Changes in equity

(Amounts in NOK million)	PCC capital	Premium Fund	Hybrid capital	Dividend Equalisation Fund	Saving Bank's Fund	Donations Fund	Fair value reserve	Other equity	Period result	Total controlling interests	Non-controlling interests	Total equity
Group												
Equity at 01.01.20	1 807	843	780	3 035	5 990	585	42	1 090		14 172		14 172
Total comprehensive income for the period												
Period result				633	279	453		377		1 742		1 742
Other comprehensive income:												
Share of other comprehensive income from investment in assosiated companies								27		27		27
Net change in fair market value of financial assets available for sale							- 27			- 27		- 27
Actuarial gains (losses) on benefit-based pension schemes								- 1		- 1		- 1
Tax on other comprehensive income												
Total other comprehensive income							- 27	26		- 1		- 1
Total comprehensive income for the period				633	279	453	- 27	403		1 741		1 741
Transactions with owners												
Set aside for dividend payments				- 392						- 392		- 392
Reversal of dividend payments				392						392		392
Dividend paid				- 402						- 402		- 402
Other transactions								9		9		9
Changes in minority interests												
Payments from Donations Fund						- 465				- 465		- 465
Total transactions with owners				- 415	- 15	- 465		4		- 891		- 891
Equity at 31.12.20	**1 807**	**843**	**780**	**3 253**	**6 254**	**573**	**15**	**1 497**		**15 022**		**15 022**
Equity at 01.01.21	1 807	843	780	3 253	6 254	573	15	1 497		15 022		15 022
Total comprehensive income for the period												
Period result									1 041	1 041	7	1 048
Other comprehensive income:												
Share of other comprehensive income from investment in assosiated companies								- 31		- 31		- 31
Net change in fair market value of financial assets available for sale							- 15			- 15		- 15
Actuarial gains (losses) on benefit-based pension schemes									30	30		30
Tax on other comprehensive income									- 8	- 8		- 8
Total other comprehensive income							- 15	- 31	22	- 24		- 24
Total comprehensive income for the period							- 15	- 31	1 063	1 017	7	1 024
Transactions with owners												
Changes in controlling interests								46		46	18	64
Dividend paid				- 128						- 128		- 128
Other transactions								- 6		- 6		- 6
Interests hybrid capital - last year				- 15	- 18			33				
Interests hybrid capital - this year								- 14		- 14		- 14
Payments from Donations Fund						- 148				- 148		- 148
Total transactions with owners				- 143	- 18	- 148		59		- 250	18	- 232
Equity at 30.06.21	**1 807**	**843**	**780**	**3 110**	**6 236**	**425**		**1 525**	**1 063**	**15 789**	**25**	**15 814**

ECC ratio overall

Parent Bank

(Amounts in NOK million)	31.12.20	31.12.19	adjusted for IFRS 9 effects 31.12.18	01.01.18	31.12.17	31.12.16	31.12.15
Equity Certificate capital	1 807	1 807	1 807	1 807	1 807	1 807	1 807
Equity Certificate premium reserve	843	843	843	843	843	843	843
Dividend Equalisation Fund	2 861	2 483	1 798	1 567	1 579	1 310	960
Set aside dividend	392	552	402	402	402	347	201
Share Fund Fair Value Options and other equity	- 2	11	39	46	46	22	69
A. Equity attributable to Equity Certificate holders of the Bank	5 901	5 696	4 889	4 665	4 677	4 329	3 880
The Savings Bank's Fund	6 254	5 816	5 024	4 757	4 770	4 460	4 055
Allocated dividends to ownerless capital	453	639	465	465	465	400	60
Donations	120	120	120	120	120	120	120
Share Fund Fair Value Options and other equity	- 3	14	34	55	55	29	83
B. Total ownerless capital	6 824	6 589	5 643	5 397	5 410	5 009	4 318
Equity Certificate Ratio overall (A/(A+B))	46,36 %	46,36 %	46,36 %	46,36 %	46,36 %	46,36 %	47,33 %
Hybrid capital	780	780	780	530	530		
Total equity	13 505	13 065	11 312	10 592	10 617	9 338	8 198

Cash Flow Statement

Parent Bank 31.12.20	Parent Bank 30.06.21	*Amounts in NOK million*	Group 30.06.21	Group 31.12.20
1 669	**1 540**	Profit before tax	**1 293**	2 102
94	**42**	+ Ordinary depreciation	**51**	109
0	**- 12**	+ Write-downs, gains/losses fixed assets	**- 12**	0
290	**- 63**	+ Losses on loans and guarantees	**- 76**	332
304	**206**	- Tax/Result non-current assetes held for sale	**245**	360
1 749	**1 301**	**Provided from the year's operations**	**1 011**	2 183
807	**- 221**	Change in sundry liabilities: + increase/ - decrease	**- 237**	765
- 582	**592**	Change in various claims: - increase/ + decrease	**599**	- 749
-3 847	**-3 929**	Change in gross lending to and claims on customers: - increase/ + decrease	**-3 863**	-3 791
-2 166	**-2 412**	Change in short term-securities: - increase/ + decrease	**-2 413**	-2 165
5 146	**7 724**	Change in deposits from and debt owed to customers: + increase/ - decrease	**7 714**	5 128
710	**- 775**	Change in debt owed to credit institutions: + increase/ - decrease	**- 773**	709
1 817	**2 280**	**A. Net liquidity change from operations**	**2 038**	2 080
-191	**-26**	- Investment in fixed assets	**- 31**	- 68
0	**12**	+ Sale of fixed assets	**12**	0
-240	**-49**	Payments to group companies and assosiated companies	**- 49**	- 240
62	**-128**	Payment from/Change in values of group companies and assosiated companies	**81**	- 313
- 369	**- 191**	**B. Liquidity change from investments**	**13**	- 621
- 33	**- 14**	Interest to hybrid capital owners	**- 14**	- 33
- 40	**- 23**	Payments to leases	**- 31**	- 51
- 867	**- 276**	- Dividend paid on Ecs/distributions	**- 276**	- 867
-6 699	**-5 423**	Decrease in borrowings through the issuance of securities	**-5 423**	-6 699
5 080	**2 369**	Increase in borrowings through the issuance of securities	**2 369**	5 080
0	**2 254**	Increase in PCC/subordinated loan capital	**2 254**	0
		Payment from non-controlling interests	**46**	
-2 559	**-1 113**	**C. Liquidity change from financing**	**-1 075**	-2 570
-1 111	**976**	A + B + C. Total change in liquidity	**976**	-1 111
1 471	**360**	+ Liquid funds at the start of the period	**360**	1 471
360	**1 336**	**= Liquid funds at the end of the period**	**1 336**	360

Liquid funds are defined as cash-in-hand and claims on central banks.

Reconcilitation of movements of liabilites to cash flows arising from financing activities

Amounts in NOK million	Debt securities	Sub-ordinated liabilites
Balance at 01.01.21	**23 167**	**1 050**
Changes from financing cash flows:		
Reclassified	-2 254	2 254
Proceeds from issue	1 753	
Redeemed	-1 100	
Due excl. redeemed	-1 528	
Total changes from financing cash flows	**-3 129**	**2 254**
The effect of changes in foreign exchange rates	613	
Changes in fair value	- 541	
Changes in accrued interest	3	
Balance at 30.06.21	**20 113**	**3 304**

Result from the Group's quarterly accounts

(Amounts in NOK million)		2Q21	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19
Interest income		**623**	616	631	636	738	922	925	856	797
Interest costs		**121**	143	133	133	223	370	347	316	291
Net interest income		**502**	473	498	503	515	552	578	540	506
Fee- and commission income		**332**	299	323	333	250	255	264	280	260
Fee- and commission costs		**24**	21	29	14	17	22	27	30	24
Other operating income		**56**	72	54	56	50	60	41	40	56
Net fee- and other operating income		**364**	350	348	375	283	293	278	290	292
Dividend		**20**	14	29	2	12	1	1	2	8
Income from investments		**154**	71	85	125	148	196	- 22	44	249
Net gain from investments in securities		**26**	24	- 2	65	103	- 71	5	24	11
Net income from financial investments		**200**	109	112	192	263	126	- 16	70	268
Total income		**1 066**	932	958	1 070	1 061	971	840	900	1 066
Personnel costs		**210**	216	228	217	209	215	225	212	204
Administration costs		**110**	103	111	119	110	121	190	112	116
Ordinary depreciation		**25**	26	27	27	27	28	32	30	29
Other operating costs		**48**	43	66	35	46	40	55	33	40
Total costs		**393**	388	432	398	392	404	502	387	389
Result before losses		**673**	544	526	672	669	567	338	513	677
Losses		**- 23**	- 53	73	58	82	119	- 2	15	15
Net gain from sale of financial fixed assets		**0**	0	0	0	0	0	0	0	0
Result before tax		**696**	597	453	614	587	448	340	498	662
Tax		**121**	124	79	117	100	64	91	109	105
Defecit non-current assets held for sale		**0**	0	0	0	0	0	0	0	2
Minority interests		**4**	3	0	0	0	0	0	0	0
Result after tax		**571**	470	374	497	487	384	249	389	555
Interest hybrid capital		**7**	7	7	7	9	10	7	9	10
Result after tax ex. interest hybrid capital		**568**	466	367	490	478	374	242	380	545
Profitability										
Return on equity capital	1	**15,4 %**	13,0 %	10,4 %	14,4 %	14,5 %	11,9 %	7,2 %	11,7 %	17,4 %
Interest margin		**1,65 %**	1,60 %	1,72 %	1,70 %	1,74 %	1,97 %	2,13 %	1,96 %	1,86 %
Cost/income	2	**36,9 %**	41,6 %	45,1 %	37,2 %	36,9 %	41,6 %	59,8 %	43,0 %	36,5 %
Balance sheet figures										
Loans and advances excl. commision loans		**94 355**	91 556	90 511	90 603	88 874	86 745	86 771	86 395	85 240
-of which loans and advances to financial institutitons		**1 661**	1 299	1 534	1 393	1 686	1 384	1 079	1 158	1 885
-of which loans and and advances to customers		**92 694**	90 257	88 977	89 210	87 188	85 361	85 692	85 237	83 355
Total lending incl. intermediary loans		**131 001**	128 493	127 122	126 522	124 498	122 764	121 733	119 961	117 579
Growth in loans and advances to cust. incl. commision loans past 12 months		**5,2 %**	4,7 %	4,4 %	5,5 %	5,9 %	6,4 %	6,7 %	5,5 %	6,0 %
Deposits from customers		**80 872**	75 710	73 158	71 687	73 081	70 609	68 030	65 257	67 726
Growth in deposits from customers past 12 months		**10,7 %**	7,2 %	7,5 %	9,9 %	7,9 %	10,0 %	6,3 %	6,2 %	6,2 %
Deposits as a percentage of gross lending	4	**87,2 %**	83,9 %	82,2 %	80,4 %	83,8 %	82,7 %	79,4 %	76,6 %	81,3 %
Deposits as a percentage of gross lending including commission loans	5	**61,7 %**	58,9 %	57,5 %	56,7 %	58,7 %	57,5 %	55,9 %	54,4 %	57,6 %
Average assets	3	**120 019**	118 042	115 736	115 346	114 121	112 020	108 989	108 356	108 014
Total assets		**123 975**	118 785	117 298	119 021	118 322	117 884	111 524	109 380	110 580
Losses on loans and commitments in default										
Losses on loans to customers as a percentage of total lending incl. intermediary loans		**-0,06 %**	-0,04 %	0,26 %	0,20 %	0,16 %	0,10 %	0,01 %	0,01 %	0,00 %
Net comm. in default and at risk of loss as a per. of total lending incl. intermediary loans		**0,25 %**	0,23 %	0,16 %	0,23 %	0,22 %	0,22 %	0,16 %	0,29 %	0,26 %
Solidity										
Common Tier I Capital ratio		**18,0 %**	17,4 %	17,5 %	17,2 %	16,9 %	16,7 %	17,2 %	15,5 %	15,3 %
Tier I Capital ratio		**19,4 %**	18,7 %	18,9 %	18,6 %	18,4 %	18,2 %	18,8 %	16,9 %	16,7 %
Total regulatory Capital ratio		**21,2 %**	20,6 %	20,9 %	20,5 %	20,2 %	20,0 %	20,6 %	18,6 %	18,4 %
Common Tier I Capital		**12 877**	12 206	12 019	11 905	11 788	11 575	11 472	11 215	11 052
Tier I capital		**13 849**	13 178	12 991	12 881	12 812	12 599	12 496	12 229	12 072
Total eligible capital		**15 145**	14 508	14 366	14 213	14 105	13 833	13 726	13 470	13 316
Adjusted risk-weighted assets base		**71 528**	70 359	68 588	69 233	69 699	69 214	66 609	72 492	72 402

1) The profit after tax in relation to average equity, calculated as a quarterly average of equity at 1 January and end quarterly equity. The Bank's hybrid tier 1 capital issued are classified as equity in the financial statements. However, when calculating the return on equity, hybrid tier 1 capital is treated as a liability and the associated interest costs are adjusted for in the result.
2) Total costs as a percentage of total net income
3) Average assets are calculated as average assets each quarter and at 01.01. and 31.12.
4) Deposits from customers as a percentage of gross lending
5) Deposits from customers in percentage of total lendring incl. intermediary loans

Note 1 – Accounting policies

The Group's financial statements for 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) approved by the EU, including IAS 34 – Interim Financial Reporting. The quarterly accounts do not include all information required in full annual accounts and should be read in conjunction with the annual accounts for 2020.

There are no standards or interpretations that have not entered into force that are expected to have a significant impact on the Group's accounts.

The capital adequacy rules specify criteria for identifying commitments in default.
A commitment will be deemed to be in default if the claim is more than 90 days past and the amount is substantial (payment default), or it is likely that the borrower will not meet its obligations (unlikeliness to pay).
The criteria for a default were further clarified in the EBA's Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07). The EBA's guidelines include rules concerning quarantine periods for when commitments in default can be declared no longer in default, specify a 90-day limit, and include rules regarding the criteria that must as a minimum be assessed for defining "unlikeliness to pay". The EBA's guidelines apply from 01.01.21.

The Ministry of Finance has set limits for what must be regarded as a substantial amount in assessing payment defaults (CRR/CRD IV Regulation, section 7). The amount limits must not exceed NOK 1,000 and NOK 2,000, respectively, for mass market commitments and other commitments, while the relative limit must not exceed 1 per cent of the total capitalized commitment for all commitments. The rules concerning the limits for "substantial" apply from 31.12.20.

The Financial Supervisory Authority of Norway has issued rules via a circular concerning the "quarantine period", i.e. how long a commitment will remain in default after it is first marked as being in default.
If the payment default is remedied and it is likely that the counterparty will meet its obligations, the commitment can be regarded as no longer in default after a quarantine period of 90 days. In the event of partial debt forgiveness or changes to the loan's terms and conditions, the quarantine period will be at least 12 months.

The circular also specifies that if one of the loans to the customer is marked as being in default, all loans to the customer must be deemed to be in default (default propagation). This also applies to associated counterparties. For mass market commitments, defaults can be assessed per loan, i.e. default propagation does not automatically apply. The Bank must assess whether default on a loan is significant for the customer to be able to fulfill its obligations with regard to other loans. The Financial Supervisory Authority of Norway believes that in the case of mass market commitments, a default should propagate between commitments in the same category. The Financial Supervisory Authority of Norway provides an example in which if a customer defaults on an unsecured loan, then all unsecured loans to that customer must be marked as being in default. Furthermore, all commitments should be deemed to be in default if the loan that constitutes a substantial part of the total exposure is in default.

The Group has chosen to implement these new policies for statutory defaults as well as accounting defaults from 01.01.21, which results in an increased volume defined as in default in Stage 3, ref. Note 6.

Note 2 - Important accounting estimates and discretionary judgements

In preparing the consolidated financial statements the management makes estimates, discretionary judgements and assumptions that influence the application of the accounting policies. These could thus affect the stated amounts for assets, liabilities, income and expenses. Note 3 in last year's annual financial statements provides a fuller explanation of the items subject to important estimates and judgements.

As also stated in Note 7, SpareBank 1 Nord-Norge uses a model for calculating expected credit losses based on IFRS 9. Expected credit loss is calculated on a monthly basis based on an objective and probability-weighted analysis of alternative outcomes, where account is also taken of the time value of the expected cash flows. The analysis is based on relevant information available at the time of reporting and builds on macroeconomic scenarios in order to take account of non-linear aspects of expected loss. The different scenarios are used to adjust relevant parameters for calculating expected loss and a probability-weighted average of expected credit loss according to the respective scenarios is recognized as a loss. Individual assessments of commitments subject to these are based on expected future cash flows.

Assumptions:
The Bank uses weighted scenarios to calculate expected credit loss. As mentioned in the previous quarterly report, the Bank has made adjustments to the methodology for determining factors and scenario weighting.

Three different macroeconomic scenarios are still used to project expected LGD and PD curves 5 years into the future. All three scenarios have been made further expectation-oriented, with scenario 1 (SC1) representing the most likely outcome. SC2 and SC3 represent outcomes that are somewhat more negative and positive than SC1, respectively. The above adjustment to the methodology means that the sensitivity related to determining the scenario weighting will be less than with the previous methodology (ref. sensitivity analysis below).

Both the determination of LGD and PD curves and weighting of the scenarios are carried out by the Group's ECL Committee. The committee assesses the curves and weighting based on a fixed structure based on assessments of factors such as global and national PMI, interest rates, national and regional unemployment, capacity utilization, and developments in national and local property prices.

As at 31.12.19, the Bank considered the macroeconomic outlook to be good, although there was some uncertainty about the current interest rate peak, flattening growth in Northern Norway, and a stabilized housing market. The committee considered the situation to be a cyclical peak since there were several indications of flattening. Given this, the base case scenario was given the greatest weight (81 per cent), the stress scenario the second greatest (19 per cent), and the strong economic expansion scenario the least (0 per cent) – 81/19/0).

As at 31.03.20, based on the uncertainty associated with the coronavirus situation, adjustments were made to the weighting between the two scenarios for the base case and stress case, where the weighting of the base case was significantly reduced (to 70 per cent) with a corresponding increase in the stress scenario (to 30 per cent). The committee monitored developments very closely throughout the year, and even though the macro picture improved somewhat at the turn of the year, the Covid-19 situation was still creating uncertainty. The committee thus concluded that no adjustments would be made to the macroscenario weighting as at 31.12.20 – (70/30/0).

As at 30.06.21, uncertainty surrounding the impact of Covid-19 remained, but less uncertainly in the macro picture, and the base case scenario is more expectation-oriented. The scenario weighting has therefore been changed to 70/10/20.

The Bank uses different factors for PD and LGD to estimate developments in the portfolio within the different scenarios. SpareBank 1 Nord-Norge has its own models that score customers based on PD. Both within the retail market and the corporate market, PD and LGD are adjusted in line with how the different scenarios are expected to affect these factors.

In-depth analyses of these are conducted every quarter for the entire loan portfolio in relation to the assumptions used at the end of the previous year. Particular attention has been paid to some exposed industries in our market area (including tourism, transport, fisheries and real estate). However, the analyses did not find that significant changes needed to be made to PD and LGD factors in the ECL model as at 30.06.21.

Industries and the development of individual customers will also be monitored closely using a so-called watchlist at a customer commitment level, as well as by flagging customers with forbearance (payment relief).
All commitments categorized as high-risk are on the watchlist.
As at 30.06.20, all tourism-related commitments of more than MNOK 10 were placed on a watchlist and manually transferred from Stage 1 to Stage 2. In 3Q and 4Q 2020, all tourism-related commitments of less than MNOK 10 were placed on a watchlist and manually transferred from Stage 1 to Stage 2. In addition, all customers granted government guaranteed liquidity loans have been transferred from Stage 1 to Stage 2. In total, these manual transfers amounted to MNOK 59 in increased loss provisions. The resale values of the security pledged for such commitments were assessed and adjusted downwards, which resulted in increased ECL provisions. As at 30.06.21, there were no changes to previous assessments.

As at 30.06.21, SpareBank 1 Nord-Norge has granted general interest-only instalment holidays for loans of up to 6 months both to retail customers and customers in the corporate market that have been affected by the coronavirus situation. Many of the interest-only instalment holidays granted in March and April last year have expired, while some have been extended. Interest-only instalment holidays due to Covid-19 and of up to 6 months duration are not automatically considered forbearance in the ECL calculation given that there are no other factors that indicate that the credit risk has significantly increased (SICR). Customers who require interest-only periods beyond 6 months are dealt with separately. If they are regarded as having financial problems, they are regarded as exposures with forbearance, with the corresponding migration from Stage 1 to Stage 2. The proportion of customers granted forbearance continued to fall in 2Q 2021.

According to IFRS 9, there will be an opportunity to carry out temporary adjustments, so-called 'management overlays', when it is clear that existing or expected risk factors have not been assessed in the credit risk models. Such management overlays can occur in short-term situations when there is not enough time to incorporate relevant new information into existing models or to re-segment existing groups of loans. On 31.12.20, the Parent Bank carried out a MNOK 78 post model adjustment (PMA). In the above modified methodology for determining scenario weighting, as well as the adjustments made to LGD and PD curves, previous provisions like PMA are now incorporated into ECL provision as at 31.03.21.

By the end of 2Q 2021, the Bank had paid out about MNOK 391 in government guaranteed liquidity loans to its customers. These were also included in the ECL assessment at the end of 2Q 2021.

Percentage of provisions in the various stages:

Parent bank	31.12.19	31.03.20	30.06.20	30.09.20	31.12.20	31.03.21	30.06.21
Step 1	44 %	54 %	46 %	53 %	45 %	41 %	32 %
Step 2	29 %	24 %	33 %	28 %	35 %	37 %	43 %
Step 3	27 %	22 %	21 %	19 %	20 %	22 %	25 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %

Group	31.12.19	31.03.20	30.06.20	30.09.20	31.12.20	31.03.21	30.06.21
Step 1	42 %	50 %	44 %	48 %	43 %	39 %	32 %
Step 2	29 %	25 %	33 %	30 %	37 %	37 %	42 %
Step 3	29 %	25 %	23 %	22 %	20 %	24 %	26 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %

Sensitivity analysis

Changes to the different factors PD, LGD and the weighting of the macroeconomic scenarios affect the outcomes for expected loss. A sensitivity analysis for the Parent Bank is provided below, based on figures as at 30.06.21, and shows how much ECL increases as a result of both an increase in PD and LGD, due to percentage changes to the factors, and scenario weighting:

The sensitivity to changes in weighting is much less than in previous analyses. This because there is now less distance between the PD and LGD curves in the method being used.

The retail market experiences a greater relative effect of increasing to 100 % worst case. This is interpreted as being an effect of the fact that we have, except in year 1, used a somewhat "kinder" curve for the retail market (lower levels and earlier recovery), such that the effect is amplified if we weight SC2 100 % for the retail market.

The PD and LGD factors have been increased by 10 %, ref. previous analysis, despite the Bank having switched to level determination for the factors. This was done to provide a better basis for comparisons with previous analyses.

	10 % increase PD-factor	10 % increase LGD-factor	20 % increase PD-factor *)	Weighting of scenarios **) SC 1= 100% SC 2= 0 % SC 3= 0 %	SC 1= 0 % SC 2= 100 % SC 3= 0 %	SC 1= 0 % SC 2= 0 % SC 3= 100 %
Retail market	5,4 %	5,9 %	16,6 %	0,6 %	25,5 %	-15,0 %
Corporate market	6,9 %	7,5 %	15,5 %	0,6 %	23,6 %	-14,0 %
Total	6,7 %	7,2 %	15,7 %	0,6 %	23,9 %	-14,2 %

*) 20 % increase PD-factor on all loan engagements. Step migration as a result of increased PD, is taken into account ine the sensitivity analysis.

**) Effect of going from the current weighting of 60 %, 15 % and 25 % for scenarios 1, 2 or 3.

Notes 3 – Changes to group structure

There were no significant changes to the Group’s structure in 2Q 2021.