

Note 11 - 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 2010-2019.

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 2019	Collateral class	Collateral cover	
	From	To	Moody's				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 %	0.05 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.08 %	0.12 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.27 %	0.30 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.39 %	0.79 %	5	40	60
F	1.25 %	2.50 %		0.95 %	1.42 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.21 %	2.45 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.53 %	5.95 %			
I	10.00 %	99.99 %	B3-Caa3	11.65 %	16.81 %			
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)	31 Dec 2019		31 Dec 2018	
	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
Lowest risk	13.3 %	93,929	10.2 %	87,677
Low risk	9.6 %	21,242	8.5 %	21,176
Medium risk	10.0 %	18,829	11.4 %	18,783
High risk	11.6 %	3,093	11.8 %	3,743
Highest risk	5.7 %	1,831	3.0 %	2,387
Default and/or problem loans	15.1 %	2,972	11.3 %	2,326
Total		141,895		136,092

Group (NOK million)	31 Dec 2019		31 Dec 2018	
	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
Lowest risk	13.4 %	93,382	10.3 %	87,334
Low risk	9.3 %	22,698	8.4 %	22,546
Medium risk	9.3 %	24,864	9.0 %	23,836
High risk	11.9 %	3,811	11.3 %	4,362
Highest risk	7.3 %	2,433	2.5 %	2,803
Default and/or problem loans	16.0 %	3,124	10.6 %	2,466
Total		150,313		143,348

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