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 25 in the 2019 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 March 2020:

Actuarial assumptions	**31 Dec 2019**	**1 January 2019**	**31 March 2020**
Discount rate	2,30 %	2,30 %	1,70 %
Expected rate of return on plan assets	2,30 %	2,30 %	1,70 %
Expected future wage and salary growth	2,00 %	2,00 %	2,00 %
Expected adjustment on basic amount (G)	2,00 %	2,00 %	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 years, 0% after 50 years	

Movement in net pension liability in the balance sheet Group (NOKm)	**Funded**	**Unfunded**	**Total**
Net pension liability in the balance sheet 1.1	-148	16	-132
OCI accounting 1 Jan	-	-	-
OCI accounting 31 December	40	0	40
Net defined-benefit costs in profit and loss account	-1	0	-1
Paid in pension premium, defined-benefit schemes	-	-	-
Paid in pension premium, defined-benefit plan	-	-1	-1
Net pension liability in the balance sheet 31 March 2020	**-109**	**16**	**-94**

Net pension liability in the balance sheet Group (NOKm)	31 March 2019	31 Dec 2019
Net present value of pension liabilities in funded schemes	659	608
Estimated value of pension assets	-756	-743
Net pension liability in the balance sheet before employer's contribution	-96	-135
Employers contribution	2	3
Net pension liability in the balance sheet	**-94**	**-132**

Pension cost Group (NOKm)	31 March 2019	31 Dec 2019
Present value of pension accumulated in the year	0	0
Net interest income	-1	-4
Net pension cost related to defined plans, incl unfunded pension commitment	-1	-4
Empolyer's contribution subject to accrual accounting	0	0
Cost of defined contribution pension and early retirement pension scheme	26	108
Total pension cost for the period	**25**	**105**

Investment held for sale

SpareBank 1 SMN's strategy is that ownership duse 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.

2020 Q1 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	40	1	1	1	-	100 %
Total Held for sale	**40**	**1**	**1**	**1**	**-**	

Losses on loans and guarantees

For a detailed description of the Bank's model for expected credit losses, refer to note 2 and 3 in the annual accounts for 2019.

In the first quarter 2020 the input in the credit loss model have been changed a result of changed expectations due to the corona situation.The crisis and the significant increase in macroeconomic uncertainty have made the assessments extra demanding. The crisis is in early stages and the consequences for the bank's customers and the industries the bank are exposed to are difficult to estimate. The regulators have emphasized the importance of focusing on the expected long-term effects of the crisis and this has also been the bank's focus.

The bank have chosen to leave the scenario weights unchanged in the assessments this quarter, but have changed the assumptions for the base scenario in a negative direction. The reason is that the probability of the defined downside scenarios occurring is considered to be virtually unchanged, while there is little doubt that the most likely scenario is weaker compared to the previous quarter.

The development in the base scenario is prepared using adjustment factors where the development in the business cycle is projected by assumptions about how much the probability of default (PD) or loss of default (LGD) will increase or decrease compared to the base scenario in a five-year period. We expect increased losses related to debtors that have a demanding starting point before the crisis - typically debtors in stage 2. The bank has therefore chosen to increase the trajectories for PD and LGD as well as reduce expected repayments in the base scenario, especially from year 2 onwards, since this will affect expected losses mainly for debtors in stage 2. To adjust for migration into stage 2, PD and LGD estimates are also increased in the first year. No first year repayments are assumed for all portfolios in all scenarios.The effect of changes in input assumptions is shown as "Effect of changed assumptions in ECL model" in note 7. The effect is NOK 80 million.

Sensitivity

If the downside scenario’s probability were doubled at the expense of the baseline scenario at the end of march 2020, this would have entailed an increase in loss provisions of NOK 80 million for the parent bank and NOK 103 million for the group. A corresponding doubling of the upside scenario’s probability at the expense of the baseline scenario would have entailed a reduction in loss provisions of NOK 28 million for the parent bank and NOK 30 million for the group.

2020 Q1 (mill. kr)

Portfolio	Increase in accrual for losses when probability for worst case is double	Increase in accrual for losses when probability for worst case is 100 percent	Reduction in accrual for losses when probability for best case is double	Reduction in accrual for losses when probability for best case is 100 percent
Retail Market	24	224	-7	-87
Corporate excl. Agriculture and offshore	28	260	-9	-107
Agriculture	5	33	-2	-20
Offshore	22	138	-11	-84
Total Parent Bank	80	655	-28	-297
SpareBank 1 Finans Midt-Norge	23	88	-1	-9
Total Group	**103**	**743**	**-30**	**-306**