

Quarterly Report

Cultura Sparebank



2nd Quarter 2021

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PERFORMANCE REPORT 2nd QUARTER 2021

General

Developments in the first half of the year are in line with the bank's expectations and are affected by the continued impact of the global pandemic which has led to very low interest rates. The bank is nevertheless experiencing strong interest from customers with solid growth on both the lending and deposit sides. The period's earnings are, however, affected by lower interest income from the bank's lending business and the very conservative management of surplus liquidity.

Income statement and balance sheet

Profit/loss on ordinary activities

Operating profit for the second quarter before loss and tax was NOK 385,000 against NOK 1.0 million in 2020. The operating profit so far this year is NOK 1.5 million against NOK 3.5 million in the first half of 2020. The weaker results are mainly due to lower interest rates. The bank's revenue from the management of surplus liquidity has been particularly affected and is down NOK 1.6 million compared with the first half of 2020. Net interest income from the bank's lending and deposits has also been impacted and was NOK 0.6 million lower than in the first half of last year. This means that the bank's net interest and credit income in the first half of the year was NOK 2.2 million lower than in the first half of 2020. The bank's operating expenses are at approximately the same level as last year. The loss cost in the first half year was a net income recognition of NOK 1.0 million due to a combination of funds received on previously identified losses and a reduction of the Covid 19 loss write-down (discussed in more detail in note 15).

The bank's profit on ordinary activities after tax for the second quarter was NOK 735,000 against NOK 1.3 million in the second quarter of 2020. So far this year, ordinary operating profit after tax is NOK 2.0 million compared with NOK 2.7 million in the first half of last year.

Other comprehensive income

In other comprehensive income, changes in the value of the bank's bond and asset portfolio are included which are measured at fair value. In the second quarter, the bank had a zero result in the other comprehensive income statement. So far this year, the bank has a deficit of NOK 0,4 million in other comprehensive income against a surplus of NOK 0.6 million in the first half of 2020.

The bank's share portfolio is held for strategic reasons and consists of ownership interests in both Norwegian and foreign partners. The shares held in foreign currency are affected by fluctuations in exchange rates, no significant changes in the underlying share prices have been recorded.

Total comprehensive income

Total comprehensive income for the second quarter was NOK 735,000 compared with NOK 1.2 million in the second quarter of 2020. So far this year total comprehensive income is NOK 1.6 million, which is NOK 1.7 million behind last year's total comprehensive income of NOK 3.3 million in the first half of the year.

Balance sheet

The bank continues to experience strong customer growth with lending and deposits up 9.7% and 14.2% respectively in the last twelve months.

Capital adequacy

As of 30 June 2021, the bank has a common equity tier 1 capital adequacy of 21.08 % and a tier 1 and total capital adequacy ratio of 23.87 %. The bank meets both internal and external requirements with a good margin.

Liquidity

The bank's LCR (Liquidity Coverage Ratio) was 274 as of 30.6.21. The bank's internal requirement is 150. The Bank's deposit coverage was 148%, up from 135 % at the end of 2020 and well above the internal requirement.

Future prospects

The Covid 19 pandemic continues to impact Norway's society and economy, but the country is now in the first stages of the government's plan for a gradual reopening. Activity in the Norwegian economy has rebounded after the sharp fall last spring and Norges Banks is signalling interest rate hikes in the second half of the year, possibly as early as September. The bank's earnings have been affected by the historically low interest rate level and it is expected that earnings will improve when the key rate is gradually raised.

In the second quarter, a customer survey was carried out which showed a very high level of customer satisfaction and provided important input for the bank's development. Cultura Bank's strategic objective is to be a merit-based bank that meets customers' needs through a comprehensive range of services. An extended product and service range will give the bank's customers a better offering, and eventually give the bank a broader customer base.

Cultura Bank is financed exclusively by customer deposits and therefore has a not insignificant surplus liquidity which is invested in interest-bearing securities. This is currently managed very conservatively, which again yields very low returns with today's interest rates. Work is in progress to manage the surplus liquidity down to a somewhat lower level and to further develop the management so that, still within a conservative framework, it will give the bank improved returns.

Cultura Bank continues to experience strong interest and customer inflow, and has good growth on the lending and deposit side. The interest in sustainability remains strong, both in society in general and in the financial industry in particular. Cultura Bank is a solid, merit-based bank that is well positioned for the future.

Oslo, 12.8.2021

The Board of Cultura Sparebank

Maria Bjune
Board Chair

Morten Johannessen
Deputy Chair

Christine Praamsma

Gustavo Parra de Andrade

Randi Welhaven

Alf Howlid

Camilla Brox

Kristine Falkgård
General Manager

Income Statement

	Note	2nd quarter		Year to date		1.1 – 31.12
		2021	2020	2021	2020	2020
Interest income from assets valued at amortised cost		5 982	5 936	11 880	13 206	26 524
Interest income from other assets		578	1 109	1 100	2 730	3 222
Interest costs and similar costs		712	930	1 393	2 101	3 378
Net interest and credit commission income	2	5 848	6 115	11 586	13 835	26 368
Commission income and income from banking services		1 847	1 726	3 690	3 688	7 616
Commission expenses and costs of banking services		895	961	1 793	1 804	3 492
Dividends and other income from equity instruments		-	28	81	28	1 081
Net change in value and gain/loss on currency and financial instruments		-25	78	41	72	175
Net other operating income	3	927	871	2 019	1 984	5 380
Salaries and other personnel expenses		3 785	3 049	6 999	6 309	13 004
Other operating expenses		2 258	2 644	4 482	5 346	9 600
Depreciation and write-downs on tangible and intangible assets		347	287	648	668	1 257
Total operating costs	4	6 390	5 980	12 128	12 323	23 862
Profit before losses		385	1 006	1 477	3 496	7 887
Credit losses on loans, guarantees, etc. and interest-bearing securities	5, 6	-514	-765	-1 038	-91	2 935
Profit before tax		899	1 771	2 515	3 587	4 952
Tax		164	518	532	897	1 056
Profit from ordinary operations after tax		735	1 253	1 983	2 690	3 896

Other comprehensive income

	2nd quarter		Year to date		1.1 – 31.12
	2021	2020	2021	2020	2020
Change in value of equity instruments at fair value through other comprehensive income	176	-262	-161	875	713
Tax	-	-	-	-	-
Total items that will not be classified through profit/loss	176	-262	-161	875	713
Other income and expenses related to investments in interest-bearing securities	-235	253	-332	-341	-377
Tax	-59	63	-83	-86	-94
Total items that will be classified through profit/loss	-176	190	-249	-255	-282
Total other comprehensive income	-	-72	-410	620	431
Total comprehensive income	735	1 181	1 573	3 310	4 327

Balance Sheet

	Note	30.6.2021	30.6.2020	31.12.2020
Cash and cash equivalents		-	241	144
Loans and receivables from credit institutions and claims on central banks		68 182	83 682	84 381
Loans and receivables from customers at amortised cost	8	845 446	770 962	800 698
Interest-bearing securities		457 567	361 185	319 186
Shares, participations and other equity instruments		12 056	12 400	12 239
Intangible assets		1 217	150	1 140
Fixed assets		5 122	5 925	5 454
Other assets		4 291	4 509	3 104
Total assets		1 393 882	1 239 054	1 226 346
Borrowing from credit institutions		109	109	109
Deposits from customers		1 254 121	1 097 741	1 086 193
Other debt		11 555	13 713	11 643
Provisions		29	1 025	1 418
Total liabilities		1 265 814	1 112 588	1 099 362
Share capital		85 308	85 308	85 308
Own equity certificates		-1 001	-1 001	-1 001
Subordinated bond capital	12	14 615	14 524	15 104
Fund for unrealised gains		3 845	3 132	3 845
Saving bank's fund		4 173	4 100	4 173
Equalisation fund		19 555	17 093	19 555
Unrestricted retained earnings		1 573	3 310	-
Total Equity		128 068	126 466	126 984
Total Equity and Liabilities		1 393 882	1 239 054	1 226 346
Guarantees		4 804	4 549	18 680

Changes in equity

	Own equity certificates	Own holdings	Subordinated bond capital	Equalisation fund	Savings bank's fund	Fund for unrealised gains	Other equity	Gifts	Total 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 bond	-	-	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 of 1.1.2020 (restated)	85 308	-926	15 116	17 093	4 100	3 132	-	-	123 823
Profit from ordinary operations for the period	-	-	1 054	2 733	84	-	-	25	3 896
Items in other comprehensive income	-	-	-	-271	-11	713	-	-	431
Purchase/sale of own equity	-	-75	-	-	-	-	-	-	-75
Interest paid on subordinated bond	-	-	-1 066	-	-	-	-	-	-1 066
Transferred to gifts	-	-	-	-	-	-	-	-25	-25
Equity as of 31.12.2020	85 308	-1 001	15 104	19 555	4 173	3 845	-	-	126 984
Profit from ordinary operations for the period	-	-	-	-	-	-	1 983	-	1 983
Items in other comprehensive income	-	-	-	-	-	-	-410	-	-410
Purchase/sale of own equity	-	-	-	-	-	-	-	-	-
Interest paid on subordinated bond	-	-	-489	-	-	-	-	-	-489
Equity as of 30.6.2021	85 308	-1 001	14 615	19 555	4 173	3 845	1 573	-	128 068

Quarterly Income Statement

	2nd Quarter 2021	1st Quarter 2021	4th Quarter 2020	3rd Quarter 2020	2nd Quarter 2020
<i>(in full 1 000 NOK)</i>					
Interest income from assets valued at amortised cost	5 982	5 898	6 199	6 774	5 969
Interest income from other assets	578	521	400	437	1 076
Interest costs and similar costs	712	681	635	642	930
Net interest and credit commission income	5 848	5 738	5 964	6 569	6 115
Commission income and income from banking services	1 847	1 806	1 959	1 969	1 753
Commission expenses and costs of banking services	895	860	883	805	988
Dividends and other income from equity instruments	-	81	969	84	28
Net change in value and gain/loss on currency and financial instruments	-25	66	69	34	78
Net other operating income	927	1 093	2 114	1 282	871
Salaries and other personnel expenses	3 785	3 214	3 422	3 273	3 049
Other operating expenses	2 258	2 224	2 213	2 041	2 645
Depreciation and write-downs on tangible and intangible assets	347	301	295	294	286
Total operating costs	6 390	5 739	5 930	5 608	5 980
Profit before losses	385	1 092	2 148	2 243	1 006
Credit losses on loans, guarantees, etc. and interest-bearing securities	-514	-524	138	2 888	-765
Profit before tax	899	1 616	2 010	-645	1 771
Tax	164	368	379	-220	518
Profit from ordinary operations after tax	735	1 248	1 631	-425	1 253

Other comprehensive income

	2nd Quarter 2021	1st Quarter 2021	4th Quarter 2020	3rd Quarter 2020	2nd Quarter 2020
<i>(in full 1 000 NOK)</i>					
Change in value of equity instruments at fair value through other comprehensive income	176	-337	-301	139	-262
Tax	-	-	-	-	-
Total items that will not be classified through profit/loss	176	-337	-301	139	-262
Other income and expenses related to investments in interest-bearing securities	-235	-97	-120	84	253
Tax	-59	-24	-29	21	63
Total items that will be classified through profit/loss	-176	-73	-91	63	190
Total other comprehensive income	-	-410	-392	202	-72
Total comprehensive income	735	838	1 239	-223	1 181

Key Figures

	2nd Quarter 2021	1st Quarter 2021	4th Quarter 2020	3rd Quarter 2020	2nd Quarter 2020
Debt-equity ratio					
Common equity tier 1 capital adequacy (in %)	21.08	20.54	21.32	21.10	21.52
Tier 1 capital adequacy ratio (in %)	23.87	23.30	24.24	23.93	24.45
Total capital ratio (i %)	23.87	23.30	24.24	23.93	24.45
Total assets	1 393 882	1 345 547	1 226 346	1 252 304	1 239 054
Risk-weighted balance sheet according to calculation basis	522 839	537 403	517 814	504 410	495 214
Equity	128 068	127 577	126 984	126 006	126 466
Average total assets	1 369 715	1 285 947	1 169 429	1 245 679	1 214 296
Unweighted tier 1 capital (in %)	8.86	9.03	9.92	9.47	9.59
Liquidity					
Liquidity Coverage Ratio (LCR)	274	261	242	242	252
Net Stable Funding Ratio (NSFR)	186	180	170	173	171
Deposit and loan development					
Gross lending to customers	846 843	823 005	802 618	803 088	771 638
Lending growth last 12 months	9.7 %	10.9 %	10.2 %	14.3 %	13.5 %
Deposits from customers	1 254 230	1 207 347	1 086 302	1 114 808	1 097 741
Deposit growth last 12 months	14.2 %	15.2 %	10.5 %	14.2 %	7.4 %
Deposit adequacy	148 %	147 %	135 %	139 %	142 %
Returns/profitability					
Return on total assets ¹	0.21	0.26	0.40	-0.07	0.39
Return on equity ²	2.30	2.63	3.92	-0.71	3.75
Net interest income ³	1.71	1.78	1.92	2.11	2.01
Cost/income %	94.32	84.01	73.41	71.43	85.60
Operating expenses as a percentage of average total assets	1.87	1.79	1.91	1.80	1.97

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

² Return on equity: profit after tax as a percentage of average equity.

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

NOTES TO THE ACCOUNTS

Note 1 – Accounting principles

The financial statements for the second quarter 2021 have been prepared in accordance with the Regulation on annual accounts for banks § 1-4, paragraph 1 b) which means that valuation rules and disclosure requirements under IFRS have been followed with the exceptions resulting from the regulation, including IAS 34 - Interim Financial Reporting. The quarterly financial statements have been prepared using the same accounting policies and calculation methods as the most recent annual financial statements. For a more detailed description of the accounting principles, please refer to the Annual Report 2020. The interim financial statements have not been audited. All amounts are stated in NOK 1,000 unless otherwise specified.

Note 2 - Net interest and credit commission income

	2nd Quarter		Year to date		1.1 – 31.12
	2021	2020	2021	2020	2020
Interest and similar income from loans to and receivables from credit institutions	-	33	-	345	346
Interest and similar income from loans to and receivables from	5 982	5 936	11 880	13 206	26 178
Interest and similar income from interest-bearing securities	578	1 076	1 100	2 385	3 222
Total interest income and similar income	6 560	7 045	12 980	15 936	29 746
Interest and similar costs on debt to credit institutions	72	-	116	-	47
Interest and similar costs on deposits from and debt to customers	406	680	794	1 610	2 360
Interest and similar costs on subordinated bond capital	15	15	30	30	60
Other interest expenses and similar expenses	219	235	453	461	911
Total interest costs and similar costs	712	930	1 393	2 101	3 378
Net interest and credit commission income	5 848	6 115	11 586	13 835	26 368

Note 3 – Other operating income

	2nd Quarter		Year to date		1.1 – 31.12
	2021	2020	2021	2020	2020
Guarantee commission (gross)	32	21	87	47	240
Brokerage commission	23	20	60	50	85
Money transfer and interbank transactions	1 792	1 685	3 543	3 591	7 521
Total commission income and income from banking services	1 847	1 726	3 690	3 688	7 846
Guarantee commission expenses (gross)	39	61	77	122	230
Money transfer and interbank transactions	856	900	1 716	1 682	3 492
Total commission expenses and expenses for banking services	895	961	1 793	1 804	3 722
Income from shares, participations and other equity instruments	-	28	81	28	1 081
Dividends and other income from equity instruments	-	28	81	28	1 081
Net gain/loss on certificates and bonds	-106	-24	-134	-135	-182
Net gain/loss on currency	81	102	175	207	357
Net gain/loss on currency and financial instruments	-25	78	41	72	175
Net other operating income	927	871	2 019	1 984	5 380

Note 4 – Operating expenses

	2nd Quarter		Year to date		1.1 – 31.12
	2021	2020	2021	2020	2020
Salaries to employees	2 746	2 303	5 013	4 576	9 342
Fees to the board and trustees	166	116	267	232	534
Pensions	249	177	495	366	757
Employer's contribution	378	306	787	741	1 461
Financial tax	134	104	279	253	548
Other personnel costs	112	43	157	141	362
Total salaries and other personnel expenses	3 785	3 049	6 999	6 309	13 004
IT	1 008	1 176	1 861	2 046	4 193
Office expenses	189	270	403	554	844
Marketing	299	309	566	623	1 237
Rent and rent-related costs	111	106	212	201	406
Other operating costs	651	783	1 441	1 922	2 920
Total other operating costs	2 258	2 644	4 482	5 346	9 600
Amortisation of intangible assets	56	19	75	150	188
Depreciation of tangible fixed assets	72	50	134	82	197
Depreciation right of use rental premises	220	218	439	436	872
Total depreciation/amortisation	347	287	648	668	1 257
Total operating costs	6 390	5 980	12 128	12 323	23 862

Note 5 – Credit losses on loans, guarantees, etc. and interest-bearing securities

	2nd Quarter		Year to date		1.1 – 31.12
	2021	2020	2021	2020	2020
Impairment for the period in stage 1	-404	-97	-373	-5	1 264
Impairment for the period in stage 2	-121	-132	-85	30	229
Impairment for the period in stage 3	11	-535	-203	-116	-208
The period's established losses against previous write-downs	1	-	64	-	1 337
The period's established losses without previous write-downs	-	-	26	-	313
The beginning of the period on previously established losses	2	-	467	-	-
Loss cost in the period	-514	-765	-1 038	-91	2 935

Note 6 – Impairment of loans, guarantees etc.

	Stage 1	Stage 2	Stage 3	Total
Write-downs on loans, guarantees, etc. as of 31.3.2021	1 509	314	247	2 070
Migrated from stage 1	-1	-	-	-1
Migrated from stage 2	4	-14	-	-11
Migrated from stage 3	-	-	-	-
Impairment of new commitments during the period	34	-	-	34
Commitments deducted during the period	-145	-	-	-145
Other changes	-28	39	12	23
Covid-19 impairment	-267	-144	-	-411
Write-downs on loans, guarantees, etc. as of 30.6.2021	1 105	194	258	1 558

Note 7 – Credit impaired commitments

	30.6.2021	30.6.2020	31.12.2020
Gross defaulted loans - over 90 days	3 994	15 400	6 002
Impairment in stage 3	92	163	148
Net defaulted loans	3 902	15 237	5 854
Other credit impaired loans	8 242	9 379	10 633
Impairment in stage 3	167	391	313
Net credit impaired non-defaulted loans	8 075	8 988	10 320
Net credit impaired commitments	11 977	24 225	16 174

Note 8 – Exposure on loans

	30.6.2021	30.6.2020	31.12.2020
Retail market	492 694	417 333	463 853
Corporate market			
Agriculture and related services	74 705	69 867	70 424
Forestry and related services	432	466	449
Fishing and hunting	1 857	2 040	1 949
Industry	10 530	8 851	9 972
Construction activities otherwise	-	-	-
Retail, rep. of motor vehicles	4 057	7 888	9 481
Transport otherwise and storage	570	194	590
Accommodation and catering activities	14	431	237
Information and communication	85	-	94
Sale and operation of real estate	73 342	58 784	58 832
Professional services	8 897	10 310	2 865
Business services	4 119	1 864	1 859
Service industries otherwise	175 541	193 610	182 012
Total	846 843	771 638	802 618

Note 9 – Capital adequacy

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Saving bank's fund	4 173	4 173	4 173	4 100	4 100
Fund for unrealised gains	3 845	3 845	3 845	3 132	3 132
Equalisation fund	19 555	19 555	19 555	17 093	17 093
Equity certificate	85 308	85 308	85 308	85 308	85 308
Own holdings of equity certificates	-1 001	-1 001	-1 001	-1 001	-1 001
Total equity	111 880	111 880	111 880	108 632	108 632
Deduction for intangible assets	-1 217	-1 121	-1 140	-131	-150
Deduction for prudent valuation	-470	-396	-319	-364	-374
Deduction for investment in other financial institutions	-	-	-	-1 726	-1 552
Total tier 1 capital	110 193	110 363	110 421	106 411	106 556
Subordinated bond capital	14 615	14 859	15 104	14 287	14 524
Total tier 1 capital	124 808	125 222	125 525	120 698	121 080
Subordinated loan	-	-	-	-	-
Total subordinated capital	124 808	125 222	125 525	120 698	121 080

Calculation basis by exposure category

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
States and central banks	-	-	-	-	-
Local and regional authorities	8 013	6 307	8 018	8 017	4 012
Multilateral development banks	-	-	-	-	-
Publicly owned enterprises	-	-	-	-	-
Institutions	6 723	7 313	7 203	8 855	8 840
Enterprises	54 577	59 590	58 929	44 258	42 315
Commitments with mortgage security in real estate	328 821	332 185	314 614	316 280	309 230
Overdue commitments	12 401	12 315	8 697	16 273	19 945
Bonds with preferential rights	21 143	21 143	17 911	18 121	19 114
Other commitments	25 146	19 035	25 576	29 454	28 931
Total calculation basis credit risk	456 825	457 888	440 947	441 258	432 387
Operational risk	58 331	58 331	54 765	54 765	54 765
Currency risk	7 684	21 184	22 102	8 387	8 062
Total calculation basis	522 839	537 404	517 814	504 410	495 214

Common equity tier 1 capital in %	21.08	20.54	21.32	21.10	21.52
Tier 1 capital in %	23.87	23.30		23.93	24.45
Capital adequacy	23.87	23.30	24.24	23.93	24.45

Note 10 – Off-balance sheet liabilities

	30.6.2021	30.6.2020	31.12.2020
Guarantees	4 804	4 549	18 680
Unused credit facilities	10 911	14 779	14 390
Loan commitments	60 076	86 372	66 620

Note 11 – Transactions between related parties

The bank has no transactions to report for the period.

Note 12 – Debt securities issued

Subordinated bond capital

ISIN	Borrowing	First recall date	Nominal value	Interest terms	Book value 30.6.2021	Book value 31.12.2020
N00010837073	23.11.2018	23.11.2023	NOK 15. mill.	3m Nibor + 600 bp	14 615	15 104

Changes in securities debt during the period:

	Balance 31.12.2020	Issued 30.6.2021	Due/ Redeemed 30.6.2021	Change in own holdings 30.6.2021	Other changes 30.6.2021	Balance 30.6.2021
Subordinated bond capital	15 104	-	-	-	-489	14 615

Note 13 – Categories of financial instruments

Financial assets	Amortised cost	Fair value through other comprehensive income	Total
Cash and cash equivalents	-	-	-
Lending to and receivables from credit institutions	68 182	-	68 182
Lending to customers	845 446	-	845 446
Interest-bearing securities	-	457 567	457 567
Shares, participations and other equity instruments	-	12 056	12 056
Total financial assets	913 628	469 623	1 383 251

Financial debt	Amortised cost	Fair value through other comprehensive income	Total
Debt to credit institutions	109	-	109
Deposits from customers	1 254 121	-	1 254 121
Total financial debt	1 254 230	-	1 254 230

Note 14 – Fair value of financial instruments

Fair value and book value of financial assets and debt recognised at amortised cost as of 30.6.2021

	Book value	Fair value
<u>Assets</u>		
Cash	-	-
Receivables from credit institutions and central banks	68 182	68 182
Lending to customers	845 446	845 446
Total assets valued at amortised cost	913 628	913 628
<u>Debt</u>		
Debt to credit institutions	109	109
Deposits from customers	1 254 121	1 254 121
Total debt valued at amortised cost	1 254 230	1 254 230

Level breakdown of financial instruments at fair value through other comprehensive income as of 30.6.2021

The valuation of financial instruments is classified into different levels based on the quality of market data for the individual type of instrument.

Level 1 - Valuation based on prices in an active market

Level 1 contains financial instruments that are valued using quoted prices in active markets for identical assets or liabilities. The 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 contains 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 other than observable market data

Level 3 contains 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.

	Level 1	Level 2	Level 3	Total
Interest-bearing securities	457 567	-	-	457 567
Shares, participations and other equity instruments	-	-	12 056	12 056
Total assets	457 567	-	12 056	469 623

Reconciliation of level 3:

Fair value through other comprehensive income

Opening balance 31.03.2021	11 902
Realised gain recognised in the income statement	-
Unrealised gains and losses recognised in the income statement	-
Unrealised gains and losses in other profit components	175
Investment	-
Sales	-21
Closing balance 30.06.2021	12 056

Note 15 – COVID-19

The coronary pandemic broke out in spring 2020 and has led to a significant downturn in the Norwegian economy. After a decline in the number of infections in the early summer and summer of 2020, infections increased over the autumn and winter, slowing down the recovery of activity in the Norwegian economy. The outlook for economic development in 2021 depends to a large extent on how quickly vaccination can be carried out. As an increasing share of the population is vaccinated, it is expected that infection control measures can be reduced and that activity in vulnerable sectors, such as catering, accommodation and culture, will gradually pick up again.

Guarantee scheme

As part of the corona measures, on 27 March 2020 the government established regulations to the Act on State guarantee scheme for loans to small and medium sized enterprises. The guarantee scheme is aimed at companies that have financing from the banks, and which are affected by a decline in turnover and loss of income as a result of the Covid-19 pandemic. With the loan guarantee scheme, banks can provide loans to companies with a government guarantee of 90 per cent of the loan amounts.

As of 30.6.2021, Cultura Sparebank has granted one loan under the guarantee scheme. The bank is in close contact with its customers and will continuously assess applications that satisfy the eligibility requirements for the scheme.

Financial assets

The classification of a financial asset is determined by the business model for the portfolio the instrument is part of, and which contractual cash flows the instrument has. A distinction is made between debt instruments, derivatives and equity instruments. A debt instrument is 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 through profit or loss (FVPL)

Fair value through other comprehensive income (FVOCI)

As of 30.6.2021, 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 through a weaker Norwegian krone and lower interest rates, which has affected the value of interest-bearing securities and equity instruments.

Loss write-downs on loans

However, increased uncertainty related to future loan losses as a result of the pandemic still entails a need for discretionary additions to the model-calculated write-downs in stage 1 and stage 2. The bank has estimated the need for additional write-downs in stage 1 and stage 2 for customers in the corporate market, based on how vulnerable the various industries are considered to be. The bank has chosen to continue the calculation principles for additional write-downs unchanged from the previous quarter, as follows:

The effect of COVID-19 on different sectors and industries is divided into 2 scenarios

1. Scenario 1: Slightly affected (low risk)

2. Scenario 2: Highly affected (high risk)

Each degree of risk represents a potential change in the industry's risk as a result of Covid-19. The need for increased provisions at the sector level is related to the effect of the pandemic. In the adjustment model, assigned an "adjustment factor" in percentage points: The adjustment factor for the individual 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 thus not an assessment of the need for increased individual provisions at the individual customer level.

The scenarios represent a rough estimate of total loan losses. Since the effects of the epidemic and countermeasures are still unclear, the loss estimates will also be associated with uncertainty. In June, Norway entered stage three of the government's plan for gradual recovery, and the bank assesses on this basis that there is a 90% probability of scenario 1, and a 10% probability of scenario 2. The bank is closely monitoring developments and will adjust the impairment estimates as necessary.

Industry	Exposure 30.6.21	Low scenario	Expected loss	High scenario	Expected loss	Total expected loss
Agriculture	77 000	0,25 %	193	1,00 %	770	
Sale and operation of real estate	75 000	0,50 %	375	2,00 %	1 500	
Instruction	72 000	0,00 %	-	2,00 %	1 440	
Health and social work	53 000	0,00 %	-	1,00 %	530	
Cultural activities	10 000	1,00 %	100	3,00 %	300	
Total	287 000		668		4 540	
Probability- weighted loss		90,00 %	601	10,00 %	454	1 055



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