

## 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 2014-2020.

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		Moody's	Historical default		Collateral class	Collateral cover	
	From	To		default	Default 2020		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 %	0.08 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.28 %	0.48 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.41 %	0.60 %	5	40	60
F	1.25 %	2.50 %		0.95 %	1.52 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.07 %	2.82 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.47 %	6.05 %			
I	10.00 %	99.99 %	B3-Caa3	12.19 %	15.95 %			
J	Default							
K	Credit impaired							

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 credit impaired

Parent Bank (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2020	31 Dec 2020	31 Dec 2019	31 Dec 2019
Lowest risk	12.4 %	98,815	13.3 %	93,929
Low risk	4.6 %	25,920	9.6 %	21,242
Medium risk	13.5 %	17,003	10.0 %	18,829
High risk	10.2 %	2,851	11.6 %	3,093
Highest risk	12.7 %	1,821	5.7 %	1,831
Default and/or credit impaired	25.1 %	2,277	15.1 %	2,972
<b>Total</b>		<b>148,686</b>		<b>141,895</b>

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2020	31 Dec 2020	31 Dec 2019	31 Dec 2019
Lowest risk	12.5 %	98,376	13.4 %	93,382
Low risk	5.1 %	27,851	9.3 %	22,698
Medium risk	11.9 %	23,092	9.3 %	24,864
High risk	10.9 %	3,665	11.9 %	3,811
Highest risk	13.1 %	2,375	7.3 %	2,433
Default and/or credit impaired	25.8 %	2,449	16.0 %	3,124
<b>Total</b>		<b>157,808</b>		<b>150,313</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.