

## 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 2021 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 2022:

<b>Actuarial assumptions</b>	<b>31 Dec 2021</b>	<b>1 Jan 2022</b>	<b>31 Dec 2022</b>
Discount rate	1.60 %	1.60 %	3.00 %
Expected rate of return on plan assets	1.60 %	1.60 %	3.00 %
Expected future wage and salary growth	2.25 %	2.25 %	3.25 %
Expected adjustment on basic amount (G)	2.25 %	2.25 %	3.25 %
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

<b>Movement in net pension liability in the balance sheet Group (NOKm)</b>	<b>Funded</b>	<b>Unfunded</b>	<b>Total</b>
Net pension liability in the balance sheet 1.1	-62	8	-54
OCI accounting 1 Jan	0	0	0
OCI accounting 31 December	-177	-1	-177
Net defined-benefit costs in profit and loss account	-1	0	-1
Paid in pension premium, defined-benefit schemes	0	0	0
Paid in pension premium, defined-benefit plan	0	-1	-1
<b>Net pension liability in the balance sheet 31 December 2022</b>	<b>-240</b>	<b>6</b>	<b>-234</b>

<b>Net pension liability in the balance sheet Group (NOKm)</b>	<b>31 Dec 2022</b>	<b>31 Dec 2021</b>
Net present value of pension liabilities in funded schemes	577	645
Estimated value of pension assets	-812	-701
Net pension liability in the balance sheet before employer's contribution	-235	-56
Employers contribution	1	1
<b>Net pension liability in the balance sheet</b>	<b>-234</b>	<b>-54</b>

<b>Pension cost Group (NOKm)</b>	<b>31 Dec 2022</b>	<b>31 Dec 2021</b>
Present value of pension accumulated in the year	0	0
Net interest income	-1	-2
Net pension cost related to defined plans, incl unfunded pension commitment	-1	-1
Employer's contribution subject to accrual accounting	0	0
Cost of defined contribution pension and early retirement pension scheme	99	101
<b>Total pension cost for the period</b>	<b>98</b>	<b>100</b>

#### 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.

<b>Income Statement (NOKm)</b>	<b>Fourth Quarter 2022</b>	<b>Fourth Quarter 2021</b>	<b>2022</b>	<b>2021</b>
Net interest	2	4	8	9
Interest on capital employed	-	-	-	-
<b>Total interest income</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>9</b>
Commission income and other income	-162	-170	-515	-691
Net return on financial investments	-46	-45	-273	-216
<b>Total income</b>	<b>-207</b>	<b>-212</b>	<b>-780</b>	<b>-898</b>
Total operating expenses	-163	-160	-574	-633
<b>Result before losses</b>	<b>-61</b>	<b>-51</b>	<b>-206</b>	<b>-254</b>
Loss on loans, guarantees etc.	-	-	-	-
<b>Result before tax</b>	<b>-61</b>	<b>-51</b>	<b>-206</b>	<b>-254</b>
Tax charge	15	10	27	46
<b>Net profit for investment held for sale</b>	<b>46</b>	<b>42</b>	<b>179</b>	<b>208</b>

<b>2022 (NOKm)</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Profit</b>	<b>Ownership</b>
Mavi XV AS Group	75	30	12	11	-0	100 %
SpareBank1 Markets	1,844	1,063	780	601	179	67%
<b>Total Held for sale</b>	<b>1,919</b>	<b>1,093</b>	<b>791</b>	<b>612</b>	<b>179</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 2021.

In 2020 and 2021, the bank changed the model assumptions due to increased uncertainty related to the pandemic. The change consisted of increased loss expectations in the base scenario both for retail and corporate portfolio. These changes were reversed in 2021 for retail customers and in first quarter of 2022 for corporate market portfolio. In addition, the bank's exposure to hotels and tourism in stage 1 was included in stage 2 and this change was reversed in fourth quarter of 2022.

In 2022, increased macroeconomic uncertainty as a result of the war in Ukraine, strong increases in energy and raw material prices, challenges in the supply chains and the prospect of permanently higher inflation and interest rates have led to an increased probability of a low scenario for the corporate market excl. offshore. Future loss expectations have been increased by increased PD and LGD for both the personal market and the corporate market, excl. offshore in the base scenario. The bank has focused on the expected long-term effects of the crisis. For the offshore portfolio, during 2022, as a result of significant improvement in the market and market prospects,

increased earnings assumptions have been used in the simulations and the weight for low scenarios has been reduced for supply and subsea.

The effect of the change in input assumptions in 2022 is shown as "Effect of changed assumptions in the ECL model" in note 7.

The write-downs are reduced as a result of the removal of mark-ups in the base scenario for the business portfolio (excl. offshore and hotels) and reduced mark-ups in PD and LGD paths for hotels (down from a very high level). On the other hand, write-downs are increasing for both the business and personal market portfolio as a result of a new mark-up in PD and LGD lines as a result of a significantly increased interest rate level. In addition, an increased weight on the low scenario for the business portfolio results in increased write-downs. The write-downs are reduced for offshore as a result of increased earnings assumptions and a reduced weight for the low scenario for the most important segments. The write-downs for hotels/tourism are reduced because the assumption of minimum classification in stage 2 was completed in the fourth quarter of 2022.

In total, this amounts to NOK 104 million for the Bank and NOK 86 million for the Group in reduced write-downs.

### Sensitivity

The first part of the table below show total calculated expected credit loss as of 31 December 2022 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 scenario weight has been doubled.

If the downside scenario's probability were doubled at the expense of the baseline scenario at the end of 2022, this would have entailed an increase in loss provisions of NOK 315 million for the parent bank and NOK 343 million for the group.

	CM (excl offshore and agriculture)	RM	Offshore	Tourism	Agriculture	Total parent	SB 1 Finans MN, CM	SB 1 Finans MN, RM	Group
ECL base case	465	80	236	10	47	839	42	22	903
ECL worst case	1,240	268	482	32	191	2,214	89	78	2,381
ECL best case	353	30	195	6	28	612	29	14	654
ECL with scenario weights used 60 /25/15	642	-	-	-	81	723	44	-	767
ECL with scenario weights used 65 /20/15	-	-	279	-	-	279	-	-	279
ECL with scenario weights used 60 /30/10	-	-	-	15	-	15	-	-	15
ECL with scenario weights used 70 /15/15	-	100	-	-	-	100	-	29	129
<b>Total ECL used</b>	<b>642</b>	<b>100</b>	<b>279</b>	<b>15</b>	<b>81</b>	<b>1,117</b>	<b>44</b>	<b>29</b>	<b>1,190</b>
ECL alternative scenario weights 35 /50/15	836	-	-	-	117	952	64	-	1,016
ECL alternative scenario weights 45 /40/15	-	-	328	-	-	328	-	-	328
ECL alternative scenario weights 30 /60/10	-	-	-	23	-	23	-	-	23
ECL alternative scenario weights 55 /30/15	-	129	-	-	-	129	-	37	166
<b>Total ECL alternative weights</b>	<b>836</b>	<b>129</b>	<b>328</b>	<b>23</b>	<b>117</b>	<b>1,432</b>	<b>64</b>	<b>37</b>	<b>1,533</b>
<b>Change in ECL if alternative weights were used</b>	<b>194</b>	<b>28</b>	<b>49</b>	<b>8</b>	<b>36</b>	<b>315</b>	<b>20</b>	<b>8</b>	<b>343</b>

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 70 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 30 percent higher ECL than in the expected scenario.