

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

### Accounting Policy

The Bank evaluates and documents the effectiveness of a hedge in accordance with IAS 39. The Bank employs fair value hedging to manage its interest rate risk. In its hedging operations the Bank protects against movements in the market interest rate. Changes in credit spread are not taken to account when measuring hedge effectiveness. In the case of fair value hedging, both the hedging instrument and the hedged object are recorded at fair value, and changes in these values from the opening balance are recognised in profit/loss.

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.

Group (NOK million)	Nominal amount 31 Dec 2022			Nominal amount 31 Dec 2021		
	Hedging instrument	Hedging object	Ineffectivity	Hedging instrument	Hedging object	Ineffectivity
Accounting line in Balance Sheet	Derivatives	Debt created by issuance of securities		Derivatives	Debt created by issuance of securities	
<i>Debt at fixed interest</i>	<i>Interest swap</i>			<i>Interest swap</i>		
Nominal NOK	11,200	11,200	-	8,025	8,025	-
<i>Debt in currency at fixed interest</i>	<i>Interest and currency swap</i>			<i>Interest and currency swap</i>		
Nominal EUR	23,120	23,120	0	21,902	21,738	-164
Nominal SEK	-	-	-	-	-	0
Nominal CHF	3,737	3,737	-	1,690	1,690	-
	Book value 31 Dec 2022			Book value 31 Dec 2021		
	Hedging instrument	Hedging object	Ineffectivity in PL	Hedging instrument	Hedging object	Ineffectivity in PL
Recorded amount Assets	294			353		
Recorded amount Liabilities	2,368	35,868		511	31,461	
Accumulated value changes ending balance	-2,185	-2,233		-30	-88	
Accumulated value changes opening balance	-30	-88		634	570	
<b>Change in fair value</b>	<b>-2155</b>	<b>-2145</b>	<b>-10</b>	<b>-664</b>	<b>-657</b>	<b>-6</b>
Accounting line in profit and 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.

Interest- and currency instrument (NOK million)	Nominal amount		
	Hedging object	Hedging instrument	Net Exposure
EURIBOR 3M	-	17,169	- 17,169
EURIBOR 6M	-	273	- 273
OIBOR 3M	-	13,542	- 13,542
USDLIB 3M	-	1,478	- 1,478
<b>Total</b>	-	<b>32,462</b>	<b>- 32,462</b>