

Credit Opinion: Sparebanken More

Global Credit Research - 27 Mar 2015

Norway

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*A3/*P-2
Baseline Credit Assessment	**baa2
Adjusted Baseline Credit Assessment	**baa2

* Rating(s) within this class was/were placed on review on March 17, 2015

** Placed under review for possible upgrade on March 17, 2015

Contacts

Analyst	Phone
Efthymia Tsotsani/London	44.20.7772.5454
Kim Bergoe/London	
Sean Marion/London	

Key Indicators

Sparebanken More (Consolidated Financials)[1]

	[2]12-14	[2]12-13	[2]12-12	[2]12-11	[2]12-10	Avg.
Total Assets (NOK billion)	56.3	54.6	51.6	48.5	44.4	[3]6.1
Total Assets (EUR million)	6,206.2	6,534.5	7,032.1	6,256.1	5,699.2	[3]2.2
Total Assets (USD million)	7,509.8	9,004.2	9,271.1	8,121.4	7,645.8	[3]-0.4
Tangible Common Equity (NOK billion)	4.8	4.4	3.7	3.2	3.0	[3]12.1
Tangible Common Equity (EUR million)	526.7	529.1	504.8	411.9	388.6	[3]7.9
Tangible Common Equity (USD million)	637.3	729.0	665.5	534.7	521.4	[3]5.1
Problem Loans / Gross Loans (%)	0.8	1.2	1.3	1.9	2.4	[4]1.5
Tangible Common Equity / Risk Weighted Assets (%)	13.3	13.2	11.5	10.4	10.6	[5]11.8
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.7	11.3	14.5	21.9	26.7	[4]16.4
Net Interest Margin (%)	2.1	2.1	1.9	2.0	2.1	[4]2.0
PPI / Average RWA (%)	2.3	2.2	2.7	2.0	2.4	[5]2.3
Net Income / Tangible Assets (%)	1.1	0.9	1.1	0.8	1.1	[4]1.0
Cost / Income Ratio (%)	41.6	44.5	33.7	47.6	43.4	[4]42.2
Market Funds / Tangible Banking Assets (%)	37.4	36.3	36.0	36.8	33.5	[4]36.0
Liquid Banking Assets / Tangible Banking Assets (%)	10.9	13.3	13.0	14.0	12.4	[4]12.7
Gross Loans / Total Deposits (%)	173.3	159.2	147.8	135.4	129.0	[4]148.9

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

On 17 March, we placed the following ratings of Sparebanken More on review for upgrade: baseline credit assessment (BCA) of baa2, adjusted BCA of baa2, long-term deposit rating of A3 and Prime-2 short-term obligation rating.

The BCA review was prompted by the bank's improved standalone credit strength including strong capital and asset quality as reflected through Moody's new methodology for rating banks globally. The review on the bank's ratings was a result of our advanced Loss Given Failure (LGF) analysis (a component of Moody's new methodology for rating banks globally) in combination with a lowering of our current systemic (government) support assumptions as well as the bank's strong standalone credit strength. LGF takes into account the risks faced by the different debt and deposit classes across the liability structure if the bank were to enter resolution.

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.

Rating Drivers

- 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 likely two-notch uplift from the BCA.

Rating Outlook

The BCA review was prompted by the bank's improved standalone credit strength following the implementation of Moody's new methodology for rating banks globally. The review on Sparebanken More's long-term deposit ratings was prompted by changes arising from the implementation of our new methodology, and specifically our advanced Loss Given Failure analysis, which applies to institutions subject to an operational resolution regime such as the EU's Bank Recovery and resolution Directive (BRRD). While not subject to BRRD, we expect that Norway - as an European Economic Area (EEA) member - will seek to introduce legislation or other tools that include mechanisms similar to those in the BRRD; our expectations are based on publicly stated comments from Norwegian authorities as well as the government's track record of mirroring EU banking regulations. Our advanced LGF analysis on Sparebanken More's long-term and short-term deposit ratings prompted the review for upgrade. The review will focus on the liability structure, in particular the amount of deposits, senior long-term debt outstanding and the amount of debt subordinated to it.

We consider the probability of government support for Sparebanken More's long-term and short-term deposits to be low, and there is thus no uplift from its unsupported level. We expect the BCA, adjusted BCA and long-term deposit rating to be upgraded by one notch.

What Could Change the Rating - Up

As stated in the Summary Rating Rationale, the review on Sparebanken More's ratings was prompted by the implementation of our new banking methodology.

What Could Change the Rating - Down

After the above-mentioned review is completed, future downward rating pressure would emerge if: (1) Sparebanken More's asset quality deteriorates more than we anticipate; (2) financing conditions become more challenging; and/or (3) its risk profile increases, for example as a result of increased exposures to more volatile sectors. In addition, we believe that downward pressure could be exerted on the ratings as a result of external factors, such as a less supportive macroeconomic environment and/or substantially adverse developments in the Norwegian real-estate market.

DETAILED RATING CONSIDERATIONS

STRONG CAPITAL METRICS

In line with many Norwegian savings banks, Sparebanken More has improved its capital ratios which remain positioned in accordance with the increasing regulatory capital requirements (12% Core Equity Tier1 ratio as of July 2015).

Sparebanken More had a Tangible Common Equity (TCE)-to-risk weighted assets (RWA) ratio of 13.3% at December 2014, and we expect this metric to improve over the medium term, as the bank's Board of Trustees signalled approval for 57% of the year's profit to be retained in order to further enhance the bank's capital base. We view positively any such measures that lead to capital increases, as they enhance the bank's buffer against potential losses. Sparebanken More's assigned Capital score reflects this strength, as does the bank's TCE-to-tangible banking assets ratio of 9.4% which is well within international standards.

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

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

Sparebanken More's Asset Risk score indicates that overall, asset risk remains a relative strength for the bank, although 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 of that declining oil and gas prices and falling investment levels could trigger a mild asset quality deterioration from the currently strong current position.

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 were part of the bank's wholly-owned covered bond company More Boligkreditt; and the cover pool is available to unsecured creditors in the event of liquidation. In addition, given that Sparebanken More operates in only one region, it 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 is Sparebanken More's main source of revenue, which has represented around 80% of its operating income in recent years. This source of earnings grew by 5% in 2014 compared to 11% in 2013, as the generally lower level of interest rates combined with strong competition for both loans and deposits towards H2 2014 has affected the development of net interest income.

Sparebanken More's efficiency also supports its profitability; its cost-to-income was just above 40% as at 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 regional savings banks in Norway. In 2014, loan loss provisions were low at NOK22 million (NOK54 million in 2013) but we note that the bank's relatively high exposure to more volatile segments such as construction real estate and shipping heightens uncertainty over the sustainability of these low levels.

The net income-to-tangible banking assets ratio has averaged 1% 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.

Sparebanken More reported profits of NOK1.408 billion for 2014, NOK164 million higher compared to 2013. This increase is mainly attributable to the sale of shares in Nets AS (a payment provider service) and slightly improved margin.

SUBSTANTIAL DEPOSIT BASE AND IMPROVING QUALITY OF MARKET FUNDING SOURCES

Sparebanken More's funding position is underpinned by a strong deposit base, which accounts for just under 60% of its total funding, and by retail deposits that represent 60% of total deposits. Market funding accounted for just over 37% of the bank's tangible banking assets at end-December 2014, and has been stable recent years. The bank's Funding Structure 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 positively recent issuances of bigger size instruments because of their eligibility under liquidity coverage ratio (LCR) rules.

At end-December 2014, liquid assets accounted for around 11% of tangible banking assets, 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). We assign a Liquid Resources score of baa3 to reflect these factors.

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

We expect that Norway will seek to introduce legislation or other tools that include mechanisms similar to those in the EU Bank Resolution and Recovery Directive (BRRD). 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 review will consider the likely impact on loss-given-failure of the combination of their own volume and the amount of debt subordinated to them. We expect this will result 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 around 17% 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, likely resulting in zero notches of uplift to the PRA.

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 A3 (under review for possible upgrade).

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 A3 (under review for possible upgrade).

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						
<i>Problem Loans / Gross Loans</i>	1.1%	aa2	← →	a3	Geographical concentration	Sector concentration
Capital						
<i>TCE / RWA</i>	13.3%	a2	← →	a2	Risk-weighted capitalisation	
Profitability						
<i>Net Income / Tangible Assets</i>	1.0%	a2	↓	baa1	Expected trend	
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
<i>Market Funds / Tangible Banking Assets</i>	37.4%	ba2	← →	ba1	Extent of market funding reliance	
Liquid Resources						
<i>Liquid Banking Assets / Tangible Banking Assets</i>	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	baa2 Possible Upgrade
Affiliate Support notching	--
Adjusted BCA	baa2 Possible Upgrade

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	--	--	--	--	A3 RUR Possible Upgrade	A3 RUR Possible Upgrade

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.moody's.com> for the most updated credit rating action information and rating history.



© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and 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.moody.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.