

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 pension scheme, see note 22 in the 2020 annual report.

The group's pension liabilities are accounted for under IAS 19R. Estimate variances are therefore directly reflected in equity capital and are presented under other comprehensive income.

It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme transferred to the defined contribution scheme from 1 January 2017, and received a paid-up policy showing rights accumulated under the defined benefit scheme. Paid-up policies are managed by the pension fund, which has been a paid-up pension fund as from 1 January 2017. A framework agreement has been established between SpareBank 1 SMN and the pension fund which covers funding, asset management etc. In view of the responsibility still held by SpareBank 1 SMN, future liabilities will need to be incorporated in the accounts. The board of the pension fund is required to be composed of representatives from the Group and participants in the pension schemes in accordance with the articles of association of the pension fund.

A new calculation of the Group's pension liabilities has been carried out as per 31 December 2021:

Actuarial assumptions	31 Dec 2020	1 January 2021	31 Dec 2021
Discount rate	1.50 %	1.50 %	1.60 %
Expected rate of return on plan assets	1.50 %	1.50 %	1.60 %
Expected future wage and salary growth	2.00 %	2.00 %	2.25 %
Expected adjustment on basic amount (G)	2.00 %	2.00 %	2.25 %
Expected increase in current pension	0.00 %	0.00 %	0.00 %
Employers contribution	19.10 %	19.10 %	19.10 %

Demographic assumptions:

Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2% to 50 years, 0% after 50 years

Movement in net pension liability in the balance sheet Group (NOKm)	Funded	Unfunded	Total
Net pension liability in the balance sheet 1.1	-112	10	-102
OCI accounting 1 Jan	-	-	-
OCI accounting 31 December	51	-2	49
Net defined-benefit costs in profit and loss account	-2	0	-1
Paid in pension premium, defined-benefit schemes	-	-	-
Paid in pension premium, defined-benefit plan	-	-1	-1
Net pension liability in the balance sheet 31 December 2021	-62	8	-54

Net pension liability in the balance sheet Group (NOKm)	31 Dec 2021	31 Dec 2020
Net present value of pension liabilities in funded schemes	645	640
Estimated value of pension assets	-701	-743
Net pension liability in the balance sheet before employer's contribution	-56	-104
Employers contribution	1	2
Net pension liability in the balance sheet	-54	-102

Pension cost Group (NOKm)	31 Dec 2021	31 Dec 2020
Present value of pension accumulated in the year	0	0
Net interest income	-2	-3
Net pension cost related to defined plans, incl unfunded pension commitment	-1	-3
Cost of defined contribution pension and early retirement pension scheme	115	107
Total pension cost for the period	113	105

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.

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.

2021 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	59	1	10	11	-1	100 %
SpareBank1 Kapitalforvaltning	-	-	36	26	10	
Total Held for sale	59	1	46	37	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 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 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 18 million for the bank and 5 million for the Group.

Sensitivity

The first part of the table below show total calculated expected credit loss as of 31 december 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 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.

If the downside scenario's probability were doubled at the expense of the baseline scenario at the end of 2021, this would have entailed an increase in loss provisions of NOK 319 million for the parent bank and NOK 326 million for the group.

	CM (excl offshore and agriculture)	RM	Offshore	Agriculture	Tourism	Total parent	SB 1 Finans MN	Group
ECL base case	437	71	559	39	35	1,142	51	1,193
ECL worst case	1,061	298	1,190	91	128	2,768	119	2,887
ECL best case	362	37	471	10	19	899	36	935
ECL with scenario weights used 80/10/10	-	-	-	-	-	-	56	56
ECL with scenario weights used 65/25/15	551	-	672	52	-	1,275	-	1,275
ECL with scenario weights used 60/30/10	-	-	-	-	51	51	-	51
ECL with scenario weights used 70/15/15	-	100	-	-	-	100	-	100
Total ECL used	551	100	672	52	51	1,426	56	1,482
ECL alternative scenario weights 70/20/10	-	-	-	-	-	-	63	63
ECL alternative scenario weights 45/40/15	676	-	798	68	-	1,541	-	1,541
ECL alternative scenario weights 30/60/10	-	-	-	-	70	70	-	70
ECL alternative scenario weights 55/30/15	-	134	-	-	-	134	-	134
Total ECL alternative weights	676	134	798	68	70	1,745	63	1,808
Change in ECL if alternative weights were used	125	34	126	16	19	319	7	326

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 20 percent higher ECL than in the expected scenario.