

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

Sparebank 1 SMN Group has one pension arrangement; defined contribution plan. For a further description of the pension scheme, see note 22 in the 2023 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 not been carried out as per 30 September 2024.

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.

January - September 2024 (NOK Million)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	195	1	9	11	-2	100 %
Total Held for sale	195	1	9	11	-2	

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 2023.

Measurement of expected credit loss for each stage requires both information on events and current conditions and information on expected events and future economic conditions. Estimation and use of forward-looking information requires a high degree of discretionary judgement. Each macroeconomic scenario that is utilised includes a projection for a five-year period. For credits where credit risk is assessed to have increased significantly since loan approval (stage 2), loss estimates for the period after year 5 are based on year 5 as regards level of PD and LGD.

Our estimate of expected credit loss at stage 1 and 2 is a probability-weighted average of three scenarios: Base Case, Best Case and Worst Case. The model that computes model write-downs is based on two macro variables – interest rate level (three-month NIBOR) and unemployment (Statistics Norway's Labour Force Survey, AKU). The assumptions in the baseline scenario are based on the assumptions in Norges Bank's Monetary Policy Report 3/24. Updated macro assumptions this quarter have had little effect on the level of write-downs. The downside scenario features high interest rates and high unemployment, which are largely based on Finanstilsynet's stress test reported in Financial Outlook, June 2023. The upside scenario features low interest rates and low unemployment.

Calculation of the group's overall model write-downs is based on calculations of expected credit loss (ECL) for each of five portfolios below. For each portfolio, separate assumptions are defined with regard to how the macro variables 'interest rate' and 'unemployment' impact PD and LGD. The relationships between the macro variables are developed using of regression analysis and simulation, while the relationships between the macro variables and LGD are based largely on expert assessments and discretionary judgement. The five portfolios are:

- Residential mortgages
- Other retail loans
- Agriculture

- Industries with large balance sheets / high long-term debt ratios (real estate, shipping, offshore, aquaculture, fishery)
- Industries with smaller balance sheets / low long-term debt ratios (other industries)

The criteria for classification in stage 2 ("significantly increased credit risk since approval") have not been changed in the quarter. The customers in building and construction industry (including industries closely linked to the building and construction sector) and some fishery segments are generally considered to have acquired significantly increased credit risk since loan approval and customers in this industry are accordingly classified to stage 2 or 3.

ECL as at 30 September 2024 is calculated as a combination of 80 per cent expected scenario, 10 per cent downside scenario and 10 per cent upside scenario (80/10/10 pct).

The effect of the change of assumptions in 2024 is shown in the line "Effect of changed assumptions in the ECL model" in note 7. The model write-downs are reduced both for the retail and the corporate portfolio due to the recalibration of the calculation model. Overall, for the first nine months this amounts to NOK 36 m for the bank and NOK 57 m for the group in terms of reduced write-downs.

Sensitivity

The first part of the table below show total calculated expected credit loss as of 30 September 2024 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 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 2024, this would have entailed an increase in loss provisions of NOK 140 million for the parent bank and NOK 163 million for the group.

	CM	RM	Agriculture	Total parent	SB 1 Finans MN, CM	SB 1 Finans MN, RM	Total group
ECL base case	613	97	79	789	40	16	845
ECL worst case	1,589	290	313	2,193	196	83	2,472
ECL best case	409	59	48	517	19	10	546
ECL with scenario weights used 80/10/10	690	113	99	902	53	23	978
ECL alternative scenario weights 70/20/10	788	132	123	1,043	69	29	1,141
Total ECL used	98	19	23	140	19	7	163

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 over double the ECL than in the expected scenario. Applied scenario weighting gives about 16 percent higher ECL than in the expected scenario.

Car subscription company Fleks

The board of directors of Fleks filed for bankruptcy on 13 May 2024. SpareBank 1 SMN and other SpareBank 1 banks owned, through SpareBank 1 Mobilitet Holding, 47.2 per cent of the company. With a view to ensuring a controlled disposal of the business, SpareBank 1 Finans Midt-Norge took over Fleks Green Fleet 01, which was previously a subsidiary of Fleks.

In the second quarter of 2024 this company was consolidated into SpareBank 1 SMN's group accounts based on preliminary assessments of the agreements which had been entered into between the previous owners. Over the course of the third quarter 2024 new assessments were made which concluded that consolidation of this company was not correct under the provisions of IFRS 10. As from the third quarter the company is accordingly not consolidated but treated as a company under joint control in accordance with the equity method. Historical figures for the second quarter of 2024 are restated.

Income Statement (NOKm)	Second quarter 2024	Effect of Fleks GF	Second quarter 2024 restated
Other operating income	323	- 18	305
Net commision and other income	698	- 18	680
Other operating expenses	334	- 18	316
Total operating expenses	818	- 18	801
Pretax income	1 296	0	1 296