Note 29 - Hedge Accounting for Debt created by issue of securities

The bank has established hedge accounting in order to achieve accounting treatment that reflects how interest rate risk and foreign exchange risk are managed in the case of large long-term borrowings. The hedged objects consist exclusively of debt created by the issuance of financial instruments and are implemented in conformity with IFRS 9 by fair value hedging. For those debt instruments that are included in the hedging portfolio, separate interest rate and exchange rate swaps are entered into with corresponding principle and maturity structure. Inefficiency may nonetheless arise as a result of random market variations in the evaluation of object and instrument.

The hedging instruments (interest rate and exchange rate swaps) are recognised at fair value, whereas the hedged objects are recognised at fair value in respect of the risks that are hedged (interest rate risk and exchange rate risk). Hedge inefficiency, defined as the difference between the value adjustment of the hedging instruments and the value adjustment of the hedged risks in the objects is recognised through profit/loss on an ongoing basis.

	Nominal amount at 31 December 2019			Nominal amount at 31 December 2018		
Group (NOK million)	**Hedging instrument**	**Hedging object**	**Ineffectivity**	**Hedging instrument**	**Hedging object**	**Ineffectivity**
Accounting line in Balance sheet	Derivatives	Debt created by issue of securities		Derivatives	Debt created by issue of securities	
Debt at fixed interest	*Interest Swap*			*Interest Swap*		
Nominal NOK	7,789	7,650	140	8,184	8,068	116
Debt in currency at fixed interest	*Interest and currency swap*			*Interest and currency swap*		
Nominal EUR	23,429	23,429	-	23,460	22,547	913
Nominal SEK	846	846	-	291	291	-
Nominal CHF	1,586	1,586	-	1,544	1,544	-

	Book value at 31 December 2019			Book value at 31 December 2019		
	Hedging instrument	**Hedging object**	**Ineffectivity in PL**	**Hedging instrument**	**Hedging object**	**Ineffectivity in PL**
Recorded amount Assets	387			282		
Recorded amount Liabilities	218	33,790		49	32,891	
Accumulated value changes ending balance	169	154		233	217	
Accumulated value changes opening balance	235	209		278	259	
Changes in fair value	**-66**	**-56**	**- 10**	**-46**	**-42**	**-4**
Accounting line in profit /loss			Net return on financial investments			Net return on financial investments

IBOR reform

In recent years, reform of and alternatives to IBOR rates have become a priority area for governments across the world. However, there is uncertainty as to the timing and method for any changes. All SpareBank 1 SMN's interest rate derivatives have IBOR rates as their benchmark, and thus could be affected by changes. The most significant positions are held in EURIBOR and NIBOR. The bank follows market developments closely, and participates in several projects in order to monitor and facilitate any changes. The table below shows exposure and nominal amount for derivatives in hedge relationships that may be affected by the IBOR reform, split on the IBOR rate in question.

	Nominal amount		
Interest- and currency instrument (NOK million)	**Hedging object**	**Hedging instrument**	**Net exposure**
CHFLIB 3M		227	227
EURIBOR 3M	1,480	19,817	21,297
EURIBOR 6M	-	257	257
NIBOR 3M	-	10,453	10,453
STIBOR 3M	846	846	-
USD LIBOR 3M	-	1,316	1,316
Total exposure	**2,326**	**32,916**	**33,550**