MOODY'S INVESTORS SERVICE

CREDIT OPINION

9 March 2020

Update

Rate this Research

RATINGS

SpareBank 1 Ostlandet

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 Ostlandet

Update to credit analysis following rating upgrade

Summary

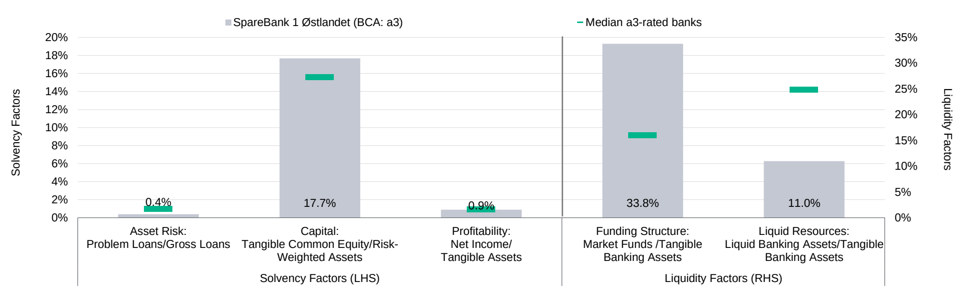
SpareBank 1 Østlandet's long-term deposit and senior unsecured debt ratings of Aa3 take into account the bank's baseline credit assessment (BCA) of a3, but also our loss given failure (LGF) analysis which leads to three-notches of rating uplift from its BCA. SpareBank 1 Østlandet's BCA of a3 primarily reflects the bank's particularly resilient asset quality and strong capital metrics throughout the credit cycle, strong home region franchise and its consistently strong financial performance.

The bank has high levels of capital with a common equity Tier 1 (CET1) ratio of 17.2% in December 2019, and a leverage ratio of 7.2% providing a strong loss absorbing capacity. This is supported by the bank's very strong asset quality, with problem loans at only 0.3% of gross loans (including covered bond loans) in December 2019. Our assessment of SpareBank 1 Østlandet's BCA is balanced by the 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 Aa3 deposit, senior unsecured debt and issuer ratings consider our forward-looking LGF analysis, incorporating 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

» High capital levels provide a good loss absorption buffer

» Asset risk metrics are strong on the back of a low credit risk portfolio and improved geographic diversification

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

Credit challenges

» As with 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

» 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 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 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 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 December 2019, it reported consolidated assets (including loans transferred to covered bond companies) of NOK178.4 billion (or around €18 billion).

Detailed credit considerations

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

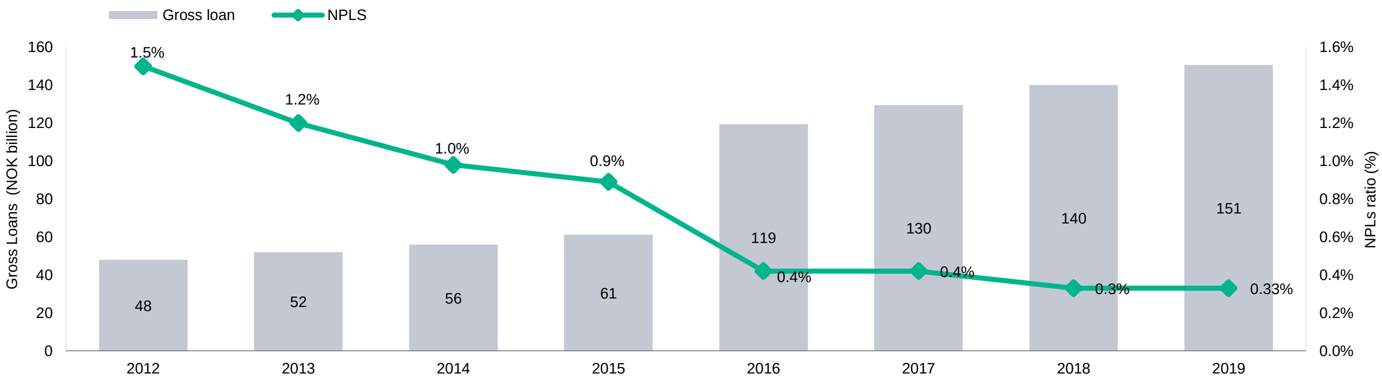
As a domestically oriented bank, we align SpareBank 1 Østlandet's Macro Profile with that of Norway at Very Strong-. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events. Overall the operating environment is supportive to banks, characterised by unique countercyclical mechanisms that will continue to help offset downside risks related to banks' relatively narrow geographic focus and high credit concentration in cyclical sectors.

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.

Asset risk metrics are strong on the back of a low credit risk portfolio and improved geographic diversification

SpareBank 1 Østlandet's asset quality has continued to improve over recent years, with overall problem loans for the bank at around 0.3% of gross loans (including covered bond loans) at end-December 2019. This was mainly driven by the very low default rated in its retail mortgage lending portfolio, with low loan-to-values (almost 95% of its book has an LTV below 70%) including the Oslo-Akershus region.

Exhibit 3
SpareBank 1 Østlandet's asset risk metrics



Note: 2016 and onwards are based on fully consolidated balance sheet, including the 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 73% of gross loans, including loans transferred to the covered bond companies, with no exposure to the oil sector at end-December 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 just 0.4%.

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 3% of gross loans was towards the building and construction sector at end-December 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.

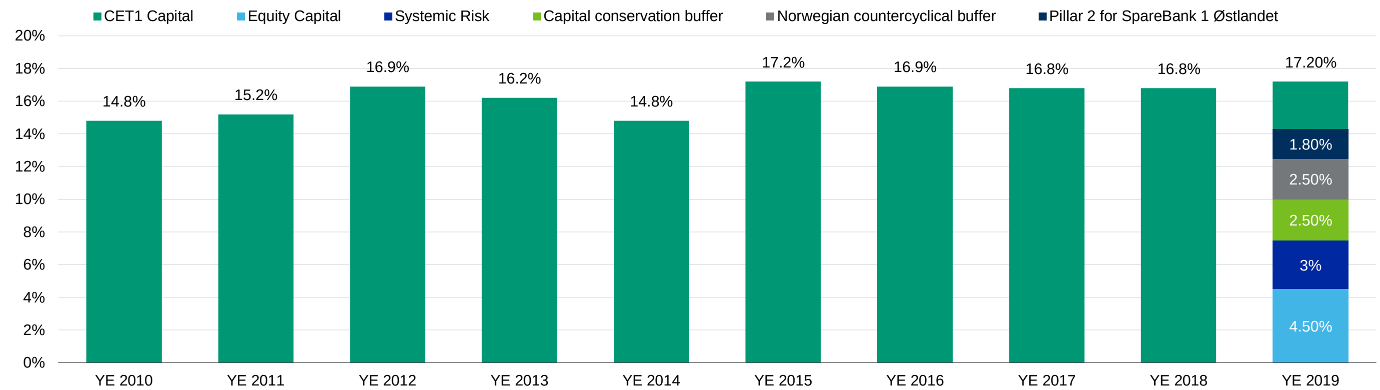
We also believe that despite the improved geographic diversification, the residential mortgage loan book in the Oslo area, where house prices have grown significantly in recent years, exposes the bank to downside risks in case of a material house price decline. The growth in real estate prices in Oslo 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 December 2019 compared to the maximum allowed of 85%, and that the total provisioning coverage of problem loans was around 73% in December 2019 mitigating any downside risks.

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 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.

High capital levels provide a good loss absorption buffer

The bank remains well capitalised with a reported common equity Tier 1 (CET1) ratio of 17.2% in December 2019, at one of the highest levels since 2010 (see Exhibit 3). The bank's CET1 was higher than its revised target to maintain a ratio of 16.8% on an on-going basis. SpareBank 1 Østlandet is subject to a Pillar 2 requirement of 1.8% and the bank's minimum regulatory CET1 requirement for December 2019 was 14.3%, indicating currently a significant capital buffer for the bank. Its reported leverage ratio was 7.2% at end-December 2019, compared to 7.5% reported a year earlier.

Exhibit 4
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 had to meet in December 2019. Tighter home mortgage regulations were also introduced in early 2017. The current mortgage regulation expired at the end of 2019, and has 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 the end of December 2020 onwards from 3% currently. For SpareBank 1 Østlandet, the positive impact on its CET1 ratio from the implementation of CRD IV was around 60 basis points from the removal of the 80% Basel I floor, and around 40 basis points from the SME discount. Ultimately, the bank's CET1 of 17.2% at end-December 2019 was around 140 basis points above the revised regulatory requirement of 15.8% from December 2020.

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 equity capital certificate (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. For 2019, the Board of Directors proposed to the Supervisory Board of the bank a customer dividend of NOK266 million, maintaining a 50% dividend payout.

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 compared to similarly-rated global peers.

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 NOK1,928 million for financial year 2019 compared to NOK1,414 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 January 2019 from the merger between SpareBank 1 Skadeforsikring AS (jointly own by the SpareBank 1 Alliance banks) and DNB Skadeforsikring AS.

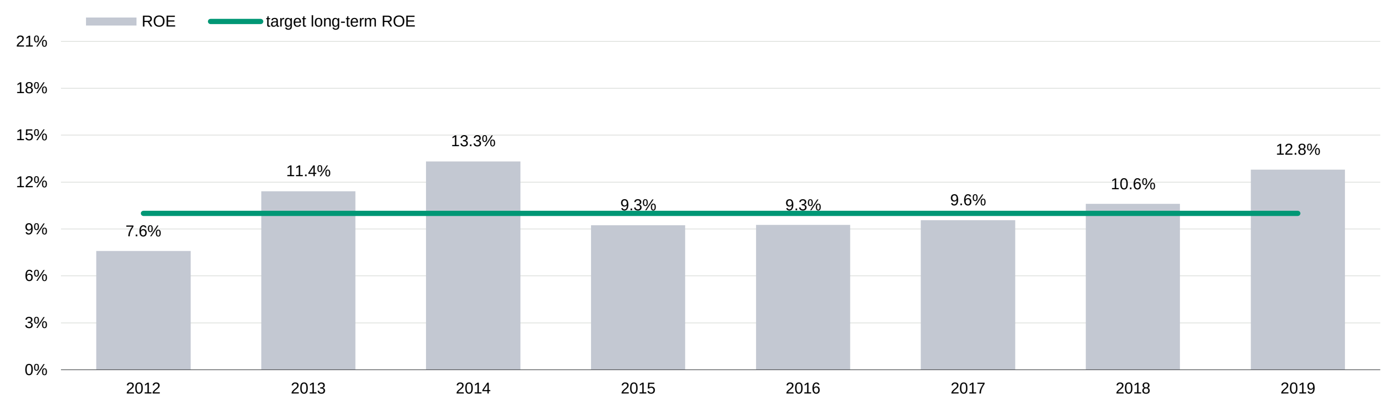
SpareBank 1 Østlandet's main source of earnings is net interest income (including fees from loans transferred to the covered bond companies), which increased in 2019 by 4.4% compared to 2018. However, we note that the bank's net interest margin (as estimated by net interest income over average assets) has declined to 1.66% in 2019 from 1.77% in 2018. This is mainly due to lower margins in the mortgage book as a result of intense competition, but also due to reclassification of certain items in one of its subsidiaries (SpareBank 1 Finans Ostlandet AS) into commission income from net interest income. Taking the latter item into account, the bank's normalised NIM for 2019 would be 1.74%.

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.

Concurrently, loan loss provisions as a percentage of average gross loans were almost zero for the bank in 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, although its normalised cost-to-income ratio of around 48% in December 2019 is marginally higher than 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-December 2019 at a high 7.5% mainly driven by high growth in retail lending. The bank reported a return on equity (RoE) of 12.8% in 2019, up from 10.5% the previous year, and above its long term minimum target of 10%, which has recently been revised to 11% (see Exhibit 4).

Exhibit 5
SpareBank 1 Østlandet's Moody's 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 large 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 is around 35% of total tangible banking assets, mainly driven by the issuance of covered bonds (This include 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 50% of total funding (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt), with 56% of the bank's deposits derived 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-December 2019, SpareBank 1 Østlandet had transferred retail mortgages worth NOK42.6 billion to SpareBank 1 Boligkreditt and NOK1 billion commercial mortgages to SpareBank 1 Næringskreditt (i.e. equivalent to 28% 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 estimate that during 2020-22, the bank will need to raise around NOK10 billion of Tier 3 capital (senior non-preferred bonds, the amount increases to NOK13 billlion if we incorporate the increase of the systemic risk buffer to 4.5% from 3% in December 2019), which will be eligible for minimum requirement for own funds and eligible liabilities (MREL) that comes into effect from 31 March 2020 in Norway. This will not increase the bank's market funding dependence, as the bank 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 14% at end-December 2019 (including assets transferred to covered bond companies), which 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 (mostly rated Aaa) 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 162% at end-December 2019, from 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 of around NOK10 billion by the end of 2022, 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

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	0.4%	aa1	←→	a3	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.7%	aa2	←→	aa2		
Profitability						
Net Income / Tangible Assets	0.9%	baa1	←→	baa2	Expected trend	
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	33.8%	baa3	←→	baa3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.0%	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	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	aa3
Counterparty Risk Assessment	31.7%	31.7%	31.7%	31.7%	3	3	3	3	0	aa3 (cr)
Deposits	31.7%	4.1%	31.7%	23.3%	2	3	2	3	0	aa3
Senior unsecured bank debt	31.7%	4.1%	23.3%	4.1%	2	2	2	3	0	aa3
Dated subordinated bank debt	4.1%	3.3%	4.1%	3.3%	-1	-1	-1	-1	0	baa1
Junior subordinated bank debt	3.3%	3.3%	3.3%	3.3%	-1	-1	-1	-1	-1	baa2

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
Dated subordinated bank debt	-1	0	baa1	0		(P)Baa1
Junior subordinated bank debt	-1	-1	baa2	0		(P)Baa2

[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
Subordinate MTN	(P)Baa1
Jr Subordinate MTN	(P)Baa2

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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