Creditreform Bank Rating

OP Yrityspankki Oyj (OP Corporate Bank plc)
as part of OP Financial Group (Group)

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Rating object	Rating information		
OP Yrityspankki Oyj (OP Corporate Bank plc) as part of OP Financial Group (Group)	**Long Term Issuer Rating / Outlook:**		**Short Term:**
	A+ / stable		**L2**
	Rating of Bank Capital and Unsecured Debt Instruments:		
	Senior Unsecured	Tier 2	Additional Tier 1
	A+	A-	-
Creditreform ID (subsidiary): 01999207	Rating Date: **04 December 2018**		
Incorporation (subsidiary): 1902	Monitoring until: withdrawal of the rating		
(Main-) Industry: Banks	Rating Type: **unsolicited**		
Management (subsidiary): Timo Ritakallio (President & Group Executive Chairman)	Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments		

Our rating of OP Corporate Bank plc is reflected by our rating opinion of OP Financial (Group) due to the group structure. Therefore we refer to our rating report of OP Financial Group (Group) from 27 June 2018:

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SWOT-Analysis

Strengths

+ Joint liability system of member banks
+ Leading domestic financial institution
+ Impressive asset quality
+ Sound and increasing capitalization
+ Sufficient liquidity

Weaknesses

- Business concentration in Finland
- Relatively high cost to income ratios
- Relatively high exposure to the real estate sector in Finland

Opportunities

+ Ongoing growth like in recent years
+ Large-scale development program with announced investments of about €2 billion

Threats

- High dependency on the economic situation in Finland
- Low interest rate environment puts pressure on the Group's interest income
- Increasing banking regulation leads to rising costs

Analysts

Daniel Keller
d.keller@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Neuss, Germany

Company Overview

OP Financial Group (hereafter: OPF or the Group) is a cooperative financial service group formed by independent cooperative banks and the Group's Central Cooperative (central institution) with its subsidiaries operating under the principle of joint and several liability. The Group's headquarters are located in Helsinki and its roots date back to the year 1902. The amalgamation of OPF is the largest financial conglomerate in Finland (in terms of total assets) with a market share of 35.5% in loans and 37% in deposits in Finland (as of December 2017).
OPF consists of 167 member cooperative banks as of 31 December 2017 and their central cooperative, OP Cooperative, with its subsidiaries and affiliates. With 12,269 employees and 407 branches at the end of 2017, OPF serves approximately 4.4 million customers (thereof 3.95 million private customers).

OP Financial Group comprises banking and insurance business activities in its three main business segments: Banking, Non-life Insurance (including health and wellbeing services), and Wealth Management. In addition, the Group's operations which support these segments, such as the activities of OP Cooperative as well as OP Corporate Bank Group's Treasury and the Markets division, are condensed into the non-segment operations. See chapter Profitability for the contribution of each operating segment to the Group's operating pre-tax profit in 2017.

OP Financial Group comprises the member cooperative banks and those non-amalgamation entities of which entities belonging to the amalgamation hold more than half of the total votes. The Group's member cooperative banks are independent, local deposit banks primarily engaged in retail banking, and provide their services to households, SME and public-sector entities. The central cooperative of OP Financial Group is OP Cooperative. The Group's denotes two major fully-owned entities (note that our rating of the Group reflects in particular the rating of these entities). OP Corporate Bank plc (OP Yrityspankki Oyj), which is responsible for the senior unsecured bond issues of the Group and, OP Mortgage Bank (OP-Asuntoluottopankki Oyj), which is responsible for the Group's secured funding by issuing mortgage-backed covered bonds.

Within the Group exists a joint liability system based on the *'Act on the Amalgamation of Deposit Banks'* in Finland. OP Cooperative and its member credit institutions are liable for each other's debts and commitments in accordance with this Amalgamations Act; however, insurance companies do not fall within the scope of joint liability.

The major fully-owned subsidiaries and the Group structure of OPF can be found in Chart 1 below:

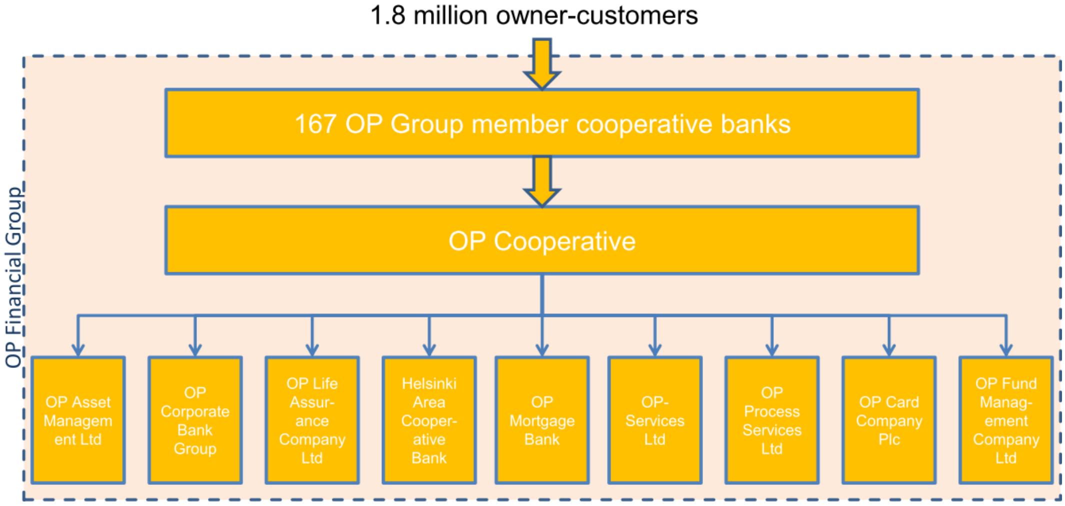

Chart 1: Main subsidiaries and structure of OP Financial Group
(Source: Website of OP Financial Group)

In 2016, OPF initiated a large-scale development program to foster its digitization services and competitiveness, in the context of which the Group announced it would spend up to €2 billion between 2016 and 2020. The development expenditures for 2017 totaled over €450 million. In addition, the Group aims to expand its business activities, in particular in the business area of health and wellbeing.
Moreover, the Group targets a CET1 ratio of 22% for 2019, as well as keeping the operating expenses on the same level as in 2015.

Business Development

Profitability

OPF's operating income amounted to €3.1 billion in 2017, increasing by 4.9% in a year-over-year comparison (€144 million). Net interest income contributed 35.2% to OPF's operating income, increasing by 3.4% compared to the previous year (€36 million) as a result of a relative reduction of funding costs, which were partly offset by reduced interest income. Net fee and commission income accounted for 29.8% of the Group's operating income, increasing by 8% YOY (€69 million), on one hand due to increased commission income, in particular from asset management services, and on the other due to reduced commission expenses, in particular for payment services. Net trading income contributed the lowest share of the three main drivers of operating income, accounting for 20.5%, and remaining roughly unchanged YOY (+€10 million). The dramatic increase in this position in 2015 was primarily a result of a change in the presentation of results of the Group's insurance lines. By contrast, net insurance income contributed 15.4% of operating income, decreasing by 14.3% YOY (€80 million). This development is due to a change of the discount rate, which is larger than in previous years, as well as due to increased claims. Other operating income is negative at -€198 million and comprises insurance-related technical provisions and interest credited on customers insurance savings.

Operating expenses amounted to €1.93 billion in 2017, increasing by 9.5% in a year-over-year comparison (€168 million). Personnel expenses, accounting for 39.2% of operating expenses in 2017, remained almost unchanged YOY (-€4 million). Tech and communications expenses increased by €70 million YOY as a result of increased investments in digital services such as a Group-level IT platform. Thus, OPF's investments have been the main driver of increasing operating expenses in recent years. Other expense comprises mainly OPF's bonuses to owner-customers (€217 million), other administrative expenses, and services purchased from others.

OPF's pre-impairment profit amounted to €1.17 billion in the fiscal year 2017. However, the Group recorded asset write-downs in the amount of €142 million in 2017. These write-downs are mainly attributable to impairment losses on receivables, as well as on shares and participations, and to impairment losses on property in own use.

After deduction of taxes, the addition of non-recurring revenues related to VAT refunds for prior years in the amount of €20 million, and gains on disposals of POS terminals (€25 million), the operating net profit decreased by 6.7% YOY (€61 million) to a total of €854 million in 2017.

Considering OPFs first-quarter results 2018, the Group records stable development in its main sources of operating income, while its expenses are increasing compared to the first quarter of 2017.

A detailed group income statement for the years of 2014 through 2017 can be found in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	1,043,000	37.8%	1,026,000	35.3%	1,058,000	35.7%	1,094,000	35.2%
Net Fee & Commission Income	707,000	25.6%	855,000	29.4%	859,000	29.0%	928,000	29.8%
Net Insurance Income	786,000	28.5%	528,000	18.1%	558,000	18.8%	478,000	15.4%
Net Trading Income	125,000	4.5%	460,000	15.8%	626,000	21.1%	636,000	20.5%
Equity Accounted Results	3,000	0.1%	9,000	0.3%	1,000	0.0%	27,000	0.9%
Dividends from Equity Instruments	40,000	1.5%	47,000	1.6%	40,000	1.3%	53,000	1.7%
Rental Revenue	58,000	2.1%	76,000	2.6%	82,000	2.8%	91,000	2.9%
Lease and Rental Revenue	3,000	0.1%	5,000	0.2%	2,000	0.1%	1,000	0.0%
Other Income	-9,000	-0.3%	-94,000	-3.2%	-261,000	-8.8%	-198,000	-6.4%
Operating Income	**2,757,000**	**100%**	**2,910,000**	**100%**	**2,965,000**	**100%**	**3,109,000**	**100%**
Expenses (€000)								
Depreciation and Amortisation	140,000	8.1%	157,000	9.4%	153,000	8.7%	191,000	9.9%
Personnel Expense	741,000	42.9%	772,000	46.2%	762,000	43.1%	758,000	39.2%
Occupancy & Equipment	92,000	5.3%	89,000	5.3%	79,000	4.5%	82,000	4.2%
Tech & Communications Expense	228,000	13.2%	241,000	14.4%	301,000	17.0%	371,000	19.2%
Marketing and Promotion Expense	35,000	2.0%	32,000	1.9%	36,000	2.0%	35,000	1.8%
Other Provisions	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Expense	493,000	28.5%	381,000	22.8%	436,000	24.7%	498,000	25.7%
Operating Expense	**1,729,000**	**100%**	**1,672,000**	**100%**	**1,767,000**	**100%**	**1,935,000**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**1,028,000**		**1,238,000**		**1,198,000**		**1,174,000**	
Asset Writedowns	102,000		97,000		135,000		142,000	
Net Income (€000)								
Non-recurring Revenue	0		0		76,000		45,000	
Non-recurring Expense	12,000		39,000		0		0	
Pre-tax Profit	**915,000**		**1,101,000**		**1,138,000**		**1,077,000**	
Income Tax Expense	308,000	33.7%	249,000	22.6%	223,000	19.6%	223,000	20.7%
Discontinued Operations	0		0		0		0	
Net Profit	**607,000**		**853,000**		**915,000**		**854,000**	

Figure 1: Group income statement
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

See Chart 2 for the contributions of each business segment to OPF's pre-tax profit of €1.07 billion in 2017.

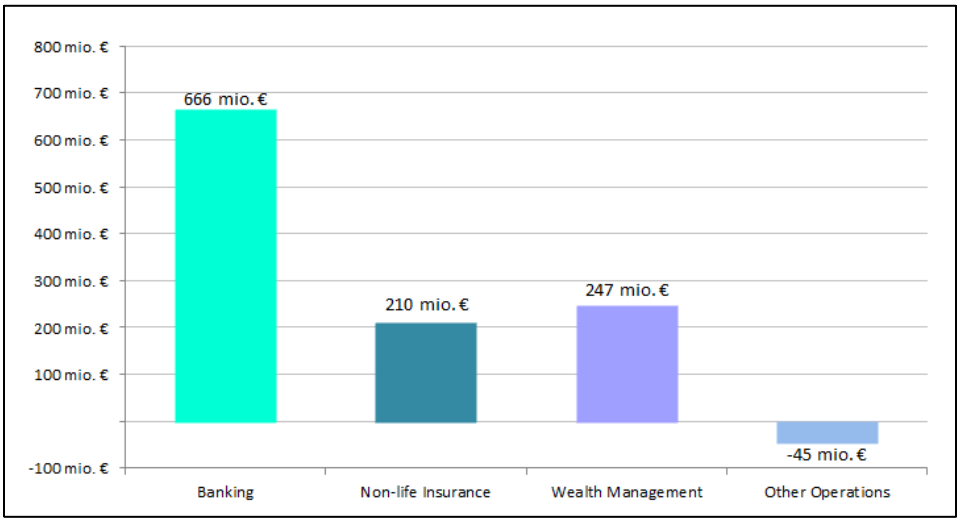

Chart 2: Pre-tax profit by business segments of OPF
(Source: Own presentation based on data of Annual Report 2017 of OPF)

Due to the decline in OPF's net profit in 2017, the Group recorded deteriorated earnings figures. However, these figures are still on a sound level.

Despite the deterioration of the Group's main earnings figures (ROAA, ROAE and RORWA) YOY, OPF's figures are still in line with its competitors. In addition, the RORWA figure is actually above the average of the peer group. However, while OPF's ratios worsened over the previous year, the peer group was able to improve its ratios in the same period.

By contrast, the Group's net interest margin remained roughly unchanged YOY; however it is clearly below the average of its competitors. Considering OPF's cost to income ratios, the Group recorded a cost to income ratio excluding trading which is less favorable than those of the peer group, while OPF's regular cost to income ratio is just in line with the average of the peer group. Nonetheless, while the peer group improved in both of the aforementioned ratios (YOY), OPF's ratios clearly declined. However, the increase in these ratios is primarily due to increased investments.

OPF's earnings figures are the least favorable performers of all the areas analyzed. Nonetheless, the Group continues to display adequate figures.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.57	-0.08	0.73	0.15	0.71	-0.02	0.63	-0.08
Return on Equity (ROAE)	8.84	-0.22	10.32	1.48	9.42	-0.90	7.99	-1.42
RoRWA	1.50	-0.29	2.05	0.55	2.12	0.07	1.89	-0.23
Net Interest Margin	1.20	0.10	1.00	-0.20	0.93	-0.07	0.92	-0.01
Cost income Ratio ex. Trading	65.69	-7.07	68.24	2.55	75.55	7.30	78.25	2.70
Cost income Ratio	62.71	-6.34	57.46	-5.26	59.60	2.14	62.24	2.64
Change in %-Points								

Figure 2: Group key earnings figures
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

Asset Situation and Asset Quality

OPF's financial assets accounted for 88% of total assets in 2017, increasing by 2.6% YOY (€3.1 billion). Net loans to customers represented the largest share of assets, accounting for 59.9% and increasing by 4.6% YOY (€3.6 billion) as a result of increased loans to the public and public sector entities. The majority of these loans are attributable to the real estate sector in Finland. Total securities, as the second largest asset, represented 18.5% of OPF's total assets, decreasing by 14% YOY (€4.1 billion) as the Group reduced its amount of available for sale financial assets such as bonds and notes, as well as derivatives, in particular interest rate swaps. The increase in this position in 2015 is a result of OPF's change in presenting its balance sheet in 2016 and retroactively for 2015, whereby the allocations of the non-life insurance assets and life insurance assets have been adjusted. In addition, this change had an impact on the position of insurance assets in our presentation. Moreover, the position of unit-linked investments comprises the Group's unit-linked insurance asset which was affected by the aforementioned change as well. The position of 'cash and balances with central banks' exhibits a solid liquidity buffer and increased by €3.5 billion (YOY) to a total amount of €12.9 billion. By contrast, the Group's net loans to banks are at a relatively insignificant amount at €504 million. The position of other assets comprises items such as CSA (Credit Support Annex*)* receivables from derivative contracts (€543 million in 2017 and €1,098 million in 2016) and direct insurance receivables in the amount of €492 million.

The Group's total assets amounted to €137.2 billion in 2017, increasing by 2.6% YOY (€3.5 billion).

The development of OPF's assets for the years 2014 - 2017 is shown in detail in the following:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	3,888,000	3.5%	8,619,000	6.9%	9,471,000	7.1%	12,937,000	9.4%
Net Loans to Banks	686,000	0.6%	425,000	0.3%	337,000	0.3%	504,000	0.4%
Net Loans to Customers	70,683,000	64.0%	75,192,000	60.4%	78,604,000	58.8%	82,240,000	59.9%
Total Securities	15,345,000	13.9%	25,867,000	20.8%	29,478,000	22.0%	25,342,000	18.5%
Financial Assets	**90,602,000**	**82%**	**110,103,000**	**88%**	**117,890,000**	**88%**	**121,023,000**	**88%**
Equity Accounted Investments	56,000	0.1%	93,000	0.1%	91,000	0.1%	228,000	0.2%
Unit-Linked Investments	7,492,000	6.8%	8,640,000	6.9%	9,168,000	6.9%	10,126,000	7.4%
Other Investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance Assets	7,543,000	6.8%	NA	0.0%	NA	0.0%	NA	0.0%
Non-current Assets HFS & Discontinued Ops	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tangible and Intangible Assets	2,615,000	2.4%	3,155,000	2.5%	3,397,000	2.5%	3,518,000	2.6%
Tax Assets	168,000	0.2%	118,000	0.1%	210,000	0.2%	214,000	0.2%
Total Other Assets	1,951,000	1.8%	2,347,000	1.9%	2,992,000	2.2%	2,131,000	1.6%
Total Assets	**110,427,000**	**100%**	**124,455,000**	**100%**	**133,747,000**	**100%**	**137,242,000**	**100%**

Figure 3: Development of assets
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

Despite the slight deterioration of OPF's asset quality, the Group's asset quality figures were still at a very sound level in 2017.

The NPL ratio of 1.78% is far below the average of the peer group and indicates a sound loan portfolio of the Group in general. In addition, OPF's NPL ratio has been very stable over recent years. Moreover, the Group's NPL / RWA ratio is also convincing, despite the increase by 0.19 percentage points YOY. Considering the potential problem loans / NPL ratio, OPF is ahead of its competitors; however, the peer group has been able to gain ground. By contrast, the Group's reserves / impaired loans ratio is just in line with the average of the peer group, as the peer group was able to catch up YOY. The Group's net-write-offs / risk-adjusted assets ratio outperforms the peer group considerably, which again shows OPF's very sound and impressive asset quality. OPF's RWA ratio of 32.6% is more favorable than that of the peer group on average.

In general, OPF records a very sound asset quality, and its asset quality figures are the best performers in any of the areas analyzed.

The development of asset quality figures in the years 2014 - 2017 is detailed as follows:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non-Performing Loans (NPL) / Loans	1.73	0.62	1.64	-0.09	1.74	0.10	1.78	0.05
NPL / RWA	2.89	0.67	2.95	0.05	3.09	0.14	3.28	0.18
Potential Problem Loans / NPL	17.66	-11.46	23.93	6.26	24.85	0.93	25.32	0.47
Reserves / Impaired Loans	86.56	3.10	80.16	-6.40	79.38	-0.79	78.31	-1.07
Net Write-offs / Risk-adjusted Assets	0.25	0.03	0.30	0.05	0.27	-0.03	0.27	-0.01
Risk-weighted Assets/ Assets	38.26	4.51	33.61	-4.66	32.97	-0.63	32.59	-0.39
Change in %-Points								

Figure 4: Development of asset quality
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

Refinancing and Capital Quality

OPF's financial liabilities accounted for 81% of total liabilities in 2017, increasing by 3.4% YOY (€3.4 billion). Total deposits from customers represent the largest share of the Group's liabilities with 52%, increasing by 9.1% YOY (€5.5 billion). The main drivers of the increase were corporate deposits, which increased by 8% YOY. Total debt, accounting for 22.4% of OPF's liabilities, decreased by 5.3% YOY (€1.5 billion) and consists primarily of senior debt (thereof covered bonds: €10.75 billion as of December 2017). While the covered bonds increased YOY by €1.47 billion, OPF's other bonds decreased by €1.96 billion in comparison to the previous year. The Group's total deposits from banks are primarily attributable to liabilities to central banks (78%), which increased YOY by €783 million. By contrast, OPF's derivative liabilities are primarily attributable to interest rate hedges.

The Group's insurance liabilities accounted for 7.9% of total liabilities in 2017, decreasing by 6% YOY (€636 million). This item consists of non-life insurance liabilities such as provisions for unpaid claims (31%) and insurance liabilities for life insurance, which caused the decrease in this position. By contrast, unit-linked insurance and investment contracts increased by 10.3% YOY and in the recent years in general. Furthermore, OPF noticed a considerable increase of its total equity in recent years.

The development of refinancing and capitalization in the years 2014 - 2017 is detailed as follows:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	1,776,000	1.7%	1,673,000	1.5%	4,669,000	3.8%	5,157,000	4.1%
Total Deposits from Customers	51,163,000	49.6%	58,220,000	50.6%	60,077,000	48.6%	65,549,000	52.0%
Total Debt	26,168,000	25.4%	29,402,000	25.5%	29,809,000	24.1%	28,241,000	22.4%
Derivative Liabilities	5,489,000	5.3%	4,678,000	4.1%	4,044,000	3.3%	3,026,000	2.4%
Securities Sold, not yet Purchased	4,000	0.0%	0	0.0%	0	0.0%	1,000	0.0%
Other Financial Liabilities	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Financial Liabilities	**84,600,000**	**82%**	**93,973,000**	**82%**	**98,599,000**	**80%**	**101,974,000**	**81%**
Insurance Liabilities	8,038,000	7.8%	7,705,000	6.7%	10,586,000	8.6%	9,950,000	7.9%
Non-current Liab. HFS & Discontinued Ops	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unit-Linked Insurance and Investment Contr.	6,164,000	6.0%	8,666,000	7.5%	9,205,000	7.5%	10,158,000	8.1%
Tax Liabilities	964,000	0.9%	866,000	0.8%	894,000	0.7%	890,000	0.7%
Non-current Asset Retirement Obligations	420,000	0.4%	15,000	0.0%	319,000	0.3%	304,000	0.2%
Other Provisions	2,000	0.0%	4,000	0.0%	3,000	0.0%	9,000	0.0%
Total Other Liabilities	3,025,000	2.9%	3,902,000	3.4%	3,904,000	3.2%	2,837,000	2.2%
Total Liabilities	**103,214,000**	**93.5%**	**115,131,000**	**92.5%**	**123,509,000**	**92.3%**	**126,122,000**	**91.9%**
Total Equity	**7,213,000**	**6.5%**	**9,324,000**	**7.5%**	**10,237,000**	**7.7%**	**11,121,000**	**8.1%**
Total Passiva	**110,427,000**	**100%**	**124,455,000**	**100%**	**133,747,000**	**100%**	**137,242,000**	**100%**
Deposits from Customers Growth*	2.01	NA	13.79	11.79	3.19	-10.60	9.11	5.92
*Change in %-Points								

Figure 5: Development of refinancing and capital adequacy
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

OPF's capital ratios show a sound and impressive capitalization of the Group.

The Group's CET1, Tier 1, as well as its total capital ratio, are significantly more favorable than those of the peer group. In addition, OPF was able to improve in all of these three ratios more dramatically than its competitors did (YOY). Thus, OPF records very sound capitalization. Moreover, the Group's fully loaded capital ratios are clearly stronger than those of the peer group. The leverage ratio of 7.9% is considerably better than the average of the peer group. Additionally, OPF was able to improve this ratio to a greater extent than the peer group did YOY. Furthermore, OPF very clearly complies with and exceeds all regulatory requirements with its capital ratios.

The nominal increase of the Group's risk-weighted assets is a result of the Group's expansion of its balance sheet in general.

The development of capital ratios for the 2014 - 2017 is detailed as follows:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	7,316,000	23.96	9,569,000	30.80	10,192,000	6.51	11,093,000	8.84
Total Risk-weighted Assets	42,252,000	23.94	41,824,000	-1.01	44,101,000	5.44	44,725,000	1.41
Capital Ratios (%)								
Core Tier 1 Ratio	15.11	-2.20	19.55	4.44	20.12	0.57	22.12	2.00
Tier 1 Ratio	15.49	-1.82	19.88	4.40	20.30	0.42	22.30	2.00
Total Capital Ratio	17.32	0.00	22.88	5.56	23.11	0.23	24.80	1.69
Leverage Ratio	6.41	-0.39	7.20	0.79	7.40	0.20	7.90	0.50
Fully Loaded: Common Equity Tier 1 Ratio	14.90	-2.41	19.16	4.26	19.94	0.78	20.10	0.16
Fully Loaded: Tier 1 Ratio	14.90	-2.41	19.16	4.26	19.90	0.74	20.10	0.20
Fully Loaded: Risk-weighted Capital Ratio	16.60	-0.71	22.19	5.59	22.80	0.61	22.40	-0.40
Total Equity/ Total Assets	6.53	-1.12	7.49	0.96	7.65	0.16	8.10	0.45
Change in %-Points								

Figure 6: Development of capital ratios
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

Due to OPF's bank capital and debt structure, the Group's senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. However, the Group's Tier 2 capital rating is three notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital of OPF is not rated due to its transitional character. In addition, OPF did not issue any post-transitional AT1 instruments yet.

Liquidity

The Group's liquidity situation is sufficient. The liquidity coverage ratio of 123% in 2017 complies with regulatory requirements; however, this ratio is below the average of the peer group. Moreover, the peer group was able to improve its ratio on average to a greater extent than OPF.

At 9.7%, OPF's interbank ratio is at a very low level and is significantly below the average of the peer group. The loan-to-deposit ratio of the Group has decreased in recent years. However, this ratio is still considerably higher than the average of the peer group. Notwithstanding, the peer group was able to gain ground YOY.

The development of the liquidity ratios for the years 2014 – 2017 is shown in detail as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	91.00	NA	116.00	25.00	117.00	1.00	123.00	6.00
Interbank Ratio	38.63	-43.09	25.40	-13.22	7.22	-18.19	9.77	2.56
Loan to Deposit (LTD)	138.15	2.30	129.15	-9.00	130.84	1.69	125.46	-5.38
Change in %-Points								

Figure 7: Development of liquidity
(Source: Based on data of S&P Global Market Intelligence as of 27 June 2018)

Conclusion

Overall, OPF - as the leading financial institution in Finland - recorded stable growth while maintaining substantial profitability in the fiscal year 2017. In addition, OPF convinces through is impressive asset quality and its strong capitalization.

Despite the low interest environment in Europe, OPF records a very stable interest income in the past decade. Moreover, the Group was able to increase its income from fees and commission in recent years. Thus, the Group's income figures are shaped by a very resilient and stable development. Notwithstanding, the Group noticed increasing operating expenses, mainly driven by increased investments.

The asset quality of OPF significantly outperforms that of its competitors, and OPF displays a prudent approach in this respect. The NPL ratio of the Group has been at a stable and remarkably low level in recent years. Moreover, the Group benefits from a favorable economic situation in Finland; however, as a result of its focus on Finland, OPF faces a high geographic concentration risk. Furthermore, the Group denotes relatively high exposures to the real estate sector in Finland.

On the liabilities side, OPF achieved impressive growth in its deposits from customers. Moreover, the Group benefits from its stable and diversified funding base and was even able to reduce its debt YOY. The Group complies with and exceeds all regulatory capital requirements, and is above the average of the peer group with its regulatory capital ratios. In addition, the Group benefits from its cooperative banking model with its joint liability system.

Furthermore, the liquidity situation of the Group is satisfactory.

In the near future, growing regulations, ongoing digitization, as well as the low-interest-rate environment in the EU pose a general challenge for the banking landscape. Notwithstanding, an interest rate reversal is becoming more likely, as well as the already announced termination of the ECB bond-buying program. In particular, a rapid increase in interest rates goes hand-in-hand with an interest-rate adjustment risk for banks, which have adjusted to long-term low interest rates.

In a scenario analysis, the rating developed significantly better in the “best case” scenario and slightly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly, based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **A+ / L2 / stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Senior unsecured debt: **A+**
Tier 2 (T2): **A-**
Additional Tier 1 (AT1): **-**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	04.12.2018	14.12.2018	A+ / A- / -

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	04.12.2018	14.12.2018	A+ / stable / L2

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on data of the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence as of 27 June 2018. Subject to a peer group analysis were 66 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 04 December 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to OP Yrityspankki Oyj (OP Corporate Bank plc), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is subject to one-year monitoring from the rating date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved nor any other natural persons whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our ‘Rating Committee’ policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used the following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded the available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522