

Quarterly report

Cultura Sparebank



Second quarter 2019

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Accounts as of June 30th 2019

General development

Developments in the first half of the year have been generally satisfactory. Growth in deposits and loans to customers has been 6.4% and 14.7% respectively since 30.06.18. Lending has, in accordance with the bank's objective, a higher growth than deposits. The attention paid to social and environmental sustainability in the financial industry remains at a high level both nationally and internationally. The bank's market potential is still considered very significant. The bank's sustainability goals are safeguarded and this is made visible in operations, such as in the loan department. An example of this is the discounts on interest rates for customers that get a mortgage for an environmental home. This product has been offered by Cultura Bank for almost 10 years. Several Norwegian banks are now presenting similar offers, but generally with a simpler definition of environmental qualities than what Cultura's environmental housing loan requires. Cultura continues its targeted work with the ambition to be a spearhead in all areas for sustainable product development and customer service in the Norwegian finance industry.

Operating result and balance sheet

The bank's operating profit before taxes as of June 30th 2019 are NOK 3 078 000 against NOK 1 639 000 in the same period in 2018. Total operating expenses decreased by 1.0%, while total revenues increased by 11.1%. The positive effect of the work done in 2018 by the bank to lower costs and improve profitability has thus been reinforced. Loss expenses were negative again in the first half year of 2019. It should be noted that gross defaults have increased significantly in the first half year of 2019 to NOK 9 million. The default over 90 days has occurred in commitments where the bank is considered to be well secured against losses.

The bank's total assets are NOK 1 148 million. This represents a 12-month growth of 7.3 %, which is a somewhat lower growth rate than in 2018. However, the bank considers the growth to be satisfactory. The Board of Directors considers that the profit and loss statement and balance sheet as of June 30th provide the basis for establishing that the bank is in good development in commercial terms, while at the same time safeguarding the basic value-based objectives. In order to support growth, the bank is dependent on regular issues of new equity. New equity has been issued in which the subscription period was closed June 14th. New equity certificates for NOK 10.7 million were subscribed, which is satisfactory and strengthens the bank's solvency and growth capacity. The result of the share issue is taken as a confirmation that participation as an investor in Cultura Bank's sustainability-based business is considered interesting by an increasing number. The term 'impact investment', which is currently being given increasing attention, is relevant in connection with investing in Cultura's equity.

Solvency

The bank's core equity capital ratio as of June 30th 2019 was 21.06 %, equity capital and total capital ratios were at 24.24 %. This satisfies both internal and external requirements with a good margin.

Liquidity

The bank's LCR (Liquidity Coverage Ratio) as of June 30th 2019 was at 285 %. The internal requirement of the bank is 125 %. The ratio of customer deposits to loans is 150 %, which exceeds the established internal requirements.

Outlook for the remainder of the year

The underlying trends in the Norwegian economy are still positive. In accordance with expectations, Norges Bank has increased its key policy rate and is expected to repeat this before the end of the year. There is some uncertainty about housing price developments, but prices remain at a predominantly high level, especially in the Oslo area. Cultura maintains a conservative approach with regards to customers' loan servicing capability and loan-to-value rates and the bank considers the risk of losses due to a possible correction in the housing market to be limited. The bank is continuing its work in further relative cost reductions. Increasing the lending volume to both private and business customers within the Bank's core values is a continuing main objective. It will be an important element in a continued positive earnings trend. The bank's growth capacity has been strengthened through the issue that was concluded in June. The Board believes that there is reason for optimism both with regard to the bank's development as a sustainable player in the financial industry and with regard to the prospect of satisfactory financial results.

Oslo, 13.08.2019

on the board for Cultura Sparebank

Maria Bjune

Chair to the board

Christian Dubrau

Deputy chair to the board

Stig A. Aune

Morten Johannessen

Randi Welhaven

Alf Howlid

Camilla Brox

Kjell-Fredrik Løvold

Chief executive officer

Accounts

Profit and loss statement

<i>(in NOK 1 000)</i>	Note	2 nd quarter		Year to date		1.1 – 31.12
		2019	2018	2019	2018	2018
Interest and interest related income*		7 319	6 485	14 308	12 663	26 226
Interest and interest related expense		1 274	970	2 524	1 930	4 022
Net interest and interest related income	1	6 045	5 515	11 784	10 733	22 204
Dividends and other income from variable income securities		30	87	105	87	87
Provision income and income from banking services		1 998	1 899	3 909	3 786	7 848
Provision expenses and expenses from banking services		616	603	1 158	1 178	2 403
Net profit/loss on foreign exchange and other financial instruments		66	61	169	118	324
Net profit/loss on interest bearing securities		333	-	450	289	768
Net profit/loss on shares and participations		-	-95	-	-95	-94
Other operating income		-	-	-	-	-
Total other operating income		1 811	1 349	3 475	3 007	6 530
Total operating income		7 856	6 864	15 259	13 740	28 734
Payroll		2 979	3 049	5 887	5 991	11 843
General administrative expenses		1 732	1 763	3 447	3 375	6 905
Depreciation on fixed and intangible assets		361	347	710	711	1 407
Other operating expenses		661	716	1 447	1 534	2 739
Total operating expenses	2	5 733	5 875	11 491	11 611	22 894
Loan loss provisions	3,4,5	-2	-11	-24	-31	-55
Impairment/reversed impairment on financial instruments classified as fixed assets		-	95	-	-	-
Net gains/losses on fixed and intangible assets		312	28	312	29	1 146
Operating result before taxes		2 437	1 123	4 104	2 189	7 041
Estimated tax on ordinary result for the period		609	281	1 026	550	1 564
Net result for the period		1 828	842	3 078	1 639	5 477

Balance sheet

<i>(in NOK 1 000)</i>	Note	30.6.2019	30.6.2018	31.12.2018
Cash and claims on the Norwegian central banks		70 451	87 200	68 113
Loans and claims on credit institutions		36 382	47 837	21 910
Loans and advances to customers		678 480	591 486	634 037
Certificates and bonds		349 505	330 590	329 731
Shares, interest and equity certificates		8 363	7 469	8 334
Intangible assets		1 078	2 221	1 626
Fixed assets		548	584	578
Other assets		323	39	7
Pre-paid expenses and accrued income		3 325	3 170	2 032
Total assets		1 148 455	1 070 596	1 066 368
Deposits from and liabilities to credit institutions		80	51	51
Deposits and liabilities to customers		1 021 627	959 822	951 551
Other liabilities		4 214	3 141	7 519
Accrued expenses and received non-accrued income		4 066	3 867	2 411
Subordinated loan		15 000	14 985	15 000
Total liabilities		1 044 987	981 866	976 532
Share capital	6	84 382	74 063	73 617
The Saving Bank's Fund		3 858	3 678	3 858
Equalization Fund		12 150	9 350	12 361
Free retained earnings		3 078	1 639	-
Total equity		103 468	88 730	89 836
Total equity and liabilities		1 148 455	1 070 596	1 066 368
Guarantees		4 880	10 218	5 969

Quarterly profit and loss statements

<i>(in NOK 1 000)</i>	2 nd Quarter 2019	1 st Quarter 2019	4 th Quarter 2018	3 rd Quarter 2018	2 nd Quarter 2018
Interest and interest related income	7 319	6 990	6 826	6 737	6 485
Interest and interest related expense	1 274	1 251	1 086	1 006	970
Net interest and interest related income	6 045	5 739	5 740	5 731	5 515
Dividends and other income from variable income securities	30	75	-	-	87
Provision income and income from banking services	1 998	1 911	2 010	2 052	1 899
Provision expenses and expenses from banking services	616	542	624	601	603
Net profit/loss on foreign exchange and other financial instruments	66	103	98	108	61
Net profit/loss on interest bearing securities	333	116	206	273	-
Net profit/loss on shares and participations	-	-	1	-	-95
Other operating income	-	-	-	-	-
Total other operating income	1 811	1 663	1 691	1 832	1 349
Total operating income	7 856	7 402	7 431	7 563	6 864
Payroll	2 979	2 908	2 958	2 895	3 049
Administrative expenses	1 732	1 715	1 807	1 724	1 763
Depreciation on fixed and intangible assets	361	350	349	347	347
Other operating expenses	661	785	583	621	716
Total operating expenses	5 733	5 758	5 697	5 587	5 875
Loan loss provisions	-2	-22	-15	-9	-11
Impairment/reversed impairment on financial instruments classified as fixed assets	-	-	-	-	95
Net gains/losses on fixed and intangible assets	312	-	1 118	-	28
Operating result before taxes	2 437	1 666	2 867	1 985	1 123
Estimated tax on ordinary result for the period	609	416	518	496	281
Net result for the period	1 828	1 250	2 349	1 489	842

Key figures

(in NOK 1 000)	2 nd quarter 2019	1 st quarter 2019	4 th quarter 2018	3 th quarter 2018	2 nd quarter 2018
Solidity					
Common equity tier 1 capital ratio (%)	21,06	19,38	19,25	18,98	19,03
Tier 1 capital ratio (%)	24,24	22,66	22,52	18,98	19,03
Total capital ratio (%)	24,24	22,66	22,52	22,33	22,39
Total assets	1 148 455	1 118 869	1 066 368	1 057 008	1 070 596
Risk weighted balance sheet total	472 261	457 529	459 037	447 172	446 799
Equity capital	103 468	91 087	89 836	89 741	88 730
Average total assets	1 133 662	1 092 619	1 005 582	1 063 802	1 042 978
Leverage ratio	9,82	9,14	9,54	7,93	7,84
Liquidity					
Liquidity Coverage Ratio (LCR)	285	266	322	335	321
Net Stable Funding Ratio (NSFR)	198	176	172	153	178
Deposit and loan development					
Loans	679 884	649 186	635 509	623 093	592 973
Annual loan growth (%)	14,7 %	13,2 %	12,3 %	14,7 %	13,9 %
Deposits	1 021 707	1 003 464	951 602	945 023	959 873
Annual deposit growth (%)	6,4 %	10,9 %	13,9 %	16,5 %	13,7 %
Deposit coverage ratio (%)	150 %	155 %	150 %	152 %	162 %
Profitability					
Return on total assets ¹	0,65	0,46	0,88	0,56	0,33
Return on equity ²	7,52	5,53	10,45	6,67	3,82
Net interest income ³	2,13	2,10	2,16	2,16	2,12
Cost/Income %	72,98	77,78	76,67	73,86	85,58
Operating expenses in % of average total assets	2,02	2,11	2,15	2,10	2,25

¹ Return on total assets: net profit as a percentage of average total assets

² Return on equity: net profit as a percentage of average total equity

³ Net interest income: net interest income as a percentage of average total assets

Notes to the accounts

Note 1 – Interest report

<i>(in NOK 1 000)</i>	2 nd quarter		Year to date		1.1 – 31.12
	2019	2018	2019	2018	2018
Interest income from loans and receivable on credit institutions	229	104	394	206	462
Interest income from loans to customers	6 123	5 645	12 028	11 078	22 767
- Interest income from consumers	2 310	1 829	4 477	3 531	7 514
- Interest income from corporates	3 813	3 816	7 551	7 547	15 253
Interest income from bonds, certificates and financial derivatives	967	736	1 886	1 379	2 997
Other interest income	0	0	0	0	0
Total interest and related income	7 319	6 485	14 308	12 663	26 226
Interest expense on deposits from and debt to customers	-724	-641	-1 428	-1 276	-2 596
- Interest expense consumers	-428	-395	-846	-783	-1 611
- Interest expense corporates	-296	-246	-582	-493	-985
Interest expense on subordinated loan capital	-290	-195	-577	-387	-890
Other interest expenses	-260	-134	-519	-267	-536
Total interest and related expenses	-1 274	-970	-2 524	-1 930	-4 022
Net interest and credit commission income	6 045	5 515	11 784	10 733	22 204

Note 2 – Salaries and general administrative expenses

<i>(in NOK 1 000)</i>	2 nd quarter		Year to date		1.1 – 31.12
	2019	2018	2019	2018	2018
Salary expenses to employees	2 287	2 336	4 379	4 446	8 580
Remuneration to the board of directors and trustees	116	116	233	232	473
Pension contributions	168	169	355	365	727
Social security expenses	279	280	631	636	1 382
Financial activities tax	99	99	224	226	488
Other staff costs	30	49	65	86	193
Salaries, fees and other personnel expenses	2 979	3 049	5 887	5 991	11 843
IT costs	966	809	1 839	1 568	3 191
Office expenses	170	165	342	337	862
Advertising charges	375	469	762	937	1 780
Other expenses	221	320	504	533	1 072
Administrative expenses	1 732	1 763	3 447	3 375	6 905
Depreciation of intangible fixed assets	333	324	656	647	1 294
Depreciation of tangible fixed assets	28	23	54	64	113
Depreciation	361	347	710	711	1 407
Rent and rent-related expenses	396	370	794	747	1 461
Other operating expenses	265	346	653	787	1 278
Total operating expenses	661	716	1 447	1 534	2 739

Note 3 – Loss expense

<i>((in NOK 1 000))</i>	2 nd quarter		Year to date		1.1 – 31.12
	2019	2018	2019	2018	2018
The period's change in write-downs on individual loans	25 123	-8 567	18 900	-28 966	-44 900
The period's change in write-downs on groups of loans	-86 932	0	-86 932	0	0
The period's ascertained losses against previous write-downs	0	0	0	0	0
The period's losses without previous write-downs	59 679	0	59 679	0	0
The period's recovery of previously ascertained losses	0	-2 151	-15 968	-2 151	-9 901
The period's loss expense	-2 130	-10 718	-24 321	-31 117	-54 801

Note 4 – Write downs on loans

<i>(in NOK)</i>	30.6.2019	30.6.2018	31.12.2018
Write-downs on individual loans	163 000	160 034	144 100
Write-downs on groups of loans	1 240 388	1 327 320	1 327 320

Note 5 – Defaults and loss-exposed commitments

<i>(in NOK)</i>	30.6.2019	30.6.2018	31.12.2018
Gross defaults over 90 days	9 535 795	85 573	1 619 624
- Individual defaults	163 000	85 573	80 391
Net defaults	9 372 795	0	1 539 233
Gross exposed non-defaulted commitments	0	74 461	63 707
- Individual write-downs	0	74 461	63 709
Net exposed non-defaulted commitments	0	0	-2

Note 6 – Capital ratio

Regulatory capital

<i>(in NOK 1 000)</i>	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Share capital	85 308	74 543	74 543	74 543	74 543
Bank owned equity certificates	-928	-926	-926	-959	-480
Total issued equity	84 380	73 617	73 617	73 584	74 063
Retained earnings and savings bank's fund	3 858	3 858	3 858	3 678	3 678
Equalisation fund	12 150	12 361	12 361	9 350	9 350
Intangible assets	-932	-1 158	-1 481	-1 735	-2 059
CET1 instruments of financial sector entities where the institution does not have a significant investment	-	-	-	-	-
Common equity Tier I capital	99 456	88 678	88 355	84 877	85 032
Hybrid capital	15 000	15 000	15 000	-	-
Tier I capital	114 456	103 678	103 355	84 877	85 032
Subordinated loan capital (Tier II)	-	-	-	14 993	14 985
Total eligible regulatory capital	114 456	103 678	103 355	99 870	100 017

Basis for calculation of equity requirement by exposure category

<i>(in NOK 1 000)</i>	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Central governments and central banks	-	-	-	-	-
Regional governments or local authorities	2 007	4 009	4 010	-	3 984
Public sector entities	-	-	-	-	-
Institutions	12 177	11 958	9 282	8 135	14 467
Corporates	36 749	48 452	55 308	48 161	49 606
Secured by mortgage in immovable property	316 637	302 789	299 634	300 268	288 807
Exposures in default	13 933	861	1 739	99	96
Covered bonds	18 984	18 980	18 988	18 987	18 989
Other items	15 932	14 652	14 237	17 548	16 541
Risk weighted exposure amount for credit risk	416 419	401 701	403 198	393 198	392 490
Risk exposure amount for operational risk	49 774	49 774	49 774	46 913	46 912
Risk exposure amount for credit valuation adjustment	6 068	6 054	6 065	7 061	7 397
Total risk weighed assets	472 261	457 529	459 037	447 172	446 799
CET1 capital ratio	21,06 %	19,38 %	19,25 %	18,98 %	19,03 %
Tier I capital ratio	24,24 %	22,66 %	22,52 %	18,98 %	19,03 %
Total capital ratio	24,24 %	22,66 %	22,52 %	22,33 %	22,39 %



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