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

Sparebank1 SMN Group has one pension arrangement; defined contribution plan. For a further description of the various pension schemes, see note 22 in the 2020 annual report.

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.

Investment held for sale

SpareBank 1 SMN's strategy is that ownership duse 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.

SpareBank 1 Kapitalforvaltning, subsidiary of SpareBank 1 Markets, has been presented as Investment held for sale from second quarter 2021 due to the agreement of sale to SpareBank 1 Forvaltning in third quarter of 2021. The result for the first half of the year is included on the line held for sale. Comparables have been restated.

The company SpareBank 1 Forvaltning is owned by the SpareBank1 banks and include the subsidiaries Odin Forvaltning, SpareBank 1 Kapitalforvaltning and SpareBank 1 Verdipapirservice.

Jan-Sept 2021 (NOKm)	**Assets**	**Liabilities**	**Revenue**	**Expenses**	**Profit**	**Ownership**
Mavi XV AS Group	60	1	7	7	-0	100 %
SpareBank 1 Kapitalforvaltning	-	-	36	26	10	
Total Held for sale	**60**	**1**	**43**	**33**	**10**	

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 2020.

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 2020 and in the first nine months of 2021. 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 downside scenario.

The applied scenario weighting was changed in the fourth quarter of 2020 to reflect further increased uncertainty. For corporate market including offshore, as well as agriculture, the downside scenario was changed from a weighting with a 10 percent probability, to a weighting of a 20 percent probability. For retail market, the weighting of the downside scenario was changed from 10 to 15 per cent. This has been continued in first nine months of 2021.

The effect of changes in input assumptions is shown as "Effect of changed assumptions in ECL model" in note 7. The effect is NOK 13 million for the bank and -1 million for the Group.

Sensitivity

The first part of the table below show total calculated expected credit loss as of 30 september 2021 in each of the three 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 coloumn "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.

If the downside scenario's probability were doubled at the expense of the baseline scenario at the end of september 2021, this would have entailed an increase in loss provisions of NOK 318 million for the parent bank and NOK 325 million for the group.

	CM	Retail Market	Offshore	Agriculture	Tourism	Total parent	SB1 Finans MN	Group
ECL base case	421	75	742	33	46	1,316	53	1,369
ECL worst case	949	305	1,465	119	99	2,937	118	3,055
ECL best case	354	39	649	17	12	1,071	39	1,109
ECL with scenario weights used 80/10/10	-	-	-	-	-	-	58	59
ECL with scenario weights used 65/25/15	517	-	872	48	-	1,437	-	1,437
ECL with scenario weights used 60/30/10	-	-	-	-	58	58	-	58
ECL with scenario weights used 70/15/15	-	104	-	-	-	104	-	104
Total ECL used	**517**	**104**	**872**	**48**	**58**	**1,599**	**58**	**1,658**
ECL alternative scenario weights 70/20/10	-	-	-	-	-	-	65	66
ECL alternative scenario weights 45/40/15	622	-	1,017	65	-	1,704	-	1,704
ECL alternative scenario weights 30/60/10	-	-	-	-	74	74	-	74
ECL alternative scenario weights 55/30/15	-	139	-	-	-	139	-	139
Total ECL alternative weights	**622**	**139**	**1,017**	**65**	**74**	**1,917**	**65**	**1,983**
Change in ECL if alternative weights were used	**106**	**35**	**145**	**17**	**16**	**318**	**7**	**325**

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 more than double the ECL than in the expected scenario. Applied scenario weighting gives about 20 percent higher ECL than in the expected scenario.