FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

Risk-based supervision

Credit Risk Module

Evaluation of management and control

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INTRODUCTION

The credit risk module consists of a guidance for the assessment of an institution's credit risk exposure and a guidance for assessment of the institution's system for the management and control of credit risk. The present document is the guidance on the assessment of the institution's management and control of credit risk in the loan portfolio . The document is intended for use at on-site inspections, as a basis for the authorities' assessment of the institution’s capital needs (SREP), and in connection with the preparation of an overall risk assessment of the institution.

The guidance has been drawn up primarily with a view to the assessment of large institutions. Where smaller institutions are concerned, the guidance must be tailored to the complexity and scale of the particular business (proportionality principle).

The guidance comprises six chapters:

1. Strategy and policies
2. Organisation and lines of responsibility
3. Measurement tools
4. Monitoring and reporting
5. Independent control
6. Role of the board of directors

Relevant documents:

Guidelines from the European Banking Authority (EBA):

- Sound credit risk assessment and valuation for loans, June 2006
- Guidelines on the management of concentration risk under supervisory review process, September 2010 (GL 31)
- Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06)
- Guidelines on common procedures and methodologies for the supervisory evaluation process (SREP) and supervisory stress testing (EBA/GL/2018/03)
- Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)
- Guidelines on sound remuneration policies (EBA/GL/2015/22)

Regulations:

- Finanstilsynet's regulations on accounting treatment of loans and guarantees in financial institutions (Lending Regulations) of 21 December 2004
- Regulations on capital requirements and national adaptation of CRR/CRD IV (CRR/CRD IV regulations) of 22 August 2014
- Regulations on requirements for new residential mortgages (residential mortgage lending regulations) of 19 June 2018
- Regulations on requirements for financial institutions’ lending practices for consumer loans of 12 February 2019.

Circulars:

- Circular 10/2005: Accounting treatment of loans and guarantees
- Circular 12/2016: Finanstilsynet's methodologies for assessing risk and capital needs

- Circular 2/2018: Requirements for new residential mortgages
- Circular 5/2019: Requirements for financial institutions’ lending practices for consumer loans

Standards:

- EBA's Revised list of Risk Indicators and Methodological Guide
- FINREP: (Financial Reporting, Supervisory reporting, EBA)
- ORBOF: (Offentlig Rapportering for Banker og Finansieringsforetak)

Internal forms have been prepared to assist evaluation. The factual status of the institution and Finanstilsynet's assessments, questions and conclusions are to be entered in the form with a basis in the assessment factors in each section.

As part of Finanstilsynet's assessment, each sub-chapter of this document ends with a table to assist classification of the quality of management and control. Classification is four-tiered: good control, satisfactory control, less than satisfactory control and unsatisfactory control. The basis for classification will be the conclusions reached regarding deficiencies and flaws in management and control. External communication is not a matter for classification.

1 STRATEGY AND POLICIES

1.1 Strategy and policies

This section is designed to assess the institution's strategy and planning process for the credit risk area.

Relevant assessment factors:

The institution's overarching strategy

- The institution's overarching strategy should state targets for financial strength, profitability and growth.
- The institution should have an overview of its need for equity capital for the credit business as part of its overall management of risk and financial position. This should receive mention in the overarching strategy.

Strategy and policies for the credit business

- The institution should have a strategy for its credit business, adopted by the board of directors, covering all credit business.
- The strategy should be regularly reviewed by the board of directors in light of changes in the regulatory framework, the macroeconomic outlook, developments in strategic priority areas, and the institution's financial soundness and financial performance**.**
- The risk level derived from the credit business strategy, including targeted lending growth, should be commensurate with the institution's financial position and profitability. Risk assessments should take account of cyclical aspects of the economy and of individual industries.
- The strategy should contain requirements on the profitability of the credit business relative to economic capital / risk capital.
- The strategy and policy should contain quantified limits on exposure in various areas and requirements the institution wishes to meet in the credit portfolio in terms of diversification, for example distribution on customer segments and business sectors and concentration on individual customers.
- The credit policy should deal with overarching principles and requirements on lending, and should apply to the entire institution or group. The overarching principles should be reflected in credit assessment procedures and lending (Credit Manual). (This is covered in greater detail in 2.3. Loan Process.)
- The institution’s credit strategy and credit policy should set out its stance regarding ESG[1] factors and the associated risks. The institution's stance should be specified in internal guidelines to enable the institution to identify, assess, monitor and control the risks in its loan portfolio. The institution is expected to make a special assessment of climate risk attending its lending activity (physical risk, transition risk).

[1] Environmental, Social and Governance

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
The overarching strategy quantifies targets for the institution's profitability and financial position, including the profitability of and necessary capital for the credit business	The overarching strategy covers the institution's profitability and financial position, including the profitability of and capital to the credit business	The overarching strategy deals unsatisfactorily with the institution's financial position and profitability, including the credit business	The overarching strategy does not deal specifically with the institution's, or the credit business', financial position and profitability
The credit strategy sets a risk level target that is appropriate to the institution's financial position and profitability and strategic objectives	The credit strategy sets a risk level target that is viewed in connection with the institution's financial position and profitability and strategic objectives	The credit strategy sets a risk level target that is too high relative to the institution's financial position and profitability and strategic objectives	The credit strategy sets a risk level that is clearly not commensurate with the institution's financial position and profitability and strategic objectives
The credit strategy has been adopted by the board of directors. Regularly reviewed by the board	The credit strategy has been adopted by the board of directors. Reviewed by the board on an ad hoc basis	The credit strategy has not been adopted by the board of directors. Regularly reviewed	The credit strategy has not been adopted by the board of directors. Rarely reviewed
Requirements are in place for risk-adjusted profitability for the credit business	Requirements are in place for profitability relative to capital allocated to the credit business	Requirements are in place for profitability for the credit business that are not viewed in relation to risk	No profitability requirements in place for the credit business
The strategy or credit policy sets absolute limits on and requirements for diversification of the institution's credit portfolio	The strategy or credit policy states absolute limits and requirements on diversification for a large portion of the institution's credit portfolio	The strategy or credit policy sets guidelines limits or non-measurable requirements for diversification of the institution's credit portfolio	The strategy or credit policy does not set requirements for diversification of the institution's credit portfolio
The credit policy sets relevant and appropriate overarching requirements for lending	The credit policy sets acceptable overarching requirements for lending	Credit policy sets too few overarching requirements for lending	The credit policy does not set overarching requirements for lending
The credit strategy and policy cover the institution's stance on ESG risk, including climate risk, in an adequate manner. The institution's stance has been specified in internal guidelines in a satisfactory manner	The credit strategy and policy cover the insti-tution's stance on ESG risk, including climate risk, in a satisfactory manner. The institution's stance has been specified in internal guidelines in an acceptable manner	The credit strategy and policy are inadequate as regards the institution's stance on ESG risk, including climate risk. The institution's stance has been poorly specified in internal guidelines	The credit strategy and policy do not cover the institution's stance on ESG risk, including climate risk. The institution's stance has not been specified in internal guidelines

1.2 Approval of new business activities and products in the credit area

This section is designed to assess the institution's procedures for approval of new products/activities in the credit area.

Relevant assessment factors:

- Approval procedures should exist for new or significant changes in products and activities, including activities focusing on geographical areas outside the institution's core area.
- Relevant risk experts, also from support functions and internal control functions, should be consulted as part of the approval procedure.
- Approval of new products/activities in the credit area should require approval by the board of directors and/or the relevant credit body.
- As a basis for the approval decision, documentation should be prepared containing:
    - *A description of the product/activity*
    - *An assessment of the resources needed to establish sound and effective risk monitoring*
    - *A risk analysis of the product/activity*
    - *A description of necessary procedures for monitoring and controlling identified risks*

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
The board of directors or relevant credit body has written procedures for the approval of new activities and products in the credit area. Adopted criteria for approval are relevant and complied with	It is customary for the board of directors or other relevant credit body to approve new activities and products in the credit area. Criteria for approval are in place	Approval by the board of directors or another relevant body of new activities and products in the credit area is given on a random basis. Criteria for approval are flawed	It is not customary for the board of directors or other relevant credit body to approve new activities and products in the credit area. No criteria for approval are in place

2 ORGANISATION AND LINES OF RESPONSIBILITY

The purpose of this chapter is to assess whether the institution's organisational set-up, authorisation system and lines of responsibility in the credit area are clear, formalised and tailored to the size of the operations.

The distribution of responsibility between customer units, their support units on the business side and the independent risk management function is at centre stage of the assessment. By independent is meant a person/function that does not have direct profit responsibility for customers/customer segments or report directly or indirectly to someone who has such responsibility.

The quality of credit management procedures and to what extent policies are actually adhered to, is also assessed. Random checks of individual exposures and of minutes of board meetings, credit committees and the like will necessarily be part of the assessments.

2.1 Organisational set-up and staffing

This section is designed to assess the institution's organisational set-up and distribution of responsibilities, as well as the institution's resources and expertise in the credit area.

Relevant assessment factors:

- The organisation chart should show the institution's legal and ownership structure, as well as actual reporting lines and lines of responsibility.
- Job instructions and job descriptions should exist for central staff members.
- Large institutions must have in place an independent control function with sufficient competence and resources to monitor and manage credit risk on a portfolio basis. Small institutions may alternatively have the same expertise assigned to an independent staff unit.
- The institution’s independent risk management function should be involved in discussions concerning the granting of large loans. Nevertheless, the authorisation holder in the first line business unit should have full responsibility for credit decisions.
- The institution must see to the establishment of clear dividing lines (Chinese Walls) between the lending business and other parts of the institution (e.g. securities investments and corporate finance functions) to prevent conflicts of interest.
- The number of staff and their expertise should be tailored to business volume and the complexity of the business. Staffing should be sufficient to enable the institution to fully assess the risk posed by the credit business and to abide by the institution's credit strategy, overall policy and credit procedures/credit manual. Best practice requires the existence of relevant formal requirements on the expertise of staff members at various levels of the credit management process and, in addition, the existence of internal training and coaching programmes.

Any reward schemes must be risk-neutral, i.e. not incentivise high risk-taking in the interest of short-term growth and profit, without correction being made for the risk of future loss (both expected and unexpected loss). Any bonus schemes in the credit business should receive particular attention. Assessments of bonus schemes and other reward schemes should be made with a basis in the EBA Guidelines on Remuneration Policies and Practices (EBA/GL/2015/22) and provisions on remuneration schemes in financial institutions in the Financial Institutions Act (chapter 5) and the Financial Institutions Regulations.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
Lines of responsibility and reporting lines are clearly formalised and tailored to the size of the business	Lines of responsibility and reporting lines are formalised and acceptable relative to the size of the business	Lines of responsibility and reporting lines are confusing and poorly tailored to the size of the business	Lines of responsibility and reporting lines are unclear and not formalised
Loan monitoring functions play an independent role and are assessed to be competent	Loan monitoring functions are utilised and assessed to be competent	Loan monitoring functions do not play an independent role and their expertise should be improved	Loan monitoring functions are absent or ineffective. There is much room for improvement of expertise and critical attitudes
Organisation, staffing and expertise with regard to monitoring loans are good	Organisation, staffing and expertise with regard to monitoring loans are good	Organisation, staffing and expertise with regard to monitoring loans should be improved	Organisation, staffing and expertise with regard to monitoring loans should be significantly improved
The internal risk management control function is independent and has sufficient resources and credit competence	The internal risk management control function is independent and has acceptable competence and resources.	The internal risk management control function is not sufficiently independent and/or lacks sufficient expertise and/or has inadequate resources.	The internal risk management control function is not independent and/or lacks sufficient expertise and/or has inadequate resources.
The number of staff and expertise are appropriate to the business	The number of staff and expertise are acceptable relative to the scale of the business	The number of staff and expertise are inadequately tailored to the business	The number of staff and expertise are unsatisfactory
Clear dividing lines exist between lending business and other business	Dividing lines exist between lending business and other business	There are no dividing lines between lending business and other business.	There are no dividing lines between lending business and other business.

2.2 Loan authorisation system

This section is designed to survey the institution's loan authorisation system and assess whether it is commensurate with the size of the business.

Relevant assessment factors:

- The authorisation system for loans should be formalised in writing and be commensurate with the complexity and risk of the credit business.
- The credit memorandum and decision documents should show, by means of endorsement by persons/committees that have considered the particular case, that the loan authorisation system is complied with in practice.
- The loan authorisation system should be structured to ensure that it is clear which cases must be submitted to the board before a loan is granted. The board is expected to consider loans above a certain size and exposures that may be subject to special risk.
- The board's delegation of loan authorisations should be regularly re-assessed.
- The loan authorisation system should have regard for deviations from credit strategy and credit policy. In the event of a deviation from policy the credit case should be

handled at the organisational level that adopted the policy. Deviations from credit strategy must be submitted to the board of directors for decision.

- Pricing should be an integral part of the credit decision.
- Breach of authorisation limits should prompt quality assurance of procedures and possible imposition of sanctions depending on the seriousness of the matter.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
The authorisation system is formalised and commensurate with the credit business	The authorisation system is formalised but is not fully tailored to the credit business	The authorisation system is partially formalised and is poorly tailored to the credit business	The authorisation system is not formalised and is not tailored to the credit business
Responsibilities and procedures ensure that the board makes decisions regarding individual loans	The board makes decisions concerning individual loans	Decisions concerning individual loans are submitted to the board for information purposes	The board of directors is not involved in the credit business
Delegation of lending authorisations is commensurate with the competence and complexity of the credit business	Delegation of lending authorisations is acceptable in relation to the competence and complexity of the credit business.	Delegation of lending authorisations is poorly adapted to the competence and complexity of the credit business	Delegation of lending authorisations is poorly adapted to the competence and complexity of the credit business
The authorisations are regularly reviewed	The authorisations are regularly reviewed	The authorisations are rarely reviewed	The authorisations are not reviewed
Requirements for consideration by the board or on a higher level in the event of deviations from strategy, policy or procedures	Deviations from strategy, policy or procedures are usually dealt with at a higher level	Difficult to identify deviations due to vague strategy, policy or procedures. Absence of rules for consideration at higher authorisation levels.	Difficult to identify deviations due to vague strategy, policy or procedures.
Pricing is a part of the credit decision	Pricing is discussed as a part of the credit decision	Prices are set on an inadequate basis.	Pricing is not a part of the credit decision
Breaches of authorisations are rare and prompt quality assurance of procedures or sanctions	Breaches of authorisation limits occur from time to time and prompt quality assurance of procedures or sanctions	Frequent breaches of authorisations, authorisations that are incompletely formalised and deviations are not dealt with thoroughly	Authorisations are not absolute and deviations are difficult to check

2.3 Loan process

This section is designed to assess the quality of the procedures underlying the institution's loan process.

Relevant assessment factors:

- The standard credit memorandum, credit manual and loan process should ensure that relevant risk factors are assessed before a loan is made.
- The following assessment factors should be covered:
  - *The customer's business, i.e. business concept, operations, corporate structure, financial position, previous activities, references*
  - *The institution’s stance regarding ESG factors relating to the loan and the collateral, including risk associated with the effects of climate change and the transition to a low-emission society (climate risk).*
  - *An assessment of the consolidation/grouping of customers*
  - *Particular policies, limits and requirements on lending within individual industries*
  - *Evidence of debt servicing ability in the form of cash flow analyses, primarily over the loan's lifetime, with associated sensitivity analyses related to changes in key risk parameters for the exposure concerned*
  - *Requirements for collateral, loan-to-value ratios, covenants and pricing*
  - *Requirements on the method for valuation of collateral, and regular updating.*
  - *The collection of required documentation, implementation of required risk assessments and customer due diligence measures, and updates and follow-up in accordance with the anti-money laundering legislation*

- The institution must have procedures and policies for exposure renewals, supplementary loans and participation in syndicates.
- The institution must have procedures for the granting of foreign currency loans, if relevant.
- The institution should have procedures and policies for prudent residential lending practices; cf. the regulations on requirements for new residential mortgages (residential mortgage lending regulations) of June 2018.
- The institution should have procedures and policies for prudent consumer lending practices; cf. the regulations on requirements for consumer loans of February 2019.
- The institution should have procedures and policies for prudent lending practices for loans secured by cars.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
A standard credit memorandum requiring relevant docu-mentation of analyses, assessments and possible deviations from policy is utilised without exception	A standard credit memorandum with relevant documentation of analyses, assessments and possible deviations from policy is utilised as a rule	A standard credit memorandum with relevant documentation of analyses, assessments and possible deviations from policy is not utilised	A credit memorandum with relevant documentation of analyses, assessments and possible deviations from policy is not utilised
The credit manual/procedures contain requirements and restrictions set out in the credit strategy and policy documents	The credit manual/ procedures contain to some extent requirements and restrictions set out in the credit strategy and policy documents	The credit manual/ procedures are flawed and little related to credit strategy/policy	The credit manual/ procedures are inadequate and not based on credit strategy/policy
The loan process provides good documentable analyses of relevant risk factors with a focus on the customer's finances, ability to repay, collateral, sensitivity analyses and structuring of credits, including ESG risk (including climate risk)	The loan process provides documentable analyses of relevant risk factors such as the customer's finances, ability to repay, collateral, sensitivity analyses, structuring of credits, including ESG risk (including climate risk)	The loan process provides inadequate analysis of relevant risk factors. Lacks sufficient focus on analysis of the customer's finances, ability to repay, collateral and structuring of credits, including ESG risk (including climate risk)	The loan process provides a flawed analysis of relevant factors. Lacks necessary focus on analysis of the customer's finances, ability to repay, collateral and structuring of credits, including ESG risk (including climate risk)
Good policies for renewing exposures, supplementary loans, participation in syndicates and granting of foreign currency loans	Acceptable policies for renewing exposures, supplementary loans, participation in syndicates and granting of foreign currency loans	Less than satisfactory policies for renewing exposures, supplementary loans, participation in syndicates and granting of foreign currency loans	Highly flawed policies for renewing exposures, supplementary loans, participation in syndicates and granting of foreign currency loans
Policies and procedures for prudent residential lending practices are in line with the requirements of the residential mortgage lending regulations	Policies and procedures for prudent residential lending practices are essentially in line with the requirements of the residential mortgage lending regulations	Policies and procedures for prudent residential lending practices are inadequate in relation to the requirements of the residential mortgage lending regulations	Policies and procedures for prudent residential lending practices are flawed and deviate significantly from the requirements of the residential mortgage lending regulations
Policies and procedures for prudent consumer lending practices are in line with the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans	Policies and procedures for prudent consumer lending practices are essentially in line with the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans	Policies and procedures for prudent consumer lending practices are inadequate in relation to the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans	Policies and procedures for prudent consumer lending practices are flawed and deviate significantly from the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans
Documentation obtained, required assessments made, and measures and updates in accordance with the require-ments of the anti-money laundering legislation completed	Documentation obtained, required assessments made, and measures and updates that are broadly in line with the anti-money laundering legislation completed	Partially obtained documentation, made required assessments and completed measures and updates in accordance with the requirements of the anti-money laundering legislation	Failed to obtain documentation, make the required assessments, and complete measures and updates in accordance with the requirements of the anti-money laundering legislation

2.4 Procedures for loan disbursement

This section is designed to assess procedures for loan disbursement.

Relevant assessment factors:

- Relevant procedures should exist for loan disbursement. Procedures should ensure that all agreed collateral has been established and that other preconditions for the loan offer have been checked prior to disbursement.
- The procedure should require documentary evidence that relevant checks have been carried out.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
Good policies for loan disbursement and procedures that ensure correct establishment of collateral with documentation of checks carried out	Acceptable policies for loan disbursement and procedures that ensure correct establishment of collateral with documentation of checks carried out	Inadequate policies for loan disbursement. Procedures do little to ensure correct establishment of collateral. Documentation of checks carried out is not required	Absence of policies for loan disbursement. No procedures to ensure correct establishment of collateral with documentation of checks carried out

2.5 Consequences of breaches of policies and procedures

This section is designed to assess whether the institution has in place sanctions in the event of breaches of policies and procedures in the loan process. The sanctions must be appropriate to the seriousness of the breach, and will depend on the degree to which the breach has affected the institution's risk exposure and resulted in losses.

Relevant assessment factors:

- The institution should have in place procedures for sanctions in the event of breaches of internal policies, including for the loan process. Deviations from established procedures resulting in breaches of policies for the loan process must have consequences both in the form of quality assurance of procedures and in the form of sanctions, depending on the seriousness of the breach.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
Good procedures and practices for sanctions in the event of policy breaches in the loan process	Acceptable procedures and practices for sanctions in the event of policy breaches in the loan process	Inadequate procedures and practices for sanctions in the event of policy breaches in *the loan process	Absence of procedures and practices for sanctions in the event of policy breaches in the loan process

3 MEASUREMENT TOOLS

The purpose of this chapter is to assess whether the institution has in place relevant systems to identify and measure credit risk, as well as systems and methods to measure/calculate expected credit losses for institutions that apply the rules on credit losses in IFRS 9. In this assessment the complexity and scope of operations must be kept in mind. The institution's use of models must be tailored to the portfolio and level of aspiration. It must be ascertained whether the institution has early warning systems with regard to changes in the risk picture, and whether stress tests are prepared and the quality thereof.

Some institutions have obtained approval for their internal rating based (IRB) models used to compute capital requirements for credit risk. In the case of institutions with approval to use the IRB models, ordinary inspections will focus primarily on the use of the models, while validation of the models will be a matter for separate follow-up or inspection.

The institutions are expected to undertake regular validation of the models used to calculate expected credit losses.

3.1 Internal models

By IRB models is meant models that classify a customer or an exposure on the basis of risk. The customer or exposure is typically assigned to a rating class. Each rating class is associated with a probability of default (PD), and loss given default (LGD), or a mix of the two, for example expected loss (EL). Some IRB models produce these parameters directly, removing the need for risk classes[2].

Other types of internal models may be models that address the entire portfolio, thereby taking into account portfolio effects contributing to risk mitigation. These could be models that compute the total need for equity capital, termed economic capital models, or models that compute risk-adjusted profitability, risk pricing models, models for estimating expected losses etc.

The institution should coordinate the internal processes, systems, tools and data used to grant credit, monitor credit risk and make calculations for both accounting and capital purposes.

Relevant assessment factors:

- Institutions should have suitable IRB models for all customers and exposures.
- For each IRB model it should be clear what part of the institution's total portfolio the model is intended for and what portfolios it is actually applied to.
- For each IRB model it should be clear how credit risk is measured.
- For each IRB model it should be clear how the model's results can be overridden.
- The institution should have suitable models for estimating/calculating expected credit losses. The institution may use a method for estimating expected credit losses directly, i.e. estimate expected credit losses as a percentage of total exposure (institutions that do not use PD and LGD models).

[2]A distinction is drawn between rating models and scoring models. Rating models are typically structured with financial ratios on the one side, and qualitative factors such as assessments of the management team, markets, products etc., on the other side. Scoring models are based exclusively on available information about a person or a undertaking. Essential to rating models and scoring models alike is the model's ability to grade customers/exposures, and the ability to distinguish to maximum extent between good and bad customers.

- The institution should have in place a process and a model/methodology to compute the total need for equity capital, and total need for capital allocated to credit risk, in the institution/group. The method should be documentable.
- The institution should calculate risk-adjusted profitability at the customer or product level. The method should be documentable.
- The models should be an integral part of the institution's management of credit risk, and be utilised as part of the ordinary granting, monitoring and reporting process in the credit area.
- The institution should consider its own model risk, i.e. the risk of underestimating capital needs or losses due to errors in the development, implementation and use of internal models.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
The institution's use of IRB models for portfolio classification is appropriate to the portfolio and level of aspiration, and draws a clear distinction between creditworthiness (PD) and estimated loss given default (LGD).	The institution's use of IRB models for portfolio classification is satisfactory relative to the portfolio and level of aspiration, and draws a distinction between creditworthiness (PD) and estimated loss given default (LGD).	The institution's use of IRB models for portfolio classification is less than satisfactory relative to the portfolio and level of aspiration, and draws little distinction between creditworthiness (PD) and estimated loss given default (LGD).	The institution's use of IRB models for portfolio classification is not satisfactory relative to the portfolio and level of aspiration, and draws no distinction between creditworthiness (PD) and estimated loss given default (LGD).
The institution has a good rating and score coverage and the IRB models are well adapted to the portfolios to which they are applied	The institution has a satisfactory rating and score coverage and the IRB models are adapted to the portfolios to which they are applied	The institution has a less than satisfactory rating and score coverage and the IRB models are not well adapted to the portfolios to which they are applied	The institution has an unsatisfactory rating and score coverage and the IRB models are poorly adapted to the portfolios to which they are applied
The institution's use of portfolio models (e.g. economic capital or risk-adjusted profitability models) is good relative to the institution's portfolio and level of aspiration	The institution's use of portfolio models is satisfactory relative to the institution's portfolio and level of aspiration	The institution's use of portfolio models is less than satisfactory relative to its portfolio and level of aspiration	The institution's use of portfolio models is unsatisfactory relative to the institution's portfolio and level of aspiration
The institution has a good methodology for assessing its need for equity capital against credit risk as part of its ICAAP	The institution has a satisfactory methodology for assessing its need for equity capital against credit risk as part of its ICAAP	The institution has a less than satisfactory methodology for assessing its need for equity capital against credit risk as part of its ICAAP	The institution has an unsatisfactory methodology for assessing its need for equity capital against credit risk as part of its ICAAP
The institution has a good methodology/model for estimating expected credit losses	The institution has a satisfactory methodology/model for estimating expected credit losses	The institution has a less than satisfactory methodology/model for estimating expected credit losses	The institution has an unsatisfactory methodology/model for estimating expected credit losses

3.2 Early warning systems and stress tests

This section is designed to assess the institution's early warning systems for changes in the risk picture and the quality of the institution's stress tests in the credit area.

Relevant assessment factors:

- The institution should have in place early warning systems beyond the portfolio classification system.
- The institution should conduct stress tests in the credit area.
- The results of early warning analyses and stress tests should be used in the portfolio monitoring and as a basis for strategic decisions concerning the credit business.
- The results of early warning analyses and stress tests should be reported to the board of directors and management team. The board/executive management should implement measures to counter any undesired increase in the risk level.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
Good early warning systems (macro/industry analyses)	Acceptable early warning systems (macro/industry analyses)	Early warning systems (macro/industry analyses) must be improved	Early warning systems (macro/industry analyses) have not been established or need considerable improvement
Good stress tests, conducted regularly	Acceptable stress tests carried out at a satisfactory frequency	Stress tests of inadequate quality/little relevance and/or inadequate frequency	The quality/relevance and/or frequency of stress tests is unsatisfactory
Analysis results are employed in portfolio monitoring, and prompt implementation of measures/strategic decisions	Analysis results are largely employed in portfolio monitoring, and largely prompt implementation of measures/strategic decisions whenever relevant	Analysis results are sporadically employed in portfolio monitoring, and sporadically prompt implementation of measures/strategic decisions	Analysis results are not employed in portfolio monitoring, and/or do not prompt implementation of measures/strategic decisions

4 MONITORING AND REPORTING

In this chapter the institution's systems and procedures for monitoring, reporting and acting on credit risk are mapped and their relevance assessed. The following should be mapped and assessed: what reporting lines are established, what levels of the organisation receive various types of reporting and whether the content of the reports is relevant and sufficient.

In this chapter it is important to map and evaluate concrete management reports that are produced in the institution and the relevance of their content. In addition to the actual reports, appurtenant memos with analyses will be assessed to identify what assessments, conclusions and decisions are made with a basis in the content of the reports.

4.1 <u>Monitoring of credit exposures</u>

This section is designed to assess the institution's systems for monitoring credit exposures, including valuations and need for impairment.

Relevant assessment factors:
Exposure monitoring

- The institution should have in place uniform policies and procedures for the entire institution for monitoring and managing credit exposures at the local level.
- Best practice is that each customer exposure can be linked to just one single responsible person
- For all exposures with a maturity above one year, an annual review should be a minimum requirement.
- The institution should have defined procedures for monitoring foreign currency loans.
- The institution should have defined procedures for monitoring ESG risk in its loan portfolio, including climate risk.
- The institution should have in place specific procedures for proper follow-up of high-risk loans.
- Best practice for monitoring customers in the weakest classes in the rating system is to draw up a comprehensive action plan each quarter or each half-year containing measures addressing customers on the watch list.
- Institutions should have in place systems and procedures for work-out customers

Valuation of loans and guarantees and procedures for impairment
<u>Lending Regulations (IAS 39)</u>

- The institution should have in place written policies and supplementary guidelines for the implementation of the provisions of the lending regulations.
- The policies should include definitions of circumstances (observable data) perceived to be objective evidence of an individual loan's impairment. The regulations mention the following:
  - Significant financial difficulty of the debtor;
  - A payment default or other significant breach of covenants;
  - The granting to the borrower, for reasons relating to the borrower’s financial difficulty, of payment deferral or new credit to pay an instalment, agreed changes in the interest rate or in other contractual terms;
  - It becoming probable that the borrower will enter bankruptcy or other financial reorganisation, or that the debtor's estate will be subject to bankruptcy proceedings.
- The policies should advise consideration of impairment losses when one or more of the above circumstances arises.
- The policies should describe the procedure for valuation and possible impairment of groups of loans and specify the staff member responsible for such action. The policies should include criteria on how loans are to be classified into groups, i.e. a description of risk characteristics common to each group. Objective evidence that a group of loans is impaired includes observable data that lead to a measurable reduction of estimated future cash flows from the group of loans, including:
  - *adverse changes in the payment status of borrowers in the group, or*
  - *national or local economic conditions that correlate with defaults in the group (for example oil price, Fish prices, real property rental prices, shipping rates). The*

institution's internal policies should specify what it regards as objective evidence in this context

- Written documentation of the impairment amount should exist. Such documentation should show what evidence, assumptions and data have been employed so that calculations of collective and individual impairment losses can be easily traced.
- Circular 10/2005, which describes the lending regulations in detail, mentions circumstances that may call for simplified calculation of the potential for impairment of individual loans and groups of loans; see reference to section 2-5 first subsection. The institution should have in place written policies stating what criteria must be met in order for simplified calculations to be carried out.

<u>Rules on credit losses in IFRS 9</u>

- The institution should have written policies and supplementary guidelines for the implementation of the rules on credit losses in IFRS 9.
- The policies should specify the method(s) chosen by the institution to calculate expected losses
- The procedures should specify the criteria for dividing loans into various stages:

✓ Stage 1: No significant increase in credit risk
IFRS 9 requires impairment allowances based on 12-month expected credit losses on loans with no significant increase in credit risk since the loan was originated or purchased. The institution's policies should specify the criteria indicating no significant increase in credit risk.

✓ <u>Stage 2: Significant increase in credit risk</u>
IFRS 9 requires impairment allowances based on lifetime expected credit losses for loans with no significant increase in credit risk since initial recognition/origination. The institution's policies should specify the criteria indicating a significant increase in credit risk.

✓ <u>Stage 3: Non-performing/problem exposures</u>
Criteria for what is considered a non-performing/problem exposure are consistent with what is considered to be objective evidence of impairment under IAS 39, cf. the paragraph "Lending regulations". The institution's policies should specify the calculation method to be used when estimating losses (e.g. discounting of future cash flows or the same method as the one used to calculate expected credit losses in stage 2).

- Written documentation should exist of the impairment amount for each stage. The documentation should specify the criteria, assumptions and data used, thus making it easy to verify the calculations. The institution should have in place systems and procedures for value recovery on exposures subject to impairment.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
Good, uniform procedures and actual implementation of ongoing monitoring of exposures at local level exist throughout the organisation.	Procedures and actual implementation of ongoing monitoring of exposures could be improved.	Procedures and actual implementation of ongoing monitoring of exposures could be significantly improved.	Procedures and actual implementation of ongoing monitoring of exposures are highly flawed and pose a substantial risk.
Each customer exposure is assigned to a specific person.	Most customer exposures are assigned to a specific person.	Allocation of respon-sibilities for exposure monitoring should be documented and better executed.	Unclear lines of respon-sibility in regard to exposure monitoring.
Good procedures are in place to monitor high-risk exposures and to follow up on customers with whom the institution wishes to terminate its relationship.	Procedures are in place to monitor high-risk exposures and to follow up on customers with whom the institution wishes to terminate its relationship.	Procedures for monitoring high-risk exposures and following up customers with whom the institution wishes to terminate its relationship could be significantly improved.	Procedures for monitoring high-risk exposures and following up customers with whom the institution wishes to terminate its relationship are highly flawed.
Good procedures for identification of individual loans and groups of loans for impairment, and good policies for calculating the need for impairment.	Satisfactory procedures for identification of individual loans and groups of loans for impairment, and good policies for calculating the need for impairment.	Procedures for identification of individual loans and groups of loans for impairment, and policies for calculating the impairment amount, must be improved.	Procedures for identification of individual loans and groups of loans for impairment, and policies for calculating the need for impairment, must be considerably improved.
Specific criteria for the division of loans into the various stages under IFRS 9, as well as good procedures for and documentation of how impairment needs at the various stages are calculated	Specific criteria for the division of loans into the various stages under IFRS 9, as well as satisfactory procedures for and documentation of how impairment needs at the various stages are calculated	Unclear criteria for the division of loans into the various stages under IFRS 9, and procedures for and documentation of how the need for impairment is calculated at the various stages must be improved	Unclear criteria for the division of loans into the various stages under IFRS 9, as well as flawed procedures for and documentation of how the need for impairment is calculated at the various stages
Authorisations to recognise impairment losses are documented in and follow the institution's authorisation system	Authorisations to recognise impairment losses follow the institution's authorisation system	Authorisations to recognise impairment losses should be better documented and systematised	Authorisations to recognise impairment losses must be established
The institution has good procedures for value recovery	The institution has acceptable procedures for value recovery	Procedures for value recovery could be significantly improved	Procedures for value recovery are highly flawed

4.2 Reporting and follow-up of strategic objectives and exposure limits for the credit business

This section is designed to identify how the institution reports and monitors its exposure portfolio and to assess the same.

Relevant assessment factors:

- The institution should have in place reporting and follow-up of strategic objectives and exposure limits established for the credit business.
- The institution must have in place reporting and follow-up in accordance with the residential mortgage lending regulations.
- The institution must have in place reporting and follow-up in accordance with the regulations on requirements for financial institutions' lending practices for consumer loans.
- The institution's reporting should address ESG risk in general and climate risk in the loan portfolio in particular.
- Monitoring and reporting of credit risk and associated calculations of the need for economic capital and risk-adjusted profitability should form an integral part of the overall financial and risk management of the institution.
- Independent risk reporting should be carried out regularly by the internal risk management control function.
- The recipient of risk reports should be the organisational level that has adopted the strategy, policy, objectives and exposure limits.
- The institution should ensure documentation of reports that are produced, how often they are produced, who is responsible for the content of the reports, who are the recipients of the respective reports and how the information is used.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
Relevant and regular reporting to the board and top management on adherence to credit strategy objectives and exposure limits and key policy variables.	Acceptable content and frequency of reporting to the board and top management as regards credit strategy objectives and exposure limits and key policy variables.	Insufficiently relevant and irregular reporting to the board and top management as regards credit strategy objectives and exposure limits and key policy variables.	Irrelevant and ad hoc reporting to the board and top management as regards credit strategy objectives and exposure limits and key policy variables.
Monitoring of credit risk and risk-adjusted profitability forms an integral part of the institution's financial and risk management.	Monitoring of credit risk and risk-adjusted profitability is being gradually integrated into the institution's financial and risk management.	Monitoring of credit risk and profitability is ad hoc and not viewed in conjunction with ordinary financial monitoring.	Monitoring of credit risk and profitability is highly flawed.
Relevant reporting of the requirements of the residential mortgage lending regulations	Acceptable reporting of the requirements of the residential mortgage lending regulations	Flawed reporting of the requirements of the residential mortgage lending regulations	Highly flawed reporting of the requirements of the residential mortgage lending regulations
Relevant reporting of the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans	Acceptable reporting of the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans	Flawed reporting of the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans	Highly flawed reporting of the requirements of the regulations on requirements for financial institutions' lending practices for consumer loans

4.3 Internal control – bringing to light weaknesses in the credit area

Principles for internal control, what processes have been established to implement internal control, and the quality thereof, are themes that are addressed.

This section is designed to identify and assess how the institution, through its internal control function, has brought to light possible weaknesses in the credit area that require action to be taken.

Relevant assessment factors:

- Weaknesses brought to light through the institution's internal control review, cf. the CRR/CRD IV regulations, Section 28.
- Furnishing of collateral for loans to officers or employees; see the Financial Institutions Act, section 9-9.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
The internal control review has not brought to light weaknesses in the credit business. Loans granted to officers or employees are in compliance with the requirements of the Financial Institutions Act, section 9-9.	The internal control review has brought to light weaknesses of minor significance for the credit business that do not necessarily require action to be taken. Loans granted to officers or employees are not fully compliant with the requirements of the Financial Institutions Act, section 9-9.	The internal control review has brought to light certain weaknesses that are of significance for the credit business and require action to be taken. Loans have been granted to officers or employees that contravene the requirements of the Financial Institutions Act, section 9-9.	The internal control review has brought to light significant weak-nesses that are of major significance for the credit business and require action to be taken. Loans have been granted to officers or employees that contravene the requirements of the Financial Institutions Act, section 9-9.

4.4 Compliance with credit strategy and credit policy

This section is designed to assess the institution's compliance with its adopted credit strategy and policy. Sources used in the assessment could be letters from the external auditor, reports from the internal audit, the compliance officer, the credit officer or the independent risk management function, and random checks of individual credit cases.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
The credit strategy and policy are complied with. Critical comments from control bodies are taken into account.	The credit strategy and policy are complied with. Critical comments from control bodies are to some extent taken into account.	Compliance with the credit strategy and credit policy is flawed Critical comments from control bodies are taken into account belatedly or in little measure.	Compliance with the credit strategy and credit policy is highly flawed Critical comments from control bodies are not adequately taken into account.

4.5 Information and reporting obligation in the credit area

This section is designed to assess the institution's reporting to the authorities and its procedures for quality assurance of the reporting and disclosure obligation under Pillar III.

Relevant assessment factors:

- The institution should have in place procedures for quality assurance of data reported to the authorities. Poor quality of reported data indicates unsatisfactory procedures.
- The institution should have in place procedures for updating and quality assurance under Pillar III reporting in the credit risk area.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
Good reporting and good quality assurance procedures.	Satisfactory reporting and satisfactory quality assurance procedures.	Poor reporting and less than satisfactory quality assurance procedures.	Poor reporting and non-existent quality assurance procedures.

5 INDEPENDENT CONTROL

The purpose of this chapter is to identify and assess instructions, and to assess the quality of and application of the work of line-independent functions that monitor lending procedures, authorisation structure, risk classification, portfolio quality, impairment and reporting. In this connection, ‘line-independent control functions' means the second line internal control functions and the internal audit.

Relevant assessment factors:

- The line-independent control function should make independent assessments of compliance with credit strategies, policies, guidelines, lending authorisations, lines of responsibility and procedures related to lending
- The line-independent control function should perform independent controls of methodology and use of the risk classification system, as well as the calculation of expected credit losses
- The line-independent control function should make independent assessments of methodology and the quality of the valuation of loans (cf. procedure in the Lending Regulations (IAS 39) and calculation of expected credit losses under IFRS 9)
- The line-independent control function should perform relevant, documentable controls of a high professional standard.
- Reports from the line-independent control function regarding implemented control activities should be addressed to and considered at the relevant level of the organisation.
- The institution should have in place procedures for the preparation of written responses to control reports and for further review after a certain period.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	Satisfactory	Less than satisfactory	Unsatisfactory
Relevant instructions exist for independent control functions that cover the credit area The independent control functions carry out relevant, documentable controls of a high professional standard Reports from the independent control functions are considered at the relevant level in the organisation Critical comments from the independent control functions are in large measure taken into account	Instructions exist for independent control functions that cover the credit area The independent control functions carry out documentable controls of an acceptable professional standard relative to the business Reports from the independent control functions receive acceptable treatment in the organisation Critical comments from the independent control functions are usually taken into account	Instructions for the independent control functions covering the credit area are significantly flawed The independent control functions carry out few or no documentable controls and do so at a flawed professional standard Reports from the independent control functions are considered at a too low level in the organisation Critical comments from the independent control functions are taken too little into account	Instructions for the independent control functions covering the credit area are non-existent or irrelevant The independent control functions generally carry out no relevant or documentable controls. The standard of the independent control functions is unsatisfactory Reports from the independent control functions are considered at a level in the organisation that is of little relevance. Critical comments from the independent control functions are largely not taken into account

6 ROLE OF THE BOARD OF DIRECTORS

The purpose of this chapter is to assess the board's role and involvement in the credit business.

Relevant assessment factors:

- The board should have good expertise in the credit field.
- The board should have submitted to it relevant matters for consideration (credit strategy, credit policy, authorisations) and establish a framework for the credit decision process.
- The board should make decisions concerning individual loans of great significance to the institution’s risk exposure, including reputational risk.
- The board should have submitted to it relevant reports in the credit area, including reports from the independent control function.

Finanstilsynet's assessments are assigned to one of the categories in the table below.

Good control	**Satisfactory**	**Less than satisfactory**	**Unsatisfactory**
High credit expertise among board members. The board is strongly involved in the credit decision process and regularly decides/revises the credit strategy and key policies. The board adopts and participates in the reassessment of credit authorisations.	Acceptable credit expertise among board members. The board is involved in credit decision process and decides/ revises the credit strategy and key policies. The board adopts and participates in the reassessment of credit authorisations.	Inadequate credit expertise among board members. The board's involvement in credit decision processes and in decisions on/revision of the credit strategy and policies is inadequate, as is its processing/revision of credit authorisations	Weak credit expertise among board members. The board's involvement in credit decision processes and in decisions on/revision of the credit strategy and policies is highly inadequate, as is its processing/revision of credit authorisations
The board makes decisions concerning individual loans.	The board makes decisions concerning individual loans.	Decisions concerning individual loans are submitted to the board for information purposes.	The board is not adequately involved in the credit business
The board receives relevant reports in the credit area. The board instigates relevant action to reduce an undesired rise in the risk level.	The board receives acceptable reports in the credit area. The board instigates relevant action to reduce an undesired rise in the risk level.	The reports received by the board are not relevant and/or adequate. Inadequate instigation of relevant action to reduce an undesired rise in the risk level.	The reports received by the board are not satisfactory. The board's instigation of action to reduce an undesired rise in the risk level is highly inadequate.

ENCLOSURE	**CONTENTS – INSPECTION NOTICE CREDIT RISK**

I. MANAGEMENT AND CONTROL

1 STRATEGY AND POLICIES

1.1 The institution's overarching strategy document.

1.2 The institution’s strategy and policy document for the credit business, including possible objectives and limits regarding the risk profile (e.g. targets for portfolio quality and limits on exposure to individual industries) as well as requirements on profitability in the credit area.

1.3 The institution’s procedure for approval of new business activities and products in the credit area.

2 ORGANISATION AND LINES OF RESPONSIBILITY – PROCEDURES

2.1 Organisation chart for the institution showing actual reporting lines and areas of responsibility and stating the number of person-years worked.

2.2 Documents showing organisational set-up, areas of responsibility and reporting lines in the credit area, and authorisation structure. An account of the division of work in the credit business between various units in the organisation is requested. Also, an account is requested of the credit officers' formal qualifications and experience, and of any bonus arrangements.

2.3 Requirements on the loan process.

2.4 Guidelines for assessment of debt servicing ability (personal customers).

2.5 Guidelines for the valuation of collateral.

2.6 The institution’s procedures and guidelines for implementing the provisions of the Lending Regulations (IAS 39), alternatively the institution's procedures and guidelines for implementing IFRS 9.

2.7 The institution’s procedure for monitoring foreign currency exposures.

2.8 The institution’s procedures for assessment of climate risk in the loan portfolio, including procedures for the assessment of climate and credit risk in connection with (a) granting, (b) renewal of and monitoring of ongoing exposures, (c) treatment of problem exposures.

2.9 The institution’s procedures for ensuring that the criteria for granting credit are met prior to disbursement of loans/credits.

2.10 An account is requested of the scale of any breaches and significant deviations from provisions of, respectively, strategy, policies and procedures and what action is taken on breaches and deviations to achieve improvements, and any consequences for staff involved.

3 MEASUREMENT TOOLS

3.1 A description of IRB model(s), including how credit risk is measured, and how the results of the model(s) can be overridden.

3.2 A description of models for calculating expected credit losses in accordance with IFRS 9.

3.3 An account of the product and customer profitability systems. A brief account of how these systems fit into the institution’s risk management.

3.4 A description of any model(s) for estimating the need for economic capital in the credit area.

3.5 An account of the criteria for watch list reporting.

3.6 An account of any use made of stress tests in the credit area.

4 MONITORING AND REPORTING

4.1 Accounts for *[year x – 1]* and thus far in this year and budget for *[current year]* for the institution as a whole, and accounts and budget for the underlying credit entities. The accounts and budget should be broken down on the corporate market and the retail market. If the institution has updated forecasts for profit trend and balance sheet growth for *[current year]*, these are requested.

4.2 A copy of all periodical reports (latest updated) prepared for the board of directors and the institution's management on fulfilment of the institution's strategic objectives and central policy provisions for the credit business.

4.3 An overview of segment/industry analyses drawn up by the institution. The most important analyses should be sent in a single copy, together with an account of segment analyses employed by the institution in its credit work.

4.4 The latest management confirmations and the CEO's summary of internal control in the credit area.

5 INDEPENDENT CONTROL

5.1 A copy of reports from the compliance officer, risk management, internal and external audit for *[year -2]*, *[year -1]* and thus far this year covering the credit business of the institution, and a copy of the board's and/or the administration's response. The same applies to any reports on control of compliance with strategy, policy and guidelines from an independent credit team, credit controller and the like.

II. EXPOSURE

6 EXPOSURE AND PORTFOLIO QUALITY[3]

6.1 An overview showing the quality of the overall portfolio of credit exposures to customers as at 31 Dec. 1x, 31 Dec.1y and thus far this year based on the institution's own risk classification system. The overview should be set up separately for the retail market and the corporate market and broken down on industry and geographical location respectively.

6.2 An overview of acquisition finance. The overview should contain the customer's name, committed credit ceiling, drawn down amount, assessed value of collateral and risk class.

6.3 An overview of non-performing exposures (more than 90 days past due) and problem exposures (gross and net volume) as at 31 Dec. 1x, 31 Dec. 1y and at the latest month-end, specified on the basis of how long the exposure has been non-performing. The

[3] To the extent that the following points or parts thereof are covered by the documentation sent under 4, it will suffice to refer to the documentation under this item.

overview should be set up separately for the retail market, broken down on secured and unsecured loans, and for the corporate market according to industry.

6.4 An overview of non-performing exposures (30 to 90 days past due for the retail market and the corporate market as at 31 Dec. 1x, 31 Dec.1y and and at the latest month-end.

6.5 An overview showing the value of acquired assets as at 31 Dec. 1x, 31 Dec.1y and at the latest month-end.

6.6 A copy of the institution’s watch list for the corporate market and retail market, respectively, as at 31 Dec. 1x and at the latest month-end.

6.7 An overview of loans to corporates as at the latest month-end where the institution has granted forbearance due to the customer’s weak debt-servicing capacity/liquidity, stating customer name, exposure, risk class and, if appropriate, impairment amount.

6.8 An overview of the institution's portfolio of foreign currency loans as at the latest month-end, stating customer, risk class, currency code, outstanding amount converted to NOK and foreign currency loss/gain. The overview should state whether the customer has operating revenues in the same currency.

6.9 An overview of exposures to the corporate market showing negative migration of two risk classes or more thus far in 201x.

6.10 An overview of exposures that are behind schedule in terms of the deadline for annual renewal.

6.11 An overview of exposures for which estimated risk classification has been manually overridden.

6.12 Any reports of breaches of covenants as at 31 Dec. 1x and at the latest month-end, and an account of any steps taken by the institution.

6.13 A report on the institution’s compliance with the regulations on requirements for new residential mortgages (residential mortgage lending regulations)

6.14 A report on the institution’s compliance with the regulations on requirements for financial institutions’ lending practices for consumer loans

6.15 The [number] largest residential mortgages granted during [time interval] with a liquidity deficit. Copies of the decision-making basis and loan offer letter to the customer are requested.

6.16 The [number] largest residential mortgages granted during [time interval] where the customer's total debt exceeds five times gross annual income. Copies of the decision-making basis and loan offer letter to the customer are requested.

6.17 The [number] largest residential mortgages granted during [time interval] that exceed 85 per cent of the property's appraised value. Copies of the decision-making basis and loan offer letter to the customer are requested.

6.18 An overview of the [number] largest non-performing exposures (more than 90 days past due), stating the customer's name, total exposure, assessed value of collateral, any impairment losses and the date of initial non-performance. For each exposure, a copy of the decision-making basis (credit memorandum) for the latest loan granted and an action plan for the exposure are requested.

6.19 An overview of the [number] largest exposures at stage 3 in the retail market, stating the customer's name, total exposure, assessed value of collateral, expected credit losses and the date of stage 3 classification. For each exposure, a copy of the decision-making basis (credit memorandum) for the latest loan granted and an action plan for the exposure are requested.

6.20 An overview of the [number] largest exposures in the corporate market. The following should be stated for each exposure: customer name, risk class, consolidated exposure, established collateral and assessed value of collateral.

6.21 An overview of the [number] of new exposures in the corporate market granted during [time interval], stating total exposure, assessed value of collateral and risk class. For each exposure, a copy of the decision-making basis (credit memorandum) is requested.

6.22 An overview of the [number] largest performing forbearance loans in the corporate market, stating total exposure, assessed value of collateral and risk class. For each exposure, a copy of the most recent credit assessment is requested.

6.23 An overview of the [number] largest non-performing exposures (more than 90 days past due) in the corporate market, stating the customer's name, total exposure, assessed value of collateral, any impairment and the date of initial non-performance. For each exposure, a copy of the most recent credit assessment is requested, including documentation of the assessment of the need for impairment and an action plan for the exposure.

6.24 An overview of the [number] largest stage 3 exposures in the corporate market, stating the customer's name, total exposure, assessed value of collateral, expected credit losses and date of stage 3 classification. For each exposure, a copy of the most recent credit assessment is requested, including documentation of the calculation of expected losses and an action plan for the exposure.

6.25 An overview of the largest exposures in the corporate market that have migrated from stage 2 to stage 3 during (time interval), along with estimated expected losses.

6.26 An overview of portfolios transferred to undertakings outside the group, specifying the volume, name of the undertaking to which the portfolio has been transferred and the price/price structure.

6.27 Any agreement with other undertakings outside the group on the ongoing transfer of loans.

7 PRICING OF RISK

7.1 An overview showing the actual lending margin for [year -2], [year -1] and this far this year distributed on risk classes defined in accordance with the institution's own classification system. The margin for the retail market and the corporate market should be stated separately. The lending margin concept employed should be stated.