

Note 17 - 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 2023:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	-	7,073	-	7,073
- Bonds and money market certificates	4,576	39,754	-	44,330
- Equity instruments	158	120	548	826
- Fixed interest loans	-	-	4,628	4,628
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	80,843	80,843
Total assets	4,734	46,947	86,019	137,699
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	-	7,792	-	7,792
- Equity instruments	-	-	-	-
Total liabilities	-	7,792	-	7,792

The following table presents the Group's assets and liabilities measured at fair value at 31 March 2022:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	2	4,074	-	4,077
- Bonds and money market certificates	3,164	28,850	-	32,014
- Equity instruments	1,861	89	685	2,635
- Fixed interest loans	-	-	4,294	4,294
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	80,643	80,643
Total assets	5,027	33,013	85,623	123,662
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	0	5,147	-	5,147
- Equity instruments	-0	-	-	-0
Total liabilities	-0	5,147	-	5,146

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2022:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	-	6,804	-	6,804
- Bonds and money market certificates	3,721	34,352	-	38,073
- Equity instruments	140	130	570	840
- Fixed interest loans	-	-	4,630	4,630
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	81,901	81,901
Total assets	3,861	41,285	87,102	132,248
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	-	8,307	-	8,307
- Equity instruments	-	-	-	-
Total liabilities	-	8,307	-	8,307

The following table presents the changes in the instruments classified in level 3 as at 31 March 2023:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	570	4,630	81,901	87,101
Investment in the period	4	211	10,292	10,506
Disposals in the period	-3	-209	-11,356	-11,568
Expected credit loss	-	-	1	1
Gain or loss on financial instruments	-24	-4	5	-22
Closing balance 31 March 2023	548	4,628	80,843	86,019

The following table presents the changes in the instruments classified in level 3 as at 31 March 2022:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	564	4,198	83,055	87,817
Investment in the period	3	460	11,522	11,985
Disposals in the period	-2	-264	-13,944	-14,209
Expected credit loss	-	-	11	11
Gain or loss on financial instruments	120	-100	-1	19
Closing balance 31 March 2022	685	4,294	80,643	85,623

The following table presents the changes in the instruments classified in level 3 as at 31 December 2022:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	564	4,198	83,055	87,817
Investment in period	17	1,355	36,461	37,834
Disposals in the period	-2	-752	-37,604	-38,358
Expected credit loss	-	-	-20	-20
Gain or loss on financial instruments	-8	-171	9	-171
Closing balance 31 December	570	4,630	81,901	87,102

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)

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 6 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 474 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 31 March 2023:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	4,628	-13
Equity instruments through profit/loss*	548	-
Loans at fair value through other comprehensive income	80,843	-6

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