MOODY'S INVESTORS SERVICE

CREDIT OPINION

8 February 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

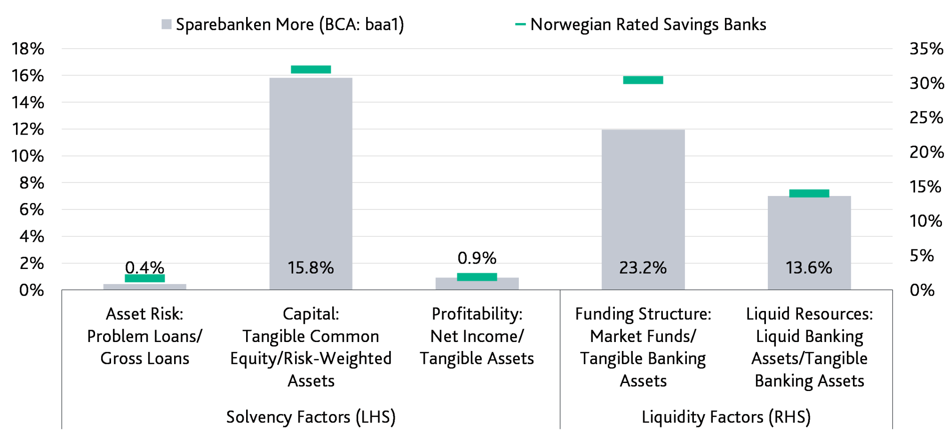
Summary Rating Rationale

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. Although Sparebanken More has a robust market position in western Norway, in the county of More og Romsdal where it commands an approximate 29% market share in retail deposits, its national market share is limited at 1.2% of loans and 1.4% on deposits. We have also assigned a Counterparty Risk Assessment (CR Assessment) of A1(cr)/P1 (cr).

Sparebanken More's baa1 BCA reflects the strong macroeconomic environment in Norway, its sizeable capital buffers and similar to peers asset quality metrics despite sizeable deterioration in 2016. 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- as of September 2016



Source: Moody's Banking Financial Metrics

Note: Sparebanken More's key financial fundamentals as of December 2016 are discussed in the body of the report and have been considered in our opinion. The exhibits, however, have been created using More's and other banks' September 2016 financials. These exhibits will be updated when all banks have reported results as of December and our standard adjustments have been made, to allow for comparability.

Credit Strengths

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

» Sizeable capital buffers offering protection against unforeseen losses

» Despite sizeable deterioration, 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 against the current softening in Norway's economic performance.

Factors that Could Lead to an Upgrade

Upward rating momentum could develop if Sparebanken More demonstrates:

» Improved asset quality metrics and contains 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 problem loan ratio increases above our system-wide expectation of approximately 2%, or the bank'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 and net profitability falling to below 0.4% of tangible assets

» 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]

	9-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[2]	Avg.
Total Assets (NOK billion)	61.8	60.1	56.3	54.6	51.6	4.6[3]
Total Assets (EUR million)	6,879.5	6,252.6	6,206.2	6,534.5	7,037.0	-0.6[3]
Total Assets (USD million)	7,731.2	6,792.2	7,509.8	9,004.2	9,277.6	-4.5[3]
Tangible Common Equity (NOK billion)	5.2	5.0	4.8	4.4	3.7	8.8[3]
Tangible Common Equity (EUR million)	576.7	518.1	526.8	529.1	503.8	3.4[3]
Tangible Common Equity (USD million)	648.1	562.9	637.4	729.0	664.2	-0.6[3]
Problem Loans / Gross Loans (%)	0.4	0.5	0.8	1.1	1.3	0.8[4]
Tangible Common Equity / Risk Weighted Assets (%)	15.8	15.4	13.3	13.2	11.5	13.8[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.1	4.6	7.7	11.3	14.5	8.4[4]
Net Interest Margin (%)	1.8	1.9	2.0	2.0	1.9	1.9[4]
PPI / Average RWA (%)	2.2	2.1	2.2	2.0	2.6	2.2[5]
Net Income / Tangible Assets (%)	0.9	0.8	1.0	0.8	1.1	0.9[4]
Cost / Income Ratio (%)	44.6	45.1	43.1	45.9	35.0	42.7[4]
Market Funds / Tangible Banking Assets (%)	23.2	26.2	25.1	24.1	36.0	26.9[4]
Liquid Banking Assets / Tangible Banking Assets (%)	13.6	11.9	10.9	13.4	13.0	12.6[4]
Gross loans / Due to customers (%)	161.0	175.7	173.3	165.8	161.5	167.5[4]

[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

Source: Moody's Financial Metrics

Detailed Rating Considerations

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

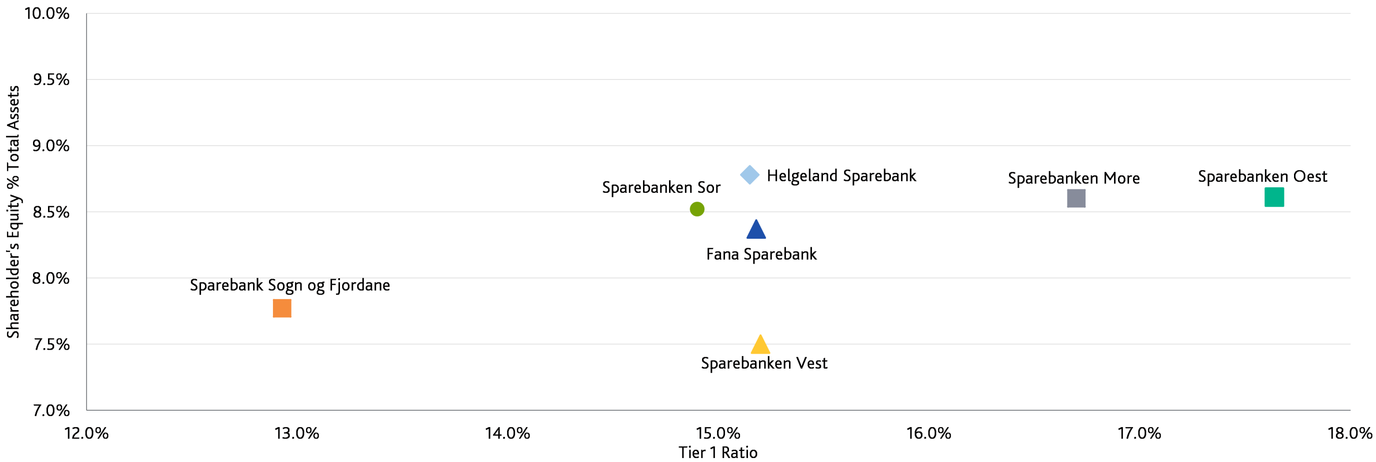
As a domestically oriented bank, Sparebanken More's operating environment and hence the bank's Macro Profile is aligned with that of Norway at Very Strong-. Norwegian banks benefit from operating in an affluent and developed country with very high economic, institutional and government financial strength, as well as low susceptibility to event risk. Although at a somewhat slower rate, the country's well diversified economy is growing, demonstrating 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 largely offset by the strength of households' ability to service debt, banks' sizeable capital buffers and the relatively small size of the banking system compared with GDP.

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 December 2016, Sparebanken More's Common Equity Tier 1 capital ratio was 14.7% (Dec 2015: 14.1%), while its Tier 1 ratio was 17% (Dec 2015: 16.6%), reflecting NOK800 million of perpetual hybrid securities. Sparebanken More's capital metrics are above the regulatory minimum and the internal set minimum capital target. In the fourth quarter of 2016, the Norwegian Financial Supervisory Authority (FSA) set 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 NOK25 million at the end of 2016. Sparebanken More's high leverage ratio at 8.5% as of December 2016 also points to the bank's high capital buffers.

Sparebanken More's capital metrics improved over 2016, reflecting both earnings retention (the payout ratio was contained to 50% in 2015 and 49% is proposed for 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

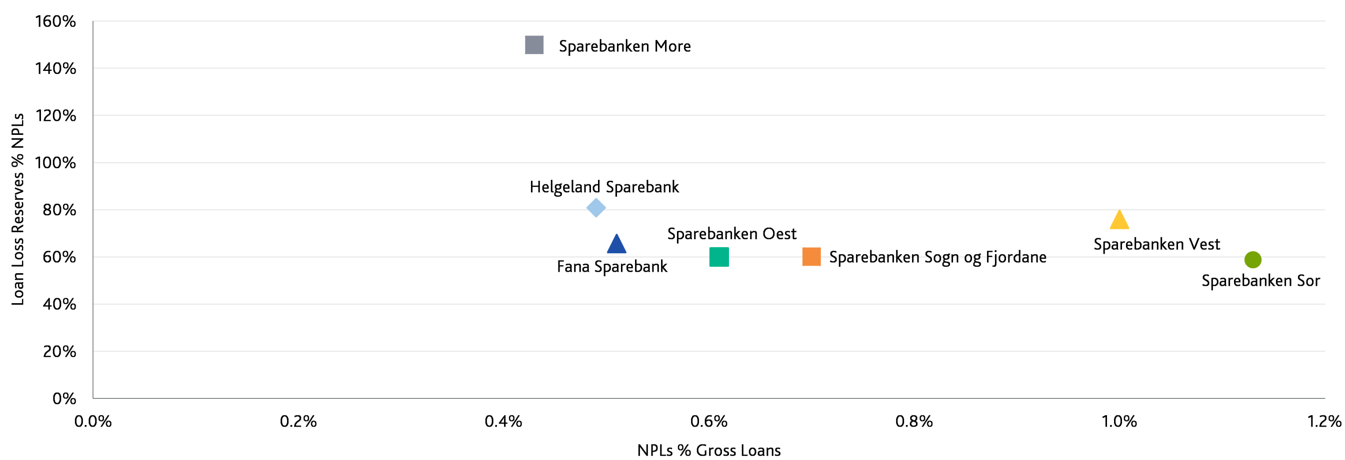


Data as of September 2016
Source: Moody's Banking Financial Metrics

DESPITE THE SIZEABLE DETERIORATION, SPAREBANKEN MORE'S ASSET QUALITY METRICS ARE IN LINE WITH PEERS

Sparebanken More's strong asset quality metrics are in-line with peers. The ratio of non-performing loans to gross loans increased to 1.15% as of December 2016 after declining to a historic low of 0.43%, as of September 2016 (YE2015: 0.49%). At the same time, as of December 2016, the ratio of loan loss reserves to non-performing loans declined to around 60%, in-line with peers from very high levels of 150% in September 2016.

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



Data as of September 2016
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 70% of the bank's total portfolio as of December 2016. The balance, loans to local businesses, is broadly diversified across sectors. Sparebanken More's exposure to the oil-related offshore sector, which is currently under pressure, is small at around 2.1% of gross loans, while the bank has also reduced exposure, around 4.3% of gross loans, to fishing-related industries and stands to benefit from the sector's ongoing strong performance. During the course of 2017 the bank expects growth in lending within the retail market will slowdown somewhat, while the growth in the corporate market is expected to increase.

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% of gross loans, which combined with its large mortgage book make Sparebanken More vulnerable to a potential decline in real estate prices, which have increased by around 70% on a national level since 2009. In addition, the bank's relatively high single borrower concentration make it vulnerable to a potential default by one of these large customers. To reflect these risks, we adjust Sparebanken More's asset risk score to a2 from aa1.

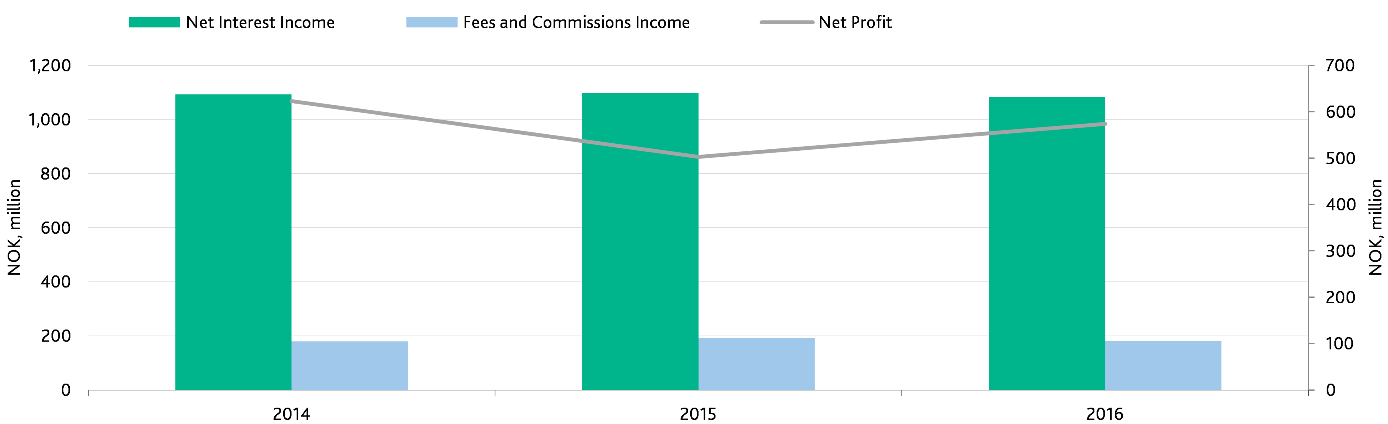
PROFITABILITY WILL BE PRESSURED BY LOW INTEREST RATES AND HIGHER CREDIT COSTS

Sparebanken More's return on assets increased to 0.94% as of December 2016, from 0.76% in December 2015, reflecting one-off gains driven by the sale of Visa Europe to Visa Inc and a decline in loan impairments, despite the asset quality deterioration. Net interest income remains as Sparebanken More's main source of revenue which has accounted for around 79% of the bank's operating income in 2016, compared to 84% in 2015. The bank's net interest margin declined to 1.76% as of September 2016, from 1.88% in December 2015 and 2.0% in December 2014. 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 43% at end-December 2016, unchanged compared to 2015, remains still among the lowest of domestic peers and below the bank's 45% target. In 2016 operating costs increased by 4% to NOK 586 million. The increase was driven by changes to the Bank's pension scheme that reduced personnel costs by NOK24 million in 2015.

Exhibit 5

In 2016 Sparebanken More increases net profits while net interest and fee and commission income remain stable



Source: Company reports

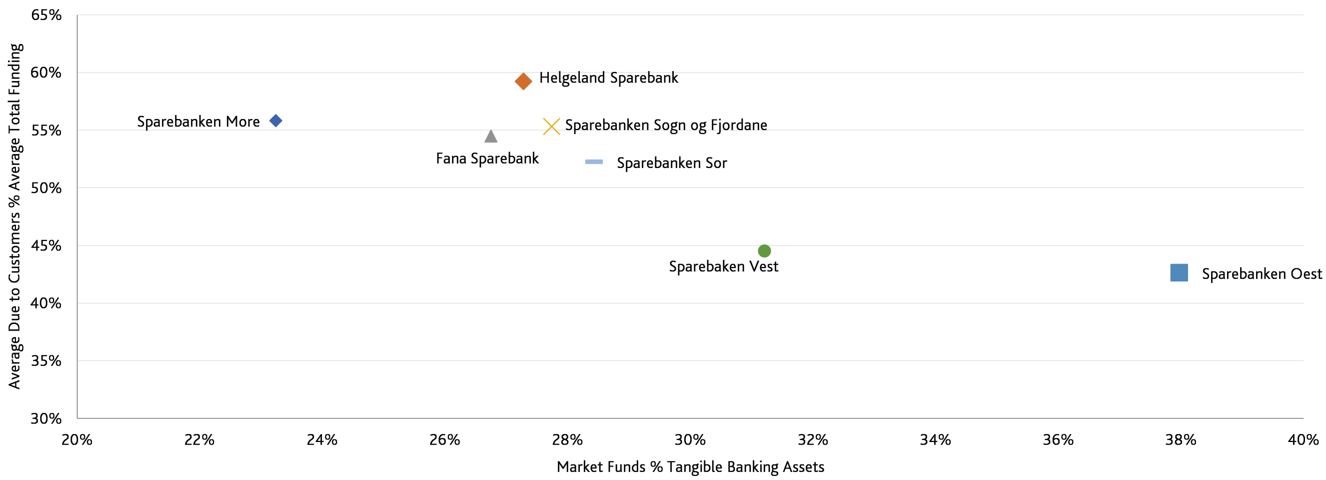
For 2016, Sparebanken More reported net income of NOK574 million, 14% higher compared to the NOK503 million profit reported for the same period in 2015. This was mainly driven by gains on financial investments and lower impairments. Provisions for 2016 declined to NOK22 million from NOK50 million last year while the net return from financial investments increased to NOK 99 million reflecting the sale of Visa Europe to Visa Inc, from NOK 12 million in 2015.

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 59% of funding as of December 2016 and 61% of gross loans, 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 23.2% as of September 2016. The majority of market funds, around 60% as of September 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.

Exhibit 6

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



Data as of September 2016

Source: Moody's Banking Financial Metrics

Sparebanken More maintains good liquidity buffers that are broadly in line with peers. As of September 2016, the ratio of liquid assets to tangible banking assets was 13.6% (Dec 2015: 12%). The bank's liquid assets are of high quality and are all investment grade: 88% are Aaa. Besides cash and due from banks (2% of tangible banking assets), 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).

Notching 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 we estimate it commands market shares of 18% for lending and just over 30% for deposits. However, its national market share is limited at around 1% of loans and 1.3% 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%**

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	0.7%	aa1	↓	a2	Geographical concentration	Sector concentration
Capital						
TCE / RWA	15.8%	aa2	←→	aa2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.9%	baa1	←→	baa2	Expected trend	
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	26.2%	baa2	←→	ba1	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.9%	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	20,828	33.7%	24,128	39.1%
Deposits	32,350	52.4%	29,050	47.1%
Preferred deposits	23,939	38.8%	22,742	36.8%
Junior Deposits	8,411	13.6%	6,308	10.2%
Senior unsecured bank debt	5,398	8.7%	5,398	8.7%
Dated subordinated bank debt	1,312	2.1%	1,312	2.1%
Equity	1,852	3.0%	1,852	3.0%
Total Tangible Banking Assets	61,740	100%	61,740	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus 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	24.1%	24.1%	24.1%	24.1%	3	3	3	3	0	a1 (cr)
Deposits	24.1%	5.1%	24.1%	13.9%	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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