SpareBank 1 SMN

Note 1 - Accounting principles

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SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS) approved by EU, including IAS 34, Interim Financial Reporting. The quarterly accounts do not include all the information required of a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2016. The Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts.

New standards and interpretations not yet implemented
A number of new standards, changes to standards and interpretations are mandatory for future annual accounts. Among those that the group have chosen not to early-implement, are the key standards IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 deals with the recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 will apply as from 1 January 2018 and is approved by the EU. SpareBank 1 SMN will not present comparatives for earlier periods when implementing the standard on 1 January 2018.

Detailed information about the implementation of IFRS 9 at SpareBank 1 SMN can be found in Note 2 in the annual accounts for 2016. The IFRS 9 project has during 2017, as planned, continued its work on parallel calculations of effects and modelling in addition to clarifications with regard to valuation and classification etc. The bank has decided to use three macroeconomic scenarios in order to take account of non-linear aspects of expected loan losses. The various scenarios will be used to adjust relevant parameters for calculating expected loan losses, and a probability-weighted average of expected losses in the respective scenarios will be recognised as loss. SpareBank 1 SMN will calculate the loss provision for assets in stage 1 and 2 under IFRS 9 as the current value of the exposure (EAD) multiplied by probability of default (PD) multiplied by loss given default (LGD). SpareBank 1 SMN has grouped the loans into three portfolios and undertakes a projection over a five-year period for each portfolio.

At SpareBank 1 SMN the definition of significant change in credit risk is based on a combination of quantitative and qualitative indicators as well as a backstop. The most important driver of a significant change in credit risk is a quantitative change in PD on the balance sheet date compared with PD upon initial recognition. A change in PD of more than 150 per cent is considered to be a significant change in credit risk. In addition, the change in PD must at minimum be more than 0.6 percentage points. Customers with payments more than 30 days overdue will invariably be moved to stage 2.

A qualitative assessment is made in addition based on whether the exposure has a significantly increased credit risk if placed under special surveillance.

Losses calculated under IFRS 9 increase by NOK 37 million for the parent bank and NOK 40 million for the group compared with IAS 39. The effect will be entered against equity upon implementation on 1 January 2018. A tax deduction is calculated for the loss provision such that the net effect is NOK 28 million for the parent bank and NOK 31 million for the group.

The group has assessed the effects of IFRS 15 Revenues from Contracts with Customers and IFRS 16 Leases, and does not expect a significant impact when implementing these standards.

Hybrid capital
SpareBank 1 SMN has from and including the fourth quarter of 2017 reclassified two debt hybrids from debt to equity. The instruments were reclassified since they do not meet the definition of a financial liability under IAS 32. The obligations are perpetual and SpareBank 1 SMN is entitled not to pay interest to the investors. The interest is presented not as an interest expense through profit and loss, but as a reduction in equity. The change has entailed an overall reduction of NOK 44 million in interest expenses in 2017. Comparatives for 2016 are restated as shown below.

Effects of the restatement

2016	Parent bank: Reported previously	Parent bank: Correction Tier 1 capital	Parent bank: Restated	Group: Reported previously	Group: Correction Tier 1 Capital	Group: Restated
Profit/Loss						
Interest expenses	1,717	-45	1,672	1,714	-45	1,668
Tax expense	290	11	302	341	11	352
Profit after tax	1,655	34	1,689	1,647	34	1,681
Balance scheet						
Subordinated loan capital	3,140	-954	2,186	3,182	-954	2,228
Additional Tier 1 Capital	0	950	950	0	950	950