MOODY'S
INVESTORS SERVICE

CREDIT OPINION

5 December 2019

Update

Rate this Research

RATINGS

SpareBank 1 Ostlandet

Domicile	Hamar, Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
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 Ostlandet

Update to credit analysis

Summary

SpareBank 1 Østlandet's long-term deposit and senior unsecured debt ratings of A1 take into account the bank's baseline credit assessment (BCA) of baa1, but also our loss given failure (LGF) analysis which leads to three-notches of rating uplift from its BCA.

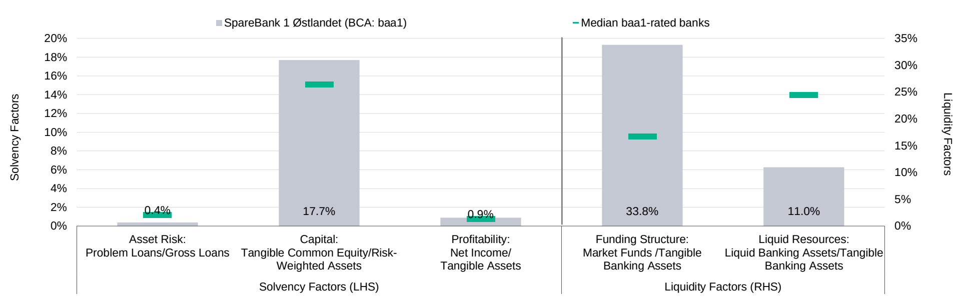
SpareBank 1 Østlandet's BCA of baa1 primarily reflects the bank's strong home region franchise and potential for growth in an extended regional coverage including the more populous Oslo and Akershus regions, as well as its robust standalone credit profile.

The bank has a very strong asset quality with a problem loans ratio of only 0.3% of gross loans at end-September 2019, as well as deeper loans and earnings geographical diversification than in the past. Its capital levels are solid (CET1 ratio of 16.7% in September 2019) and its profitability metrics are also satisfactory, benefiting from a good customer growth despite fierce competition. The bank's BCA also takes into account its relatively high level of capital markets funding, which makes it vulnerable to investor confidence fluctuations, a common feature among the largest savings banks in Norway, and also some credit concentrations towards the commercial real-estate sector.

The bank's A1 deposit, senior unsecured debt and issuer ratings take into account our forward-looking LGF analysis, taking into account the bank's upcoming MREL-eligible securities requirement, which benefits from its large volume of deposits and substantial layers of subordination resulting in three notches of rating uplift for its deposits and senior debt ratings from its BCA.

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 and 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

» SpareBank 1 Østlandet's ratings are supported by its Very Strong- Macro Profile

» Solid capital levels, one of the strongest among its peers

» Asset risk metrics are strong on the back of a low credit risk portfolio

» Large volume of deposits and junior debt resulting in deposit ratings benefiting from a very low loss-given-failure rate

Credit challenges

» The bank's funding profile is underpinned by relatively high reliance on market funding but also a sizeable deposit base

» Mortgage margin pressure and slightly higher normalised cost-to-income ratio than peers present challenges, although we expect the bank's core profitability to be sustained

Outlook

The bank's deposit and debt ratings carry a stable outlook balancing its robust financial performance with downside risks stemming from its dependence on market funding and real-estate and home prices, especially in the Oslo region.

Factors that could lead to an upgrade

Upward rating pressure will develop if SpareBank 1 Østlandet demonstrates: (1) Strong sustainable asset quality and low impairments in its retail and corporate books; (2) comfortable liquidity on an on-going basis; and/or (3) stronger earnings generation without an increase in its risk profile. In addition, further upward pressure will emerge, as suggested by the positioning of the bank's BCA at the lower end of the BCA range implied by Moody's scorecard, if the bank is able to further strengthen its customer base, enhance its product offering and franchise in the Oslo and Akershus area, which in turn will support further its revenues and profitability.

Factors that could lead to a downgrade

Future downward rating pressure could arise if: (1) SpareBank 1 Østlandet's problem loan ratio increases significantly above its similarly-rated peers; (2) financing conditions become more difficult impairing its ability to raise low-cost market funding; (3) its risk profile increases, as a result of increased exposures to more volatile sectors resulting in asset quality deterioration; (4) the macroeconomic environment deteriorates, leading to adverse developments in the Norwegian real-estate market and to a lower Macro Profile; and/or (5) the actual issuance of MREL-eligible securities is lower than our expectation, leading to a change in our advanced LGF analysis.

Key indicators

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

	09-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	178.5	164.0	146.9	137.3	73.2	26.8[4]
Total Assets (USD Million)	19,645.2	18,939.5	17,959.0	15,945.3	8,266.2	26.0[4]
Tangible Common Equity (NOK Billion)	14.1	13.6	12.1	11.2	8.3	15.1[4]
Tangible Common Equity (USD Million)	1,550.1	1,571.5	1,483.4	1,301.7	939.1	14.3[4]
Problem Loans / Gross Loans (%)	0.3	0.3	0.4	0.4	0.9	0.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.7	18.1	17.6	18.0	22.1	18.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.4	3.3	4.3	4.3	6.4	4.3[5]
Net Interest Margin (%)	1.5	1.6	1.7	1.9	2.3	1.8[5]
PPI / Average RWA (%)	2.4	2.1	1.9	2.2	1.9	2.1[6]
Net Income / Tangible Assets (%)	1.2	0.9	0.8	0.7	1.0	0.9[5]
Cost / Income Ratio (%)	51.2	54.5	60.4	58.2	59.7	56.8[5]
Market Funds / Tangible Banking Assets (%)	34.2	33.8	31.2	30.6	29.0	31.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.7	11.0	8.1	9.2	10.4	10.5[5]
Gross Loans / Due to Customers (%)	191.6	196.0	196.3	189.4	182.7	191.2[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 due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.
Source: Moody's Investors Service; Company Filings

Profile

SpareBank 1 Østlandet (known as Sparebanken Hedmark prior to April 2017) 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 2019, it reported consolidated assets (including loans transferred to covered bond companies) of NOK180 billion (or around €18 billion).

Detailed credit considerations

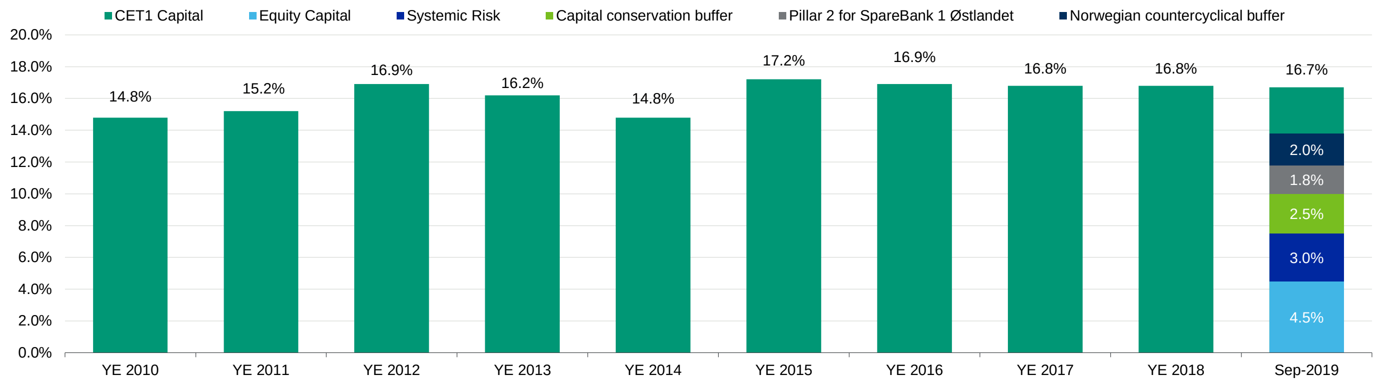
SpareBank 1 Østlandet's ratings are supported by its Very Strong- Macro Profile

As a domestically oriented bank, we align SpareBank 1 Østlandet's Macro Profile with that of Norway at Very Strong-. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events. The main risks to the banking sector stem from Norway's high household indebtedness, elevated real-estate prices, and extensive use of market funding by the domestic banks. However, these risks are mitigated by the household sector's strong ability to service debt and by the Norwegian government's well coordinated monetary and regulatory policies. Additional supporting factors are the country's sizeable sovereign wealth fund that is able to support the economy in the event of financial crisis.

Solid capital levels, one of the strongest among its peers

At end-September 2019 the group remained as one of the strongest capitalised banks among savings banks in Norway with a tangible common equity (TCE) to risk weighted assets (RWA) ratio at 17.7%, and a reported common equity Tier 1 (CET1) ratio of 16.7%, very much in line with the ratio reported in recent years (see Exhibit 3). The bank's CET1 was also higher than its target to maintain a ratio of 16% on an on-going basis. SpareBank 1 Østlandet is subject to a Pillar 2 requirement of 1.8%, which increased from 1.7% from 31 March 2018, and thus the bank's minimum regulatory CET1 requirement is 13.8% indicating currently a significant capital buffer for the bank. Its reported leverage ratio was 7.4% at end-September 2019, marginally lower than 7.5% reported in December 2018.

Exhibit 3
SpareBank 1 Østlandet CET1 capital ratio evolution



Source: Company reports and presentations

Going forward, we expect the bank to maintain a strong capital position supported by sufficient retained earnings, through a relatively conservative dividend payout over the next 2-3 years, and by discontinuing capital-intensive activities that fall outside the bank's core business. In the first quarter 2019, the Norwegian authorities imposed a safety margin in the bank's LGD estimates for its corporate book, which had a negative impact on its CET1 ratio of around 80 basis points. We understand that the bank appealed this decision to the Ministry of Finance and is awaiting its decision.

The regulators were also concerned about the development of financial imbalances in light of strong growth in house prices in recent years, especially in the Oslo region that the bank is exposed to. Consequently, the Ministry of Finance increased the countercyclical capital buffer to 2.5% from 2.0% that all Norwegian banks need to meet by end of 2019. The last increase in the countercyclical buffer was in 2017. Tighter home mortgage regulations were also introduced in early 2017. The current mortgage regulation expires at the end of 2019, and has recently been extended by the Ministry of Finance until the end of 2020 with no material changes.

In addition, based on the Ministry of Finance's proposal to neutralise the positive RWAs impact from the transposition of the CRD IV directive into Norwegian law, the systemic risk buffer will increase to 4.5% from 1 January 2020 onwards from 3% currently. For SpareBank 1 Østlandet, the positive impact on its CET1 ratio from the implementation of CRD IV will be around 70 basis points from the removal of the 80% Basel I floor, and around 30 basis points from the SME discount. Accordingly, we estimate a pro-forma CET1 of around 17.7% by the end of 2019 (including a share of Q4 2019 profit), compared to a revised regulatory requirement of 15.8%, indicating an overall management buffer of close to 200 basis points.

Sparebankstiftelsen Hedmark (the bank's Foundation) maintains its position as the largest stakeholder of the bank through a 52% ownership of the total equity capital certificates (ECC), being a long-term and financially strong owner with a recent revision of its bylaws stating that it can reduce its stake to 33% from 51% before. This could potentially attract new strategic investors, given that the bank's ECC shareholders own at the moment around 70% of its total capital.

Another important innovation, both for the bank and its customers, is that SpareBank 1 Østlandet was the first bank in Norway to launch customer dividends, enabling customers to secure a profit via their deposit and loan balances in the bank. A customer dividend of NOK222 million was paid out to both retail and corporate customers on 26 April 2019, resulting in an overall 50% total dividend payout out of the 2018 net profits.

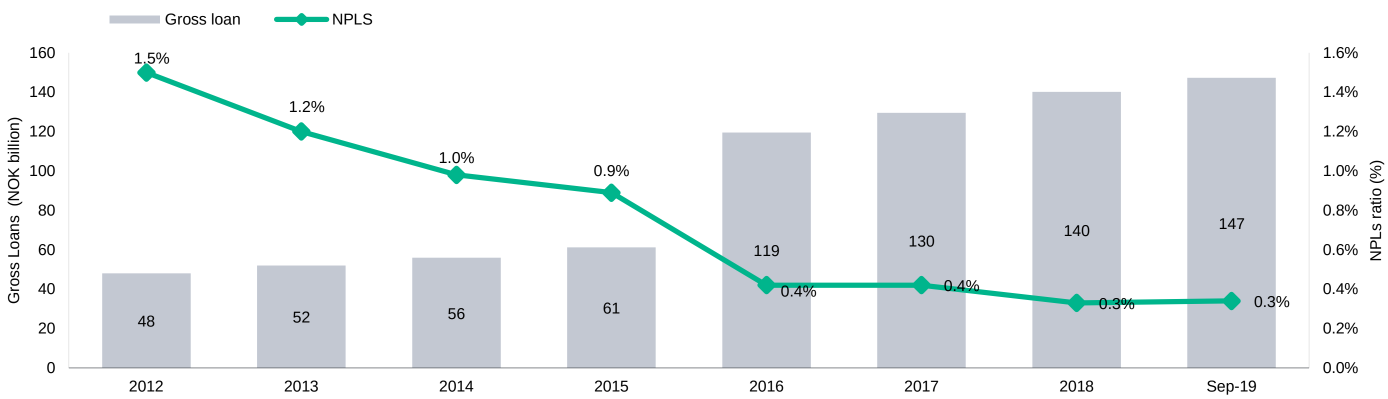
We believe that the bank has strong capital buffers relative to its peers, which allows it to grow its balance sheet and leverage opportunities in the Oslo-Akershus region where it now operates. Our assigned Capital Score reflects this strength, as well as the bank's adjusted leverage ratio (TCE/Tangible banking assets ratio), which at 7.9% as of end-September 2019 is high compared with similarly-rated global peers.

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

In line with our previous expectation, SpareBank 1 Østlandet's asset quality has improved with overall problem loans for the group reducing to around 0.3% of gross loans (including covered bond loans) at end-September 2019 from 0.9% at end-December 2015 (see

Exhibit 4). This was mainly driven by the strong asset quality of the acquired bank, with a very low level of problem loans on the back of its predominantly retail mortgages credit profile with very low LTVs in the Oslo-Akershus region.

Exhibit 4
SpareBank 1 Østlandet's asset risk metrics



Note: 2016 and onwards are based on fully consolidated balance sheet, including he acquired B1OA
Source: Company reports and Moody's Financial Metrics

The bank's total loan book is geared towards retail borrowers, mostly residential mortgages, accounting for around 74% of gross loans, including loans transferred to the covered bond companies, with no exposure to the oil sector at end-September 2019. This supports the bank's asset quality, limiting the downside risks from credit impairments, given the traditionally very low loss rates for residential mortgages in Norway. Accordingly, problem loans ratio has been historically low and on an improving trend in recent years, with the 3 year average historical ratio for SpareBank 1 Østlandet at 0.4%, which we incorporate in our scorecard.

Nonetheless, we note that the bank has some concentration in the commercial real estate (CRE) sector which constituted around 11% of gross loans (including covered bond loans) while around 3% of gross loans was towards the building and construction sector at end-September 2019. The exposure towards these two sectors, which is common among all Norwegian savings banks, raises somewhat the risk in the bank's credit profile and makes it vulnerable to potential property prices volatility in the market.

We also believe that the residential mortgage loan book in the Oslo area, where house prices have grown significantly in recent years, exposes the bank to downside risks in case of a material house price decline. The growth in real estate prices in Oslo has however slowed down in recent years owing to tighter lending regulation that came into effect in early 2017. Concurrently, we also note that the bank's average residential loan-to-value (LTV) in the Oslo area was relatively low at 60% in September 2019 compared to the maximum allowed of 85%, and that the total provisioning coverage of problem loans was approximately 70% in September 2019 mitigating any downside risks.

We assign an Asset Risk Score of a2, reflecting some downside risks from the bank's exposure to CRE, building and construction sectors, as well as geographical concentration in its regional home market and in the Oslo-Akershus region. We make similar adjustments in the asset risk scores of other rated regional savings banks in Norway as well.

Mortgage margin pressure and slightly higher normalised cost-to-income ratio than peers present challenges, although we expect the bank's core profitability to be sustained

SpareBank 1 Østlandet's reported profit after tax increased significantly to NOK1,637 million in the first nine months of 2019 compared to NOK1,092 million in the same period last year, driven mainly by a large one-off gain. The bank was able to book a NOK291 million gain as a result of DNB increasing its stake in Fremtind Forsikring AS, which was established on 1 Januray 2019 from the merger between SpareBank 1 Skadeforsikring AS (jointly own by the SpareBank 1 alliance banks) and DNB Skadeforsikring AS.

SpareBank 1 Østlandet's main source of earnings is net interest income (including fees from loans transferred to the covered bond companies), which increased year-on-year by 3.4% as of September 2019. However, we note that the bank's net interest margin (NIM according to Moody's adjusted metrics) has declined to 1.5% in the nine months of 2019 from 1.6% in full-year 2018 and 1.7% in 2017.

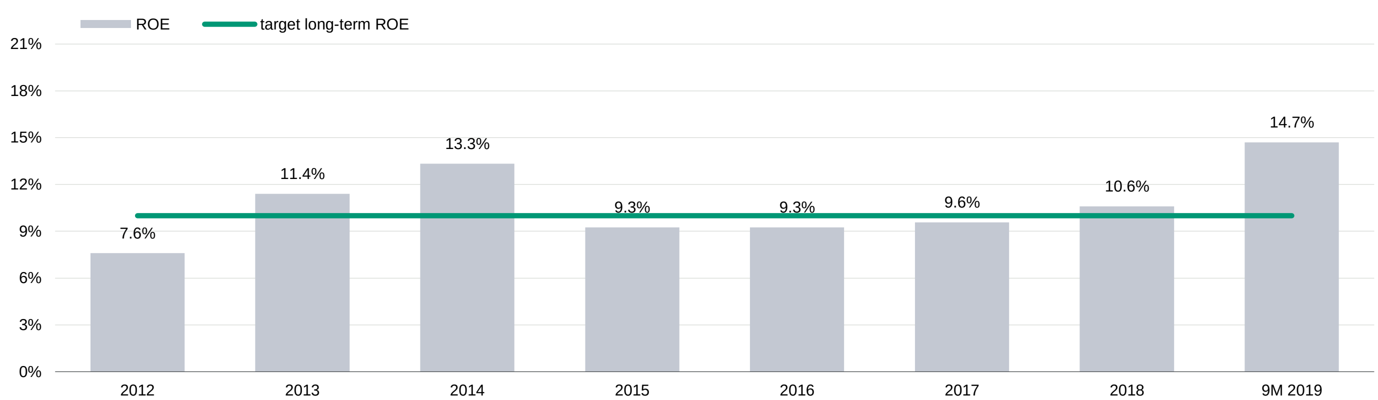
This is mainly due to rising money market rates, lower margins in the mortgage book as a result of intense competition, but also due to a reclassification of certain items in one of its subsidiaries (SpareBank 1 Finans Ostlandet AS) into commission income from net interest income.

In September 2019 the bank raised for the thrid time during 2019 its interest rate on lending and deposits by up to 25 basis points, following central bank's 25 basis point increase in September 2019 hiking its key policy rate to 1.5%. Accordingly, we expect that the current margin pressure will be somewhat alleviated in 2020. The bank's fee and commission income (including commissions from covered bond companies), which increased year-on-year by around 8.4% was supported by increased income from accounting services and comprised around 31% of total income (or around 26% of normalised income and assuming commissions from covered bond companies count as interest income).

Concurrently, loan loss provisions as a percentage of average gross loans were zero for the bank in the first nine months as of September 2019, despite the adoption of IFRS 9 with new more conservative principles for write-downs from January 2018 onwards. The zero cost of risk for the bank was mainly driven by provisioning write-backs, on the back of the validation of its loss models indicating that its LGD estimates were significantly higher than realised loss rates.

We expect the bank's recurring profitability to be sustained in 2020-21, with the contribution of cost synergies already in place estimated by the bank at minimum NOK75 million per annum, although its normalised cost-to-income ratio of 47% in September 2019 is slightly higher compared to its similarly-rated local peers. The bank's profit metrics will also be supported by its good positioning for further profitable growth, with the 12 month loan growth at end-September 2019 at a satisfactory 6.6% mainly driven by high growth in retail lending. The bank reported a normalised return on equity (RoE) of 12.2% (14.8% including the one-off gain) in the first nine months of 2019, up from 11.1% in the same period last year, and above its long term minimum target of 10%. The Moody's adjusted RoE in September 2019, including the one-off gain, was at 14.7% from 10.6% in 2018 (see Exhibit 4).

Exhibit 5
SpareBank 1 Østlandet's Moody's adjusted Return on Equity (RoE)



2017 and onwards are based on consolidated financials including results from Bank 1 Oslo Akershus.
Source: Company reports and Moody's Financial Metrics

The bank has a dominant position in the Hedmark region with market share in both retail and corporate of around 50%, and now adds around 11% retail market share and 2% in SMEs in the Oslo-area. As the fourth largest Norwegian savings bank, SpareBank 1 Østlandet will also have the potential to participate in bigger syndications along with other banks, and also attract more business from larger borrowers in the market.

The bank's funding profile is underpinned by relatively high reliance on market funding but also a sizeable deposit base

SpareBank 1 Østlandet's funding profile is similar to that of other Norwegian savings banks and has not changed in any significant way after the acquisition of B1OA. Its market funding reliance (assuming 50% of covered bonds as market funding) is around 34% of total tangible banking assets at end-September 2019, mainly driven by the issuance of covered bonds. We also note that the bank participates in the jointly-owned SpareBank 1 Alliance's €10 billion EMTN program with Euro-denominated bond issues, contributing to a more diversified funding profile. The bank's funding position is also underpinned by a substantial deposit base, which accounted for around 50% of total funding (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at end-September 2019, with 56% of the bank's deposits derived from the retail sector.

We globally reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment in our scorecard. SpareBank 1 Østlandet has increasingly used covered bond funding in the past years, which is done off-balance-sheet through specialized 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). At end-September 2019, SpareBank 1 Østlandet had transferred retail mortgages worth NOK42.2 billion to SpareBank 1 Boligkreditt and NOK1 billion commercial mortgages to SpareBank 1 Næringskreditt (i.e. equivalent to 29% of total gross loans including loans transferred to covered bond companies).

Whilst we positively view the diversification benefit of covered bond funding, our assessment of the bank's funding structure reflects our view that SpareBank 1 Østlandet has some reliance on market funds - a common feature at Nordic banks. Market funding, in accordance with our adjusted estimate, accounted for approximately 34% of the bank's tangible banking assets at end-September 2019. We also note that from 2019 until the end of 2022, we estimate that it will need to raise around NOK10 billion of Tier 3 capital (senior non-preferred bonds, the amount increases to NOK13 billlion if the systemic risk buffer increases to 4.5% from 3% in December 2019) that will be eligible for minimum requirement for own funds and eligible liabilities (MREL) that comes into effect next year in Norway. This will not increase the bank's market funding dependence, as the bank will likely replace existing senior-preferred bonds that will mature with such MREL-eligible bonds.

SpareBank 1 Østlandet's liquidity position is sound, with liquid assets to total tangible banking assets at 13.7% at end-September 2019 (including assets transferred to covered bond companies) and, according to the bank, cover funding needs for 18 months without access to external funding from the market. 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 liquidity reserves consist of cash and deposits with the central bank, senior bonds, government guaranteed bonds, covered bonds and limited equity investments. The holdings are concentrated on 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 204% at end-September 2019 (153% at end-December 2018).

Environmental, social and governance (ESG) considerations

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

SpareBank 1 Østlandet has no exposure to the oil sector, making it more resilient against eventual transition to a low-carbon economy. The bank also engages in green lending aimed at supporting sustainable farming practices, which could further benefit its asset quality. Norway, similar to other countries in the European Union, has policies in place that ensure new housing constructed is energy-efficient, which enables banks to gather mortgages for asset pools for green bond issuances. Such policies also help limit environmental risks for Norwegian banks that have large mortgage lending portfolios. We also note that the bank is strenghtening its ESG focus, having one of the best sustainability assessments/rankings from external agencies, and increasingly incorporating ESG considerations in its lending policies and guidelines.

The most relevant Social risks for banks arise when 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. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Overall, we consider banks, including SpareBank 1 Østlandet, to face moderate social risks.

Governance is highly relevant for SpareBank 1 Østlandet, 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 Østlandet.

Support and structural considerations

Loss Given Failure and additional notching

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. In our advanced LGF 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 metrics are in line with our standard assumptions.

The ratings take into account Moody's 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. We take into consideration the expected level of MREL eligible debt issuance over the coming 2-3 years, which results in an assessment of very low loss given failure and 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

Following the acquisition, SpareBank 1 Østlandet has become the fourth largest savings bank in Norway, from sixth before, while also having presence now in the most important and economically developed region of Oslo-Akershus. In particular Moody's considers the bank to be a vital intermediary in financing the SME sector especially in the agricultural and forestry sectors that are central for the Hedmark region.

However, as a result of implementation of BRRD framework in Norway on 01.01.2019, we lowered our assumptions in line with other banks under BRRD frameworks and assume low probability of government support for debt and deposits, resulting in no additional notches of rating uplift above their PRA, positioning them at A1.

Counterparty Risk 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.

We assign an A1(cr) long term and P-1(cr) short term CR Assessment to SpareBank 1 Østlandet.

SpareBank 1 Østlandet'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 instruments. 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 Ratings

Moody's Counterparty Risk Ratings (CRRs) 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. We believe that CRR liabilities have a lower probability of default than the bank's deposit and senior unsecured debt as they will more likely be preserved in order to minimise banking system contagion, minimise losses and avoid disruption of critical functions.

SpareBank 1 Østlandet's CRR's are positioned at A1/Prime-1

The CRR is 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 judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 6
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		0.4%	aa1	←→	a2	Geographical concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		17.7%	aa2	←→	aa2	Expected trend	
Profitability							
Net Income / Tangible Assets		0.9%	baa1	←→	baa1	Expected trend	
Combined Solvency Score			aa3		a1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		33.8%	baa3	←→	baa3	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		11.0%	baa3	←→	baa2	Quality of liquid assets	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					baa1		
Affiliate Support notching					0		
Adjusted BCA					baa1		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	59,703	33.5%	67,544	37.9%
Deposits	76,866	43.2%	69,026	38.8%
Preferred deposits	56,881	31.9%	54,037	30.3%
Junior deposits	19,985	11.2%	14,989	8.4%
Senior unsecured bank debt	34,260	19.2%	34,260	19.2%
Dated subordinated bank debt	1,425	0.8%	1,425	0.8%
Preference shares (bank)	493	0.3%	493	0.3%
Equity	5,343	3.0%	5,343	3.0%
Total Tangible Banking Assets	178,090	100.0%	178,090	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	31.7%	31.7%	31.7%	31.7%	3	3	3	3	0	a1
Counterparty Risk Assessment	31.7%	31.7%	31.7%	31.7%	3	3	3	3	0	a1 (cr)
Deposits	31.7%	4.1%	31.7%	23.3%	2	3	2	3	0	a1
Senior unsecured bank debt	31.7%	4.1%	23.3%	4.1%	2	2	2	3	0	a1
Dated subordinated bank debt	4.1%	3.3%	4.1%	3.3%	-1	-1	-1	-1	0	baa2
Junior subordinated bank debt	3.3%	3.3%	3.3%	3.3%	-1	-1	-1	-1	-1	baa3

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
Dated subordinated bank debt	-1	0	baa2	0		(P)Baa2
Junior subordinated bank debt	-1	-1	baa3	0		(P)Baa3

[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 OSTLANDET	
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
Senior Unsecured	A1
Subordinate MTN	(P)Baa2
Jr Subordinate MTN	(P)Baa3

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