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 2015-2021.

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.

	Probability of default					Collateral cover		
Credit quality step	**From**	**To**	**Moody's**	**Historical default**	**Default 2021**	**Collateral class**	**Lower limit**	**Upper limit**
A	0.00 %	0.10 %	Aaa-A3	0.01 %	0.00 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.02 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.08 %	0.09 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.31 %	0.15 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.52 %	0.40 %	5	40	60
F	1.25 %	2.50 %		1.08 %	0.87 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.14 %	2.06 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.54 %	3.44 %			
I	10.00 %	99.99 %	B3-Caa3	13.49 %	13.06 %			
J	Default							

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 31 Dec 2021**	**Total exposure 31 Dec 2021**	**Averaged unhedged exposure 31 Dec 2020**	**Total exposure 31 Dec 2020**
Lowest risk	3.5 %	113,794	3.5 %	96,809
Low risk	7.4 %	26,482	4.6 %	25,258
Medium risk	6.4 %	15,016	13.9 %	15,970
High risk	9.7 %	2,854	10.4 %	2,761
Highest risk	5.4 %	1,503	12.5 %	1,777
Default and/or problem loans	26.6 %	3,211	25.2 %	2,195
Total		**162,860**		**144,770**

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
(NOK million)	**31 Dec 2021**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2020**
Lowest risk	3.5 %	114,237	3.6 %	96,370
Low risk	7.3 %	28,449	5.1 %	27,189
Medium risk	6.8 %	21,756	12.1 %	22,059
High risk	9.3 %	3,536	11.1 %	3,575
Highest risk	6.8 %	2,035	13.0 %	2,331
Default and/or problem loans	26.3 %	3,402	25.9 %	2,368
Total		**173,415**		**153,892**

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