

Quarterly report

Cultura Sparebank



First quarter 2020

Table of contents

Accounts as of March 30 th 2020	2
Accounts	4
Profit and loss statement	4
Other comprehensive income	4
Balance sheet	5
Change in equity	6
Quarterly profit and loss statements	7
Other comprehensive income	7
Key figures.....	8
Notes to the accounts.....	9
Note 1 – Accounting principles	9
Note 2 – Interest report.....	9
Note 3 – Fees and other income from banking activities	10
Note 4 – Gains and losses on foreign exchange and financial derivatives	10
Note 5 – Salaries and other operating expenses	10
Note 6 – Loss expense	11
Note 7 – Write downs on loans.....	11
Note 8 – Defaults and loss-exposed commitments.....	11
Note 9 – Distribution of loans by sector/industry.....	12
Note 10 – Capital ratio	13
Note 11 – Commitments (off-balance).....	14
Note 12 – Transactions between related parties	14
Note 13 – Debt created by issue of securities and subordinated debt.....	14
Note 14 - Classification of financial instruments on the balance sheet.....	14
Note 15 – Valuation hierarchy for financial instruments	15
Note 16 – COVID-19	16

Accounts as of March 31st 2020

General development

Following a general trend in line with expectations in January and February, society and the Norwegian economy was suddenly hit by a completely unexpected crisis. On March 12th, the government announced measures that meant an immediate shutdown of large parts of the production industry. Those businesses that could continue operations, entirely or partially, had to take very comprehensive measures to prevent the spread of infection. For Cultura Sparebank, this meant that all customer service over the counter stopped the same day. The presence of employees in the bank's office was immediately reduced to a minimum by the use of home office solutions as far as practicable. A number of the bank's business customers were affected by the measures in a way that resulted in a momentary reduction or total loss of income. The Bank has largely responded to their challenges by the granting of loan repayment applications. At the same time, the Norwegian central bank reduced its key interest rate by 1.25 percentage points, and Cultura has adjusted lending rates to its customers in line with what other Norwegian banks have done. Together with the authorities' temporary financial measures to support small and medium-sized businesses, this has been useful to help the bank's corporate customers through the crisis. This, in turn, will mitigate potential challenges in the personal customer economy. At the end of the first quarter, no dramatic decline in property prices was recorded. The significantly reduced interest rate level has also reduced the bank's return on invested liquidity. Relatively shortly after the measures were implemented, the health authorities stated that the spread of the virus was under control. A gradual and cautious relief in the most radical measures has begun. However, the crisis is largely global, and the international economy is therefore strongly affected. This affects the Norwegian economy and thus also Cultura. A review of the bank's credit commitments as of March 31st however, has not uncovered markedly increased risk in the corporate or in retail markets. The Board is of the opinion that the bank's credit portfolio, which is largely established in accordance with value-based objectives, is not more affected by the crisis situation than is assumed to be the situation for other banks.

Operating result and balance sheet

The bank's pre-tax operating profit as of 31.3.2020 is NOK 1 816 000 compared to NOK 1 666 000 for the same period in 2019. The accounts show a loss expense of NOK 674 000. The increase from the end of 2019 is due to a very small number of loans that are still serviced with interest payments, but where future ability to pay is considered uncertain so that a loss provision correct. Apart from this, the operating accounts at the end of Q1 do not need any specific remarks. Reference is also made to comments on the outlook below. The balance sheet development in the first quarter did not deviate significantly from expectations, but with slightly weaker lending growth than expected.

Solvency

The bank's core equity capital ratio as of March 31st 2020 was 22.37 % and equity and total capital ratios were at 25.47 %. This satisfies both internal and external requirements with a good margin and to a greater extent after the authorities in March eased the requirements for coverage of countercyclical buffer. The capital adequacy is very satisfactory as of 31.3.2020.

Liquidity

The bank's LCR (Liquidity Coverage Ratio) as of March 31st was at 274 %. The internal requirement of the bank is 150 %. The ratio of customer deposits to loans is 141 %, which is a slight increase from 135 % at the end of 2019, and still exceeds the established internal requirements.

Outlook for the remainder of the year

Developments in 2020 until mid-March were largely in line with general expectations. Subsequently, both a global and a Norwegian situation occurred that was not foreseen by anyone. For Cultura, the most important immediate effect is that interest rates dropped momentarily and significantly by the end of the first quarter. Interest rates are not expected to pick up again during the year. However, a further fall in interest rates in Norway cannot be ruled out. How borrowing demand from Cultura's customers will develop is difficult to predict at the time of writing, but that the development will be weaker than expected until mid-March must be considered probable. A somewhat reduced sales volume for housing has been registered. Even so developments for the rest of 2020 are very difficult to judge. Cultura has followed a conservative approach with regard to loan-to-value and serviceability when granting mortgages and correspondingly with requirements for collateral for business loans. The bank is therefore still considered relatively low risk of loss as a result of expected corrections in the housing market and financial challenges for businesses as a result of the crisis.

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. With more than 20 years of experience as a value-based bank, Cultura Sparebank will be a more important player than ever in the Norwegian banking industry. The bank still considers itself well equipped for this task. In pure economic terms, it is difficult to predict how 2020 will be able to be summed up, but the Board considers the opportunities to strengthen Cultura Sparebank's position as good.

Oslo, May 7th 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	1 st quarter		Year to date		1.1 – 31.12
		2020	2019	2020	2019	2019
Interest and interest related income		8 891	6 990	8 891	6 990	30 565
Interest and interest related expense		1 171	1 251	1 171	1 251	4 628
Net interest and interest related income	2	7 720	5 739	7 720	5 739	25 937
Dividends and other income from variable income securities	4	-	75	-	75	105
Provision income and income from banking services	3	1 962	1 911	1 962	1 911	8 250
Provision expenses and expenses from banking services	3	843	542	843	542	2 867
Net return on financial investments	4	-6	219	-6	219	1 421
Other operating income		-	-	-	-	-
Total other operating income		1 113	1 663	1 113	1 663	6 909
Total operating income		8 833	7 402	8 833	7 402	32 846
Payroll		3 260	2 908	3 260	2 908	12 634
Other operating expenses		2 701	2 500	2 701	2 500	10 219
Depreciation on fixed and intangible assets		382	350	382	350	1 452
Total operating expenses	5	6 343	5 758	6 343	5 758	24 305
Losses on loans, guarantees, etc.	6,7,8	674	-22	674	-22	25
Reversal of impairment on securities classified as fixed assets		-	-	-	-	106
Net gains on fixed and intangible assets		-	-	-	-	206
Operating result before taxes		1 816	1 666	1 816	1 666	8 828
Estimated tax on ordinary result for the period		379	416	379	416	2 109
Net result for the period		1 437	1 250	1 437	1 250	6 719

Other comprehensive income

	1 st 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	1 137	-	1 137	-	-
Tax	-	-	-	-	-
Total items that will not be classified through profit/loss	1 137	-	1 137	-	-
Other income and expenses related to investments in interest-bearing securities	-594	-	-594	-	-
Tax	-149	-	-149	-	-
Total items that will be classified through profit/loss	-445	-	-445	-	-
Total other comprehensive income	692	-	692	-	-
Total comprehensive income	2 129	-	2 129	-	-

Balance sheet

<i>(in NOK 1 000)</i>	Note	31.03.2020	31.03.2019	31.12.2019
Cash and cash equivalents		137	68 356	68 389
Loans and claims on credit institutions		135 230	35 292	19 723
Loans and advances to customers	9	740 918	647 721	727 001
Certificates and bonds		290 931	354 455	284 476
Shares, interest and equity certificates		12 632	8 334	8 363
Intangible assets		169	1 303	440
Fixed assets		5 928	550	583
Other assets		40	3	-
Pre-paid expenses and accrued income		3 552	2 855	3 536
Total assets		1 189 537	1 118 869	1 112 511
Deposits from and liabilities to credit institutions		80	51	80
Deposits and liabilities to customers		1 047 836	1 003 413	982 877
Other liabilities		14 200	3 509	7 240
Accrued expenses and received non-accrued income		1 767	5 810	2 653
Subordinated loan		-	15 000	15 000
Total liabilities		1 063 883	1 027 783	1 007 850
Share capital		84 382	73 617	84 382
Subordinated loan	13	14 818	-	-
Fund for unrealized gains		3 132	-	-
The Saving Bank's Fund		4 100	3 858	4 064
Equalization Fund		17 093	12 361	16 215
Free retained earnings		2 129	1 250	-
Total equity		125 654	91 086	104 661
Total equity and liabilities		1 189 537	1 118 869	1 112 511
Guarantees		4 584	6 123	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	-	-	-	-	-	1 437	-	1 437
Net other comprehensive income for the period	-	-	-	-	-	692	-	692
Purchase / sale of bank owned equity certificates	-	-	-	-	-	-	-	-
Interest payments additional Tier I capital	-	-	-	-	-	-	-298	-298
Equity as of 31.3.2020	85 308	-926	17 093	4 100	3 132	2 129	14 818	125 654

Quarterly profit and loss statements

<i>(in NOK 1 000)</i>	1 st Quarter 2020	4 th Quarter 2019	3 rd Quarter 2019	2 nd Quarter 2019	1 st Quarter 2019
Interest and interest related income	8 891	8 297	7 958	7 319	6 990
Interest and interest related expense	1 171	832	1 272	1 274	1 251
Net interest and interest related income	7 720	7 465	6 686	6 045	5 739
Dividends and other income from variable income securities	-	-	-	30	75
Provision income and income from banking services	1 962	2 157	2 184	1 998	1 911
Provision expenses and expenses from banking services	843	1 016	693	616	542
Net return on financial investments	-6	392	412	399	219
Other operating income	-	-	-	-	-
Total other operating income	1 113	1 533	1 903	1 811	1 663
Total operating income	8 833	8 998	8 589	7 856	7 402
Payroll	3 260	3 673	3 074	2 979	2 908
Other operating expenses	2 701	2 797	2 528	2 393	2 500
Depreciation on fixed and intangible assets	382	374	367	361	350
Total operating expenses	6 343	6 844	5 969	5 733	5 758
Losses on loans, guarantees, etc.	674	10	39	-2	-22
Reversal of impairment on securities classified as fixed assets	-	-	-	-	-
Net gains on fixed and intangible assets	-	-	-	312	-
Operating result before taxes	1 816	2 144	2 581	2 437	1 666
Estimated tax on ordinary result for the period	379	439	645	609	416
Net result for the period	1 437	1 705	1 936	1 828	1 250

Other comprehensive income

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

Key figures

(in NOK 1 000)	1 st quarter 2020	4 th quarter 2019	3 rd quarter 2019	2 nd quarter 2019	1 st quarter 2019
Solidity					
Common equity tier 1 capital ratio (%)	22,37	23,46	20,87	21,06	19,38
Tier 1 capital ratio (%)	25,47	26,84	24,01	24,24	22,66
Total capital ratio (%)	25,47	26,84	24,01	24,24	22,66
Total assets	1 189 537	1 112 511	1 108 407	1 148 455	1 118 869
Risk weighted balance sheet total	477 311	444 790	478 134	472 261	457 529
Equity capital	125 654	104 661	105 404	103 468	91 087
Average total assets	1 151 024	1 110 459	1 128 431	1 133 662	1 092 619
Leverage ratio	10,04	10,58	10,18	9,82	9,14
Liquidity					
Liquidity Coverage Ratio (LCR)	274	238	276	285	266
Net Stable Funding Ratio (NSFR)	174	164	169	198	176
Deposit and loan development					
Loans	742 310	728 450	702 831	679 884	649 186
Annual loan growth (%)	14,3 %	14,6 %	12,8 %	14,7 %	13,2 %
Deposits	1 047 833	982 957	976 352	1 021 707	1 003 464
Annual deposit growth (%)	4,4 %	3,3 %	3,3 %	6,4 %	10,9 %
Deposit coverage ratio (%)	141 %	135 %	139 %	150 %	155 %
Profitability					
Return on total assets ¹	0,74	0,61	0,69	0,65	0,46
Return on equity ²	7,40	6,42	7,41	7,52	5,53
Net interest income ³	2,68	2,69	2,37	2,13	2,10
Cost/Income %	71,81	76,07	69,50	72,98	77,78
Operating expenses in % of average total assets	2,20	2,47	2,12	2,02	2,11

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 quarter 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 NOK 1 000)</i>	1 st quarter		Year to date		1.1 - 31.12
	2020	2019	2020	2019	2019
Interest income from loans and receivable on credit institutions	312	165	312	165	969
Interest income from loans to customers	7 270	5 906	7 270	5 906	25 635
Interest income from bonds, certificates and financial derivatives	1 309	919	1 309	919	3 961
Other interest income	0	0	0	0	0
Total interest and related income	8 891	6 990	8 891	6 990	30 565
Interest expense on deposits from and debt to customers	-931	-705	-931	-705	-2 809
Interest expense on subordinated loan capital	-15	-287	-15	-287	-1 190
Other interest expenses	-225	-259	-225	-259	-629
Total interest and related expenses	-1 171	-1 251	-1 171	-1 251	-4 628
Net interest and credit commission income	7 720	5 739	7 720	5 739	25 937

Note 3 – Fees and other income from banking activities

<i>(in NOK 1 000)</i>	1 st quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Guarantee commission income	27	33	27	33	115
Other commissions and fees	30	32	30	32	96
Money transfer and interbank transactions	1 905	1 846	1 905	1 846	8 039
Total fees and other income from banking activities	1 962	1 911	1 935	1 911	8 250
Guarantee commission expenses	-61	-61	-61	-61	-245
Other fees and commission expenses	-782	-481	-782	-481	-2 622
Total fees and other expenses on banking services	-843	-542	-843	-542	-2 867
Net fees and other income from banking activities	1 119	1 369	1 119	1 369	5 383

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

<i>(in NOK 1 000)</i>	1 st quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Income from shares, participations and other securities with variable earnings	0	75	0	75	105
Total income from shares, participations and other securities with variable earnings	0	75	0	75	105
Net gains and losses from:					
notes, bonds, and other interest-bearing securities	-111	116	-111	116	1 055
shares and participations	0	0	0	0	0
foreign exchange and financial derivatives	105	103	105	103	366
Total gains and losses on foreign exchange and financial derivatives	-6	219	-6	219	1 421

Note 5 – Salaries and other operating expenses

<i>(in NOK 1 000)</i>	1 st quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
Salary expenses to employees	2 273	2 093	2 273	2 093	9 329
Remuneration to the board of directors and trustees	116	116	116	116	480
Pension contributions	189	187	189	187	702
Social security expenses	435	352	435	352	1 433
Financial activities tax	149	125	149	125	508
Other staff costs	98	35	98	35	182
Salaries, fees and other personnel expenses	3 260	2 908	3 260	2 908	12 634
IT costs	869	873	869	873	3 861
Office expenses	284	172	284	172	836
Advertising charges	314	387	314	387	1 689
Rent and rent related expenses	95	397	95	397	1 545
Other operating expenses	1 139	671	1 139	671	2 288
Operating expenses	2 701	2 500	2 701	2 500	10 219

Depreciation of intangible fixed assets	131	324	131	324	1 336
Depreciation of tangible fixed assets	33	26	33	26	116
Depreciation of right of use asset	218	0	218	0	0
Depreciation	382	350	382	350	1 452
Total operating expenses	6 343	5 758	6 343	5 758	24 305

Note 6 – Loss expense

<i>(in NOK 1 000)</i>	1 st quarter		Year to date		1.1 – 31.12
	2020	2019	2020	2019	2019
The period's write-downs in stage 1 / groups of loans	92	0	92	0	0
+ The period's write-downs in stage 2	162	n/a	162	n/a	n/a
+ The period's write-downs in stage 3/ individual write-downs	419	-6	419	-6	4
+ The period's ascertained losses against previous write-downs	0	0	0	0	4
+ The period's losses without previous write-downs	0	0	0	0	59
- The period's recovery of previously ascertained losses	0	16	0	16	16
The period's loss expense	674	-22	674	-22	51

Note 7 – Write downs on loans

<i>(in NOK 1 000)</i>	Stage 1	Stage 2	Stage 3	Total
Losses on loans, guarantees, etc. as of 1.1.2020	214	50	669	933
Migrated from stage 1	-33	33	0	0
Migrated from stage 2	31	-31	0	0
Migrated from stage 3	81	0	-81	0
Other changes	-10	160	500	650
Write-downs on new loans, guarantees, etc. in the period	23	0	0	23
Losses on loans, guarantees, etc. as of 31.3.2020	306	212	1 088	1 606

Note 8 – Defaults and loss-exposed commitments

<i>(in NOK 1 000)</i>	31.3.2020	31.3.2019	31.12.2019
Gross defaults over 90 days	9 470	732	9 468
- Individual write downs	67	80	67
Net defaults over 90 days	9 403	652	9 401
Gross exposes non-defaulted commitments	13 281	58	161
- Individual write downs	1 022	58	81
Net exposed non-defaulted commitments	12 259	0	80

Note 9 – Distribution of loans by sector/industry

Distribution of loans by sector

<i>(in NOK 1 000)</i>	31.3.2020	31.3.2019	31.12.2019
Private limited liability company	85 633	64 628	75 789
Privately owned companies	18 218	19 159	18 554
Non-profit organizations	165 999	170 557	168 162
Sole proprietorship	70 273	68 863	72 093
Housing associations	1 756	2 497	2 044
Private households	398 005	322 011	389 185
Foreign companies	0	159	160
Foreign households	2 426	1 312	2 463
Total loans	742 310	649 186	728 450

Distribution of loans by industry

<i>(in NOK 1 000)</i>	31.3.2020	31.3.2019	31.12.2019
Agriculture and related services	69 952	60 307	72 051
Forestry and related services	475	0	482
Fisheries and related services	2 084	2 254	2 127
Manufacturing	7 315	5 766	7 621
Construction	1	1	0
Retail, repair of motorized vehicles	8 531	9 365	8 477
Other transport and storage	204	0	0
Accommodation and food service activities	301	175	215
Information and communication	527	0	405
Sale and management of real estate	59 213	52 190	51 933
Finance and insurance activities	2 813	5 968	2 863
Commercial services	1 869	1 891	1 858
Other service industries	188 594	187 946	188 610
Private households	400 431	323 323	391 808
Total loans	742 310	649 186	728 450

Note 10 – Capital ratio

Regulatory capital

<i>(in NOK 1 000)</i>	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Share capital	85 308	85 308	85 308	85 308	74 543
Bank owned equity certificates	-926	-926	-926	-928	-926
Total issued equity	84 382	84 382	84 382	84 380	73 617
Savings bank's fund	4 100	4 064	3 858	3 858	3 858
Equalisation fund	17 093	16 215	12 150	12 150	12 361
Fund for unrealized gains	3 132				
Intangible assets	-169	-300	-594	-932	-1 158
CET1 instruments of financial sector entities where the institution does not have a significant investment	-1779	-	-	-	-
Common equity Tier I capital	106 759	104 661	99 796	99 456	88 678
Hybrid capital	14 818	15 000	15 000	15 000	15 000
Tier I capital	121 577	119 361	114 796	114 456	103 678
Subordinated loan capital (Tier II)	-	-	-	-	-
Total eligible regulatory capital	121 577	119 361	114 796	114 456	103 678

Basis for calculation of equity requirement by exposure category

<i>(in NOK 1 000)</i>	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Central governments and central banks	-	-	-	-	-
Regional governments or local authorities	4 012	-	2 007	2 007	4 009
Public sector entities	-	-	-	-	-
Institutions	14 963	8 845	9 162	12 177	11 958
Corporates	31 711	24 919	40 821	36 749	48 452
Secured by mortgage in immovable property	305 834	303 268	319 625	316 637	302 789
Exposures in default	14 111	14 120	17 033	13 933	861
Covered bonds	17 093	17 478	18 980	18 984	18 980
Other items	26 518	15 387	14 702	15 932	14 652
Risk weighted exposure amount for credit risk	414 242	384 017	422 330	416 419	401 701
Risk exposure amount for operational risk	54 765	54 765	49 774	49 774	49 774
Risk exposure amount for credit valuation adjustment	8 304	6 008	6 030	6 068	6 054
Total risk weighed assets	477 311	444 790	478 134	472 261	457 529

CET1 capital ratio	22,37 %	23,46 %	20,87 %	21,06 %	19,38 %
Tier I capital ratio	25,47 %	26,84 %	24,01 %	24,24 %	22,66 %
Total capital ratio	25,47 %	26,84 %	24,01 %	24,24 %	22,66 %

Note 11 – Commitments (off-balance)

<i>(in NOK 1 000)</i>	31.3.2020	31.3.2019	31.12.2019
Guarantees	4 584	6 123	4 932
Undrawn credit limits	15 432	14 109	14 822
Loan commitments	91 956	65 735	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 31.3.2020	Due/ Redeemed 31.3.2020	Change in own holdings 31.3.2020	Other changes 31.3.2020	Balance as of 31.3.2020
Subordinated loan	0	0	0	0	0	0
Hybrid equity	15 000	0	0	0	-182	14 818
Total subordinated and hybrid instruments	15 000	0	0	0	-182	14 818

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	137	-	137
Loans and claims on credit institutions	135 230	-	135 230
Loans to customers	740 918	-	740 918
Certificates and bonds	-	290 631	290 631
Shares, interest and equity certificates	-	12 632	12 632
Other assets	9 689	-	9 689
Total assets	885 974	303 263	1 118 237

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	80	-	80
Deposits and liabilities to customers	1 047 836	-	1 047 836
Other liabilities	15 967	-	15 967
Total liabilities	1 063 883	-	1 063 883

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 31.3.2020:

Financial assets (in NOK 1 000)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	-	137	-	137
Loans and claim on credit institutions	-	135 230	-	135 230
Loans and claims on customers	-	-	740 918	740 918
Total	-	135 367	740 918	876 285

Valuation hierarchy for financial instruments measured at fair value through other comprehensive income as of 31.3.2020:

Financial assets (in NOK 1 000)	Level 1	Level 2	Level 3	Total
Certificates and bonds	290 631	-	-	290 631
Shares, interests and equity certificates	-	-	12 632	12 632
Total	290 631	-	12 632	303 263

Financial instruments classified in level 3:

<i>In NOK 1 000</i>	Loans to customers	Shares, interests and equity certificates
Balance sheet value as of 1.1.2020	727 802	11 495
Acquisitions/Disposals	13 714	-
Net gain/loss	-598	-
Transferred to / from level 1 or 2	-	-
Value change	-	1 137
Balance sheet value as of 31.3.2020	740 918	12 632

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, but has as of 31.3.2020 not granted new loans 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 31.3.2020 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 31.3.2020. 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. Since the impact of the outbreak and expectations for the future are still very uncertain, the bank's write-down model has only contributed to a slight increase in write-down. The bank is continuing to model its expectations for the future through the next quarter and will adjust its write-downs as needed.



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