

Note 14 - Financial instruments and offsetting

The Bank has no financial instruments booked on a net basis in the financial statements

SpareBank 1 SMN has two sets of agreements which regulate counterparty risk and netting of derivatives. For retail and corporate customers, use is made of framework agreements requiring provision of collateral. For customers engaged in trading activity, only cash deposits are accepted as collateral. It is only the customers that provide collateral. Regarding financial institutions, the Bank enters into standardised and mainly bilateral ISDA agreements. Additionally the Bank has entered into supplementary agreements on provision of collateral (CSA) with the most central counterparties. As of 31 December 2016 the Bank has 27 active CSA agreements. As from 1 March 2017 the Bank is required under the European market infrastructure regulation (EMIR) to have in place a CSA with daily exchange of margin collateral etc. with all financial counterparties with which the Bank deals domiciled (inter alia) in an EU member state. For Norwegian financial counterparties the CSA must be in place from the act's entry into force in Norway; probably in second quarter 2017. The Bank only enters into agreements with cash as collateral. The Bank has delegated responsibility for handling these agreements to SEB Prime Collateral Services which handles margin requirements on behalf of the Bank.

The Emir regulation regulates OTC derivatives and entails inter alia that SpareBank 1 SMN will be entitled to clear certain derivatives transactions through a central counterparty. In the first instance the clearing obligation will be confined to interest rate derivatives in the major currencies (euro, US dollar, British pound and Japanese yen). A clearing obligation for interest rate derivatives in Norwegian kroner, along with Swedish kronor and Polish zloty, will come somewhat later. SpareBank 1 SMN has in the course of the third quarter of 2016 come into line with this regulation. Derivatives are cleared through London Clearing House as central counterparty where cash is the only collateral. SpareBank 1 SMN is not a direct member of London Clearing House, but has entered an agreement with Commerzbank as clearing broker. SpareBank 1 SMN is currently also conducting negotiations with a further clearing broker.

SpareBank 1 SMN was registered as a GCM member of NASDAQ OMX Clearing AB in October 2015. The bank has since December 2015 offered customers clearing representation related to their trade in electricity and salmon derivatives on NASDAQ OMX Oslo ASA and Fish Pool ASA. Clearing representation entails that the bank substitutes itself in the place of the client as counterparty to NASDAQ OMX Clearing AB and takes on the obligation to NASDAQ to furnish margin collateral and to execute settlement of contracts and pay charges. For the bank's exposure as a GCM, clients will furnish collateral in the form of a deposit of cash and/or encumbrance of assets.

In the case of securities and derivatives that are traded on the Oslo Stock Exchange, the subsidiary SpareBank 1 Markets DNB ASA is used as clearing agent vis-a-vis Oslo Clearing. Any margin collateral is paid to a DNB account. DNB operates as agent between SpareBank 1 Markets and Oslo Clearing. Hence Oslo Clearing is SpareBank 1 Markets' counterparty.

The table shows what the Parent Bank and the Group can offset in the event of bankruptcy or default.

Parent Bank

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default (NOK million)
31 Dec 2016	Derivatives	669
31 Dec 2015	Derivatives	2,149

Group

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default (NOK million)
31 Dec 2016	Derivatives	696
31 Dec 2015	Derivatives	2,178