

## Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 3 Critical estimates and assessments concerning the use of accounting principles.

### Pensions

The Group has not obtained a new calculation of pensions as of 30 September since no factors have been identified that significantly alter the pension liability. For a further description of the various pension schemes, see note 22 in the 2019 annual report.

### Investment held for sale

SpareBank 1 SMN's strategy is that ownership due to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts, and is classified as investment held for sale.

2020 Q3 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	42		1	3	3	100 %
<b>Total Held for sale</b>	<b>42</b>		<b>0</b>	<b>3</b>	<b>3</b>	

### Losses on loans and guarantees

For a detailed description of the Bank's model for expected credit losses, refer to note 2 and 3 in the annual accounts for 2019.

The input in the credit loss model have been changed a result of changed expectations due to the corona situation. The crisis and the significant increase in macroeconomic uncertainty have made the assessments extra demanding. The regulators have emphasized the importance of focusing on the expected long-term effects of the crisis and this has also been the bank's focus.

In the first quarter 2020, the bank changed the assumptions for the base scenario in a negative direction. This has been continued in the second and third quarter 2020. In the third quarter the bank's exposure to hotels and tourism, including commercial real estate with the income mainly towards this industry, is separated into a separate portfolio with its own assessments of PD and LGD courses as well as special scenarios and weighting of these to reflect this portfolio's exposure to the effects of corona. In addition, this entire portfolio is included in stage 2 or 3.

The development in the base scenario is prepared using adjustment factors where the development in the business cycle is projected by assumptions about how much the probability of default (PD) or loss of default (LGD) will increase or decrease compared to the base scenario in a five-year period. We expect increased losses related to debtors that have a demanding starting point before the crisis - typically debtors in stage 2. The bank has therefore chosen to increase the trajectories for PD and LGD as well as reduce expected repayments in the base scenario, especially from year 2 onwards, since this will affect expected losses mainly for debtors in stage 2. To adjust for migration into stage 2, PD and LGD estimates are also increased in the first year. No first year repayments are assumed for all portfolios in all scenarios.

The effect of changes in input assumptions is shown as "Effect of changed assumptions in ECL model" in note 7. The effect is NOK 123 million for the bank and 117 million for the Group.

## Sensitivity

The first part of the table below show total calculated expected credit loss as of 30 september 2020 in each of the five scenarios, distributed in the portfolios Retail Market, Corporate Market and offshore, tourism and agriculture, which adds up to parent bank. In addition the subsidiary SpareBank 1 Finans Midt-Norge is included. ECL for the parent bank and the subsidiary is summed up in the column "Group"

The second part of the table show the ECL distributed by portfolio using the scenario weight applied, in addition to a alternative weighting where downside scenaro weight has been doubled. The weights used is different for the offshore and tourism portfolio.

If the downside scenario's probability were doubled at the expense of the baseline scenario at the end of september 2020, this would have entailed an increase in loss provisions of NOK 112 million for the parent bank and NOK 120 million for the group.

	Corporate excl offshore/ agriculture	Retail Market	Offshore	Agriculture	Tourism	Total Parent Bank	SB 1 Finans MN	Group
ECL expected scenario	423	117	858	44	44	1,485	57	1,543
ECL downside scenario	757	344	1,104	100	88	2,393	137	2,530
ECL upside scenario	319	45	727	23	12	1,124	42	1,166
ECL with scenario weights used 80/10/10	446	132		47		625	64	691
ECL with scenario weights used 60/30/10					54	54		54
ECL with scenario weights used 70/15/15			875			875		875
<b>Total ECL used</b>						<b>1,554</b>		<b>1,620</b>
ECL alternative scenario weights 70/20/10	479	155		53		687	72	761
ECL alternative scenario weights 30/60/10					67	67		67
ECL alternative scenario weights 55/30/15			912			912		912
<b>Total ECL alternative weights (double downside)</b>						<b>1,666</b>		<b>1,740</b>
<b>Change in ECL if alternative weights were used</b>	<b>33</b>	<b>23</b>	<b>37</b>	<b>6</b>	<b>13</b>	<b>112</b>	<b>8</b>	<b>120</b>

The Tourism portfolio includes commercial real estate with more than 50% of the income from actors in hotels and tourism companies.

In addition, an ECL provision has been included for the group for the subsidiary SpareBank 1 SMN Spire Finans of NOK 2 million, which is not specified in the table.

The table reflects that there are some significant differences in underlying PD and LGD estimates in the different scenarios and that there are differentiated levels and level differences between the portfolios. At group level, the ECL in the upside scenario, which largely reflects the loss and default picture in recent years, is about 80 per cent of the ECL in the expected scenario. The downside scenario gives about double the ECL than in the expected scenario. Applied scenario weighting gives about 5 percent higher ECL than in the expected scenario.