SpareBank 1 SMN

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 2016-2022.

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 2022 | Collateral class | Collateral cover | |
	From	To	Moody's				Lower limit	Upper limit
A	0.00 %	0.10 %	Aaa-A3	0.02 %	0.03 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.04 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.09 %	0.11 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.31 %	0.20 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.56 %	0.84 %	5	40	60
F	1.25 %	2.50 %		1.20 %	1.44 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.02 %	1.42 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.68 %	5.01 %			
I	10.00 %	99.99 %	B3-Caa3	13.82 %	14.26 %			
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 credit impaired

Parent Bank (NOK million)	Averaged unhedged exposure 31 Dec 2022	Total exposure 31 Dec 2022	Averaged unhedged exposure 31 Dec 2021	Total exposure 31 Dec 2021
Lowest risk	0.9 %	115,527	0.9 %	113,799
Low risk	1.3 %	24,473	3.4 %	26,476
Medium risk	1.7 %	18,093	4.2 %	15,017
High risk	3.0 %	2,719	5.0 %	2,854
Highest risk	2.2 %	1,693	2.2 %	1,503
Default and/or problem loans	10.0 %	2,051	14.5 %	3,212
Total		**164,556**		**162,860**

Group (NOK million) (NOK million)	Averaged unhedged exposure 31 Dec 2022	Total exposure 31 Dec 2022	Averaged unhedged exposure 31 Dec 2021	Total exposure 31 Dec 2021
Lowest risk	0.6 %	116,505	0.9 %	114,237
Low risk	1.2 %	26,996	3.2 %	28,449
Medium risk	2.2 %	25,200	2.9 %	21,756
High risk	3.6 %	3,772	4.1 %	3,536
Highest risk	2.9 %	2,462	1.6 %	2,035
Default and/or problem loans	10.9 %	2,222	13.7 %	3,402
Total		**177,157**		**173,415**

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