



Maritime & Merchant Bank ASA
Financial Report
30.09.2020



MARITIME & MERCHANT
BANK ASA

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The bank had a profit before tax of USD 1 524 937 in Q3 2020 (USD 2 814 845 in Q3 2019). The net interest margin was 1.8% (3.7% in Q3 2019) and a Return on Equity of 5.5% before tax. (10.8% in Q3 2019).

Lower money market rates both in USD and NOK and reduced lending volumes due to the overall situation in the market caused by Covid-19, has put a downward pressure on the bank's net interest margin. The bank has lowered the deposit interest rates subsequently during the quarter which will have effect during Q4. Profit for the period 01.01-30.9 is USD 3 804 920.

The general credit quality of the credits extended to clients within the container and dry bulk sector have improved significantly during Q3. The freight rates have increased steadily in both sectors since the half year turn giving the owners correspondingly improved ability to serve their financial obligations. The tanker market went into a weak period over the summer and this is still the situation by the end of Q3.

The bank has one defaulted exposure by the end of the quarter which constitutes 0.9% of the total loan portfolio.

The further development of the shipping market, within the dry bulk and container sectors in particular, is closely related to the development of the global GDP growth and industrial production. Due to the still critical COVID-19 situation in large parts of the world, forecasting of these parameters are made most difficult. According to OECD the industrial production within the OECD area showed a decline of 7.8% in August while China showed a positive 5.6% growth in the same month. The current forecast from IMF for the global GDP in 2020 is -4.4%. How the significant unbalance between Asia and the western world will affect the shipping markets going forward will be a key issue.

Profit for the period (01.01-30.09)

The profit for the period before tax is USD 3 804 920 (USD 8 006 263) and profit after tax* is USD 2 853 690 (USD 5 030 859).

Net interest income and related income totalled USD 10 766 501 (USD 13 294 238), and other Income (including financial derivatives and fixed income instruments) was USD 10 879 (USD 354 075).

Operating expenses before impairments and losses totalled USD 5 437 871 (USD 5 635 796). The Cost/Income ratio came in at 50.5% (41.3%).

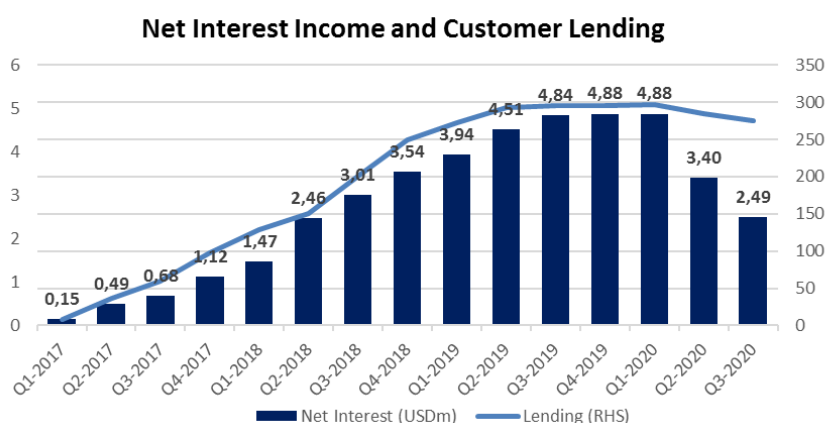
For the first nine months of the year, loss allowance (Expected Loss) corresponding to USD 1 534 590 (USD 6 255) were expensed.

(* see Deferred Taxes and payable tax below)

	2020 Q3	2019 Q3	2020 YTD	2019 YTD	2019 01.01 - 31.12
Interest Income	4 444 367	7 855 687	17 097 274	21 768 227	28 886 306
Interest Expense	-1 953 384	-3 014 034	-6 330 773	-8 473 989	-10 716 432
Net Interest Income	2 490 983	4 841 653	10 766 501	13 294 238	18 169 875
Other Income	577 601	-287 611	10 879	354 075	460 441
Total Income	3 068 585	4 554 042	10 777 380	13 648 313	18 630 316
Operating Expense	-1 830 520	-1 887 059	-5 437 871	-5 635 796	-7 449 329
Operating Result	1 238 065	2 666 984	5 339 509	8 012 518	11 180 987
Loss Allowance	286 872	147 861	-1 534 590	-6 255	-120 932
Profit Before Tax	1 524 937	2 814 845	3 804 919	8 006 262	11 060 054
Tax	-381 234	-2 223 650	-951 230	-2 975 404	-2 983 371
Profit After Tax	1 143 703	591 195	2 853 689	5 030 858	8 076 684

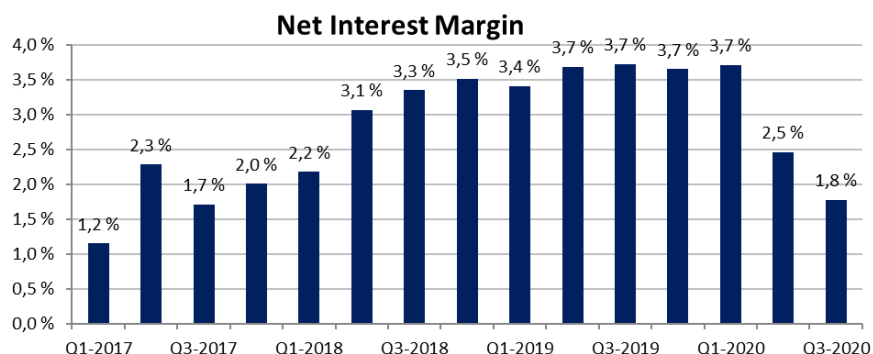
Net interest income and related income

Net interest income and related income totalled USD 2.49 million in Q3 (USD 4.84 million in Q3 2019). This correspond to a decrease from USD 3.4 million in Q2 2020.

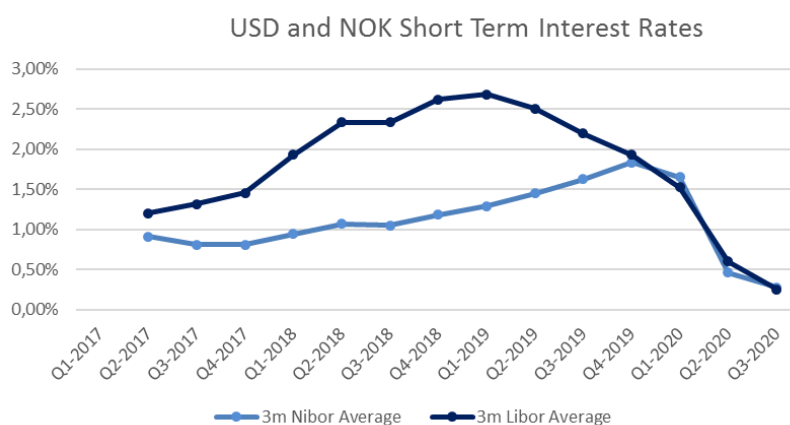


Net interest margin fell from 2.5% in Q2 to 1.8% in Q2 (3.7% in Q3-2019). Lower interest rates (money market rates) in USD and NOK resulted in lower interest income on the Banks interest rate bearings assets. The Bank lowered the deposit rates three times during Q3, but none of them will have any effect before Q4.

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 quarter and seems to have stabilized at a low level.



(Source: Infront, Maritime & Merchant Bank ASA)

Net other Income

Net other income amounted to USD 577 601 in Q3 2020 (USD -287 611 in Q3-2019).

Value adjustments on derivatives and hedging instrument in Q3 was USD 166 487 due to an depreciation of the USD against NOK. An abnormal USD appreciation against NOK in Q1 led to a negative value adjustment of USD 1 137 222. Value adjustment YTD is USD -404 921 (USD -29 891 in 2019). A further depreciation of USD against NOK will improve the value adjustment.

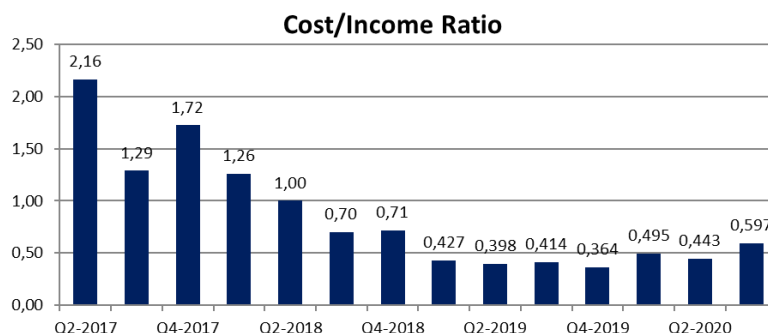
The principle of assessing financial instruments measured at fair value may lead to significant variation of the Bank's result between quarters.

Net commissions amounted to USD 197 129 in Q3 (USD 124 713 in Q3-2019).

Total operating expenses before impairments and losses

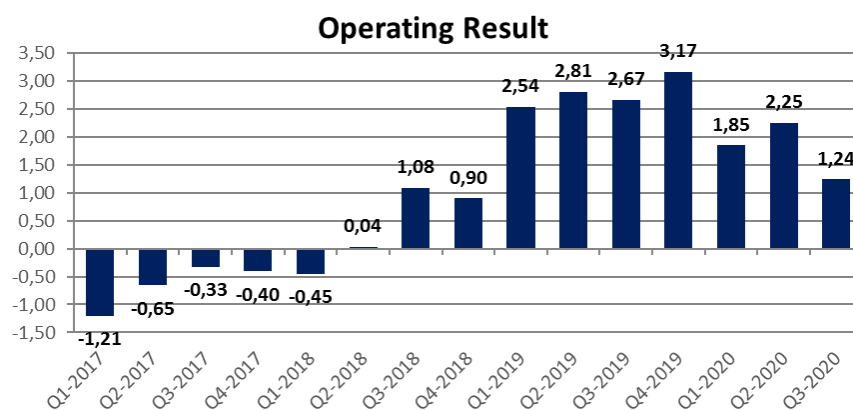
Operating expenses before impairments and losses totalled USD 1 830 520 in Q3 (USD 1 887 059 in Q3-2019). Salaries and personnel expenses, including social costs, amounted to USD 1 168 400 (USD 1 189 192 in Q3-2019) and account for the largest proportion of the overall operating expenses.

Total depreciation and impairment of fixed and intangible assets amounted to USD 288 712 (USD 297 195 in Q3-2019). The Cost/Income ratio came in at 59.7% in Q3 (41.4 in Q3-2019).



Operating result

Operating result in Q3 amounted to USD 1 238 065 (USD 2 666 984 in Q3-2019).



Loan and Loan Loss provisions

Maritime & Merchant Bank ASA has lent USD 275 657 263 (USD 295 570 478 in Q3-2019) to customers.

The Bank has made USD 2 357 582 (USD 708 313) in loss allowance (IFRS 9). Change in loss allowance through the year amounts to USD 1 534 590 (USD 6 255).

The credit quality of the majority of the loans to the bulker and container segments deteriorated through Q2, due to the reduction in cargoes to be lifted in those segment, reduced rates and uncertainty regarding future market conditions. The deterioration has however flattened out and partially turned back to more normal levels for both container vessels and bulkers towards the end of Q3 and are as of today at level with rate levels experienced prior to the Covid 19 crisis.

There has been an insignificant deterioration of the credit quality of the tanker portfolio during Q3, but this has been more than balanced out by the improved quality of the container and bulker exposure.

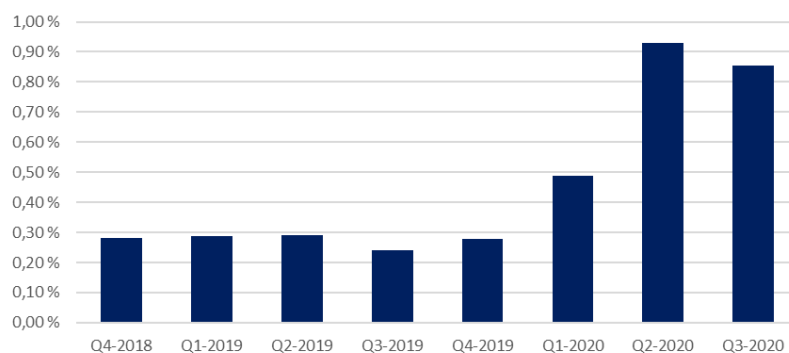
As a consequence, hereof, the total credit portfolio has migrated positively through Q3 which is reflected in the reduced Loss Allowances at the end of Q3 compared to those at the end of Q2 2020

The majority of the commitments (79.7%) are in stage 1 (77% in Q2-2020 and 98.8% in Q3-2019).
Loss allowance decreased with USD 286 872 from Q2 to Q3.

The bank has only one defaulted exposure by the end of the quarter and Non-performing loans amount to 0.9% of total lending. This has been resolved in Q4 (see Note 12)

Loss allowance	30.09.2020	30.09.2019	31.12.2019	31.12.2018
Step 1	698 512	735 366	822 991	665 727
Step 2	874 233	120 810		36 322
Step 3	784 836			
Sum	2 357 581	856 176	822 991	702 059
Allowance/Loans Ratio	0.86 %	0.29 %	0.28 %	0.28 %
Impairments	0	0	0	0
Non performing Loans	2 572 259	0	0	0

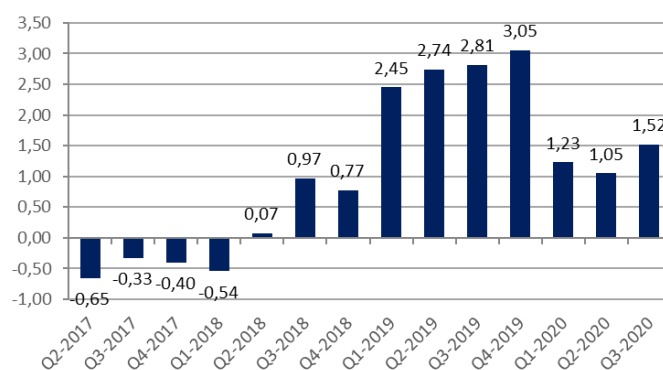
Loss Allowance/Lending

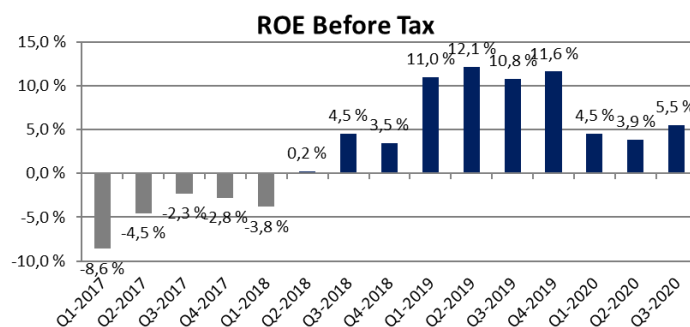


Profit before tax

Profit before tax amounted to USD 1 524 937 in Q3 (USD 2 814 845 in Q3-2019).
Return on equity before tax was 5.5% (10.8% in Q3-2019).

Profit Before Tax (USDm)





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.

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 first three quarters of 2020.

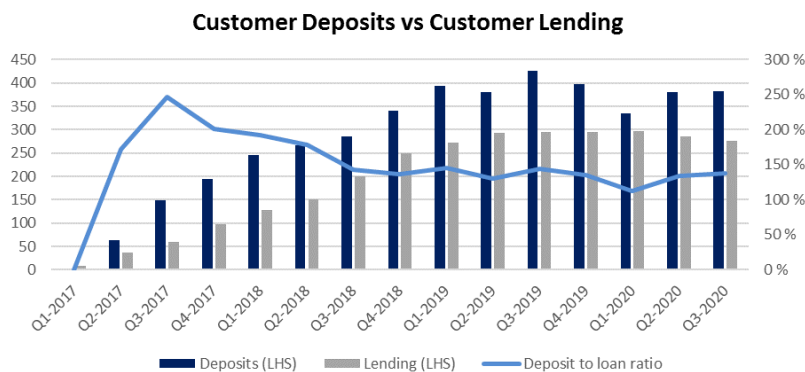
If there is no decision (or a negative one) from the Ministry of Finance within the fiscal year, we will incorporate a full agio effect in Q4 2020. The agio effect (extra taxable income/cost) will be a result of the USDNOK exchange rate at year end.

The “phantom” income so far this year is NOK 75 267 376. This will result in an extra tax cost of NOK 18 816 844 (USD 1 982 849) and bring our effective tax rate up to 77% (As of Q3 2020). Net result after tax will go from USD 2 853 690 to USD 870 840 (As of Q3 2020).

See Note 5, Tax Calculation.

Deposit and Liquidity

Customer deposits amounted to USD 381 586 073 in Q3-2020 (USD 426 803 507 in Q3-2019).



The deposit to loan ratio was 138% (144% in Q3-2019) at the end of Q3-2020.

The bank raised an F-loan from Norges Bank of NOK 200 million in March that matured in September 2020 and NOK300 maturing in March 2021. Loans from the central bank amounted to NOK 300 million as of Q3-2020. The collateral is provided for the loans in the form of bonds.

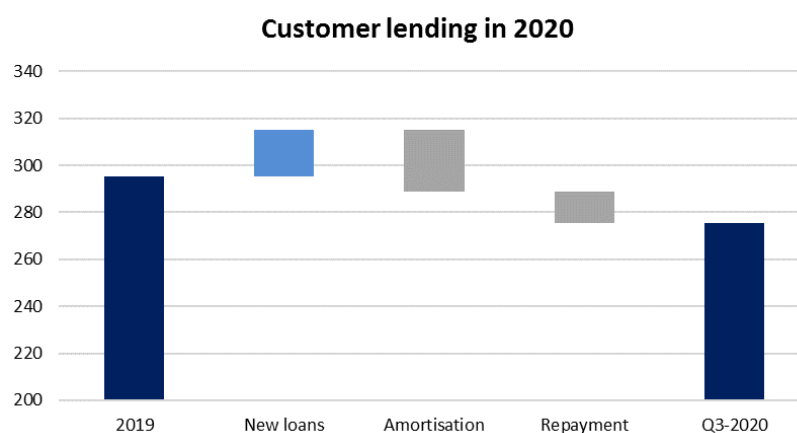
The liquidity situation has been good throughout the quarter. There has been good interest in bank deposits. Surplus liquidity of about USD 275 million was mainly invested in interest-bearing securities, deposits in major banks and in Norges Bank. The securities investments are in bonds with good liquidity and very low risk.

The Bank's short-term liquidity risk measured by LCR was 375% (above a minimum requirement of 100%), and the long-term liquidity risk measured by NSFR was 182% (above a minimum requirement of 100%).

Total Assets and Lending

Total assets ended at USD 551 334 629 in Q3 (USD 554 086 534 in Q3-2019).

Lending to customer declined from USD 295 570 478 in Q3-2019 (USD 295 124 509 in Q4-2019) to USD 275 657 263 in in Q3-2020. The reduction is due to early repayment and temporary stricter lending criteria post Covid-19. The lending criteria is back to normal.



Solvency

Core equity ratio (CET1) was 35.76% in Q3-2020 (29.7% in Q3-2019).

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 at the beginning of 2020 to a more diversified distribution with a tail into high risk classification – the average risk for both bulkers and container vessels migrated to higher risk classes through Q2, but a significant part of those have migrated positively through Q3 – however not yet back to the levels experienced by the beginning of the year, due to months with low or none earnings. For tankers and gas where we saw a stable credit quality or positive migration through Q2, we have experienced an insignificant negative migration in Q3.

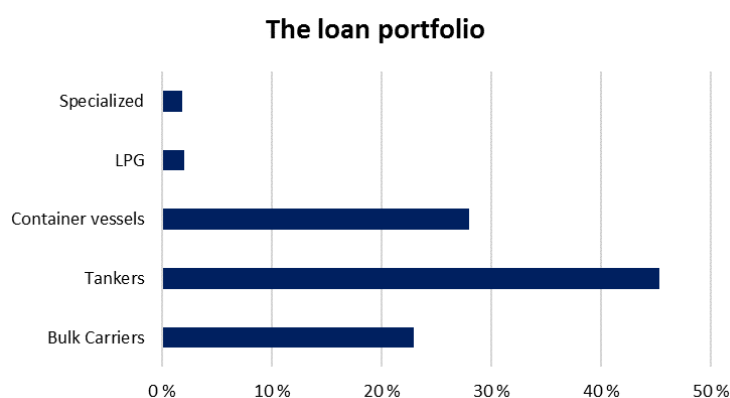
All commitments are secured with 1st priority mortgage on vessels, and the large majority of those were secured within 50% of appraised values when granted, and in combination with an estimated moderate Default Probability, this provided for a sound credit portfolio with a limited potential for future losses, and the vessels' values for most clients have a good margin in relation to the outstanding exposures.

The bank had only one defaulted exposure by the end of the quarter, this has been resolved in a positive manner in Q4.

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 (22.9%), tankers (45.3%), container vessels (28%), LPG (gas) (2%) and specialized (1.8%).



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.

	30.09.2020	30.09.2019	31.12.2019	31.12.2018
LCR	375%	586%	636%	444%
Deposit Ratio (1)	69%	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

Ratios	YTD 2020	YTD 2019	2019
Cost/Income Ratio	50.5%	41.3%	39.98%
Return on Equity before tax	4.7%	11.6%	11.77%
Net Income Margin	2.69%	3.69%	3.91%
Net Interest Margin	2.69%	3.59%	3.81%
Deposit to loan Ratio	138%	144%	135%
LCR	375%	586%	636%
NPL Ratio	0.9%	0%	0%
Equity Ratio (CET1)	35.8%	29.7%	33.1%

Ratio formulas, se Appendix 1

Outlook

In view of the still unsolved Corona situation in major parts of the world, we cannot but take a cautious view on the short-term prospects. On the other hand, we are looking forward to continue to develop our relationship to existing and new clients and together find good financial solutions for materializing new investments in the maritime sector.

Oslo, November 11th, 2020

Board of Directors, Maritime & Merchant Bank ASA

Income Statement

-In USD	Note	2020	2019	2020	2019	2019
		01.07 - 30.09	01.07 - 30.09	01.01 - 30.09	01.01 - 30.09	01.01 - 31.12
Interest income and related income						
Interest and other operating income from loans to customers		4 265 362	6 838 779	15 330 547	19 181 400	25 154 631
Interest from certificates and bonds		179 105	661 184	1 507 326	1 769 738	2 557 478
Interest from loans to and receivables from credit institutions		-100	355 725	259 400	817 088	1 174 197
Total interest income and related income		4 444 367	7 855 687	17 097 274	21 768 227	28 886 306
Interest expenses						
Interest and related expenses of loans to customers		-1 834 914	-2 327 167	-5 701 123	-6 255 209	-8 377 592
Net interest expenses from financial derivatives		-72 732	-582 540	-494 893	-1 897 596	-2 210 013
Other fees and commissions		-45 737	-104 328	-134 757	-321 185	-128 826
Net interest expenses and related expenses		-1 953 384	-3 014 034	-6 330 773	-8 473 989	-10 716 432
Net interest income and related income		2 490 983	4 841 653	10 766 501	13 294 238	18 169 875
Commissions, other fees and income from banking		205 385	133 609	468 299	446 207	614 559
Commissions, other fees and expenses from banking		-8 256	-8 896	-24 034	-64 712	-66 808
Net value adjustments on foreign exchange and financial derivatives		166 487	-346 966	-404 921	-29 891	98 425
Net value adjustments on interest-bearing securities		213 985	-65 358	-28 466	2 472	-185 735
Total income		3 068 585	4 554 042	10 777 380	13 648 313	18 630 316
Salaries, administration and other operating expenses						
Salaries and personnel expenses		-1 168 400	-1 189 192	-3 507 866	-3 461 956	-4 501 034
Administrative and other operating expenses		-373 408	-400 672	-1 093 008	-1 263 903	-1 747 954
Net salaries, administration and other operating expenses		-1 541 808	-1 589 863	-4 600 874	-4 725 859	-6 248 988
Total depreciation and impairment of fixed and intangible assets	8	-288 712	-297 195	-836 996	-909 936	-1 200 342
Total operating expenses		-1 830 520	-1 887 059	-5 437 871	-5 635 796	-7 449 329
Operating result		1 238 065	2 666 984	5 339 509	8 012 518	11 180 987
Loan loss provisions (IFRS - 9)	4	286 872	147 861	-1 534 590	-6 255	-120 932
Profit (+) / Loss (-) for the period before tax		1 524 937	2 814 845	3 804 920	8 006 263	11 060 054
Income tax	5	-381 234	-2 223 650	-951 230	-2 975 404	-2 983 371
Result for the period after tax		1 143 703	591 195	2 853 690	5 030 859	8 076 684

- 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

<u>Assets</u>		2020	2019	2019
<u>- In USD</u>	<u>Note</u>	<u>30.09.2020</u>	<u>30.09.2019</u>	<u>31.12.2019</u>
Cash and balances at Central Bank		6 980 409	7 180 197	7 432 474
Lending to and receivables from credit institutions		71 654 865	101 699 942	63 052 606
Lending to customers	4	275 657 263	295 570 478	295 124 509
Loss provisions on loans to customers	4	-2 357 582	-708 313	-822 991
Net lending to customers		273 299 681	294 862 165	294 301 518
Certificates, bonds and other receivables				
Commercial papers and bonds valued at market value	4,6	196 062 155	146 897 618	151 334 685
Commercial papers and bonds valued at amortised cost		0	0	0
Certificates, bonds and other receivables		196 062 155	146 897 618	151 334 685
Shares		79 682	44 106	45 270
Intangible assets				
Deferred tax assets		0	0	0
Other intangible assets	8	1 289 096	2 164 195	2 036 782
Total intangible assets		1 289 096	2 164 195	2 036 782
Fixed assets				
Fixed assets	8	674 723	992 060	940 232
Total fixed assets		674 723	992 060	940 232
Other assets				
Financial derivatives	9	907 764	20 340	581 080
Other assets		108 998	31 734	21 665
Total other assets		1 016 762	52 074	602 746
Expenses paid in advance				
Prepaid, not accrued expenses		277 256	194 176	299 755
Total prepaid expenses		277 256	194 176	299 755
TOTAL ASSETS		551 334 629	554 086 534	520 046 068
Liabilities and shareholders equity				
<u>- In USD</u>		<u>30.09.2020</u>	<u>30.09.2019</u>	<u>31.12.2019</u>
Liabilities				
Loans and deposits from credit institutions		31 671 149		
Deposits from and liabilities to customers		381 586 073	426 803 507	398 238 850
Total loans and deposits		413 257 222	426 803 507	398 238 850
Other liabilities				
Financial derivatives	9	22 265 237	17 162 823	8 579 392
Other liabilities	10	4 002 565	3 924 769	4 355 395
Total other liabilities		26 267 802	21 087 592	12 934 787
Accrued expenses and received unearned income				
Accrued expenses and received unearned income	10	710 358	1 161 713	714 110
Total accrued expenses and received unearned income		710 358	1 161 713	714 110
Total Liabilities		440 235 382	449 052 812	411 887 746
Shareholders equity				
Paid-in capital				
Share capital	11	9 708 655	9 708 655	9 708 655
Share premium account		94 148 865	94 148 864	94 148 865
Total paid-in capital		103 857 520	103 857 519	103 857 520
Other Equity				
Retained earnings, other		-351 425	-517 435	-438 660
Retained earnings		7 593 152	1 693 637	4 739 462
Total other equity		7 241 727	1 176 202	4 300 802
Total shareholder equity		111 099 247	105 033 721	108 158 322
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		551 334 629	554 086 534	520 046 068

- 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				87 235	87 235
Profit			2 853 690		2 853 690
Equity as per 30.09.2020	9 708 655	94 148 865	7 593 152	-351 425	111 099 247

- 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>	<u>30.09.2020</u>	<u>30.09.2019</u>	<u>31.12.2019</u>
Cashflow from operational activities			
Profit before tax	3 804 920	8 006 263	11 060 054
Change in loans to customers excluding accrued interest	20 161 961	-43 878 138	-45 550 976
Change in deposits from customers	-22 214 605	80 522 008	57 730 345
Change in loans and deposits from credit institutions	31 671 149		
Change in certificates and bonds	-44 727 470	-34 345 241	-38 782 308
Change in shares, mutual fund units and other securities	-34 412	5 189	4 025
Change in financial derivatives	13 359 162	7 703 886	-1 440 286
Change in other assets and other liabilities	-421 416	1 601 423	580 386
Interest income and related income	-15 330 547	-21 768 226	-28 886 306
Interest received	16 170 423	19 106 465	28 337 099
Net interest expenses and related expenses	5 701 123	8 473 989	10 716 432
Interest paid	-139 294	-2 700 995	-10 716 432
Ordinary depreciation	835 026	909 936	1 200 342
Other non cash items	-1 316 868		117 414
Net cash flow from operating activities	7 519 151	23 636 559	-15 630 211
Payments for acquisition of assets	-26 811	-1 098 651	-54 010
Net cash flow from investing activities	-26 811	-1 098 651	-54 010
Issuance of equity	0	11 930 295	11 930 295
Lease payments	-217 722		-296 695
Net cash flow from financing activities	-217 722	11 930 295	11 633 600
Effect of exchange rate changes and other	875 576	38 935	162 701
Sum cash flow	8 150 194	34 507 138	-3 887 920
Net change in cash and cash equivalents	8 150 194	34 507 138	-3 887 920
Cash and cash equivalent as per 01.01	70 485 080	74 373 001	74 373 001
Cash and cash equivalent as per 30.09	78 635 274	108 880 139	70 485 081

Notes 30.09.2020

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 third quarter 2020 is prepared according to IAS 34 Interim Financial Reporting and IFRS as adopted by EU.

The interim report for the third 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	30.09.2020	30.09.2019	31.12.2019
Share capital	9 709	9 709	9 709
+ Other reserves	101 391	95 325	98 450
- Deferred tax assets and intangible assets	-1 289	-2 164	-2 037
- This year's result	-2 854	-5 031	-
- Adjustments to CET1 due to prudential filters	-196	-164	-161
Common Equity Tier 1 (CET 1)	106 760	97 675	105 961
Credit Risks			
+ Bank of Norway	-	-	-
+ Local and regional authorities	-	-	-
+ Institutions	12 165	17 988	11 613
+ Companies	246 342	282 678	271 531
+ Covered bonds	18 209	13 249	13 662
+ Shares	80	44	45
+ Other assets	952	1 218	1 262
Total Credit risks	277 746	315 177	298 113
+ Operational risk	19 423	11 060	19 423
+ Counterparty risk derivatives (CVA-risk)	1 411	2 342	2 342
Total calculation basis	298 581	328 579	319 878
Capital Adequacy			
Common Equity Tier 1%	35.76 %	29.73 %	33.13 %
Total capital %	35.76 %	29.73 %	33.13 %

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 and third 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 the majority of the loans to the bulker and container segments deteriorated through Q2, due to the reduction in cargoes to be lifted in those segments and reduced rates as well as uncertainty regarding future market conditions. The deterioration has however flattened out and partially turned back to more normal levels for both container vessels and bulkers towards the end of Q3 and are as of today at level with rate levels experienced prior to the Covid 19 crisis.

There has been an insignificant deterioration of the credit quality of the tanker portfolio during Q3, but this has been more than balanced out by the improved quality of the container and bulker exposure.

As a consequence hereof, the total credit portfolio have migrated positively through Q3 which is reflected in the reduced Loss Allowances at the end of Q3 compared to those at the end of Q2 2020 (Loss allowance decreased with USD 286 872 from Q2 to Q3).

The Bank has made USD 2 357 582 in loss allowance (IFRS 9). Change in loss allowance through the year amounts to USD 1 534 590.

The majority of the commitments (79.7%) are in stage 1 (77% in Q2-2020 and 98.8% in Q3-2019). Loss allowance decreased with USD 286 872 from Q2 to Q3.

The bank has only one defaulted exposure by the end of the quarter and Non-performing loans amount to 0.9% 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.

Sensitivities:

Scenario Up: Loss allowance is expected to decrease with USD 136 000 compared to base case

Scenario Down: Loss allowance is expected to increase with USD 1 528 000 compared to base case

There is considerable uncertainty regarding the estimates that are used.

Loss allowance	30.09.2020	30.09.2019	31.12.2019	31.12.2018
Step 1	698 512	735 366	822 991	665 727
Step 2	874 233	120 810		36 322
Step 3	784 836			
Sum	2 357 581	856 176	822 991	702 059
Impairments	0	0	0	0

Loss allowance as of 30.09.2020

	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
Changes				
Transfer to Step 1				
Transfer to Step 2	- 160 052	160 052		
Transfer to Step 3	- 8 336	-	8 336	
Reclassification	109 041	593 597	776 500	1 479 138
Amortisation	- 86 855	- 9 249		- 96 104
New commitments	35 695			35 695
Scenario Adjustment	- 13 972	129 833		115 861
Allowance as of 30.09.2020	698 512	874 233	784 836	2 357 581
Lending to customers 30.09.2020	219 604 360	53 480 644	2 572 259	275 657 263
Net Change in Loss allowance	-124 479	874 233	784 836	1 534 590

(1) Amortisations and changes in individual assessments

Loss allowance as of 30.09.2019

	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
<i>Lending to customers 31.12.2018</i>	245 124 326	3 900 000		249 024 326
Changes				
Transfer to Step 1	36 332	- 36 332		-
Transfer to Step 2	- 5 373	5 373		-
Transfer to Step 3				-
Reclassification	- 99 305	22 386		-76 919
Amortisation	-99 864	- 464		-100 328
New commitments	183 501			183 501
				-
Allowance as of 30.09.2019	681 018	27 295	-	708 313
<i>Lending to customers 30.09.2019</i>	291 988 223	3 582 255	-	295 570 478
Net Change in Loss allowance	15 291	-9 037	0	6 254

Credit risk: Total**30.09.2020**

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with Central Bank	6 980 409					6 980 409
Deposits with credit institution	71 654 865					71 654 865
Certificates and bonds	196 062 155					196 062 155
Shares and other securities			79 682			79 682
Loans to customers		70 259 925	174 772 338	28 052 741	2 572 259	275 657 263
Total	274 697 429	70 259 925	174 852 020	28 052 741	2 572 259	550 434 373

30.09.2019

Amounts in USD	Very low risk	Low risk	Moderate risk	High risk	Loss exposed	Sum
Deposit with central bank	7 180 197					7 180 197
Deposits with credit institution	101 699 942					101 699 942
Certificates and bonds	146 897 618					146 897 618
Shares and other securities			44 106			44 106
Loans to customers		63 423 150	228 565 073	3 582 255		295 570 478
Total	255 777 758	63 423 150	228 609 179	3 582 255	0	551 392 342

Committed loans, not disbursed	10 000 000
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Lending to customers by segment

Sector	Q3 2020		Q3 2019		2019	
	USD	Share %	USD	Share %	USD	Share %
Bulk	63 125 513	22,9 %	67 981 210	23 %	66 888 122	23 %
Container	77 184 034	28,0 %	80 690 741	27 %	78 080 591	26 %
Tank	124 872 740	45,3 %	132 415 574	45 %	136 094 014	46 %
Gas	5 513 145	2,0 %	6 206 980	2 %	6 222 709	2 %
Specialized	4 961 831	1,8 %	8 275 973	3 %	7 839 073	3 %
Offshore	-	0,0 %				
Sum	275 657 263	100 %	295 570 478	100 %	295 124 509	100 %

Bonds and certificates: Risk Weight

Risk Weight	Q3 2020	Q3 2019	2 019
	Fair Value	Fair Value	Fair Value
0%	13 976 916	14 410 997	14 710 190
10%	182 085 239	132 486 621	136 624 495
20%			
100%			
Total	196 062 155	146 897 618	151 334 685

Bonds and certificates: Rating

Rating	Q3 2020 Fair Value	Q3 2019 Fair Value	2019 Fair Value
AAA	193 427 682	144 135 131	148 484 335
AA+	2 634 473	2 762 487	2 850 350
AA	0	0	
A	0	0	
Total	196 062 155	146 897 618	151 334 685

Bonds and certificates: Sector

Sector	Q3 2020 Fair Value	Q3 2019 Fair Value	2019 Fair Value
Supranationals	5 011 050	5 012 376	6 848 949
Local authority	8 965 866	9 398 621	7 963 314
Credit Institutions	182 085 239	132 486 621	136 522 422
Bank			
Total	196 062 155	146 897 618	151 334 685

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 year.

INCOME AND COSTS

Note 5, Estimated Taxation of profit

1) Present tax calculation (Ordinary 25% tax on profit/loss)

	USD	NOK
Profit Before Tax	3 804 919	36 107 920
Tax related agio on equity	-	-
Basis for Tax Calculation	3 804 919	36 107 920
Calculated Tax (25%)	951 230	9 026 980

2) Full currency agio on Equity (Previous method)

	USD	NOK
Profit Before Tax	3 804 919	36 107 920
Tax related agio on equity	7 931 398	75 267 376
Basis for Tax Calculation	11 736 317	111 375 297
Calculated Tax (25%)	2 934 079	27 843 824

The calculated tax for the period is 77% of the ordinary 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 8% during the first nine months, the Bank's net assets in NOK increased with 75 267 376, resulting in an additional tax expenses of NOK 18 816 844 (YTD) 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 quarter will reduce the tax expenses accordingly

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.

30.09.2020

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds	0	187 096	8 966	196 062
Shares and other securities	0	0	0	0
Financial derivatives	0	908	0	908
Total financial assets	0	188 004	8 966	196 970
Financial derivatives	0	22 265	0	22 265
Total financial liabilities	0	22 265	0	22 265

30.09.2019

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds		137 499	9 399	146 898
Shares and other securities				
Financial derivatives		20		20
Total financial assets		137 519	9 399	146 918
Financial derivatives		17 163		17 163
Total financial liabilities		17 163		17 163

Note 7, Financial pledges

The Bank has pledged NOK 106 million of bonds as collateral for financial derivatives.

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

- In USD

	30.09.2020		30.09.2019		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	-314 213	-100 781	-181 901	-54 402	-49 218	-15 292
Introduction of right to use-asset		0		1 203 936		1 203 936
Additions	0	26 811	0	31 179	18 590	35 420
Disposals	0	0	0	0	0	0
Cost or valuation at end of period	4 004 005	1 260 683	4 166 945	1 291 301	4 318 219	1 334 653
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	164 116	45 897	93 235	6 603	14 669	-1 811
Depreciation charge this year	-597 588	-237 438	-658 135	-251 800	-858 256	-338 566
Disposals						
Accumulated depreciation and impairment at end of period	-2 714 909	-585 960	-2 002 750	-299 241	-2 281 437	-394 421
Balance sheet amount at end of period	1 289 096	674 723	2 164 195	992 060	2 036 782	940 232
<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**30.09.2020**

Amounts in 1000	Nominal Value USD	Nominal Value EUR	Nominal Value NOK	Positive Market Values USD	Negative Market Values 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	908	21 222
Buy/Sell EUR against NOK		7 295	71 547	0	1 043
Total Currency Derivatives	190 000	7 295	1 676 702	908	22 265

30.09.2019

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		1 576 110		17 089
Buy/Sell EUR against NOK		8 068	85 111	20.0	74
Total Currency Derivatives	190 000	8 068	1 661 221	20.0	17 163

Note 10, Other Liabilities and accrued cost

- In USD	30.09.2020	30.09.2020
Account payables	52 938	100 414
Tax withholdings	105 753	99 719
VAT payable	45 632	28 855
Tax payable	506 351	2 975 404
Deferred tax	2 304 217	-545 586
Lease liability	645 080	943 073
Other liabilities	342 594	322 890
Total other liabilities	4 002 565	3 924 769
Holiday pay and other accrued salaries	590 624	763 124
Other accrued costs	119 734	398 590
Total accrued costs	710 358	1 161 714

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 61 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	Sabine Elke Grothe-Ernst	127 000	1.55%
10	Nergaard Investment Partners AS	121 265	1.48%
	Others	1 474 313	17.94%
	Total	8 170 048	100%

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

Note 12, Events After Balance Sheet Date

Loss exposed commitments

After 30.9.2020 the Bank has resolved the loss exposed commitment (Stage 3). The actual loss (impairment) is less than the loss allowance. The positive difference (in range between USD 375 000 and 425 000 will be posted in Q4).

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.