

Quarterly Report

Cultura Sparebank



Third Quarter 2020

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INTERIM REPORT THIRD QUARTER 2020

Profit and loss account and balance sheet

In the third quarter, the bank posted a loss of NOK 425,000 after losses and tax. The main reasons for the loss are reduced commission and interest income combined with increased loss provisions. Due to a significantly exacerbated spread of infection globally and nationally during Q3 and the on-going economic uncertainty this creates, the bank believes that making significant loss provisions as of 30 September constitutes the right course of action.

The balance sheet in Q3 continues to be satisfactory with positive and balanced growth in deposits and lending. Demand for loans is still good. This means that the bank has been able to some degree to compensate for reduced lending rates with increased volume. At the end of Q3, prices on residential property are still high, especially in Oslo. Over the past 12 months, lending and deposits have increased by 14% and 14.1% respectively.

The considerably reduced interest rate levels mean that reduced returns from invested liquidity increasingly affect the bank's results.

Capital adequacy

The bank has a capital adequacy ratio of 21.10% and a Tier 1 capital and total capital adequacy ratio of 23.93%. This is a slight weakening of capital adequacy ratio as a result of solid lending growth. The bank satisfies both internal and external requirements by a solid margin. As of 30 September, the bank's capital adequacy ratio is satisfactory and provides room for continued work to achieve increased lending volumes.

Liquidity

The bank's LCR (Liquidity Coverage Ratio) was 242 as of 30/09/2020. The bank's general deposit-to-loan ratio is 139%. Both key figures are marginally lower than on 30 June, but far exceed set internal requirements.

Infection control measures

Cultura Sparebank has again tightened its infection control measures in Q3. The provision of counter services for customers has been reduced to a minimum and requires advance booking. The presence of staff at the bank's offices has been reduced by implementing remote working solutions where possible.

Prospects for the remainder of 2020

The crisis caused by the pandemic is very much a global phenomenon, and the international economy has been significantly impacted. The effects of the corona crisis are expected to increase as the spread of the virus was on the rise again at the end of Q3. This affects the Norwegian economy and therefore also Cultura. Uncertainty is high. It is not possible to provide any precise forecast for 2020, but it seems clear that the banks' results in 2020 will be weaker than in 2019. For Cultura, the most important effect is that interest rates fell significantly at the end of Q1 and seem set to remain low for the foreseeable future. Increased loss provisions have become a tangible consequence in Q3. The bank is believed to be less exposed to increased risk of losses in Q4. So far, there is no sign of any correction in the property market. For vulnerable industries, such as tourism and culture, uncertainty will increase as the pandemic drags on.

With Cultura Sparebank's value-based profile, it is gratifying to note that prioritising ethical banking in the financial industry seems to be holding up well despite the pandemic. Cultura will continue to work with those who warn against returning to 'business as usual' at the expense of the environment and social issues. It is important that the changes that the crisis brings about contribute to an economic restructuring

that will solve climate and other environmental challenges as well as global social problems. The trend in Q3 has been negative, but the bank is still solid and regards itself as being well equipped for meeting the challenges that may lie ahead.

Oslo, 12.11.2020

The Board of Cultura Sparebank

Maria Bjune
Chairman of the Board

Christian Dubrau
Deputy Chairman

Christine Praamsma

Morten Johannessen

Randi Welhaven

Alf Howlid

Camilla Brox

Kjell-Fredrik Løvold
General Manager

ACCOUNTS

Profit and loss account

<i>(in whole NOK thousands)</i>	Note	Q3		Year to date		1.1 – 31.12
		2020	2019	2020	2019	2019
Interest income and similar income		7,211	7,958	23,147	22,268	30,565
Interest costs and similar costs		642	1,272	2,743	3,796	4,628
Net interest and credit commission income	2	6,569	6,686	20,404	18,472	25,937
Dividends and other income from securities with variable returns	4	84	-	112	105	105
Commission income and income from banking services	3	1,969	2,184	5,657	6,093	8,250
Commission costs and costs of banking services	3	805	693	2,609	1,851	2,867
Net profit/loss financial instruments	4	34	412	106	1,030	1,421
Other operating income		-	-	-	-	-
Net other operating income		1,282	1,903	3,266	5,377	6,909
Total operating income		7,851	8,589	23,670	23,849	32,846
Payroll and other staff costs		3,273	3,074	9,582	8,961	12,634
Other operating costs		2,041	2,528	7,387	7,422	10,219
Depreciation/impairment, changes in value and profit/loss on non-financial assets		294	367	962	1,078	1,452
Total operating costs	5	5,608	5,969	17,931	17,461	24,305
Losses on lending, guarantees etc.	6,7,8	2,888	39	2,797	15	25
Impairment/reversal of impairment of securities that are fixed assets		-	-	-	-	106
Profit/loss on sale of securities that are fixed assets		-	-	-	312	206
Pre-tax profits for the period		-645	2,581	2,942	6,685	8,828
Tax on ordinary profit or loss		-220	645	677	1,671	2,109
Profit and loss for the period		-425	1,936	2,265	5,014	6,719

Other comprehensive income

	3 rd quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Change in value of equity instruments at fair value through other comprehensive income	139	-	1 014	-	-
Tax	-	-	-	-	-
Total items that will not be classified through profit/loss	139	-	1 014	-	-
Other income and expenses related to investments in interest-bearing securities	84	-	-257	-	-
Tax	21	-	-65	-	-
Total items that will be classified through profit/loss	63	-	-192	-	-
Total other comprehensive income	202	-	822	-	-
Total comprehensive income	-223	-	3 087	-	-

Balance sheet

<i>(in NOK thousands)</i>	Note	30.09.2020	30.09.2019	31.12.2019
Cash and cash equivalents		186	63,859	68,389
Loans and advances to credit institutions		80,704	21,312	19,723
Loans and advances to customers	9	799,520	701,388	727,001
Certificates, bonds and other interest-bearing securities		351,305	309,500	284,476
Stocks and shares		12,540	8,363	8,363
Intangible assets		131	739	440
Fixed assets		5,673	519	583
Other assets		45	158	-
Prepaid costs		2,200	2,569	3,536
Total assets		1,252,304	1,108,407	1,112,511
Deposits from and debt to credit institutions		109	80	80
Deposits from and debt to customers		1,114,808	976,272	982,877
Other liabilities		10,566	6,321	7,240
Accrued costs and pre-paid income		815	5,330	2,653
Other subordinated loan capital		-	15,000	15,000
Total liabilities		1,126,298	1,003,003	1,007,850
Invested capital – primary capital certificate capital		84,307	84,382	84,382
Perpetual subordinated debt	13	14,287	-	-
Fund for unrealised gain		3,132	-	-
Restricted equity – Sparebanken's fund		4,100	3,858	4,064
Equalisation fund		17,093	12,150	16,215
Unrestricted equity		3,087	5,014	-
Total equity		126,006	105,404	104,661
Total liabilities and equity		1,252,304	1,108,407	1,112,511
Guarantees		4,544	5,052	4,932

Change in equity

<i>NOK thousands</i>	Paid-in equity		Equalisation fund	Vested equity			Hybrid equity	Total equity
	Share certificates	Holding of own share certificates		Sparebank's fund	Fund for unrealised gain	Other equity		
Equity as at 1.1.2019	74,543	-926	12,361	3,858	-	-	-	89,836
Distribution of annual profits after dividend	-	-	4,065	206	-	-	-	4,271
Issue share certificates	10,765	-	-	-	-	-	-	10,765
Issue costs	-	-	-211	-	-	-	-	-211
Equity as at 31.12.2019	85,308	-926	16,215	4,064	-	-	-	104,661

<i>NOK thousands</i>	Paid-in equity		Equalisation fund	Vested equity			Hybrid equity	Total equity
	Share certificates	Holding of own share certificates		Sparebank's fund	Fund for unrealised gain	Other equity		
Equity as at 1.1.2020	85,308	-926	16,215	4,064	-	-	-	104,661
Reclassification perpetual subordinated debt	-	-	-	-	-	-	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 provision	-	-	496	20	-	-	-	516
Tax effect related to change	-	-	-293	-11	-	-	-	-304
Equity as at 1.1.2020 (reworked)	85,308	-926	17,093	4,100	3,132	-	15,116	123,823
Profit and loss for the period	-	-	-	-	-	2,265	-	2,265
Items in comprehensive income	-	-	-	-	-	822	-	822
Purchase/sale of own share certificates	-	-75	-	-	-	-	-	-75
Interest paid on perpetual subordinated debt	-	-	-	-	-	-	-829	-829
Equity as at 30.09.2020	85,308	-1,001	17,093	4,100	3,132	3,087	14,287	126,006

Quarterly account profit and loss

<i>(In whole NOK thousands)</i>	Third quarter 2020	Second quarter 2020	First quarter 2020	Fourth quarter 2019	Third quarter 2019
Interest income and similar income	7,211	7,045	8,891	8,297	7,958
Interest costs and similar costs	642	930	1,171	832	1,272
Net interest and credit commission income	6,569	6,115	7,720	7,465	6,686
Dividends and other income from securities with variable returns	84	28	-	-	-
Commission income and income from banking services*	1,969	1,726	1,962	2,157	2,184
Commission costs and costs of banking services	805	961	843	1,016	693
Net profit/loss financial instruments	34	78	-6	392	412
Other operating income	-	-	-	-	-
Net other operating income	1,282	871	1,113	1,533	1,903
Total operating income	7,851	6,986	8,833	8,998	8,589
Staff costs	3,273	3,049	3,260	3,673	3,074
Other operating costs	2,041	2,644	2,701	2,797	2,528
Depreciation etc. of tangible fixed assets and intangible assets	294	287	382	374	367
Total operating costs	5,608	5,980	6,343	6,844	5,969
Loss cost for the period	2,888	-765	674	10	39
Impairment/reversal of impairment of securities that are fixed assets	-	-	-	-	-
Profit/loss on sale of securities that are fixed assets	-	-	-	-	-
Pre-tax profits for the period	-645	1,771	1,816	2,144	2,581
Tax on ordinary profit and loss	-220	518	379	439	645
Profit and loss for the period	-425	1,253	1,437	1,705	1,936

Other comprehensive income

	3 rd Quarter 2020	2 nd Quarter 2020	1 st Quarter 2020	4 th Quarter 2019	3 rd Quarter 2019
Change in value of equity instruments at fair value through other comprehensive income	139	-262	1 137	-	-
Tax	-	-	-	-	-
Total items that will not be classified through profit/loss	139	-262	1 137	-	-
Other income and expenses related to investments in interest-bearing securities	84	253	-594	-	-
Tax	21	63	-149	-	-
Total items that will be classified through profit/loss	63	190	-445	-	-
Total other comprehensive income	202	-72	692	-	-
Total comprehensive income	-223	1 181	2 129	-	-

Key figures

<i>(in NOK thousands)</i>	Third quarter 2020	Second quarter 2020	First quarter 2020	Fourth quarter 2019	Third quarter 2019
<i>Solvency</i>					
Common equity Tier 1 capital adequacy ratio (in %)	21.10	21.52	22.37	23.46	20.87
Tier 1 capital adequacy ratio (in %)	23.93	24.45	25.47	26.84	24.01
Capital adequacy ratio (in %)	23.93	24.45	25.47	26.84	24.01
Total assets	1,252,304	1,239,054	1,189,537	1,112,511	1,108,407
Risk-weighted balance sheet by calculation basis	504,410	495,214	477,311	444,790	478,134
Equity	126,006	126,466	125,654	104,661	105,404
Average total assets	1,245,679	1,214,296	1,151,024	1,110,459	1,128,431
Unweighted Tier 1 capital (in %)	9.47	9.59	10.04	10.58	10.18
<i>Liquidity</i>					
Liquidity Coverage Ratio (LCR)	242	252	274	238	276
Net Stable Funding Ratio (NSFR)	173	171	174	164	169
<i>Deposits and lending</i>					
Gross lending to customers	803,088	771,638	742,310	728,450	702,831
Lending growth past 12 months	14.3%	13.5%	14.3%	14.6%	12.8%
Customer deposits	1,114,808	1,097,741	1,047,833	982,957	976,352
Deposit growth past 12 months	14.2%	7.4%	4.4%	3.3%	3.3%
Deposit adequacy ratio	139%	142%	141%	135%	139%
<i>Profitability</i>					
Total profitability ¹	-0.07	0.39	0.74	0.61	0.69
Equity profit ratio ²	-0.71	3.75	7.40	6.42	7.41
Net interest ³	2.11	2.01	2.68	2.69	2.37
Cost/income %	71.43	85.60	71.81	76.07	69.50
Operating costs in % of average total assets	1.80	1.97	2.20	2.47	2.12

¹ Total profitability: Pre-tax profits in percent of average total assets.

² Equity profit ratio: Pre-tax profits in percent of average equity.

³ Net interest: net interest and credit commission income in percentage of average total assets.

NOTES TO THE ACCOUNTS

Note 1 – Accounting principles

The accounts have been prepared according to International Financial Reporting Standards (IFRS) approved by the EU, including IAS 34 – Interim Financial Reporting. The accounting principles applied by the bank are described in the annual accounts for 2019. IFRS 9 Financial Instruments applies from 1 January 2020. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. For a detailed description and the bank's approach to the accounting standard, please see Note 10 to the annual report for 2019, including the description of changes to accounting principles, new model for classification and measurement of financial assets and new model for impairment of financial assets. For Cultura Sparebank, the transition to IFRS 9 affects the calculation of the bank's loss write-downs. According to IAS 39, write-downs have been based on objective evidence of value reduction, an accrued loss model. From 1 January 2020 write-downs must according to IFRS be based on expected loss (Expected Credit Loss – ECL). In partnership with the banks, SDC has developed an ECL model which Cultura Sparebank has applied as a basis for its valuations. The write-down model and tables showing the effects of the transition from IAS 39 to IFRS 9 are described in Note 10 to the annual report for 2019.

IFRS 16 – Leases was implemented on 1 January 2020. The standard sets out principles for recognition, measurement and presentation of leases. For a detailed description and the effect of the introduction of IFRS 16 for the bank, please see Note 10 to the annual report for 2019.

These interim accounts have not been audited. Unless otherwise specified, all figures are provided in NOK thousands. In 2019 and earlier, the bank's perpetual subordinated bond was classified as debt under 'subordinated loan capital'. From 1 January 2020, the perpetual subordinated bond is presented as part of the bank's paid-in equity.

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

Critical estimates and valuations relating to the application of accounting principles

The preparation of accounts in accordance with generally accepted accounting principles requires that the management in some cases use estimates and discretionary valuations. These valuations are assessed on an ongoing basis and are based on historical experience and assumptions about future events that are considered probable on the balance sheet date. Uncertainty is associated with the assumptions and expectations that form the basis for applied estimates and discretionary valuations. The COVID-19 pandemic has led to a significant and rapid change in the credit risk for the bank's portfolio. This uncertainty has led to a need for an adjustment at portfolio level for expected losses. This is described further in Note 16 – COVID-19. See also Note 7 – Write-downs on loans, guarantees etc.

Note 2 – Net interest and credit commission income

<i>(in NOK thousands)</i>	Q3		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Interest on cash and balances at central bank	0	256	345	650	969
Interest and similar income on loans and advances to customers	6,774 ⁴	6,665	19,980	18,695	25,635
Interest income, securities	437	1,037	2,822	2,923	3,961
Other interest income	0	0	0	0	0
Interest and similar income	7,211	7,958	23,147	22,268	30,565
Interest and similar costs on customer deposits and liabilities	-402	-705	-2,012	-2,133	-2,809
Interest and similar costs on subordinated loan capital	-15	-307	-45	-884	-1,190
Other interest costs and similar costs	-225	-260	-686	-779	-629
Interest costs and similar costs	-642	-1,272	-2,743	-3,796	-4,628
Net interest and credit commission income	6,569	6,686	20,404	18,472	25,937

⁴ In Q3 2020, interest income of NOK 499,622.62 applicable to previous accounting periods was recognised. This relates to a non-performing loan on which interest payments had stopped.

Note 3 – Commission income and income from banking services

<i>(in NOK thousands)</i>	Q3		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Guarantee commission income	26	31	73	89	115
Agency fees	16	17	66	71	96
Payment services	1,927	2,136	5,518	5,933	8,039
Commission income and income from banking services	1,969	2,184	5,657	6,093	8,250
Guarantee commission costs	-62	-61	-184	-183	-245
Payment services fees	-743	-632	-2,425	-1,668	-2,622
Commission costs and costs of banking services	-805	-693	-2,609	-1,851	-2,867
Net banking services	1,164	1,491	3,048	4,242	5,383

Note 4 – Income securities

<i>(in NOK thousands)</i>	Q3		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Income on shares and other securities with variable returns	84	0	112	105	105
Total dividends and other income from securities with variable returns	84	0	112	105	105
Net value change and profit/loss on:					
certificates, bonds and other interest-bearing securities	-43	328	-178	777	1,055
stocks and shares	0	0	0	0	0
currencies and financial derivatives	77	84	284	253	366
Total net value change and profit/loss on currencies and securities which are current assets	34	412	106	1,030	1,421

Note 5 – Operating costs

<i>(in NOK thousands)</i>	Q3		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Staff payroll	2,387	2,242	6,963	6,621	9,329
Fees for board and union representatives	107	116	339	348	480
Pensions	190	176	556	531	702
Employer tax	375	371	1,116	1,003	1,433
Financial tax	125	132	378	355	508
Other staff costs	89	37	230	103	182
Payroll etc.:	3,273	3,074	9,582	8,961	12,634
ICT	1,133	1,021	3,179	2,860	3,861
Offices expenses	105	181	659	523	836
Marketing	284	381	907	1,143	1,689
Lease and lease-related costs	106	374	307	1,168	1,545
Other operating costs	413	571	2,335	1,728	2,288
Administrative costs	2,041	2,528	7,387	7,422	10,219

Depreciation intangible assets	19	339	169	996	1,336
Depreciation fixed assets	57	28	139	82	116
Depreciation right-of-use leased premises	218	0	654	0	0
Amortisation	294	367	962	1,078	1,452
Total operating costs	5,608	5,969	17,931	17,461	24,305

Note 6 – Losses on lending, guarantees etc.

<i>(in NOK thousands)</i>	Q3		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Impairment for the period in Step 1/groups of loans	1,203	47	1,198	-40	-26
+ impairment for the period in Step 2	182	N/A	212	N/A	N/A
+ impairment for the period in Step 3/personal lending	1,503	-8	1,387	11	4
+ actual losses for the period against previous impairment	0	0	0	0	4
+ actual losses for the period without previous impairment	0	0	0	60	59
- start of the period previous actual losses	0	0	0	16	16
Loss cost for the period	2,888	39	2,797	15	25

Note 7 – Write-downs on loans, guarantees etc.

<i>(in NOK thousands)</i>	Step 1	Step 2	Step 3	Total
Write-downs on loans, guarantees etc. 1.1.2020	214	50	669	933
Migrated from Step 1	-10	45	126	161
Migrated from Step 2	14	-32	368	350
Migrated from Step 3	0	0	-81	-81
Other changes	-59	9	974	924
Write-downs on new loans, guarantees etc. in the period	53	0	0	53
Estimated addition as a result of the COVID-19 pandemic ⁵	1,200	190	0	1,390
Write-downs on loans, guarantees etc. 30.9.2020	1,412	262	2,056	3,730

Note 8 – Non-performing and loss-exposed commitments

<i>(in whole NOK thousands)</i>	30.9.2020	30.9.2019	31.12.2019
Gross non-performing commitments over 90 days	16,105	12,784	9,468
- Individual write-downs	1,552	155	67
Net non-performing commitments over 90 days	14,553	12,629	9,401
Gross loss-exposed, non-defaulted loans	9,430	0	161
- Individual write-downs	504	0	81
Net loss-exposed commitments	8,926	0	80

⁵ See Note 16 – COVID-19

Note 9 – Lending by sector and industry

Lending by sector

<i>(in NOK thousands)</i>	30.09.2020	30.9.2019	31.12.2019
Private limited companies etc.	102,919	69,137	75,789
Personal enterprises	20,464	18,961	18,554
Non-profits	164,977	167,673	168,162
Self-employed	70,309	74,579	72,093
Housing associations etc.	5,880	2,201	2,044
Employees, pensioners, social security, students etc.	438,539	367,707	389,185
Foreign non-financial corporations	0	160	160
Foreign households	0	2,523	2,463
Total	803,088	702,941	728,450

Lending by industry

<i>(in NOK thousands)</i>	30.09.2020	30.9.2019	31.12.2019
Agriculture and related services	78,770	66,183	72,051
Forestry and related services	458	491	482
Fishing	1,995	2,169	2,127
Manufacturing	10,403	6,371	7,621
Construction and other activities	0	4	0
Trade in goods, repair of motor vehicles	9,110	9,026	8,477
Other transport and storage	590	0	0
Hotel and catering	476	427	215
Information and communication	0	1	405
Sale and operation of property	60,405	53,028	51,933
Professional services	2,886	6,174	2,863
Business services	1,868	1,863	1,858
Other service industries	197,588	186,973	188,610
Employees, pensioners, social security recipients, students etc.	438,539	370,231	391,808
Total	803,088	702,941	728,450

Note 10 – Capital adequacy ratio

Subordinated capital

<i>(in NOK thousands)</i>	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Share capital	85,308	85,308	85,308	85,308	85,308
Holdings of share certificates	-1,001	-1,001	-926	-926	-926
Total paid-in equity	84,307	84,307	84,382	84,382	84,382
Accrued primary capital	4,100	4,100	4,100	4,064	3,858
Accrued equalisation fund	17,093	17,093	17,093	16,215	12,150
Fund for unrealised gain	3,132	3,132	3,132		
Value adjustment for the requirements for sound	-364	-374			
Deductions for intangible assets	-131	-150	-169	-300	-594
Deductions for investments in other financial institutions	-1,726	-1,552	-1,779		
Common equity Tier 1 capital	106,411	106,556	106,759	104,361	99,796
Perpetual subordinated debt	14,287	14,524	14,818	15,000	15,000
Tier 1 capital	120,698	121,080	121,577	119,361	114,796
Subordinated loan capital	-	-	-	-	-
Subordinated capital	120,698	121,080	121,577	119,361	114,796

Calculation basis by exposure categories

<i>(in whole NOK thousands)</i>	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
States and central banks	-	-	-	-	-
Local and regional authorities	8,017	4,012	4,012	-	2,007
Public sector enterprises	-	-	-	-	-
Institutions	8,855	8,840	14,963	8,845	9,162
Enterprises	44,258	42,315	31,711	24,919	40,821
Commitments with mortgage security in property	316,280	309,230	305,834	303,268	319,625
Overdue commitments	16,273	19,945	14,111	14,120	17,033
Preference bonds	18,121	19,114	17,093	17,478	18,980
Other commitments	29,454	28,931	26,518	15,387	14,702
Total calculation basis credit risk	441,258	432,387	414,242	384,017	422,330
Operational risk	54,765	54,765	54,765	54,765	49,774
Currency risk	8,387	8,062	8,304	6,008	6,030
Total calculation basis	504,410	495,214	477,311	444,790	478,134

Common Equity Tier 1 capital adequacy	21.10%	21.52%	22.37%	23.46%	20.87%
Tier 1 capital adequacy	23.93%	24.45%	25.47%	26.84%	24.01%
Capital adequacy	23.93%	24.45%	25.47%	26.84%	24.01%

Note 11 – Liabilities (not included in balance sheet)

<i>(in whole NOK thousands)</i>	30.9.2020	30.9.2019	31.12.2019
Guarantees	4,544	5,052	4,932
Unused credit facilities	14,115	12,091	14,822
Loan commitments	96,358	84,452	79,762

Note 12 – Transactions between related parties

The bank has no significant events or transactions to report for the period.

Note 13 – Debt by issuing securities and subordinated loan capital

2020 – Changes to securities liabilities in the period:

	Balance sheet 31.12.2019	Issued	Due/Redeemed	Changes in own portfolio	Other changes	Balance 30/09/2020
Subordinated loan	0	0	0	0	0	0
Perpetual subordinated debt	15,000	0	0	0	-713	14,287
Total subordinated loans and perpetual subordinated debt	15,000	0	0	0	-713	14,287

Note 14 – Classification of financial instruments in the balance sheet

Assets <i>(NOK thousands)</i>	Financial instruments measured at amortised cost	Financial instruments measured at fair value through OCI	Total
Cash and cash equivalents	186	-	186
Loans and advances to credit institutions	80704	-	80,704
Loans to customers	799,520	-	799,520
Interest-bearing securities	-	351,305	351,305
Securities – equity instruments	-	12,540	12,540
Other assets	8,049	-	8,049
Total assets	888,459	363,845	1,252,304

Liabilities <i>(NOK thousands)</i>	Financial instruments measured at amortised cost	Financial instruments measured at fair value through OCI	Total
Debt to credit institutions	109	-	109
Customer deposits	1,114,808	-	1,114,808
Other liabilities	11,381	-	11,381
Total liabilities	1,126,298	-	1,126,298

Note 15 – Valuation hierarchy for financial instruments

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

LEVELS

Level 1 – Valuation based on prices in an active market

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

Level 2 – Valuation based on observable market data

Level 2 includes financial instruments that are valued by using information that is not listed prices, but where prices are directly or indirectly observable for assets or liabilities, including quoted prices in non-active markets for identical assets or liabilities. This category mainly covers securities debt, derivatives and bonds not included in Level 1.

Level 3 – Valuation based on other than observable market data

Level 3 includes financial instruments which cannot be valued based on directly or indirectly observable prices. This category mainly covers customer loans and deposits as well as shares.

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

Valuation hierarchy for financial instruments valued at amortised cost as at 30.9.2020:

Financial assets (in NOK thousands)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	0	186	0	186
Loans and advances to credit institutions	0	80,704	0	80,704
Loans to customers	0	0	799,520	799,520
Total	0	80,890	799,520	880,410

Valuation hierarchy for financial instruments valued at fair value through comprehensive income as at 30.9.2020:

Financial assets (in NOK thousands)	Level 1	Level 2	Level 3	Total
Interest-bearing securities	351,305	0	0	351,305
Securities – equity instruments	0	0	12,540	12,540
Total	351,305	0	12,540	363,845

Financial instruments valued at fair value for Level 3:

<i>NOK thousands</i>	Loans to customers	Shares
Balance sheet value as at 1.1.2020	727,802	11,495
Acquisition/Disposal	74,353	30
Net profit/loss	-2,635	-
Transferred to/from Level 1 or 2	-	-
Unrealised profit/loss against comprehensive income	-	1,015
Balance sheet value as at 30.09.2020	799,520	12,540

Note 16 – COVID-19

Guarantee scheme

On 27 March 2020, as part of its corona measures, the Norwegian government introduced a state guarantee scheme for loans to small and medium-sized enterprises. The guarantee scheme is aimed at small and medium-sized enterprises which are financed by the banks and which have been impacted by a reduction in sales and income as a result of the corona crisis. The scheme can be accessed by enterprises with up to 250 employees and a turnover of less than EUR 50 million. The banks can use this guarantee scheme to offer loans to enterprises with a government guarantee of 90 percent of the loan amount.

The framework for the total government guarantee is NOK 50 billion and will be distributed among all financial enterprises 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 property that the enterprise had at the end of 2019.

Cultura Sparebank has been allocated a share of this framework guarantee and has as of 30.9.2020 provided a loan under the guarantee scheme. The bank is in close contact with its customers and will continuously assess applications that satisfy scheme requirements.

Financial assets

The classification of a financial asset is determined by the business model for the portfolio of which the instrument forms part and the contractual cash flows the instrument has. A distinction is made between debt instruments, derivatives and equity instruments. Debt instruments are all financial assets that are not derivatives or equity instruments.

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

- Amortised cost (AC)
- Fair value with value change through profit and loss (FVPL)
- Fair value with value change through other comprehensive income (FVOCI)

As of 30.0.2020, the bank has not changed the classification of financial assets since the outbreak of COVID-19 as this has not changed the purpose of the bank's financial assets. The corona outbreak has affected the value of assets valued at fair value due to a weakened Norwegian krone and lower interest rates, which have affected the value of interest-bearing securities and equity instruments.

Write-downs on loans

The COVID-19 pandemic brings with it considerable uncertainty related to expected future losses on loans. It is therefore necessary to use significantly more discretion and a group approach to calculating loan write-downs. The write-downs calculated on the basis of models do not take sufficient account of the uncertain situation in which the bank finds itself, with significantly poorer macro prospects than those contained in the existing write-down model. The bank has calculated write-downs in Step 1 and Step 2 for customers in the corporate market on the basis of how vulnerable the various industries are in terms of the bank's commitment.

The effect of COVID-19 on different sectors and industries is divided into two scenarios:

1. Scenario 1: Slightly affected (low risk)
2. Scenario 2: Highly affected (high risk)

Each degree of risk represents an assumed change to the industry's risk as a result of COVID-19. The need for increased provisions at sector level depends on the effect of the pandemic. In the adjustment model,

the two scenarios are given an ‘adjustment factor’ in percent: The adjustment factor for each industry is multiplied by the bank’s exposure in each industry. This provides a proposed addition in model-calculated write-downs per industry. This is therefore not an assessment of the need for increased provisions at individual customer level.

The scenarios represent a rough estimate of total losses on loans. Since the effects of the epidemic and countermeasures are currently both confusing and very uncertain, loss estimates will also carry great uncertainty. The bank believes that there is an 80% probability of Scenario 1 and a 20% probability of Scenario 2. The bank follows developments closely and will adjust write-down estimates, if required.

Industry	Exposure 30.09.20	Scenario low	Expected losses	Scenario high	Expected losses	Total expected losses
Agriculture	73,000	0.25%	183	1.00%	730	
Sale and operation of property	61,000	0.50%	305	2.00%	1,220	
Teaching	91,000	0.00%	0	2.00%	1,820	
Health and social services	67,000	0.00%	0	1.00%	670	
Cultural activities	8,000	1.00%	80	3.00%	240	
Total	300,000		568		4,680	
Probability-weighted loss		80.00%	454	20.00%	936	1,390

In Q3 2020, additional write-downs of NOK 1.39 million were made for the corporate market. The distribution of Steps 1 and 2 appears in Note 7 – Write-downs on loans, guarantees etc.

The retail market is seen as less exposed to losses. The bank mainly has loans with mortgages on homes that have an average low loan-to-value ratio. Public sector welfare schemes, including measures specifically targeting the negative effects of the COVID-19 pandemic, also mean that the retail market is less prone to losses. The bank has not made increased loss adjustments in the retail market.



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