

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 2020:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	2	11,755	-	11,757
- Bonds and money market certificates	3,537	23,859	-	27,395
- Equity instruments	989	42	406	1,437
- Fixed interest loans	-	43	4,396	4,439
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	71,461	71,461
Total assets	4,527	35,699	76,263	116,489
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	18	7,986	-	8,004
- Equity instruments	34	-	-	34
Total liabilities	52	7,986	-	8,038

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
Financial assets at fair value through profit/loss				
- 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
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	60,332	60,332
Total assets	4,106	21,515	65,362	90,984
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- 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 December 2019:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	3	2,969	-	2,972
- Bonds and money market certificates	2,913	20,202	-	23,115
- Equity instruments	2,506	43	405	2,953
- Fixed interest loans	-	43	4,636	4,678
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	71,336	71,336
Total assets	5,421	23,256	76,377	105,053
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	2	3,525	-	3,528
- Equity instruments	244	-	-	244
Total liabilities	247	3,525	-	3,772

The following table presents the changes in the instruments classified in level 3 as at 31 March 2020:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	405	4,636	71,336	76,377
Investment in the period	6	91	14,177	14,274
Disposals in the period	-11	-395	-14,016	-14,421
Expected credit loss	-	-	-38	-38
Gain or loss on financial instruments	5	64	3	72
Closing balance	406	4,396	71,461	76,263

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 period	5	337	4,817	5,159
Disposals in the period	-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 December 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 period	24	1,054	44,421	45,499
Disposals in the period	-256	-818	-34,350	-35,424
Expected credit loss	-	-	-36	-36
Gain or loss on financial instruments	87	-25	6	68
Closing balance	405	4,636	71,336	76,377

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 7 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 279 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.

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 2020:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	4,396	-1
Equity instruments through profit/loss*	406	-
Loans at fair value through other comprehensive income	71,584	-7

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