

## CREDIT OPINION

17 January 2022

Update

✓ Rate this Research

### RATINGS

#### SpareBank 1 Østlandet

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

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

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## SpareBank 1 Østlandet

Update following affirmation of ratings

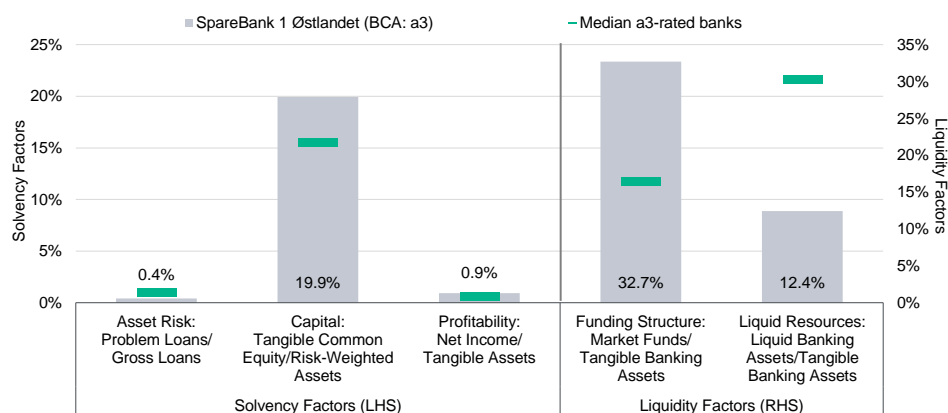
### Summary

[SpareBank 1 Østlandet](#)'s long-term deposit and senior unsecured debt ratings of Aa3 take into account the bank's baseline credit assessment (BCA) of a3, and also our loss given failure (LGF) analysis incorporating the bank's updated MREL requirement which leads to three-notches of rating uplift from its BCA. SpareBank 1 Østlandet's BCA of a3 primarily reflects the bank's particularly resilient asset quality and profitability as well as solid capital metrics, which enable it to weather challenges in the economy due to the coronavirus.

The bank has high levels of capital with a common equity Tier 1 (CET1) ratio of 18.0% as of 30 September 2021 providing a strong loss absorbing capacity. This is supported by the bank's very strong asset quality, with problem loans at only 0.4% of gross loans (including loans transferred to the covered bond companies) in September 2021. Our assessment is balanced against the relatively high level of capital markets funding, a common feature among savings banks in Norway, and also some credit concentrations towards the commercial real-estate sector.

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 provide a good loss absorption buffer
- » Asset risk metrics are strong on the back of relatively low credit risk retail mortgage portfolio
- » Large volume of deposits and junior debt resulting in deposit ratings benefiting from a very low loss-given-failure rate

## Credit challenges

- » Similar to other Norwegian savings banks, the bank's ratings are constrained by its relatively narrow geographic focus and high credit concentration in CRE.
- » The bank's funding profile is underpinned by relatively high reliance on market funding but also a sizeable deposit base and sound liquidity
- » Mortgage margin pressure and higher impairments challenged the bank's profitability in 2020, although its core earnings will be sustained going forward

## 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. The outlook also reflects Moody's expectation that the bank will issue sufficient volumes of junior senior debt to support the senior unsecured rating, despite lower mandatory subordination requirements.

## Factors that could lead to an upgrade

Upward rating pressure could develop if SpareBank 1 Ostlandet demonstrates; comfortable liquidity and lower use of market funds combined with solid capitalisation on an on-going basis; stronger earnings generation without an increase in its risk profile combined with an improved cost-to-income ratio.

## Factors that could lead to a downgrade

Future downward rating pressure could arise if: SpareBank 1 Ostlandet's problem loan ratio and impairments increase significantly above its similarly-rated peers; financing conditions become more difficult, impairing its ability to raise low-cost market funding; its risk profile increases, as a result of increased exposures to more volatile sectors; the macroeconomic environment deteriorates, leading to adverse developments in the Norwegian real-estate market and a deterioration in asset quality or a lower Macro Profile.

Furthermore, the senior unsecured debt ratings could be downgraded should the bank issue materially lower volumes of junior-senior instruments.

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.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### SpareBank 1 Østlandet (Consolidated Financials) [1]

	09-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (NOK Billion)	204.0	191.8	177.6	164.0	146.9	9.2 <sup>4</sup>
Tangible Common Equity (NOK Billion)	16.8	15.6	14.7	13.6	12.1	9.1 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.4	0.3	0.3	0.3	0.4	0.4 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	19.9	19.4	18.9	18.1	17.6	18.8 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.1	3.0	3.0	3.3	4.3	3.5 <sup>5</sup>
Net Interest Margin (%)	1.2	1.4	1.5	1.6	1.7	1.5 <sup>5</sup>
PPI / Average RWA (%)	2.6	2.3	2.4	2.1	1.9	2.3 <sup>6</sup>
Net Income / Tangible Assets (%)	1.0	0.8	1.1	0.9	0.8	0.9 <sup>5</sup>
Cost / Income Ratio (%)	47.6	50.8	51.4	54.5	60.4	52.9 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	32.2	32.7	33.4	33.8	31.2	32.7 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	13.1	12.4	11.5	11.0	8.1	11.2 <sup>5</sup>
Gross Loans / Due to Customers (%)	186.7	188.4	192.0	196.0	196.3	191.9 <sup>5</sup>

[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 Østlandet 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 2021, it had consolidated assets (including loans transferred to covered bond companies) of NOK205 billion (or around €20.2 billion).

## Recent developments

Recovery solidifies in the US and Europe, while emerging markets face multiple risks. Disparities in controlling the COVID-19 pandemic and in levels of policy support are resulting in an asynchronous global economic recovery. The recovery is multispeed and diverging across and within advanced and emerging market countries. But the effects on individual businesses, sectors and regions continue to be uneven, and the COVID-19 crisis will endure as a challenge to the world's economies.

Downside risks to our forecasts for advanced economies have receded but timing and pace of expansion is closely tied to policy support and continued progress with vaccinations. Progress of vaccinations in Norway, broadly in line with the EU, appears close to breaking the cycle of infections, notwithstanding risks of new variants.

In April 2021 we changed our outlook on the Norwegian banking system to stable from negative. This reflects our expectation that the Norwegian economy will recover strongly after a coronavirus-induced downturn in 2020, which was exacerbated by a fall in oil prices. Norwegian banks will maintain good asset quality, as well as strong capitalisation and solid profitability. Their dependence on market funding will remain high, although offset by ample liquidity.

The reference rate was hiked by 25 bps in September and December 2021, resulting in a reference rate of 0.5% as of year-end 2021, while indicated that further increases will occur in 2022. Norges Bank's rate increase follows its advice to the Ministry of Finance in June to begin restoring banks' counter cyclical buffer (CCyB) requirement to 1.5% by the end of June 2022 from 1% currently. On 3 September, the Government decided to give Norges Bank decision-making authority for the countercyclical capital buffer, with the latter deciding to increase further the CCyB to 2.0% from end of December 2022.

On 25 December, SpareBank 1 Østlandet received feedback on their SREP from the Norwegian FSA resulting in a draft Pillar 2 requirements (P2R) of 2.0%, up from 1.8%.

## Detailed credit considerations

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

Norway's operating environment is improving, supported by a strong economic recovery in 2021 after the coronavirus-induced downturn in 2020. The anticipated pace of recovery, faster than that of most European peers, reflects a combination of improving consumer demand as lockdown restrictions ease, continued government support, and rising oil prices.

SpareBank 1 Østlandet 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.

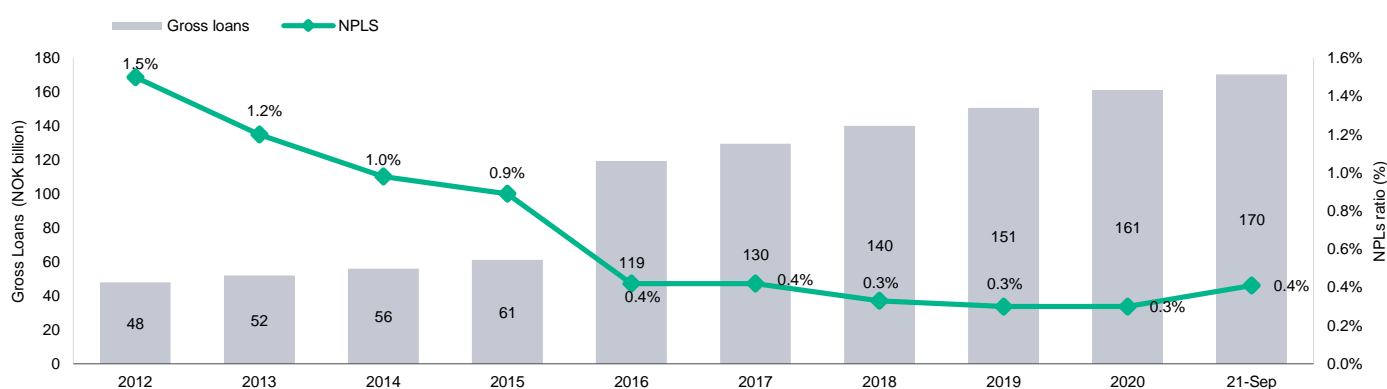
Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) rebound in real GDP to 3.2% in 2021 as the vaccine rollout progresses will allow the government to gradually phaseout some of these temporary measures and narrow the structural non-oil deficit towards 3% of the GPF in the medium term. Unemployment peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare administration and most recently stood at 2.2% as of 31 December 2021, although declined more recently, combined with the low economic activity it will inevitably impact banks' credit growth, asset quality and earnings.

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

SpareBank 1 Østlandet's asset quality is one of the strongest among Norwegian savings banks, with overall problem loans ratio which has been consistently below the market average in the past years and even during the coronavirus outbreak in 2020 (see Exhibit 3). During the first nine months of 2021 the bank reported a marginal increase in its problem loan ratio at around 0.41% of gross loans (including covered bond loans) compared to 0.30% in year-end 2020 due to changes in procedures of manually flagging defaults as the bank adopted a new definition of what constitutes a default.

Exhibit 3

#### SpareBank 1 Østlandet's asset risk metrics



Gross loans include covered bond loans.

Source: Company reports and Moody's Financial Metrics

This favourable credit risk position is mainly driven by the very low default rates in the bank's retail mortgage lending portfolio, with low loan-to-values (LTV) including the Oslo-Akershus region. Around 95% of its book has an LTV below 70%, compared to 85% maximum LTV allowed by the mortgage regulation and 75% LTV legal requirement for a covered bond pool. We also note that the bank refrained from using extensively the temporarily increased flexibility to lend outside these limits (to 20% of total lending from previous 8% and 10% for Oslo and the rest of country respectively) granted by the authorities, to help mitigate the impact of the coronavirus crisis.

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 as of 30 September 2021. 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 and higher resilience to the current coronavirus-induced economic downturn. Accordingly, problem loans ratio has been historically low and an important positive rating driver for the bank, while the fact that it provided payment holidays (3 to 6-month interest only) to approximately NOK10.2 billion of loans (or only around 6.5% of total gross loans as of June 2020) only a small fraction was still on these terms at end 2020, which provides an added comfort that its asset quality is unlikely to deteriorate significantly over the next 12-18 months.

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). In addition, around 2% of gross loans was towards the building and construction sector as of 30 September 2021. 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.

The bank's loan loss reserves covered around 60% of problem loans in September 2021 mitigating any downside risks from its existing stock of NPLs. However, we expect a marginal deterioration on the bank's asset quality metrics as Government support measures roll-off during 2021.

Our Asset Risk Score reflects the strong positioning of the bank but also some downside risks from the bank's exposure to CRE, building and construction sectors, as well as some geographical concentration in its regional home market in the Innlandet county (following the merger between the counties of Hedmark and Oppland on 1 January 2020) and in the Oslo-Akershus region. We make similar adjustments in the asset risk scores of other rated regional savings banks in Norway as well.

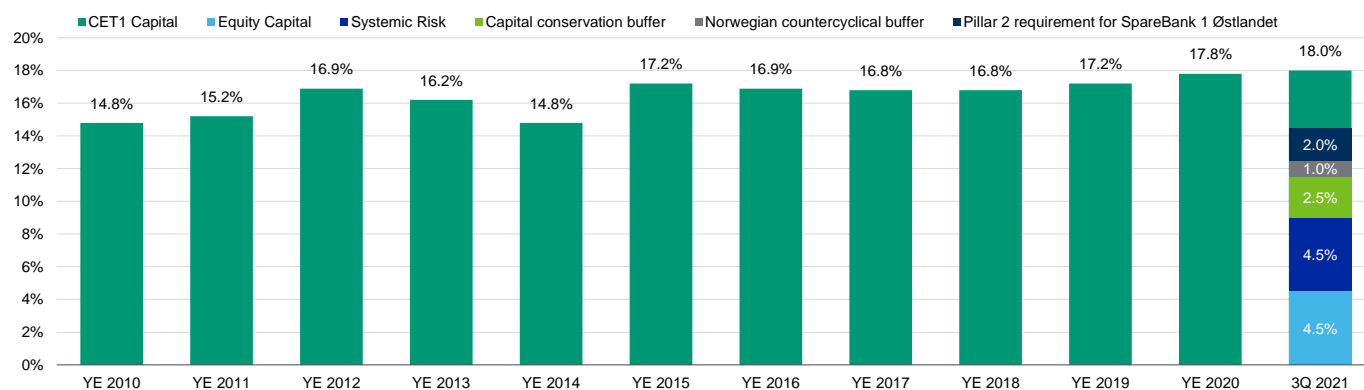
#### Solid capital levels provide a good loss absorption buffer

The bank remains strongly capitalised with a reported common equity Tier 1 (CET1) ratio of 18.0% in September 2021, at the highest level since 2010 (see Exhibit 4) and with ample buffer above its current requirement of 14.2%. SpareBank 1 Østlandet also reported a leverage ratio of 7.3% as of 30 September 2021, slightly higher than the 7.2% reported as of YE 2020.

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. However, 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 was increased by 1.5% from year-end 2020. Furthermore, the countercyclical capital buffer requirement for banks will be increased by 50 basis points to 1.5 percent from 30 June 2022 and by further 50 basis points to 2.0 percent from end of December 2022.

Exhibit 4

#### SpareBank 1 Østlandet CET1 capital ratio evolution



Source: Company reports and presentations

We note that following the FSA's decision the bank's CET1 ratio also incorporates the consolidation of BN Bank ASA, where the bank has a 9.99% stake, which has a -40 basis points negative impact on its capital metrics. In addition, since Q1 2020 the bank had to increase its estimates for loss given default (LGD) for its corporate portfolio following a decision by the FSA, which also had a negative effect on its capital metrics of around -80 basis points. For the latter FSA decision, the bank has appealed to the Ministry of Finance but has yet to receive a response.

Going forward, we expect the bank to maintain its strong capital position supported by sufficient retained earnings, through a relatively conservative dividend payout over the next 2-3 years. 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.

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's currently expanding. Our assigned Capital Score reflects this strength compared to similarly-rated global peers.

### **Mortgage margin pressure and higher impairments pressured bank's profitability in 2020, although core earnings will be sustained going forward**

SpareBank 1 Østlandet's reported profit after tax increased significantly to NOK1,517 million as of 30 September 2021 compared to NOK1,142 million in the same period last year. The rise in the bottom-line compared to year before was driven by an improved net income from financial instruments (which was negatively affected at the outset of the pandemic) and due to economic recovery and resulting fall in provisioning needs, further supported by NOK23 million in reversals of impairments.

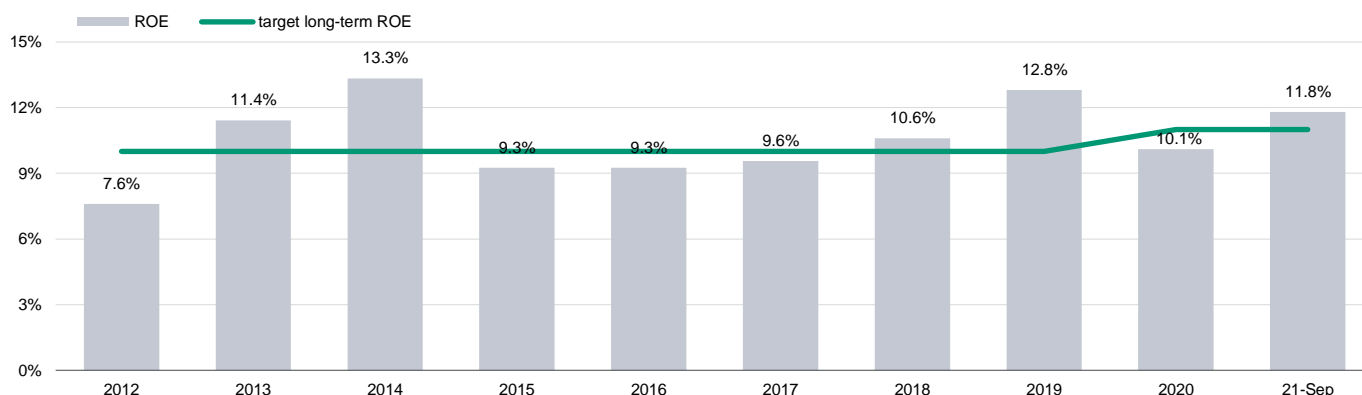
SpareBank 1 Østlandet's main source of earnings is net interest income, which has remained flat in the first nine months of 2021 compared to the same period a year earlier. Prior to the coronavirus outbreak, Norges Bank has been increasing interest rates in Norway during 2019, but changed the key policy rate to 0% during first half of 2020. As a result, the bank's reported net interest income and net interest margin (as estimated by net interest income over average assets) came under pressure decreasing to 1.44% in the first nine months of 2021 compared to 1.51% in the same period last year. We expect the bank's net interest margin (NIM) to somewhat recover in 2021 following Norges Bank's interest hikes, with the latest hike in December resulting in a policy rate of 0.5%. The bank announced increases in lending and deposits for retail and corporate clients by up to 0.25% effective from 1 October 2021 for new loans and it announced further increases by up to 0.25% in January 2022 (effective from 5 January for new loans and 18 February for existing clients).

The bank's annualised credit loss ratio as reflected by its loan loss provisions as a percentage of gross loans (excluding covered bond loans) was 0.0% in the first nine months of 2021, compared to 0.4% cost of risk in the nine months of 2020 (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 at the time). The higher provisions in 2020 accrued mainly in the first 6 months of 2020 and were mainly in the form of expected credit loss (ECL) model-based provisions (adjusted assumptions for PDs and LGDs, as well as estimated migration of loans to stage 2 from stage 1), and not due to any significant rise in defaults or stage 3 loans. Going forward we expect the provisions to continue falling, as the bank has largely taken on a front-loading approach to provisioning.

We expect the bank's recurring pre-provision profitability to be sustained in the next 12-18 months due to the bank's expanding franchise (loan growth of 5.2% year-on-year excluding covered bond loans) and solid capital base. The bank's reported cost-to-income ratio at the end of September 2021 has decreased to 44% from 46% the year earlier. The bank reported a return on equity (RoE) of 11.8% in September 2021, which is higher than the reported 9.7% in September 2020 and higher than the 10.1% recorded in December 2020. Furthermore, the RoE is above its long term target of 11% (see Exhibit 5).

Exhibit 5

## SpareBank 1 Østlandet's Return on Equity (RoE)



Note: 2017 and onwards are based on consolidated financials including results from Bank 1 Oslo Akershus. From 2019 RoE is as reported by the bank, prior figures are Moody's adjusted ratio.

Source: Company reports and Moody's Financial Metrics

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

SpareBank 1 Østlandet's funding profile is similar to that of other Norwegian savings banks, with market funding reliance standing at around 32% of total tangible banking assets as of September 2021. This is mainly driven by the issuance of covered bonds, although our market funding ratio includes a standard adjustment to reflect the relative stability of covered bonds compared to other sources of market funding by including just 50% of total 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 accounts for around 44% of total funding (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt), 56% of the bank's deposits are from the retail sector.

SpareBank 1 Østlandet has increasingly used covered bond funding in the past years, which is done 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). As of 30 September 2021, SpareBank 1 Østlandet had transferred retail mortgages worth NOK49.9 billion to SpareBank 1 Boligkreditt and NOK1 billion commercial mortgages to SpareBank 1 Næringskreditt (i.e. equivalent to around 30% 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.

We also note that by the first of January 2024 the minimum requirements for own funds and eligible liabilities (MREL) need to be fully met with subordinated liabilities, including non-preferred senior bonds (NPS) which the bank can do mainly through replacing some of the maturing preferred senior debt.

SpareBank 1 Østlandet's liquidity position is sound, with liquid assets to total tangible banking assets at around 13%, which in our view is sufficient for the bank to address any contingencies in case of market turbulence. 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 (mostly rated Aaa) and limited equity investments. The holdings are mostly Norwegian securities, which could be a source of vulnerability from a concentration risk point of view, but are positive in terms of currency risk. In addition, the bank reported a high liquidity coverage ratio (LCR) of 145% at 30 September 2021 compared to the 100% requirement.

## 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 strengthening 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.

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 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. SpareBank 1 Ostlandet 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). The analysis takes into account the Norwegian Financial Supervisory Authority's (FSA)'s revised approach to calculating MREL subordination requirements, following the expected implementation of the amended Bank Recovery and Resolution Directive (BRRD2) into Norwegian law; as well as the bank's need to hold buffers above the minimum requirements. This assumption leads to three notches of rating uplift for the bank's senior debt ratings, which is the same uplift afforded for the bank's deposit ratings.

### Government Support considerations

SpareBank 1 Østlandet is the fourth largest savings bank in Norway, with 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.

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

### Counterparty Risk Assessment

**We assign an Aa3(cr) long term and P-1(cr) short term CR Assessment to SpareBank 1 Østlandet.**

SpareBank 1 Østlandet's Aa3(cr)/Prime-1(cr) CR Assessment is three notches above the bank's adjusted BCA of a3, 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

#### SpareBank 1 Østlandet's CRR's are Aa3/Prime-1

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

### About Moody's bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's 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	↔	a3	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.9%	aa1	↔	aa2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.9%	baa1	↑	a3	Expected trend	
Combined Solvency Score		aa2		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	32.7%	baa3	↔	baa3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.4%	baa3	↔	baa2	Stock of liquid assets	
Combined Liquidity Score		baa3		baa3		
Financial Profile						
				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	in-scope (NOK Million)	% in-scope	at-failure (NOK Million)	% at-failure
Other liabilities	68,531	33.7%	77,840	38.2%
Deposits	91,265	44.8%	81,956	40.3%
Preferred deposits	67,536	33.2%	64,159	31.5%
Junior deposits	23,729	11.7%	17,797	8.7%
Senior unsecured bank debt	29,902	14.7%	29,902	14.7%
Junior senior unsecured bank debt	5,500	2.7%	5,500	2.7%
Dated subordinated bank debt	1,300	0.6%	1,300	0.6%
Preference shares (bank)	1,000	0.5%	1,000	0.5%
Equity	6,108	3.0%	6,108	3.0%
Total Tangible Banking Assets	203,606	100.0%	203,606	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	30.3%	30.3%	30.3%	30.3%	3	3	3	3	0	aa3
Counterparty Risk Assessment	30.3%	30.3%	30.3%	30.3%	3	3	3	3	0	aa3 (cr)
Deposits	30.3%	6.8%	30.3%	21.5%	2	3	2	3	0	aa3
Senior unsecured bank debt	30.3%	6.8%	21.5%	6.8%	2	2	2	3	0	aa3
Junior senior unsecured bank debt	6.8%	4.1%	6.8%	4.1%	0	0	0	0	0	a3
Dated subordinated bank debt	4.1%	3.5%	4.1%	3.5%	-1	-1	-1	-1	0	baa1

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

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 7

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

Source: Moody's Investors Service

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