

Note 12 - Credit risk exposure for each internal risk rating

The Bank uses a special classification system for monitoring credit risk in the portfolio. Risk classification is based on each individual exposure's probability of default. In the table below this classification is collated with corresponding rating classes at Moody's. Historical default data are Parent Bank figures showing the default ratio (DR) per credit quality step. The figures are an unweighted average of customers with normal scores in the period 2010-2016. Collateral cover represents the expected realisation value (RE value) of underlying collaterals. The value are determined using fixed models, and actual realisation value are validated to test their reliability of the model. In accordance with the capital requirements regulations the estimates are downturn estimates. Based on the collateral cover (RE value / EAD) the exposure is classified to one of seven classes, the best of which has a collateral cover above 120 per cent, and the lowest has a collateral cover below 20 per cent.

Credit quality step	Probability of default			Historical default	Default 2015	Collateral class	Collateral cover	
	From	To	Moody's				Lower limit	Upper limit
A	0.00 %	0.10 %	Aaa-A3	0.02 %	0.01 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.07 %	0.05 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.16 %	0.10 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.41 %	0.24 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.58 %	0.41 %	5	40	60
F	1.25 %	2.50 %		1.35 %	1.01 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	3.12 %	1.50 %	7	0	20
H	5.00 %	10.00 %	B1-B2	6.04 %	3.85 %			
I	10.00 %	99.99 %	B3-Caa3	16.22 %	11.27 %			
J	Default							
K	Written down							

The Bank's exposures are classified into risk groups based on credit quality step.

Credit quality step	Risk groups	Averaged unhedged exposure		Averaged unhedged exposure	
A - C	Lowest risk				
D - E	Low risk				
F - G	Medium risk				
H	High risk				
I	Highest risk				
J - K	Default and written down				

Parent Bank (NOK million)	Averaged unhedged exposure		Averaged unhedged exposure	
	31 Dec 16	Total exposure 31 Dec 16	31 Dec 15	Total exposure 31 Dec 15
Lowest risk	12.3 %	74,780	9.0 %	60,945
Low risk	21.3 %	13,594	12.8 %	21,757
Medium risk	15.7 %	19,319	14.7 %	19,305
High risk	15.5 %	2,659	21.1 %	3,708
Highest risk	11.3 %	1,922	11.6 %	1,680
Default and written down	40.4 %	1,627	31.1 %	558
Total		113,900		107,953

Group (NOK million)	Averaged unhedged exposure		Averaged unhedged exposure	
	31 Dec 16	Total exposure 31 Dec 16	31 Dec 15	Total exposure 31 Dec 15
Lowest risk	12.2 %	75,166	9.0 %	61,202
Low risk	19.2 %	15,033	12.4 %	22,821
Medium risk	14.2 %	21,339	14.0 %	20,925
High risk	12.3 %	3,335	19.8 %	4,222
Highest risk	8.3 %	2,607	15.1 %	2,285
Default and written down	40.4 %	1,627	30.7 %	604
Total		119,107		112,060

The realisation value of furnished collateral is determined such that they, on a conservative assessment, reflect the presumed realisation value in an economic downturn.