MOODY'S
INVESTORS SERVICE

CREDIT OPINION
8 August 2016

Update

Rate this Research

RATINGS

Sparebanken More

Domicile	Norway
Long Term Rating	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

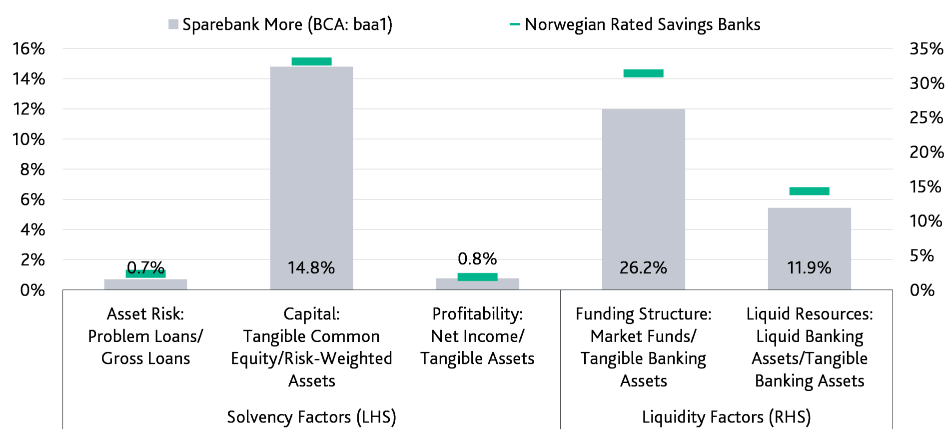
Credit Opinion - Regular Update

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 our expectation that the bank will maintain its strong asset quality metrics despite the softening economic conditions. 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
Financial Profile Key Factors



Source: Moody's Banking Financial Metrics

Credit Strengths

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

» Sizeable capital buffers offering protection against unforeseen losses

» We expect that the bank will maintain its strong asset quality despite the softening in economic activity

» 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 resilient 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:

» Continued strong 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]

	3-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[2]	Avg.
Total Assets (NOK billion)	60.1	60.1	56.3	54.6	51.6	3.9[3]
Total Assets (EUR million)	6375.0	6252.6	6206.2	6534.5	7037.0	-2.4[3]
Total Assets (USD million)	7264.7	6792.2	7509.8	9004.2	9277.6	-5.9[3]
Tangible Common Equity (NOK billion)	4.9	5.0	4.8	4.4	3.7	7.1[3]
Tangible Common Equity (EUR million)	516.9	518.1	526.8	529.1	503.8	0.6[3]
Tangible Common Equity (USD million)	589.0	562.9	637.4	729.0	664.2	-3.0[3]
Problem Loans / Gross Loans (%)	0.4	0.5	0.8	1.1	1.3	0.8[4]
Tangible Common Equity / Risk Weighted Assets (%)	14.8	15.4	13.3	13.2	11.5	13.6[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 (%)	1.7	1.9	2.0	2.0	1.9	1.9[4]
PPI / Average RWA (%)	1.9	2.1	2.2	2.0	2.6	2.2[5]
Net Income / Tangible Assets (%)	0.8	0.8	1.0	0.8	1.1	0.9[4]
Cost / Income Ratio (%)	48.4	45.1	43.1	45.9	35.0	43.5[4]
Market Funds / Tangible Banking Assets (%)	25.9	26.2	25.1	24.1	36.0	27.5[4]
Liquid Banking Assets / Tangible Banking Assets (%)	11.3	11.9	10.9	13.4	13.0	12.1[4]
Gross loans / Due to customers (%)	174.1	175.7	173.3	165.8	161.5	170.1[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.

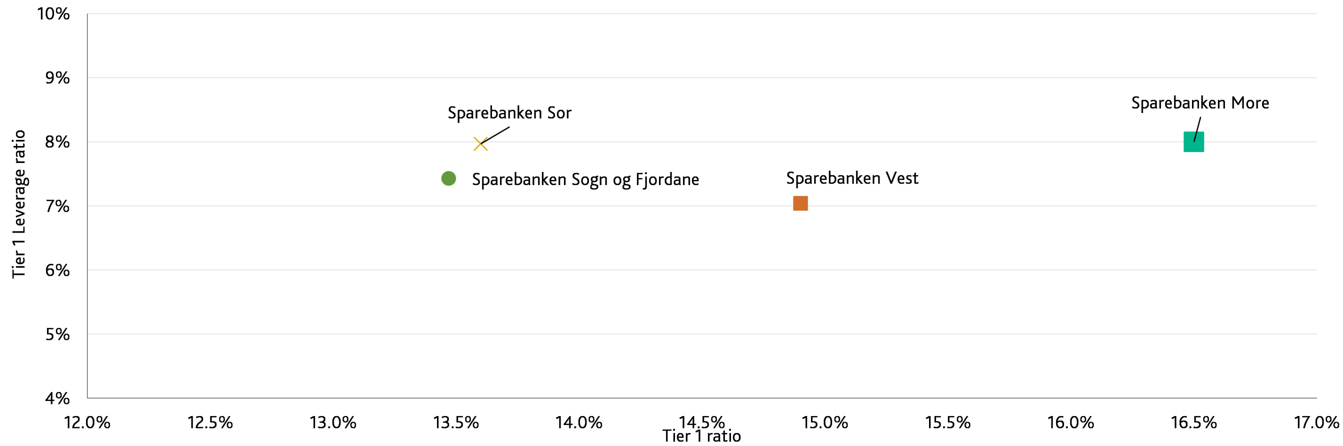
SIZEABLE CAPITAL BUFFERS OFFERING PROTECTION AGAINST UNFORESEEN LOSSES

In line with many Norwegian savings banks, Sparebanken More has increased its capital ratios in accordance with the higher regulatory capital requirements. As of March 2016, Sparebanken More's Common Equity Tier 1 capital ratio was 14.2% (Dec 2015: 14.1%), while its Tier 1 ratio was 16.6% (Dec 2015: 16.6%), reflecting NOK834 million ($100 million) of perpetual hybrid securities. Sparebanken More's capital metrics are above the regulatory minimum of an 11.5% Common Equity Tier 1 ratio as of July 2016. Although the 11.5% minimum does not include additional capital requirements under Pillar II, the bank aims to maintain its Common Equity Tier1 ratio above 13.5% allowing for a 2% buffer. Sparebanken More's high leverage ratio at 8.0% as of March 2016, above its domestic peers, also points to the bank's high capital buffers.

Sparebanken More's capital metrics improved over 2015, reflecting both earnings retention (the payout ratio was contained to 48% in 2014 and 50% in 2015), as well as the adoption of the internal ratings based approach to calculate risk-weighted assets. As a result of the transition to the internal ratings based approach, Sparebanken More's ratio of risk-weighted assets to total assets declined to 54% in December 2015, from 64% in December 2014.

Exhibit 3

Sparebanken More has strong capital metrics



Data as of March 2016

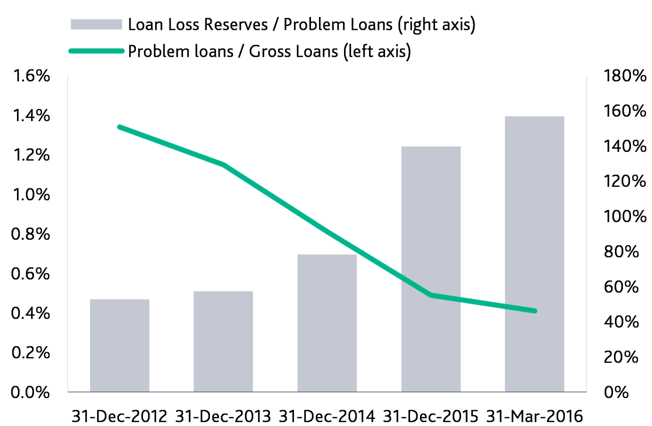
Source: Moody's Financial Metrics

WE EXPECT THAT SPAREBANKEN MORE WILL MAINTAIN ITS STRONG ASSET QUALITY METRICS DESPITE THE SOFTENING IN ECONOMIC ACTIVITY

Sparebanken More's strong asset quality metrics have benefitted from the good operating environment in recent years, as well as the bank's good risk governance. The ratio of non-performing loans to gross loans declined to an historic low of 0.41%, as of March 2016, from 0.49% in December 2015 and 0.81% in December 2014 and is amongst the lowest reported by Norwegian savings bank. At the same time, the ratio of loan loss reserves to non-performing loans was 157%, providing the bank with significant buffers against a deterioration in asset quality.

Exhibit 4

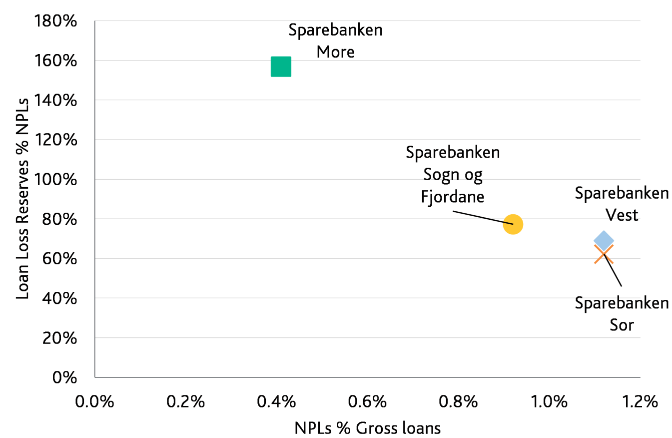
Sparebanken More's asset quality metrics have improved significantly in recent years



Source: Moody's Financial Metrics

Exhibit 5

...and compare favorably with its domestic peers



Data as of March 2016

Source: Moody's Financial Metrics

Similar to other Norwegian savings banks, Sparebanken More's loan book is focused on retail loans, mainly mortgages. Retail lending accounted for close to 68% of the bank's total portfolio as of March 2016. The balance, loans to local businesses, is broadly diversified across sectors. Positively, Sparebanken More's exposure to the oil-related offshore sector, which is currently under pressure, is small at around 2.2% of gross loans, while the bank has a relatively high exposure, around 7.1% of gross loans, to fishing-related industries and stands to benefit from the sector's ongoing strong performance. Seafood exports in Norway grew by 25% year-on-year in the first three months of 2016, following 8% growth in 2015 (see Norwegian Banks Will Benefit From Growing Seafood Exports, published 11 July 2016).

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 12.7% 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% 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 REMAIN UNDER PRESSURE FROM LOW INTEREST RATES AND A SMALL UPTICK IN CREDIT COSTS

In line with peers, Sparebanken More's return on assets declined to 0.77% as of December 2015, from 1.0% in December 2014, reflecting the low interest rate environment and strong competition. The growth of net interest income, Sparebanken More's main source of revenue which has accounted for around 84% of the bank's operating income in recent years, fell to 0.5% in 2015, compared to 5% in 2014. The bank's net interest margin declined to 1.88% as of December 2015, from 2.00% 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 re-price some of its business loans upwards.

Sparebanken More's strong efficiency supports its profitability; the bank's cost-to-income ratio, adjusted to eliminate the artificial smoothing of the bank's defined benefit plan[1], was 45.1% at end-December 2015, amongst the lowest of domestic peers. Although the ratio increased to 48.4%, this also reflects lower interest income owing to making the annual contribution to the Norwegian deposit guarantee fund in Q1 2016. Management is confident the 45% target will be met by year-end.

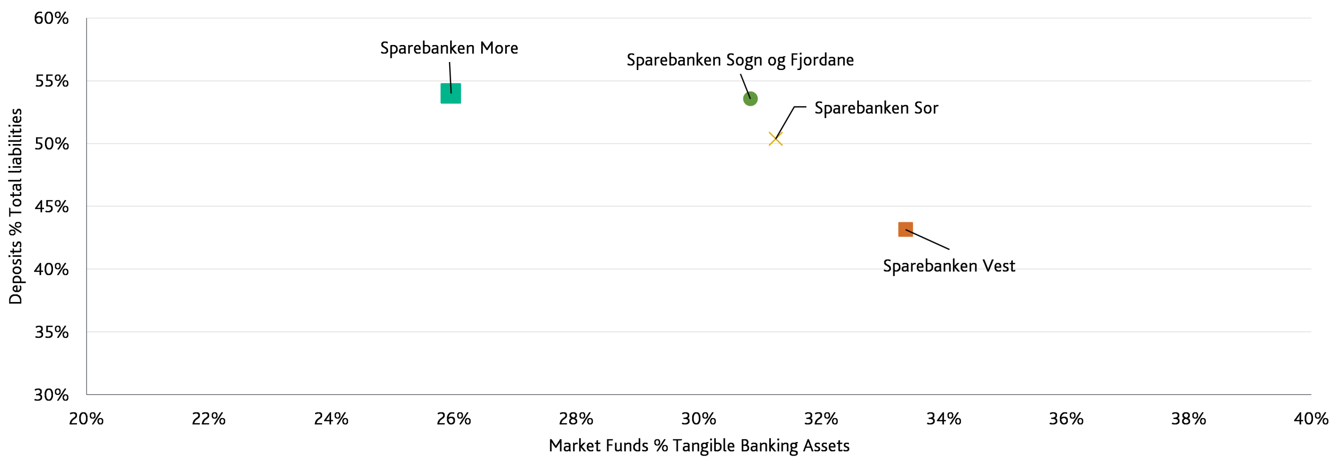
For the first three months of 2016, Sparebanken More reported net income of NOK120 million ($14.4 million), slightly lower than the NOK122 million profit reported for the same period in 2015. This was owing to lower interest income, and fees and commissions, and despite flat expenses and NOK2 million of recoveries from previously provisioned amounts. However, although net interest income was 2% lower year-on-year, we note that it includes Sparebanken More's contribution to the Norwegian deposit guarantee fund for the entire year as mentioned above, following instructions from the regulator.

In 2015, loan loss provisions increased significantly, with cost of risk at 0.10% of loans (0.05% in 2014), as the bank proactively increased its general provisions against exposures in the more vulnerable sectors, expecting more challenging credit conditions. Despite the recoveries in the first quarter of 2016, we expect that credit costs will normalise for the year.

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 54% of funding as of March 2016 and around 57% 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 25.95% as of March 2016. The majority of market funds, around 60% as of December 2015, 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
Sizeable, though lower than peers, market funding reliance



Data as of March 2016
Source: Moody's Financial Metrics

Sparebanken More maintains good liquidity buffers that are broadly in line with peers. As of March 2016, the ratio of liquid assets to tangible banking assets was 11.6% (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 8

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	14.8%	aa3	←→	aa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.8%	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		

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 9

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

Endnotes

1 See Financial Statement Adjustments in the Analysis of Financial Institutions, Feb 2016 for a more detailed description of Moody's standard adjustments

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