

Rating Action: Moody's assigns (P)A1 senior unsecured rating to SpareBank 1 Ostlandet's jointly-owned EMTN program

Global Credit Research - 22 Jan 2018

Limassol, January 22, 2018 -- Moody's Investors Service, ("Moody's") has today assigned provisional ratings to SpareBank 1 Ostlandet's €10 billion EMTN program, which it jointly-owns with two other SpareBank 1 Alliance banks (SpareBank 1 SMN and SpareBank 1 Nord-Norge). The rating agency assigned a (P)A1 senior unsecured, (P)Baa2 subordinated and (P)Baa3 junior subordinated ratings for any debt that may be issued by SpareBank 1 Ostlandet under this EMTN program. All other existing ratings of the bank and its negative outlook remained unaffected by this rating action. A full list of assigned ratings can be found at the end of this press release.

RATINGS RATIONALE

The senior unsecured ratings assigned to the bank's jointly-owned EMTN programme are primarily underpinned by (1) the bank's standalone credit profile as expressed by its baseline credit assessment (BCA) of baa1, (2) Moody's Loss Given Failure (LGF) analysis of the bank's large volume of deposits and substantial layers of subordination, resulting in two notches of rating uplift from its BCA, and (3) the rating agency's assessment of a moderate probability of government support, resulting in one additional notch of rating uplift for senior debt.

The bank's provisional subordinated and junior subordinated MTN ratings of (P)Baa2 and (P)Baa3 respectively are positioned one and two notches respectively below the bank's BCA, reflecting the subordinated status of these instruments and do not incorporate any government support assumptions.

SpareBank 1 Ostlandet's credit profile reflects the resilient performance of the bank despite the challenging economic conditions in Norway over the last two years, as well as Moody's forward-looking expectation that the bank's asset quality, profitability and capitalization will remain robust in a gradually recovering operating environment. SpareBank 1 Ostlandet's (known as Sparebanken Hedmark prior to April 2017) BCA of baa1 also considers its strengthened franchise following the acquisition of Bank 1 Oslo Akershus in June 2016 and its legal merger on 1 April 2017.

The immediate benefits conferred to the bank from the acquisition include stronger asset quality (problem loans ratio dropped to 0.4% in September 2017 from 0.9% in December 2015), as well as deeper loans and earnings geographical diversification. Although the transaction has placed some downward pressure on the bank's capital and profitability metrics, we believe that such metrics are likely to recover over the medium term. The bank's BCA also takes into account its relatively high level of capital markets funding, a common feature among the largest savings bank in Norway, mainly through covered bonds. The bank's performance in the third quarter 2017 was satisfactory, with a return on average assets of around 1.2%, despite the increase in its cost-to-income ratio to 53.1% in September 2017 from 39.6% in September 2016. The bank's capital base remains one of the strongest among its SpareBank 1 Alliance peers, with a reported common equity Tier 1 (CET1) ratio of 16.9% and a leverage ratio of 7.3% in September 2017.

Our current assessment of a moderate probability of government support, which results in one notch of rating uplift, is likely to be revised downward shortly due to the upcoming parliamentary approval of the bank resolution and recovery directive (BRRD) law in Norway. Accordingly the negative outlook on the bank's ratings reflects our view that downward pressure is likely to be exerted from the implementation of BRRD in Norway, which will trigger a reassessment of our government support assumptions for all large savings banks, including SpareBank 1 Ostlandet.

WHAT COULD MOVE THE RATINGS UP/DOWN

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

product offering and franchise following the takeover of Bank 1 Oslo Akershus, which in turn will support the bank's revenues and profitability. However, the current negative outlook, which relates to the BRRD implementation, contains any upward rating pressure for now.

Future downward rating pressure could arise if: (1) SpareBank 1 Ostlandet's problem loan ratio increases above our system-wide expectation of approximately 2%; (2) financing conditions become more difficult; (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 or to a lower Macro Profile score; and/or (5) passage of the official resolution law in Norway and revision of our government support assumptions for all large Norwegian savings banks, including SpareBank 1 Ostlandet.

LIST OF ASSIGNED RATINGS

Issuer: SpareBank 1 Ostlandet

Assignments:

...Senior Unsecured MTN Program, Assigned (P)A1

...Subordinate MTN Program, Assigned (P)Baa2

...Junior Subordinated MTN Program, Assigned (P)Baa3

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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