

Note 24 - Pension

Defined benefit scheme

This pension scheme is administered by a pension fund conferring entitlement to specific future pension benefits from age 67. The schemes include children's pension and disability pension under further rules. The Group's defined benefit pension scheme assures the majority of employees a pension of 68 percent of final salary up to 12G. The defined benefit scheme is closed to new members.

It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme will transfer to the defined contribution scheme as from 1 January 2017, and will receive a paid-up policy showing rights accumulated under the defined benefit scheme. The termination resulted in reduced pension obligations, which has been treated as a settlement gain and reduced the pension expense for 2016.

Paid-up policies are managed by the pension fund, which becomes 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. At yearend 2017 the scheme is overfunded by NOK 171 million.

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. In addition to the pension obligations covered by the pension fund, the group has unfunded pension liabilities which can not be funded by the assets in the collective arrangements. The obligations entails employees not registered as member of the pension fund, additional pensions above 12 G, early retirement pension schemes and contractual early retirement schemes in new arrangement (AFP Subsidies Act).

For further details of the Group's pension schemes see Note 2 on accounting principles and Note 22 on personnel expenses and emoluments to senior employees and elected officers.

Actuarial assumptions	2017		2016	
	Costs	Commitment	Costs	Commitment
Discount rate	2.6%	2.4%	2.7%	2.6%
Expected rate of return on plan assets	2.6%	2.4%	2.7%	2.6%
Expected future wage and salary growth	2.3%	2.3%	2.3%	2.3%
Expected adjustment of basic amount (G)	2.3%	2.3%	2.3%	2.3%
Expected increase in current pension	0%/2.25%	0%/2.25%	0%/2.25%	0%/2.25%
Employers contribution	14.1%	14.1%	14.1%	14.1%
Expected voluntary exit before/after 50 yrs	2/0 %	2/0 %	2/0 %	2/0 %
Estimated early retirement outtake at age 62/64	25/50 %	25/50 %	25/50 %	25/50 %
Mortality base table	K2013BE			
Disability	IR73			

Parent Bank			Group	
31 Dec 2016	31 Dec 2017	Net pension liability in the balance sheet (NOK million). Financial position 1 January	31 Dec 2017	31 Dec 2016
662	602	Net present value of pension liabilities in funded schemes	641	711
-753	-789	Estimated value of pension assets	-842	-797
-12	11	Opening balance adjustment	15	-11
-103	176	Net pension liability	-186	-97
3	4	Employer's contribution	4	4
-2	-	Settlement	0	-2
-100	-172	Net pension liability in the balance sheet	-182	-96

Distribution of liability between unfunded and funded pension scheme, Group 1 January

Group	31 Dec 2017			31 Dec 2016		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of pension liability in funded schemes	619	22	641	689	22	711
Fair value of pension assets	-842	-	-842	-797	-	-797
Opening balance adjustment	15	0	15	-11	-	-11
Net pension liability in the balance sheet before employer's contribution	-208	22	-186	-119	22	-97
Employer's contribution	0	4	4	1	3	4
Settlement	0	0	0	-2	0	-2
Net pension liability in the balance sheet after employer's contribution	-208	26	-182	-121	25	-96

2016	2017	Pension cost for the year	2017	2016
20	1	Present value of pension accumulated in the year	1	23
-2	-5	Net Interest Income	-5	-2
17	-4	Net defined-benefit pension cost without employer's contribution	-4	21
6	0	Employer's contribution - subject to accrual accounting	0	6
-74	0	Settlement	-	-90
-51	-4	Net pension cost related to defined benefit plans	-4	-63
7	7	Early retirement pension scheme, new arrangement	10	9
13	37	Cost of defined contribution pension	74	31
-30	40	Total pension cost	79	-22

Actuarial gains and losses over other comprehensive income for the period	2017			2016		
	Unfunded	Funded	Total	Unfunded	Funded	Total
Change in discount rate	0	18	18	0	9	9
Change in other economic assumptions	-	-	-	0	0	-
Change in mortality table	-	-	-	-	-	-
Change in other demographic assumptions	-	-	-	-	-	-
Changing other factors, DBO	-2	3	1	0	4	5
Change in other factors, pension assets	-	-15	-15	-	11	11
Actuarial gains and losses over other comprehensive income for the period	-2	6	4	0	24	24

31 Dec 2016	31 Dec 2017	Movement in net pension liability in the balance sheet	31 Dec 2017	31 Dec 2016
-100	-172	Net pension liability in the balance sheet 1 January	-182	-94
23	24	Actuarial gains and losses for the year	21	24
-51	-4	Net defined-benefit costs in profit and loss account incl. Curtailment/settlement	-4	(63)
-1	-1	Paid-in pension premium, defined-benefit schemes	-1	-1
-	36	Transfer to defined contribution scheme	36	0
-44	-17	Paid-in pension premium, defined-benefit plans	-17	-48
-172	-134	Net pension liability in the balance sheet 31 December	-147	-182

31 Dec 2016	31 Dec 2017	Financial status 31 December	31 Dec 2017	31 Dec 2016
602	611	Pension liability	651	641
-778	-749	Value of pension assets	-803	-827
-176	-138	Net pension liability before employer's contribution	-151	-186
4	4	Employer's contribution	4	4
-172	-134	Net pension liability after employer's contribution*	-147	-182

* Presented gross in the Group accounts

Distribution of financial status between unfunded and funded pension scheme, Group

Group	31 Dec 2017			31 Dec 2016		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Pension liability	631	20	651	619	22	641
Value of pension assets	-803	-	-803	-827	-	-827
Net pension liability before employer's contribution	-171	20	-151	-208	22	-186
Employer's contribution	0	4	4	0	4	4
Net pension liability after employer's contribution	-171	24	-147	-208	26	-182

Fair value of pension liability, Group	31 Dec 2017	31 Dec 2016
OB pension liability (PBO)	641	711
Present value of pension accumulated in the year	1	23
Payout/release from scheme	-26	-29
Interest costs of pension liability	16	18
Curtailed/ Settlement	0	-94
Actuarial gain or loss	19	12
CB pension liability (PBO)	651	641

Fair value of pension assets, Group	31 Dec 2017	31 Dec 2016
OB pension assets	842	797
Paid in	1	43
Payout/release from fund	-62	-29
Expected return	22	21
Curtailed/ Settlement	0	-6
Actuarial changes	0	0
CB market value of pension assets	803	827

Sensitivity, Group	Discount rate		Salary adjustment		Pension adjustment
	+ 1 pp	- 1 pp	+ 1 pp	- 1 pp	+ 1 pp
2017					
Change in accumulated pension rights in course of year	0	0	0	0	0
Change in pension liability	-83	104	0	0	105
2016					
Change in accumulated pension rights in course of year	-4	6	4	-3	3
Change in pension liability	-82	103	0	0	105

2016	2017	Members	2017	2016
779	764	Numbers of persons included in pension scheme	799	815
265	253	of which active	286	298
514	511	of which retirees and disabled	513	517

Investment of pension assets in the pension fund	2017	2016
Current bonds	31 %	21 %
Bonds held to maturity	10 %	19 %
Money market	20 %	26 %
Equities	33 %	29 %
Real estate	7 %	6 %
Total	100 %	100 %

The pension scheme arrangement is located in its own pension fund, which has a long-term horizon on the management of its capital. The pension fund seeks to achieve as high a rate of return as possible by composing an investment portfolio that provides the maximum

risk-adjusted return. The pension fund seeks to spread its investments on various issuers and asset classes in order to reduce company-specific and market-specific risk. The portfolio thus comprises equity investments in Norwegian and foreign shares. The bond portfolio is essentially invested in Norwegian bonds. Bank deposits are placed in Norwegian Banks.