

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 2011-2017.

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 2017	Collateral cover		
	From	To	Moody's			Collateral class	Lower limit	Upper limit
A	0.00 %	0.10 %	Aaa-A3	0.01 %	0.02 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.02 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.07 %	0.08 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.25 %	0.37 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.36 %	0.39 %	5	40	60
F	1.25 %	2.50 %		0.92 %	1.24 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.20 %	1.88 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.45 %	4.50 %			
I	10.00 %	99.99 %	B3-Caa3	11.08 %	11.62 %			
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 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Lowest risk	9.5 %	80,379	12.3 %	77,882
Low risk	9.9 %	20,548	21.3 %	14,413
Medium risk	12.2 %	15,970	15.7 %	19,342
High risk	8.6 %	2,926	15.5 %	2,723
Highest risk	4.2 %	3,185	11.3 %	1,931
Default and written down	32.0 %	1,698	40.4 %	1,754
Total		124,706		118,046

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Lowest risk	9.5 %	80,283	12.2 %	78,265
Low risk	9.2 %	22,057	19.2 %	15,837
Medium risk	10.2 %	19,109	14.2 %	21,336
High risk	6.3 %	3,991	12.3 %	3,393
Highest risk	3.4 %	3,978	8.3 %	2,609
Default and written down	30.5 %	1,779	40.4 %	1,815
Total		131,197		123,253

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