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 16		31 Dec 15	
(NOK million)	**Level 1)**	**Book value**	**Fair Value**	**Book value**	**Fair Value**
Assets					
Loans to and claims on credit institutions	2	8,203	8,203	5,883	5,883
Loans to and claims on customers at amortised cost	3	92,673	92,673	85,160	85,160
Total financial assets at amortised cost		**100,876**	**100,876**	**91,043**	**91,043**
Liabilities					
Debt to credit institutions	2	10,299	10,299	8,155	8,155
Deposits from and debt to customers	2	68,391	68,391	65,091	65,091
Securities debt at amortised cost	2	10,689	10,700	13,452	14,567
Securities debt, hedging	2	25,627	25,307	21,702	21,349
Subordinated debt at amortised cost	2	2,057	2,050	2,356	2,350
Subordinated debt, hedging	2	1,083	1,075	1,107	1,099
Total financial liabilities at amortised cost		**118,146**	**117,822**	**111,863**	**112,611**

Group

(NOK million)	Level 1)	31 Dec 16 Book value	31 Dec 16 Fair Value	31 Dec 15 Book value	31 Dec 15 Fair Value
Assets					
Loans to and claims on credit institutions	2	3,892	3,892	2,407	2,407
Loans to and claims on customers at amortised cost	3	97,528	97,528	88,979	88,979
Total financial assets at amortised cost		**101,420**	**101,420**	**91,385**	**91,385**
Liabilities					
Debt to credit institutions	2	10,509	10,509	8,155	8,155
Deposits from and debt to customers	2	67,168	67,168	64,090	64,090
Securities debt at amortised cost	2	10,689	10,700	13,452	14,567
Securities debt, hedging		25,627	25,307	21,702	21,349
Subordinated debt at amortised cost	2	2,099	2,093	2,356	2,350
Subordinated debt, hedging	2	1,083	1,075	1,107	1,099
Total financial liabilities at amortised cost		**117,175**	**116,852**	**110,862**	**111,609**

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