

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market

Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

Level 2: Valuation based on observable market data

Level 2 consists of instruments that are valued by the use of information that does not consist in quoted prices, but where the prices are directly or indirectly observable for the assets or liabilities concerned, and which also include quoted prices in non-active markets.

Level 3: Valuation based on other than observable data

If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 31 March 2019:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
<i>Financial assets at fair value through profit/loss</i>				
- Derivatives	8	3,173	-	3,181
- Bonds and money market certificates	2,578	18,228	-	20,806
- Equity instruments	1,520	72	423	2,015
- Fixed interest loans	-	43	4,607	4,650
<i>Financial assets through other comprehensive income</i>				
- Loans at fair value through other comprehensive income	-	-	60,332	60,332
Total assets	4,106	21,515	65,362	90,984
Liabilities				
<i>Financial liabilities through profit/loss</i>				
- Derivatives	7	3,171	-	3,178
- Equity instruments	30	-	-	30
Total liabilities	37	3,171	-	3,208

The following table presents the Group's assets and liabilities measured at fair value at 31 March 2018

Assets (NOKm)	Level 1	Level 2	Level 3	Total
<i>Financial assets at fair value through profit/loss</i>				
- Derivatives	4	3,005	-	3,008
- Bonds and money market certificates	2,485	16,312	-	18,797
- Equity instruments	1,559	103	503	2,164
- Fixed interest loans	-	43	3,195	3,238
<i>Financial assets available for sale</i>				
- Equity instruments	-	-	56,988	56,988
Total assets	4,048	19,462	60,685	84,194
Liabilities				
<i>Financial liabilities through profit/loss</i>				
- Derivatives	9	2,948	-	2,957
- Equity instruments	79	1	-	80
Total liabilities	88	2,949	-	3,037

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2018

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	1	4,117	-	4,119
- Bonds and money market certificates	2,786	17,563	-	20,348
- Equity instruments	1,195	128	550	1,873
- Fixed interest loans	-	43	4,425	4,467
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	61,295	61,295
Total assets	3,982	21,850	66,269	92,102
	-	-	-	-
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	4	2,977	-	2,982
- Equity instruments	31	-	-	31
Total liabilities	36	2,977	-	3,013

The following table presents the changes in the instruments classified in level 3 as at 31 March 2019:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	550	4,425	61,294	66,269
Investment in periode	5	337	4,817	5,159
Disposals in the periode	-166	-161	-5,780	-6,107
Expected credit loss	-	-	-0	-0
Gain or loss on financial instruments	35	7	0	42
Closing balance	423	4,607	60,332	65,362

The following table presents the changes in the instruments classified in level 3 as at 31 March 2018:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Closing balance 31 December 2017	419	3,236	-	3,722
Implementation effect IFRS 9	66	-	56,743	56,743
Opening balance 1 January 2018	485	3,236	56,743	60,464
Investment in period	22	366	4,598	4,986
Disposals in the period	-8	-386	-4,353	-4,747
Impairment allowance	-	-	-2	-2
Gain or loss on financial instruments	4	-21	2	-14
Closing balance 31 December 2018	503	3,195	56,988	60,685

The following table presents the changes in the instruments classified in level 3 as at 31 December 2018:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Closing balance 31 December 2017	419	3,236	-	3,722
Implementation effect IFRS 9	66	-	56,743	56,743
Opening balance 1 January 2018	486	3,236	56,743	60,464
Investment in period	76	2,269	18,147	20,492
Disposals in the period	-20	-1,079	-13,596	-14,694
Expected credit loss	-	-	-2	-2
Gain or loss on financial instruments	8	-2	2	8
Closing balance 31 December 2018	550	4,425	61,294	66,269

Valuation method

The valuation method applied is adapted to each financial instrument, and is intended to utilise as much of the information that is available in the market as possible.

The method for valuation of financial instruments in level 2 and 3 is described in the following:

Fixed interest loans to customers (level 3)

The loans consist for the most part of fixed interest loans denominated in Norwegian kroner. The value of the fixed interest loans is determined such that agreed interest flows are discounted over the term of the loan by a discount factor that is adjusted for margin requirements. The discount factor is raised by 10 points when calculating sensitivity.

Loans at fair value through other comprehensive income (level 3)

Floating rate mortgages classified at fair value through other comprehensive income (OCI) are valued based on carrying amounts and expected credit losses. Mortgages without significant increase in credit risk since initial recognition, are valued at nominal amount. For loans with a significant increase in credit risk since initial recognition, expected credit loss will be calculated as for assets at amortised cost. Estimated fair value on these mortgages are the carrying amount less lifetime expected credit losses. With a double likelihood of the worst case scenario in the expected credit loss model, the calculated fair value is reduced by NOK 5 million.

Short-term paper and bonds (level 2 and 3)

Valuation on level 2 is based for the most part on observable market information in the form of interest rate curves, exchange rates and credit margins for the individual credit and the bond's or certificate's characteristics. For paper valued under level 3 the valuation is based on indicative prices from a third party or comparable paper.

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 312 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank 1 SMN Invest AS. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions. Determination of fair value for the shares of Polaris Media is based on valuation undertaken by SpareBank 1 Markets. The latter is based on value-adjusted equity capital.

The owner interest in Visa Norge FLI is considered to be a financial asset and is classified to the category 'available for sale'. SpareBank 1 SMN has calculated the fair value of its portion of Visa Norge FLI at NOK 33.1 million. Sensitivity at level 3 measurement: Since the estimated value of Visa Norge is calculated by the association we do not have access to all significant inputs, but SpareBank 1 SMN has taken into account a liquidity discount on the shares of Visa Inc. of 20 per cent. Had this been adjusted to 25 per cent, the fair value measurement would have been 3.5 million lower.

Financial derivatives (level 2)

Financial derivatives at level 2 include for the most part currency futures and interest rate and exchange rate swaps. Valuation is based on observable interest rate curves. In addition the item includes derivatives related to FRAs. These are valued with a basis in observable prices in the market. Derivatives classified to level 2 also include equity derivatives related to SpareBank 1 Markets' market-making activities. The bulk of these derivatives refer to the most sold shares on Oslo Børs, and the valuation is based on the price of the actual/underlying share and observable or calculated volatility.

Sensitivity analyses, level 3 as at 31 March 2019:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	4,607	-12
Equity instruments through profit/loss *	423	-
Loans at fair value through other comprehensive income	60,332	-5

* As described above, the information to perform alternative calculations are not available