

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 one pension arrangements; defined contribution plan. For a further description of the pension scheme, see note 24 in the 2018 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 transferred to the defined contribution scheme from 1 January 2017, and received a paid-up policy showing rights accumulated under the defined benefit scheme. Paid-up policies are managed by the pension fund, which has been 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.

A new calculation of the Group's pension liabilities has been carried out as per 31 December 2019:

| Actuarial assumptions | 31 Dec 2018 | 1 January 2019 | 31 Dec 2019 |
|---|-------------|----------------|-------------|
| Discount rate | 2.60 % | 2.60 % | 2.10 % |
| Expected rate of return on plan assets | 2.60 % | 2.60 % | 2.10 % |
| Expected future wage and salary growth | 2.50 % | 2.50 % | 2.00 % |
| Expected adjustment on basic amount (G) | 2.50 % | 2.50 % | 2.00 % |
| Expected increase in current pension | 0.00 % | 0.00 % | 0.00 % |
| Employers contribution | 19.10 % | 19.10 % | 19.10 % |

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 | -179 | 21 | -158 |
| OCI accounting 1 Jan | - | - | - |
| OCI accounting 31 December | 35 | -3 | 33 |
| Net defined-benefit costs in profit and loss account | -5 | 1 | -4 |
| Paid in pension premium, defined-benefit schemes | - | - | - |
| Paid in pension premium, defined-benefit plan | - | -3 | -3 |
| Net pension liability in the balance sheet 31 December 2019 | -148 | 16 | -132 |

| Net pension liability in the balance sheet Group (NOKm) | 31 Dec 2019 | 31 Dec 208 |
|---|--------------------|-------------------|
| Net present value of pension liabilities in funded schemes | 608 | 588 |
| Estimated value of pension assets | -743 | -749 |
| Net pension liability in the balance sheet before employer's contribution | -135 | -161 |
| Employers contribution | 3 | 3 |
| Net pension liability in the balance sheet | -132 | -158 |

| Pension cost Group (NOKm) | 31 Dec 2019 | 31.12.18 |
|---|--------------------|-----------------|
| Present value of pension accumulated in the year | 0 | 1 |
| Net interest income | -4 | -4 |
| Net pension cost related to defined plans, incl unfunded pension commitment | -4 | -3 |
| Employer's contribution subject to accrual accounting | 0 | 0 |
| Cost of defined contribution pension and early retirement pension scheme | 108 | 98 |
| Total pension cost for the period | 105 | 96 |

Investment held for sale

SpareBank 1 SMN's strategy is that ownership due to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts, and is classified as investment held for sale.

| 2019 Q4 (NOK Million) | Assets | Liabilities | Revenue | Expenses | Profit | Ownership |
|------------------------------|---------------|--------------------|----------------|-----------------|---------------|------------------|
| Mavi XV AS Group | 40 | 0 | 5 | 5 | - | 100 % |
| Total Held for sale | 40 | 0 | 5 | 5 | - | |

Acquisition of SpareBank 1 SMN Spire Finans (formerly DeBank)

At 5. February 2019 SpareBank 1 SMN acquired 100 per cent of the shares in SpareBank 1 SMN Spire Finans AS for MNOK 40. The acquisition led to a negative goodwill of MNOK 31 included as a gain in net return of financial investments. The reason for the gain from this transaction is that fair value of net assets is higher than the acquisition cost. The allocation of fair value is distributed as follows:

| | Fair value recognised at acquisition date |
|--|--|
| Assets | |
| Loans | 207 |
| Other assets | 14 |
| Total assets | 221 |
| Liabilities | |
| Deposits | 142 |
| Accruals | 5 |
| Other liabilities | 4 |
| Total liabilities | 151 |
| Net identifiable assets and liabilities | 70 |
| Goodwill | -31 |
| Acquisition cost | 40 |