Note 28 - Fair value of financial instruments at amortised cost

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

(NOK million)	Level 1)	31 Dec 2017 Book value	31 Dec 2017 Fair Value	31 Dec 2016 Book value	31 Dec 2016 Fair Value
Assets					
Loans to and claims on credit institutions	2	9,543	9,543	8,203	8,203
Loans to and claims on customers at amortised cost	3	101,490	101,490	92,673	92,673
Total financial assets at amortised cost		**111,033**	**111,033**	**100,876**	**100,876**
Liabilities					
Debt to credit institutions	2	9,047	9,047	10,299	10,299
Deposits from and debt to customers	2	77,362	77,362	68,391	68,391
Securities debt at amortised cost	2	11,003	11,040	10,689	10,700
Securities debt, hedging	2	31,191	31,472	25,627	25,307
Subordinated debt at amortised cost	2	1,102	1,104	1,103	1,100
Subordinated debt, hedging	2	1,057	1,060	1,083	1,075
Total financial liabilities at amortised cost		**130,762**	**131,085**	**117,192**	**116,872**

Group

(NOK million)		31 Dec 2017 Book value	31 Dec 2017 Fair Value	31 Dec 2016 Book value	31 Dec 2016 Fair Value
Assets					
Loans to and claims on credit institutions	2	4,214	4,214	3,892	3,892
Loans to and claims on customers at amortised cost	3	107,680	107,680	97,528	97,528
Total financial assets at amortised cost		**111,894**	**111,894**	**101,420**	**101,420**
Liabilities					
Debt to credit institutions	2	9,607	9,607	10,509	10,509
Deposits from and debt to customers	2	76,476	76,476	67,168	67,168
Securities debt at amortised cost	2	11,003	11,040	10,689	10,700
Securities debt, hedging		31,191	31,472	25,627	25,307
Subordinated debt at amortised cost	2	1,144	1,148	1,145	1,143
Subordinated debt, hedging	2	1,057	1,060	1,083	1,075
Total financial liabilities at amortised cost		**130,478**	**130,802**	**116,221**	**115,902**

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