

Note 10 - Losses on loans and guarantees

Accounting Policy

Loan loss provisions are recognised based on expected credit loss (ECL). The general model for provisions for loss of financial assets in IFRS 9 applies to both financial assets measured at amortised cost and to financial assets at fair value with changes in value through profit or loss, which are not impaired when purchased or issued. In addition, unused credit, loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss are also included.

Measurement of the provision for expected loss depends on whether credit risk has increased significantly since first-time recognition. Upon first-time recognition, and when credit risk has not increased significantly since first-time recognition, provision shall be made for expected loss occurring due to defaults that occur within 12 months.

If credit risk has risen significantly, provision shall be made for expected loss across the entire life. Loss estimates are prepared quarterly, and build on data in the data warehouse which has historical accounting and customer data for the entire credit portfolio. The bank uses three macroeconomic scenarios to take into account non-linear aspects of expected losses. The various scenarios are used to adjust relevant parameters for calculating expected losses, and a probability-weighted average of expected losses under the respective scenarios is recognised as a loss.

Loss estimates are computed based on 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains historical data for observed PD and observed LGD. This forms the basis for estimating future values for PD and LGD. In keeping with IFRS 9 the bank groups its loans in three stages.

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have significantly higher credit risk than at first-time recognition receive a loss provision corresponding to 12 months' expected loss. All assets that are not transferred to stage 2 or 3 reside in this category.

Stage 2:

Stage 2 of the loss model encompasses assets that show a significant increase in credit risk since first-time recognition, but where objective evidence of loss is not present. For these assets a provision for expected loss over the entire lifetime is to be made. In this group we find accounts with a significant degree of credit deterioration, but which at the balance sheet date belong to customers classified as performing. As regards delineation against stage 1, the bank defines 'significant degree of credit deterioration' by taking a basis in whether the exposure's calculated probability of default shows a significant increase. SpareBank 1 SMN has decided to utilise both absolute and relative changes in PD as criteria for transfer to stage 2. The most important factor for a significant change in credit risk is the quantitative change in PD on the period end compared to the PD at first time recognition. A change in PD by more than 150 per cent is considered to be a significant change in credit risk. The change will have to be over 0.6 percentage points. In addition, customers with payments 30 days past due will be transferred to stage 2. A qualitative assessment is also done when engagements have been put on watch list or given forbearance.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has transferred to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1. The same applies to assets in stage 3, if the basis for the placement in stage 3 is no longer present, the asset will be migrated to stage 1 or 2.

Stage 3:

Stage 3 of the loss model encompasses assets that show a significant increase in credit risk since loan approval and where there is objective evidence of loss at the balance sheet date. For these assets a provision shall be made for expected loss over the entire lifetime. These are assets which under previous rules were defined as defaulted and written down.

Impairment must be a result of one or more events occurring after first-time recognition (a loss event), and it must be possible to measure the result of the loss event(s) reliably. Objective evidence of impairment of a financial asset includes observable data which come to the group's knowledge on the following loss events:

- significant financial difficulties on the part of the issuer or borrower
- a not insignificant breach of contract, such as failure to pay instalments and interest
- the group grants the borrower special terms in light of financial or legal aspects of the borrower's situation
- the debtor is likely to start debt negotiation or other financial restructuring

The group assesses first whether individual objective evidence exists that individually significant financial assets have suffered impairment. Where there is objective evidence of impairment, the size of the impairment is measured as the difference between the asset'

s carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through a provision account and the loss is recognised in the income statement.

Defaulted or non-performing loans

Default is defined in two categories: 1) payment default or 2) default based on manual default marking.

1) Payment default is defined as material payment arrears or overdrafts of more than 90 days' duration. Threshold values for material arrears or overdrafts are set out in the Norwegian CRR/CRD IV regulations.

2) Default resulting from manual default marking is based to a larger degree on individual credit assessments, and to a lesser degree on automatic mechanisms. Events included in this category are provision for loss on a customer loan, bankruptcy/debt restructuring, forbearance assessments, deferment of interest and instalment payments for more than 180 days, or other indications suggesting considerable doubt as to whether the borrower will perform his obligations.

The new default definition entails the introduction of a 'waiting period' during which borrowers are categorised as still in default after the default has been rectified. The waiting period is three months or 12 months depending on the underlying cause of the default.

Furthermore, rules on default marking at group level are introduced whereby corporate customers in default to a group company (e.g. SpareBank 1 SMN Finans Midt-Norge) will also be considered to be in default to the bank. For personal customers, threshold values are specified for default contagion in the group. Where a defaulted exposure exceeds 20 per cent of total exposure, the exposure will be considered to be in default at group level.

Actual loan losses

Write-down for actual losses (derecognition of book value) are made when the bank has no reasonable expectations to recover the asset in its whole or partially. Criteria for write-down are as follows:

- Closed bankruptcy in limited liability companies
- Confirmed chord / debt negotiations
- Settlement for other companies with limited liability
- Ended living at death
- By lawful judgment
- Collateral is realized

The commitment will normally be placed on long-term monitoring in case the debtor should again become solvent and suable.

Financial guarantees issued

Financial guarantees are contracts that require the bank to reimburse the holder for a loss due to a specific debtor failure to pay in accordance with the terms is classified as issued financial guarantees. On initial recognition of issued financial guarantees, the guarantees are recognised in the balance sheet at the received consideration for the guarantee. Subsequent measurement assesses issued financials

guarantees to the highest amount of the loss provision and the amount that was recognised at initial recognition less any cumulative income recognised in the income statement. When issuing financial guarantees, the consideration for the guarantee is recognised under "Other liabilities" in the balance sheet. Revenue from issued financial guarantees and costs related to purchased financial guarantees is amortised over the duration of the instrument and presented as "Commission income" or "Commission expenses". Changes in expected credit losses are included in the line «Losses on loans and guarantees» in the income statement.

Loan commitments

Expected credit losses are calculated for loan commitments and presented as "Other liabilities" in the balance sheet. Changes in the provision for expected losses are presented in the line «Losses on loans and guarantees» in the income statement. For instruments that have both a drawn portion and an unutilised limit, expected credit losses are distributed pro-rata between provisions for loan losses and provisions in the balance sheet based on the relative proportion of exposure.

Losses on loans and guarantees Parent Bank (NOKm)	2022			2021		
	RM	CM	Total	RM	CM	Total
Change in provision for expected credit losses	29	-97	-68	-11	39	27
Actual loan losses on commitments exceeding provisions made	7	38	45	10	107	117
Recoveries on commitments previously written-off	-7	-7	-14	-9	-1	-10
Losses for the period on loans and guarantees	29	-66	-37	-10	145	134

Group (NOKm)	2022			2021		
	RM	CM	Total	RM	CM	Total
Change in provision for expected credit losses	38	-86	-48	-20	50	30
Actual loan losses on commitments exceeding provisions made	13	45	58	30	112	142
Recoveries on commitments previously written-off	-7	-10	-17	-9	-3	-12
Losses for the period on loans and guarantees	44	-51	-7	1	159	161

Parent Bank (NOKm)	1 Jan 22	Change in provision	Net write-offs /recoveries	31 Dec 22
Loans as amortised cost- CM	1,298	-98	-278	921
Loans as amortised cost- RM	31	10	-5	35
Loans at fair value over OCI- RM	128	19	-	147
Loans at fair value over OCI- CM	1	1	-	2
Provision for expected credit losses on loans and guarantees	1,458	-68	-284	1,106
Presented as				
Provision for loan losses	1,348	-65	-284	999
Other debt- provisions	79	-12	-	67
Other comprehensive income - fair value adjustment	31	9	-	40

Parent Bank (NOKm)	1 Jan 21	Change in provision	Net write-offs /recoveries	31 Dec 21
Loans as amortised cost- CM	1,377	38	-117	1,298
Loans as amortised cost- RM	35	8	-12	31
Loans at fair value over OCI- RM	147	-19	-	128
Loans at fair value over OCI- CM	0	1	-	1
Provision for expected credit losses on loans and guarantees	1,559	27	-129	1,458
Presented as				
Provision for loan losses	1,446	30	-129	1,348
Other debt- provisions	81	-2	-	79
Other comprehensive income - fair value adjustment	32	-1	-	31

Group (NOKm)	1 Jan 22	Change in provision	Net write-offs /recoveries	31 Dec 22
Loans as amortised cost- CM	1,343	-88	-280	976
Loans as amortised cost- RM	49	19	-5	63
Loans at fair value over OCI- RM	128	19	-	147
Loans at fair value over OCI- CM	1	1	-	2
Provision for expected credit losses on loans and guarantees	1,520	-48	-285	1,188
Presented as				
Provision for loan losses	1,410	-45	-285	1,081
Other debt- provisions	79	-12	-	67
Other comprehensive income - fair value adjustment	31	9	-	40

Group (NOKm)	1 Jan 21	Change in provision	Net write-offs /recoveries	31 Dec 21
Loans as amortised cost- CM	1,421	50	-128	1,343
Loans as amortised cost- RM	62	-1	-12	49
Loans at fair value over OCI- RM	147	-19	-	128
Loans at fair value over OCI- CM	0	1	-	1
Provision for expected credit losses on loans and guarantees	1,630	30	-140	1,520
Presented as				
Provision for loan losses	1,517	33	-140	1,410
Other debt- provisions	81	-2	-	79
Other comprehensive income - fair value adjustment	32	-1	-	31

Accrual for losses on loans

Parent Bank (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail market								
Opening balance	39	82	36	156	35	97	47	180
Transfer to (from) stage 1	18	-18	-0	-	20	-20	-0	-
Transfer to (from) stage 2	-2	2	-0	-	-2	2	-0	-
Transfer to (from) stage 3	-0	-6	6	-	-1	-6	7	-
Net remeasurement of loss allowances	-24	20	7	4	-22	24	-3	-1
Originations or purchases	17	24	4	45	19	17	1	37
Derecognitions	-12	-24	-3	-39	-12	-32	-4	-48
Changes due to changed input assumptions	9	13	-2	20	1	-0	-	1
Actual loan losses	0	0	-5	-5	-	-	-12	-12
Closing balance	46	93	42	181	39	82	36	156
Corporate Market								
Opening balance	84	268	871	1,223	88	387	823	1,299
Transfer to (from) stage 1	75	-74	-1	-	15	-15	-	-
Transfer to (from) stage 2	-5	97	-92	-	-5	5	-	-
Transfer to (from) stage 3	-1	-3	4	-	-2	-26	28	-
Net remeasurement of loss allowances	-67	-35	-66	-168	-26	26	38	39
Originations or purchases	49	34	4	87	32	21	100	153
Derecognitions	-33	-31	-24	-88	-20	-145	-1	-166
Changes due to changed input assumptions	37	41	4	83	1	14	-	15
Actual loan losses	-	-	-278	-278	-	-	-117	-117
Closing balance	138	298	421	858	84	268	871	1,223
Total accrual for loan losses	184	391	463	1,039	123	350	907	1,379

Group (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail market								
Opening balance	45	89	40	174	42	107	58	207
Transfer to (from) stage 1	20	-20	-0	-	22	-22	-0	-
Transfer to (from) stage 2	-3	3	-1	-	-2	3	-0	-
Transfer to (from) stage 3	-0	-7	7	-	-1	-7	8	-
Net remeasurement of loss allowances	-24	25	8	9	-23	26	-1	2
Originations or purchases	22	30	4	56	22	20	1	43
Derecognitions	-13	-26	-4	-43	-14	-37	-9	-60
Changes due to changed input assumptions	8	13	-3	18	-0	-2	-4	-5
Actual loan losses	-	-	-5	-5	-	-	-12	-12
Closing balance	55	107	47	209	45	89	40	174
Corporate Market								
Opening balance	94	278	896	1,268	98	399	845	1,342
Transfer to (from) stage 1	77	-76	-1	-	20	-20	-0	-
Transfer to (from) stage 2	-7	99	-92	-	-7	7	-0	-
Transfer to (from) stage 3	-2	-3	4	-	-2	-27	29	-
Net remeasurement of loss allowances	-68	-30	-47	-145	-29	31	42	44
Originations or purchases	55	35	5	95	35	23	112	169
Derecognitions	-34	-33	-26	-93	-21	-146	-2	-169
Changes due to changed input assumptions	35	40	-8	67	-2	12	-2	9
Actual loan losses	-	-	-280	-280	-	-	-128	-128
Closing balance	151	311	450	912	94	278	896	1,268
Total accrual for loan losses	206	418	497	1,121	138	367	936	1,442

Accrual for losses on guarantees and unused credit lines

Parent Bank and Group (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance	19	55	5	79	27	50	4	81
Transfer to (from) stage 1	16	-16	-0	-	6	-6	-0	-
Transfer to (from) stage 2	-1	1	-0	-	-7	7	-	-
Transfer to (from) stage 3	-0	-0	1	-	-0	-1	1	-
Net remeasurement of loss allowances	-16	-3	3	-15	-9	4	0	-4
Originations or purchases	12	6	0	18	7	4	0	11
Derecognitions	-4	-12	-0	-16	-6	-5	-0	-11
Changes due to changed input assumptions	-3	3	0	1	0	2	-	2
Actual loan losses	-	-	-	-	-	-	-	-
Closing balance	24	34	9	67	19	55	5	79
Of which								
Retail market				1				3
Corporate Market				66				79

Provision for credit losses specified by industry

Parent Bank (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agriculture and forestry	4	38	18	60	2	31	6	39
Fisheries and hunting	11	12	0	23	6	7	0	13
Sea farming industries	3	1	1	5	1	0	0	2
Manufacturing	9	47	2	58	5	36	15	56
Construction, power and water supply	26	22	11	59	13	16	14	43
Retail trade, hotels and restaurants	16	14	1	32	8	28	11	46
Maritime sector	19	117	184	320	14	118	555	687
Property management	34	55	28	117	20	50	36	105
Business services	13	24	177	214	13	12	222	247
Transport and other services	9	11	16	36	7	6	17	30
Public administration	0	-	-	0	0	-	-	0
Other sectors	0	0	-	0	0	0	-	0
Wage earners	1	50	25	75	2	47	30	79
Total provision for losses on loans	144	391	463	999	91	350	907	1,348
loan loss allowance on loans at FVOCI	40			40	31			31
Total loan loss allowance	184	391	463	1,039	123	350	907	1,379

Group (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agriculture and forestry	5	40	19	64	3	33	7	42
Fisheries and hunting	11	12	0	23	6	7	0	13
Sea farming industries	4	1	4	9	1	1	1	3
Manufacturing	11	50	8	70	7	38	21	66
Construction, power and water supply	30	25	16	71	16	19	18	53
Retail trade, hotels and restaurants	17	15	2	34	9	28	16	53
Maritime sector	19	117	184	320	14	118	555	687
Property management	35	55	29	118	20	50	36	106
Business services	15	25	184	224	14	14	227	255
Transport and other services	12	16	21	49	8	7	22	37
Public administration	0	-	-	0	0	-	0	0
Other sectors	0	0	0	0	0	0	-	0
Wage earners	8	61	29	99	7	53	34	95
Total provision for losses on loans	166	418	497	1,081	107	367	936	1,410
loan loss allowance on loans at FVOCI	40			40	31			31
Total loan loss allowance	206	418	497	1,121	138	367	936	1,442

Parent Bank (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail Market								
Opening balance	82,299	3,892	444	86,636	73,297	4,430	381	78,108
Transfer to stage 1	1,075	-1,060	-15	-	1,007	-1,002	-6	-
Transfer to stage 2	-1,403	1,411	-8	-	-1,325	1,332	-7	-
Transfer to stage 3	-32	-119	150	-	-61	-87	148	-
Net increase/decrease amount existing loans	-2,501	-106	-15	-2,623	-2,513	-102	-15	-2,630
New loans	38,691	1,418	120	40,229	43,464	1,198	118	44,780
Derecognitions	-37,136	-1,473	-137	-38,746	-31,569	-1,876	-156	-33,601
Financial assets with actual loan losses	0	-1	-11	-12	-0	-1	-20	-21
Closing balance	80,994	3,962	527	85,484	82,299	3,892	444	86,636
Corporate Market								
Opening balance	38,359	5,186	2,656	46,201	35,587	5,979	1,702	43,268
Transfer to stage 1	1,839	-1,820	-19	-	647	-647	-0	-
Transfer to stage 2	-1,699	2,606	-908	-	-1,434	1,434	-	-
Transfer to stage 3	-67	-72	139	-	-43	-593	637	-
Net increase/decrease amount existing loans	-731	-257	-3	-990	-1,202	-196	-39	-1,437
New loans	17,124	1,661	86	18,872	13,125	-550	1,074	13,649
Derecognitions	-11,697	-1,415	-514	-13,625	-8,320	-236	-524	-9,081
Financial assets with actual loan losses	-3	-8	-91	-102	-1	-4	-193	-199
Closing balance	43,127	5,883	1,346	50,356	38,359	5,186	2,656	46,201
Fixed interest loans at FV	4,709			4,709	4,276			4,276
Total gross loans at the end of the period	128,830	9,845	1,874	140,549	124,934	9,079	3,100	137,113

Group (NOKm)	31 Dec 2022				31 Dec 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail Market								
Opening balance	87,577	4,612	531	92,721	78,206	5,208	453	83,867
Transfer to stage 1	1,278	-1,261	-17	-	1,227	-1,221	-6	-
Transfer to stage 2	-1,771	1,784	-13	-	-1,598	1,609	-11	-
Transfer to stage 3	-40	-151	190	-	-74	-132	206	-
Net increase/decrease amount existing loans	-2,177	-170	-25	-2,372	-2,599	-154	-28	-2,782
New loans	41,570	1,801	129	43,500	46,190	1,465	125	47,781
Derecognitions	-39,465	-1,714	-150	-41,329	-33,775	-2,161	-189	-36,125
Financial assets with actual loan losses	-0	-1	-11	-12	-0	-1	-20	-21
Closing balance	86,972	4,901	635	92,508	87,577	4,612	531	92,721
Corporate Market								
Opening balance	41,855	5,768	2,759	50,382	38,107	6,587	1,802	46,496
Transfer to stage 1	2,090	-2,045	-45	-	879	-876	-2	-
Transfer to stage 2	-2,042	2,959	-917	-	-1,795	1,797	-1	-
Transfer to stage 3	-97	-88	185	-	-57	-626	683	-
Net increase/decrease amount existing loans	-761	-329	-13	-1,104	-652	-257	-53	-963
New loans	19,085	1,751	109	20,945	14,533	-455	1,085	15,164
Derecognitions	-12,507	-1,546	-577	-14,629	-9,159	-397	-561	-10,117
Financial assets with actual loan losses	-3	-8	-91	-102	-1	-4	-193	-199
Closing balance	47,621	6,460	1,410	55,491	41,855	5,768	2,759	50,382
Fixed interest loans at FV	4,631			4,631	4,198			4,198
Total gross loans at the end of the period	139,224	11,361	2,044	152,629	133,630	10,381	3,290	147,301