

## Note 1 - Accounting principles

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 in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2016. Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts.

### **New or revised accounting standards approved but not yet implemented**

A number of standards and interpretations are mandatory for future annual accounts. Among those that the group have chosen not to early-implement, but whose entry into force is scheduled for a future date, are IFRS 9 Financial instruments, IFRS 15 Revenues and IFRS 16 Leases.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 deals with 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. Early application of the standard is permitted. SpareBank 1 SMN will not avail itself of that opportunity. SpareBank 1 SMN will not present comparable figures for earlier periods when implementing the standard on 1 January 2018.

Detailed information about the implementation of IFRS 9 can be found in Note 2 in annual accounts for 2016.

The IFRS 9 project has during 2017 as planned continued the work with impairment parallel run, and modelling in addition to clarifications about valuation and classification. The Bank has decided to use three macroeconomic scenarios in order to take into account the non-linear aspects of expected loan losses. The various scenarios will be used to adjust the current parameters for calculating the expected loan losses, and a probability-weighted average of the expected losses in the respective scenario will be recognised as a provision.

SpareBank 1 SMN has decided to utilise both absolute and relative changes in probability of default (PD) as criteria for significant increase in credit risk. The focus during the remainder of 2017 will continue to be on the finalisation of processes, governance, testing and calibration of models, quantification of impacts and internal education.

Based on work performed thus far, significant effects related to the transition to IFRS 9 is still not expected. This is true both of possible effects from changes in classification and measurement as well as from changes to the methodology for loss write-downs.

The group has made an assessment of the effects of IFRS 15 Revenues and IFRS 16 Leases, and does not expect significant impact when implementing these standards.