



Quarterly report

Cultura Sparebank



Second quarter 2020

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Accounts as of June 30th 2020

General development

After the government's announced measures on March 12th that meant an immediate shutdown of large parts of the production industry, the control measures have been somewhat eased during the second quarter. As a result, Cultura Sparebank has resumed service of customers over the counter while maintaining infection control measures in accordance with the authorities' recommendations. The presence of employees in the bank's office is still reduced and home office solutions are used to a considerable extent. So far, it has not been registered that the bank's corporate customers have been significantly affected by the authorities' infection control measures. A review of the bank's loan portfolio as of 30.6. has not revealed a marked increase in risk. It is the Board's assessment that the bank's loan portfolio, which has largely been established according to value-based objectives, is not strongly affected by the crisis situation. Norges Bank's reduction of the key policy rate by 1.50 percentage points, however, significantly affects Cultura Sparebank. In line with the other Norwegian banks, lending rates have been adjusted downwards and the bank's revenues have thus been reduced. At the end of the second quarter, a significant increase in residential property prices was registered, especially in Oslo and in the higher price segments. This in turn has meant that loan demand has increased and that the bank has to some extent been able to compensate for reduced lending rates with increased volumes. However, the significantly reduced interest rate level has also reduced the bank's return on invested liquidity. The crisis is largely global, and the international economy must be expected to be significantly affected. This will affect the Norwegian economy and thus also Cultura. The uncertainty is significant. It is difficult to give a good forecast for 2020, but it seems clear that the banks' results in 2020 will be weaker than in 2019.

Operating result and balance sheet

The bank's pre-tax operating profit as of 30.06.2020 is NOK 2 690 000 compared to NOK 3 078 000 in the same period in 2019. The accounts are strengthened with reversed loss expenses of NOK 765 000 in the second quarter and NOK 91 000 as of 30.06.2020. The balance sheet development in the second quarter is satisfactory, with good and balanced growth in both deposits and loans.

Solvency

The bank has a core equity capital ratio of 21.59 % and equity and total capital ratios were at 24.53 %. This is, as a result of an increase in total assets and loans, a reduction of respectively 0.78 and 0.94 percentage points compared to the first quarter. Nevertheless, the bank satisfies both internal and external requirements with a good margin. The capital adequacy is per. 30.6. very satisfactory and allows for continued work to achieve increased lending volume with good credit quality.

Liquidity

The bank's LCR (Liquidity Coverage Ratio) as of 30.6.2020 was at 252 %. The ratio of customer deposits to loans is 142 %. Both key figures are far above established internal requirements.

Outlook for the remainder of the year

The development in the first quarter was largely in line with general expectations. The second quarter has been marked by the corona crisis with effects that were not anticipated by anyone. For Cultura, the clearly most important effect is that interest rates fell momentarily and significantly at the end of the first quarter, then have remained historically low and are expected to do so in the foreseeable future. A further fall in interest rates in Norway now seems somewhat less likely in light of the rise in house prices. The loan demand from Cultura's customers has returned to a normal and good level. The development for the rest of 2020 is difficult to assess. Cultura will continue to follow a conservative line in terms of loan-to-value ratio and serviceability when granting mortgages and the like with requirements for collateral for business commitments, but hopes that the low interest rate level can to some extent be offset by increased volume. The bank is still considered to be less exposed to loss risk as a result of expected corrections in the housing market and financial challenges for businesses as a result of the crisis that has arisen.

Cultura Sparebank's value-based profile and business are also affected by the crisis that has arisen. The goal of delivering banking services with the basic purpose of contributing to improved social and environmental standards in society remains unchanged. For Cultura, it is important to support the forces that now warn against returning to business as usual at the expense of environmental and social considerations. On the contrary, as highlighted by many, it will be important that the restructuring forces that the crisis needs contribute to an economic restructuring that will solve climate and other environmental challenges as well as global social problems. The development in the second quarter provides a basis for the bank to continue to consider itself well equipped to contribute to this, even though expectations of financial results must be adjusted downwards compared with those at the turn of the year. The Board does not consider that the opportunities for strengthening Cultura Sparebank's position have been weakened.

Oslo, August 13th 2020

on the board for Cultura Sparebank

Maria Bjune
Chair to the board

Christian Dubrau
Deputy chair to the board

Christine Praamsma

Morten Johannessen

Randi Welhaven

Alf Howlid

Camilla Brox

Kjell-Fredrik Løvold
Chief executive officer

Accounts

Profit and loss statement

(in 1 000 NOK)	Note	2 nd quarter		Year to date		1.1 – 31.12
		2020	2019	2020	2019	2019
Interest and interest related income		7 045	7 319	15 936	14 308	30 565
Interest and interest related expense		930	1 274	2 101	2 524	4 628
Net interest and interest related income	2	6 115	6 045	13 835	11 784	25 937
Dividends and other income from variable income securities	4	28	30	28	105	105
Provision income and income from banking services	3	1 726	1 998	3 688	3 909	8 250
Provision expenses and expenses from banking services	3	961	616	1 804	1 158	2 867
Net return on financial investments	4	78	399	72	619	1 421
Other operating income		-	-	-	-	-
Total other operating income		871	1 811	1 984	3 475	6 909
Total operating income		6 986	7 856	15 819	15 259	32 846
Payroll		3 049	2 979	6 309	5 887	12 634
Other operating expenses		2 644	2 393	5 346	4 894	10 219
Depreciation on fixed and intangible assets		287	361	668	710	1 452
Total operating expenses	5	5 980	5 733	12 323	11 491	24 305
Losses on loans, guarantees, etc.	6,7,8	-765	-2	-91	-24	25
Reversal of impairment on securities classified as fixed assets		-	-	-	-	106
Net gains on fixed and intangible assets		-	312	-	312	206
Operating result before taxes		1 771	2 437	3 587	4 104	8 828
Estimated tax on ordinary result for the period		518	609	897	1 026	2 109
Net result for the period		1 253	1 828	2 690	3 078	6 719

Other comprehensive income

	2 nd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Other income and expenses related to investments in interest-bearing securities	-9	-	534	-	-
Effective share of gains and losses on hedging instruments in cash flow hedging	-	-	-	-	-
Other income and expenses	-	-	-	-	-
Tax on other comprehensive income that can be reclassified to profit/loss	-4	-	132	-	-
Net other comprehensive income that can be reclassified to profit/loss	-5	-	402	-	-
Total other comprehensive income	1 248	-	3 092	-	-

Balance sheet

<i>(in 1 000 NOK)</i>	Note	30.06.2020	30.06.2019	31.12.2019
Cash and cash equivalents		241	70 451	68 389
Loans and claims on credit institutions		83 682	36 382	19 723
Loans and advances to customers	9	770 962	678 480	727 001
Certificates and bonds		361 185	349 505	284 476
Shares, interest and equity certificates		12 400	8 363	8 363
Intangible assets		150	1 078	440
Fixed assets		5 925	548	583
Other assets		842	323	-
Pre-paid expenses and accrued income		3 667	3 325	3 536
Total assets		1 239 054	1 148 455	1 112 511
Deposits from and liabilities to credit institutions		109	80	80
Deposits and liabilities to customers		1 097 741	1 021 627	982 877
Other liabilities		13 713	4 214	7 240
Accrued expenses and received non-accrued income		1 243	4 066	2 653
Subordinated loan		-	15 000	15 000
Total liabilities		1 112 806	1 044 987	1 007 850
Share capital		84 307	84 382	84 382
Subordinated loan	13	14 524	-	-
Fund for unrealized gains		3 132	-	-
The Saving Bank's Fund		4 100	3 858	4 064
Equalization Fund		17 093	12 150	16 215
Free retained earnings		3 092	3 078	-
Total equity		126 248	103 468	104 661
Total equity and liabilities		1 239 054	1 148 455	1 112 511
Guarantees		4 549	4 880	4 932

Change in equity

	Equity capital		Accrued equity				Additional Tier I capital	Total equity
	Share capital	Bank owned certificates	Equalization fund	The Saving Bank's fund	Fund for unrealized gains	Other equity		
<i>In NOK 1 000</i>								
Equity as of 1.1.2019	74 543	926	12 361	3 858	-	-	-	89 836
Allocation of annual profit after dividend	-	-	4 065	206	-	-	-	4 271
Issue of new certificates	10 765	-	-	-	-	-	-	10 765
Fees from the issue of new certificates	-	-	-211	-	-	-	-	-211
Equity as of 31.12.2019	85 308	926	16 215	4 064	-	-	-	104 661

	Equity capital		Accrued equity				Additional Tier I capital	Total equity
	Share capital	Bank owned certificates	Equalization fund	The Saving Bank's fund	Fund for unrealized gains	Other equity		
<i>in NOK 1 000</i>								
Equity as of 1.1.2020	85 308	926	16 215	4 064	-	-	-	104 661
Reclassification of subordinated loan	-	-	-	-	-	-	15 116	15 116
Reclassification of financial instruments	-	-	1 290	52	3 132	-	-	4 474
Introduction of IFRS 16	-	-	-615	-25	-	-	-	-640
New measurement loss provisions	-	-	496	20	-	-	-	516
Tax effect related to changes	-	-	-293	-11	-	-	-	-304
Equity as of 1.1.2020 (restated)	85 308	926	17 093	4 100	3 132	-	15 116	123 823
Net result for the period						2 690		2 690
Net other comprehensive income for the period						402		402
Purchase / sale of bank owned equity certificates		75						75
Interest payments additional Tier I capital							-592	-592
Equity as of 30.6.2020	85 308	1 001	17 093	4 100	3 132	3 092	14 524	126 248

Quarterly profit and loss statements

<i>(in NOK 1 000)</i>	2 nd quarter 2020	1 st quarter 2020	4 th quarter 2019	3 rd quarter 2019	2 nd quarter 2019
Interest and interest related income	7 045	8 891	8 297	7 958	7 319
Interest and interest related expense	930	1 171	832	1 272	1 274
Net interest and interest related income	6 115	7 720	7 465	6 686	6 045
Dividends and other income from variable income securities	28	-	-	-	30
Provision income and income from banking services	1 726	1 962	2 157	2 184	1 998
Provision expenses and expenses from banking services	961	843	1 016	693	616
Net return on financial investments	78	-6	392	412	399
Other operating income	-	-	-	-	-
Total other operating income	871	1 113	1 533	1 903	1 811
Total operating income	6 986	8 833	8 998	8 589	7 856
Payroll	3 049	3 260	3 673	3 074	2 979
Other operating expenses	2 644	2 701	2 797	2 528	2 393
Depreciation on fixed and intangible assets	287	382	374	367	361
Total operating expenses	5 980	6 343	6 844	5 969	5 733
Losses on loans, guarantees, etc.	-765	674	10	39	-2
Reversal of impairment on securities classified as fixed assets	-	-	-	-	-
Net gains on fixed and intangible assets	-	-	-	-	312
Operating result before taxes	1 771	1 816	2 144	2 581	2 437
Estimated tax on ordinary result for the period	518	379	439	645	609
Net result for the period	1 253	1 437	1 705	1 936	1 828

Other comprehensive income

	2 nd quarter 2020	1 st quarter 2020	4 th quarter 2019	3 rd quarter 2019	2 nd quarter 2019
Other income and expenses related to investments in interest-bearing securities	-9	543	-	-	-
Effective share of gains and losses on hedging instruments in cash flow hedging	-	-	-	-	-
Other income and expenses	-	-	-	-	-
Tax on other comprehensive income that can be reclassified to profit/loss	-4	136	-	-	-
Net other comprehensive income that can be reclassified to profit / loss	-5	407	-	-	-
Total other comprehensive income	1 248	1 844	-	-	-

Key figures

<i>(in 1000 NOK)</i>	2 nd quarter 2020	1 st quarter 2020	4 th quarter 2019	3 rd quarter 2019	2 nd quarter 2019
Solidity					
Common equity tier 1 capital ratio (%)	21,59	22,37	23,46	20,87	21,06
Tier 1 capital ratio (%)	24,53	25,47	26,84	24,01	24,24
Total capital ratio (%)	24,53	25,47	26,84	24,01	24,24
Total assets	1 239 054	1 189 537	1 112 511	1 108 407	1 148 455
Risk weighted balance sheet total	495 214	477 311	444 790	478 134	472 261
Equity capital	126 248	125 369	104 661	105 404	103 468
Average total assets	1 214 296	1 151 024	1 110 459	1 128 431	1 133 662
Leverage ratio	9,61	10,04	10,58	10,18	9,82
Liquidity					
Liquidity Coverage Ratio (LCR)	252	274	238	276	285
Net Stable Funding Ratio (NSFR)	171	174	164	169	198
Deposit and loan development					
Loans	771 638	742 310	728 450	702 831	679 884
Annual loan growth (%)	13,5 %	14,3 %	14,6 %	12,8 %	14,7 %
Deposits	1 097 741	1 047 833	982 957	976 352	1 021 707
Annual deposit growth (%)	7,4 %	4,4 %	3,3 %	3,3 %	6,4 %
Deposit coverage ratio (%)	142 %	141 %	135 %	139 %	150 %
Profitability					
Return on total assets ¹	0,41	0,64	0,61	0,69	0,65
Return on equity ²	3,97	6,34	6,42	7,41	7,52
Net interest income ³	2,01	2,68	2,69	2,37	2,13
Cost/Income %	85,60	71,81	76,07	69,50	72,98
Operating expenses in % of average total assets	1,97	2,20	2,47	2,12	2,02

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 – Accounting principles

The financial statements for the first half year of 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) approved by the EU, including IAS 34 - Interim Financial Reporting. The accounting principles used by the bank are described in the annual accounts for 2019. IFRS 9 Financial Instruments is effective as of January 1, 2020. The standard replaces IAS 39 Financial Instruments - recognition and measurement. For a detailed description and the bank's approach to the accounting standard, see note 10 in the 2019 annual report, including a description of changes in accounting principles, a new model for classification and measurement of financial assets and a new model for the write-down of financial assets. For Cultura Sparebank, the transition to IFRS 9 has consequences for the calculation of the bank's write-downs. In accordance with IAS 39, impairment losses have been based on objective evidence of impairment, an accrued loss model. Impairment losses in accordance with IFRS 9 have been based on expected losses (ECL) from 1.1.2020. In collaboration with a number of banks SDC has developed an ECL model that Cultura Sparebank has used as the basis for its assessments. The impairment model, as well as tables showing the implementation effects of the transition from IAS 39 to IFRS 9, is described in note 10 of the 2019 annual report.

IFRS 16 - Leases has been implemented from January 1, 2020. The standard lays down principles for the recognition, measurement and presentation of leases. For a detailed description and effect of the adoption of IFRS 16 for the bank, see note 10 in the 2019 annual report.

The interim financial statements have not been audited. All amounts are stated in NOK 1,000 unless otherwise specified. In 2019 and earlier, the bank's bond was classified as debt under "subordinated loan capital". As of 1.1.2020, the bond is presented as part of the bank's equity.

Financial figures from 2019 have not been restated to IFRS and are presented as originally presented.

Note 2 – Interest report

<i>(in 1 000 NOK)</i>	2 nd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Interest income from loans and receivable on credit institutions	33	229	345	394	969
Interest income from loans to customers	5 936	6 123	13 206	12 028	25 635
Interest income from bonds, certificates and financial derivatives	1 076	967	2 385	1 886	3 961
Other interest income	0	0	0	0	0
Total interest and related income	7 045	7 319	15 936	14 308	30 565
Interest expense on deposits from and debt to customers	-680	-724	-1 610	-1 428	-2 809
Interest expense on subordinated loan capital	-15	-290	-30	-577	-1 190
Other interest expenses	-235	-260	-461	-519	-629
Total interest and related expenses	-930	-1 274	-2 101	-2 524	-4 628
Net interest and credit commission income	6 115	6 045	13 835	11 784	25 937

Note 3 - Fees and other income from banking activities

(in 1 000 NOK)	2 nd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Guarantee commission income	21	25	47	58	115
Other commissions and fees	20	22	50	54	96
Money transfer and interbank transactions	1 685	1 951	3 591	3 797	8 039
Total fees and other income from banking activities	1 726	1 998	3 688	3 909	8 250
Guarantee commission expenses	-61	-61	-122	-122	-245
Other fees and commission expenses	-900	-555	-1 682	-1 036	-2 622
Total fees and other expenses on banking services	-961	-616	-1 804	-1 158	-2 867
Net fees and other income from banking activities	765	1 382	1 884	2 751	5 383

Note 4 - Gains and losses on foreign exchange and financial derivatives

(in 1 000 NOK)	2 nd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Income from shares, participations and other securities with variable earnings	28	30	28	105	105
Total income from shares, participations and other securities with variable earnings	28	30	28	105	105
Net gains and losses from;					
notes, bonds, and other interest-bearing securities	-24	333	-135	450	1 055
shares and participations	0	0	0	0	0
foreign exchange and financial derivatives	102	66	207	169	366
Total gains and losses on foreign exchange and financial derivatives	78	399	72	619	1 421

Note 5 – Salaries and other operating expenses

(in 1 000 NOK)	2 nd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Salary expenses to employees	2 303	2 287	4 576	4 379	9 329
Remuneration to the board of directors and trustees	116	116	232	233	480
Pension contributions	177	168	366	355	702
Social security expenses	306	279	741	631	1 433
Financial activities tax	104	99	253	224	508
Other staff costs	43	30	141	65	182
Salaries, fees and other personnel expenses	3 049	2 979	6 309	5 887	12 634
IT costs	1 176	966	2 046	1 839	3 861
Office expenses	270	170	554	342	836
Advertising charges	309	375	623	762	1 689
Rent and rent related expenses	106	396	201	794	1 545
Other operating expenses	783	486	1 922	1 157	2 288
Operating expenses	2 644	2 393	5 346	4 894	10 219

Depreciation of intangible fixed assets	19	333	150	656	1 336
Depreciation of tangible fixed assets	50	28	82	54	116
Depreciation of right of use asset	218	0	436	0	0
Depreciation	287	361	668	710	1 452
Total operating expenses	5 980	5 733	12 323	11 491	24 305

Note 6 – Loss expense

<i>(in NOK 1 000)</i>	2 nd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
The period's write-downs in stage 1 / groups of loans	-97	-87	-5	-87	-26
+ The period's write-downs in stage 2	-132	n/a	30	n/a	n/a
+ The period's write-downs in stage 3/ individual write-downs	-535	25	-116	19	4
+ The period's ascertained losses against previous write-downs	0	0	0	0	4
+ The period's losses without previous write-downs	0	60	0	60	59
- The period's recovery of previously ascertained losses	0	0	0	16	16
The period's loss expense	-764	-2	-91	-24	25

Note 7 – Write downs on loans

<i>(in 1 000 NOK)</i>	Stage 1	Stage 2	Stage 3	Total
Losses on loans, guarantees, etc. as of 1.1.2020	306	212	1 088	1 606
Migrated from stage 1	-5	5	0	0
Migrated from stage 2	149	-149	0	0
Migrated from stage 3	0	0	0	0
Other changes	-254	-10	-535	-799
Write-downs on new loans, guarantees, etc. in the period	13	22	0	35
Losses on loans, guarantees, etc. as of 31.3.2020	209	80	553	842

Note 8 – Defaults and loss-exposed commitments

<i>(in NOK 1 000)</i>	30.6.2020	30.6.2019	31.12.2019
Gross defaults over 90 days	15 400	9 536	9 468
- Individual write downs	163	163	67
Net defaults over 90 days	15 237	9 373	9 401
Gross exposes non-defaulted commitments	9 379	0	161
- Individual write downs	391	0	81
Net exposed non-defaulted commitments	8 988	0	80

Note 9 - Distribution of loans by sector/industry

Distribution of loans by sector

<i>(in 1 000 NOK)</i>	30.6.2020	30.6.2019	31.12.2019
Private limited liability company	87 341	67 136	75 789
Privately owned companies	20 356	18 976	18 554
Non-profit organizations	167 559	168 442	168 162
Sole proprietorship	77 432	71 687	72 093
Housing associations	1 617	2 347	2 044
Private households	416 086	349 835	389 185
Foreign companies	0	159	160
Foreign households	1 247	1 302	2 463
Total loans	771 638	679 884	728 450

Distribution of loans by industry

<i>(in 1 000 NOK)</i>	30.6.2020	30.6.2019	31.12.2019
Agriculture and related services	69 867	63 890	72 051
Forestry and related services	466	497	482
Fisheries and related services	2 040	2 212	2 127
Manufacturing	8 851	5 304	7 621
Construction	0	1	0
Retail, repair of motorized vehicles	7 888	8 735	8 477
Other transport and storage	194	0	0
Accommodation and food service activities	431	122	215
Information and communication	0	1	405
Sale and management of real estate	58 784	52 742	51 933
Finance and insurance activities	10 310	5 781	2 863
Commercial services	1 864	1 866	1 858
Other service industries	193 610	187 596	188 610
Private households	417 333	351 137	391 808
Total loans	771 638	679 884	728 450

Note 10 – Capital ratio

Regulatory capital

<i>(in 1 000 NOK)</i>	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Share capital	85 308	85 308	85 308	85 308	85 308
Bank owned equity certificates	-1 001	-926	-926	-926	-928
Total issued equity	84 307	84 382	84 382	84 382	84 380
Savings bank's fund	4 100	4 100	4 064	3 858	3 858
Equalisation fund	17 093	17 093	16 215	12 150	12 150
Fund for unrealized gains	3 132	3 132			
Intangible assets	-150	-169	-300	-594	-932
CET1 instruments of financial sector entities where the institution does not have a significant investment	-1 552	-1779	-	-	-
Common equity Tier I capital	106 930	106 759	104 361	99 796	99 456
Hybrid capital	14 524	14 818	15 000	15 000	15 000
Tier I capital	121 454	121 577	119 361	114 796	114 456
Subordinated loan capital (Tier II)	-	-	-	-	-
Total eligible regulatory capital	121 454	121 577	119 361	114 796	114 456

Basis for calculation of equity requirement by exposure category

<i>(in 1 000 NOK)</i>	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Central governments and central banks	-	-	-	-	-
Regional governments or local authorities	4 012	4 012	-	2 007	2 007
Public sector entities	-	-	-	-	-
Institutions	8 840	14 963	8 845	9 162	12 177
Corporates	42 315	31 711	24 919	40 821	36 749
Secured by mortgage in immovable property	309 230	305 834	303 268	319 625	316 637
Exposures in default	19 945	14 111	14 120	17 033	13 933
Covered bonds	19 114	17 093	17 478	18 980	18 984
Other items	28 931	26 518	15 387	14 702	15 932
Risk weighted exposure amount for credit risk	432 387	414 242	384 017	422 330	416 419
Risk exposure amount for operational risk	54 765	54 765	54 765	49 774	49 774
Risk exposure amount for credit valuation adjustment	8 062	8 304	6 008	6 030	6 068
Total risk weighed assets	495 214	477 311	444 790	478 134	472 261

CET1 capital ratio	21,59 %	22,37 %	23,46 %	20,87 %	21,06 %
Tier I capital ratio	24,53 %	25,47 %	26,84 %	24,01 %	24,24 %
Total capital ratio	24,53 %	25,47 %	26,84 %	24,01 %	24,24 %

Note 11 – Commitments (off-balance)

<i>(in NOK 1 000)</i>	30.6.2020	30.6.2019	31.12.2019
Guarantees	4 549	4 880	4 932
Undrawn credit limits	14 779	13 990	14 822
Loan commitments	86 372	84 824	79 762

Note 12 – Transactions between related parties

The bank has no significant events and transactions to report during the period.

Note 13 – Debt created by issue of securities and subordinated debt

2020 - Changes in securities debt during the period:

	Balance as of 31.12.2019	Issued	Due / Redeemed	Change in own holdings	Other changes	Balance as of 30.06.2020
Subordinated loan	0	0	0	0	0	0
Hybrid equity	15 000	0	0	0	-476	14 524
Total subordinated and hybrid instruments	15 000	0	0	0	-476	14 524

Note 14 - Classification of financial instruments on the balance sheet

Assets <i>(in NOK 1 000)</i>	Financial instruments valued at amortized cost	Financial instruments valued at fair value over OCI	Total
Cash and cash equivalents	241	-	241
Loans and claims on credit institutions	83 682	-	83 682
Loans to customers	770 962	-	770 962
Certificates and bonds	-	361 185	361 185
Shares, interest and equity certificates	-	12 400	12 400
Other assets	10 584	-	10 584
Total assets	865 469	373 585	1 239 054

Liabilities <i>(in NOK 1 000)</i>	Financial instruments valued at amortized cost	Financial instruments valued at fair value over OCI	Total
Deposits from and liabilities to credit institutions	109	-	109
Deposits and liabilities to customers	1 097 741	-	1 097 741
Other liabilities	14 956	-	14 956
Total liabilities	1 112 806	-	1 112 806

Note 15 – Valuation hierarchy for financial instruments

The valuation of financial instruments are classified at different levels based on the quality of market data for each type of instrument.

LEVELS

Level 1 – Valuation based on quoted prices in active markets

Level 1 places financial instruments valued using quoted prices in active markets for identical assets or liabilities. This category includes listed shares and fund shares, as well as government bonds and certificates traded in active markets.

Level 2 – Valuation based on observable prices for the asset or liability

Level 2 places financial instruments that are valued using information that is not quoted prices, but where prices are directly or indirectly observable for the assets or liabilities, including quoted prices in inactive markets for identical assets or liabilities. The category mainly includes securities debt, derivatives and bonds that are not at level 1.

Level 3 – Valuation based on unobservable inputs for the asset or liability

Level 3 places financial instruments that cannot be valued based on directly or indirectly observable prices. The category mainly includes loans to and deposits from customers, as well as shares.

There have been no transfers of financial instruments from one level to another during the period.

Valuation hierarchy for financial instruments valued at amortized costs as of 30.6.2020:

Financial assets (in NOK 1 000)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	-	241	-	241
Loans and claim on credit institutions	-	83 682	-	83 682
Loans and claims on customers	-	-	770 962	770 962
Total	-	83 923	770 962	854 885

Valuation hierarchy for financial instruments measured at fair value through other comprehensive income as of 30.6.2020:

Financial assets (in nok 1 000)	Level 1	Level 2	Level 3	Total
Certificates and bonds	361 185	-	-	361 185
Shares, interests and equity certificates	-	-	12 400	12 400
Total	361 185	-	12 400	373 585

Financial instruments classified in level 3:

	Loans to customers	Shares, interests and equity certificates
<i>in NOK 1 000</i>		
Balance sheet value as of 1.1.2020	740 918	12 632
Acquisitions/Disposals	29 328	30
Net gain/loss	716	-
Transferred to / from level 1 or 2	-	-
Value change	-	-262
Balance sheet value as of 31.3.2020	770 962	12 400

Note 16 – COVID-19

State guarantee scheme

As part of the corona measures, on March 27, 2020, the government has laid down regulations on the State Guarantee Scheme for loans to small and medium-sized businesses. The guarantee scheme is aimed at small and medium-sized companies that receive funding from the banks, which are affected by a decline in revenue and loss of income as a result of the corona virus. The scheme can be used by companies with up to 250 employees and with less than 50 million euros in sales. With the loan guarantee scheme, banks can provide loans to companies with a state guarantee of 90 per cent of the loan amounts.

The limit for the total state guarantee is NOK 50 billion, and will be distributed to all financial institutions that are licensed to operate in Norway. The quota will be distributed according to the proportion of loans to small and medium-sized enterprises other than commercial real estate that the company had at the end of 2019.

Cultura Sparebank has been allocated a share of this state guarantee, and has as of 30.6.2020 granted one loan under the guarantee scheme. The bank is in close contact with its customers and will continuously evaluate applications that meet the requirements to be covered by the scheme.

Financial assets

The classification of a financial asset is determined by the business model of the portfolio the instrument is included in, and the contractual cash flows the instrument has. A distinction is made between debt instruments, derivatives and equity instruments. A debt instrument is any financial asset that is not a derivative or equity instrument.

According to IFRS 9, financial assets are to be classified and measured in three categories:

- Amortized (AC)
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

The bank has not changed its classification of financial assets as of 30.06.2020 since the outbreak of COVID-19, as this has not changed the purpose of the bank's financial assets. The outbreak of the corona virus has affected the value of assets valued at fair value through a weaker Norwegian krone and lower interest rates that have affected the value of interest-bearing securities and equity instruments. The value of financial assets valued at amortized cost are affected to a lesser extent as of 30.6.2020. The bank has thoroughly reviewed its credit commitments and has not revealed a marked increase in risk in the corporate or retail markets. Covid-19 can change lending to customers through increased risk and thus higher write-downs. The impact of the outbreak and expectations for the future remain uncertain. The bank's write-down model has only contributed to a minor change in group write-downs as of 30.6.2020. Further developments are followed closely and the bank will continue to model its expectations for the future through the next quarter and will adjust its write-downs as needed.



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