

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 2010-2015.

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				Collateral cover			
	From	To	Moody's	Historical default	Default 2015	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 %	0.03 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.07 %	0.07 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.24 %	0.17 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.36 %	0.52 %	5	40	60
F	1.25 %	2.50 %		0.89 %	0.68 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.33 %	2.25 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.52 %	4.07 %			
I	10.00 %	99.99 %	B3-Caa3	11.01 %	12.25 %			
J	Default							
K	Written down							

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 15	31 Dec 15	31 Dec 14	31 Dec 14
Lowest risk	9.0 %	60,945	9.9 %	52,644
Low risk	12.8 %	21,757	13.1 %	25,097
Medium risk	14.7 %	19,305	21.1 %	18,122
High risk	21.1 %	3,708	15.0 %	3,998
Highest risk	11.6 %	1,680	10.8 %	1,502
Default and written down	31.1 %	558	29.0 %	432
Total		107,953		101,796

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 15	31 Dec 15	31 Dec 14	31 Dec 14
Lowest risk	9.0 %	61,202	5.9 %	52,975
Low risk	12.4 %	22,821	8.9 %	25,938
Medium risk	14.0 %	20,925	15.2 %	19,798
High risk	19.8 %	4,222	10.3 %	4,443
Highest risk	15.1 %	2,285	10.5 %	1,922
Default and written down	30.7 %	604	23.6 %	486
Total		112,060		105,563

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