

Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 3 Critical estimates and assessments concerning the use of accounting principles.

Pensions

Sparebank1 SMN Group has two different pension arrangements; defined benefit and defined contribution plan. For a further description of the various pension schemes, see note 24 in the 2015 annual report.

The group's pension liabilities are accounted for under IAS 19R. Estimate variances are therefore directly reflected in equity capital and are presented under other comprehensive income.

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. 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.

The change has entailed a reduction in the pension liabilities which entails a one-time gain of NOK 74 million for the parent bank and NOK 90 million for the Group in the accounts for the fourth quarter.

A new calculation of the Group's pension liabilities has been carried out as per 31 December 2016.

Actuarial assumptions	31 Dec 2016	1 January 2016	31 Dec 2015
Discount rate	2.60 %	2.70 %	2.70 %
Expected rate of return on plan assets	2.60 %	2.70 %	2.70 %
Expected future wage and salary growth	2.25 %	2.25 %	2.25 %
Expected adjustment on basic amount (G)	2.25 %	2.25 %	2.50 %
Expected increase in current pension	0,00 %	0,00 %	0,00 %
Employers contribution	14.10 %	14.10 %	14.10 %

Demographic assumptions:

Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2 % to 50 year, 0 % after 50 year

Movement in net pension liability in the balance sheet Group (NOKm)	Funded	Unfunded	Total
Net pension liability in the balance sheet 1.1	-119	25	-94
OCI accounting 1 Jan	11	-	11
OCI accounting 31 December	13	0	14
Net defined-benefit costs in profit and loss account	-63	1	-62
Paid in pension premium, defined-benefit schemes	-48		-48
Benefits paid	-	-1	-1
Net pension liability in the balance sheet 31 December 2016	-207	26	-181

	31 Dec 2016	31 Dec 2015
Net pension liability in the balance sheet Group (NOKm)		
Net present value of pension liabilities	641	711
Estimated value of pension assets	-826	-808
Net pension liability in the balance sheet before employer's contribution	-185	-97
Employers contribution	4	4
Net pension liability in the balance sheet	-181	-94
	31 Dec 2016	31 Dec 2015
Pension cost Group (NOKm)		
Present value of pension accumulated in the year	23	28
Net interest income	-2	-0
Settlement gain	-90	-
Net pension cost related to defined benefit plans, incl unfunded pension commitment	-69	28
Employer's contribution subject to accrual accounting	6	5
Cost of defined contribution pension and early retirement pension scheme	46	42
Total pension cost in the period	-17	75