-in capital</b>		<b>103 857 520</b>	<b>103 857 519</b>	<b>103 857 520</b>
<b>Other Equity</b>				
Retained earnings, other		-359 774	-530 203	-438 660
Retained earnings		6 449 448	1 102 443	4 739 462
<b>Total other equity</b>		<b>6 089 675</b>	<b>572 240</b>	<b>4 300 802</b>
<b>Total shareholder equity</b>		<b>109 947 195</b>	<b>104 429 759</b>	<b>108 158 322</b>
<b>TOTAL SHAREHOLDERS EQUITY AND LIABILITIES</b>		<b>573 378 128</b>	<b>493 519 990</b>	<b>520 046 068</b>

- Income tax: See page 4 "Deferred taxes and payable tax" and Note 5 "Estimated taxation of profit"
- Income tax will affect "Result after Tax", "Total Equity" and "Other Liabilities" (Tax)

## Statement of Equity

*- In USD*

	Share capital	Share premium	Retained earnings	Other free equity	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	-3 337 221	-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			8 076 683		8 076 683
Equity as per 31.12.2019	9 708 655	94 148 865	4 739 462	-438 660	108 158 322
Employee stock option				39 443	39 443
Profit			921 209		921 209
Equity as per 31.03.2020	9 708 655	94 148 865	5 660 671	-399 217	109 118 975
Employee stock option				39 444	39 444
Profit			788 777		788 777
Equity as per 30.06.2020	9 708 655	94 148 865	6 449 448	-359 773	109 947 195

- Income tax: See page 4 "Deferred taxes and payable tax" and Note 5 "Estimated taxation of profit"
- Income tax will affect "Result after Tax", "Total Equity" and "Other Liabilities" (Tax)

## Statement of Cash Flows

<i>- In USD</i>	<b><u>30.06.2020</u></b>	<b><u>30.06.2019</u></b>	<b><u>31.12.2019</u></b>
<b>Cashflow from operational activities</b>			
Profit before tax	2 279 982	5 191 419	11 060 054
Change in loans to customers excluding accrued interest	9 756 150	-41 287 739	-45 550 976
Change in deposits from customers	-21 305 082	35 933 541	57 730 345
Change in loans and deposits from credit institutions	51 344 623		
Change in certificates and bonds	-19 078 445	-3 892 889	-38 782 308
Change in shares, mutual fund units and other securities	-30 882	3 279	4 025
Change in financial derivatives	18 121 667	-3 864 543	-1 440 286
Change in other assets and other liabilities	-558 844	283 714	580 386
Interest income and related income	-12 652 907	-13 912 540	-28 886 306
Interest received	13 202 271	11 155 563	28 337 099
Net interest expenses and related expenses	4 377 389	5 459 955	10 716 432
Interest paid	-570 533	-1 563 239	-10 716 432
Ordinary depreciation	547 069	612 741	1 200 342
Other non cash items	1 890 480		117 414
<b>Net cash flow from operating activities</b>	<b>47 322 939</b>	<b>-5 880 738</b>	<b>-15 630 211</b>
Payments for acquisition of assets	-26 811	-230 755	-54 010
<b>Net cash flow from investing activities</b>	<b>-26 811</b>	<b>-230 755</b>	<b>-54 010</b>
Issuance of equity	0	11 930 295	11 930 295
Lease payments	-69 017		-296 695
<b>Net cash flow from financing activities</b>	<b>-69 017</b>	<b>11 930 295</b>	<b>11 633 600</b>
<b>Effect of exchange rate changes and other</b>	<b>-214 267</b>	<b>26 167</b>	<b>162 701</b>
<b>Sum cash flow</b>	<b>47 012 844</b>	<b>5 844 969</b>	<b>-3 887 920</b>
Net change in cash and cash equivalents	47 012 844	5 844 969	-3 887 920
Cash and cash equivalent as per 01.01	70 485 081	74 373 001	74 373 001
Cash and cash equivalent as per 30.06	<b>117 497 925</b>	<b>80 217 970</b>	<b>70 485 081</b>

## Notes 30.06.2020

### Note 1, Reporting entity

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

### Note 2, General accounting principles

The interim report for the first quarter 2020 is prepared according to IAS 34 Interim Financial Reporting and IFRS as adopted by EU.

The interim report for the second quarter 2020 is prepared using the same accounting principles and calculation methods as described in the Annual Report 2019.

### 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.

## RISK

### Note 4, 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 Pillar 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 Pillar 1.



**Capital Adequacy**

Amounts in USD – 1000	30.06.2020	30.06.2019	31.12.2019
Share capital	9 709	9 709	9 709
+ Other reserves	100 239	94 721	98 450
- Deferred tax assets and intangible assets	-1 450	-2 527	-2 037
- This year's result	-1 710	-4 440	-
- Adjustments to CET1 due to prudential filters	-198	-123	-161
<b>Common Equity Tier 1 (CET 1)</b>	<b>106 589</b>	<b>97 341</b>	<b>105 961</b>
<b>Credit Risks</b>			
+ Bank of Norway	-	-	-
+ Local and regional authorities	-	-	-
+ Institutions	18 590	14 518	11 613
+ Companies	258 839	288 033	271 531
+ Covered bonds	15 667	10 556	13 662
+ Shares	76	46	45
+ Other assets	1 089	-	1 262
<b>Total Credit risks</b>	<b>294 219</b>	<b>313 153</b>	<b>298 113</b>
+ Operational risk	19 423	11 669	19 423
+ Counterparty risk derivatives (CVA-risk)	1 591	2 952	2 342
<b>Total calculation basis</b>	<b>315 233</b>	<b>327 773</b>	<b>319 878</b>
<b>Capital Adequacy</b>			
<b>Common Equity Tier 1%</b>	<b>33.81 %</b>	<b>29.70 %</b>	<b>33.13%</b>
<b>Total capital %</b>	<b>33.81 %</b>	<b>29.70 %</b>	<b>33.13%</b>

**Credit Risk**

Credit risk is the major risk for 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.

### Loss allowance and impairments

Loss allowance is calculated based on expected loss (EL) using the method described in note 6 in the annual report for 2019.

The Bank reviews quarterly the assumptions for the expected loss calculation.

The Bank has a limited number of commitments, which makes it possible to make an assessment of the credit risk associated with each individual loan.

The Bank made a review of all credit commitments in the portfolio during the second quarter, and as a general tendency we experience that a significant number of exposures have migrated into higher risk classes.

The level of expected loss under IFRS 9 is mainly determined by change in the following parameters:

- Risk classification of commitments.
- Migration of existing commitments between steps 1, 2 or 3.
- Change in macroeconomic scenarios and their probabilities.
- Assessments of individual write-downs and losses in step 3.

The credit quality of a majority of the loans to the bulker and container segments have deteriorated due to the reduction in cargoes to be lifted in those segments and reduced rates as well as uncertainty regarding future market conditions. The large majority of the vessels financed by the Bank in those segments, have however, traded through turbulent times, and the vessels' values for most clients still have a good margin in relation to the outstanding exposures.

In the second quarter, revised risk classifications on individual commitments, migration of single commitments to stage 2 and 3 led to an increased loss allowance overall compared with the previous quarter. Loss allowance increased with USD 1 203 113 from Q1 to Q2.

The Bank has made USD 2 644 454 in loss allowance (IFRS 9). Change in loss allowance through the year amounts to USD 1 821 463.

The majority of the commitments (77%) are in stage 1 (96% in Q2-2019 and 90% in Q1-2020).

The bank has only one defaulted exposure by the end of the quarter and Non-performing loans amount to 0.8% of total lending.

Customer exposures that are particularly negatively affected by the consequences of Covid-19 has been reclassified, and those that need to be closely monitored put on the Watch List.

Macroeconomic conditions and forward-looking information have been reassessed and used as a basis for the credit review.

There is considerable uncertainty regarding the estimates that are used.

Loss allowance	30.06.2020	30.06.2019	31.12.2019	31.12.2018
Step 1	681 501	735 366	822 991	665 727
Step 2	1 178 117	120 810		36 322
Step 3	784 836			
Sum	2 644 454	856 176	822 991	702 059
Impairments	0	0	0	0

**Loss allowance as of 30.06.2020**

	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 31.12.2019	822 991			822 991
<i>Lending to customers 31.12.2019</i>	295 124 509			295 124 509
<b>Changes</b>				
Transfer to Step 1				
Transfer to Step 2	- 183 320	183 320		
Transfer to Step 3	- 8 336		8 336	
Reclassification	155 167	945 145	776 500	1 876 812
Amortisation	- 63 961			- 63 961
New commitments	31 305			31 305
Scenario Adjustment	- 72 345	49 652		- 22 693
<b>Allowance as of 30.06.2020</b>	<b>681 501</b>	<b>1 178 117</b>	<b>784 836</b>	<b>2 644 454</b>
Lending to customers 30.06.2020	218 984 344	63 552 516	2 282 135	284 818 995
<b>Net Change in Loss allowance</b>	<b>-141 490</b>	<b>1 178 117</b>	<b>784 836</b>	<b>1 821 463</b>

(1) Amortisations and changes in individual assessments

**Loss allowance as of 30.06.2019**

	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
<b>Changes</b>				0
Transfer to Step 1	36 332	- 36 332	-	0
Transfer to Step 2	- 28 998	28 998	-	0
Transfer to Step 3	-	-	-	0
Reclassification	- 74 926	92 681		17 755
Amortisation	-15 915	-869		-16 784
New commitments	153 146			153 146
				0
<b>Allowance as of 30.06.2019</b>	735 366	120 810	-	856 176
Lending to customers 30.06.2019	282 265 579	10 957 580	-	293 223 159
<b>Net Change in Loss allowance</b>	69 639	84 478	0	154 117

(1) Amortisations and changes in individual assessments

**Credit risk: Total****30.06.2020**

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with Central Bank	6 721 788					6 721 788
Deposits with credit institution	110 776 137					110 776 137
Certificates and bonds	170 413 130					170 413 130
Shares and other securities			76 152			76 152
Loans to customers		62 810 833	168 540 662	51 185 365	2 282 135	284 818 995
<b>Total</b>	<b>287 911 056</b>	<b>62 810 833</b>	<b>168 616 814</b>	<b>51 185 365</b>	<b>2 282 135</b>	<b>572 806 203</b>

**30.06.2019**

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with central bank	7 625 881					7 625 881
Deposits with credit institution	72 592 089					72 592 089
Certificates and bonds	116 445 266	0	0			116 445 266
Shares and other securities			46 016			46 016
Loans to customers		45 604 281	236 661 028	10 957 850		293 223 159
<b>Total</b>	<b>196 663 235</b>	<b>45 604 281</b>	<b>236 707 044</b>	<b>10 957 850</b>	<b>0</b>	<b>489 932 410</b>

**Lending to customers by segment**

Sector	Q2 2020		Q2 2019		2019	
	USD	Share %	USD	Share %	USD	Share %
Bulk	64 938 731	22,8 %	69 787 112	24 %	66 888 122	23 %
Container	78 610 043	27,6 %	74 185 459	25 %	78 080 591	26 %
Tank	130 731 919	45,9 %	134 002 984	46 %	136 094 014	46 %
Gas	5 696 380	2,0 %	6 744 133	2 %	6 222 709	2 %
Specialized	4 841 923	1,7 %	8 503 472	3 %	7 839 073	3 %
Offshore	-	0,0 %				
<b>Sum</b>	<b>284 818 995</b>	<b>100 %</b>	<b>293 223 159</b>	<b>100 %</b>	<b>295 124 509</b>	<b>100 %</b>

**Bonds and certificates: Risk Weight**

Risk Weight	Q2 2020	Q2 2019	2 019
	Fair Value	Fair Value	Fair Value
0%	13 740 286	10 898 157	14 710 190
10%	156 672 844	105 547 109	136 624 495
20%	-	0	
100%	-		
<b>Total</b>	<b>170 413 130</b>	<b>116 445 266</b>	<b>151 334 685</b>

## Bonds and certificates: Rating

Rating	Q2 2020 Fair Value	Q2 2019 Fair Value	2019 Fair Value
AAA	167 848 279	113 503 553	148 484 335
AA+	2 564 851	2 941 713	2 850 350
AA	0		
A	0		
<b>Total</b>	<b>170 413 130</b>	<b>116 445 266</b>	<b>151 334 685</b>

## Bonds and certificates: Sector

Sector	Q2 2020 Fair Value	Q2 2019 Fair Value	2019 Fair Value
Supranationals	5 011 229	5 012 558	6 848 949
Local authority	8 729 057	5 885 599	7 963 314
Credit Institutions	156 672 844	105 547 109	136 522 422
Bank			
<b>Total</b>	<b>170 413 130</b>	<b>116 445 266</b>	<b>151 334 685</b>

**Interest, currency and liquidity risk**

Changes in interest rate, currency and liquidity risk since 31.12.2019 is marginal. The movements in market rates, as well as the effects of those movements, have been larger during the quarter.

**INCOME AND COSTS****Note 5, Estimated Taxation of profit****1) Present tax calculation (Ordinary 25% tax on profit/loss)**

	USD	NOK
Profit Before Tax	2 279 982	22 223 669
Tax related agio on equity	0	0
Basis for Tax Calculation	2 279 982	22 223 669

**Calculated Tax (25%)**                      **569 996**                      **5 555 917**  
 Calculated Common Equity with present/new tax calculation is 33.5%

**2) Full currency agio on Equity (Previous method)**

	USD	NOK
Profit Before Tax	2 279 982	22 223 669
Tax related agio on equity	10 579 150	103 118 144
Basis for Tax Calculation	12 859 132	125 341 813

**Calculated Tax (25%)**                      **3 214 783**                      **31 335 453**

The calculated tax for the period is larger than the result before tax. The reasons and consequences are accentuated by the extreme weakening of the NOK against the USD caused by the Corona-crisis.

The main reason is that even though the Bank's functional currency is USD, it is required to translate both P&L and the majority of assets and liabilities to NOK for tax purposes. For all practical purposes, the tax expense thus also includes the effect of the USDNOK development on the Bank's net assets (Equity).

When the USDNOK exchange rate moved nearly 11% during the first six months, the Bank's net assets in NOK increased with 103 118 144, resulting in an additional tax expenses of NOK 25 779 526 in Q2, down from NOK 46 164 676 in Q1. This additional tax charge is not related to any company specific matters or income/cost items. Lower USDNOK exchange rate in the coming quarters will reduce the tax expenses accordingly

Calculated Common Equity with previous tax calculation practice is 33.5%

## ASSETS

### Note 6, 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.

### 30.06.2020

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds	0	161 684	8 729	170 413
Shares and other securities	0	0	0	0
Financial derivatives	0	658	0	658
<b>Total financial assets</b>	<b>0</b>	<b>162 342</b>	<b>8 729</b>	<b>171 071</b>
Financial derivatives	0	26 778	0	26 778
<b>Total financial liabilities</b>	<b>0</b>	<b>26 778</b>	<b>0</b>	<b>26 778</b>

**30.06.2019**

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds		110 560	5 886	116 445
Shares and other securities		0	0	0
Financial derivatives		462		462
<b>Total financial assets</b>	<b>0</b>	<b>111 022</b>	<b>5 886</b>	<b>116 908</b>
Financial derivatives		6 037	0	6 037
<b>Total financial liabilities</b>	<b>0</b>	<b>6 037</b>	<b>0</b>	<b>6 037</b>

**Note 7, Financial pledges**

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

**Note 8, Other intangible assets, property, plant and equipment**

- In USD

	30.06.2020		30.06.2019		31.12.2019	
	Other intangible assets	Property, plant and equipment	Other intangible assets	Property, plant and equipment	Other intangible assets	Property, plant and equipment
Cost or valuation at 01.01	4 318 219	1 334 652	4 348 846	110 589	4 348 846	110 589
Exchange and other adjustments	-419 989	-134 084	88 533	29 044	-49 218	-15 292
Introduction of right to use-asset		0		1 203 936		1 203 936
Additions	0	26 811	0	24 698	18 590	35 420
Disposals	0	0	0	0	0	0
<b>Cost or valuation at end of period</b>	<b>3 898 229</b>	<b>1 227 379</b>	<b>4 437 379</b>	<b>1 368 267</b>	<b>4 318 219</b>	<b>1 334 653</b>
Accumulated depreciation and impairment at 01.01.	-2 281 437	-394 420	-1 437 850	-54 044	-1 437 850	-54 044
Exchange and other adjustments	223 564	53 667	-32 847	-2 500	14 669	-1 811
Depreciation charge this year	-390 323	-156 746	-440 162	-172 275	-858 256	-338 566
Disposals						
<b>Accumulated depreciation and impairment at end of period</b>	<b>-2 448 196</b>	<b>-497 499</b>	<b>-1 910 859</b>	<b>-228 819</b>	<b>-2 281 437</b>	<b>-394 421</b>
<b>Balance sheet amount at end of period</b>	<b>1 450 033</b>	<b>729 880</b>	<b>2 526 520</b>	<b>1 139 448</b>	<b>2 036 782</b>	<b>940 232</b>
<i>Economic lifetime</i>	<i>5 years</i>	<i>3 years</i>	<i>5 years</i>	<i>3 years</i>	<i>5 years</i>	<i>3 years</i>
<i>Depreciation schedule</i>	<i>Linear</i>	<i>Linear</i>	<i>Linear</i>	<i>Linear</i>	<i>Linear</i>	<i>Linear</i>

**Note 9, Other assets and financial derivatives****30.06.2020**

Amounts in 1000	Nominal Value USD	Nominal Value EUR	Nominal Value NOK	Positive Market Values USD	Negative Market Values USD
<b>Interest Rate Derivatives</b>					
Interest rate swap	0	0	0	0	0
<b>Currency Derivatives</b>					
Cross currency basis swap					
Buy/Sell USD against NOK	190 000		1 605 155	658	25 868
Buy/Sell EUR against NOK		7 641	74 938	0	911
<b>Total Currency Derivatives</b>	<b>190 000</b>	<b>7 641</b>	<b>1 680 093</b>	<b>658</b>	<b>26 778</b>



**30.06.2019**

Amounts in 1000	Nominal Value	Nominal Value	Nominal Value	Positive market values	Negative Market values
	USD	EUR	NOK	USD	USD
<b>Interest Rate Derivatives</b>					
Interest rate swap	0	0	0	0	0
<b>Currency Derivatives</b>					
Cross currency basis swap					
Buy/Sell USD against NOK	190 000		1 576 110	323	6 037
Buy/Sell EUR against NOK		9 026	88 502	140	0
<b>Total Currency Derivatives</b>	<b>190 000</b>	<b>9 026</b>	<b>1 664 612</b>	<b>462</b>	<b>6 037</b>

**Note 10, Other Liabilities and accrued cost**

<i>- In USD</i>	<b>30.06.2020</b>	<b>30.06.2019</b>
Account payables	117 233	127 799
Tax withholdings	192 380	112 408
VAT payable	32 969	32 834
Tax payable	-	170 759
Deferred tax	2 380 215	-
Lease liability	693 238	1 080 414
Other liabilities	203 601	268 061
<b>Total other liabilities</b>	<b>3 619 636</b>	<b>1 792 275</b>
Holiday pay and other accrued salaries	552 153	637 522
Other accrued costs	395 583	285 124
<b>Total accrued costs</b>	<b>947 736</b>	<b>922 646</b>

**Note 11, 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	24.99%
2	Endre Røsjø *	2 041 979	24.99%
3	Apollo Asset Limited	813 176	9.95 %
4	Deutsche Bank Aktiengesellschaft	666 700	8.16%
5	Canomaro Shipping AS	438 899	5.37%
6	Klaveness Marine Finance AS	176 923	2.17%
7	T.D. Veen AS	143 821	1.76%
8	Herfo Finans AS	132 467	1.62%
9	Nergaard Investment Partners AS	121 265	1.48%
10	Thabo Energy AS	118 526	1.45%
	Others	1 474 313	18.05%
	<b>Total</b>	<b>8 170 048</b>	<b>100%</b>

(\* ) 102 723 shares (1.26%) owned through Centennial AS

## Appendix 1, Alternative Performance Measures

Formulas for calculation of Alternative Performance Measures

### **Ratio formulas**

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

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

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

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

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

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

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

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

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