



Moody's Investors Service

Rating Action: **Moody's assigns A2/P-1/C-** ratings to Sparebanken Møre

Global Credit Research - 01 Oct 2009

First-time ratings

London, 01 October 2009 -- Moody's Investors Service has today assigned a C- bank financial strength rating (BFSR) and A2 long-term and Prime-1 short-term local and foreign currency deposit ratings to Sparebanken Møre, a Norwegian savings bank. The outlook is stable on the BFSR and negative on the long-term deposit ratings.

Sparebanken Møre's C- BFSR, which maps to a Baseline Credit Assessment (BCA) of Baa1, reflects the bank's sound regional franchise and satisfactory financial fundamentals, particularly its profitability and capital adequacy. As constraining factors, the BFSR incorporates a high credit risk concentration and reliance on market funding.

Based on total assets, Sparebanken Møre is the 7th largest savings bank in Norway and a leading savings bank in the Møre and Romsdal county on the western coast of Norway, where it has market shares of almost 30% in retail lending and around 20% in corporate lending. In light of the bank's regional importance, Moody's believes that there is a high probability that the government of Norway would support the bank in a stress scenario. Given this systemic support assessment, under Moody's Joint Default Analysis methodology, the bank's A2 long-term deposit rating incorporates a two-notch uplift from the Baa1 BCA.

The bank provides its over 100,000 retail customers and about 8,000 corporate customers with a full range of products and, as a local bank, benefits from close customer relationships. It has a good regional franchise, but Moody's also notes that competition in the Norwegian banking market is strong, especially in the retail sector. Around 60% of the bank's loans are to retail customers (including loans transferred to Møre Boligkreditt, the bank's covered bond company). The rest of the loan portfolio is to corporate customers, which are mainly SMEs. The rating agency notes that the loan portfolio exhibits high borrower concentration as well as exposures to volatile sectors, including property management and fishing- and shipping-related industries. The bank has also reported relatively strong double-digit loan growth over the past few years, resulting in a less seasoned loan portfolio.

At the end of June 2009, the bank reported a Tier 1 ratio of 9.65%. The capital base was strengthened in August 2009 by an issuance of a Tier 1 instrument amounting to NOK277 million which improves the Tier 1 ratio by approximately one percentage point. So far, the bank has reported limited actual losses on its loan book, but the trend has turned upwards and the amount of problem loans has increased. The rating agency believes that going forward the bank could face challenges in maintaining its asset quality in the context of a weaker economic outlook and exposures to corporate sectors that could be vulnerable in the ongoing downturn. According to Moody's estimations of potential credit losses, Sparebanken Møre's current capital level allows it to absorb anticipated deterioration in asset quality at its current BFSR level.

The bank has a good deposit base, but is also reliant on wholesale funding, which accounts for around 40% of total funding. Along with many other Norwegian banks, Sparebanken Møre has benefited from the government facility to swap covered bonds for government securities easing the bank's liquidity position. However, Moody's notes that this is a temporary arrangement and will follow the bank's strategies in terms of liquidity management and funding going forward.

Based on Moody's Global Bank Financial Strength Rating methodology, a C- BFSR can be mapped to a BCA of Baa1 or a Baa2. In light of the weakened Norwegian economy potential further impairments in financial strength exceeding Moody's base stress assumptions could lead to a reassessment of the BFSR mapping. Lowering of the bank's BCA to Baa2 from Baa1 would result in a downgrade of the deposit rating. Therefore, a negative outlook has been assigned to the A2 deposit rating.

Any upgrade of the BFSR would have to be accompanied by a significant reduction in the bank's credit risk concentrations and further improvements in its risk management practices, combined with sustained profitability, capitalisation and liquidity position. Conversely, the BFSR would be negatively affected in the

event of any increase in credit risk related to the bank's large exposures or more volatile sectors or any significant weakening of asset quality. Moody's notes that deterioration in the bank's capital or market positions could also have adverse rating implications.

The principal methodologies used in rating Sparebanken Møre are "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" published in March 2007 and "Bank Financial Strength Ratings: Global Methodology" published in February 2007, which can be found at www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Ålesund, Norway, Sparebanken Møre reported total assets of NOK40.7 billion (EUR4.5 billion) at end-June 2009.

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