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 occuring 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.

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.

Parent Bank (NOKm)	2023 RM	2023 CM	2023 Total	2022 RM	2022 CM	2022 Total
Change in provision for expected credit losses	4	-59	-55	29	-97	-68
Actual loan losses on commitments exceeding provisions made	11	146	157	7	38	45
Recoveries on commitments previously written-off	-21	-153	-174	-7	-7	-14
Losses for the period on loans and guarantees	**-6**	**-66**	**-72**	**29**	**-66**	**-37**

Group (NOKm)	2023 RM	2023 CM	2023 Total	2022 RM	2022 CM	2022 Total
Change in provision for expected credit losses	1	-7	-6	38	-86	-48
Actual loan losses on commitments exceeding provisions made	47	168	215	13	45	58
Recoveries on commitments previously written-off	-40	-155	-195	-7	-10	-17
Losses for the period on loans and guarantees	**8**	**6**	**14**	**44**	**-51**	**-7**

In 2023, the Group has written off NOK 296 million, which are still subject to enforcement activities, the corresponding figure for 2022 was NOK 193 million.

Parent Bank (NOKm)	1 Jan 23	Merge Søre Sunnmøre	Change in provision	Net write-offs /recoveries	31 Dec 23
Loans as amortised cost- CM	921	32	-101	-181	671
Loans as amortised cost- RM	35	11	2	-5	43
Loans at fair value over OCI- RM	147	-	-10	-	137
Loans at fair value over OCI- CM	2	-	11	-	13
Provision for expected credit losses on loans and guarantees	**1,106**	**43**	**-99**	**-186**	**864**
Presented as					
Provision for loan losses	999	41	-77	-186	776
Other debt- provisons	67	2	-16	-	53
Other comprehensive income - fair value adjustment	40	-	-5	-	36

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- provisons	79	-12	-	67
Other comprehensive income - fair value adjustment	31	9	-	40

Group (NOKm)	1 Jan 2023	Merge Søre Sunnmøre	Change in provision	Net write-offs /recoveries	31 Dec 2023
Loans as amortised cost- CM	976	32	-44	-181	777
Loans as amortised cost- RM	63	11	-1	-5	68
Loans at fair value over OCI- RM	147	-	-10	-	137
Loans at fair value over OCI- CM	2	-	11	-	13
Provision for expected credit losses on loans and guarantees	**1,188**	**43**	**-44**	**-186**	**995**
Presented as					
Provision for loan losses	1,081	41	-23	-186	907
Other debt- provisons	67	2	-16	-	53
Other comprehensive income - fair value adjustment	40	-	-5	-	36

Group (NOKm)	1 Jan 2022	Change in provision	Net write-offs /recoveries	31 Dec 2022
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- provisons	79	-12	-	67
Other comprehensive income - fair value adjustment	31	9	-	40

Accrual for losses on loans

	31 Dec 2023				31 Dec 2022			
Parent Bank (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Retail market								
Opening balance	46	93	42	181	39	82	36	156
Transfer to (from) stage 1	18	-18	-0	-	18	-18	-0	-
Transfer to (from) stage 2	-3	3	-0	-	-2	2	-0	-
Transfer to (from) stage 3	-0	-8	9	-	-0	-6	6	-
Net remeasurement of loss allowances	-26	19	-5	-12	-24	20	7	4
Originations or purchases	15	20	3	37	17	24	4	45
Derecognitions	-14	-31	-4	-49	-12	-24	-3	-39
Changes due to changed input assumptions	3	16	8	27	9	13	-2	20
Actual loan losses	0	0	-5	-5	-	-	-5	-5
Closing balance	38	95	45	179	46	93	42	181
Corporate Market								
Opening balance	138	298	421	858	84	268	871	1,223
Transfer to (from) stage 1	59	-59	-0	-	75	-74	-1	-
Transfer to (from) stage 2	-14	24	-10	-	-5	97	-92	-
Transfer to (from) stage 3	-1	-5	6	-	-1	-3	4	-
Net remeasurement of loss allowances	-58	11	9	-38	-67	-35	-66	-168
Originations or purchases	90	35	37	163	49	34	4	87
Derecognitions	-52	-68	-15	-136	-33	-31	-24	-88
Changes due to changed input assumptions	-2	31	-62	-33	37	41	4	83
Actual loan losses	-	-	-181	-181	-	-	-278	-278
Closing balance	160	267	205	**633**	138	298	421	858
Total accrual for loan losses	**198**	**363**	**251**	**812**	**184**	**391**	**463**	**1,039**

Group (NOKm)	31 Dec 2023 Stage 1	Stage 2	Stage 3	Total	31 Dec 2022 Stage 1	Stage 2	Stage 3	Total
Retail market								
Opening balance	55	107	47	209	45	89	40	174
Transfer to (from) stage 1	21	-20	-1	-	20	-20	-0	-
Transfer to (from) stage 2	-4	5	-1	-	-3	3	-1	-
Transfer to (from) stage 3	-1	-10	11	-	-0	-7	7	-
Net remeasurement of loss allowances	-28	25	-6	-9	-24	25	8	9
Originations or purchases	19	25	3	47	22	30	4	56
Derecognitions	-17	-34	-7	-58	-13	-26	-4	-43
Changes due to changed input assumptions	-0	14	7	21	8	13	-3	18
Actual loan losses	-	-	-5	-5	-	-	-5	-5
Closing balance	46	111	46	204	55	107	47	209
Corporate Market								
Opening balance	151	311	450	912	94	278	896	1,268
Transfer to (from) stage 1	63	-63	-0	-	77	-76	-1	-
Transfer to (from) stage 2	-18	28	-10	-	-7	99	-92	-
Transfer to (from) stage 3	-1	-6	7	-	-2	-3	4	-
Net remeasurement of loss allowances	-59	22	60	23	-68	-30	-47	-145
Originations or purchases	96	46	38	181	55	35	5	95
Derecognitions	-54	-70	-16	-140	-34	-33	-26	-93
Changes due to changed input assumptions	-5	29	-75	-51	35	40	-8	67
Actual loan losses	-	-	-186	-186	-	-	-280	-280
Closing balance	172	299	268	**739**	151	311	450	912
Total accrual for loan losses	**218**	**410**	**314**	**943**	**206**	**418**	**497**	**1,121**

Accrual for losses on guarantees and unused credit lines

Parent Bank and Group (NOKm)	31 Dec 2023 Stage 1	Stage 2	Stage 3	Total	31 Dec 2022 Stage 1	Stage 2	Stage 3	Total
Opening balance	24	34	9	67	19	55	5	79
Transfer to (from) stage 1	6	-6	-0	-	16	-16	-0	-
Transfer to (from) stage 2	-2	2	-0	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-1	1	-	-0	-0	1	-
Net remeasurement of loss allowances	-13	-4	2	-15	-16	-3	3	-15
Originations or purchases	9	4	0	13	12	6	0	18
Derecognitions	-6	-8	-1	-15	-4	-12	-0	-16
Changes due to changed input assumptions	0	5	-3	2	-3	3	0	1
Actual loan losses	-	-	-	-	-	-	-	-
Closing balance	**18**	**27**	**8**	**53**	**24**	**34**	**9**	**67**
Of which								
Retail market				1				1
Corporate Market				51				66

Provision for credit losses specified by industry

	31 Dec 2023				31 Dec 2022			
Parent Bank (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Agriculture and forestry	3	44	10	57	4	38	18	60
Fisheries and hunting	6	33	-	39	11	12	0	23
Sea farming industries	5	0	0	5	3	1	1	5
Manufacturing	15	31	13	59	9	47	2	58
Construction, power and water supply	46	25	28	99	26	22	11	59
Retail trade, hotels and restaurants	8	13	1	23	16	14	1	32
Maritime sector	7	54	103	164	19	117	184	320
Property management	44	92	22	159	34	55	28	117
Business services	17	16	24	57	13	24	177	214
Transport and other services	10	6	13	29	9	11	16	36
Public administration	0	-	-	0	0	-	-	0
Other sectors	1	0	-	1	0	0	-	0
Wage earners	1	47	35	83	1	50	25	75
Total provision for losses on loans	163	363	251	776	144	391	463	999
loan loss allowance on loans at FVOCI	36			36	40			40
Total loan loss allowance	**198**	**363**	**251**	**812**	**184**	**391**	**463**	**1,039**

	31 Dec 2023				31 Dec 2022			
Group (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Agriculture and forestry	4	46	10	60	5	40	19	64
Fisheries and hunting	6	33	0	39	11	12	0	23
Sea farming industries	6	0	0	6	4	1	4	9
Manufacturing	18	36	13	68	11	50	8	70
Construction, power and water supply	46	42	33	121	30	25	16	71
Retail trade, hotels and restaurants	11	15	2	28	17	15	2	34
Maritime sector	7	54	103	164	19	117	184	320
Property management	45	93	22	160	35	55	29	118
Business services	19	18	78	114	15	25	184	224
Transport and other services	12	11	16	39	12	16	21	49
Public administration	0	-	-	0	0	-	-	0
Other sectors	1	0	-	1	0	0	0	0
Wage earners	8	62	36	106	8	61	29	99
Total provision for losses on loans	183	410	314	907	166	418	497	1,081
loan loss allowance on loans at FVOCI	36			36	40			40
Total loan loss allowance	**218**	**410**	**314**	**943**	**206**	**418**	**497**	**1,121**

Parent Bank (NOKm)	31 Dec 2023 Stage 1	31 Dec 2023 Stage 2	31 Dec 2023 Stage 3	31 Dec 2023 Total	31 Dec 2022 Stage 1	31 Dec 2022 Stage 2	31 Dec 2022 Stage 3	31 Dec 2022 Total
Retail Market								
Opening balance	80,994	3,962	527	85,484	82,299	3,892	444	86,636
Transfer to stage 1	895	-868	-27	-	1,075	-1,060	-15	-
Transfer to stage 2	-1,538	1,557	-18	-	-1,403	1,411	-8	-
Transfer to stage 3	-38	-156	194	-	-32	-119	150	-
Net increase/decrease amount existing loans	-2,305	-95	-6	-2,406	-2,501	-106	-15	-2,623
New loans	42,690	1,549	222	44,460	38,691	1,418	120	40,229
Derecognitions	-29,797	-1,395	-149	-31,342	-37,136	-1,473	-137	-38,746
Financial assets with actual loan losses	0	0	-18	-18	-0	-1	-11	-12
Closing balance	90,901	4,553	725	96,178	80,994	3,962	527	85,484
Corporate Market								
Opening balance	43,127	5,883	1,346	50,356	38,359	5,186	2,656	46,201
Transfer to stage 1	1,026	-1,021	-5	-	1,839	-1,820	-19	-
Transfer to stage 2	-2,669	2,670	-1	-	-1,699	2,606	-908	-
Transfer to stage 3	-72	-44	116	-	-67	-72	139	-
Net increase/decrease amount existing loans	-1,099	-485	-10	-1,594	-731	-257	-3	-990
New loans	17,922	816	351	19,089	17,124	1,661	86	18,872
Derecognitions	-10,901	-828	-335	-12,064	-11,697	-1,415	-514	-13,625
Financial assets with actual loan losses	-7	-2	-298	-307	-3	-8	-91	-102
Closing balance	47,327	6,988	1,165	55,480	43,127	5,883	1,346	50,356
Fixed interest loans at FV	5,582	-	-	5,582	4,709	-	-	4,709
Total gross loans at the end of the period	**143,809**	**11,541**	**1,890**	**157,240**	**128,830**	**9,845**	**1,874**	**140,549**

Group (NOKm)	31 Dec 2023 Stage 1	31 Dec 2023 Stage 2	31 Dec 2023 Stage 3	31 Dec 2023 Total	31 Dec 2022 Stage 1	31 Dec 2022 Stage 2	31 Dec 2022 Stage 3	31 Dec 2022 Total
Retail Market								
Opening balance	86,972	4,901	635	92,508	87,577	4,612	531	92,721
Transfer to stage 1	1,138	-1,108	-30	-	1,278	-1,261	-17	-
Transfer to stage 2	-1,955	1,978	-23	-	-1,771	1,784	-13	-
Transfer to stage 3	-59	-219	277	-	-40	-151	190	-
Net increase/decrease amount existing loans	-2,272	-165	-20	-2,457	-2,177	-170	-25	-2,372
New loans	45,658	1,781	231	47,670	41,570	1,801	129	43,500
Derecognitions	-32,519	-1,694	-227	-34,440	-39,465	-1,714	-150	-41,329
Financial assets with actual loan losses	-0	-0	-18	-18	-0	-1	-11	-12
Closing balance	96,963	5,474	825	103,263	86,972	4,901	635	92,508
Corporate Market								
Opening balance	47,621	6,460	1,410	55,491	41,855	5,768	2,759	50,382
Transfer to stage 1	1,207	-1,199	-8	-	2,090	-2,045	-45	-
Transfer to stage 2	-3,639	3,655	-17	-	-2,042	2,959	-917	-
Transfer to stage 3	-101	-80	180	-	-97	-88	185	-
Net increase/decrease amount existing loans	-1,103	-692	-23	-1,818	-761	-329	-13	-1,104
New loans	19,159	1,339	368	20,866	19,085	1,751	109	20,945
Derecognitions	-11,811	-949	-354	-13,114	-12,507	-1,546	-577	-14,629
Financial assets with actual loan losses	-7	-2	-297	-306	-3	-8	-91	-102
Balance at 31 December	51,327	8,533	1,259	61,119	47,621	6,460	1,410	55,491
Closing balance								
Fixed interest loans at FV	5,480	-	-	5,480	4,631	-	-	4,631
Total gross loans at the end of the period	**153,770**	**14,007**	**2,085**	**169,862**	**139,224**	**11,361**	**2,044**	**152,629**