Note 28 - Fair value of financial instruments

Financial instruments measured at amortised cost

Financial instruments that are not measured at fair value are recognised at amortised cost or are in a hedging relationship. For further details, see note 2 Accounting principles. Amortised cost entails valuing balance sheet items after initially agreed cash flows, adjusted for impairment. Amortised cost will not always be equal to the values that are in line with the market assessment of the same financial instruments. This is due to different perceptions of market conditions, risk and discount rates.

Methods underlying the determination of fair value of financial instruments that are measured at amortised cost are described below:

Loans to and claims on customers

Current-rate loans are exposed to competition in the market, indicating that possible excess value in the portfolio will not be maintained over a long period. Fair value of current-rate loans is therefore set to amortised cost. The effect of changes in credit quality in the portfolio is accounted for through collectively assessed impairment write-downs, therefore giving a good expression of fair value in that part of the portfolio where individual write-down assessments have not been made.

Individual write-downs are determined through an assessment of future cash flow, discounted by effective interest rate. Hence the discounted value gives a good expression of the fair value of these loans.

Bonds held to maturity

Change to fair value is calculated by reference to a theoretical valuation of market value based on interest rate and spread curves.

Loans to and claims on credit institutions, Debt to credit institutions and debt to customers

For loans to and claims on credit institutions, as well as debt to credit institutions and deposits from customers, fair value is estimated equal to amortised cost.

Securities debt and subordinated debt

The calculation of fair value in level 2 is based on observable market values such as on interest rate and spread curves where available.

Parent Bank

		31 Dec 2015		31 Dec 2014	
(NOK million)	**Level *)**	**Book value**	**Fair Value**	**Book value**	**Fair Value**
Assets					
Loans to and claims on credit institutions	2	5,883	5,883	4,364	4,364
Loans to and claims on customers at amortised cost	3	85,160	85,160	83,168	83,168
Total financial assets at amortised cost		**91,043**	**91,043**	**87,532**	**87,532**
Liabilities					
Debt to credit institutions	2	8,155	8,155	9,123	9,123
Deposits from and debt to customers	2	65,091	65,091	61,202	61,202
Securities debt at amortised cost	2	13,452	14,567	11,624	11,724
Securities debt, hedging	2	21,702	21,349	21,378	21,688
Subordinated debt at amortised cost	2	2,356	2,350	2,364	2,421
Subordinated debt, hedging	2	1,107	1,099	1,006	1,021
Total financial liabilities at amortised cost		**111,863**	**112,611**	**106,697**	**107,178**

Group

(NOK million)	Level *)	31 Dec 2015 Book value	31 Dec 2015 Fair Value	31 Dec 2014 Book value	31 Dec 2014 Fair Value
Assets					
Loans to and claims on credit institutions	2	2,407	2,407	1,289	1,289
Loans to and claims on customers at amortised cost	3	88,979	88,979	86,835	86,835
Total financial assets at amortised cost		**113,119**	**113,119**	**88,123**	**88,123**
Liabilities					
Debt to credit institutions	2	8,155	8,155	9,123	9,123
Deposits from and debt to customers	2	64,090	64,090	60,680	60,680
Securities debt at amortised cost	2	13,452	14,567	11,624	11,724
Securities debt, hedging		21,702	21,349	21,378	21,688
Subordinated debt at amortised cost	2	2,356	2,350	2,364	2,421
Subordinated debt, hedging	2	1,107	1,099	1,006	1,021
Total financial liabilities at amortised cost		**110,862**	**111,609**	**106,175**	**106,656**

*) Fair value is determined by using different methods in three levels. See note 27 for a definition of the levels