MOODY'S
INVESTORS SERVICE

CREDIT OPINION
12 December 2018

Update

Rate this Research

RATINGS

Sparebanken More

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
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

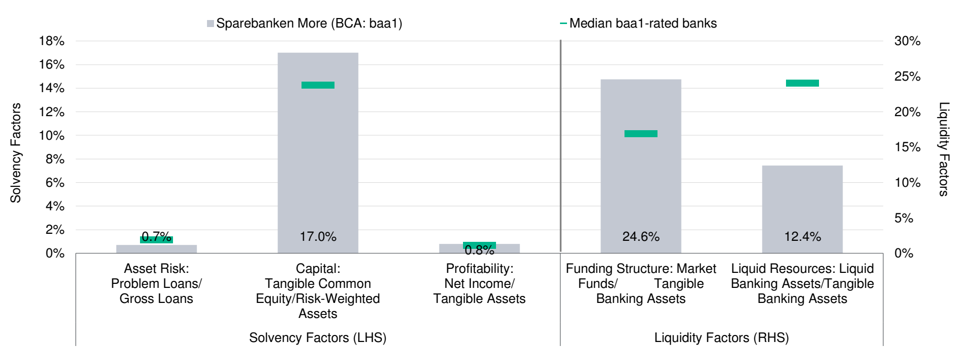
Update to credit analysis

Summary

Sparebanken More's A2 long-term issuer and deposit ratings, both carrying stable outlook, are driven by its baa1 baseline credit assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis, which results in a two-notch rating uplift. The uplift reflects the protection to Sparebanken More's senior creditors resulting from the volume of deposits and debt available to share losses, as well as from the volume of securities subordinated to them. Sparebanken More's A2 deposit ratings do not benefit from government support, reflecting our assumption of a "Low" likelihood of support given its limited national market share of 1.2% of total loans and 1.4% of total deposits as of September 2018[1]. Sparebanken More short-term deposit rating is Prime-1, its Counterparty Risk Ratings (CRR) are A1/Prime-1, and its Counterparty Risk Assessment (CR Assessment) is A1(cr)/Prime-1(CR).

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

Exhibit 1
Key Financial indicators



These represent our Banks methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three year average and the latest annual figure. Capital ratio is the latest reported figure. Funding structure and liquid resource ratios reflect the latest fiscal year-end figures.
Source: Moody's Banking Financial Metrics

Credit strengths

» Sizeable capital buffers offering protection against unforeseen losses

» Asset quality metrics are in-line with peers

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

Credit challenges

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

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

Outlook

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

Factors that could lead to an upgrade

Upward rating momentum could develop if Sparebanken More demonstrates:

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

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

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

Factors that could lead to a downgrade

Future downward rating pressure would emerge if:

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

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

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

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

Key indicators

Exhibit 2

Sparebanken More (Consolidated Financials) [1]

	9-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (NOK billion)	70	66	62	60	56	5.9[4]
Total Assets (EUR million)	7,388	6,770	6,784	6,253	6,206	4.8[4]
Total Assets (USD million)	8,581	8,129	7,156	6,792	7,510	3.6[4]
Tangible Common Equity (NOK billion)	5.8	5.6	5.3	5.0	4.8	5.5[4]
Tangible Common Equity (EUR million)	618	571	589	518	527	4.4[4]
Tangible Common Equity (USD million)	718	686	621	563	637	3.2[4]
Problem Loans / Gross Loans (%)	0.6	0.6	1.2	0.5	0.8	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.0	16.3	16.2	15.4	13.3	15.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.7	5.7	10.7	4.6	7.7	6.9[5]
Net Interest Margin (%)	1.7	1.7	1.8	1.9	2.0	1.8[5]
PPI / Average RWA (%)	2.3	2.2	2.2	2.1	2.2	2.2[6]
Net Income / Tangible Assets (%)	0.9	0.8	0.9	0.8	1.0	0.9[5]
Cost / Income Ratio (%)	42.8	43.9	44.4	45.1	43.1	43.9[5]
Market Funds / Tangible Banking Assets (%)	23.9	24.6	22.1	26.2	25.1	24.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.0	12.4	11.8	11.9	10.9	12.0[5]
Gross Loans / Due to Customers (%)	172.6	174.2	162.9	175.7	173.3	171.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel II periods presented.

Source: Moody's Financial Metrics

Profile

Sparebanken Møre is a regional savings bank with a well-established market position in the county of Møre and Romsdal, located in Western Norway. Sparebanken Møre provides retail and corporate banking and other financial services, including real estate brokerage. It also offers share trading and capital management advice and distributes insurance and leasing products.

Sparebanken Møre was established in 1985 followed by the merger of a number of banks in the region. The bank's history of merged savings banks can be traced back to 1843. Sparebanken Møre's Equity Certificates (EC) are listed on the Oslo Stock Exchange (ticker: MORG).

As of 30 September 2018, the bank reported total consolidated assets of NOK70 billion (€7 billion) and operated through a network of 28 branches. The bank's head office is located in Ålesund.

Detailed credit considerations

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

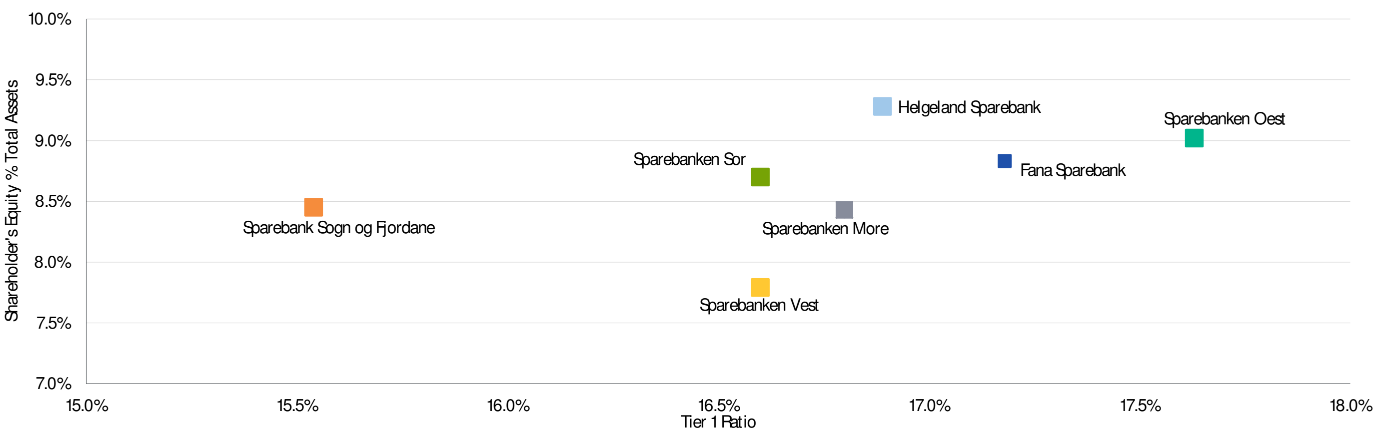
As Sparebanken More is a domestic bank, we align its Macro Profile with that of Norway at "Very Strong (-)". Banks in Norway (Aaa, stable) benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrates resilience to the price volatility in the oil sector. The main risks to the banking system stem from the high level of household indebtedness, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalization and the relatively small size of the banking system compared with the total size of the economy.

Sizeable capital buffers continuously increasing

In line with many Norwegian savings banks, Sparebanken More has increased its capital ratios in accordance with the higher regulatory capital requirements. As of end September 2018, Sparebanken More's Common Equity Tier 1 (CET1) capital ratio was 15.8% (December 2017: 15.0%), and its Tier 1 ratio reached 17.4% (see exhibit 3). Sparebanken More's CET1 ratio is above the regulatory minimum of 13.8% (which include an individual Pillar II requirement of 1.8%), and the internally minimum CET1 target of 14.8%. The bank was subject to a capital requirement linked to the transitional scheme associated with the Basel I floor amounting to NOK139 million at the end of the third quarter of 2018. Sparebanken More's reported leverage ratio of 8.2% (including 50% of the profit for the period), above the 5% regulatory requirement, which also points to the bank's high capital buffers.

Sparebanken More's capital metrics have improved in the past three years, reflecting both earnings retention (the payout ratio was contained to 53% in year-end 2017 compared to 50% in 2016), as well as the adoption of the internal rating based approach to calculate risk-weighted assets in 2015.

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



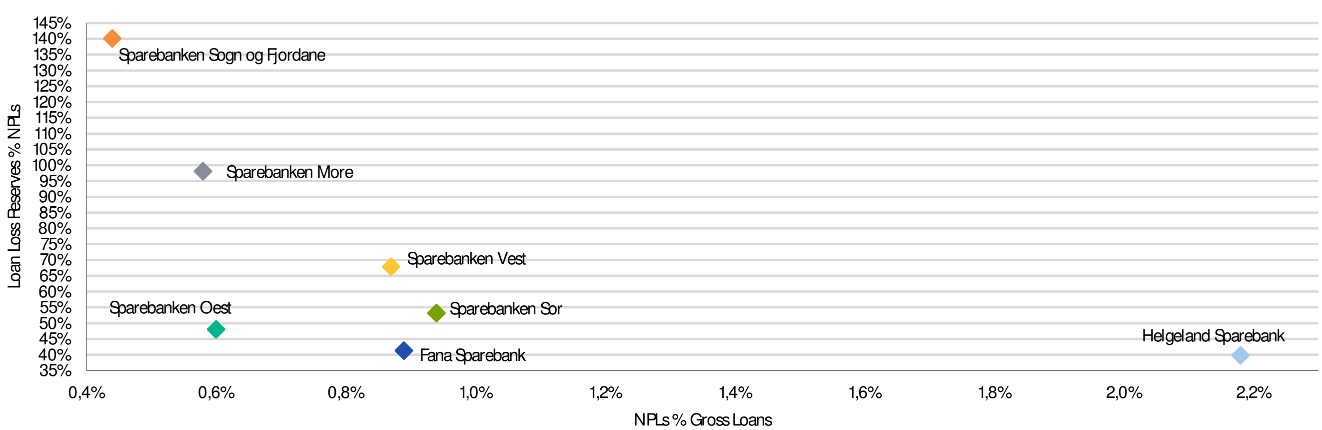
Note: Based on latest available data
Source: Moody's Banking Financial Metrics

Sparebanken More's asset quality metrics compares well with peers

Sparebanken More's strong asset quality metrics compares well with peers. The ratio of non-performing loans (NPL) to gross loans remained stable at 0.58%, as of September 2018 compared to 0.59% at end-2017 and reported coverage of NPLs with loan loss reserves compares favorably with peers, at 98% (see exhibit 4).

From 1 January 2018 Sparebanken More applies a three stage approach when assessing expected credit losses on loans to customer, loan commitments and financial guarantees subject to the IFRS 9 impairment disclosure (see FAQ: Limited impact from IFRS 9 first time adoption, but disclosure uneven so far, published 30 April 2018). Reported total losses in the nine months ending September 2018 is NOK4 million, equivalent to 0.01% of average total assets on an annualised basis.

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



Note: Based on latest available data
Sources: Moody's Banking Financial Metrics, company reports

Similar to other Norwegian savings banks, Sparebanken More's loan book is focused on retail loans, mainly mortgages. Retail lending accounted for around 69% of the bank's total portfolio as of end-September 2018. Sparebanken More's exposure to the oil-related offshore sector, which had been under pressure, is limited at around 1.6% of the loan book. The bank has increased its exposure to fishing-related industries, currently at around 6.4% of total loans, and has benefited from the sector's ongoing strong performance. The bank has experienced rising growth in lending to both the retail and corporate market in the nine months ending in September 2018, slower growth is however expected within both segments towards the end of 2018 compared to the growth rate at end 2017.

Sparebanken More's loans to property management and real estate construction companies accounted for 12.2% of the loan book as of September 2018, which combined with its large mortgage portfolio make Sparebanken More vulnerable to a decline in real estate prices. In addition, the bank's relatively high single borrower concentration make it vulnerable to a potential default by one of these large customers.

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

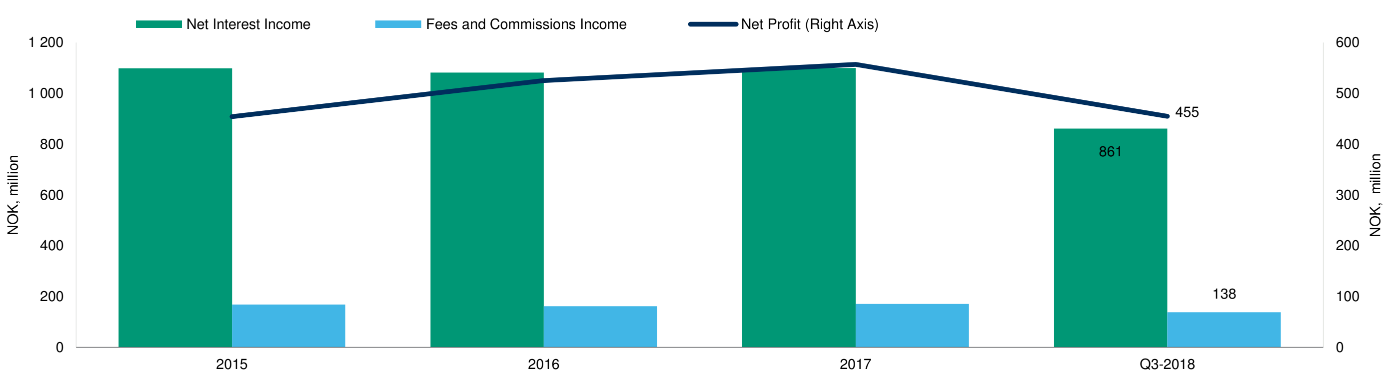
Profitability pressured by competition

Sparebanken More's return on assets (adjusted for one-off gains) of 0.87% for the nine months ending in September 2018 is broadly in line with the 0.80% for the nine months ending in September 2017. Net interest income remains Sparebanken More's main source of revenue and accounted for around 80% of the bank's operating income overtime. Despite the marginally increasing interest rates in Norway due to the strong competition particularly in gathering deposits, we expect net interest margin to remain at current levels going forward. The bank's reported net interest income to average assets of 1.63% in nine months ending in September 2018, slightly declined from 1.72% in the same period of 2017.

Sparebanken More's cost efficiency supports its profitability; the bank's cost-to-income ratio was 43% in nine months ending in September 2018, and compares well with peers but is somewhat higher to the bank's target of 40%. Operating costs slightly increased by 1.1% in nine months ending in September 2018 compared to the same period in 2017 mainly as a result of the bank's staffing expenses increased in the past twelve months.

Exhibit 5

Net interest income supported by higher lending volumes and lower funding costs in Q3-2018



Sources: Moody's Investor Service, company reports

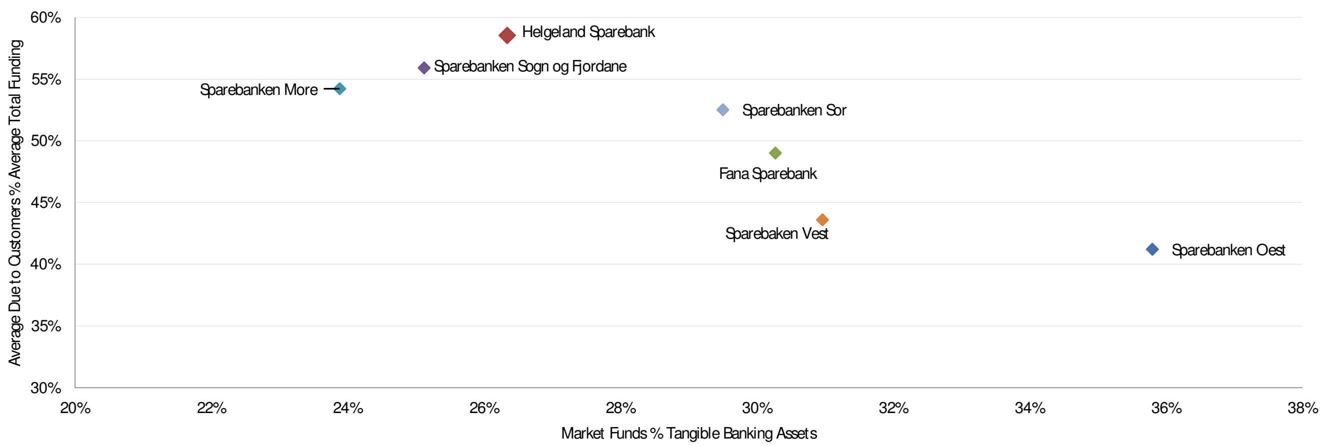
For the nine months ending in September 2018, Sparebanken More net income, adjusted for preferred dividends, of NOK455 million (see exhibit 5), is 15% higher compared to the NOK396 million profit for the same period in 2017. This was mainly driven by 7% increase in net interest income in nine month ending in September 2018 compared to the same period of 2017, due to high lending volumes and supported by lower funding costs.

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

Sparebanken More's primary funding source are deposits, which accounted for 55% of funding as of end-September 2018 (55% end-September 2017) and 58% of gross loans at the end of September 2018, a level we expect to remain broadly stable. However, the bank has a high, although lower than domestic peers, reliance on confidence sensitive market funding, which we view as a credit weakness. The ratio of market funds to tangible banking assets stood at 23.9% as of September 2018, which is unchanged compared end-September 2017 (see exhibit 6).

The majority of market funds, around 63% as of September 2018 (59% as of September 2017), 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, with almost 85% of total outstanding covered bond volume being eligible liquid assets under the liquidity coverage ratio rules, as they provide the bank with a wider and more diversified investor base.

Exhibit 6
Although lower than its Norwegian peers, Sparebanken More has a sizeable reliance on market funding



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

Sparebanken More maintains good liquidity buffers of high quality that are broadly in line with peers. As of September 2018, the ratio of liquid assets to tangible banking assets was 13.0% (12.8% as of September 2017). Besides cash and due from banks (2.5% of tangible banking assets at the end of September 2018 and 3.0% as of September 2017), 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).

Source of facts and figures cited in this report

Unless noted otherwise, the bank specific figures originate from bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

Support and structural considerations

Loss Given Failure

Norway is in the process of introducing legislation to implement the EU Bank Resolution and Recovery Directive. In our LGF analysis, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These metrics are in line with our standard assumptions.

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

Government support

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

Sparebanken More is a regional savings bank with a robust market position in western Norway in the county of Møre and Romsdal, where it has a market share of around 24% (incl. banks and mortgage companies) of loans and 31% of deposits as of December 2017. However, its national market share is limited at around 1.2% of loans and 1.4% on deposits as of September 2018. Therefore, we now expect a low probability of government support for deposits, resulting in no rating uplift.

Counterparty Risk (CR) assessment

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.

Sparebanken More's CR Assessment is positioned at A1(cr)/P-1(cr)

Sparebanken More's CR Assessment is positioned three notches above its adjusted BCA of baa1, based on the cushion against default provided by junior deposits, senior unsecured, subordinated debts and preference shares. The bank's CR Assessment does not benefit from any government support, in line with deposit rating.

Counterparty Risk Rating (CRR)

Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. We believe that CRR liabilities have a lower probability of default than the bank's deposit and senior unsecured debt as they will more likely be preserved in order to minimise banking system contagion, minimise losses and avoid disruption of critical functions.

Sparebanken More's CRR is placed at A1/P-1

The CRR is three notches above the adjusted BCA of baa1 and at the same level as the Counterparty Risk Assessment, reflecting the buffer against default provided by more junior instruments to the CRR liabilities.

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 methodology and scorecard factors

Exhibit 7

Sparebanken More

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

Factor	Historic Ratio	Initial Score	Expected 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	17.0%	aa2	←→	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	24.6%	baa1	←→	ba1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.4%	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	26,557	38.0%	30,095	43.1%
Deposits	34,684	49.7%	31,146	44.6%
Preferred deposits	25,666	36.8%	24,383	34.9%
Junior Deposits	9,018	12.9%	6,763	9.7%
Senior unsecured bank debt	5,159	7.4%	5,159	7.4%
Dated subordinated bank debt	703	1.0%	703	1.0%
Preference shares (bank)	636	0.9%	636	0.9%
Equity	2,095	3.0%	2,095	3.0%
Total Tangible Banking Assets	69,834	100%	69,834	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	22.0%	22.0%	22.0%	22.0%	3	3	3	3	0	a1
Counterparty Risk Assessment	22.0%	22.0%	22.0%	22.0%	3	3	3	3	0	a1 (cr)
Deposits	22.0%	4.9%	22.0%	12.3%	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 Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1 (cr)	--
Deposits	2	0	a2	0	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
SPAREBANKEN MORE	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
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 Based on on-balance sheet lending nationwide, using Statistic Norway data as of September 2018

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