SpareBank **1**
SMN

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.

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.

From fourth quarter 2022, the subsidiary SpareBank1 Markets is classified as held for sale. On 22 June 2022, SpareBank1 SMN announced that SpareBank1 Markets is strengthening its investment within the capital market and SpareBank1 SR-Bank and SpareBank1 Nord-Norge will be its majority owners. SpareBank1 SR-Bank and SpareBank1 Nord-Norge will transfer their markets business to SpareBank1 Markets, and also buy into the company in the form of a cash consideration. After completion of the transaction, SpareBank1 SMN will own 39.4% and SpareBank1 Markets will be treated as an associated company. The transaction is dependent on approval from the Norwegian Financial Supervisory Authority and the Norwegian Competition Authority, and is planned to be completed in June 2023.

Profit from SpareBank 1 Markets has been reclassified as shown:

Income Statement (NOKm)	First Quarter 2023	First Quarter 2022
Net interest	-7	2
Interest on capital employed	-	-
Total interest income	**-7**	**2**
Commission income and other income	-159	-115
Net return on financial investments	-42	-60
Total income	**-208**	**-174**
Total operating expenses	-164	-133
Result before losses	**-45**	**-41**
Loss on loans, guarantees etc.	-	-
Result before tax	**-45**	**-41**
Tax charge	7	4
Net profit for investment held for sale	**38**	**37**

January - March 2023 (NOK Million)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	75	30	4	4	-0	100 %
SpareBank 1 Markets	1,434	589	208	171	38	67 %
Total Held for sale	**1,509**	**620**	**212**	**174**	**38**	

Losses on loans and guarantees
For a detailed description of the Bank's model for expected credit losses, refer to note 10 in the annual accounts for 2022.

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. In the first quarter of 2023, the write-down models for the offshore portfolio are calculated using the same assumptions as the corporate market with regards to scenario weights, adjustment factors for PD and LGD and repayment assumptions.

The effect of the change in input assumptions in 2023 is shown as "Effect of changed assumptions in the ECL model" in note 7.

The write-downs are reduced for offshore as a result of increased earnings assumptions and a reduced weight for the low scenario. On the other hand, write-downs are increasing for both the business and personal market portfolios as a result of significant increase in interest rates and inflation are expected to increase future levels for PD and LGD lines.

In total, this amounts to NOK 19 million for the Bank and NOK 9 million for the Group in increased write-downs.

Sensitivity
The first part of the table below show total calculated expected credit loss as of 31 March 2023 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 March 2023, this would have entailed an increase in loss provisions of NOK 268 million for the parent bank and NOK 291 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	504	78	152	10	51	796	38	24	857
ECL worst case	1,201	267	262	33	181	1,944	84	82	2,110
ECL best case	348	28	137	5	27	544	25	15	585
ECL with scenario weights used 60 /25/15	655	-	177	15	80	927	44	-	971
ECL with scenario weights used 70 /15/15	-	99	-	-	-	99	-	32	131
Total ECL used	**655**	**99**	**177**	**15**	**80**	**1,026**	**44**	**32**	**1,102**
ECL alternative scenario weights 35 /50/15	829	-	205	21	112	1,167	59	-	1,226
ECL alternative scenario weights 55 /30/15	-	127	-	-	-	127	-	39	167
Total ECL alternative weights	**829**	**127**	**205**	**21**	**112**	**1,294**	**59**	**39**	**1,393**
Change in ECL if alternative weights were used	**174**	**28**	**27**	**6**	**33**	**268**	**15**	**8**	**291**

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.