

## 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 2010-2018.

Collateral cover represents the expected realisation value (RE value) of underlying collaterals. The values are determined using fixed models, and actual realisation values are validated to test the models' reliability. 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 credit quality steps, 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		Collateral cover		
	From	To	Moody's	default	Default 2018	Collateral class	Lower limit	Upper limit
A	0.00 %	0.10 %	Aaa-A3	0.01 %	0.01 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.04 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.07 %	0.06 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.27 %	0.47 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.37 %	0.52 %	5	40	60
F	1.25 %	2.50 %		0.92 %	0.93 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.18 %	2.02 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.41 %	3.99 %			
I	10.00 %	99.99 %	B3-Caa3	11.28 %	13.78 %			
J	Default							
K	Problem loans							

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

Credit quality step	Risk groups
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	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
Lowest risk	10.2 %	87,677	9.5 %	80,379
Low risk	8.5 %	21,176	9.9 %	20,548
Medium risk	11.4 %	18,783	12.2 %	15,970
High risk	11.8 %	3,743	8.6 %	2,926
Highest risk	3.0 %	2,387	4.2 %	3,185
Default and/or problem loans	11.3 %	2,326	32.0 %	1,698
<b>Total</b>		<b>136,092</b>		<b>124,706</b>

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
Lowest risk	10.3 %	87,334	9.5 %	80,283
Low risk	8.4 %	22,546	9.2 %	22,057
Medium risk	10.9 %	23,836	10.2 %	19,109
High risk	11.4 %	4,362	6.3 %	3,991
Highest risk	4.5 %	2,803	3.4 %	3,978
Default and/or problem loans	13.2 %	2,466	30.5 %	1,779
<b>Total</b>		<b>143,348</b>		<b>131,197</b>

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