

Quarterly report

Cultura Sparebank



Third quarter 2019

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Accounts as of September 30th 2019

General development

Developments in the third quarter showed the same trend as in the first half of the year and were generally satisfactory. Twelve-month growth in deposits and loans to customers, respectively, was per. 30.9. 3.3% and 12.8%. Stronger growth in lending is in line with the bank's objective. However, the reduced growth in deposits results in somewhat lower growth in total assets than expected. The bank's market potential is nevertheless considered very significant. Sustainability is safeguarded and made visible in the bank's operations. This has been and remains a main objective since the bank was founded. Cultura thus appeals to ever-broader population groups due to the significantly increased awareness sustainability issues have received in society in recent years. An example of this is the discounts on interest rates for customers that receive a mortgage for an environmental home. This product has been offered by Cultura Bank for almost 10 years. Several Norwegian banks are now presenting and highlighting their sustainability goals. Cultura continues its targeted work with the ambition to be a spearhead in all areas for sustainable product development and customer service in the Norwegian finance industry.

Operating result and balance sheet

The bank's operating profit before taxes as of September 30th 2019 are NOK 6 684 910 against NOK 4 175 342 in the same period in 2018. Total operating expenses increased by 1.5%, which is mainly due to IT costs, while total revenues increased by 11.9%. The positive income trend is related to a rising interest rate level and increased lending volumes. Loss expenses were NOK 39 165 in the third quarter. Gross default has not changed significantly since 30.6. Defaults over 90 days are mostly related to a single loan, where the bank is considered to be well secured against losses. The bank's total assets are NOK 1.108 million. This represents a 12-month growth of 4.9%, down from 7.3% at 30.6. The growth rate is noticeably lower than in 2018. Nevertheless, the bank does not consider this alarming. Loan growth is satisfactory and deposit coverage and liquidity are still very good. However, the low growth in deposits indicates that in the future the bank will direct greater attention to this part of the business. Cultura wants to maintain a very high deposit coverage and will therefore have to assign sufficient resources into an attractive offer to deposit customers. The Board of Directors considers, as at the end of the first half of the year, that the profit and loss statement and balance sheet provide the basis for a positive business development while at the same time safeguarding the basic value based objectives. The bank's basic profile, which is about social and environmental sustainability, is considered interesting by an increasing number of people. Concepts such as circular economics, green economics, ecological economics and sustainable finance are becoming increasingly the subject of assessments and discussions both within and outside the financial industry. Cultura Bank has an important role to play in this picture.

Solvency

The bank's core equity capital ratio as of September 30th 2019 was 20.87 %, equity capital and total capital ratios were at 24.01 %. This satisfies both internal and external requirements with a good margin.

Liquidity

The bank's LCR (Liquidity Coverage Ratio) as of September 30th 2019 was at 276 %. The internal requirement of the bank is 125 %. The ratio of customer deposits to loans is 139 %, which exceeds the established internal requirements despite slow deposit growth.

Outlook for the remainder of the year

The underlying trends in the Norwegian economy are positive and have provided a basis for Norges Bank, in accordance with what has been announced, to have increased the key policy rate. Many analysts assume that the key policy rate has now reached a provisional high point. Housing price developments have been stable, but some uncertainty is linked to forecasts of further tightening of the mortgage loan regulations. Nonetheless, prices are still at high level, especially in the Oslo area. Cultura maintains a conservative approach with regards to customers' loan servicing capability and loan-to-value rates and the bank considers the risk of losses due to a possible correction in the housing market to be limited. The bank continues to work towards further relative cost reductions, which means that growth in business volume is assumed to occur with a relatively minor increase in operating costs. Increasing the lending volume to both the private and corporate sector within the bank's value base is a continuing main objective. This will be an important element sustaining the positive earnings trend through the year 2019. Regulatory requirements are constantly increasing in strength and represent a significant cost challenge for a small alliance-free bank. In the second half of 2019, this is in particular linked to the authorities' sharper attention regarding so-called anti-money laundering, that is, the work against economic crime. It must be expected that the resource effort to comply with regulatory requirements will result in somewhat higher operating costs in Q4 2019 compared to previous periods. The bank's growth ability and solvency were strengthened through the issue that was completed in June and the board believes that the overall picture gives reason for optimism both in view of the bank's development as a sustainable player in the financial industry and in view of the prospects for satisfactory financial results in 2019.

Oslo, November 7th 2019

on the board for Cultura Sparebank

Maria Bjune	Christian Dubrau	Ebba Boye	Morten Johannessen
<i>Chair to the board</i>	<i>Deputy chair to the board</i>		
Randi Welhaven	Alf Howlid	Bjarne Hjertholm	Kjell-Fredrik Løvold
			Chief executive officer

Accounts

Profit and loss statement

<i>(in NOK 1 000)</i>	Note	3 th quarter		Year to date		1.1 – 31.12
		2019	2018	2019	2018	2018
Interest and interest related income		7 958	6 737	22 268	19 391	26 226
Interest and interest related expense		1 272	1 006	3 796	2 936	4 022
Net interest and interest related income	1	6 686	5 731	18 472	16 455	22 204
Dividends and other income from variable income securities				105	87	87
Provision income and income from banking services		2 184	2 052	6 093	5 847	7 848
Provision expenses and expenses from banking services		693	601	1 851	1 778	2 403
Net profit/loss on foreign exchange and other financial instruments		84	108	253	226	324
Net profit/loss on interest bearing securities		328	273	777	562	768
Net profit/loss on shares and participations		-	-	-	-95	-94
Other operating income		-	-	-	-	-
Total other operating income		1 903	1 832	5 377	4 849	6 530
Total operating income		8 589	7 563	23 849	21 304	28 734
Payroll		3 074	2 895	8 961	8 885	11 843
General administrative expenses		1 846	1 724	5 293	5 102	6 905
Depreciation on fixed and intangible assets		367	347	347	1 078	1 058
Other operating expenses		682	621	2 129	2 152	2 739
Total operating expenses	2	5 969	5 587	17 461	17 197	22 894
Loan loss provisions	3,4,5	39	-9	15	-40	-55
Impairment/reversed impairment on financial instruments classified as fixed assets		-	-	-	-95	-
Net gains/losses on fixed and intangible assets		-	-	312	123	1 146
Operating result before taxes		2 581	1 985	6 685	4 175	7 041
Estimated tax on ordinary result for the period		645	496	1 671	1 046	1 564
Net result for the period		1 936	1 489	5 014	3 129	5 477

Balance sheet

<i>(in NOK 1 000)</i>	Note	30.9.2019	30.9.2018	31.12.2018
Cash and claims on the Norwegian central banks		63 859	66 311	68 113
Loans and claims on credit institutions		21 312	16 177	21 910
Loans and advances to customers		701 388	621 607	634 037
Certificates and bonds		309 500	340 574	329 731
Shares, interest and equity certificates		8 363	7 469	8 334
Intangible assets		739	1 898	1 626
Fixed assets		519	560	578
Other assets		158	31	7
Pre-paid expenses and accrued income		2 569	2 381	2 032
Total assets		1 108 407	1 057 008	1 066 368
Deposits from and liabilities to credit institutions		80	51	51
Deposits and liabilities to customers		976 272	944 972	951 551
Other liabilities		6 321	2 829	7 519
Accrued expenses and received non-accrued income		5 330	4 422	2 411
Subordinated loan		15 000	14 993	15 000
Total liabilities		1 003 003	967 267	976 532
Share capital	6	84 382	73 584	73 617
The Saving Bank's Fund		3 858	3 678	3 858
Equalization Fund		12 150	9 350	12 361
Free retained earnings		5 014	3 129	-
Total equity		105 404	89 741	89 836
Total equity and liabilities		1 108 407	1 057 008	1 066 368
Guarantees		5 052	6 028	5 969

Quarterly profit and loss statements

<i>(in NOK 1 000)</i>	3 th Quarter 2019	2 nd Quarter 2019	1 st Quarter 2019	4 th Quarter 2018	3 th Quarter 2018
Interest and interest related income	7 958	7 319	6 990	6 826	6 737
Interest and interest related expense	1 272	1 274	1 251	1 086	1 006
Net interest and interest related income	6 686	6 045	5 739	5 740	5 731
Dividends and other income from variable income securities	-	30	75	-	-
Provision income and income from banking services	2 184	1 998	1 911	2 010	2 052
Provision expenses and expenses from banking services	693	616	542	624	601
Net profit/loss on foreign exchange and other financial instruments	84	66	103	98	108
Net profit/loss on interest bearing securities	328	333	116	206	273
Net profit/loss on shares and participations	-	-	-	1	-
Other operating income	-	-	-	-	-
Total other operating income	1 903	1 811	1 663	1 691	1 832
Total operating income	8 589	7 856	7 402	7 431	7 563
Payroll	3 074	2 979	2 908	2 958	2 895
Administrative expenses	1 846	1 732	1 715	1 807	1 724
Depreciation on fixed and intangible assets	367	361	350	349	347
Other operating expenses	682	661	785	583	621
Total operating expenses	5 969	5 733	5 758	5 697	5 587
Loan loss provisions	39	-2	-22	-15	-9
Impairment/reversed impairment on financial instruments classified as fixed assets	-	-	-	-	-
Net gains/losses on fixed and intangible assets	-	312	-	1 118	-
Operating result before taxes	2 581	2 437	1 666	2 867	1 985
Estimated tax on ordinary result for the period	645	609	416	518	496
Net result for the period	1 936	1 828	1 250	2 349	1 489

Key figures

(in NOK 1 000)	3 th quarter 2019	2 nd quarter 2019	1 st quarter 2019	4 th quarter 2018	3 th quarter 2018
Solidity					
Common equity tier 1 capital ratio (%)	20,87	21,06	19,38	19,25	18,98
Tier 1 capital ratio (%)	24,01	24,24	22,66	22,52	18,98
Total capital ratio (%)	24,01	24,24	22,66	22,52	22,33
Total assets	1 108 407	1 148 455	1 118 869	1 066 368	1 057 008
Risk weighted balance sheet total	478 134	472 261	457 529	459 037	447 172
Equity capital	105 404	103 468	91 087	89 836	89 741
Average total assets	1 128 431	1 133 662	1 092 619	1 005 582	1 063 802
Leverage ratio	10,18	9,82	9,14	9,54	7,93
Liquidity					
Liquidity Coverage Ratio (LCR)	276	285	266	322	335
Net Stable Funding Ratio (NSFR)	169	198	176	172	153
Deposit and loan development					
Loans	702 831	679 884	649 186	635 509	623 093
Annual loan growth (%)	12,8 %	14,7 %	13,2 %	12,3 %	14,7 %
Deposits	976 352	1 021 707	1 003 464	951 602	945 023
Annual deposit growth (%)	3,3 %	6,4 %	10,9 %	13,9 %	16,5 %
Deposit coverage ratio (%)	139 %	150 %	155 %	150 %	152 %
Profitability					
Return on total assets ¹	0,69	0,65	0,46	0,88	0,56
Return on equity ²	7,41	7,52	5,53	10,45	6,67
Net interest income ³	2,37	2,13	2,10	2,16	2,16
Cost/Income %	69,50	72,98	77,78	76,67	73,86
Operating expenses in % of average total assets	2,12	2,02	2,11	2,15	2,10

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

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

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

Notes to the accounts

Note 1 – Interest report

<i>(in NOK 1 000)</i>	3 rd quarter		Year to date		1.1 – 31.12
	2019	2018	2019	2018	2018
Interest income from loans and receivable on credit institutions	256	98	650	303	462
Interest income from loans to customers	6 665	5 827	18 695	16 897	22 767
- Interest income from consumers	2 711	1 852	7 190	5 373	7 514
- Interest income from corporates	3 954	3 975	11 506	11 524	15 253
Interest income from bonds, certificates and financial derivatives	1 037	812	2 923	2 191	2 997
Other interest income	0	0	0	0	0
Total interest and related income	7 958	6 737	22 268	19 391	26 226
Interest expense on deposits from and debt to customers	-705	-667	-2 133	-1 943	-2 596
- Interest expense consumers	-437	-417	-1 283	-1 200	-1 611
- Interest expense corporates	-268	-250	-850	-743	-985
Interest expense on subordinated loan capital	-307	-205	-884	-591	-890
Other interest expenses	-260	-134	-779	-402	-536
Total interest and related expenses	-1 272	-1 006	-3 796	-2 936	-4 022
Net interest and credit commission income	6 686	5 731	18 472	16 455	22 204

Note 2 – Salaries and general administrative expenses

<i>(in NOK 1 000)</i>	3 rd quarter		Year to date		1.1 – 31.12
	2019	2018	2019	2018	2018
Salary expenses to employees	2 242	2 097	6 621	6 544	8 580
Remuneration to the board of directors and trustees	116	116	348	348	473
Pension contributions	176	170	531	535	727
Social security expenses	371	357	1 003	993	1 382
Financial activities tax	132	127	355	352	488
Other staff costs	37	28	103	113	193
Salaries, fees and other personnel expenses	3 074	2 895	8 961	8 885	11 843
IT costs	1 021	877	2 860	2 445	3 191
Office expenses	181	130	523	467	862
Advertising charges	381	466	1 143	1 402	1 780
Other expenses	263	251	767	788	1 072
Administrative expenses	1 846	1 724	5 293	5 102	6 905
Depreciation of intangible fixed assets	339	324	996	971	1 294
Depreciation of tangible fixed assets	28	23	82	87	113
Depreciation	367	347	1 078	1 058	1 407
Rent and rent-related expenses	374	361	1 168	1 107	1 461
Other operating expenses	308	260	961	1 045	1 278
Total operating expenses	682	621	2 129	2 152	2 739

Note 3 – Loss expense

<i>((in NOK 1 000))</i>	3 th quarter		Year to date		1.1 – 31.12
	2019	2018	2019	2018	2018
The period's change in write-downs on individual loans	-8 000	-1 032	10 900	-29 999	-44 900
The period's change in write-downs on groups of loans	47 165	0	-39 767	0	0
The period's ascertained losses against previous write-downs	0	0	0	0	0
The period's losses without previous write-downs	0	0	59 679	0	0
The period's recovery of previously ascertained losses	0	-7 501	-15 968	-9 651	-9 901
The period's loss expense	39 165	-8 533	14 844	-39 650	-54 801

Note 4 – Write downs on loans

<i>(in NOK)</i>	30.9.2019	30.9.2018	31.12.2018
Write-downs on individual loans	155 000	159 004	144 100
Write-downs on groups of loans	1 287 553	1 327 320	1 327 320

Note 5 – Defaults and loss-exposed commitments

<i>(in NOK)</i>	30.9.2019	30.9.2018	31.12.2018
Gross defaults over 90 days	12 783 505	2 513 685	1 619 624
- Individual defaults	155 000	91 831	80 391
Net defaults	12 628 505	2 421 854	1 539 233
Gross exposed non-defaulted commitments	0	67 173	63 707
- Individual write-downs	0	67 173	63 709
Net exposed non-defaulted commitments	0	0	-2

Note 6 – Capital ratio

Regulatory capital

<i>(in NOK 1 000)</i>	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Share capital	85 308	85 308	74 543	74 543	74 543
Bank owned equity certificates	-926	-928	-926	-926	-959
Total issued equity	84 382	84 380	73 617	73 617	73 584
Retained earnings and savings bank's fund	3 858	3 858	3 858	3 858	3 678
Equalisation fund	12 150	12 150	12 361	12 361	9 350
Intangible assets	-594	-932	-1 158	-1 481	-1 735
CET1 instruments of financial sector entities where the institution does not have a significant investment	-	-	-	-	-
Common equity Tier I capital	99 796	99 456	88 678	88 355	84 877
Hybrid capital	15 000	15 000	15 000	15 000	-
Tier I capital	114 796	114 456	103 678	103 355	84 877
Subordinated loan capital (Tier II)	-	-	-	-	14 993
Total eligible regulatory capital	114 796	114 456	103 678	103 355	99 870

Basis for calculation of equity requirement by exposure category

<i>(in NOK 1 000)</i>	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Central governments and central banks	-	-	-	-	-
Regional governments or local authorities	2 007	2 007	4 009	4 010	-
Public sector entities	-	-	-	-	-
Institutions	9 162	12 177	11 958	9 282	8 135
Corporates	40 821	36 749	48 452	55 308	48 161
Secured by mortgage in immovable property	319 625	316 637	302 789	299 634	300 268
Exposures in default	17 033	13 933	861	1 739	99
Covered bonds	18 980	18 984	18 980	18 988	18 987
Other items	14 702	15 932	14 652	14 237	17 548
Risk weighted exposure amount for credit risk	422 330	416 419	401 701	403 198	393 198
Risk exposure amount for operational risk	49 774	49 774	49 774	49 774	46 913
Risk exposure amount for credit valuation adjustment	6 030	6 068	6 054	6 065	7 061
Total risk weighed assets	478 134	472 261	457 529	459 037	447 172
CET1 capital ratio	20,87 %	21,06 %	19,38 %	19,25 %	18,98 %
Tier I capital ratio	24,01 %	24,24 %	22,66 %	22,52 %	18,98 %
Total capital ratio	24,01 %	24,24 %	22,66 %	22,52 %	22,33 %



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