MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 October 2022

Update

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RATINGS

SpareBank 1 Sorost-Norge

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A1
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 Sorost-Norge

Update following upgrade of deposit and issuer ratings

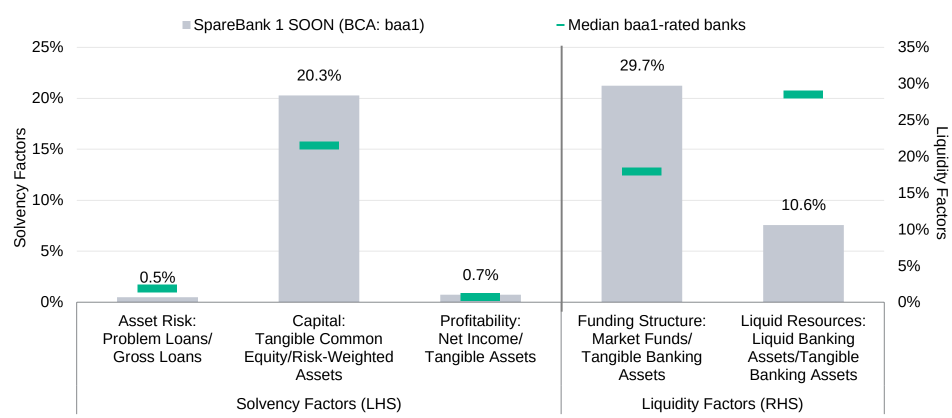
Summary

SpareBank 1 Sorost-Norge's foreign and local currency deposit ratings of A1/P-1 and issuer rating of A1 reflect the bank's Baseline Credit Assessment (BCA) of baa1 and the large volumes of loss absorbing liabilities protecting creditors in case of failure, resulting in three notches of uplift as indicated by Moody's advanced loss given failure (LGF) analysis.

The bank's baa1 BCA reflects the bank's strong financial performance in the past years despite, significant M&A activity, evidenced by the bank's strong asset quality, sound capitalization and robust albeit lower recurring profitability. These strengths are balanced against the bank's significant exposure to mortgages and the real estate sector, its geographical concentration and its relatively high level of market funding, although mitigated by strong liquidity.

The stable outlook on the long-term deposit and issuer ratings reflects the agency's expectation that the bank will continue its resilient performance over the next 12-18 months, following the integration of SpareBank 1 Modum (not rated).

Exhibit 1
Rating Scorecard – Key financial ratios



These represent our Banks methodology Scorecard ratios, whereby asset risk and profitability reflect the weaker of the latest reported or average of last three year-end and latest reported ratios. Capital is the latest reported figure. Funding and liquidity ratios reflect the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» SpareBank 1 Sorost-Norge'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, Vestfold and Telmark and exposure to Commercial Real Estate somewhat elevates asset risk

» Elevated operational risk related to the integration of the new businesses into the group following the triple merger

» 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 stable outlook on the deposits and issuer ratings reflects the agency's expectation that the bank will continue its resilient performance over the next 12-18 months, following the integration of SpareBank 1 Modum.

Factors that could lead to an upgrade

The ratings could be upgraded if the bank demonstrates (1) the successful integration of SpareBank 1 Modum into the group without compromising its financial performance or crystalizing operational risk, (2) sustained robust earnings that would be comparable to its higher-rates peers without compromising its risk profile, (3) continued good access to market funding combined by strong liquidity.

Factors that could lead to a downgrade

Downward ratings pressure could emerge if (1) SpareBank 1 BV's problem loan ratio was to deteriorate materially in light of higher inflation ; (2) financing conditions were to become more difficult; (3) its risk profile was to increase, for example as a result of increasing exposure to more volatile sectors and/or (4) macroeconomic environment were to deteriorate leading to adverse developments in the Norwegian real-estate market.

Furthermore, the deposit and senior unsecured debt ratings could be downgraded should the bank issues materially lower volumes of junior-senior instruments following including management buffers.

Key indicators

Exhibit 2

SpareBank 1 Sorost-Norge (Consolidated Financials) [1]

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	121.0	100.2	53.9	51.7	48.9	29.6[4]
Tangible Common Equity (NOK Billion)	11.3	9.7	5.2	4.9	4.6	29.7[4]
Problem Loans / Gross Loans (%)	0.4	0.4	0.4	0.6	0.8	0.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.3	20.1	20.0	19.7	18.3	19.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.4	3.8	3.7	5.1	6.8	4.6[5]
Net Interest Margin (%)	1.5	1.4	1.5	1.5	1.4	1.5[5]
PPI / Average RWA (%)	2.1	2.1	2.2	2.1	2.5	2.2[6]
Net Income / Tangible Assets (%)	0.7	0.7	0.9	1.0	1.0	0.9[5]
Cost / Income Ratio (%)	52.9	51.4	51.7	51.6	49.3	51.4[5]
Market Funds / Tangible Banking Assets (%)	28.4	29.7	27.6	28.6	30.6	29.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.0	10.6	13.0	13.0	13.3	12.2[5]
Gross Loans / Due to Customers (%)	177.6	184.5	171.4	173.9	177.6	177.0[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 Sorost-Norge 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 2022, the bank had total consolidated assets of around NOK 121 billion (including assets transferred to jointly own covered bond companies). SpareBank 1 Sørøst-Norge is the 7th 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

SpareBank 1 Sorost-Norge

On 29 June 2022, the bank stated that it has initiated a process to apply to Finanstilsynet for A-IRB approval during the first half of 2024. Advanced IRB model would allow the bank to use its own credit management models and utiliise capital efficiently as risk weighted assets would decrease under A-IRB calculation, compared to the standardized model. Connected with this the bank announced changes in the group management as deputy CEO, Geir Årstein Hansen, will take over as head of the A-IRB project and Roar Snippen will be appointed Executive Vice President of Finance, Analysis and IR (CFO).

On 1 April 2022, SpareBank 1 Sørøst-Norge and SpareBank 1 Modum finalized their legal merger, this followed the merger in June 2021 between SpareBank 1 BV and SpareBank 1 Telemark. The bank has completed the technical merger in October 2022. Finanstilsynet has set Pillar 2 requirements for the merged bank on core tier 1 capital adequacy of at least 2.5 percentage points in addition to the minimum and buffer requirements. This means that SpareBank 1 Sørøst-Norge's requirement for core tier 1 capital adequacy, including current buffer requirements, will be 13.5 per cent and the requirement for total capital adequacy is 17 per cent.

On 15 December 2021, SpareBank 1 Sørøst-Norge received a decision regarding Minimum Requirements for Own Funds and Eligible Liabilities (MREL). The Norwegian Financial Supervisory Authority stipulated a risk weighted minimum requirements for own funds and eligible assets (MREL) of 26.1 percent of adjusted risk weighted assets.

Economic Outlook

We expect the Norwegian mainland economy (excluding any oil-related activity) to expand by 3.8% in 2022 up from 3.3% in 2021. Unemployment, which peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare Administration, has declined to 1.6% as of September 2022.

In April we changed our outlook on the Norwegian banking system to positive. This reflects our expectation that Norway's post-pandemic economic recovery will continue over the next 12-18 months, as higher energy prices support revenues from oil and gas exports. At the same time, proactive interest rate increases by the central bank will partially offset inflationary pressure as a result of supply chain disruption and Russia's invasion of Ukraine. Increased government spending on the back of higher petroleum revenue will support the operating environment, counterbalancing any downturn in consumer spending. We expect Norwegian banks' profitability to improve, and that their asset quality and capitalization will hold steady.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the bank's stand alone credit profile

SpareBank 1 Sorost-Norge 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 low susceptibility to event risk. Norway has an increasingly diversified and growing economy, which demonstrated resilience to the last weakening in the oil sector in 2014-15 as well as in 2020.

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' strong capitalisation and the relatively small size of the banking system compared with the total size of the economy.

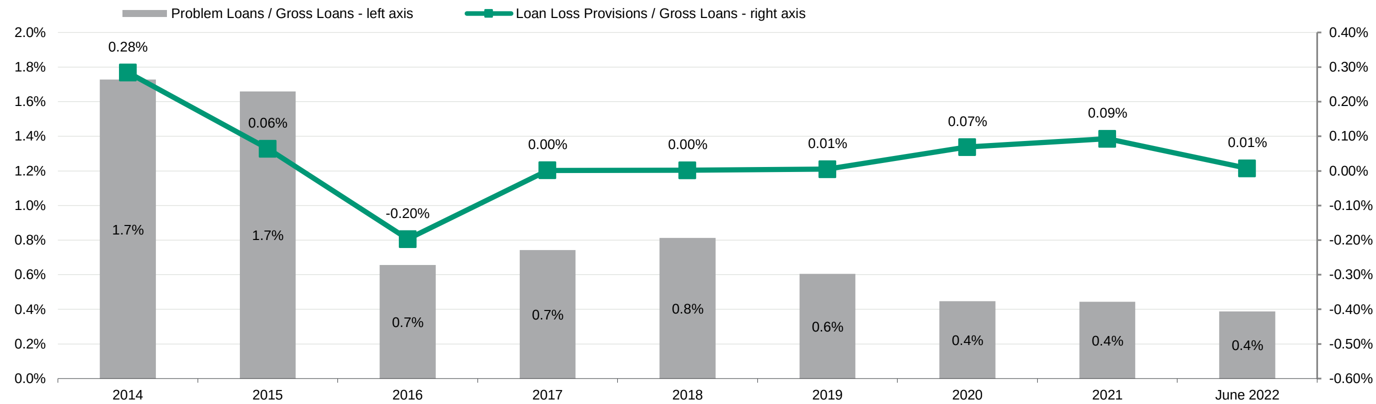
Norway's economy is relatively resilient to the economic impact from the Russia-Ukraine military conflict compared to European peers because it is a large energy exporter, renewables account for a large share of the country's energy mix and it has a low trade exposure to Russia and Ukraine. As European countries are looking to reduce imports from Russia, Norway is likely to be positively affected by increased demand in Europe. We therefore continue to expect strong GDP growth in Norway both in 2022 and 2023 despite the impacts of the Russian invasion of Ukraine.

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

SpareBank 1 Sorost-Norge'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) of 0.39% as of end-June 2022, a slight decrease from 0.45% as of year-end 2021. 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, despite the bank's M&A activity. Going forward, we expect asset quality to remain stable, in line with peers. The strong recovery and low unemployment levels contribute a stable operating environment, albeit somewhat offset by inflationary pressure and supply-chain issues affecting mainly construction and property development.

The sound credit quality of the bank translates into very low credit costs, with the annual loan loss provisions amounting to only 0.04% on average between 2014 and 2021, with a peak in credit costs in 2014, reaching 0.28% of gross loans (Exhibit 3). The bank's loan loss provisions/gross loans came down to 0.01% for the first six months of 2022, which is considered low in an international context and compares well with similarly-rated peers.

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 Investors Service

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 Sorost-Norge accounted for 78% of gross loans (including loans transferred to the covered bond companies) at end-June 2022.

However, SpareBank 1 Sorost-Norge's operations are geographically concentrated in the counties of Vestfold, Telemark and Viken (around 89% of gross loans at year-end 2021), located in south-eastern Norway. Although the merger will somewhat increase the geographical reach of the bank, we expect the new entity's operations will remain focused within their local region. All three banks are 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.

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. 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 Sorost-Norge's substantial exposure within its corporate book to the cyclical real estate and construction sectors (approximately 83% of its corporate book and 19% of total gross loans at end-June 2022) posed a downside risk, potentially rendering the bank vulnerable to changes in interest rates and real estate prices in the region. The merger with SpareBank 1 Modum did not have a significant impact on the sector concentrations.

Accordingly, we assign SpareBank 1 Sorost-Norge an Asset Quality Score of baa1, which includes negative adjustments to better capture risks stemming from the bank's geographical and sector concentrations and elevated operational risk related to the integration of the new businesses into the group following the triple merger.

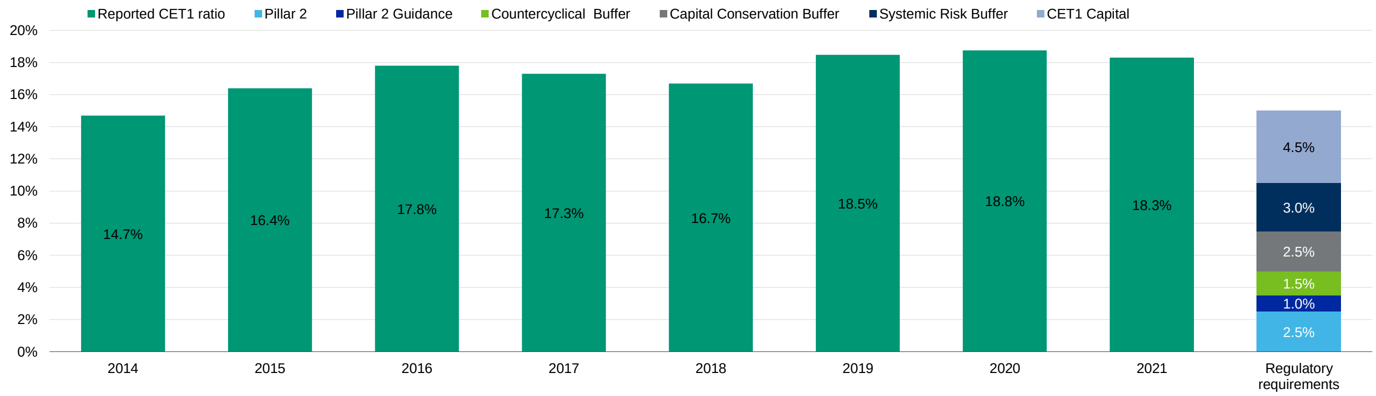
Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed

SpareBank 1 Sorost-Norge's capitalisation is robust, as evidenced by its Common Equity Tier 1 (CET1) ratio of 19.3% and total capital ratio of 22.2% at end-June 2022, comparing favourably globally and with its similarly-rated local peers. The bank comfortably fulfilled its regulatory CET1 capital requirement of 15% (including a pillar 2 requirement of 2.5% and a pillar 2 guidance of 1%) with a sizeable headroom as of end-June 2022. The bank's sound solvency is also demonstrated in its unweighted capital metrics. The bank reported a leverage ratio of 8.5% as of end-June 2022, which is high by international standards and well above the regulatory minimum requirement of 5% in Norway. We expect the merged bank to continue benefiting from strong capitalisation with the combined core equity Tier 1 remaining well above the minimum regulatory requirements.

SpareBank 1 Sorost-Norge applied the standardised approach for calculating its regulatory capital requirements, meaning that its assets were 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 Sorost-Norge's capital metrics as it used the standard method for calculating credit risk. However, the introduction of a discount for SME exposures based on EU's CRD IV directive, resulted in 60 basis points benefit to the bank's CET1 ratio in June 2022.

Following the completion of triple merger, SpareBank 1 Sorost-Norge's corporate book has reached the Norwegian FSA's threshold to allow for an application to become an A-IRB bank. The bank is expected to submit its application at the end of 1H24, as it benefits from access to the IRB models developed by the SpareBank 1 Alliance which are used by the regional banks in the alliance.

Exhibit 4
SpareBank 1 Sorost-Norge's reported CET 1 ratio and required capital buffers



Source: Moody's Investors Service, Company reports

Equity certificates are an important part of SpareBank 1 Sorost-Norge's capital base (equity certificate fraction of 60.7% relative to SpareBank 1 Sorost-Norge's total equity in June 2022), 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 Sorost-Norge, given its ownership structure in view of the potential dilution effect.

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 local foundations are the largest stakeholders in the bank having a joint ownership of 75% as of June 2022. 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 Sorost-Norge'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.

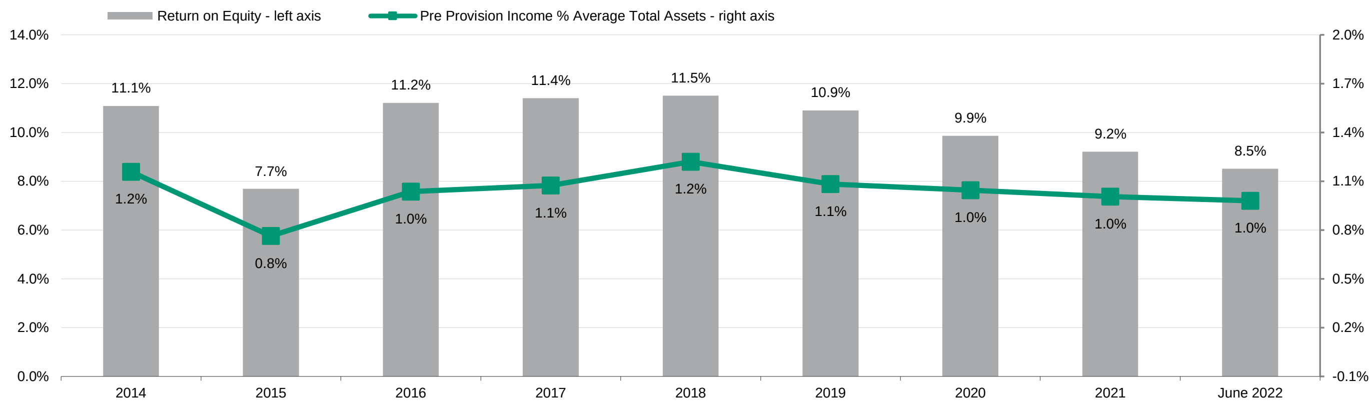
Good profitability and diversified earnings but competition could pressure margins

SpareBank 1 Sorost-Norge benefits from good profitability (see Exhibit 5) supported by its stable retail banking. However, net profits have been impacted greatly by restructuring and other merger related costs, while pre-provision income has remained broadly unchanged since 2019 as a percent of average total assets. The bank reported return on tangible assets of 0.7% in the first half of 2022 (0.7% for the full year 2021) but weaker than the 0.9% in 2020.

Net interest income (including net interest income from the covered bond companies booked as commission income) is the bank's most important source of income accounting for around 70% of operating income (excluding gains from financial investments). Net interest margin has remained improved to 1.46% in the first half of 2022 (including fees from the covered bond companies) compared to 1.23% for the same period last year due to strong lending growth and higher interest rates from the central bank. Although rate hikes by Norges bank will support further the bank's profitability, increased competition in the mortgages market and lower lending growth from the current 5% yoy (pro-forma) as well as higher customer churn as a result of the merger, could pressure margins going forward.

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.

Exhibit 5
SpareBank 1 Sorost-Norge exhibits sound profitability metrics



Source: Moody's Investors Service

As a member of the SpareBank 1 Alliance, the merged bank will continue to benefit from its economies of scale and access to digitalisation solutions which will enable it to operate with a lighter cost base.

SpareBank 1 Sorost-Norge's cost base had been elevated relative to peers, with a reported cost-to-income ratio (excluding financial investments) of 53.9% as of end-June 2022, down from 54.2% in year-end 2021.

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 Sorost-Norge's funding profile is dominated by deposits and covered bonds, similar to other Norwegian savings banks. As of end-June 2022, customer deposits accounted for around 52% of the bank's non-equity funding (on a Moody's adjusted basis, including covered bonds issued by the jointly owned covered bond companies).

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 is a relatively high 28.4% as of end-June 2022. In the next 12-18 months we expect the new entity's use of market funds to somewhat increase from current levels as loan growth outpaces deposit growth.

Deposits increased by 4.3% year-on-year on pro forma basis as of end-June 2022, and total bank's customer deposits increased by around 7.4% in 2021, while retail market deposits constituted around 65% of total deposits. This strengthened SpareBank 1 Sorost-Norge's funding profile as we consider retail deposits to be a more stable source of funding compared to corporate deposits.

The majority of the bank's 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 2022 the bank had transferred retail mortgages worth NOK29.7 billion and commercial real estate loans worth NOK1.4 billion to these vehicles, constituting together around 30% 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.

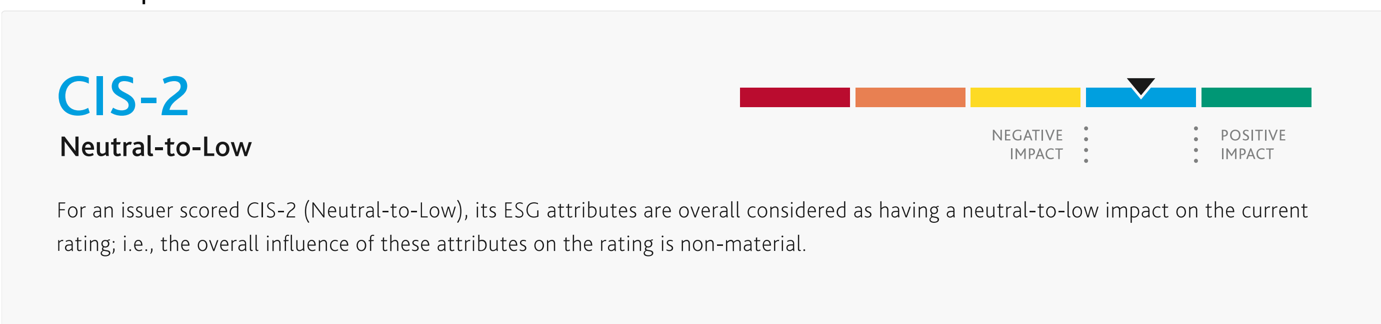
SpareBank 1 Sorost-Norge's sizeable liquid reserves, constituted 11.0% of the bank's tangible banking assets as of end-June 2022, partly mitigate risks associated with its high reliance on market funding. However, we note that this ratio understates the core liquidity of the bank, given that it does 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 for SpareBank 1 Sorost-Norge 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 152% as of end-June 2022 is below Norwegian banks average of 189% but 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

SpareBank 1 Sorost-Norge's ESG Credit Impact Score is Neutral-to-Low CIS-2

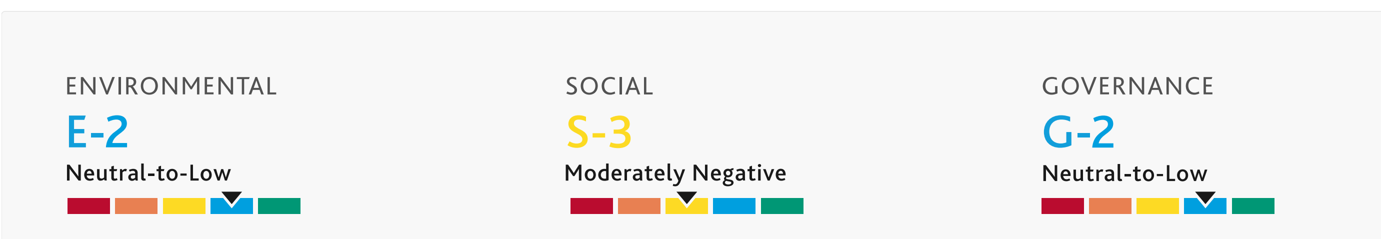
Exhibit 6
ESG Credit Impact Score



Source: Moody's Investors Service

SpareBank 1 Sorost-Norge's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact of environmental and social risk factors on the rating to date, and neutral-to-low governance risks.

Exhibit 7
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

SpareBank 1 Sorost-Norge faces low environmental risk, specifically in relation to carbon transition risks. This is because of its loan composition which consists primarily of mortgages and property management and negligible exposure to corporate lending, which typically carries higher carbon transition risk.

Social

SpareBank 1 Sorost-Norge faces moderate social risks related to customer relations and associated 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 Sorost-Norge 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 participation in the SpareBank 1 Alliance.

Governance

SpareBank 1 Sorost-Norge faces low governance risks and its risk management, policies and procedures are in line with industry practices. 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, 75% of the bank is owned by the local foundation, and the bank's Supervisory Board, comprises equity certificates holders, employees and representatives of the public authorities. Relates 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 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. BRRD2 will formally entered into effect in June 2022. These are in line with our standard assumptions.

The long-term deposit and issuer ratings of A1 reflects our forward-looking Advanced LGF analysis of SpareBank 1 Sorost-Norge's liability structures, which indicates that depositors and senior unsecured creditors are likely to face extremely low losses given failure resulting in three notches of uplift to the ratings from the BCA. This reflects our expectation that SpareBank 1 Sorost-Norge will be required to issue large volumes of instruments, prior to the end of 2023, that are subordinated to depositors and senior creditors in order to comply with their minimum requirements for own funds and eligible liabilities (MREL).

Government support considerations

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

SpareBank 1 Sorost Norge'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 Sorost-Norge'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.

Rating methodology and scorecard factors

Exhibit 8

SpareBank 1 Sorost-Norge

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		0.5%	aa1	↔	baa1	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		20.3%	aa1	↓	aa2	Access to capital	
Profitability							
Net Income / Tangible Assets		0.7%	baa2	↓	baa3	Expected trend	
Combined Solvency Score			aa3		a3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		29.7%	baa2	↓	baa3	Extent of market funding reliance	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		10.6%	baa3	↑	baa2	Stock of liquid assets	
Combined Liquidity Score			baa2		baa3		
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	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	40 150	33.3%	45 980	38.1%
Deposits	57 157	47.4%	51 327	42.6%
Preferred deposits	42 296	35.1%	40 181	33.3%
Junior deposits	14 861	12.3%	11 146	9.2%
Senior unsecured bank debt	15 439	12.8%	15 439	12.8%
Junior senior unsecured bank debt	3 000	2.5%	3 000	2.5%
Dated subordinated bank debt	825	0.7%	825	0.7%
Preference shares (bank)	416	0.3%	416	0.3%
Equity	3 618	3.0%	3 618	3.0%
Total Tangible Banking Assets	120 605	100.0%	120 605	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	28.6%	28.6%	28.6%	28.6%	3	3	3	3	0	a1
Counterparty Risk Assessment	28.6%	28.6%	28.6%	28.6%	3	3	3	3	0	a1 (cr)
Deposits	28.6%	6.5%	28.6%	19.3%	2	3	2	3	0	a1
Senior unsecured bank debt	28.6%	6.5%	19.3%	6.5%	2	2	2	3	0	a1

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	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	A1	A1

[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 SOROST-NORGE	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1

Source: Moody's Investors Service

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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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