Credit Opinion: Sparebanken More

Global Credit Research - 01 Oct 2009

Norway

Ratings

Category	**Moody's Rating**
Outlook	Negative(m)
Bank Deposits	A2/P-1
Bank Financial Strength	C-

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Key Indicators

Sparebanken More

	[1]**2009**	[2]**2008**	**2007**	**2006**	**2005**	[3]**Avg.**
Total assets (NOK billion)	**40.68**	**40.80**	**35.62**	**31.76**	**26.86**	[4]**13.34**
Total assets (EUR billion)	**4.51**	**4.19**	**4.49**	**3.87**	**3.36**	**--**
Total capital (NOK billion)	**3.30**	**3.30**	**2.93**	**2.72**	**2.60**	[4]**7.68**
Return on average assets	**0.72**	**0.88**	**0.99**	**0.93**	**1.02**	**0.96**
Recurring earnings power [5]	**1.28**	**1.43**	**1.38**	**1.30**	**1.51**	**1.40**
Net interest margin	**2.02**	**2.30**	**2.20**	**2.21**	**2.46**	**2.29**
Cost/income ratio (%)	**49.32**	**46.36**	**49.29**	**52.73**	**51.07**	**49.49**
Problem loans % gross loans	**3.43**	**2.66**	**3.08**	**2.56**	**2.43**	**2.81**
Tier 1 ratio (%)	**9.65**	**9.11**	**9.34**	**10.28**	**11.43**	**10.18**

[1] As of June 30. [2] Statement period in which the bank switched to Basel II accounting framework. [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Compound annual growth rate. [5] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a C- bank financial strength rating (BFSR) to Sparebanken Møre, which corresponds to a Baseline Credit Assessment (BCA) of Baa1. The BFSR reflects Sparebanken Møre's sound local franchise and adequate financial fundamentals, but is constrained by its high credit risk concentration and reliance on market funding.

The bank is a leading savings bank in the county of Møre and Romsdal on the west coast of Norway. It has a market share of almost 30% in retail lending and around 20% in corporate lending in the municipalities where it is present. Nationally, the bank has market share of around 1.4% of deposits and less than 1% of lending, as of YE2008.

The global local currency (GLC) deposit rating of A2 assigned to Sparebanken Møre is supported by the bank's Baa1 BCA and the Aaa local currency deposit ceiling of Norway, which is deemed the underlying support provider. Given the bank's importance to its region, and the region's importance to the national economy of Norway, Moody's assesses a high probability of systemic support in the event of a stress situation. Consequently, Sparebanken Møre's GLC deposit rating benefits from a two-notch uplift from its BCA.

Credit Strengths

- Sound market position in Møre and Romsdal

- Satisfactory earnings from the banking operations

- Satisfactory capitalisation

- Almost 60% of lending to retail customers (including loans transferred to Møre Boligkreditt), mostly mortgage loans

Credit Challenges

- Future revenue growth prospects, given the high competition and economic slowdown in Norway

- Credit risk concentrations and strong loan growth in past years, especially in the corporate sector

- Exposure to volatile sectors, including property management, fisheries and the maritime industry

- Maintaining asset quality across the economic cycle

- Reliance on market funding

- Containing cost efficiency as an independent bank

- Developing risk management practices

Rating Outlook

The outlook on the C- BFSR is stable. Based on Moody's global bank financial strength rating methodology, a C- BFSR can be mapped to a Baa1 or a Baa2. In light of the weakened Norwegian economy potential further impairments in financial strength exceeding Moody's base stress assumptions could lead to a reassessment of the BFSR mapping. Lowering of the bank's baseline credit assessment to Baa2 from Baa1 would result in a downgrade of the deposit rating. Therefore, a negative outlook has been assigned to the A2 deposit rating.

What Could Change the Rating - Up

An upgrade of the BFSR or the global local currency (GLC) deposit rating is unlikely given the more challenging operating environment.

What Could Change the Rating - Down

The BFSR could be downgraded if there is: (i) any deterioration in asset quality or capitalisation that exceeds Moody's expectations; or (ii) any sign that the bank is unable to sustain its market positions.

The GLC deposit rating could be downgraded if: (i) the BFSR deteriorates; or (ii) Moody's current assessment of the probability of systemic support for the bank declines.

Recent Results

Sparebanken Møre issued a Tier 1 instrument amounting to NOK277 million (EUR 30 million) in August 2009. This would have improved the bank's Tier 1 ratio by about one percentage point at the end of June 2009.

Sparebanken Møre reported pre-tax profit of NOK480 million (EUR 53 million) in 2008, mainly reflecting higher net interest income given brisk loan growth above 10% over the past three years. However, this trend came to an end in H1 2009 when gross lending declined slightly. In H1 2009, net interest income stood at NOK384 million - similar to the level in H1 2008 - and fee & commission income declined by 8% year-on-year. Operating income improved by almost 50% as a result of unrealised gains on securities. Nevertheless, net income was 8% lower in H1 2009 than in H1 2008 as loan loss provisions increased to NOK53 million (from NOK13 million). As of the end of June 2009, problem loans (defined as commitments in default in excess of three months and other bad and doubtful commitments) accounted for 3.4% of total loans, compared with 2.7% at YE2008.

The bank's total capital and Tier 1 ratios stood at a respective 11.5% and 9.7% (including 50% of result for the period) at the end of June 2009, calculated in accordance with the standard approach under Basel II.

Recent Developments

Although the performance of the Norwegian banking sector has been satisfactory throughout the downturn so far, a weaker economic environment has resulted in deteriorating asset quality, mainly in banks' corporate loan books. Financial investments have also led to earnings volatility. Economic growth in Norway is expected to remain slow and unemployment to increase, albeit from low levels. A turnaround for manufacturing and industry is generally highly dependent on the economic recovery of Norway's trading partners. In addition, the household debt burden remains high, making some households vulnerable to higher unemployment and interest rates.

Moody's expects GDP to contract by around 1% in 2009 and notes that unemployment is rising, albeit from a low base. In the regions of Møre and Romsdal, unemployment is expected to increase to around 4% in 2010.

The Norwegian government has taken measures to support the banking sector. In February 2009, it announced a proposal to establish two funds - a Norwegian State Finance Fund to provide core capital (hybrid or preference capital) to Norwegian banks and the other, a Norwegian State Bond Fund, to invest in fixed-income securities issued by Norwegian banks and other corporates. The banks have until the end of September 2009 to apply for capital from the State Finance Fund. Sparebanken Møre has stated no intention to apply for the government capital.

The government's earlier initiative (in October 2008) was a swap arrangement, whereby banks can swap covered bonds with government bonds to support liquidity. All banks eligible to sign up for Norges Bank's fixed-rate lending facility (F-loans), including Sparebanken Møre, can use the swap arrangement. It amounts to NOK350 billion of issued government bonds and maturities up to five years.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Sparebanken Møre's currently assigned ratings are:

Bank Financial Strength Rating

Moody's assigns a C- BFSR to Sparebanken Møre, which corresponds to a Baa1 BCA. As a point of reference, the assigned score is one notch lower than the outcome of Moody's scorecard.

The score is supported by the bank's solid franchise in its home region and its satisfactory financials. It is also positively affected by the high scores accorded to Norway's benign operating environment and good regulatory practices. As constraining factors, we note high borrower concentration, exposure to volatile corporate sectors and a less-seasoned loan book on the back of double-digit growth in 2006-08. Risk-weighted profitability remained relatively stable in 2008, given the improvement in operating income and the small securities portfolio. However, we note that the problem loan ratio is comparatively high.

Qualitative Factors (50% weighting)

Factor 1: Franchise Value

Trend: Neutral

Sparebanken Møre is a regional savings bank with a sound market position in western Norway in the county of Møre and Romsdal, characterised by high retail and corporate market share and underpinned by a loyal customer base. At YE2008, it had 115,000 active retail customers and 8,000 active corporate customers who are serviced through its 31 branches and online banking facility. According to its reports, the bank has a market share of almost 30% in retail lending and around 20% in corporate lending in 23 municipalities where it is present. In the corporate market, it focuses mainly on the SME sector. The bank is the seventh-largest savings bank in Norway by assets and has national market share of around 1.4% in deposits and less than 1% in lending as at YE2008. The bank has over 400 employees.

The bank's primary segments are corporate, retail, real estate brokerage and leasing. At YE2008, around 60% of its lending was to retail customers including loans transferred to the wholly owned covered bond company Møre Boligkreditt but, in 2008 and 2007, growth was stronger in corporate loans than retail loans. In 2008, about 40% of pre-tax earnings were derived from the retail segment.When adjusting the costs by not including headquarter costs the figure is somewhat higher.

The bank operates as an independent savings bank and under its own brand. Management has opted for an open-architecture business model to enable it to continue to offer a wide range of services without having to bear the financial pressure of producing them itself. The bank has subsidiaries in leasing (Møre Finans AS) and real estate brokerage (Møre Eiendomsmegling AS). In addition, it has established its own covered bond company, Møre Boligkreditt AS.

Sparebanken Møre and Tingvoll Sparebank (a small local savings bank with about NOK1 billion in assets) have agreed on a merger, whereby Sparebanken Møre will acquire the assets and liabilities of Tingvoll Sparebank for a price of NOK120 million (EUR 13 million). The merger is subject to regulatory approval.

The main competitors of Sparebanken Møre are large players DnB NOR and Nordea, as well other local and regional savings banks. We also note that regional savings banks from neighbouring counties have been establishing a presence in the area.

The score for franchise value is C-, which is a combination of the bank's solid market share in the regions in which it operates, but its low geographic diversification and relatively high proportion of earnings from corporate banking.

Factor 2: Risk Positioning

Trend: Neutral

As a Norwegian savings bank, Sparebanken Møre has a specific ownership status, with Equity Certificate (EC) holders instead of shareholders. The main difference between ECs and shares is that ECs give ownership rights to specific parts of a bank's capital. In addition, the governing bodies of a savings bank have a broader representation than a commercial bank. The ECs of Sparebanken Møre are listed on the Oslo Stock Exchange. The ownership of Sparebanken Møre is not concentrated: none of the EC holders have a stake of more than 6% and the 20 largest EC holders owned 30% of the shares as of the end of June 2009.

Sparebanken Møre follows the recommendations of the Oslo Stock Exchange (Norwegian Recommendation of Corporate Governance). The bank's board of directors comprises seven members, including one employee representative. CEO Olav Arne Fiskerstrand is not a member of the board. Mr Fiskerstrand has been at the bank for several years and was appointed to his current position in 1997. Several members of the management group have extensive experience at the bank, but this fact could also be a source of vulnerability if any of them decide to leave. Overall, however, Moody's does not believe there are corporate governance problems at Sparebanken Møre.

Sparebanken Møre's reports under IFRS and the accounts are audited by Ernst & Young. Public disclosure of the bank is relatively good in terms of annual accounts. However, we note that quarterly reports are not as extensive as some of its Nordic peers.

Risk management procedures at the bank are considered satisfactory. The overall guidelines for management and control are assessed at least annually by the board of directors. This assessment includes separate policies for credit risk, market risk and funding risk. The head of risk management is responsible for establishing a controlled environment, in line with these guidelines, and reports to the CEO. In addition, we note that Sparebanken Møre currently applies the standardised approach of Basel II to calculate its credit risk, but is aiming to build a relevant modelling tool to receive the Foundation IRB approval, although the timing of the application is uncertain. The overall risk profile of Sparebanken Møre is satisfactorily managed, but we expect further developments (e.g. in terms of credit risk modelling and risk pricing as well as stress testing). The high risk concentrations in the loan portfolio remain a constraining factor for the score.

Operating in, and supporting, a small geographic region means the bank has concentrated customer exposure: its 20 largest exposures account for over 200% of Tier 1 capital. There is also some industry concentration and we note that the bank has been growing in the corporate sector. Loans to the investment and property management sector represent around 13% of gross loans. Sparebanken Møre also has an appetite for lending to fishing-related industries, an important sector in the regions in which it operates. Fisheries represent around 8% of the bank's gross loans. In addition, the bank has some exposure to the shipping industry. These sectors have historically been characterised by higher volatility and could be a source of vulnerability in the current downturn.

In terms of liquidity, the bank has a satisfactory deposit base, but deposit growth was slower than loan growth in 2008. The bank's aim is to widen the deposit base. Customer deposits account for almost 60% of funding and retail deposits represent more than half of total deposits. The deposit/loan ratio was 60% at the end of June 2009, so the bank is reliant on wholesale funds. Most of the bank's market funding is from the domestic market. The maturity profile of the bank's debt is relatively diversified: around 77% of the market funding has a maturity longer than 12 months (as of the end of May 2009). However, there is some concentration in the long-term funding (in 2012 and 2013).

Sparebanken Møre has established a covered bond company - Møre Boligkreditt - which provides it with an additional source of funding, something that Moody's views favourably. So far, covered bonds have been mainly used in the government swap arrangement, whereby these instruments can be exchanged for government bonds with maturities up to five years. The arrangement has been beneficial for overall liquidity in the Norwegian banking system, but Moody's cautions that it is a temporary arrangement and therefore closely follows the bank's efforts in terms of its funding strategy.

Liquid assets accounted for 10% of total assets at the end of June 2009, including cash and deposits with the central bank and the securities portfolio, which mainly comprises senior bonds of banks and municipalities, as well as some corporate bonds and shareholdings. The bank does not have exposure to structured products. However, we note that holdings are characterised by a concentration in Norwegian securities, which could be a source of vulnerability.

Sparebanken Møre's market risk remains modest. Its exposure to interest rates is limited: interest rate risk at the parent bank was NOK12 million in relation to a 100 bps change in interest rates at YE2008. The portfolio in shares and equity certificates amounted to NOK114 million (EUR 13 million) at end-June 2009, corresponding to around 4% of Tier 1 capital. This figure includes a 1.3% ownership in Eksportfinans. The bank also has limited foreign currency exposure.

High credit risk concentration is a constraining factor in the score for risk positioning and pushes it to C-.

Factor 3: Regulatory Environment

For a discussion about the regulatory environment, please see Moody's Banking System Outlook on Norway, published in November 2008.

Factor 4: Operating Environment

Trend: Neutral

The score for the operating environment takes into account the economic stability, integrity and corruption of a country and its legal system. The score for Norway's operating environment is B+. For a further discussion about the operating environment, please see Moody's latest Banking System Outlook on Norway, published in November 2008.

Quantitative Factors (50% weighting)

Factor 5: Profitability

Trend: Weakening

The bank's profitability, measured as pre-provision profit in relation to risk-weighted assets, declined slightly to 1.9% in H1 2009, compared with 2.1% in 2008. Strong volume growth has boosted net interest income in the past few years but this trend reversed in H1 2009 as the loan portfolio declined slightly. The net interest margin was affected by the low interest environment and decreased to 2.0% in H1 2009 (versus 2.3% in 2008 and 2.2% in 2007).

Sparebanken Møre is reliant on net interest income, which represented around 80% of its operating income in 2008. Fee & commission income grew at a significantly slower pace in 2008 and H1 2009 due to the reduced level of activity in the financial market. Over the past five years, fee & commission income has accounted for around 15% of operating income and is mainly related to fees from credit cards and loans, which Moody's considers a relatively stable source of income. The bank does not have significant trading-related activities (typically carried out on behalf of customers).

Loan loss provisions increased in 2008 and H1 2009. As a result, the bank's overall risk-adjusted profitability has been on a weakening trend since 2007.

We do not expect the bank's profitability to improve in the near term, given the weaker economic outlook and the challenges in terms of asset quality. Higher funding costs are likely to keep pressure on the net interest margin, and competition in Norway is still strong, particularly in the retail sector. Additionally, as noted above, cost containment might prove to be more difficult as an independent bank, which may affect overall profitability in the future.

The profitability score on Moody's scorecard reflects risk-adjusted profitability under Basel II and therefore includes only the profitability ratios for 2008. Sparebanken Møre scores C for profitability.

Factor 6: Liquidity

Trend: Neutral

As discussed above, the bank is reliant on domestic market funding, although it also benefits from a retail-focused deposit base. Liquid assets represent about 10% of total assets which is lower than for the rated Norwegian peers.

We note that recently established Møre Boligkreditt adds covered bonds to the bank's existing funding tools and can be used under the government's swap arrangement in exchange for Norwegian government securities. At the end of June 2009, Møre Boligkreditt had issued covered bonds amounting to NOK3.3 billion (EUR 0.4 billion).

Sparebanken Møre's liquidity score of D+ is in line with those of other Norwegian banks, but is lower than those of its European peers.

Factor 7: Capital Adequacy

Trend: Neutral

Moody's expects that Norwegian banks will experience deterioration in asset quality over the coming quarters which is likely to lead to higher credit-related write-downs, exerting adverse pressure on banks' capitalisation. The anticipated deterioration in asset quality mainly relates to the more challenging outlook for the Norwegian corporate sector and exposures to volatile sectors such as commercial real estate and shipping-related industries. To reflect these expectations, we perform scenario analysis to capture the potential impact on capital. The assumptions behind Moody's scenario analysis are described in more detail in a Special Comment entitled "Moody's Approach to Estimating Nordic Banks' Credit Losses" published on 16 July 2009.

The bank improved its capital base in August 2009 by issuing a Tier 1 instrument amounting to NOK277 million. This would have improved the bank's Tier 1 ratio by about one percentage point at the end of June 2009. We view this positively as it provides the bank with higher capital base to withstand potential credit losses, but note that, in terms of loss absorption, hybrid capital is not as good a quality as pure equity.

We note a decrease in its capital ratios in 2005-08, although the ratios improved somewhat in H1 2009. A reduction in capital ratios reflects high lending growth in recent years. As calculated in accordance with the standard method under Basel II, the Tier 1 ratio was 9.7% at the end of June 2009 (including 50% of profit for the period), compared with 11.4% at YE2005 (according to Basel I). We note that Sparebanken Møre's core capital included NOK200 million in hybrid capital at H1 2009 and has increased by NOK277 million in August 2009. The Tier 1 ratio, excluding hybrid capital, stood slightly below 9% at the end of June 2009.

The board recently updated its minimum capital ratio targets: it now aims for a core capital ratio of 10% (previously 9%) and a total capital ratio of 12% (10%). Moody's regards this change favourably, given the bank's high credit risk concentration and its exposure to a small geographic area.

As of the end of June 2009, the bank had excess capital of NOK1.4 billion to absorb losses. Excess capital, defined as Tier 1 capital above 6% and loan loss reserves, in relation to gross loans corresponds to 3.9%.

Sparebanken Møre applies a standard approach in calculating its capital adequacy requirement for credit risk. Given the bank's large retail loan book, the capital requirement is estimated to be lower under Basel II. However, due to concentration issues, we do not expect the bank to release capital.

The capital adequacy score on Moody's scorecard reflects capital ratios under Basel II and therefore only includes the ratio for 2008. Sparebanken Møre scores B+ for capital adequacy.

Factor 8: Efficiency

Trend: Neutral

The bank's cost/income ratio improved to 46% in 2008, compared with 49% in 2007 and 53% in 2006. This improvement was in contrast to the weakening trends reported by many other Moody's-rated regional savings banks in Norway. However, we note that operating costs, mainly driven by salaries, grew faster than income in H1 2009 - and that the cost/income ratio subsequently deteriorated to 49%. The bank's management targets a cost/income ratio below 50%.

The bank scores B for cost efficiency. However, given the revenue pressure from a more challenging operating environment, we would not expect an improvement in the cost/income ratio in coming years. Higher funding costs are also likely to limit any improvements in cost efficiency.

Sparebanken Møre scores B for efficiency.

Factor 9: Asset Quality

Trend: Weakening

Sparebanken Møre enjoyed net write-backs on loan losses for three consecutive years until 2007, but loan loss provisions were negative in 2008 and continued to increase in H1 2009. Provisions on the income statement accounted for 12% of pre-provision income in financial-year 2008 and for 20% in H1 2009.

At the end of June 2009, problem loans (defined as commitments in default in excess of three months and other bad and doubtful commitments) accounted for 3.4% of gross loans, compared with 2.7% at YE2008. We note that the bank has a higher problem loan ratio than the other Moody's-rated Norwegian banks (especially in terms of bad and doubtful loans), as was also the case in the past. On the other hand, actual losses have remained at a low level in the past five years but we note an increasing trend in recent quarters. We also note that problem loan coverage by loan loss reserves has been declining and reserves currently represent around 30% of problem loans, compared with around 50% in 2006. As a mitigating factor, we note that almost 60% of lending is to the retail sector, mainly in the form of first-priority mortgages. The bank had transferred about 15% of retail loans to Møre Boligkreditt by the end of June 2009.

In addition to some concentration risk in the corporate portfolio, we note a somewhat unseasoned loan portfolio, which reflects high lending growth (an increase of 13% in 2008 and 14% in 2007). The less-seasoned portfolio and exposure to more volatile corporate sectors, including property management, fishing-related industries and the maritime sector, could be a source of vulnerability in the current downturn.

The score for asset quality is D+. The economic environment in Norway, and in the county of Møre and Romsdal, is still satisfactory, but slower economic growth, fewer exports and weaker domestic demand are challenges for the corporate sector. In terms of retail loans, household debt has also increased in recent years. As a mitigating factor, we note that retail mortgage loans are secured by both property and personal liability and that interest rates are low. Based on a more challenging economic outlook, we consider the trend to be weakening.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a GLC deposit rating of A2 to Sparebanken Møre. The rating is supported by its Baa1 BCA and the Aaa local currency deposit ceiling of Norway, which is considered the underlying support provider. Given the bank's importance to its region, and the region's importance to the national economy of Norway, Moody's assesses as high the probability of systemic support in the event of a stress situation.

Foreign Currency Deposit Rating

Foreign currency deposit ratings are unconstrained given that Norway has a country ceiling of Aaa. Sparebanken Møre's foreign currency deposit rating is A2.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model 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 Factors

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Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C	
Factor: Franchise Value						C-	Neutral
Market Share and Sustainability		x					
Geographical Diversification					x		
Earnings Stability			x				
Earnings Diversification [2]							
Factor: Risk Positioning						C-	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			x				
Market Risk Appetite	x						
Factor: Operating Environment						B+	Neutral
Economic Stability			x				
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						C	
Factor: Profitability						C	Weakening
PPP % Avg RWA - Basel II			1.97%				
Net Income % Avg RWA - Basel II			1.22%				
Factor: Liquidity						D+	Neutral
(Mkt funds-Liquid Assets) % Total Assets					27.59%		
Liquidity Management			x				
Factor: Capital Adequacy						B+	Neutral
Tier 1 ratio (%) - Basel II		9.11%					
Tangible Common Equity / RWA - Basel II	8.51%						
Factor: Efficiency						B	Neutral
Cost/income ratio		49.46%					
Factor: Asset Quality						D+	Weakening
Problem Loans % Gross Loans			2.77%				
Problem Loans % (Equity + LLR)				31.70%			
Lowest Combined Score (15%)						D+	
Economic Insolvency Override						Neutral	
Aggregate Score						C	

Assigned BFSR		C-	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral