

Note 22 - Pension

Defined benefit scheme

The SpareBank 1 SMN Group has a pension scheme for its staff that meet the requirements set for mandatory occupational pensions. SpareBank 1 SMN had a defined benefit scheme previously. 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. This arrangement was terminated from 1 January 2017. Employees on this scheme was transferred to the defined contribution scheme and received 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.

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).

Defined contribution scheme

Under a defined contribution pension scheme the group does not provide a future pension of a given size; instead the group pays an annual contribution to the employees' collective pension savings. The future pension will depend on the size of the contribution and the annual return on the pension savings. The group has no further obligations related to employees' labour contribution after the annual contribution has been paid. There is no allocation for accrued pension obligations under such schemes. Defined contribution schemes are directly expensed. Any pre-paid contributions are recognised as an asset (pension assets) to the extent the contribution can be refunded or reduce future inpayments. The contributions are made to the pension fund for full-time employees, and the contribution is from 7 per cent from 0-7,1 G and 15 per cent from 7.1 – 12 G. The premium is expensed as incurred.

Early retirement pension scheme ("AFP")

The banking and financial industry has established an agreement on an early retirement pension scheme ("AFP"). The scheme covers early retirement pension from age 62 to 67. The Bank pays 100 per cent of the pension paid from age 62 to 64 and 60 per cent of the pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010. The Act on state subsidies in respect of employees who take out contractual pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out AFP with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. Employees accumulate AFP entitlement at an annual rate of 0.314 per cent of pensionable income capped at 7.1G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis.

For accounting purposes the new AFP scheme is regarded as a defined benefit multi-employer scheme. This entails that each employer accounts for its pro rata share of the scheme's pension obligation, pension assets and pension cost. If no calculations of the individual components of the scheme and a consistent and reliable basis for allocation are available, the new AFP scheme will be accounted for as a defined-contribution scheme. At the present time no such basis exists, and the new AFP scheme is accordingly accounted for as a defined-contribution scheme. The new AFP scheme will only be accounted for as a defined-benefit scheme once reliable measurement and allocation can be undertaken. Under the new scheme, one-third of the pension expenses will be funded by the State, two-thirds by the employers. The employers' premium will be fixed as a percentage of salary payments between 1G and 7.1G.

In keeping with the recommendation of the Norwegian Accounting Standards Board, no provision was made for the group's de facto AFP obligation in the accounting year. This is because the office that coordinates the schemes run by the main employer and trade union organisations has yet to perform the necessary calculations.

Actuarial assumptions	2023		2022	
	Costs	Commitment	Costs	Commitment
Discount rate	3.0 %	3.2 %	1.6 %	3.0 %
Expected rate of return on plan assets	3.0 %	3.2 %	1.6 %	3.0 %
Expected future wage and salary growth	3.25 %	3.25 %	2.25 %	3.25 %
Expected adjustment of basic amount (G)	3.25 %	3.25 %	2.25 %	3.25 %
Expected increase in current pension	0%/2.0%	0%/2.0%	0%/2.0%	0%/2.0%
Employers contribution	19.1 %	19.1 %	19.1 %	19.1 %
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	
2022	2023	Net pension liability in the balance sheet (NOK million). Financial position 1 Jan.	2023	2022
645	577	Net present value of pension liabilities in funded schemes	577	645
-701	-812	Estimated value of pension assets	-812	-701
-56	-235	Net pension liability in funded schemes	-235	-56
1	1	Employer's contribution	1	1
-54	-234	Net pension liability in the balance sheet	-234	-54

Distribution of liability between unfunded and funded pension scheme, Group 1.1

Group	2023			2022		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of pension liability in funded schemes	572	5	577	639	7	645
Fair value of pension assets	-812	-	-812	-701	0	-701
Net pension liability in the balance sheet before employer's contribution	-240	5	-235	-62	7	-56
Employer's contribution	0	1	1	0	1	1
Net pension liability in the balance sheet after employer's contribution	-240	6	-234	-62	8	-54

Parent Bank			Group	
2022	2023	Pension cost for the year	2023	2022
0	0	Present value of pension accumulated in the year	-	0
-1	-7	Interest cost of pension liabilities	-7	-1
-1	-7	Net defined-benefit pension cost without employer's contribution	-7	-1
0	0	Employer's contribution - subject to accrual accounting	0	0
-1	-7	Net pension cost related to defined benefit plans *	-7	-1
9	10	Early retirement pension scheme, new arrangement	17	16
46	64	Cost of defined contribution pension	107	84
54	67	Total pension cost	117	99

Other comprehensive income for the period	2023			2022		
	Unfunded	Funded	Total	Unfunded	Funded	Total
Change in discount rate	-	-13	-13	0	-111	-111
Changing other factors, DBO	0	11	11	0	65	64
Change in other factors, pension assets	-	29	29	-	-130	-130
Other comprehensive income for the period	0	26	27	-1	-177	-177

Parent Bank			Group	
2022	2023	Movement in net pension liability in the balance sheet	2023	2022
-54	-234	Net pension liability in the balance sheet 1.1	-234	-54
-177	27	Actuarial gains and losses for the year	27	-177
-1	-7	Net defined-benefit costs in profit and loss account incl. Curtailment /settlement	-7	-1
-1	-3	Paid-in pension premium, defined-benefit schemes	-3	-1
-234	-217	Net pension liability in the balance sheet 31.12	-217	-234
2022	2023	Financial status 31.12	2023	2022
577	558	Pension liability	558	577
-812	-776	Value of pension assets	-776	-812
-235	-217	Net pension liability before employer's contribution	217	-235
1	1	Employer's contribution	1	1
-234	-217	Net pension liability after employer's contribution^{*)}	-217	-234

* Presented gross in the Group accounts

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

Group	31.12.2023			31.12.2022		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Pension liability	555	3	558	572	5	577
Value of pension assets	-776	-	-776	-812	0	-812
Net pension liability before employer's contribution	-221	3	-217	-240	5	-235
Employer's contribution	0	1	1	0	1	1
Net pension liability after employer's contribution	-221	4	-217	-240	6	-234

Fair value of pension liability, Group	31.12.2023	31.12.2022
OB pension liability (PBO)	577	645
Present value of pension accumulated in the year	-	-
Payout/release from scheme	-33	-32
Interest costs of pension liability	17	10
Curtailment/ Settlement	-	-
Actuarial gain or loss	-2	-47
CB pension liability (PBO)	558	577

Fair value of pension assets, Group	31.12.2023	31.12.2022
OB pension assets	812	701
Paid in	2	1
Payout/release from fund	-33	-32
Expected return	24	11
Curtailment/ Settlement	-	-
Actuarial changes	-29	130
CB market value of pension assets	776	812

Sensitivity, Group	Discount rate		Salary adjustment		Pension adjustment
	+ 1 pp	- 1 pp	+1 pp	- 1 pp	+ 1 pp
2023					
Change in accumulated pension rights in course of year	-	-	-	-	-
Change in pension liability	-58	70	-	-	72
2022					
Change in accumulated pension rights in course of year	-	-	-	-	-
Change in pension liability	-62	76	-	-	77

Parent Bank			Group	
2022	2023	Members	2023	2022
726	741	Numbers of persons included in pension scheme	741	726
218	230	of which active	230	218
508	511	of which retirees and disabled	511	508

Investment and pension assets in the pension fund	2023	2022
Current	55 %	43 %
Money market	14 %	21 %
Equities	25 %	29 %
Real estate	6 %	7 %
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.