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CREDIT OPINION
7 February 2024

Update

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RATINGS

SpareBank 1 Ostlandet

Domicile	Hamar, Norway
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SpareBank 1 Ostlandet

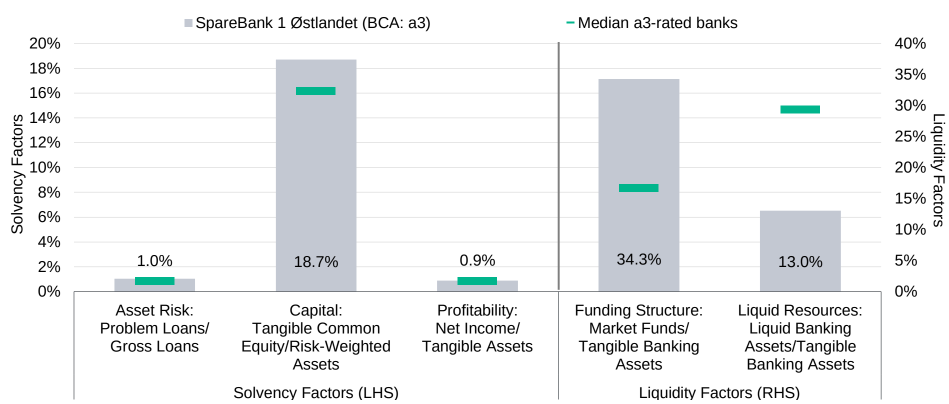
Update to credit analysis

Summary

SpareBank 1 Ostlandet's long-term deposit, issuer and senior unsecured debt ratings of Aa3 reflect the bank's Baseline Credit Assessment (BCA) of a3, our Loss Given Failure (LGF) analysis which leads to three notches of rating uplift from the BCA, and a low probability of Government support resulting in no further uplift.

SpareBank 1 Ostlandet's BCA of a3 primarily reflects the bank's solid asset quality, strong capital levels and robust profitability. The bank has a strong capital base with a tangible common equity (TCE) ratio of 18.7%, and solid asset quality with problem loans at 1% of gross loans (including loans transferred to the covered bond companies) as of 30 September 2023. The BCA also reflects the relatively high reliance on market funding, predominantly in the form of covered bonds, a narrow geographic focus, and some credit concentrations towards the commercial real-estate sector, which are common features among savings banks in Norway.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average or the latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Strong capital levels provide a good loss absorbing buffer.

» Solid asset quality on the back of a relatively low-risk retail mortgage portfolio.

» Robust profitability on the back of recurring earnings.

Credit challenges

» Narrow geographic focus and high credit concentration in commercial real estate (CRE).

» High reliance on market funding exposes the bank to potential change in investor sentiment.

Outlook

The bank's deposit and debt ratings carry a stable outlook balancing its robust financial performance with risks stemming from its dependence on market funding and real estate and housing prices, especially in the Oslo region. The stable outlook on the issuer and senior unsecured debt rtings also reflects our expectation that the bank will issue sufficient volumes of junior senior debt to support the current rating uplift from the BCA according to our LGF analysis.

Factors that could lead to an upgrade

Upward rating pressure could develop if SpareBank 1 Ostlandet demonstrates a reduction of credit concentrations; stronger earnings generation without an increase in its risk profile, combined with an improved cost-to-income ratio; and more limited use of market funds while maintaining a comfortable liquidity level.

Factors that could lead to a downgrade

Downward rating pressure could arise if SpareBank 1 Ostlandet's problem loan ratio and impairments increase significantly above its similarly rated peers; if financing conditions became more difficult, impairing its ability to raise low-cost market funding; if the bank increased exposures to volatile sectors; or if the macroeconomic environment deteriorated, leading to adverse developments in the Norwegian real-estate market and operating environment.

The senior unsecured debt ratings could also be downgraded should the bank issue significantly lower-than-expected volumes of junior-senior instruments.

Key indicators

Exhibit 2

SpareBank 1 Ostlandet (Consolidated Financials) [1]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	238.7	228.4	207.9	191.8	177.6	8.2[4]
Tangible Common Equity (NOK Billion)	18.1	17.8	16.7	15.7	14.7	5.7[4]
Problem Loans / Gross Loans (%)	1.0	0.4	0.4	0.3	0.3	0.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.7	19.5	19.7	19.5	18.9	19.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.8	4.0	3.8	3.0	3.0	4.9[5]
Net Interest Margin (%)	1.6	1.4	1.3	1.4	1.5	1.4[5]
PPI / Average RWA (%)	3.2	2.5	2.4	2.3	2.4	2.5[6]
Net Income / Tangible Assets (%)	0.9	0.8	1.0	0.8	1.1	0.9[5]
Cost / Income Ratio (%)	41.4	48.2	49.6	50.8	51.4	48.3[5]
Market Funds / Tangible Banking Assets (%)	33.2	34.3	32.7	32.7	33.4	33.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.4	13.0	12.4	12.1	11.2	12.4[5]
Gross Loans / Due to Customers (%)	189.5	191.0	188.4	188.4	192.0	189.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

SpareBank 1 Ostlandet is a leading Norwegian regional savings bank that provides retail and corporate financial products and services, from loans and deposit facilities to insurance, pension, payment, leasing, real estate brokerage and accounting services. As of 30 September 2023, it had consolidated assets (including loans transferred to covered bond companies) of NOK239 billion (or around €21.1 billion).

Recent developments

On 3 January 2024, SpareBank 1 Ostlandet announced that it intends to merge with Totens Sparebank. The aim of the merger is to contribute to an increased focus on the Inland region of Norway, with strengthened local presence, proximity to customers and growth capacity. As a result of the transaction, the merged bank will be part of the SpareBank 1 Alliance. The banks' boards approved the merger plan for the banks on 15 January 2024. The merger will be subject to the banks' general meeting/supervisory board approvals in late February 2024, and to regulatory approvals before it can be finalised.

Detailed credit considerations

Norway's Very Strong- macro profile is supportive of the bank's standalone credit profile

SpareBank 1 Ostlandet operates only in Norway, and thus its operating environment is reflected through the Very Strong - macro profile we assign for Norway. Norwegian banks benefit from operating in a wealthy, developed country with very high economic, institutional and government financial strength, and very low susceptibility to adverse events.

The main risks to the banking system stem from its extensive use of market funding, and from Norway's increased household debt and high real estate prices. However, the household sector's strong debt servicing ability, the Norwegian government's well-coordinated monetary and regulatory policies, and the country's sizeable sovereign wealth fund, which supports the economy during crises, mitigate these risks. Furthermore, CRE prices have declined only marginally so far and rental agreements are linked to inflation. Also, exposures in individual banks' balance sheets are manageable compared with their core capitalisation. A significant decrease in either CRE prices or house prices could potentially strain Norway's macro profile.

Asset risk metrics are strong on the back of a relatively low credit risk retail mortgage portfolio

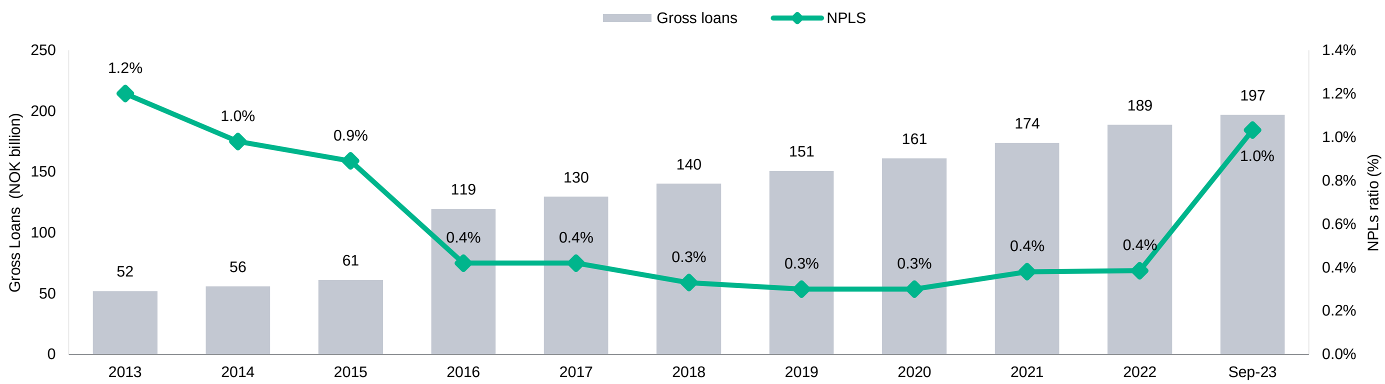
We assign an asset risk score of a3, two notches below the initial score to reflect moderate geographic and sector concentration. The CRE sector accounts for around 14% of gross loans (including covered bond loans), and around 3% of gross loans was concentrated in the building and construction sector as of 30 September 2023. Geographical concentration is in its regional home market in the

Innlandet county (following the merger between the counties of Hedmark and Oppland on 1 January 2020) and in the Oslo-Akershus region.

SpareBank 1 Ostlandet's asset quality is strong, with problem loans accouting for 1% of gross loans as of September 2023 (Exhibit 3). The ratio increased from 0.4% at end-2022 reflecting some moderate deterioration mostly in the building and construction sector, but is in line with the median problem loans ratio of similarly rated peers.

The bank's total loan book is geared towards retail borrowers, mostly residential mortgages, accounting for around 71% of gross loans, including loans transferred to the covered bond companies, with no exposure to the oil sector as of 30 September 2023. This supports the bank's asset quality, limiting the risks from credit impairments, given the traditionally very low loss rates for residential mortgages in Norway. Around 96% of its book has an LTV below 70%, compared with 85% maximum LTV allowed by the mortgage regulation and 75% LTV legal requirement for a covered bond pool.

Exhibit 3
SpareBank 1 Ostlandet's asset-risk metrics

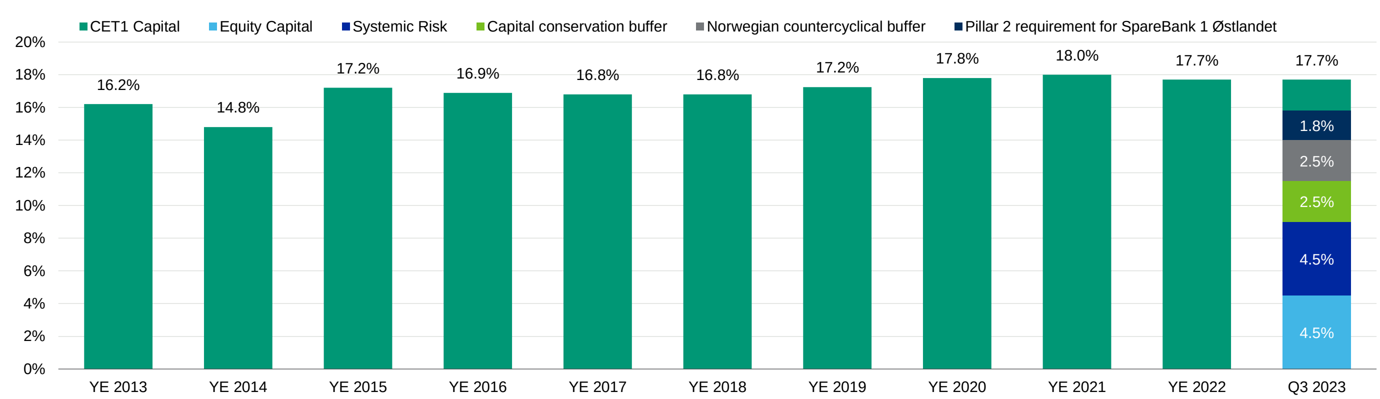


Gross loans include covered bond loans.
Sources: Company reports and Moody's Financial Metrics

Solid capital levels provide a good loss absorption buffer

We assign a capital score of aa2 to reflect the bank's strong capitalisation, with a TCE ratio of 18.7% and a reported Common Equity Tier 1 (CET1) ratio of 17.7% in September 2023 with good buffer above its CET1 requirement of 15.8%, including a 2.5% countercyclical buffer and a 1.8% Pillar 2 requirement (see Exhibit 4). SpareBank 1 Østlandet also reported a leverage ratio of 7.3% as of 30 September 2023, above the internal target of 6%.

Exhibit 4
SpareBank 1 Ostlandet's CET1 capital ratio evolution



Source: Company reports and presentations

We expect the bank to maintain its strong capital position, supported by good retained earnings. Sparebankstiftelsen Hedmark (savings bank foundation) is the largest stakeholder of the bank through a 52% ownership of the total equity capital certificates (ECC). Once the merger with Totens Sparebank is finalised, bank foundation Totens Sparebankstiftelse will have an ownership stake of 8.6% in the combined entity.

We believe that the bank has strong capital buffers relative to its peers, which allows it to grow its balance sheet and leverage opportunities in the Oslo-Akershus region where it is currently expanding. Our assigned capital score also reflects this strength compared with similarly rated global peers.

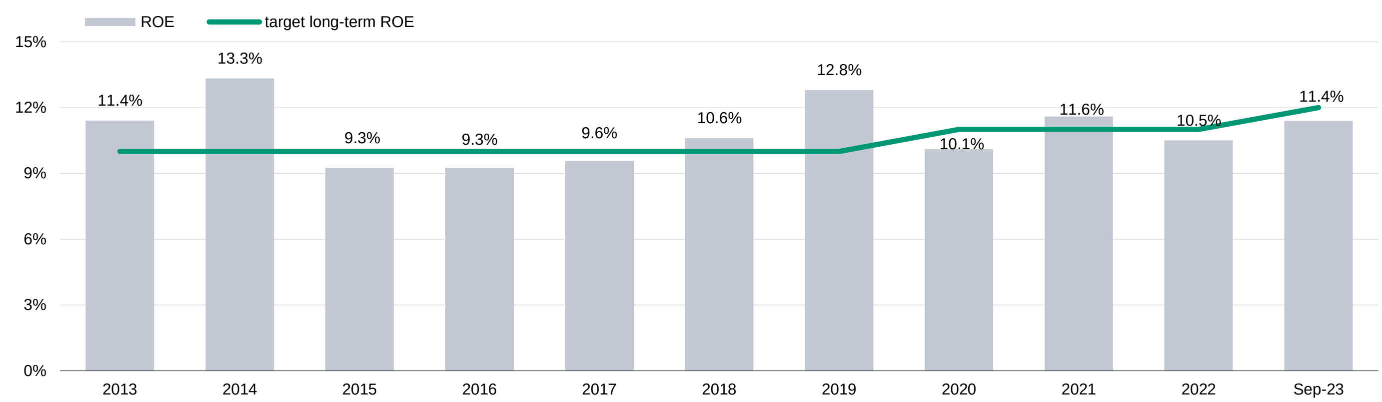
Robust profitability driven by growth in net interest income

SpareBank 1 Ostlandet's reported profit after tax increased to NOK1,649 million in the first nine months of 2023 with a Moody's-adjusted return on tangible assets of 0.9%, compared to NOK1,326 million in the same period of 2022. The improvement was driven by a combination of stronger net interest and commission income following the strengthening in margins in the high interest rate environment, and growth in lending, while higher operating expenses and increased provisions for loans had a negative impact.

The bank's reported cost-to-income ratio as of the end of September 2023 decreased to 41% from 49% in the year earlier. SpareBank 1 Ostlandet reported a return on equity (RoE) of 11.4% in September 2023, and the bank has increased its long-term RoE target to 12% in 2023 from the previous target of 11% (see Exhibit 5).

Net interest income (NII) increased by 37% in the first nine months of 2023 from the year-earlier period benefiting from higher interest rates, resulting in a net interest margin (NIM) of 1.5% for the first nine months of 2023. SpareBank 1 Ostlandet raised interest rates on its floating rate loans multiple times in 2023. We expect the bank's NII to continue to be strong in 2024, but the benefits on profitability will be somewhat offset by higher operating and provisioning costs, resulting from high inflation and moderate asset quality deterioration.

Exhibit 5
SpareBank 1 Ostlandet's return on equity (RoE)



2017 and onwards are based on consolidated financials, including results from Bank 1 Oslo Akershus. From 2019, RoE is as reported by the bank, prior figures are Moody's-adjusted ratios.
Sources: Company reports and Moody's Financial Metrics

Relatively high reliance on market funding

We assign a funding score of baa3, reflecting SpareBank 1 Ostlandet's relatively high reliance on market funding accounting for around 33% of total tangible banking assets as of September 2023, mainly driven by the issuance of covered bonds. This funding structure is similar to that of other Norwegian savings banks. Our market funding ratio includes a 50% standard adjustment to reflect the relative stability of covered bonds compared with other sources of market funding.

SpareBank 1 Ostlandet uses covered bond funding through specialised companies it jointly owns, together with the other members of SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). As of 30 September 2023, SpareBank 1 Ostlandet had transferred retail mortgages worth NOK63.0 billion to SpareBank 1 Boligkreditt and NOK1.0 billion commercial mortgages to SpareBank 1 Næringskreditt (that is, equivalent to around 33% of total gross loans, including loans transferred to covered bond companies).

The bank's funding position is also underpinned by a substantial deposit base, which accounts for around 44% of total funding (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt), and 57% of the bank's deposits are from the retail sector. For its senior funding, the bank participates in the jointly owned SpareBank 1 Alliance's €10 billion Euro Medium-Term Note (EMTN) programme with euro-denominated bond issues, contributing to a more diversified funding profile.

Sound liquidity

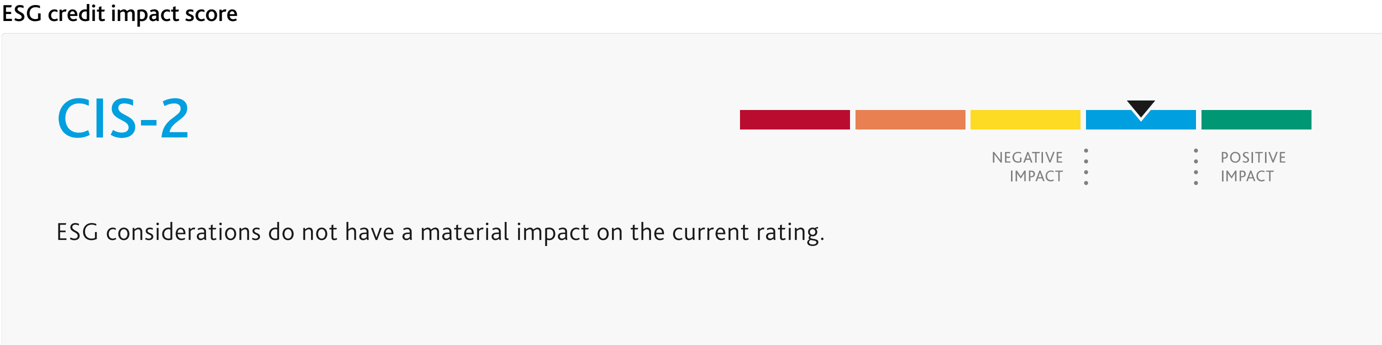
We assign a liquidity score of baa2 reflecting SpareBank 1 Ostlandet's sound liquidity position, with liquid assets/total tangible banking assets at around 13%. This ratio understates the core liquidity of the bank, given that it does not take into account the liquid assets held by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Accordingly, we incorporate a positive adjustment in the assigned Liquid Resources score to reflect the additional source of liquidity stemming from the covered bond companies.

The liquidity reserves consist of cash and deposits with the central bank, senior bonds, government guaranteed bonds, covered bonds (mostly rated Aaa) and limited equity investments. The holdings are mostly Norwegian securities, which could be a source of vulnerability from a concentration risk point of view, but are positive in terms of currency risk. In addition, the bank reported a high liquidity coverage ratio (LCR) of 174% as of 30 September 2023 compared with the 100% requirement.

ESG considerations

SpareBank 1 Ostlandet's ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score



Source: Moody's Investors Service

SpareBank 1 Ostlandet's **CIS-2** indicates that ESG considerations do not have a material impact on current ratings. This reflects the limited credit impact of environmental and social risk factors on the ratings to date, and the low governance risks.

Exhibit 7
ESG issuer profile scores

Source: Moody's Investors Service

Environmental

SpareBank 1 Ostlandet faces moderate environmental risks primarily because of its portfolio exposure to carbon transition. These risks are primarily related to its corporate portfolio through the commercial real estate sector. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is developing its climate risk and portfolio management capabilities.

Social

SpareBank 1 Ostlandet faces moderate social risks related to regulatory and litigation risks, requiring high compliance standards. The exposure to customer relation risks is lower than its international peers, given the bank's untarnished customer conduct track record supported by the social mandate of the Savings Bank's model. SpareBank 1 Ostlandet is a digitally advanced bank in Norway, with a robust IT infrastructure and strong capabilities to mitigate cyber and personal data risks, supported by its cooperation within the SpareBank 1 Alliance.

Governance

SpareBank 1 Ostlandet's governance risks are low. Despite sectoral and geographical concentrations, due to its limited reach, the bank benefits from strong underwriting standards which mitigate some of these concerns. The bank has a track record of sound capital and liquidity management and earnings stability while losses have been low, even at times of market turbulence. Being a regional savings bank, 30% is owned by the community in the bank's market area, typically referred to as community capital, and 70% of the equity capital is owned by equity certificate (EC) holders. The Hedmark savings bank foundation is the largest shareholder with 52% of the ECs. Other owners are private investors which hold listed equity certificates, with the Norwegian confederation of trade unions being the largest. After the announced merger with Totens Sparebank is finalised, bank foundation Totens Sparebankstiftelse will have an ownership stake of 8.6% in the combined entity. The bank's Supervisory Board comprises of representatives of EC holders, the foundation, and employees. Related governance risks are however mitigated by Norway's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis and additional notching

The EU Bank Recovery and Resolution Directive (BRRD) came into force on 1 January 2019 in Norway, which confirms our current assumptions regarding our LGF analysis. In our advanced LGF analysis, we assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These metrics are in line with our standard assumptions.

The ratings take into account our forward-looking LGF analysis of the combined entity's volume of deposits and senior unsecured debt, as well as the volume of securities subordinated to them. The analysis takes into account the Norwegian Financial Supervisory Authority's (FSA) revised approach to calculating MREL subordination requirements, following the expected implementation of the amended BRRD2 into Norwegian law, as well as the bank's need to hold buffers above the minimum requirements. This assumption leads to three notches of rating uplift for the bank's senior debt ratings, which is the same uplift afforded for the bank's deposit ratings.

Government support considerations

SpareBank 1 Ostlandet is the fourth-largest savings bank in Norway, with presence now in the most important and economically developed region of Oslo-Akershus. In particular, the bank is a vital intermediary in financing the small and medium-sized enterprise sector, especially in the agricultural and forestry sectors that are central for the Hedmark region.

Following the implementation of the BRRD law in Norway on 1 January 2019, we assume a low probability of government support for debt and deposits, resulting in no additional notches of rating uplift above their Preliminary Rating Assessment (PRA), positioning them at Aa3.

Counterparty Risk Assessment (CR Assessment)

We assign a Aa3(cr) long-term and P-1(cr) short-term CR Assessment to SpareBank 1 Ostlandet

SpareBank 1 Ostlandet's Aa3(cr)/Prime-1(cr) CR Assessment is three notches above the bank's Adjusted BCA of a3, based on the substantial buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss; therefore, we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRRs)

SpareBank 1 Ostlandet's CRRs are Aa3/Prime-1

The Aa3 CRR is three notches above the Adjusted BCA of a3, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8
SpareBank 1 Ostlandet

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		1.0%	aa2	↔	a3	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		18.7%	aa1	↔	aa2	Expected trend	
Profitability							
Net Income / Tangible Assets		0.9%	baa1	↑	a3	Expected trend	
Combined Solvency Score			aa3		a1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		34.3%	baa3	↔	baa3		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		13.0%	baa3	↔	baa2	Stock of liquid assets	
Combined Liquidity Score			baa3		baa3		
Financial Profile					a3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					a2 - baa1		
Assigned BCA					a3		
Affiliate Support notching					0		
Adjusted BCA					a3		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	84 383	35.4%	94 979	39.8%
Deposits	103 880	43.6%	93 284	39.1%
Preferred deposits	76 871	32.2%	73 028	30.6%
Junior deposits	27 009	11.3%	20 257	8.5%
Senior unsecured bank debt	31 091	13.0%	31 091	13.0%
Junior senior unsecured bank debt	9 500	4.0%	9 500	4.0%
Dated subordinated bank debt	1 400	0.6%	1 400	0.6%
Preference shares (bank)	1 000	0.4%	1 000	0.4%
Equity	7 152	3.0%	7 152	3.0%
Total Tangible Banking Assets	238 406	100.0%	238 406	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	29.5%	29.5%	29.5%	29.5%	3	3	3	3	0	aa3
Counterparty Risk Assessment	29.5%	29.5%	29.5%	29.5%	3	3	3	3	0	aa3 (cr)
Deposits	29.5%	8.0%	29.5%	21.0%	2	3	2	3	0	aa3
Senior unsecured bank debt	29.5%	8.0%	21.0%	8.0%	2	2	2	3	0	aa3
Junior senior unsecured bank debt	8.0%	4.0%	8.0%	4.0%	0	0	0	0	0	a3
Dated subordinated bank debt	4.0%	3.4%	4.0%	3.4%	-1	-1	-1	-1	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	3	0	aa3	0	Aa3	Aa3
Senior unsecured bank debt	3	0	aa3	0	Aa3	Aa3
Junior senior unsecured bank debt	0	0	a3	0	A3	
Dated subordinated bank debt	-1	0	baa1	0		(P)Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
SPAREBANK 1 OSTLANDET	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Junior Senior Unsecured -Dom Curr	A3
Subordinate MTN	(P)Baa1

Source: Moody's Investors Service

REPORT NUMBER 1392869

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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