MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 June 2019

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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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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Sparebanken More

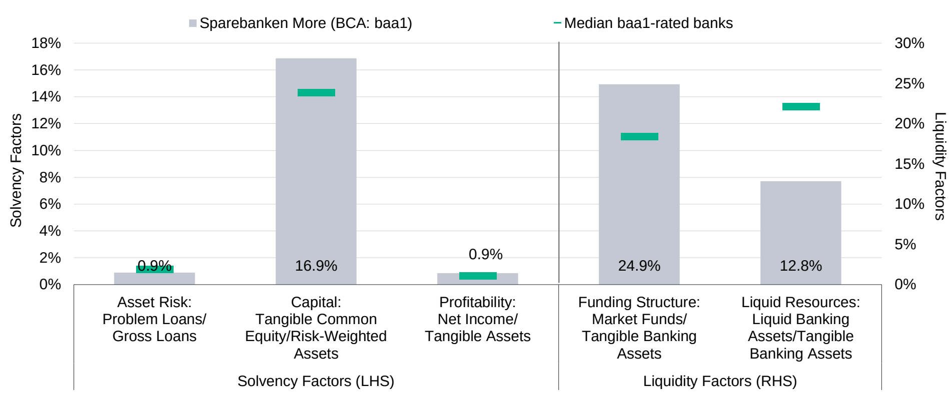
Update to credit analysis

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-notches of rating uplift from its BCA. 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 any 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 March 2019[1], and the implementation of the BRRD law in Norway from 1 January 2019.

Sparebanken More's BCA of baa1 takes into account the strong macroeconomic environment in Norway, its sizeable capital buffers with a CET1 capital ratio of 15.9% in March 2019 and sound asset quality metrics with problem loans at around 0.9% of gross loans. The BCA also considers Sparebanken More's moderate profitability with some margin pressure in recent months, 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 Investors Service

Credit strengths

- Highly supportive operating environment in Norway which translates into a Very Strong- Macro Profile.
- Sizeable capital buffers offering protection against unforeseen losses
- Asset quality metrics are sound, despite some recent deterioration
- Large volume of deposits and debt result in a two-notch uplift to the deposit rating from the BCA

Credit challenges

- Moderate profitability on the back of net interest margin pressure and strong competition
- 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 credit profile 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, combined with stronger earnings generation without a material deterioration in its risk profile
- 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
- A higher loss absorption cushion by MREL-eligible securities that could trigger a change in our LGF notching analysis, leading to a higher rating uplift for deposits and senior debt

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

Key indicators

Exhibit 2
Sparebanken More (Consolidated Financials) [1]

	03-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	71.1	71.1	66.5	61.6	60.1	5.3[4]
Total Assets (USD Million)	8,260.4	8,208.0	8,129.1	7,155.6	6,792.2	6.2[4]
Tangible Common Equity (NOK Billion)	5.9	6.0	5.6	5.3	5.0	5.1[4]
Tangible Common Equity (USD Million)	679.3	693.3	685.8	620.7	562.9	6.0[4]
Problem Loans / Gross Loans (%)	0.9	0.6	0.6	1.2	0.5	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.9	17.5	16.3	16.2	15.4	16.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.0	6.1	5.7	10.7	4.6	7.2[5]
Net Interest Margin (%)	1.7	1.7	1.7	1.8	1.9	1.7[5]
PPI / Average RWA (%)	2.6	2.4	2.2	2.2	2.1	2.3[6]
Net Income / Tangible Assets (%)	0.9	0.8	0.8	0.9	0.8	0.8[5]
Cost / Income Ratio (%)	41.5	42.5	44.1	44.4	45.1	43.5[5]
Market Funds / Tangible Banking Assets (%)	22.7	24.9	24.6	22.1	26.2	24.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.6	12.8	12.4	11.8	11.9	12.1[5]
Gross Loans / Due to Customers (%)	175.5	176.1	174.2	162.9	175.7	172.9[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 Investors Service; Company Filings

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 31 March 2019, the bank reported total consolidated assets of NOK71 billion (€7.3 billion) and operated through a network of 28 branches. The bank's head office is located in Ålesund.

Detailed credit considerations

Strong operating environment supports the bank's financial fundamentals

Sparebanken More's operating environment is purely domestic. Therefore, its Macro Profile is aligned with that of Norway at Very Strong-. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the past weakening 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 capitalisation and the relatively small size of the banking system compared with the total size of the economy.

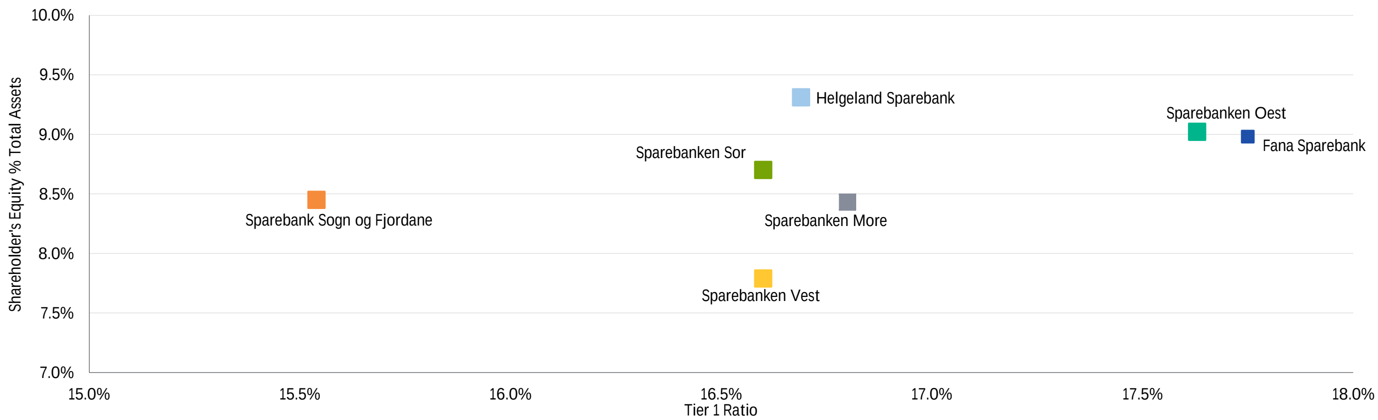
Sizeable capital buffers offering protection against unforeseen losses

In line with many Norwegian savings banks, Sparebanken More has increased its capital ratios in accordance with the higher regulatory capital requirements in recent years. As of end March 2019, Sparebanken More's Common Equity Tier 1 (CET1) capital ratio was 15.9% (March 2018: 15.1%), and its Tier 1 ratio reached 17.1% (see exhibit 3). Sparebanken More's CET1 ratio is above the regulatory minimum of 13.7% (which includes an individual Pillar II requirement of 1.7%), and the internally minimum CET1 target of 14.8%. Sparebanken More had also a reported leverage ratio of 8.1% as of March 2019 compared to 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 51% in year-end 2018 compared to 53% in 2017), as well as the adoption of the internal ratings based (IRB) approach to calculate risk-weighted assets in 2015. Looking ahead, we expect the bank's capital metrics to benefit around 20 basis points from the removal of the 80% Basel I floor in the second half of 2019, as well as another 40 basis points from the reduced capital requirement for SME exposures.

Accordingly, we believe that the bank will be able to fund its future asset growth, which has been capped at around 8% according to the bank's updated credit risk strategy, without needing to raise any new capital. Our capital score for the bank also takes into account its equity certificates (EC) capital structure, a common feature among Norwegian savings banks, with the EC holders owning around 49.6% of the bank's capital. We believe that this structure could prove challenging for the bank to raise significant amount of new capital when needed, especially during periods of stress in the market, although its long track record of non-dilutive dividend policy could alleviate this challenge.

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



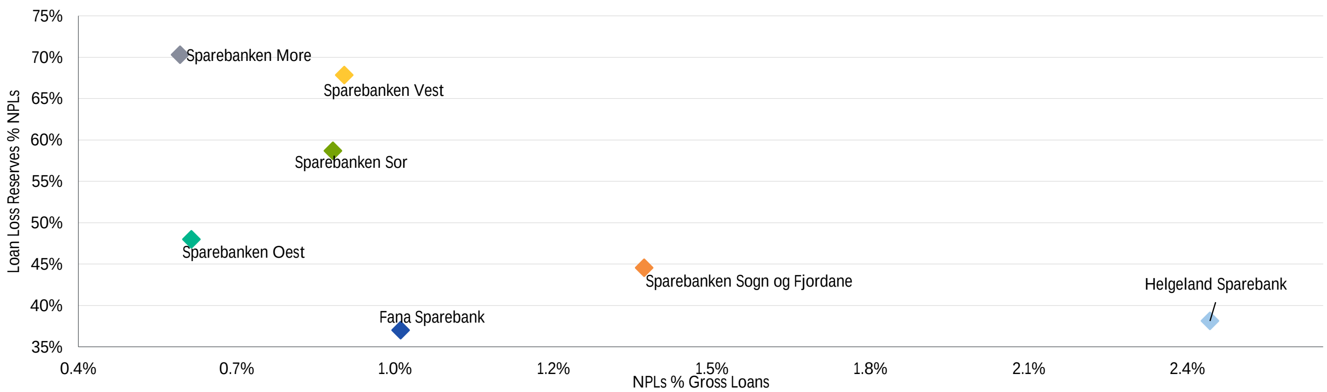
Note: Based on latest available data
Source: Moody's Investors Service

Asset quality metrics are sound, despite some recent deterioration

Sparebanken More has relatively sound asset quality metrics comparing well with its local peers, despite some deterioration in recent months. The ratio of non-performing loans (NPL) to gross loans increased to 0.9% in March 2019 from 0.63% at year end-2018 and 0.58% in March 2018 but remains low, while its overall provisioning coverage of NPLs was at 49% in March 2019 (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 first three months ending March 2019 were NOK13 million, equivalent to 0.09% of gross loans on an annualised basis compared top only 0.01% in the first three months of 2018.

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 Investors Service

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-March 2019. Sparebanken More's exposure to the oil-related offshore sector, which was under pressure in 2015-16, 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 in March 2019, and has benefited from the sector's ongoing strong performance. The bank has experienced rising growth in lending to the retail sector in the twelve months ending in March 2019 at 5.5% from 5.3% the previous quarter.

Sparebanken More's loans to property management and real estate construction companies accounted for 12.3% of the loan book as of March 2019, 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. In addition, the bank has recently put in place maximum exposure limits relative to its capital base, which will go some way in reducing some of its client/sector concentration limits. Looking ahead, we expect the bank's asset quality to remain favourable, supporting its overall credit profile and ratings.

Moderate profitability on the back of net interest margin pressure and strong competition

Sparebanken More's return on assets was 0.89% for the three months ending in March 2019, compared with 0.80% for the three months ending in March 2018. Net interest income remains Sparebanken More's main source of revenue and accounted for 80% of the bank's operating income overtime. The bank's net interest income to average assets was at 1.69% in the first three months ending March 2019, from 1.73% in the same period of 2018, indicating some margin pressure for the bank. The increasing interest rates in Norway have lead to increased funding costs, especially due to strong competition in gathering deposits, and also to reduced margins on mortgage loans.

Sparebanken More's cost efficiency supports its profitability; the bank's cost-to-income ratio was 42% in the three months ending in March 2019, and compares well with peers but is somewhat higher to the bank's target of 40%. Operating costs increased by 5.4% in the three months ending in March 2019 compared to the same period in 2018 mainly as a result of the increase in the bank's staffing expenses.

As of March 2019, Sparebanken More net income adjusted for preferred dividends, of NOK159 million is 15% higher compared to the NOK138 million profit for the same period in 2018. This was mainly driven by 5% increase in net interest income in the first three months of 2019 compared to the same period of 2018, due to high lending volumes and supported by higher return on financial investments.

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 at end of March 2019 (54% end-March 2018) and 57% of gross loans as of end of March 2019, 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 22.7% as of March 2019. The bank estimates that it will likely have to issue around NOK4.8 billion of MREL-eligible non-preferred senior debt over the next 2-3 years, mainly through the refinancing of maturing preferred senior debt. We note that the FSA will communicate the exact MREL requirement to the bank in the second half of 2020, and that the amount could be lower due to the potential adoption in Norway of the BRRD2 framework.

The majority of market funds, around 73% as of March 2019 (63% as of March 2018), 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.

Sparebanken More maintains good liquidity buffers of high quality that are broadly in line with peers. As of March 2019, the ratio of liquid assets to tangible banking assets was 11.6% (13.4% as of March 2018). Besides cash and due from banks (1.2% of tangible banking assets as of March 2019), 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

European Union's BRRD has been transposed into Norwegian law, applicable from 1 January 2019, which confirmed our current assumptions regarding the 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

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 March 2019. Accordingly, and in conjunction with the BRRD law implementation in Norway from 1 January 2019, we 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 5

Sparebanken More

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

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.9%	aa2	←→	a2	Geographical concentration	Sector diversification
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	16.9%	aa2	←→	aa3	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	24.9%	baa1	←→	ba1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.8%	baa3	←→	baa3	Stock of liquid assets	
Combined Liquidity Score		baa2		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		

Balance Sheet	**In-scope (NOK Million)**	**% In-scope**	**At failure (NOK Million)**	**% At failure**
Other liabilities	27,924	39.3%	31,501	44.3%
Deposits	35,066	49.3%	31,489	44.3%
Preferred deposits	25,949	36.5%	24,651	34.7%
Junior Deposits	9,117	12.8%	6,838	9.6%
Senior senior unsecured bank debt	0	0.0%	0	0.0%
Senior unsecured bank debt	4,621	6.5%	4,621	6.5%
Junior senior unsecured bank debt	0	0.0%	0	0.0%
Dated subordinated bank debt	703	1.0%	703	1.0%
Junior subordinated bank debt	0	0.0%	0	0.0%
Preference shares (bank)	647	0.9%	647	0.9%
Senior unsecured holding company debt	0	0.0%	0	0.0%
Dated subordinated holding company debt	0	0.0%	0	0.0%
Junior subordinated holding company debt	0	0.0%	0	0.0%
Preference shares(holding company)	0	0.0%	0	0.0%
Equity	2,133	3.0%	2,133	3.0%
Total Tangible Banking Assets	71,094	100.0%	71,094	100.0%

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 Rating	21%	21%	21%	21%	3	3	3	3	0	a1
Counterparty Risk Assessment	21%	21%	21%	21%	3	3	3	3	0	a1(cr)
Deposits	21%	5%	21%	11%	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	-	A1	A1
Counterparty Risk Assessment	3	0	a1(cr)	-	A1(cr)	
Deposits	2	0	a2	-	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 Investors Service

Ratings

Exhibit 6

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 February 2019

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