MOODY'S
INVESTORS SERVICE

Credit Opinion: Sparebanken More

Global Credit Research - 20 Oct 2015

Norway

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)

Contacts

Analyst	Phone
Efthymia Tsotsani/London	44.20.7772.5454
Kim Bergoe/London	
Sean Marion/London	
Maria del Mar Asensio/London	

Key Indicators

Sparebanken More (Consolidated Financials)[1]

	[2]**6-15**	[2]**12-14**	[2]**12-13**	[2]**12-12**	[2]**12-11**	**Avg.**
Total Assets (NOK billion)	**58.9**	**56.3**	**54.6**	**51.6**	**48.5**	[3]**5.0**
Total Assets (EUR million)	**6,719.4**	**6,206.2**	**6,534.5**	**7,037.0**	**6,256.1**	[3]**1.8**
Total Assets (USD million)	**7,486.7**	**7,509.8**	**9,004.2**	**9,277.6**	**8,121.4**	[3]**-2.0**
Tangible Common Equity (NOK billion)	**4.8**	**4.8**	**4.4**	**3.7**	**3.2**	[3]**10.5**
Tangible Common Equity (EUR million)	**542.0**	**526.8**	**529.1**	**503.8**	**411.9**	[3]**7.1**
Tangible Common Equity (USD million)	**603.9**	**637.4**	**729.0**	**664.2**	**534.7**	[3]**3.1**
Problem Loans / Gross Loans (%)	**0.7**	**0.8**	**1.1**	**1.3**	**1.9**	[4]**1.2**
Tangible Common Equity / Risk Weighted Assets (%)	**14.6**	**13.3**	**13.2**	**11.5**	**10.4**	[5]**12.6**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**7.4**	**7.7**	**11.3**	**14.5**	**21.9**	[4]**12.6**
Net Interest Margin (%)	**1.9**	**2.0**	**2.0**	**1.9**	**2.0**	[4]**1.9**
PPI / Average RWA (%)	**2.3**	**2.2**	**2.0**	**2.6**	**1.9**	[5]**2.2**
Net Income / Tangible Assets (%)	**0.9**	**1.0**	**0.8**	**1.1**	**0.8**	[4]**0.9**
Cost / Income Ratio (%)	**43.2**	**43.1**	**45.9**	**35.0**	**48.4**	[4]**43.1**
Market Funds / Tangible Banking Assets (%)	**37.2**	**37.6**	**36.7**	**36.0**	**36.8**	[4]**36.8**
Liquid Banking Assets / Tangible Banking Assets (%)	**12.0**	**10.9**	**13.4**	**13.0**	**14.0**	[4]**12.7**
Gross Loans / Total Deposits (%)	**163.1**	**170.0**	**159.5**	**147.8**	**135.4**	[4]**155.1**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns Sparebanken More a baseline credit assessment (BCA) of baa1, a long term deposit rating A2 and a short term obligation rating of Prime-1.

Sparebanken More's BCA of baa1 is supported by our expectation of ongoing improvement in the bank's asset quality and resilience in the face of the ongoing slowdown in the operating environment. In addition we expect that the bank's strong capital metrics are likely to improve further, given management's intention to increase capital buffers through greater earnings retention. The bank's A2 deposit rating takes into account the baa1 BCA as well as our Loss Given Failure (LGF) analysis of the bank's own volume of deposits and debt, and the volume of securities subordination to them.

Rating Drivers

- Sparebanken More's BCA is supported by its Very Strong- macro profile

- Strong capital metrics

- Asset quality is strong albeit exposed to cyclical industries and credit concentration

- Limited upside on profit margins and uncertainties regarding provisioning levels

- Substantial deposit base and improving quality of market funding sources

- Large volume of deposits and junior debt resulting in deposit ratings benefiting from a very low loss-given-failure rate and a two-notch uplift from the BCA.

Rating Outlook

The stable outlooks on the bank's long-term senior debt and deposit ratings reflect our view that the bank's financials will remain broadly resilient in the face of the current modest slowdown in Norway's still strong economic performance.

What Could Change the Rating - Up

Upward rating momentum could develop if Sparebanken More demonstrates (1) continued good asset performance in its retail and corporate books, including in the more volatile segments, (2) continued good access to capital markets and further issuance of LCR eligible covered bonds, as well as improved liquidity, and/or (3) stronger earnings generation without a material increase in risk profile.

What Could Change the Rating - Down

Future downward rating pressure would emerge if (1) Sparebanken More's problem loan ratio increases above our system wide expectation of approximately 2%, (2) financing conditions become more difficult and/or (3) the bank's risk profile increases as a result of increased exposures to more volatile sectors, for example if CRE concentration as a percent of Core Tier 1 Capital exceeds 150%, or if the quality of oil related portfolio deteriorates on the back of lower oil prices and/or (4) the macroeconomic environment deteriorates more than currently anticipated, leading to a lower macro profile and net profitability falling to below 0.7% of tangible assets.

DETAILED RATING CONSIDERATIONS

SPAREBANKEN MORE'S BCA IS SUPPORTED BY ITS VERY STRONG- MACRO PROFILE

As a purely domestic bank, Sparebanken More's operating environment and hence the bank's Macro Profile is aligned with that of Norway at Very Strong-. Norwegian banks benefit from operating in an affluent and developed country with very high economic, institutional and government financial strength as well as low susceptibility to event risk. The main risks to the system stem from high level of household indebtedness and domestic banks' reliance on market funding. However, these risks are offset by the strength of households' ability to service debt, banks' adequate capitalisation and the relatively small size of the banking system compared to GDP.

STRONG CAPITAL METRICS

In line with many Norwegian savings banks, Sparebanken More has improved its capital ratios in accordance with the increasing regulatory capital requirements (11% Common Equity Tier 1 ratio as of July 2015).

Sparebanken More reported a Tangible Common Equity (TCE)-to-risk weighted assets (RWA) ratio of 14.6 % at June 2015 (including 50% of earnings), compared to 13.3% at year-end 2014, and we expect this metric to improve over the medium term, as the bank's Board of Trustees approved 57% of the year's profit to be retained. We view such capital-enhancing measures positively, as they increase the bank's buffer against potential losses. Sparebanken More's assigned capital score reflects the bank's TCE-to-tangible banking assets ratio of 8.1% at end-June 2015 (8.5% at year-end 2014), which is well within international standards, and its increasing trend.

ASSET QUALITY IS STRONG ALBEIT EXPOSED TO CYCLICAL INDUSTRIES AND CREDIT CONCENTRATION

Sparebanken More's reported problem ratio (impaired loans as a percentage of total loans) declined to 0.7% at end-June 2015 from 0.8% at year-end 2014 and 1.15% at end-December 2013, continuing the steady downward trend from its peak at 3.1% at year-end 2007. The problem loan ratio reported for 2015 is below most other Moody's-rated Norwegian savings banks, although historically it has been somewhat higher.

Sparebanken More's asset risk score indicates that overall, asset risk remains a relative strength for the bank, albeit that the bank remains substantially exposed to sectors that we view as more volatile: the real estate sector (property management and construction, accounting for almost 13% of total loans at December 2014), fishing-related industries (primarily fishing vessels and exposures backed by fishing quotas, around 7%), and shipping (around 3%). Exposures to these sectors have accounted for a substantial portion of Sparebanken More's problem loans in recent years, and we note the risk that declining oil and gas prices and falling investment levels could trigger a mild asset quality deterioration from the currently strong current position.

As a mitigant, Sparebanken More's loan portfolio is well diversified, with retail customers accounting for over 65% of the bank's lending, mainly in the form of mortgages. At December 2014, almost 50% of these retail loans had been transferred to the bank's wholly-owned covered bond company More Boligkreditt. In addition, given that Sparebanken More operates in only one region, the bank's loan portfolio exhibits significant single-borrower concentration - and whilst this is a common feature at Nordic banks, it could accelerate the extent and pace of any deterioration in asset quality.

LIMITED UPSIDE ON PROFIT MARGINS, AND UNCERTAINTIES REGARDING PROVISIONING LEVELS

Net interest income, which has represented around 80% of operating income in recent years, is Sparebanken More's main source of revenue. The growth of NII fell to 5% in 2014, compared to 11% in 2013, reflecting lower interest rates combined with strong competition for both loans and deposits towards the second half of 2014.

Sparebanken More's efficiency supports its profitability; the bank's cost-to-income ratio was just above 40% as at end-June 2015 at 43.2% unchanged from year-end 2014 as per Moody's calculations. This meets the management's target ratio of below 50%, and ranks favourably among Moody's-rated Norwegian regional savings banks. In 2014, loan loss provisions were low with cost of risk at 0.05% of loans (0.12% in 2013) and in 2015 the bank continued to post low loan provisions (0.06% end-June 2015) in line with the rest of the Norwegian savings banks. However, we note that the bank's relatively high exposure to more volatile segments such as construction, real estate and shipping heightens uncertainty over the longer term sustainability of these low levels.

The bank's net income-to-tangible banking assets ratio has averaged 0.9% over the last three years, in line with most regional savings banks, but given uncertainty over the level of provisions and additional margin pressure, we expect this metric to be somewhat lower over the next 12 months which is reflected in our profitability score.

SUBSTANTIAL DEPOSIT BASE AND IMPROVING QUALITY OF MARKET FUNDING SOURCES

Sparebanken More's funding position is underpinned by a strong deposit base, of which 60% are retail deposits, which accounts for just under 60% of total funding. Market funding accounted for just over 37% of the bank's tangible banking assets at end-December 2014, and has been stable in recent years. Our funding structure score indicates that the overall funding profile remains a modest fundamental weakness for Sparebanken More because of the inherent confidence sensitivity of this funding source.

At December 2014, almost 65% of market funds were in the form of covered bonds issued through More Boligkreditt. Whilst we view positively the diversification benefit and the typically longer maturity of these funding instruments, we note the risk that extensive use of covered bond funding could result in the structural subordination of Sparebanken More's unsecured creditors, including depositors. Nevertheless we view recent bigger size issuance positively because of its eligibility under liquidity coverage ratio (LCR) rules.

At end- December 2014, liquid assets accounted for around 11% of tangible banking assets in line with other Norwegian peers, including cash and deposits with the central bank and the 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).

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

Norway is in the process of introducing legislation to implement the EU Bank Resolution and Recovery Directive (BRRD). 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 Preliminary Rating Assessment (PRA) of 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 we estimate it commands market shares of 18% for lending and just over 32% for deposits. However, its national market share is limited at just above 1% of loans and 1.5% on deposits. Therefore we now expect a low probability of government support for deposits, resulting to no 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.

Foreign Currency Deposit Rating

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

Foreign Currency Debt Rating

Foreign-currency senior unsecured debt ratings are unconstrained given that Norway has a country ceiling of Aaa. Sparebanken More's foreign currency senior unsecured debt rating is A2

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Sparebanken More

Macro Factors	
Weighted Macro Profile	Very Strong -

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.0%	aa2	←→	a3	Geographical concentration	Sector concentration
Capital						
TCE / RWA	14.6%	aa3	←→	aa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.9%	baa1	←→	baa1	Expected trend	
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	37.6%	ba2	←→	ba1	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	10.9%	baa3	←→	baa3	Stock of liquid assets	
Combined Liquidity Score		ba1		ba1		

Financial Profile	**baa1**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Aaa
Scorecard Calculated BCA range	**a3 - baa2**
Assigned BCA	**baa1**
Affiliate Support notching	**0**

Adjusted BCA				baa1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	2	0	a2	0	A2	A2

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 http://www.moodys.com for the most updated credit rating action information and rating history.

cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's 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 SUCH RATING OR 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 rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

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 657AFSL 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 clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

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 rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.