

CREDIT OPINION

3 June 2021

Update

 Rate this Research

RATINGS

SpareBank 1 Sorost-Norge

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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

Effie Tsotsani +44.20.7772.1712
AVP-Analyst
effie.tsotsani@moodys.com

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

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

Sean Marion +44.20.7772.1056
MD-Financial Institutions
sean.marion@moodys.com

SpareBank 1 Sorost-Norge

Update to credit analysis following confirmation of ratings; outlook changed to positive

Summary

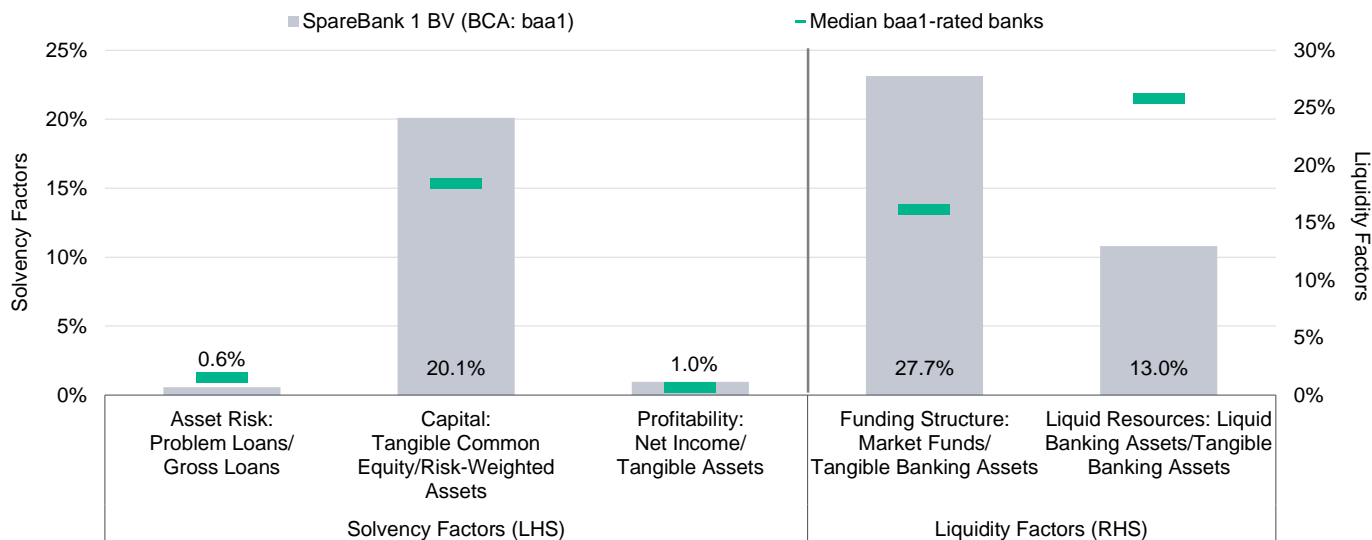
[SpareBank 1 Sorost-Norge's](#) (previously SpareBank 1 BV) foreign and local currency deposit ratings of A2/P-1 and issuer rating of A2 reflect the bank's Baseline Credit Assessment (BCA) of baa1 and the large volumes of loss absorbing liabilities protecting creditors in case of failure, resulting in two notches of uplift as indicated by Moody's advanced loss given failure (LGF) analysis.

The bank's baa1 BCA reflects the bank's strong financial performance in the past year despite the coronavirus outbreak, evidenced by the bank's strong asset quality, sound capitalization and robust recurring profitability. These strengths are balanced against the bank's significant exposure to mortgages and the real estate sector, its geographical concentration and its relatively high level of market funding, although mitigated by strong liquidity.

The positive outlook reflects our view that following the completion of the merger between SpareBank 1 BV and SpareBank 1 Telemark, 1) the new entity's minimum requirements of own funds and eligible liabilities (MREL) requirements could result into an issuance of large volumes of more subordinated liabilities which following the application of Moody's forward looking advanced (LGF) analysis could result into a rating upgrade of the deposit and issuer rating in the next 12-18 months and 2) the new entity will continue to demonstrate strong underlying financial performance which if sustained through the integration period could result in an upgrade to the banks BCA and ratings.

Exhibit 1

Rating Scorecard – Key financial ratios



These represent our [Banks methodology](#) Scorecard ratios, whereby asset risk and profitability reflect the weaker of the latest reported or average of last three year-end and latest reported ratios. Capital is the latest reported figure. Funding and liquidity ratios reflect the latest year-end figures.

Source: Moody's Financial Metrics

Credit strengths

- » SpareBank 1 Sorost-Norge's BCA benefits from Norway's [Very Strong - Macro Profile](#)
- » Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed
- » Good profitability and diversified earnings benefit from some one-off gains
- » Sound asset quality with low level of problem loans

Credit challenges

- » Credit concentration in the counties of Buskerud, Vestfold and Telmark and exposure to Commercial Real Estate somewhat elevates asset risk
- » High reliance on confidence-sensitive market funding, which is partly mitigated by access to a resilient covered bond market and a sizeable deposit base
- » Elevated risks in the Norwegian housing market and household sector, mitigated by conservative underwriting standards, high wealth levels and a very strong repayment culture

Outlook

The positive outlook, reflects Moody's view that following the completion of the transaction between SpareBank 1 BV and SpareBank 1 Telemark, which was approved by the [Norwegian Financial Supervisory Authority on May 21 May 2021](#), the new entity's MREL requirements could result into an issuance of larger volumes of more subordinated liabilities. Following the issuance of these liabilities the depositors and other senior creditors of the bank would likely to face a lower severity of loss in the event of the failure. Under Moody's forward looking advanced LGF analysis could result into a rating upgrade of the deposit and issuer rating.

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.

Furthermore, the positive outlook also reflects Moody's expectation that following the successful completion of the merger, the new entity will continue its strong performance and maintain its sound asset quality metrics, strong capitalization and recurring profitability.

The rating agency expects that a successful integration of the two entities would lead to the elimination of operational risks associated with the merger of operations of the two banks currently factored in the ratings. Furthermore, the positive outlook reflects the agency's expectation that the new entity's profitability may recover to its historical levels of approximately 0.9% return on tangible banking assets as costs and revenue synergies are realized in the next 2-3 years.

Factors that could lead to an upgrade

The deposit and issuer ratings could be upgraded by one notch if the bank issues greater volumes of more junior liabilities following the receipt of revised MREL requirements.

Upward rating momentum could also develop if SpareBank 1 Sorost-Norge demonstrates (1) the successful completion of the integration of SpareBank 1 Telemark without compromising the bank's financial performance or crystallising operational risk; (2) sustaining a low level of problem loans in both its retail and corporate books, combined with reduced sector concentration to commercial real estate; (3) continued good access to market funding combined with strong liquidity; and (4) sustained robust earnings that would be comparable to its higher-rated peers without compromising its risk profile.

Factors that could lead to a downgrade

Although currently unlikely given the positive outlook, downward rating pressure could emerge if (1) SpareBank 1 Sorost-Norge's problem loan ratio was to deteriorate materially as a result of government support measures being withdrawn following the Coronavirus outbreak; (2) financing conditions were to become more difficult; (3) its risk profile were to increase, for example as a result of an increasing exposure to more volatile sectors such as commercial real estate; and/or (4) the macroeconomic environment were to deteriorate leading to adverse developments in the Norwegian real-estate market.

Furthermore, a reduction in the rating uplift as a result of our LGF analysis triggered by structural funding changes to the bank's balance sheet could lead to downward rating pressure.

Key indicators

Exhibit 2

SpareBank 1 Sorost-Norge (Consolidated Financials) [1]

	03-21 ²	12-20 ²	12-19 ²	12-18 ²	12-17 ²	CAGR/Avg. ³
Total Assets (NOK Billion)	54.2	53.9	51.7	48.9	45.7	5.4 ⁴
Total Assets (USD Million)	6,355.1	6,291.6	5,884.1	5,647.6	5,585.4	4.1 ⁴
Tangible Common Equity (NOK Billion)	5.4	5.2	4.9	4.6	4.1	8.4 ⁴
Tangible Common Equity (USD Million)	627.7	611.8	556.7	526.9	504.0	7.0 ⁴
Problem Loans / Gross Loans (%)	0.4	0.4	0.6	0.8	0.7	0.6 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	20.1	20.0	19.7	18.3	23.1	20.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.3	3.7	5.1	6.8	6.5	5.1 ⁵
Net Interest Margin (%)	1.4	1.5	1.5	1.4	1.6	1.5 ⁵
PPI / Average RWA (%)	2.2	2.2	2.1	2.5	2.7	2.3 ⁶
Net Income / Tangible Assets (%)	1.0	0.9	1.0	1.0	0.9	1.0 ⁵
Cost / Income Ratio (%)	51.4	51.7	51.6	49.3	56.8	52.2 ⁵
Market Funds / Tangible Banking Assets (%)	28.2	27.7	28.6	30.6	29.9	29.0 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	12.2	13.0	13.0	13.3	13.9	13.1 ⁵
Gross Loans / Due to Customers (%)	175.3	171.4	173.9	177.6	178.1	175.3 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 Sorost-Norge is a Norwegian local 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 31 March 2021, the bank had total consolidated assets of around NOK97 billion (pro-forma including assets transferred to jointly own covered bond companies). SpareBank 1 Sorost-Norge is the 7th largest savings bank in Norway, but also the fifth largest bank in the SpareBank 1 Alliance, which constitutes of 13 independent regional savings banks. The purpose of the SpareBank 1 Alliance is to provide competitive financial services while exploiting economies of scale in terms of both low costs and high quality products and services. In addition, the alliance helps secure the member banks' value creation for the benefit of their own region and the banks' owners.

Recent developments

On 1 June 2021, SpareBank 1 BV merged with SpareBank 1 Telemark following granted regulatory approvals from the Norwegian Financial Authority and the Competition Authority, and consequently changed name to SpareBank 1 Sorost-Norge.

In this report the historical financial statements relate to SpareBank 1 BV, although our forward-looking expectations and ratings refer to the merged entity, SpareBank 1 Sorost-Norge. SpareBank 1 Sorost-Norge will report consolidated financial statements for the first time for the financial period ending June 2021. The size of the transaction will have a material impact on SpareBank 1 BV's liability structure and subsequently the amounts of loss-absorbing instruments required to fulfill regulatory requirements.

On April 1, we changed our banking system [outlook](#) for the Norwegian banking sector to stable from negative. The change reflects our view that the Norwegian economy will recover strongly in 2021 after a coronavirus-induced downturn last year, exacerbated by a fall in the oil prices. Norwegian banks will maintain good asset quality, as well as strong capitalisation and solid profitability. Their dependence on market funding will remain high, although offset by ample liquidity.

Our forecasts assume that vaccines are 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 distribution of vaccines, (2) effective pandemic management, and (3) government policy support.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the bank's stand alone credit profile

Norway's operating environment is improving supported by a strong economic recovery in 2021 after the coronavirus-induced downturn last year. The anticipated pace of recovery, faster than that of most European peers, reflects a combination of improving consumer demand as lockdown restrictions ease, continued government support, and rising oil prices.

SpareBank 1 Sorost-Norge 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.

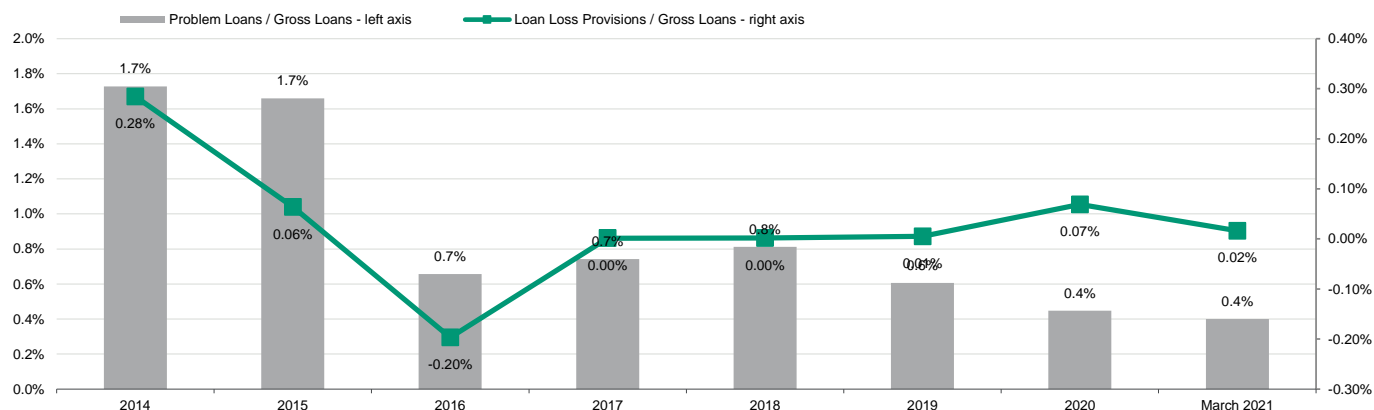
We expect the Norwegian mainland economy (excluding any oil-related activity) to have contracted (-0.8%) in 2020, while it is expected to rebound by +3.2% in 2021. Unemployment peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare administration ¹ and most recently stood at 3.8% as of year-end 2020 from 2.2% as of year-end 2019, 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.

Sound asset quality with low level of problem loans, although credit concentration and exposure to Commercial Real Estate elevate asset risk

SpareBank 1 BV's reported problem loans ratio (Stage 3 loans according to IFRS 9 as a percentage of gross loans, including loans transferred to the covered bond companies) of 0.4% as of end-March 2021, a slight decrease from 0.6% as of year-end 2019. The strong credit quality of the bank's loan book reflects its refined credit processes with an increasingly sophisticated risk management framework, but also the consistent decline in the average probability of default (PD) in its corporate book. We expect the merged bank to initially report a similar level of problem loans although asset quality might deteriorate marginally as Government support measures weave in during the second half of 2021.

The sound credit quality of the bank translates into very low credit costs, with the annual loan loss provisions amounting to only 0.03% on average between 2014 and 2020, with a peak in credit costs in 2014, reaching 0.28% of gross loans (Exhibit 3). While provisioning increased as a result of the coronavirus outbreak and increased economic uncertainty, the bank's loan loss provisions/gross loans came down to 0.02% for the first three months of 2021, which is considered low in an international context and compares well with similarly-rated peers.

Exhibit 3
Sound asset quality of retail-dominated loan book translates into low loan losses



Note: From 1 January 2018 and onwards, problem loans are defined as IFRS 9 Stage 3 loans.

Source: Moody's Investors Service

The healthy asset quality of the bank is supported by a loan book dominated by retail exposures, as Norwegian retail mortgages have historically entailed low risk. Retail loans at SpareBank 1 BV accounted for 81% of gross loans (including loans transferred to the covered bond companies) at end-March 2021.

However, SpareBank 1 BV's operations were geographically concentrated in the counties of Vestfold, Telemark and Viken (around 92% of gross loans at year-end 2020), located in south-eastern Norway. Although the merger will somewhat increase the geographical reach of the bank, we expect the new entity's operations will remain focused within their local region. Both banks are deeply entrenched in the local community (around a quarter of the population are public servants), a common feature among the Norwegian savings banks, as the business model entails a social responsibility and commitment to the community.

The relative stability of housing prices in Vestfold and Buskerud in the past few years mitigates the risk of asset quality deterioration, and we expect Norwegian households to continue servicing their debt without difficulties despite the coronavirus induced economic disruption which resulted in an increased level of provisioning for all banks. In contrast to Oslo, house prices in the bank's areas of operations have been below the Norwegian average and experienced a stable growth without peaks or significant corrections. Nonetheless, given the bank's material exposure to mortgage loans, a potential serious slowdown in the Norwegian economy is likely to leave it vulnerable to house price fluctuations and impaired loan affordability by borrowers.

Furthermore, SpareBank 1 BV's substantial exposure within its corporate book to the cyclical real estate and construction sectors (approximately 83% of its corporate book and 16% of total gross loans at end-March 2021) posed a downside risk, potentially

rendering the bank vulnerable to changes in interest rates and real estate prices in the region. We expect that the merger will not have a significant impact on the sector concentrations.

Accordingly, we assign SpareBank 1 Sorost-Norge an Asset Quality Score of baa1, which includes negative adjustments to better capture risks stemming from the bank's geographical and sector concentrations and operational risks associated with the merger of the operations of the two banks.

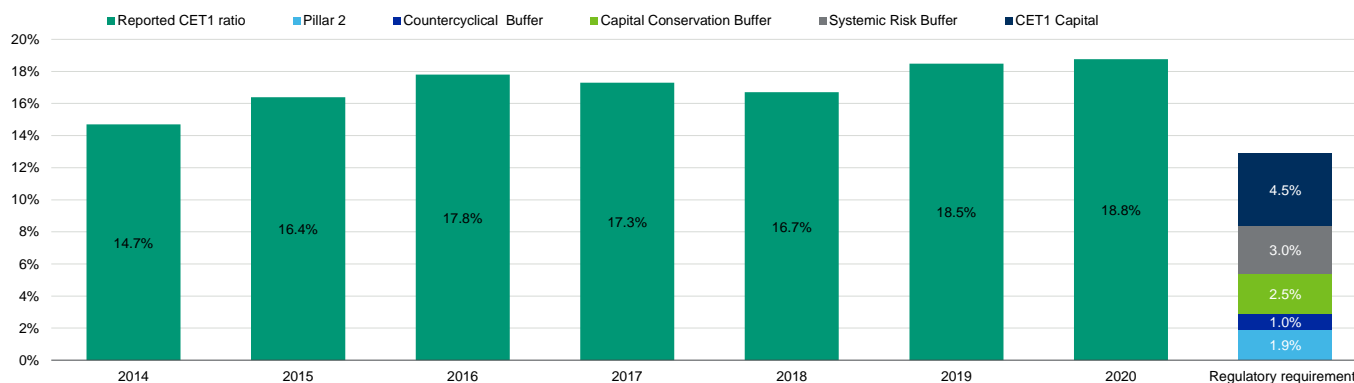
Capitalisation is robust, although capacity to raise new equity capital could prove challenging if needed

SpareBank 1 BV's capitalisation was robust, as evidenced by its Common Equity Tier 1 (CET1) ratio of 18.4% and total capital ratio of 21.5% at end-March 2021, comparing favourably globally and with its similarly-rated local peers. The bank comfortably fulfilled its regulatory CET1 capital requirement of 12.9% (including a pillar 2 requirement of 1.9%) with a sizeable headroom as of end-March 2021. The bank's sound solvency is also demonstrated in its unweighted capital metrics. The bank reported a leverage ratio of 8.6% as of end-March 2021, which is high by international standards and well above the regulatory minimum requirement of 5% in Norway. We expect the merged bank to benefit from strong capitalisation with a tangible equity to risk weighted assets of more than 19% while the combined core equity Tier 1 is expected to be well above the minimum regulatory requirements.

SpareBank 1 BV applied the standardised approach for calculating its regulatory capital requirements, meaning that its assets were assigned higher risk weights than under the Internal Ratings Based (IRB) approach. With the implementation of the EU capital adequacy rules into the EEA agreement the Basel I floor was removed in Norway from January 2020 onwards, but had no real impact on SpareBank 1 BV's capital metrics as it used the standard method for calculating credit risk. However, the introduction of a discount for SME exposures based on EU's CRD IV directive, would have conferred around 40 basis points benefit to the bank's CET1 ratio. We expect the merged entity to also benefit from the discount on the SME exposures, as it will continue to apply the standardised approach for calculating its regulatory capital requirements.

Exhibit 4

SpareBank 1 BV's reported CET 1 ratio and required capital buffers



Source: Moody's Investors Service, Company reports

Equity certificates are an important part of SpareBank 1 Sorost-Norge's capital base (equity certificate fraction of 53.6% relative to SpareBank 1 BV's total equity in March 2021), a common feature among Norwegian savings banks. The balance of the bank's equity base consists of primary capital (no owners). Raising capital in case of need during difficult economic periods could prove challenging for SpareBank 1 Sorost-Norge, given its ownership structure in view of the potential dilution effect.

This limits the bank's flexibility in terms of dividend payments (target of at least 50%) and capital retention, and could make it difficult for the bank to access new capital. The two foundations, SpareBank 1 Stiftelsen BV and Sparebankstiftelsen Nøtterøy – Tønsberg, are the two largest stakeholders in the bank having a joint stake of around 39%. Through the merger, the two main foundations of SpareBank 1 BV and SpareBank 1 Telemark (SpareBank 1 Foundation BV and Sparebankstiftelsen Telemark-Grenland) will receive additional equity and will continue to play a strong role in the bank's equity ownership. We note that these foundations are considered long-term and financially strong owners, with its bylaws stating that it shall maintain its interest through participation in equity certificate issues.

Considering our assessment of SpareBank 1 Sorost-Norge's capitalisation, we assign a Capital Score of aa2 to the bank, incorporating a negative adjustment to reflect the potential challenges in accessing new capital if need be.

Good profitability and diversified earnings but a more challenging operating environment will pressure margins

SpareBank 1 BV benefited from strong recurring profitability (see Exhibit 5) supported by its stable retail banking. The bank reported return on tangible assets of 0.9% during 2020 compared to 1% in 2019 due to costs and losses on financial investments booked during Q1 as a result of coronavirus outbreak and introduction of lockdown measures. The bank's strong performance was reflective of its high-quality mortgage book as evident by the very low levels of loan loss provisions booked by the bank in the first half of 2020 at 0.07% of gross loans. During the first three months of 2021, the bank reported a strong annualised Return on Equity (ROE) of 9.8%.

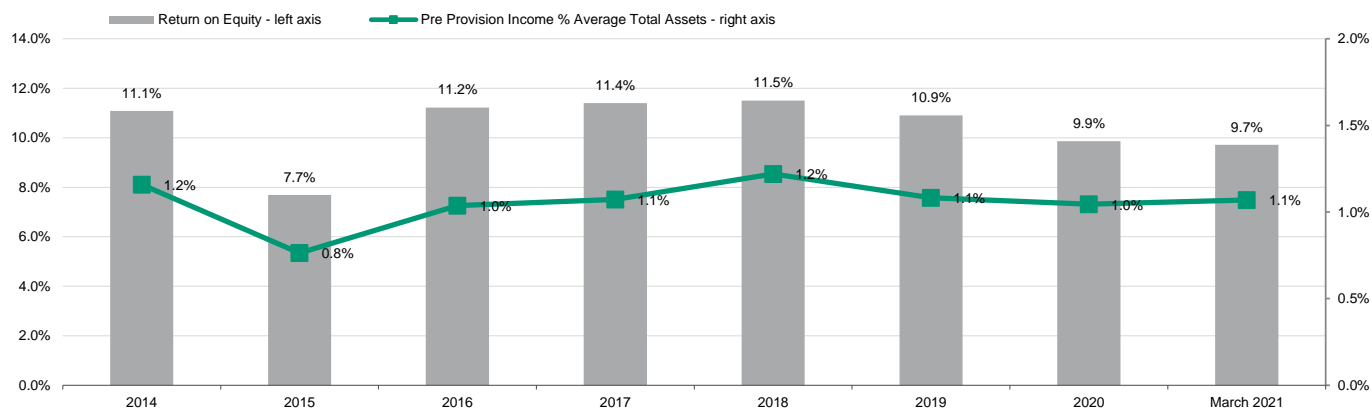
Nevertheless, we expect that the profitability of SpareBank 1 Sorost-Norge will somewhat decline factoring costs associated with the completion of the merger in the next 12-18 months and pressures arising from competition and the low interest rate environment. Competition is intense in the bank's area of operations, and the bank has a limited pricing power compared to the largest national players, which usually reprice their loan books before smaller banks do. Accordingly, we expect that the lower lending rates combined with intense competition will put further pressure on the bank's net interest income and margins going forward.

Net interest income (including net interest income from the covered bond companies booked as commission income) is the bank's most important source of income. As of March 2021, net interest income constituted around 67% of SpareBank 1 BV's operating income (excluding gains from financial investments).

Net commission and other operating income reflects income from associated companies jointly owned within the SpareBank 1 Alliance and the bank's own subsidiaries. In addition, the wide range of products offered by the bank and its subsidiaries creates valuable opportunities for cross-selling to the acquired customers from SpareBank 1 Nøtterøy-Tønsberg, and enables the bank to strengthen its operating income.

Exhibit 5

SpareBank 1 BV exhibits sound profitability metrics



Source: Moody's Investors Service

As a member of the SpareBank 1 Alliance, the new bank will continue to benefit from its economies of scale and access to digitalisation solutions which will enable it to operate with a lighter cost base.

SpareBank 1 BV's cost base had been elevated relative to peers, with a reported cost-to-income ratio (excluding financial investments) of 56.3% as of end-March 2021, up from 53.2% in year-end 2020, although the reported ratios include the one-time positive effects relating to Fremtind transaction.

High reliance on confidence-sensitive market funding, which is partly mitigated by access to a resilient covered bond market and a sizeable deposit base

SpareBank 1 BV's funding profile was dominated by deposits and covered bonds, similar to other Norwegian savings banks. As of end-March 2021, customer deposits accounted for around 53% of the bank's non-equity funding (on a Moody's adjusted basis, including covered bonds issued by the jointly owned covered bond companies).

The bank was also highly dependent on confidence-sensitive market funding to finance its operations. Our market funding ratio (market funds to tangible banking assets including covered bond loans) for the bank was a relatively high 28.2% as of end-March 2021. We estimate the merged bank's market funding ratio (market funds to tangible banking assets) around 30% at end 2020. In the next 12-18 months we expect the new entity's use of market funds to somewhat increase from current levels as loan growth outpaces deposit growth.

Deposits decreased by 0.4% in the first three months of 2021, however, total bank's customer deposits increased robustly by around 5% year-on-year as of end-March 2021, while retail market deposits constituted around 62% of total deposits. This strengthened SpareBank 1 BV's funding profile as we consider retail deposits to be a more stable source of funding compared to corporate deposits.

The majority of the bank's market funding is in the form of covered bonds issued through covered bond companies jointly owned with other members of the SpareBank 1 Alliance (SpareBank 1 Boligkreditt for residential mortgages and SpareBank 1 Næringskreditt for commercial mortgages). At end-March 2021 the bank had transferred retail mortgages worth NOK12.7 billion and commercial real estate loans worth NOK0.7 billion to these vehicles, constituting together around 29% of its gross loan book including the transferred loans.

While we view positively the diversification benefit of covered bond funding, its extensive use increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation. As reflected in our methodology, we globally reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment.

SpareBank 1 BV's sizeable liquid reserves, constituted 12.2% of the bank's tangible banking assets as of end-March 2021, partly mitigate risks associated with its high reliance on market funding. 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 for SpareBank 1 Sorost-Norge to reflect the additional source of liquidity stemming from the covered bond companies.

The main components of the bank's liquidity reserves are highly-rated covered bonds, sovereign and municipality bonds. The bank's high Liquid Coverage Ratio (LCR) of 187% as of end-March 2021 is in line with Norwegian banks average of 194% and well above the regulatory minimum requirement of 100%. We expect the bank to maintain a relatively conservative liquidity in order to curb any refinancing risks, while its net stable funding ratio (NSFR) is also comfortably above 100%.

ESG considerations

In line with our general view of the banking sector, Sparebank 1 Sorost-Norge has low exposure to Environmental risks and moderate exposure to Social risks. See our [Environmental](#) and [Social](#) risk heatmaps for further information.

Norway, similarly to the European Union, has policies in place that ensure new housing to be energy-efficient, which enables banks to gather mortgages for asset pools to issue green bonds. Such policies also help limit environmental risks for Norwegian banks with large retail exposure and primarily mortgage lending activity, which should help strengthen the bank's credit profile. The bank is taking various initiatives to promote and integrate in its business the UN's sustainable development goals, including those related to 'decent work and economic growth' and 'sustainable cities and communities'.

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 Sorost-Norge, 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 Sorost-Norge.

Support and structural considerations

Loss Given Failure analysis

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. For our resolution 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 are in line with our standard assumptions.

For SpareBank 1 Sorost-Norge's long-term deposit ratings, we have considered the likely impact on loss-given-failure of the volume of deposits and the amount of debt subordinated to them. This has resulted in a Preliminary Rating Assessment of two notches above the Adjusted BCA, reflecting very low loss-given-failure.

The positive outlook on SpareBank 1 Sorost-Norge's long-term bank deposit and long-term issuer ratings will consider the degree to which meeting MREL and the subordination requirement will result in the bank issuing sufficient additional loss-absorbing instruments to reduce the losses faced by senior creditors following the merger with SpareBank 1 Telemark as of 1 June 2021.

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.

Government support considerations

SpareBank 1 Sorost-Norge benefits from a well-established market position in the counties of Buskerud and Vestfold. Whilst the bank's market share in this region is significant, it is small in a national context. We also note that the close proximity of the bank's home region to Oslo means that a number of other Norwegian banks are present in the area. We therefore assume a low probability of government support for SpareBank 1 Sorost-Norge's deposits, CRA, and CRR ratings resulting in no rating uplift. Moreover, our government support assumptions are driven by the recent implementation of the EU's BRRD in Norway (effective as of 1 January 2019).

Counterparty Risk (CR) 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.

SpareBank 1 Sorost-Norge's CR Assessment is positioned at A1(cr)/Prime-1(cr)

SpareBank 1 Sorost Norge's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's Adjusted BCA of baa1, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instrument. 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 Rating (CRR)

Moody's Counterparty Risk Ratings 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. 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.

SpareBank 1 Sorost-Norge's CRR is positioned at A1/Prime-1

The CRRs are positioned three notches above the Adjusted BCA of baa1, 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 judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 Sorost-Norge

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	0.6%	aa1	↑	baa1	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.1%	aa1	↓	aa2	Access to capital	
Profitability						
Net Income / Tangible Assets	1.0%	baa1	↔	baa3	Expected trend	
Combined Solvency Score		aa2		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	27.7%	baa2	↓	baa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	13.0%	baa3	↔	baa2	Stock of liquid assets	
Combined Liquidity Score		baa2		baa3		
Financial Profile						
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	17,672	32.6%	20,300	37.4%
Deposits	25,766	47.5%	23,138	42.7%
Preferred deposits	19,067	35.2%	18,114	33.4%
Junior deposits	6,699	12.4%	5,024	9.3%
Senior unsecured bank debt	8,001	14.8%	8,001	14.8%
Junior senior unsecured bank debt	500	0.9%	500	0.9%
Dated subordinated bank debt	400	0.7%	400	0.7%
Preference shares (bank)	250	0.5%	250	0.5%
Equity	1,626	3.0%	1,626	3.0%
Total Tangible Banking Assets	54,216	100.0%	54,216	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	29.1%	29.1%	29.1%	29.1%	3	3	3	3	0	a1
Counterparty Risk Assessment	29.1%	29.1%	29.1%	29.1%	3	3	3	3	0	a1 (cr)
Deposits	29.1%	5.1%	29.1%	19.9%	2	3	2	2	0	a2
Senior unsecured bank debt	29.1%	5.1%	19.9%	5.1%	2	2	2	2	0	a2

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	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2

[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 SOROST-NORGE	
Outlook	Positive
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2

Source: Moody's Investors Service

Endnotes

1 Norwegian Labour and Welfare Administration (NAV): Registered Unemployed - December 2020

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

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