

## CREDIT OPINION

3 February 2021

### Update

 Rate this Research

#### RATINGS

##### Sparebanken Oest

Domicile	Drammen, Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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

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## Sparebanken Oest

### Update to credit analysis following rating action

#### Summary

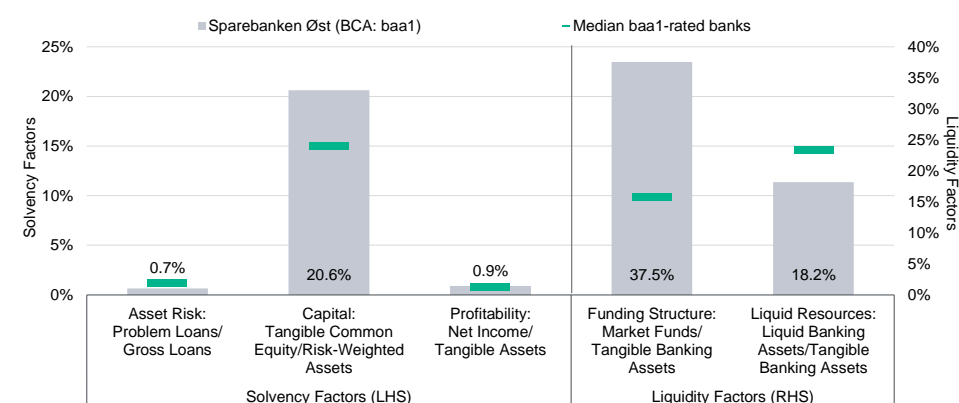
We assign a baa1 Baseline Credit Assessment (BCA) and A1 long-term deposit and issuer ratings to [Sparebanken Oest](#). Sparebanken Oest's BCA of baa1 primarily reflects its good asset quality with low level of problem loans (0.65% of total loans in September 2020), underpinned by its predominantly mortgage loan book (approximately 85% of total loans in September 2020), as well as the maintenance of its solid capitalization with a tangible common equity (TCE) ratio of 20.6% in September 2020. These features position the bank's credit profile on par with most its local peers.

The bank's BCA is also supported by its strong liquidity, with a liquidity coverage ratio (LCR) of around 338%, combined with a net stable funding ratio (NSFR) of 118% in September 2020. We expect the bank's core profitability performance to remain satisfactory for the foreseeable future, despite weaker loan growth in 2020. The BCA also reflects the bank's relatively high market funding dependence through covered bonds, a common feature for all local banks, and some mortgage margin pressure from strong competition.

The bank's A1 deposit and issuer ratings take into account our Loss Given Failure (LGF) analysis of the bank's large volume of deposits and substantial layers of subordination, resulting in three notches of rating uplift from its BCA. Sparebanken Oest's ratings do not benefit from a government support uplift.

Exhibit 1

#### Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

## Credit strengths

- » Good asset quality mainly driven by predominant exposure to retail mortgages
- » Solid capital buffers, which compare favorably with those of similarly rated Norwegian savings banks
- » Favourable profitability on the back of low impairments and revaluation gains
- » Large volume of deposits and debt, which provide uplift to deposit ratings

## Credit challenges

- » Sparebanken Oest maintains a high reliance on confidence-sensitive market funding
- » Strong competition in retail mortgages exerts some pressure in Sparebanken Oest's market share and franchise
- » Relatively low contribution from fees and commissions to the bank's core income

## Outlook

The stable outlook assigned to Sparebanken Oest reflects our view that the bank's financials will remain broadly resilient over the next 12-18 months.

## Factors that could lead to an upgrade

Upward rating pressure could develop if Sparebanken Oest demonstrates:

- » Strong earnings generation without an increase in its risk profile or worsening in its business development
- » Sustained good asset quality in its retail and corporate books and a decline in sector/single borrower concentration while maintaining adequate cash coverage of problem loans

## Factors that could lead to a downgrade

Downward rating pressure would emerge in the future if:

- » Sparebanken Oest's credit risk profile worsens through a material increase in its problem loans ratio, or elevated sectoral or borrower concentration
- » Any indication that the bank's franchise and market position deteriorates, which will likely lead to earnings erosion
- » Funding conditions become more difficult that would challenge the bank's refinancing capacity
- » The bank issues a significantly lower volume than expected of junior senior securities

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

### Sparebanken Oest (Consolidated Financials) [1]

	09-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	12-16 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (NOK Billion)	42.7	42.4	42.0	37.0	35.8	4.8 <sup>4</sup>
Total Assets (USD Million)	4,567.8	4,823.5	4,848.3	4,522.9	4,158.5	2.5 <sup>4</sup>
Tangible Common Equity (NOK Billion)	3.9	3.5	3.3	3.2	3.0	7.1 <sup>4</sup>
Tangible Common Equity (USD Million)	414.7	393.7	382.3	389.6	348.7	4.7 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.7	0.6	0.6	0.6	0.7	0.6 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	20.6	17.8	16.6	17.7	17.0	17.9 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.1	6.0	5.9	5.3	6.7	5.8 <sup>5</sup>
Net Interest Margin (%)	1.4	1.5	1.4	1.6	1.6	1.5 <sup>5</sup>
PPI / Average RWA (%)	3.0	2.2	2.4	2.3	2.4	2.5 <sup>6</sup>
Net Income / Tangible Assets (%)	1.2	0.8	0.8	0.8	0.9	0.9 <sup>5</sup>
Cost / Income Ratio (%)	32.8	38.5	39.1	40.0	39.1	37.9 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	38.0	37.5	38.8	37.2	38.2	37.9 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	25.6	18.2	15.2	14.5	14.7	17.6 <sup>5</sup>
Gross Loans / Due to Customers (%)	213.9	229.3	234.1	222.4	214.6	222.9 <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

Sparebanken Oest is a savings bank with a good market positioning in southeastern Norway. Traditional banking services including deposit accounts, mortgage loans and money-transfer services are provided to retail customers and small and medium-size enterprises (SMEs). Through agreements with external suppliers, the bank also distributes pension insurance, life and general insurance, and asset management services. As of 30 September 2020, the bank reported total consolidated assets of NOK42.7 billion (approximately €3.9 billion).

## Recent developments

The nascent global economic recovery is under threat from rising COVID-19 cases and even with a gradual recovery, we expect 2021 real GDP in most advanced economies to be below pre-coronavirus levels, and we assume that difficulty in controlling the virus will hinder the gradual process of recovery in the short term. But over time, we expect better pandemic management and the availability of an effective vaccine or treatments to reduce the importance of the virus as a macroeconomic variable.

Our forecasts assume that an effective vaccine is unlikely to be available widely before the middle of 2021. Thus, the recovery path is still uncertain and will remain highly dependent on: (1) the development and distribution of a vaccine, (2) effective pandemic management, and (3) government policy support.

During 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 drop 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.

## Detailed credit considerations

### A deteriorating 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 early 2020 fall 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.

Sparebanken Oest 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 by -3.5% in 2020, and recover to around +3.8% in 2021. Unemployment rose to around 10.6% in March 2020, although declined more recently, 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.

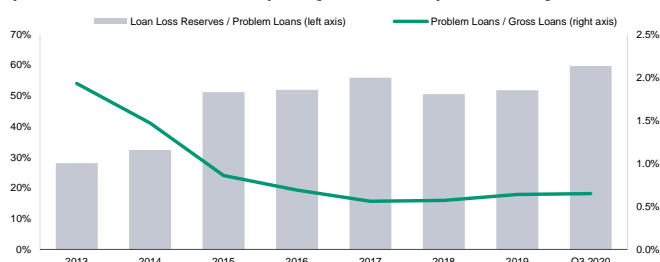
### Good asset quality mainly driven by predominant exposure to retail mortgage

We expect Sparebanken Oest's problem loans to remain low, reflecting its focus on mortgage lending and limited lending to business customers. The bank's corporate loans declined to 15.4% in September 2020 from around 24% of gross loans back in 2011, while its top 20 exposures amount to less than 6% of total loans improving the granularity of its loan book.

As of September 2020, the bank's problem loan ratio (measured as impaired loans as a percentage of total loans) was broadly stable at 0.65% (0.64% as of year-end 2019) with the bulk of the nonperforming loans related to car loans to individuals. At this low level, it compares favorably to rated domestic peers, for which their problem loans ratio mainly deteriorated during the first half of 2020 driven by the pandemic and reduced oil prices. Sparebanken Oest's coverage of problem loans improved to 60% as of September 2020 from below 30% back in 2013 (see Exhibits 3-4).

Exhibit 3

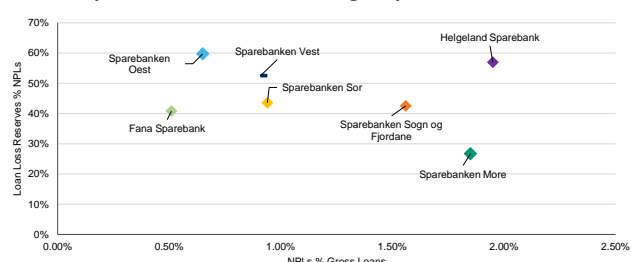
#### Sparebanken Oest's asset quality has held up in recent years...



Source: Moody's Banking Financial Metrics

Exhibit 4

#### ... and compares well with its Norwegian peers



Source: Moody's Banking Financial Metrics (September 2020)

Although Sparebanken Oest's concentration level in the commercial real estate (CRE) sector has declined, it remains significant. Loans to the real estate and construction sector accounted for around 10.9% of its gross loans as of September 2020. The exposure to the CRE sector makes its asset quality vulnerable in case the sector faces difficulties, particularly given that many of the bank's large customers are active in this sector. However, Sparebanken Oest's CRE portfolio has been decreasing since 2011, while both residential and commercial real estate prices have illustrated exceptional growth, particularly in the Oslo metropolitan area. Growth in real estate prices has also been sustained in 2020 despite the outbreak of coronavirus and lockdown measures imposed in the first nine months of the year.

However, as of September 2020 gross lending decreased by 10% year-on-year and over 8% in three quarters of 2020, on the back of competitive dynamics in the mortgage market. Lending to retail customers decreased by 10.5% year-on-year while the bank's gross lending to corporate customers decreased by 4.7% over the same period. The overall drop in lending has been driven by tough competition in the mortgage segment among Norwegian banks caused by significant drop to the key policy rates, as well as more cautious stance by Sparebanken Oest as a result of regulatory uncertainty about future capital requirements.

The bulk of Sparebanken Oest's lending is in retail loans, mostly in the form of mortgages with very low average LTVs (the average LTV within the security pool was around 48% at the end of the third quarter of 2020), accounting for around 85% of total loans as of September 2020. Sparebanken Oest is based in Drammen, which is located on the outskirts of Oslo and where residential property prices have increased significantly over the past several years, which pose some downside risks for the bank. Nonetheless, we expect the bank to maintain its high asset quality within its portfolio over the medium term, even if competition would challenge its positioning in the market.

#### **A favourable profitability on the back of low impairments and revaluation gains, although with relatively low contribution from fees and commissions**

In response to the economic stress from the coronavirus outbreak the Norges Bank carried out three rate cuts totaling 150 basis points during the first half of 2020, while prior to this period the key policy rate was on a rising trend. Low loan rates (interest rate adjustment will be implemented quicker than the usual 6 weeks notice) coupled with competition among Norwegian banks will put pressure on Sparebanken Oest's net interest margin and profitability metrics also 2021.

Sparebanken Oest's reported net income rose by 55% during the first nine months of 2020 compared with the same period in 2019, resulting in an annualized return on assets, as adjusted and calculated by us, of 1.15% in September 2020. The bottom line was heavily supported by a revaluation gain of the shares in the insurance company Frende Holding AS that amounted to NOK154 million, yielding a significant increase in the bank's total non interest income. The increase in net interest income was only around 1%.

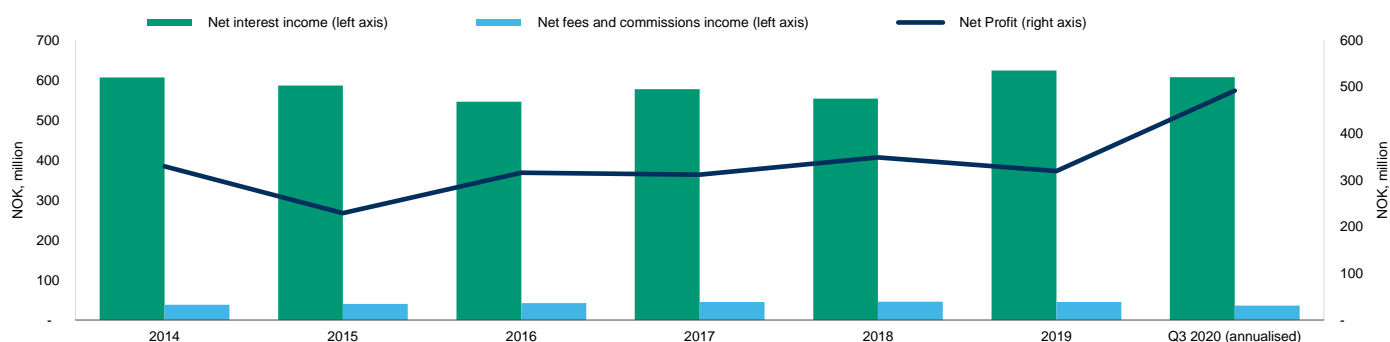
Net interest income from lending operations still constitutes the main income line for Sparebanken Oest with majority of loans being predominantly retail — representing a stable source of income. Overall, net interest income represented over 91% of the bank's net revenue until the third quarter 2020 (excluding gain from Frende Holding AS shares) and around 89% in 2019, while fees and commissions remained a relatively low contributor to the bank's revenues comprising only around 4% of its total net income in September 2020. We note that there is also some margin pressure due to intense competition in the bank's core markets, with net interest income as a percentage of average total assets slightly down to 1.45% in September 2020, from 1.48% as of September 2019.

The bank managed to keep good control of its costs with operational efficiency remained sound and continues to compare well with that of its domestic peers, with a cost-to-income ratio of just 32.8% as of September 2020 even though operating expenses increasing by 4% over the period. The revision of salaries combined with its digitalisation transformation have also helped contain its cost base and be one of the most efficient Norwegian banks, despite a significant IT investment cost in the last two years.

Loan losses have increased marginally to NOK11.4 million in September 2020 from NOK11.3 million a year earlier, indicating an annualised credit loss ratio (loss provisions as a % gross loans) of 0.39%, compared to 0.30% the year before. Sparebanken Oest's low credit loss ratio in Q3 2020 was actually one of the lowest among Norwegian banks, supporting its bottom line performance.

Over the next 12-18 months we do not expect any major deviation in the bank's profitability metrics, and will likely remain broadly satisfactory. The bank has good recurring pre-provision income, which will support its profitability. However, the strong competition the bank faces in the greater Oslo and Akershus area where it also operates, mainly from bigger commercial and digital banks with strong pricing power, could pressure margin and constrain its long-term profitability trajectory.

Exhibit 5

**Sparebanken Oest's profitability evolution**

Source: Banks reports, Moody's Investors Service

**Solid capital buffers, which compare favorably with similarly rated Norwegian savings banks**

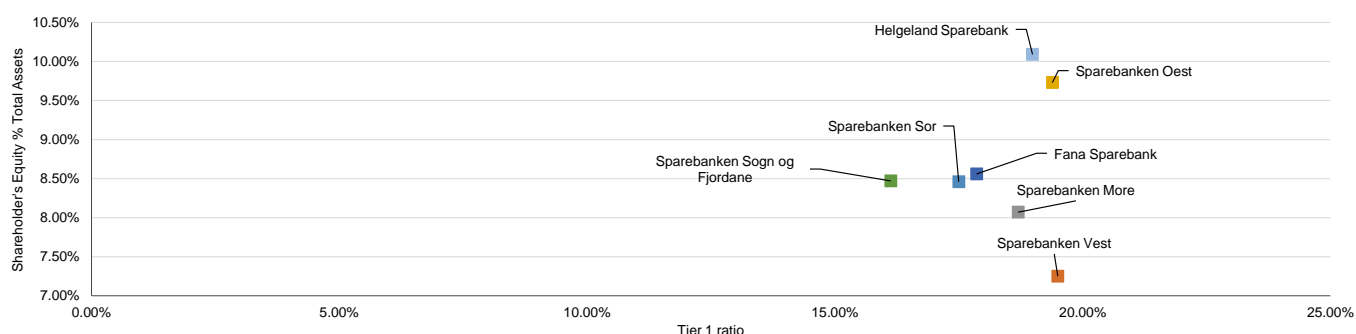
In response to the global coronavirus outbreak and resulting economic stress, the Norwegian FSA has revised banks' capital requirements during the first quarter of 2020. Accordingly, the countercyclical capital buffer requirement has been lowered by 150 basis points to allow more flexibility, while banks were requested to reconsider their dividend payments for 2019.

Sparebanken Oest's capital buffers are solid with a Common Equity Tier 1 capital (CET1) ratio of 18.5%<sup>1</sup> in September 2020, an increase from 17.7% as of year-end 2019. Concurrently, the bank had a Tier 1 ratio of 19.4% and a total capital adequacy ratio of 21.2% as of September 2020, combined with a leverage ratio of 8.9% indicating the ample room it has for credit growth and loss absorption buffer.

The bank's capital levels compare favorably with other Norwegian savings banks (see Exhibit below) and exceed both the current regulatory requirement of 12.8% (including a Pillar 2 requirement of 1.8% for Sparebanken Oest) and the bank's increased internal target of 14.75%. We expect that the bank will continue to easily meet its capital regulatory requirements.

Our adjusted capital score for the bank reflects our view that raising fresh equity in case of need could prove challenging given its only 31.4% equity certificate ownership of its capital. In an unlikely distress situation, we believe that the bank's equity certificate holders might be hesitant to inject new funds due to a potential dilution effect.

Exhibit 6

**Sparebanken Oest's capital levels compare favorably with that of peers**

Source: Banks reports, Moody's Investors Service (September 2020)

**Sparebanken Oest maintains a sizable reliance on market funding...**

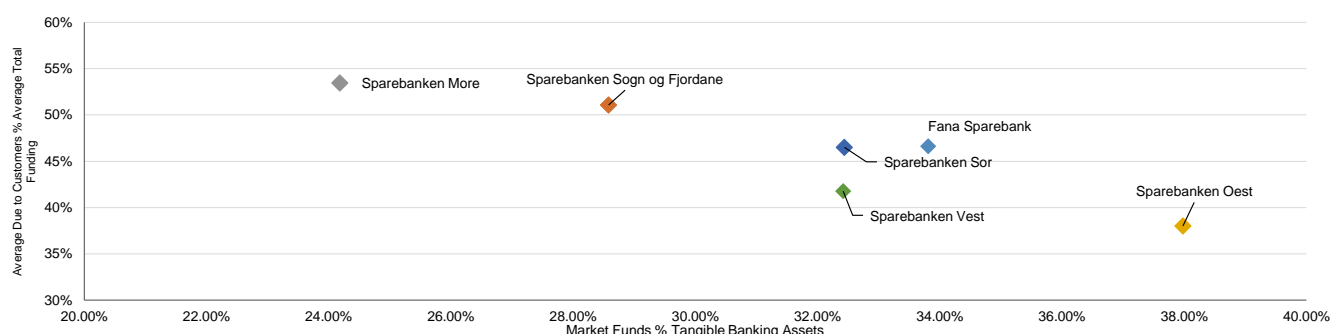
Sparebanken Oest remains more reliant on market funds than its domestic peers, as its Moody's-adjusted market funds ratio comprised around 38% of the bank's tangible banking assets as of September 2020. Accordingly, we believe that the bank remains sensitive to fluctuations in investor sentiment, which we view as a potential credit challenge.

A relatively large part of Sparebanken Oest's market funding consists of covered bonds issued via Sparebanken Oest Boligkreditt, with this source of funding representing around 60% of Sparebanken Oest's unadjusted market funds as of September 2020. We view the benefits from diversification and the typically longer maturity of these funding instruments positively, particularly because recent larger issuances are eligible liquid assets under the liquidity coverage ratio (LCR) rules. The bank also had a comfortable net stable funding ratio (NSFR) at 118% at the end of September 2020.

Deposits accounted for about 38% of Sparebanken Oest's non-equity funding as of September 2020 — at the lower end of the range of similarly rated Norwegian savings banks. The 3.5% decrease in total deposits as of September 2020 from a year earlier was largely driven by the 6.3% decrease in corporate deposits and deposits from the retail sector decreased by 1.4% in the same period. The bank has also some concentration in its large (top 20) corporate deposits, which comprised around 16% of its total customer deposits.

Exhibit 7

### A relatively large part of Sparebanken Oest's market funding consists of covered bonds



Source: Banks reports, Moody's Investors Service (September 2020)

We note that the bank's debt maturity profile is more concentrated during 2021-23 with more than NOK4 billion maturing each year. We expect that the bank will aim to refinance part (less than NOK2 billion) of its NOK6 billion senior preferred debt maturing by the end of 2022, with senior non-preferred (SNP) debt. This is based on the bank's minimum requirement for own funds and eligible liabilities (MREL) at 31.6%, which was communicated by the regulator (FSA) in December 2020. Subordinated liabilities are beneficial for senior creditors and depositors, resulting in a rating three notches higher than the bank's BCA based on our loss given failure (LGF) analysis.

### ...although mitigated by high liquidity buffers

Mitigating its high reliance on market funds, Sparebanken Oest holds a relatively large liquidity buffer. As of September 2020, liquid assets stood at NOK11.0 billion or 25.6% (18.2% as of December 2019) of total assets and consisted mainly of cash, as well as government-related bonds and covered bonds. Furthermore, according to the bank, liquid assets should be sufficient enough to cover its funding needs for at least the next 12 months without the need for external financing, and its LCR was 338% in September 2020. We note that the bank has been reducing the average duration of its liquidity portfolio in the last couple of years, in order to reduce its interest rate risk exposure.

### Environmental, Social and Governance Risks

In line with our general view for the banking sector, Sparebanken Oest has a low exposure to Environmental risks. See our [Environmental risk heatmap](#) for further information.

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 heatmap](#) for further information.



Governance is highly relevant for Sparebanken Oest, 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. Governance risks are largely internal rather than externally driven, and for Sparebanken Oest we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

## Support and structural considerations

### Loss Given Failure analysis

The European Union's BRRD has been transposed into Norwegian law, applicable from 1 January 2019, which confirmed our current assumptions regarding the LGF analysis. We assume a residual tangible common equity of 3% and post-failure losses 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 over senior unsecured debt. These metrics are in line with our standard assumptions.

For Sparebanken Oest's short-term and long-term deposit ratings, we consider the likely impact of loss-given-failure, reflecting the combination of debt and deposit volumes and the amount of debt subordinated to them. We also take into consideration the expected level of MREL eligible debt issuance of around NOK2.5 billion by the end of 2023. This has resulted in a Preliminary Rating Assessment of three notches above the BCA for the bank's deposit and senior unsecured ratings, reflecting very low loss-given-failure.

Moody's believes that there is a low likelihood that the implementation of revisions to the Bank Recovery and Resolution Directive (BRRD2) in Norway will result in a significantly lower level of junior senior issuance by the bank. In particular the agency does not expect the application of the directive's subordination cap (equivalent to 27% of risk weighted assets) to significantly reduce the level of subordination for Norwegian banks currently in receipt of a recapitalisation requirement. This is because the framework includes a number of potential exceptions to the cap, particularly in the case of larger banks, or for those banks where there is an assumption that use of resolution funding would be required to facilitate resolution.

Accordingly, the rating agency expects that Norwegian banks' funding plans will most likely remain substantially unchanged and continue to be driven by the initial implementation of the BRRD rules. However, the ability of authorities to apply such exceptions to a broad range of banks remains untested, and clarity depends on the incorporation of BRRD2 in the EEA agreement, implementation in Norwegian law and finally the setting of individual requirements by the Norwegian FSA (the resolution authority). Should the final implementation of BRRD2 result in lower subordination requirements for Sparebanken Oest, and therefore lower volumes of junior senior debt, this could lead to a negative rating action.

### Government support considerations

Given the implementation of the BRRD law in Norway on 1 January 2019 we reconsidered the probability that government support would benefit certain creditors.

Sparebanken Oest benefits from a well-established market position in the lower Buskerud County of southeastern Norway. While its market share in this county is material (we estimate it at around 6% on terms of loans), it falls to around 1.4% if we include the greater Oslo and Akershus areas, in which Sparebanken Oest also operates. We also note that the proximity of the bank's home region to Oslo means that a number of other Norwegian banks are operational in the area. Therefore, we take into consideration the probability of government support for debt and deposits as low, resulting in no rating uplift. Sparebanken Oest's market share in loans on a national basis is around 0.7%.

### 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) take into consideration 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 (for example, swaps), letters of credit, guarantees and liquidity facilities.



**Sparebanken Oest's CR Assessment is positioned at A1(cr)/P-1(cr)**

Sparebanken Oest's CR Assessment is positioned at A1(cr)/P-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the buffer against default provided by junior deposits, senior unsecured, subordinated debts and preference shares. The bank's CR Assessment does not benefit from any government support, in line with deposits and senior unsecured debt ratings.

**Counterparty Risk Ratings (CRRs)**

CRRs are opinions of the ability of entities to honor 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 honored. 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. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

**Sparebanken Oest's CRRs are positioned at A1/P-1**

The CRRs are positioned three notches above the Adjusted BCA of baa1 and at the same level as the CR Assessment, reflecting the buffer against default provided by more junior instruments to the 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 8

### Sparebanken Oest

#### 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	0.7%	aa1	↔	baa1	Geographical concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.6%	aa1	↔	aa2	Access to capital		
Profitability							
Net Income / Tangible Assets	0.9%	baa1	↔	baa2	Expected trend		
Combined Solvency Score		aa2		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	37.5%	ba2	↔	ba3	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	18.2%	baa2	↔	baa2	Stock of liquid assets		
Combined Liquidity Score		ba1		ba1			
Financial Profile				baa1			
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				a3 - baa2			
Assigned BCA				baa1			
Affiliate Support notching				0			
Adjusted BCA				baa1			

Balance Sheet	in-scope (NOK Million)	% in-scope	at-failure (NOK Million)	% at-failure
Other liabilities	17,480	40.9%	18,963	44.4%
Deposits	14,542	34.0%	13,059	30.6%
Preferred deposits	10,761	25.2%	10,223	23.9%
Junior deposits	3,781	8.8%	2,836	6.6%
Senior unsecured bank debt	8,685	20.3%	8,685	20.3%
Dated subordinated bank debt	400	0.9%	400	0.9%
Preference shares (bank)	350	0.8%	350	0.8%
Equity	1,282	3.0%	1,282	3.0%
Total Tangible Banking Assets	42,739	100.0%	42,739	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF		
	volume +	ordination	volume +	ordination			Guidance	notching		Rating
	subordination		subordination				vs.			Assessment
							Adjusted			
							BCA			
Counterparty Risk Rating	31.7%	31.7%	31.7%	31.7%	3	3	3	3	0	a1
Counterparty Risk Assessment	31.7%	31.7%	31.7%	31.7%	3	3	3	3	0	a1 (cr)
Deposits	31.7%	4.8%	31.7%	25.1%	2	3	2	3	0	a1
Senior unsecured bank debt	31.7%	4.8%	25.1%	4.8%	2	2	2	3	0	a1

Instrument Class	Loss Given		Additional	Preliminary Rating	Government		Local Currency	Foreign
	Failure	notching			Support	notching	Rating	Currency
				Assessment				Rating
Counterparty Risk Rating	3		0	a1		0	A1	A1
Counterparty Risk Assessment	3		0	a1 (cr)		0	A1(cr)	
Deposits	3		0	a1		0	A1	A1
Senior unsecured bank debt	3		0	a1		0	A1	A1

[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 9

Category	Moody's Rating
<b>SPAREBANKEN OEST</b>	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1

Source: Moody's Investors Service

## Endnotes

<sup>1</sup> Including 50% of interim half-year profit.

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