

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Sparebanken Ost's ratings, outlook on long-term deposit and issuer ratings remains stable

22 May 2024

Stockholm, May 22, 2024 -- Moody's Ratings ("Moody's") today affirmed Sparebanken Ost's Baseline Credit Assessment (BCA) and Adjusted BCA of baa1, its long-term deposit ratings and issuer ratings of A1, long- and short-term Counterparty Risk Assessments (CR Assessment) and Counterparty Risk Ratings (CRR) of A1(cr)/P-1(cr) and A1/P-1 respectively, and short-term deposit ratings of P-1. The outlook on the long-term deposit and issuer ratings remains stable.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

The affirmation of the bank's baa1 BCA reflects its resilient performance, demonstrated by its sound asset quality, strong capitalisation and good profitability. The bank's problem ratio remained at very low levels at 0.7% of gross loans at year-end 2023, up slightly from 0.6% in 2022. The bank's continued strong asset performance amid high interest rates and elevated inflation is reflective of its low-risk mortgage portfolio balanced against some credit concentrations in southeastern Norway and the real-estate sector.

Sparebanken Ost also benefits from solid capital levels, with a tangible common equity to risk weighted assets of 20.4% at end December 2023, supported through modest and stable profitability, with a net income to tangible assets ratio of 0.7% in 2023, up slightly from 0.6% in 2022. Nonetheless, the bank's very high concentration to the competitive retail mortgage market limits its business and earnings diversification and poses a concentration risk. Moody's expects the bank's earnings to moderate slightly over the next 12 months yet remain at or above 0.7%.

These strengths are balanced against the bank's relatively high level of capital markets funding. Sparebanken Ost's market funds to tangible assets ratio of 33% as of December 2023 is high when compared to domestic peers, making its funding

sensitive to investor sentiment, though the risk is partly mitigated by its sufficient liquid asset reserves.

LOSS GIVEN FAILURE

Moody's forward-looking Advanced Loss Given Failure (LGF) analysis of Sparebanken Ost's liability structure indicates that depositors and senior unsecured creditors are likely to face extremely low losses given failure resulting in three notches of uplift to the ratings from its BCA.

OUTLOOK

The bank's long-term deposit and issuer 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 in its home region. The outlook also reflects Moody's expectation that the bank will issue sufficient volumes of junior senior debt to support the issuer ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings and assessments of Sparebanken Ost could be upgraded if the bank improved its funding profile through a reduction of confidence sensitive market funding or reduced its geographic, sector, and single borrower concentration while maintaining good asset quality and adequate coverage of problem loans.

The ratings and assessments of Sparebanken Ost could be downgraded if its credit risk profile worsens through elevated sectoral or borrower concentration, its franchise weakens reducing its earnings capacity, funding conditions become more difficult that would challenge the bank's refinancing capacity, or the bank issues a significantly lower volume than expected of junior senior securities.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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