MOODY'S INVESTORS SERVICE

CREDIT OPINION

14 December 2017

Update

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RATINGS

Sparebanken More

Domicile	Norway
Long Term Deposit	A2
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 More

Credit Opinion - Semiannual Update

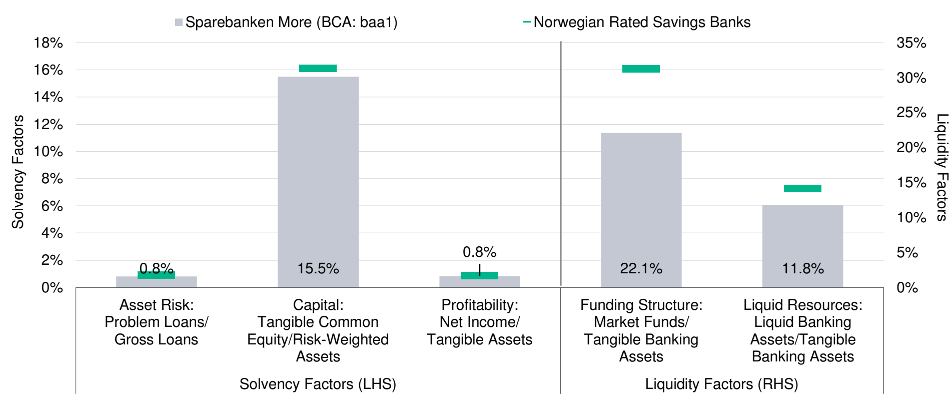
Summary

Sparebanken More's A2 long-term issuer and deposit ratings are driven by its baa1 baseline credit assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis, which results in a two-notch rating uplift. The uplift reflects the protection to Sparebanken More's senior creditors resulting from the volume of deposits and debt available to share losses, as well as from the volume of securities subordinated to them. Sparebanken More's A2 deposit ratings do not benefit from government support, reflecting our assumption of a "Low" likelihood of support given its limited national market share of 1.2% of total loans and 1.5% of total deposits as of December 2016.

Sparebanken More's baa1 BCA reflects the strong macroeconomic environment in Norway, its sizeable capital buffers and sound asset quality metrics. The BCA also considers Sparebanken More's moderate profitability as well as its sizeable reliance on market funding, although this is somewhat lower than the average for Norwegian savings banks.

Exhibit 1

Key Financial indicators



Source: Moody's Banking Financial Metrics

Credit strengths

» Sizeable capital buffers offering protection against unforeseen losses

» Asset quality metrics are in-line with peers

» Large volume of deposits and debt result in a two-notch uplift to the deposit rating from the BCA

Credit challenges

» Profitability will continue to be pressured by low interest rates and slightly higher credit costs

» While lower than its Norwegian savings banks peers, Sparebanken More has a sizeable reliance on market funding

Rating outlook

The stable outlook on the bank's long-term deposit and issuer ratings reflects our view that the bank's financials will remain broadly unchanged over the next 12-18 months.

Factors that could lead to an upgrade

Upward rating momentum could develop if Sparebanken More demonstrates:

» Improved asset quality metrics and contain sector and single name concentration levels in its loan book

» Continued good access to capital markets and further issuance of covered bonds eligible as liquidity assets in the Liquidity Coverage Ratio (LCR), which will further improve its liquidity metrics

» Stronger earnings generation without a material deterioration in its risk profile

Factors that could lead to a downgrade

Future downward rating pressure would emerge if:

» Sparebanken More's risk profile weakens as a result of increased exposures to more volatile sectors, for example if concentration to Commercial Real Estate (CRE) as a percent of Core Tier 1 capital exceeds 150%

» Financing conditions become more difficult or the macroeconomic environment deteriorates more than currently anticipated, leading to a lower Macro Profile while profitability weakens significantly from current levels

» A reduction in rating uplift as a result of our LGF analysis would also lead to a downgrade of the deposit ratings

Key indicators

Exhibit 2

Sparebanken More (Consolidated Financials) [1]

	9-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (NOK billion)	66	62	60	56	55	5.3[4]
Total Assets (EUR million)	7,033	6,784	6,253	6,206	6,535	2.0[4]
Total Assets (USD million)	8,315	7,156	6,792	7,510	9,004	-2.1[4]
Tangible Common Equity (NOK billion)	5.5	5.3	5	4.8	4.4	5.8[4]
Tangible Common Equity (EUR million)	580	589	518	527	529	2.5[4]
Tangible Common Equity (USD million)	686	621	563	637	729	-1.6[4]
Problem Loans / Gross Loans (%)	0.6	1.2	0.5	0.8	1.1	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.5	16.2	15.4	13.3	13.2	14.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.2	10.7	4.6	7.7	11.3	8.1[5]
Net Interest Margin (%)	1.7	1.8	1.9	2.0	2.0	1.9[5]
PPI / Average RWA (%)	2.1	2.2	2.1	2.2	2.0	2.1[6]
Net Income / Tangible Assets (%)	0.8	0.9	0.8	1.0	0.8	0.8[5]
Cost / Income Ratio (%)	45.1	44.4	45.1	43.1	45.9	44.7[5]
Market Funds / Tangible Banking Assets (%)	23.9	22.1	26.2	25.1	24.1	24.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.8	11.8	11.9	10.9	13.4	12.2[5]
Gross Loans / Due to Customers (%)	171.6	162.9	175.7	173.3	165.8	169.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; 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 II periods presented

Source: Moody's Financial Metrics

Profile

Sparebanken Møre is a regional savings bank with a well-established market position in the county of Møre and Romsdal, located in Western Norway. Sparebanken Møre provides retail and corporate banking and other financial services, including leasing and real estate brokerage. It also offers share trading and capital management advice and distributes insurance products. As of 30 September 2017, the bank reported total consolidated assets of NOK66 billion (€7 billion).

Detailed credit considerations

Sparebanken More's BCA is supported by its Very Strong- Macro Profile

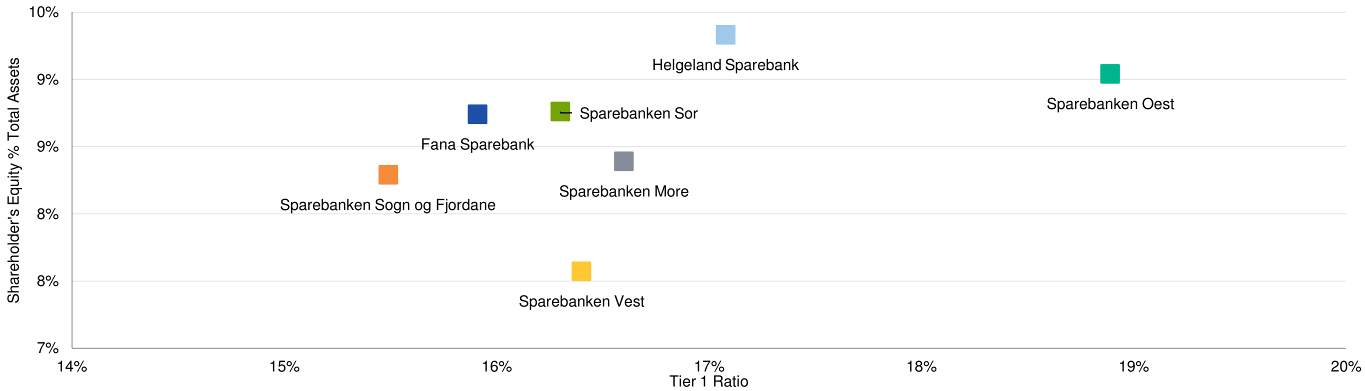
Because Sparebanken More is a domestic bank, we align its Macro Profile with that of Norway at 'Very Strong-'. Banks in Norway (Aaa stable) benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrates resilience to the ongoing weakness in the oil sector. The main risks to the banking system stem from the high level of household indebtedness, 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 capitalization and the relatively small size of the banking system compared with the total size of the economy.

Sizeable capital buffers offering protection against unforeseen losses

In line with many Norwegian savings banks, Sparebanken More has increased its capital ratios in accordance with the higher regulatory capital requirements. As of end September 2017, Sparebanken More's Common Equity Tier 1 capital ratio was 14.5% (Dec 2016: 14.6%), while its Tier 1 ratio was 17.1% (Dec 2016: 17%), reflecting NOK589 million of perpetual hybrid securities. Sparebanken More's capital metrics are above the regulatory minimum and the 13.8% internally set minimum capital target, which include an individual Pillar II requirement of 1.8%. The bank was subject to a capital requirement linked to the transitional scheme associated with the Basel I floor amounting to NOK227 million at the end of the third quarter of 2017. Sparebanken More's 8.5% leverage ratio (including 50% of the profit for the period) also points to the bank's high capital buffers.

Sparebanken More's capital metrics have improved in the past three years, reflecting both earnings retention (the payout ratio was contained to 50% in 2015 and 49% in 2016), as well as the adoption of the internal ratings based approach to calculate risk-weighted assets in 2015.

Exhibit 3
Sizeable capital buffers offering protection against unforeseen losses compare well with peers

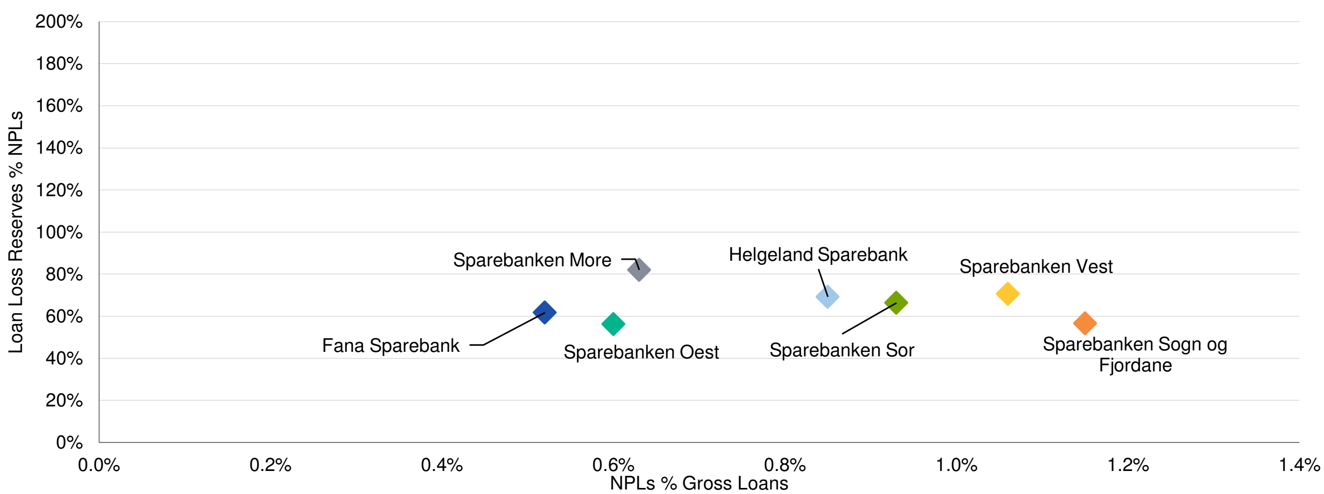


Note: Based on latest available data
Source: Moody's Banking Financial Metrics

Sparebanken More's asset quality metrics compares well with peers

Sparebanken More's strong asset quality metrics compares well with peers. The ratio of non-performing loans to gross loans declined to 0.63%, as of September 2017 from 1.15% at end-2016. The decline reflects the reclassification of a restructured corporate exposure in the oil sector whose default caused the spike in NPLs at year-end 2016. Though coverage of NPLs with loan loss reserves improved to 82% following the completion of the restructuring and the exposure's reclassification, additional losses on this exposure may be necessary though they will be contained.

Exhibit 4
Low level of problem loans and high balance sheet reserves coverage compared with peers



Note: Based on latest available data
Source: Moody's Banking Financial Metrics

Similar to other Norwegian savings banks, Sparebanken More's loan book is focused on retail loans, mainly mortgages. Retail lending accounted for around 70% of the bank's total portfolio as of September 2017. Sparebanken More's exposure to the oil-related offshore sector, which had been under pressure, is small at around 1.4% of gross loans, while the bank has also reduced its exposure, currently at around 4.1% of gross loans, to fishing-related industries and stands to benefit from the sector's ongoing strong performance. The bank has experienced rising growth in lending to both the retail and corporate market in the first quarters of 2017, slower growth is however expected within both segments towards the end of 2017.

Nevertheless, the bank has a sizeable exposure to the real estate sector, though amongst the lowest compared to its domestic peers. Loans to property management and real estate construction companies accounted for 12.5% of gross loans as of September 2017, which combined with its large mortgage book make Sparebanken More vulnerable to a decline in real estate prices. In addition, the bank's relatively high single borrower concentration make it vulnerable to a potential default by one of these large customers.

However, house prices in the bank's home county of Møre og Romsdal have grown at a slower pace than the national level, which have increased rapidly since 2009. House prices in the Oslo area have declined in the past quarters while house prices in Møre og Romsdal remain broadly stable.

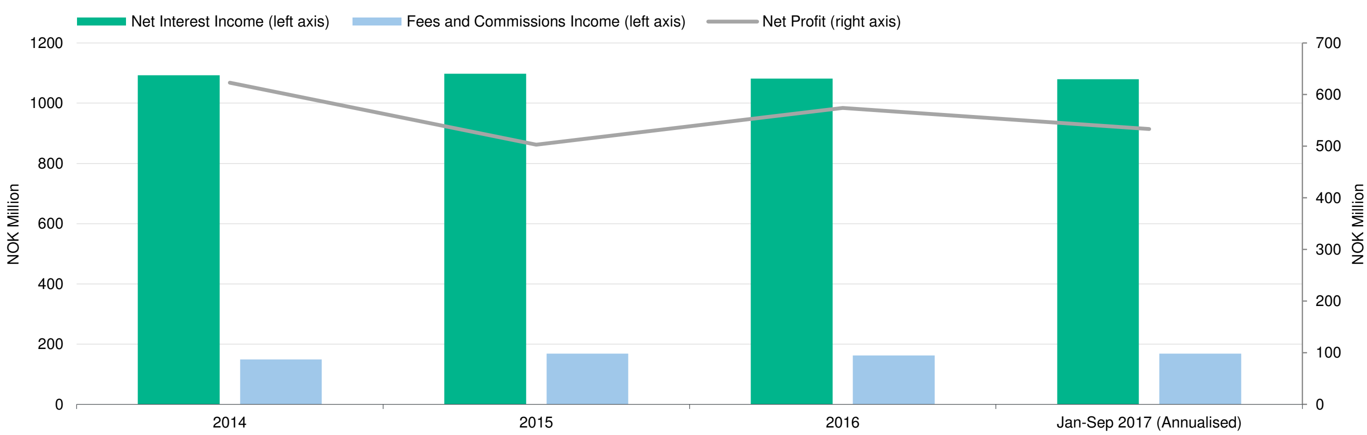
Profitability will be pressured by low interest rates and competition

Sparebanken More's return on assets (adjusted for one-off gains) of 0.80% for the nine months ending in September 2017 is broadly in line with the 0.85 for full-year 2016. Net interest income remains Sparebanken More's main source of revenue and accounted for around 84% of the bank's operating income in the third quarter of 2017, compared to 79% in the third quarter of 2016. The bank's reported net interest income to average assets of 1.72% in the third quarter of 2017 was somewhat below the 1.77% in the third quarter of 2016 and declined from 1.79% for full-year 2016 and 1.89% for full-year 2015. Given the low interest rates and strong competition, we expect some further pressures on the net interest margin despite the bank's efforts to reprice some of its business loans upwards.

Sparebanken More's strong efficiency supports its profitability; the bank's cost-to-income ratio was 44.2% in the third quarter of 2017, slightly below the bank's 45% target. Operating costs declined by 2% in the third quarter of 2017 compared to the third quarter of 2016 despite the increased financial industry tax, mainly as a result of the bank's reduced staffing in the past twelve months.

Exhibit 5

Net interest income and net profits decreased in the first nine months of 2017 while commission income remain stable



Source: Company reports

For the third quarter of 2017, Sparebanken More reported net income of NOK139 million, 5% lower compared to the NOK146 million profit reported for the same quarter in 2016. This was mainly driven by lower gains on financial investments (related to the VISA transaction in 2016), which declined by around 84% in the third quarter of 2017 compared to the third quarter of 2016.

Although lower than its Norwegian peers, Sparebanken More has a sizeable reliance on market funding

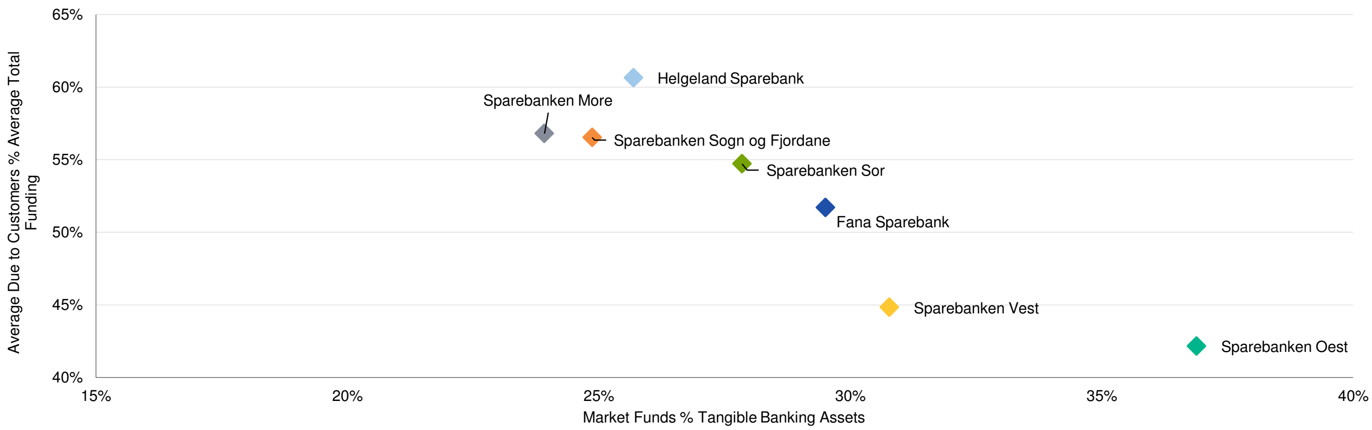
Sparebanken More's primary funding source are deposits, which accounted for 55% of funding as of September 2017 (58% December 2016) and 58% of gross loans at the end of September 2017, a level we expect to remain broadly stable. However, the bank has a high, albeit lower than domestic peers, reliance on confidence sensitive market funding, which we view as a credit weakness. The ratio of market funds to tangible banking assets stood at 23.9% as of September 2017 (22.1% as of December 2016).

The majority of market funds, around 74% as of September 2017 (74% as of December 2016), were in the form of covered bonds issued through its subsidiary company More Boligkreditt. We view the diversification benefit and the typically longer maturity of these funding instruments positively, in particular since recent larger issuances are eligible liquid assets under the liquidity coverage ratio rules, as they provide the bank with a wider and more diversified investor base.

Møre Boligkreditt AS issued a EUR 250m Covered Bond in the European market in June 2017. The issue was well received in the market with 35 investors from 9 different countries and contributes to a more diversified funding base for the Group.

Exhibit 6

Although lower than its Norwegian peers, Sparebanken More has a sizeable reliance on market funding



Note: Based on latest available data
Source: Moody's Banking Financial Metrics

Sparebanken More maintains good liquidity buffers of high quality that are broadly in line with peers. As of September 2017, the ratio of liquid assets to tangible banking assets was 12.8% (11.8% as of December 2016). At the end of 2016, all of the bank's liquid assets were of investment grade and 88% were rated Aaa. Besides cash and due from banks (around 3% of tangible banking assets at the end of September 2017 and 1.5% as of December 2016), the bank's liquidity buffers include a securities portfolio, which mainly comprise domestic and European covered bonds, government and supranational bonds, with minor holdings of senior and corporate bonds as well as minor shareholdings. Bond holdings in the liquidity portfolio are generally equally divided by foreign (European) and domestic issuers. Euro-denominated issues are hedged into Norwegian krone, and fixed-rate bonds are swapped into floating interest rates (mainly three months floating).

Support and structural considerations

Loss Given Failure

Norway is in the process of introducing legislation to implement the EU Bank Resolution and Recovery Directive. In our 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.

For Sparebanken More's short-term and long-term deposit ratings, our ratings have considered the likely impact on loss-given-failure of the combination of their own volume and the amount of debt subordinated to them. This results in a Preliminary Rating Assessment that stands two notches above the BCA, reflecting very low loss-given-failure.

Government support

The expected implementation of resolution legislation has caused us to reconsider the potential for government support to benefit certain creditors.

Sparebanken More is a regional savings bank with a robust market position in western Norway in the county of More and Romsdal, where it has a market share of around 30% as of December 2016. However, its national market share is limited at around 1.2% of loans and 1.5% on deposits. Therefore, we now expect a low probability of government support for deposits, resulting in no rating uplift.

Counterparty Risk Assessment

We assign a long-term and short-term CR assessment of A1 (cr) and P-1 (cr) respectively to Sparebanken More. 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.

Rating methodology and scorecard factors

Exhibit 7

Sparebanken More

Macro Factors		
Weighted Macro Profile	**Very Strong -**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.8%	aa2	↓	a2	Geographical concentration	Sector concentration
Capital						
TCE / RWA	15.5%	aa3	←→	aa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.8%	baa1	←→	baa2	Expected trend	
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	22.1%	baa1	←→	ba1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.8%	baa3	←→	baa3	Stock of liquid assets	
Combined Liquidity Score		baa2		ba1		
Financial Profile				baa1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA 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	24,404	36.9%	27,778	42.0%
Deposits	33,082	50.0%	29,708	44.9%
Preferred deposits	24,481	37.0%	23,257	35.2%
Junior Deposits	8,601	13.0%	6,451	9.8%
Senior unsecured bank debt	5,342	8.1%	5,342	8.1%
Dated subordinated bank debt	1,334	2.0%	1,334	2.0%
Equity	1,984	3.0%	1,984	3.0%
Total Tangible Banking Assets	66,146	100%	66,146	100%

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 Assessment	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	a1 (cr)
Deposits	22.8%	5.0%	22.8%	13.1%	2	3	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 Assessment	3	0	a1 (cr)	0	A1 (cr)	--
Deposits	2	0	a2	0	A2	A2

Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
SPAREBANKEN MORE	
Outlook	Stable
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

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