

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 |
| Curtailement/ 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 |
| Curtailement/ 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.