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 2022 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 2023:

Actuarial assumptions	**31 Dec 2022**	**1 Jan 2023**	**31 Dec 2023**
Discount rate	3.00 %	3.00 %	3.20 %
Expected rate of return on plan assets	3.00 %	3.00 %	3.20 %
Expected future wage and salary growth	3.25 %	3.25 %	3.25 %
Expected adjustment on basic amount (G)	3.25 %	3.25 %	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

Movement in net pension liability in the balance sheet Group (NOKm)	**Funded**	**Unfunded**	**Total**
Net pension liability in the balance sheet 1.1	-240	6	-234
OCI accounting 1 Jan	0	0	0
OCI accounting 31 December	26	0	27
Net defined-benefit costs in profit and loss account	-7	0	-7
Paid in pension premium, defined-benefit schemes	0	0	0
Paid in pension premium, defined-benefit plan	0	-3	-3
Net pension liability in the balance sheet 31 December 2023	**-221**	**4**	**-217**

Net pension liability in the balance sheet Group (NOKm)	31 Dec 2023	31 Dec 2022
Net present value of pension liabilities in funded schemes	558	577
Estimated value of pension assets	-776	-812
Net pension liability in the balance sheet before employer's contribution	-217	-235
Employers contribution	1	1
Net pension liability in the balance sheet	**-217**	**-234**

Pension cost Group (NOKm)	31 Dec 2023	31 Dec 2022
Present value of pension accumulated in the year	0	0
Net interest income	-7	-1
Net pension cost related to defined plans, incl unfunded pension commitment	-7	-1
Employer's contribution subject to accrual accounting	0	0
Cost of defined contribution pension and early retirement pension scheme	124	99
Total pension cost for the period	**117**	**98**

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 SpareBank 1 Markets is classified as held for sale. On 22 June 2022, SpareBank 1 SMN announced that SpareBank 1 Markets is strengthening its investment within the capital market and SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge will be its majority owners. SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge will transfer their markets business to SpareBank 1 Markets, and also buy into the company in the form of a cash consideration. After completion of the transaction, SpareBank 1 SMN will own 39.9 per cent and SpareBank 1 Markets will be treated as an associated company. The transaction is approved from the Norwegian Financial Supervisory Authority and the Norwegian Competition Authority, and was completed in December 2023.

Profit from SpareBank 1 Markets has been reclassified as shown:

	Fourth quarter 2023	Fourth quarter 2022	2023	2022
Net interest	-1	2	-8	8
Commission income and other income	-10	-162	-352	-515
Net return on financial investments	-111	-46	-342	-273
Total income	**-122**	**-207**	**-702**	**-780**
Total operating expenses	-107	-163	-577	-574
Result before tax	**-15**	**-61**	**-125**	**-206**
Tax charge	2	15	18	27
Net profit for investment held for sale	**12**	**46**	**108**	**179**

The profit for fourth quarter 2023 relates to the period up to completing the transaction in December 2023. After the completion, the profit from SpareBank 1 Markets is presented as income from investments in related companies.

2023 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	112	1	15	11	1	100 %
SpareBank1 Markets			702	595	108	67%
Total Held for sale	**112**	**1**	**717**	**609**	**108**	

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 the second quarter of 2023, an upgraded loss model was used for the first time, which provides proposals for key assumptions when using regression analysis and simulation. Future default level (PD) is predicted based on the expected development in money market interest rates and unemployment. In third quarter model parameters have been re-calibrated due to updated information about defaults from 2022. All other tings being equal, this leads to somewhat lower write-downs. The model has been adjusted since previous quarter leading to somewhat higher impairment levels. Future level of loss (LGD) is simulated based on collateral values and expectations of price development for collateral objects i various industries. With SpareBank 1 SMN's assumptions in the upgraded model, write-downs are to a greater extent than previously allocated to industries with large interest-bearing debt such as property, shipping and fisheries. Norges Bank's Monetary Policy Report has been chosen as the main source for the explanatory variables interest rate and unemployment as well as the expected price development of residential property. Management's estimates and discretionary assessments of the expected development of default and loss levels (PD and LGD) were largely based on macro forecasts from Monetary Policy report (PPR) 4/23.

Compared to the previous quarter, both interest rate expectiations and unemployment estimates are decreased leading to lower impairment levels in the base scenario. For the worst case scenario the bank has applied the same input assumptions as Finanstilsynet stress scenario used in macro forecasts in June 2023. This implies a lower interest rate level and lower unemployment level than the bank previously applied, leading to lower impairment levels. The building and construction industry is considered to have increased credit risk and the customers in this industry have as previous quarter been classified in stage 2 or 3.

In 2022, the probability of a low scenario for corporate market excl. offshore increased for several reasons - increased macroeconomic uncertainty as a result of the war in Ukraine, strong increases in energy and raw material prices, challenges in supply chains and prospects for permanently higher inflation and interest rates. Future loss expectations were increased both in 2022 and in the first quarter of 2023 in that PD and LGD pave the way for both the personal market and the corporate market excl. offshore was raised in the base scenario. The bank has focused on the expected long-term effects of a higher interest rate and weaker economic growth. For offshore portfolio, in the course of 2022, as a result of a significant improvement in the market and market prospects, increased earnings assumptions in the simulations and weight for the low scenario were reduced for supply and subsea. From the first quarter of 2023 is the model write-downs for the offshore portfolio calculated with the same assumptions as for the corporate market in general. Expected credit loss (ECL) per 31 December 2023 was calculated as a combination of 80 per cent expected scenario, 10 per cent downside scenario and 10 percent upside scenario (80/10/10 percent). This results in lower impairment levels compared to previous quarter where the weighting was 75/15/10 for corporate market and 701/15/15 for the retail market.

The effect of the change in input assumptions in 2023 is shown as "Effect of changed assumptions in the ECL model" in note 8. The write-downs are increased in parts of the corporate market and retail market due to significantly increased interest rates and price growth is expected to increase future levels of PD and LGD. Changes in scenario weights as described above reduces write-downs.In total, this amounts to NOK 4 million for the Bank and NOK 29 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 2023 in each of the three scenarios, distributed in the portfolios Retail Market, Corporate Market 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 2023, this would have entailed an increase in loss provisions of NOK 108 million for the parent bank and NOK 126 million for the group.

	CM	RM	Agriculture	**Total parent**	SB 1 Finans MN, CM	SB 1 Finans MN, RM	**Total group**
ECL base case	624	85	68	**777**	39	21	**838**
ECL worst case	1,366	253	243	**1,862**	158	82	**2,102**
ECL best case	376	44	32	**452**	18	12	**482**
ECL with scenario weights used 80/10/10	673	98	82	**853**	49	26	**928**
ECL alternative scenario weights 70/20/10	748	115	99	**962**	61	32	**1,055**
Total ECL used	**74**	**17**	**18**	**108**	**12**	**6**	**126**

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 60 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 10 percent higher ECL than in the expected scenario.