

# **Cultura Sparebank**

3<sup>rd</sup> Quarter Report

Results as of September 30th 2016

# Accounts as of September 30th 2016

## General development

Deposits and loans have grown steadily throughout the first half of 2016. Growth in the third quarter is slightly negative. This is considered to be the result of normal periodic fluctuations. Developments in the Norwegian economy gave rise to an increase in growth and the prospect that the interest rate has now bottomed out has been strengthened. For the last quarter the bank does not anticipate any significant changes in the underlying economy in the markets in which it operates.

## Profit and loss accounts

The bank's operating result as of September 30th was NOK 2 376 000. In addition NOK 2 320 000 in extraordinary revenue was earned in relation to VISA Inc.'s acquisition of VISA Europe. Improvements in the bank's operating results are significant both compared to the first and second quarter of 2016 and the third quarter of 2015. The expense ratio has been reduced to 76,9 against an 87,9 average for the three preceding quarters. This is the result of conscious cost-cutting measures after completing a system conversion in 2015 and a slightly expanded revenue base as reflected by greater service offerings. The board is content with these developments.

## The balance sheet

Total assets amounted to NOK 822 million by the end of the third quarter, against NOK 839 million at the end of the second quarter. The annual growth rate is still at 9.7% and is regarded as satisfactory.

## Loan impairments, depreciation and delinquencies

Due to the recovery of a previously confirmed loss, which took place several years ago, the bank can record an additional NOK 117 000 to its results. Loss exposed loans not in arrears as of September 30th have increased from NOK 834 000 to NOK 1 403 000 from the second to the third quarter, while loans in arrears by more than 90 days have decreased from NOK 1 044 000 to NOK 871 000. These developments are not considered to necessitate any special precautions.

For the period from January 1<sup>st</sup> till September 30<sup>th</sup> the changes in loan loss provisions are:

|   |     |           |
|---|-----|-----------|
| Period's change in individual write-downs                   | NOK | 0         |
| Recorded losses for the period against earlier provisions   | NOK | 41 000    |
| Recoveries on previously written down loans                 | NOK | 158 000   |
| Loan loss expenses for the period                           | NOK | -117 000  |
| Provisions related to individual loans as of 30.09.2016     | NOK | 923 000   |
| Provisions related to categories of loans as of 30.09.2016: | NOK | 1 327 000 |
| Loans in arrears by more than 90 days                       | NOK | 871 000   |
| Loss exposed loans not in arrears as of 30.09. 2016         | NOK | 1 403 000 |

## **Capital ratios**

As of September 30<sup>th</sup>, the bank's equity amounted to NOK 71 142 000, not including the first half year's operating result, of which issued equity certificates amounted to 64 229 000. The total capital ratio increased from 17,81% to 20,94%, whereas core Tier 1 capital rose from 14,05% to 17,07% over the last 12 month period. The 0,55 percentage points increase in Tier 1 capital from the second to the third quarter of 2016 can be explained by a modest decline in total assets which in turn is caused by a decrease in total loans to customers. The majority of these loans were highly risk weighted assets. The board is content with the positive development in the bank's capital ratios.

## **Liquidity**

The banks liquidity coverage is continued to be seen as very satisfactory. The LCR (Liquidity Coverage Ratio) has been somewhat reduced in comparison to the second quarter, but remains at 415, thus vastly exceeding the internal requirement of 100.

## **Prospects for the remainder of 2016**

The board of directors considers the profit developments to be satisfactory, also when disregarding the gain related to VISA Inc.'s acquisition of VISA Europe. A realistic estimate per 31.12.2016 results in a satisfactory annual operating profit. The bank will continue to work towards a lower expense ratio while maintaining the objective of an increased business volume. As always it is emphasized that this will be achieved while keeping in mind the bank's fundamental objective to conduct its business in ways that support and contribute to positive development in humanitarian, environmental and social development.

Oslo, October 20<sup>th</sup> 2016

The Board of Directors Cultura Sparebank

Maria Bjune  
Chair

Christian Dubrau  
Vice Chair

Torstein Dyrnes

Stig B. Andersen

Steinar Gundersen

Randi Welhaven

Kjell-Frederik Løvold  
CEO

| <b>Profit and Loss statement</b>                                    | <b>01.01.2016</b>  | <b>01.01.2015</b>  | <b>01.01.2015</b>  |
|---|--------------------|--------------------|--------------------|
| in NOK (1000)   | <b>-30.09.2016</b> | <b>-30.09.2015</b> | <b>-31.12.2015</b> |
| Interest and interest related income                                | 16 875             | 19 958             | 25 916             |
| Interest and interest related expense                               | 2 904              | 4 545              | 5 672              |
| <b>Net interest and interest related income</b>                     | <b>13 971</b>      | <b>15 413</b>      | <b>20 244</b>      |
| Dividends and other income from variable income securities          | 6                  | 21                 | 21                 |
| Provision income and income from banking services                   | 5 208              | 4 540              | 6 178              |
| Provision expenses and expenses from banking services               | 1 596              | 1 659              | 2 165              |
| Net profit/loss on foreign exchange and other financial instruments | 132                | 142                | 231                |
| Net profit/loss on interest bearing securities                      | 1 000              | -272               | -336               |
| Net profit/loss on shares and participations                        | 0                  | 0                  | -19                |
| Other operating income  | 0                  | 1                  | 1                  |
| <b>Total other operating income</b>                                 | <b>4 750</b>       | <b>2 773</b>       | <b>3 911</b>       |
| <b>Total operating income</b>                                       | <b>18 721</b>      | <b>18 186</b>      | <b>24 155</b>      |
| Payroll   | 8 046              | 8 428              | 11 372             |
| General administrative expenses                                     | 4 467              | 5 155              | 6 779              |
| Depreciation on fixed and intangible assets                         | 1 035              | 784                | 1 174              |
| Other operating expenses  | 2 028              | 1 883              | 2 392              |
| <b>Total operating expenses</b>                                     | <b>15 576</b>      | <b>16 250</b>      | <b>21 717</b>      |
| Loan loss provisions  | -117               | 39                 | 105                |
| Gain on sale of Visa shares   | 2 320              | 0                  | 0                  |
| <b>Operating result before taxes</b>                                | <b>5 582</b>       | <b>1 897</b>       | <b>2 333</b>       |
| Estimated tax on ordinary result for the period                     | 886                | 523                | 704                |
| <b>Net result for the period</b>                                    | <b>4 696</b>       | <b>1 374</b>       | <b>1 629</b>       |
| Profit allocation:  |                    |                    |                    |
| Interest on equity certificates                                     |                    |                    | 798                |
| Transferred to Equalisation fund                                    |                    |                    | 739                |
| Gifts   |                    |                    | 45                 |
| Transferred to The savings bank's fund                              |                    |                    | 47                 |
| Total profit allocation   |                    |                    | 1 629              |

| <b>Balance sheet</b>                           | <b>30.09.2016</b> | <b>30.09.2015</b> | <b>31.12.2015</b> |
|--|-------------------|-------------------|-------------------|
| in NOK (1000)                                  |                   |                   |                   |
| Cash and claims on Central Banks               | 49 342            | 81 177            | 67 239            |
| Loans and other claims on banks                | 22 094            | 70 309            | 57 572            |
| Loans and advances to customers                | 501 033           | 457 707           | 457 421           |
| Interest-bearing securities                    | 234 777           | 125 717           | 160 360           |
| Shares and participations                      | 8 021             | 5 829             | 5 819             |
| Intangible assets                              | 4 248             | 5 181             | 5 148             |
| Fixed assets                                   | 733               | 266               | 828               |
| Other assets                                   | 12                | 321               | 8                 |
| Pre-paid expenses and earned unpaid income     | 1 779             | 3 168             | 1 075             |
| <b>Total assets</b>                            | <b>822 040</b>    | <b>749 675</b>    | <b>755 470</b>    |
| Deposits from- and other debts to banks        | 13                | 12                | 12                |
| Deposits from- and other debts to clients      | 723 290           | 664 474           | 671 164           |
| Other obligations                              | 3 527             | 3 551             | 3 127             |
| Accrued unpaid expenses and pre-paid income    | 4 441             | 6 715             | 2 220             |
| Provisions for future expenses and obligations | 14 933            | 14 903            | 14 910            |
| <b>Total liabilities</b>                       | <b>746 204</b>    | <b>689 655</b>    | <b>691 433</b>    |
| Paid in capital                                | 64 229            | 52 519            | 57 123            |
| Retained earnings and the savings bank's fund  | 3 390             | 3 343             | 3 390             |
| Equalisation fund                              | 3 523             | 2 784             | 3 523             |
| Free earnings                                  | 4 694             | 1 374             | 0                 |
| <b>Total equity capital</b>                    | <b>75 836</b>     | <b>60 20</b>      | <b>64 036</b>     |
| <b>Total debt and equity capital</b>           | <b>822 040</b>    | <b>749 675</b>    | <b>755 470</b>    |
| Guarantee obligations                          | 6 966             | 7 675             | 5 346             |

## Quarterly Profit and Loss

| In NOK (000)   | 3. quarter<br>2016 | 2. quarter<br>2016 | 1. quarter<br>2016 | 4. quarter<br>2015 | 3. quarter<br>2015 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Interest and interest related income                                   | 5 787              | 5 596              | 5 492              | 5 958              | 6 663              |
| Interest and interest related expense                                  | 868                | 975                | 1 061              | 1 127              | 1 385              |
| <b>Net interest and interest related income</b>                        | <b>4 919</b>       | <b>4 621</b>       | <b>4 431</b>       | <b>4 831</b>       | <b>5 278</b>       |
| Dividend and yield from securities with variable income                | 0                  | 6                  | 0                  | 0                  | 1                  |
| Provision income and income from other banking services                | 1 891              | 1 734              | 1 583              | 1 638              | 1 733              |
| Provision expenses and expenses in connection with other banking serv. | 405                | 597                | 594                | 506                | 612                |
| Net profit/loss on foreign exchange and financial instruments          | 40                 | 57                 | 35                 | 93                 | 59                 |
| Net profit/loss on securities  | 257                | 420                | 323                | -68                | -181               |
| Net profit/loss on shares and participations                           | 0                  | 0                  | 0                  | -19                | 0                  |
| Other operating income   | 0                  | 0                  | 0                  | 0                  | 0                  |
| <b>Net non-interest income</b>   | <b>1 783</b>       | <b>1 620</b>       | <b>1 347</b>       | <b>1 138</b>       | <b>1 000</b>       |
| <b>Total operating income</b>  | <b>6 702</b>       | <b>6 241</b>       | <b>5 778</b>       | <b>5 969</b>       | <b>6 278</b>       |
| Payroll and administrative expenses                                    | 4 031              | 4 410              | 4 072              | 4 568              | 4 447              |
| Depreciation of fixed and non-tangible assets                          | 345                | 345                | 345                | 390                | 381                |
| Other operating expenses   | 780                | 640                | 608                | 509                | 614                |
| <b>Total operating expenses</b>  | <b>5 156</b>       | <b>5 395</b>       | <b>5 025</b>       | <b>5 467</b>       | <b>5 442</b>       |
| Provisions for losses on loans and guarantees                          | -154               | -1                 | 38                 | 66                 | 38                 |
| Gain on sale of Visa shares  | 0                  | 2 320              | 0                  | 0                  | 0                  |
| <b>Result for the period before taxes</b>                              | <b>1 700</b>       | <b>3 167</b>       | <b>715</b>         | <b>436</b>         | <b>796</b>         |
| Taxes on ordinary result   | 425                | 272                | 189                | 181                | 226                |
| <b>Net result for the period</b>                                       | <b>1 275</b>       | <b>2 895</b>       | <b>526</b>         | <b>255</b>         | <b>570</b>         |

## Key figures

| In NOK (000)                                    | 3. quarter<br>2016 | 2. quarter<br>2016 | 1. quarter<br>2016 | 4. quarter<br>2015 | 3. quarter<br>2015 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Solvency</b>                                 |                    |                    |                    |                    |                    |
| Capital coverage BIS weighted                   | 20,94              | 20,28              | 20,49              | 20,25              | 17,39              |
| Capital coverage 1)                             | 17,07              | 16,52              | 16,38              | 16,18              | 13,60              |
| Total assets                                    | 822 040            | 839 314            | 780 389            | 755 470            | 749 675            |
| Risk weighted balance sheet total               | 386 167            | 397 633            | 363 315            | 366 040            | 393 162            |
| Equity capital                                  | 75 836             | 71 231             | 64 562             | 64 036             | 60 020             |
| Average total assets                            | 830 677            | 809 852            | 767 930            | 752 537            | 754 378            |
| LCR (Liquidity Coverage Ratio)                  | 415                | 468                | 475                | 334                | 236                |
| <b>Loans and deposits</b>                       |                    |                    |                    |                    |                    |
| Loans to customers                              | 503 283            | 511 961            | 466 635            | 459 671            | 457 707            |
| Deposits from customers                         | 723 290            | 742 706            | 694 090            | 671 164            | 664 486            |
| <b>Profitability</b>                            |                    |                    |                    |                    |                    |
| Return on total assets 2)                       | 0,61               | 1,43               | 0,27               | 0,14               | 0,30               |
| Return on equity 3)                             | 6,78               | 17,04              | 3,26               | 1,64               | 3,80               |
| Net interest margin 4)                          | 2,37               | 2,28               | 2,31               | 2,57               | 2,80               |
| Cost/income %                                   | 76,93              | 86,44              | 86,97              | 91,59              | 86,68              |
| Operating expenses in % of average total assets | 2,48               | 2,66               | 2,62               | 2,91               | 2,89               |

1) Core capital adequacy ratio (CET1)

2) Net profit as % of average assets.

The number for 2016-q2 includes gain on sale of Visa shares. Return on total assets with this excluded is 0,34.

3) Net profit in % of average equity.

The number for 2016-q2 includes gain on sale of Visa shares. Return on equity assets with this excluded is 4,02.

4) Net interest income in % of average total assets.