

CREDIT OPINION

4 September 2020

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.

Contacts

Nondas Nicolaides +357.2569.3006
VP-Sr Credit Officer
nondas.nicolaides@moodys.com

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

Simon James Robin +44 207 772 5347
Ainsworth
Associate Managing Director
simon.ainsworth@moodys.com

SpareBank 1 Østlandet

Update to credit analysis

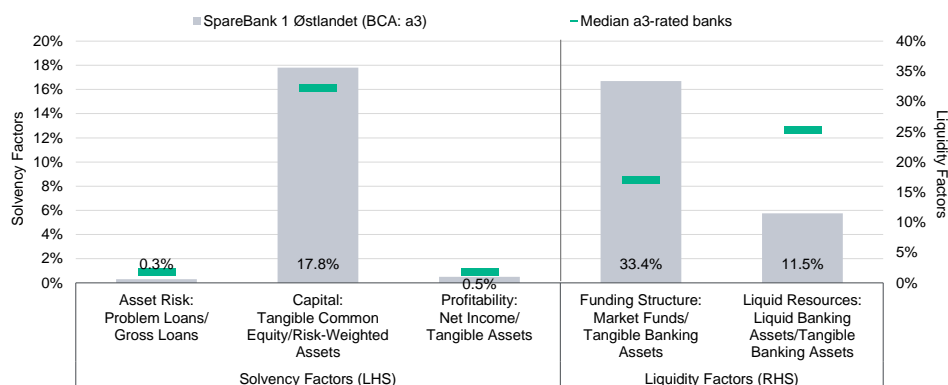
Summary

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, but also our loss given failure (LGF) analysis incorporating the bank's upcoming 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 the current challenges in the economy due to the coronavirus.

The bank has high levels of capital with a common equity Tier 1 (CET1) ratio of 17.1% in June 2020 providing a strong loss absorbing capacity. This is supported by the bank's very strong asset quality, with problem loans at only 0.5% of gross loans (including covered bond loans) in June 2020. Our assessment is balanced by 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

THIS REPORT WAS REPUBLISHED ON 7 SEPTEMBER 2020 WITH A CORRECTION TO MEDIANS IN EXHIBIT 1.

Credit strengths

- » SpareBank 1 Østlandet's ratings are supported by its Very Strong- Macro Profile, despite the economic challenges in 2020 due to the coronavirus
- » 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 to challenge 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.

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 combined with solid capitalisation on an on-going basis; and/or (3) stronger earnings generation without an increase in its risk profile combined with an improved normalised cost-to-income ratio.

Factors that could lead to a downgrade

Future downward rating pressure could arise if: (1) SpareBank 1 Østlandet's problem loan ratio and impairments increase 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.

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 for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

SpareBank 1 Østlandet (Consolidated Financials) [1]

	03-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (NOK Billion)	184.5	177.6	164.0	146.9	137.3	9.5 ⁴
Total Assets (USD Million)	17,572.3	20,206.2	18,939.5	17,959.0	15,945.3	3.0 ⁴
Tangible Common Equity (NOK Billion)	14.4	14.8	13.6	12.1	11.2	8.1 ⁴
Tangible Common Equity (USD Million)	1,374.5	1,685.5	1,571.5	1,483.4	1,301.7	1.7 ⁴
Problem Loans / Gross Loans (%)	0.3	0.3	0.3	0.4	0.4	0.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	17.8	19.0	18.1	17.6	18.0	18.1 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.5	3.0	3.3	4.3	4.3	3.7 ⁵
Net Interest Margin (%)	1.4	1.5	1.6	1.7	1.9	1.6 ⁵
PPI / Average RWA (%)	1.2	2.4	2.1	1.9	2.2	2.0 ⁶
Net Income / Tangible Assets (%)	0.5	1.1	0.9	0.8	0.7	0.8 ⁵
Cost / Income Ratio (%)	67.1	51.4	54.5	60.4	58.2	58.3 ⁵
Market Funds / Tangible Banking Assets (%)	36.1	33.4	33.8	31.2	30.6	33.0 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	13.3	11.5	11.0	8.1	9.2	10.6 ⁵
Gross Loans / Due to Customers (%)	192.2	192.0	196.0	196.3	189.4	193.2 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 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 the end of June 2020, it reported consolidated assets (including loans transferred to covered bond companies) of NOK192.8 billion (or around €17.7 billion).

Recent developments

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

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

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

Detailed credit considerations

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

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

SpareBank 1 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.

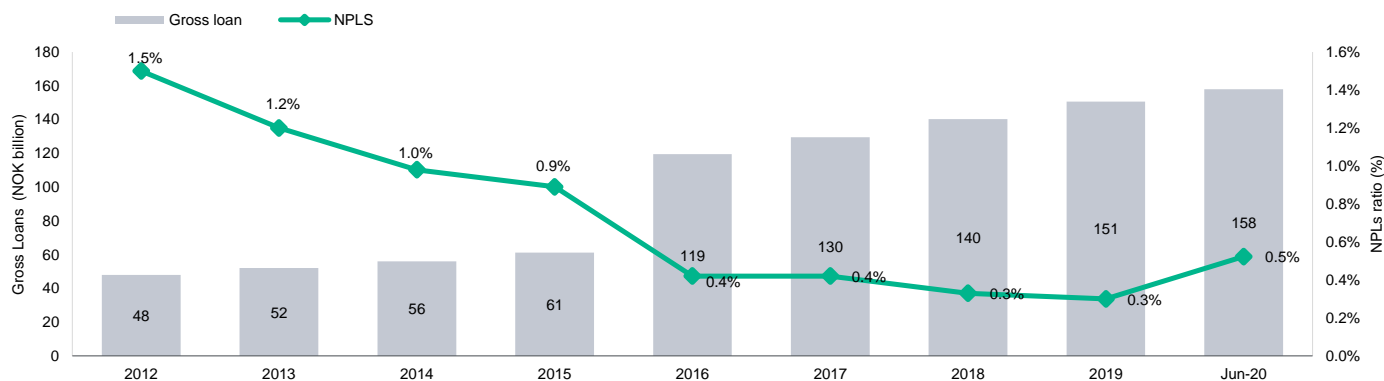
Nonetheless, we expect the Norwegian mainland economy (excluding any oil-related activity) to contract significantly in 2020 (-3.5%), and recover to around +3.8% in 2021. Unemployment rose to around 10.6% as of March 2020 (although it has fallen significantly since then), which combined with the low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

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, despite the marginal deterioration in the first half of 2020 mainly due to the pandemic. Looking at the bigger picture, the bank's asset quality has improved in recent years, with overall problem loans for the bank at around 0.5% of gross loans (including covered bond loans) as of end-June 2020 compared to 1.5% back in 2012 (see Exhibit 3).

Exhibit 3

SpareBank 1 Østlandet's asset risk metrics



Note: 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. Almost 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 temporary increased flexibility to lend outside these limits (to 20% from 10% before and 8% for Oslo) from Q2 2020 granted by the authorities, to help mitigate the impact of the coronavirus crisis. Only 7.7% of approved mortgages in Oslo deviated from the mortgage regulation maximum and 6.4% in other areas.

The bank's total loan book is geared towards retail borrowers, mostly residential mortgages, accounting for around 73% of gross loans, including loans transferred to the covered bond companies, with no exposure to the oil sector at end-June 2020. 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) 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 10% of gross loans (including covered bond loans). In addition, around 3% of gross loans was towards the building and construction sector at end-June 2020. 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.

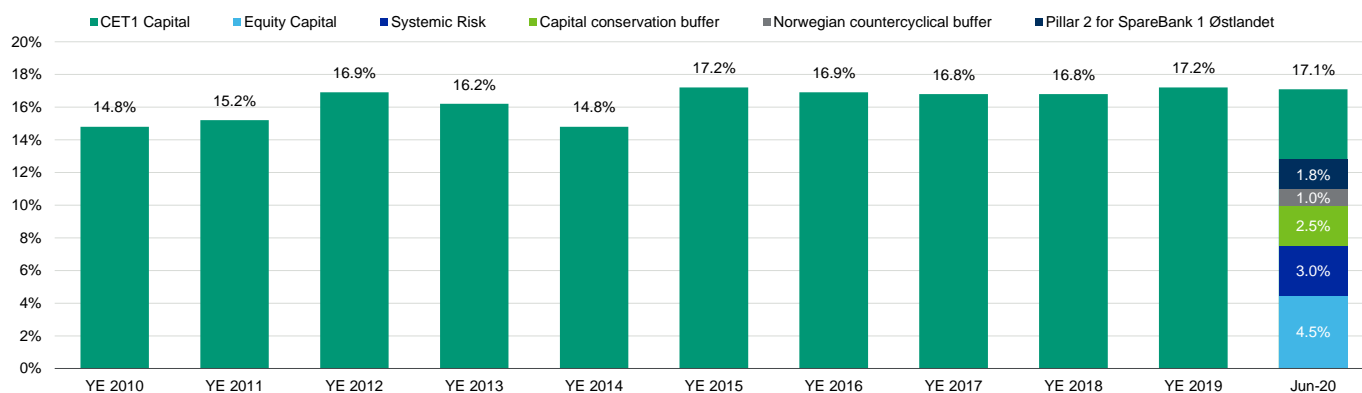
The bank's loan loss reserves covered around 67% of problem loans in June 2020 mitigating any downside risks from its existing stock of NPLs. Our Asset Risk Score reflects the strong positioning of the bank but also some downside risks from the bank's exposure to CRE, building and construction sectors, 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 17.1% in June 2020, at one of the highest levels since 2010 (see Exhibit 4) and with ample buffer above its current requirement of 12.8%. In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019. SpareBank 1 Østlandet also reported a leverage ratio of 7.1% at end-June 2020, broadly in line with 7.2% reported as of year-end 2019.

Exhibit 4

SpareBank 1 Østlandet CET1 capital ratio evolution



Source: Company reports and presentations

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 will increase to 4.5% from the end of December 2020 onwards from 3% currently. For SpareBank 1 Østlandet, and assuming no change to its Pillar 2 requirement of 1.8% and reinstatement of the countercyclical buffer at 2.5%, this will mean a potential CET1 hurdle rate of 16.8% in 2021 including 100 basis points of a management buffer.

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. For 2019, the customer dividend was NOK208 million, reducing the bank's overall dividend payout to 40% from the 50% target rate due to the coronavirus outbreak and the advice by the FSA to banks to reconsider their dividend payments.

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 to challenge the bank's profitability in 2020, although its core earnings will be sustained going forward

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

SpareBank 1 Østlandet's reported profit after tax decreased significantly to NOK704 million for the first six months of 2020 compared to NOK1,227 million in the same period last year. The decline in the bottom-line was driven by a 57% decrease in net income from financial instruments and high impairments of NOK282 million on the back of the coronavirus outbreak. Both first half in 2020 and in 2019 also incorporate some significant one-off gains in relation to the Fremtind Forsikring AS transaction, a company that was established on 1 January 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 in the first six months of 2020 by 6.4% 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 margin (as estimated by net interest income over average assets) came under pressure decreasing to 1.38% in Q2 2020 compared to 1.62% in Q2 2019. We expect the bank's net interest margin (NIM) to somewhat recover in the second half of 2020 as lower repricing of deposits will take full effect (lending rates were reduced earlier than deposit rates), although the bank's overall NIM for 2020 will likely be lower compared to 2019 on the back of lower interest rates as well as even more intense competition following the reopening of the Norwegian economy.

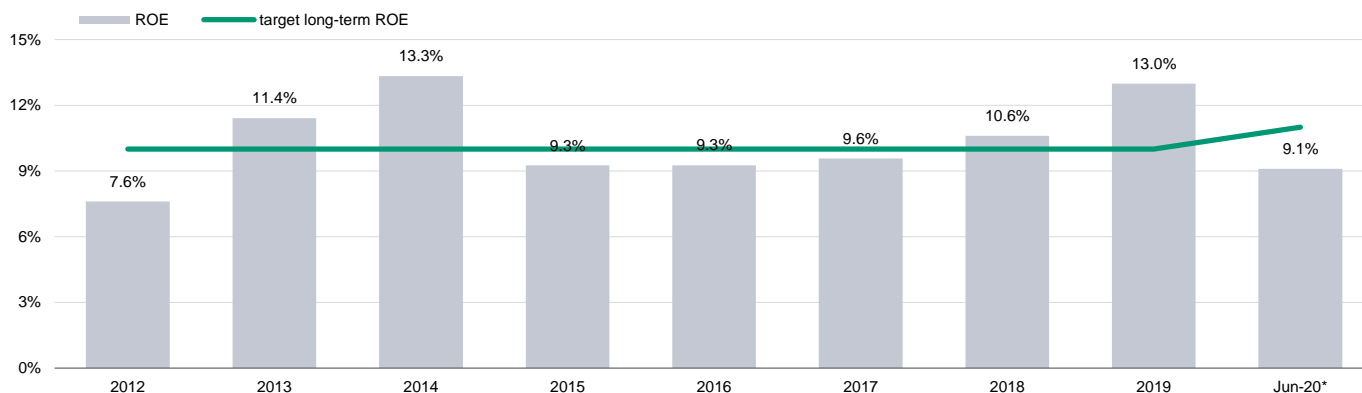
The bank's annualised credit loss ratio as reflected by its loan loss provisions as a percentage of gross loans (excluding covered bond loans) was 0.5% for the first six month of 2020, compared to zero cost of risk for the first six months of 2019 (driven by provisioning write-backs on the back of the validation of its loss models indicating that its LGD estimates were significantly higher than realised loss rates). The relatively high provisions in H1 2020 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 do not expect the provisions to increase further in the second half of 2020, as the bank has largely taken a front-loading approach to provisioning, while a lot of the losses on financial instruments that occurred during Q1 2020 have reversed by now as well.

We expect the bank's recurring pre-provision profitability to be sustained in 2020-21 due to the bank's expanding franchise (loan growth of 10.5% year-on-year excluding covered bond loans) and solid capital base for further growth. Although a bit of an outlier, the bank's reported cost-to-income ratio at the end of June 2020 has increased to 47% from 42% the year earlier, despite the 5.1% reduction in its operating costs. The bank reported a return on equity (RoE) of 9.1% in June 2020, which is higher than the reported

6.9% in March 2020, but lower than the 16.9% recorded in June 2019 and below its long term target that has recently been revised to 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. June 2020 RoE is as reported by the bank, prior figures are Moody's adjusted ratio.

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 around 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 large banks, and also attract more business from larger borrowers in the market that will further support its revenues.

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 36% of total tangible banking assets. 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), 57% 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). At end-June 2020, SpareBank 1 Østlandet had transferred retail mortgages worth NOK44.6 billion to SpareBank 1 Boligkreditt and NOK1 billion commercial mortgages to SpareBank 1 Næringskreditt (i.e. equivalent to around 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. We also note that during 2020-23, the bank plans to raise around NOK13 billion of senior non-preferred (SNP) bonds (Tier 3 capital), considering the increase of the systemic risk buffer to 4.5% from 3%. These SNP instruments will be eligible for minimum requirement for own funds and eligible liabilities (MREL), with the bank tapping the market last July with an inaugural NOK1 billion issuance. These SNP bonds will not increase the bank's market funding dependence, as it will likely refinance 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 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 143% at end-June 2020 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. We take into consideration the expected level of MREL eligible debt issuance of around NOK13 billion by the end of 2023, which results in an assessment of very low loss given failure. 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, while for the bank's SNP debt (or junior senior unsecured debt) it results zero notches from the bank's BCA (in essence at the same level as its BCA of a3).

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

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

SpareBank 1 Østlandet's CR Assessment is positioned at Aa3(cr)/Prime-1(cr), 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

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 Aa3/Prime-1

The CRR is positioned 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	0.3%	aa1	↔	a3	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.8%	aa2	↔	aa2		
Profitability						
Net Income / Tangible Assets	0.5%	baa3	↔	baa3	Expected trend	
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	33.4%	baa3	↔	baa3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.5%	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	63,658	34.6%	71,808	39.0%
Deposits	79,901	43.4%	71,751	39.0%
Preferred deposits	59,127	32.1%	56,170	30.5%
Junior deposits	20,774	11.3%	15,581	8.5%
Senior unsecured bank debt	33,438	18.2%	33,438	18.2%
Dated subordinated bank debt	1,300	0.7%	1,300	0.7%
Preference shares (bank)	300	0.2%	300	0.2%
Equity	5,524	3.0%	5,524	3.0%
Total Tangible Banking Assets	184,121	100.0%	184,121	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned LGF	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	30.5%	30.5%	30.5%	30.5%	3	3	3	3	0	aa3
Counterparty Risk Assessment	30.5%	30.5%	30.5%	30.5%	3	3	3	3	0	aa3 (cr)
Deposits	30.5%	3.9%	30.5%	22.0%	2	3	2	3	0	aa3
Senior unsecured bank debt	30.5%	3.9%	22.0%	3.9%	2	2	2	3	0	aa3
Junior senior unsecured bank debt	3.9%	3.9%	3.9%	3.9%	-1	-1	-1	0	0	a3
Dated subordinated bank debt	3.9%	3.2%	3.9%	3.2%	-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
Junior senior unsecured bank debt	0	0	a3	0	A3	
Dated subordinated bank debt	-1	0	baa1	0		(P)Baa1

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

Source: Moody's Investors Service

Ratings

Exhibit 7

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

Source: Moody's Investors Service

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