

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 30 June 2020:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	0	10,069	-	10,069
- Bonds and money market certificates	2,635	26,320	-	28,955
- Equity instruments	1,137	113	422	1,673
- Fixed interest loans	-	43	4,214	4,256
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	73,516	73,516
Total assets	3,772	36,545	78,152	118,469
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	6	8,638	-	8,644
- Equity instruments	125	-	-	125
Total liabilities	131	8,638	-	8,769

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2019:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	1	3,766	-	3,767
- Bonds and money market certificates	2,076	17,794	-	19,870
- Equity instruments	1,683	71	448	2,202
- Fixed interest loans	-	43	4,744	4,787
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	60,745	60,745
Total assets	3,760	21,673	65,937	91,370
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	3	3,476	-	3,479
- Equity instruments	58	-	-	58
Total liabilities	61	3,476	-	3,537

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 30 June 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	13	216	30,795	31,025
Disposals in the period	-13	-761	-28,583	-29,357
Expected credit loss	-	-	-37	-37
Gain or loss on financial instruments	17	123	6	145
Closing balance	422	4,214	73,516	78,152

The following table presents the changes in the instruments classified in level 3 as at 30 June 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	14	622	13,008	13,644
Disposals in the periode	-172	-306	-13,557	-14,035
Expected credit loss	-	-	-0	-0
Gain or loss on financial instruments	56	3	0	60
Closing balance	448	4,744	60,745	65,937

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

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)

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk deterioration since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, 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 285 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank SMN 1 Invest. 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 30 June 2020:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	4,455	-11
Equity instruments through profit/loss*	412	-
Loans at fair value through other comprehensive income	73,516	-7

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