

CREDIT OPINION

8 September 2020

Update



Rate this Research

RATINGS

SpareBank 1 BV

Domicile	Norway
Long Term CRR	A1
Туре	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Туре	LT Bank Deposits - Fgn Curr
Outlook	Stable

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

Contacts

Effie Tsotsani +44.20.7772.1712

AVP-Analyst
effie.tsotsani@moodys.com

Katarzyna +44.20.7772.1047 Szymanska Associate Analyst katarzyna.szymanska@moodys.com

Simon James Robin +44 207 772 5347 Ainsworth

Associate Managing Director simon.ainsworth@moodys.com

Sean Marion +44.20.7772.1056 MD-Financial Institutions sean.marion@moodys.com

SpareBank 1 BV

Update to credit analysis

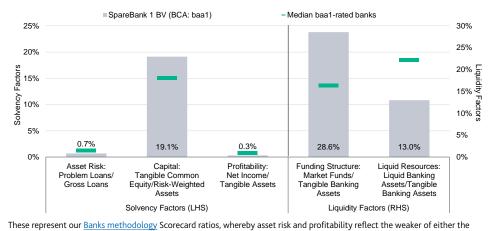
Summary

SpareBank 1 BV's foreign and local currency deposit ratings of A2/P-1 and foreign and local currency Counterparty Risk Ratings (CRRs) of A1/P-1, are driven by its Baseline Credit Assessment (BCA) of baa1, as well as our assessment of potential low loss severity for senior creditors and counterparties through our advanced Loss Given Failure (LGF) analysis.

The bank's BCA of baa1 reflects its strong asset quality (reported problem loans ratio of around 0.6% in June 2020 including transferred loans) and relatively stable retail operations and earnings, as well as robust capitalisation (reported CET1 of 18.6% in June 2020) combined with a valuable retail deposit base. These strengths are balanced against the bank's significant exposure to mortgages and the real estate sector that makes it vulnerable to property price fluctuations, and concentration in the counties of Buskerud and Vestfold, which to some degree elevates its asset risk. The bank's BCA also takes into account its relatively high level of capital markets funding, a common feature among the large savings banks in Norway, although with a strong liquidity position.

The bank's A2 long term deposit ratings take into account our Loss Given Failure (LGF) analysis, which benefits from a large volume of deposits and substantial layers of subordination resulting in two notches of rating uplift from its Adjusted BCA.

Exhibit 1
Rating Scorecard – Key financial ratios



These represent our <u>banks internotoning</u> scorecard ratios, whereby asset his and promability reflect the weaker of either the latest reported or average of last three year-end and latest reported ratios. Capital is the latest reported figure. Funding structure and liquid resources ratios reflect the latest year-end figures.

Source: Moody's Financial Metrics

Credit strengths

- » SpareBank 1 BV's BCA benefits from Norway's Very Strong Macro Profile
- » Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed
- » Good profitability and diversified earnings benefit from some one-off gains
- » Sound asset quality with low level of problem loans

Credit challenges

- » Credit concentration in the counties of Buskerud and Vestfoldand exposure to Commercial Real Estate somewhat elevates asset risk
- » High reliance on confidence-sensitive market funding, which is partly mitigated by access to a resilient covered bond market and a sizeable deposit base
- » Elevated risks in the Norwegian housing market and household sector, mitigated by conservative underwriting standards, high wealth levels and a very strong repayment culture

Outlook

The outlooks on SpareBank 1 BV's deposit and senior unsecured rating are stable, reflecting the bank's resilient core earnings, loan growth and asset quality through the cycle balanced by some downside risks stemming from its sectoral concentrations in commercial real estate.

Factors that could lead to an upgrade

Upward rating momentum could develop if SpareBank 1 BV demonstrates (1) sustained low level of problem loans in both its retail and corporate books, combined with reduced sector concentration to commercial real estate; (2) continued good access to market funding combined with strong liquidity; and/or (3) sustained robust earnings that would be comparable to its higher-rated peers without compromising its risk profile.

Factors that could lead to a downgrade

Future downward rating pressure would emerge if (1) SpareBank 1 BV's problem loan ratio was to deteriorate materially as a result of the Coronavirus outbreak or the plunge in oil prices; (2) financing conditions were to become more difficult; (3) its risk profile were to increase, for example as a result of an increasing exposure to more volatile sectors such as commercial real estate; and/or (4) macroeconomic environment were to deteriorate leading to adverse developments in the Norwegian real-estate market. Also a reduction in the rating uplift as a result of our LGF analysis triggered by structural funding changes to the bank's balance sheet could lead to downward rating pressure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2
SpareBank 1 BV (Consolidated Financials) [1]

	03-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (NOK Billion)	52.2	51.7	48.9	45.7	32.6	15.6 ⁴
Total Assets (USD Million)	4,969.0	5,884.1	5,647.6	5,585.4	3,787.6	8.7 ⁴
Tangible Common Equity (NOK Billion)	4.8	4.9	4.6	4.1	2.8	17.74
Tangible Common Equity (USD Million)	460.0	556.7	526.9	504.0	330.5	10.74
Problem Loans / Gross Loans (%)	0.6	0.6	0.8	0.7	0.7	0.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.1	19.7	18.3	23.1	21.0	20.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.4	5.1	6.8	6.5	6.1	6.0 ⁵
Net Interest Margin (%)	1.6	1.5	1.4	1.6	1.4	1.5 ⁵
PPI / Average RWA (%)	1.6	2.1	2.5	2.7	2.4	2.3 ⁶
Net Income / Tangible Assets (%)	0.3	1.0	1.0	0.9	0.9	0.8 ⁵
Cost / Income Ratio (%)	60.3	51.6	49.3	56.8	56.7	54.9 ⁵
Market Funds / Tangible Banking Assets (%)	29.1	28.6	30.6	29.9	29.9	29.6 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	13.1	13.0	13.3	13.9	14.1	13.5 ⁵
Gross Loans / Due to Customers (%)	174.8	173.9	177.6	178.1	184.8	177.9 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 BV is a Norwegian local 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 June 2020, the bank had total consolidated assets of around NOK53.9 billion (including assets transferred to jointly own covered bond companies). SpareBank 1 BV is the 8th largest savings bank and 11th largest commercial bank in Norway, but also the fifth largest bank in the SpareBank 1 Alliance, which constitutes of 14 independent regional savings banks. The purpose of the SpareBank 1 Alliance is to provide competitive financial services while exploiting economies of scale in terms of both low costs and high quality products and services. In addition, the alliance helps secure the member banks' value creation for the benefit of their own region and the banks' owners.

Recent developments

We have revised our 2020 baseline growth forecast for all G-20 economies because of the coronavirus outbreak. The full extent of the economic costs will be unclear for some time but global recession risks have risen. In Europe, Coronavirus outbreak adds to late-cycle risks for European banks. While the direct negative credit impact on the on Norwegian banking sector is expected to be limited, a failure to contain the virus would have a more severe outcome, weighing on the banks' loan quality and profitability. We expect fiscal policy measures, as already announced by a variety of European nations to mitigate the economic contraction caused by the outbreak.

We note that since 13 March 2020, Norway's central bank, the Ministry of Finance and the Norwegian FSA have taken a number of actions aiming to alleviate the impact on the economy from both the Coronavirus lockdown and the plunge in oil prices. These measures include the reduction of the key policy rate by 150 basis points (bps), reducing banks' countercyclical buffer requirement by 150 bps, providing special F-loans to banks to help manage any funding and liquidity stress, as well as extension of unemployment benefits and various social policy schemes to support individuals. We believe these measures will help alleviate the negative impact stemming from the coronavirus outbreak, and will largely sustain borrowers' solvency in the longer term.

Nonetheless, the inevitable negative impact on both the economy and banks in the next 12-18 months, have triggered on 16 April 2020 the change of our Banking System Outlook (BSO) for Norway to negative from stable. The outlook change was also driven by our expectation that sectors such as tourism, hospitality and transportation are more vulnerable to the pandemic, and by the fact that very low oil prices have historically strained Norway's oil/offshore industry that remains a significant pillar of the economy.

Detailed credit considerations

A deteriorating operating environment will likely pressure the bank's financial fundamentals in 2020, although overall strength of the Norwegian government finances remain supportive to the banking system

Although Norway's operating environment is deteriorating as a result of the global outbreak of Coronavirus and the plunge in oil prices, we believe that the banking system still benefits from the government's generally strong fiscal flexibility and countercyclical buffers available through its sovereign oil fund to respond to economic shocks.

SpareBank 1 BV 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 and developed country with very high economic, institutional and government financial strength, as well as a very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the last weakening in the oil sector in 2014-15.

The main risks to the banking system stem from the high level of household debt, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalisation and the relatively small size of the banking system compared with the total size of the economy.

Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) to contract significantly in 2020 (-3.5%), and recover to around +3.8% in 2021. Unemployment rose to around 10.6% as of March 2020 (although it has significantly fallen since then), which combined with the low economic activity will inevitably impact banks' credit growth, asset quality and earnings that will be strained from elevated credit costs.

Sound asset quality with low level of problem loans, although credit concentration and exposure to Commercial Real Estate elevate asset risk

SpareBank 1 BV's operations are geographically concentrated in the counties of Vestfold and Buskerud (around 89% of gross loans at year-end 2019), located in south-eastern Norway. The bank is deeply entrenched in the local community (around a quarter of the population are public servants), a common feature among the Norwegian savings banks, as the business model entails a social responsibility and commitment to the community.

SpareBank 1 BV's reported problem loans ratio (Stage 3 loans according to IFRS 9 as a percentage of gross loans, including loans transferred to the covered bond companies) stood at 0.6% as of end-June 2020, in line with 0.6% as of year-end 2019. The strong credit quality of the bank's loan book reflects its refined credit processes with an increasingly sophisticated risk management framework, but also the consistent decline in the average probability of default (PD) in its corporate book.

The sound credit quality of the bank translates into very low credit costs, with the annual loan loss provisions amounting to only 0.03% on average between 2014 and 2019, with a peak in credit costs in 2014, reaching 0.28% of gross loans (Exhibit 3). However, provisioning has increased as a result of the coronavirus outbreak and increased economic uncertainty and stood at 0.10% of gross loans for the first six months of 2020, which is still considered low in an international context and compares well with similarly-rated peers.

8 September 2020 SpareBank 1 BV: Update to credit analysis

Problem loans / gross loans - left axis Loan loss provisions / gross loans - right axis 2.0% 1.0% 1.73% 1.66% 0.8% 1.5% 0.6% 1.0% 0.4% 0.28% 0.81% 0.74% 0.66% 0.61% 0.58% 0.2% 0.06% 0.01% 0.5% 0.00% 0.00% 0.10% 0.0% -0.20% 0.0% -0.2% 2014 2017 2018 2019 01-Jun

Exhibit 3

Sound asset quality of retail-dominated loan book translates into low loan losses

Note: From 1 January 2018 and onwards, problem loans are defined as IFRS 9 Stage 3 loans. Source: Moody's Financial Metrics, Company reports

The healthy asset quality of the bank is supported by a loan book dominated by retail exposures, as Norwegian retail mortgages have historically entailed low risk. Retail loans at SpareBank 1 BV accounted for 82% of gross loans (including loans transferred to the covered bond companies) at end-June 2020.

The relative stability of housing prices in Vestfold and Buskerud in the past few years mitigates the risk of asset quality deterioration, and we expect Norwegian households to continue servicing their debt without difficulties despite the coronavirus induced economic disruption which resulted in an increased level of provisioning for all banks. In contrast to Oslo, house prices in the bank's areas of operations have been below the Norwegian average and experienced a stable growth without peaks or significant corrections. Nonetheless, given the bank's material exposure to mortgage loans, a potential serious slowdown in the Norwegian economy is likely to leave it vulnerable to house price fluctuations and impaired loan affordability by borrowers.

Furthermore, SpareBank 1 BV's substantial exposure within its corporate book to the cyclical real estate and construction sectors (approximately 80% of its corporate book and 15% of total gross loans at end-June 2020) poses a downside risk, potentially rendering the bank vulnerable to changes in interest rates and real estate prices in the region.

Accordingly, we assign SpareBank 1 BV an Asset Quality Score of baa1, which includes negative adjustments to better capture risks stemming from the bank's geographical and sector concentrations.

Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed

In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019.

SpareBank 1 BV's capitalisation is robust, as evidenced by its reported Common Equity Tier 1 (CET1) ratio of 18.6% and total capital ratio of 22.3% at end-June 2020, comparing favourably globally and with its similarly-rated local peers. The bank comfortably fulfills its regulatory CET1 capital requirement of 12.9% (including a pillar 2 requirement of 1.9%) with a sizeable headroom as of end-June 2020. The bank's sound solvency is also demonstrated in its unweighted capital metrics. The bank reported a leverage ratio of 8.6% as of end-June 2020, which is high by international standards and well above the regulatory minimum requirement of 5% in Norway.

SpareBank 1 BV applies the standardised approach for calculating its regulatory capital requirements, meaning that its assets are assigned higher risk weights than under the Internal Ratings Based (IRB) approach. With the implementation of the EU capital adequacy rules into the EEA agreement the Basel I floor was removed in Norway from January 2020 onwards, but had no real impact on SpareBank 1 BV's capital metrics as it uses the standard method for calculating credit risk. However, the introduction of a discount for SME exposures based on EU's CRD IV directive, will confer around 40 basis points benefit to the bank's CET1 ratio. We also note that, following a decision by the Ministry of Finance on 11 December 2019, the bank will have to comply with an increase in the systemic

risk buffer to 4.5% (from 3%) by the end of 2022, which will bring its pro-forma CET1 requirement to 14.4%. We expect the bank to be able to comfortably comply with its regulatory requirements.

■Reported CET1 ratio ■CET1 Capital ■Capital Conservation Buffer Systemic Risk Buffer Pillar 2 ■ Countercyclical Buffer 20% 18.60% 18.3% 17.8% 17.3% 16.7% 16.4% 14 7% 15% 1.0% 10% 5% 4.5%

Exhibit 4
SpareBank 1 BV's reported CET 1 ratio and required capital buffers

2015

Source: Issuer reports

2014

Equity certificates are an important part of SpareBank 1 BV's capital base (equity certificate fraction of 54.7% relative to the bank's total equity in June 2020), a common feature among Norwegian savings banks. The balance of the bank's equity base consists of primary capital (no owners). Raising capital in case of need during difficult economic periods could prove challenging for SpareBank 1 BV, given its ownership structure in view of the potential dilution effect.

2016

2017

2018

2019

Jun-20

This limits the bank's flexibility in terms of dividend payments (target of at least 50%) and capital retention, and could make it difficult for the bank to access new capital. The two foundations, SpareBank 1 Stiftelsen BV and Sparebankstiftelsen Nøtterøy – Tønsberg, are the two largest stakeholders in the bank having a joint stake of around 39%. We note that these foundations are considered long-term and financially strong owners, with its bylaws stating that it shall maintain its interest through participation in equity certificate issues.

Considering our assessment of SpareBank 1 BV's capitalisation, we assign a Capital Score of aa2 to the bank, incorporating a negative adjustment to reflect the potential challenges in accessing new capital if need be.

Good profitability and diversified earnings but a more challenging operating environment will pressure margins

In response to the economic stress from the coronavirus outbreak the Norges Bank has carried out three rate cuts totaling 150 basis points since March 2020, while prior to this period the key policy rate was on a rising trend. Low loan rates (interest rate adjustment was implemented quicker than the usual 6 weeks notice) coupled with an already fierce competition among Norwegian banks will put pressure on SpareBank 1 BV's net interest margin and profitability metrics in 2020.

The bank reported a satisfactory annualised Return on Equity (ROE) of 9.8% in the first six months of 2020, although we note that the normalised ROE excluding one-off items is around 7.7%. The bank's results in 2020 were affected by increased provisioning costs and losses on financial investments booked during Q1 as a result of coronavirus outbreak and introduction of lockdown measures. Losses on loans stood at NOK43.9 million as of June 2020, compared with just NOK3.7 million a year earlier. The bank's results were also positively affected by gains of around NOK53.0 million from the Fremtind insurance merger transaction.

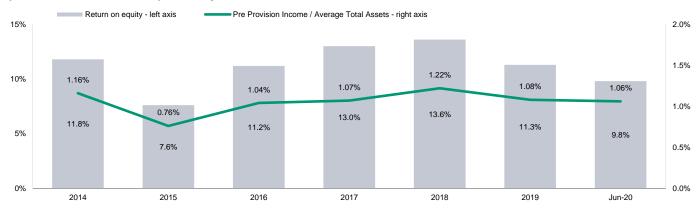
However, the bank generally exhibits good profitability metrics (see Exhibit 5). Stable retail banking operations supported SpareBank 1 BV's profitability, with net interest income (including net interest income from the covered bond companies booked as commission income) being its most important source of income. As of June 2020, net interest income constituted around 70% of operating income (excluding gains from financial investments).

Net commission and other operating income reflects income from associated companies jointly owned within the SpareBank 1 Alliance and the bank's own subsidiaries. In addition, the wide range of products offered by the bank and its subsidiaries creates valuable

opportunities for cross-selling to the acquired customers from SpareBank 1 Nøtterøy-Tønsberg, and enables the bank to strengthen its operating income.

Competition is intense in the bank's area of operations, and the bank has a limited pricing power compared to the largest national players, which usually reprice their loan books before smaller banks do. Accordingly, we expect that the lower lending rates combined with intense competition will put further pressure on the bank's net interest income and margins going forward.

Exhibit 5
SpareBank 1 BV exhibits sound profitability metrics



Source: Moody's Investors Service, Issuer reports

SpareBank 1 BV's cost base has been elevated relative to peers, with a reported cost-to-income ratio (excluding financial investments) of around 53% as of end-June 2020, down from 56.1% in June 2019, although the reported ratios include the one-time positive effects relating to Fremtind transaction.

As a member of the SpareBank 1 Alliance, the bank benefits from its economies of scale and access to digitalisation solutions which will enable it to operate with a lighter cost base. We note that in order for the bank to remain competitive it has implemented various digitalisation innovations, including the initiation of 76% of all mortgage loans through digital channels, the development of a client profit analysis application and the new digital real estate broker, which will go some way in improving its efficiencies.

High reliance on confidence-sensitive market funding, which is partly mitigated by access to a resilient covered bond market and a sizeable deposit base

SpareBank 1 BV's funding profile is dominated by deposits and covered bonds, similar to other Norwegian savings banks. As of end-June 2020, customer deposits accounted for around 53% of the bank's non-equity funding (including covered bonds issued by the jointly owned covered bond companies). Total bank's customer deposits increased robustly by around 5% year-on-year as of end-June 2020, while retail market deposits constituted around 63% of total deposits. This strengthens SpareBank 1 BV's funding profile as we consider retail deposits to be a more stable source of funding compared to corporate deposits.

The bank is also highly dependent on confidence-sensitive market funding to finance its operations. Our market funding ratio (market funds to tangible banking assets including covered bond loans) for the bank was a relatively high 29.1% as of end-March 2020. We view this as a weakness in the bank's funding profile, as we do for most Norwegian banks, because market funding can become more expensive and/or restricted in times of market stress.

The majority of the banks market funding is in the form of covered bonds issued through covered bond companies jointly owned with other members of the SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). At end-June 2020 the bank had transferred retail mortgages worth NOK13 billion and commercial real estate loans worth NOK834 million to these vehicles, constituting together around 29% of its gross loan book including the transferred loans.

While we view positively the diversification benefit of covered bond funding, its extensive use increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation. As reflected in our methodology, we globally reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment. In addition, we expect

that the bank's MREL requirement will induce the bank to refinance around NOK2-3 billion of maturing senior preferred debt (total outstanding of NOK8.1 billion in March 2020) with senior non-preferred debt (Tier 3 capital).

SpareBank 1 BV's sizeable liquid reserves, constituting 13.1% of the bank's tangible banking assets as of end-March 2020, partly mitigate risks associated with its high reliance on market funding. However, we note that 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 main components of the bank's liquidity reserves are highly-rated covered bonds, sovereign and municipality bonds. The bank's high Liquid Coverage Ratio (LCR) of 211% as of end-June 2020 is well above the regulatory minimum requirement of 100%. We expect the bank to maintain a relatively conservative liquidity in order to curb any refinancing risks, while its net stable funding ratio (NSFR) is also comfortably above 100%.

ESG considerations

In line with our general view of the banking sector, Sparebank 1 BV's has low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risk heatmaps for further information.

Norway, similarly to the European Union, has policies in place that ensure new housing to be energy-efficient, which enables banks to gather mortgages for asset pools to issue green bonds. Such policies also help limit environmental risks for Norwegian banks with large retail exposure and primarily mortgage lending activity, which should help strengthen the bank's credit profile. The bank is taking various initiatives to promote and integrate in its business the UN's sustainable development goals, including those related to 'decent work and economic growth' and 'sustainable cities and communities'.

We believe banks face moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our social risk heat map for further information.

Governance is highly relevant for Sparebank 1 BV, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 BV.

Support and structural considerations

Loss Given Failure analysis

The EU Bank Recovery and Resolution Directive (BRRD) has entered into force as of 1 January 2019 in Norway, which confirms our current assumptions regarding LGF analysis. For our resolution analysis, we assume residual tangible common equity 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 are in line with our standard assumptions.

For SpareBank 1 BV's long-term deposit ratings, we have considered the likely impact on loss-given-failure of the volume of deposits and the amount of debt subordinated to them. This has resulted in a Preliminary Rating Assessment of two notches above the Adjusted BCA, reflecting very low loss-given-failure.

Government support considerations

SpareBank 1 BV benefits from a well-established market position in the counties of Buskerud and Vestfold. Whilst the bank's market share in this region is significant, it is small in a national context. We also note that the close proximity of the bank's home region to Oslo means that a number of other Norwegian banks are present in the area. We therefore assume a low probability of government support for SpareBank 1 BV's deposits, CRA, and CRR ratings resulting in no rating uplift. Moreover, our government support assumptions are driven by the recent implementation of the EU's BRRD in Norway (effective as of 1 January 2019).

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

SpareBank 1 BV's CR Assessment is positioned at A1(cr)/Prime-1(cr)

SpareBank 1 BV's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instrument. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA 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 Rating (CRR)

Moody's Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

SpareBank 1 BV's CRR is positioned at A1/Prime-1

The CRRs are positioned three notches above the Adjusted BCA of baa1, 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.

FINANCIAL INSTITUTIONS MOODY'S INVESTORS SERVICE

Rating methodology and scorecard factors

Exhibit 6

10

SpareBank 1 BV

Macro Factors								
Weighted Macro Profile Very Strong								
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2		
Solvency								
Asset Risk								
Problem Loans / Gross Loans	0.7%	aa1	\longleftrightarrow	baa1	Geographical concentration	Sector concentratio		
Capital								
Tangible Common Equity / Risk Weighted Assets Basel III - transitional phase-in)	19.1%	aa1	\longleftrightarrow	aa2	Access to capital			
Profitability								
Net Income / Tangible Assets	0.3%	ba2	$\leftarrow \rightarrow$	baa3	Expected trend			
Combined Solvency Score		aa3		a3				
Liquidity								
Funding Structure								
Market Funds / Tangible Banking Assets	28.6%	baa2	\longleftrightarrow	baa2	Extent of market funding reliance			
iquid Resources								
iquid Banking Assets / Tangible Banking Assets	13.0%	baa3	$\leftarrow \rightarrow$	baa2	Stock of liquid assets			
Combined Liquidity Score		baa2		baa2				
Financial Profile				baa1				
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				a3 - baa2				
Assigned BCA				baa1				
Affiliate Support notching				0				
Adjusted BCA				baa1				
Balance Sheet			scope	% in-scope	at-failure	% at-failure		
Other lishilities		•	Million)	22.20/	(NOK Million)	20.10/		
Other liabilities		17,376		33.3% 46.9%	19,872	38.1% 42.1%		
Deposits Preferred deposits		24,478		34.7%	21,981 17,208	42.1% 33.0%		
unior deposits		18,114 6,364		12.2%	4,773	9.2%		
Genior deposits Senior unsecured bank debt				8.087		15.5%	8,087	9.2%
Dated subordinated bank debt		- '		0.8%	400	0.8%		
		400 250		0.8%	250	0.8%		
Preference shares (bank)				3.0%				
Equity			565 2,155	3.0%	1,565 52,155	3.0% 100.0%		
Total Tangible Banking Assets		52	-,133	100.0%	32,133	100.0%		

8 September 2020 SpareBank 1 BV: Update to credit analysis

Debt Class	De Jure v	vaterfall	De Facto waterfall		Notching		LGF	Assigned	Additional Preliminary		
	Instrument volume + subordinatio	ordinatio	Instrument on volume + o subordinatio	ordination	•	De Facto	Notching Guidance vs. Adjusted BCA	LGF notching	Notching	Rating Assessment	
Counterparty Risk Rating	28.9%	28.9%	28.9%	28.9%	3	3	3	3	0	a1	
Counterparty Risk Assessment	28.9%	28.9%	28.9%	28.9%	3	3	3	3	0	a1 (cr)	
Deposits	28.9%	4.2%	28.9%	19.8%	2	3	2	2	0	a2	
Senior unsecured bank debt	28.9%	4.2%	19.8%	4.2%	2	2	2	2	0	a2	

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	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2

^[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 7

Category	Moody's Rating
SPAREBANK 1 BV	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2

Source: Moody's Investors Service

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE
CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S
(COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY
NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE
MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S
INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR
PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS
OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR
COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT
AND DO NOT PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT
AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND
PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR FLOCAL HINVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY
AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE. HOLDING. OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOFVER BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1240011

8 September 2020 SpareBank 1 BV: Update to credit analysis

CLIENT SERVICES

 Americas
 1-212-553-1653

 Asia Pacific
 852-3551-3077

 Japan
 81-3-5408-4100

 EMEA
 44-20-7772-5454



13