Creditreform Bank Rating

OP Yrityspankki Oyj (OP Corporate Bank Plc)
as member of OP Financial Group (Group)

Creditreform Rating

Long-Term Issuer Rating: A+
Outlook: stable

Short-Term Rating: L2

Preferred Sen. Unsec. Debt: A+
Non-Preferred Sen. Unsec. Debt: A
Tier 2 Capital: A-

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Rating Action:

Creditreform Rating affirms OP Financial Group (Group) long-term issuer rating at 'A+' (Outlook: stable). In addition, CRA affirms the credit rating of the group member institutes OP Yrityspankki Oyj (OP Corporate Bank Plc) and OP Mortgage Bank Plc at 'A+' (Outlook: stable).

Creditreform Rating (CRA) affirms OP Financial Group's (OPF) long-term issuer rating at 'A+' and the short-term rating at 'L2'. The rating outlook is stable. Moreover, CRA affirms the long-term issuer rating of the Group's major member credit institutes OP Corporate Bank Plc (OPC - responsible for the unsecured funding of the Group) and OP Mortgage Bank Plc (OPM - responsible for the Group's secured funding) at 'A+' as well as the short-term ratings at 'L2', which reflects the ratings of OPF, in line with our methodology.

Moreover, CRA affirms its rating of the Tier 2 capital of OPF and its member institutes at 'A-'. However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'A+'.
In addition, CRA assigns OPF's, OPC's and OPM's non-preferred senior unsecured debt, which ranks junior to preferred senior unsecured debt, the following rating: 'A'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating action paper. In addition, we refer to the more detailed report of the Group from June 2018 on our homepage.

Key Rating Drivers

CRA has revised and affirmed the rating of OPF and its bank capital and debt instruments as a result of our periodic updating process for the following reasons:

- Stable earnings figures
- Strong capitalization with a CET1 ratio of 20.5%
- Sound asset quality with a relatively low amount of stage 3 loans
- Continuously growing business despite difficult business environment

Rating Rationale

OPF's credit rating affirmation is primarily driven by its stable profitability, the sound asset quality and the very strong capitalization.

Profitability

The bank's profitability remained roughly at a stable level year-over-year and is in line with the average of the peer group, however, OPF struggles to maintain its profitability level. The stable earnings figures in 2018 are mainly a result of a non-recurring event that decreased the Group's expenses. In particular, OPF transferred the management of and the majority of the personnel's statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company at the end of 2018. The transfer reduced OPF's pension costs and improved the Group's earnings before tax by €286 million. Moreover, OPF reveals rising production and developing costs due to increased IT investments.

In 2019, the Group forecasts a slight worsening of its profit. However, we acknowledge and are pleased that OPF targets to reduce its expenses until 2020 to the level of 2015.

Asset Situation and Asset Quality

OPF's asset quality is convincing and at a continuously sound level. In comparison to the peer group, OPF's non-performing loans as well as its write-offs are outstandingly low. Merely, OPF displays a rising RWA ratio in recent years; however, it is still below the average of the peer group. OPF's asset quality figures are the best performers in any of the areas analyzed.

Refinancing and Capital Quality

OPF records a very strong level of capitalization. OPF is clearly outperforming its peer group with a CET1 ratio of 20.5%, a total capital ratio of 22.5% and a leverage ratio of 8.6%. Moreover, OPF aims to improve its level of capitalization with a targeted CET1 ratio of 22% for 2019.

The ratings of OPF's bank capital and debt instruments are affected by our rating mechanism. Due to negligible small amount of AT1 Capital, CRA does not assign a rating for this bank capital class.

Liquidity

In our opinion, the overall liquidity situation of the cooperative Group is satisfactory.

Outlook

We consider the outlook of OPF's long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that OPF is likely to keep its high level of capitalization while maintaining a low amount of non-performing assets in the upcoming years. However, we will observe whether OPF is able to keep its level of profitability.

Scenario Analysis

In a scenario analysis, OPF's rating did not change in the "best case" scenario and developed slightly worse in the "worst case" scenario. The ratings of bank capital and senior unsecured debt instruments 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.

We could upgrade OPF's long-term issuer credit rating and its bank capital and debt instruments if we see OPF significantly improves it earnings figures. In addition, a further improvement of the capital figures might lead to an upgrade as well.

By contrast, a downgrade of OPF's long-term issuer credit rating and its bank capital and debt instruments is likely if we notice an ongoing worsening of the Group's earnings figures. In addition, increasing non-performing assets might lead to a downgrade of the OPF's long-term issuer rating and its bank capital and debt instruments.

CRA's rating actions at a glance

OP Financial Group:

- Long-Term Issuer Rating affirmed at 'A+', stable outlook
- Short-term rating affirmed at 'L2'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'A+'
- Non-preferred senior unsecured debt rated at 'A'
- Tier 2 capital affirmed at 'A-'

OP Corporate Bank Plc (OP Yrityspankki Oyj):

- Long-Term Issuer Rating affirmed at 'A+', stable outlook
- Short-term rating affirmed at 'L2'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'A+'
- Non-preferred senior unsecured debt rated at 'A'
- Tier 2 capital affirmed at 'A-'

OP Mortgage Bank Plc:

- Long-Term Issuer Rating affirmed at 'A+', stable outlook
- Short-term rating affirmed at 'L2'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'A+'
- Non-preferred senior unsecured debt rated at 'A'
- Tier 2 capital affirmed at 'A-'

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

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.

Preferred senior unsecured debt (PSU): **A+**
Non-Preferred senior unsecured debt (NPS): **A**
Tier 2 (T2): **A-**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Ratings Detail and History

Bank Issuer Rating	**Rating Date**	**Publication Date**	**Result**
Initialrating	27.06.2018	06.07.2018	A+ / stable / L2
Rating Update	17.09.2019	19.09.2019	A+ / stable / L2
Bank Capital and Debt Instruments	**Rating Date**	**Publication Date**	**Result**
Senior Unsecured / T2 (Initial)	27.06.2018	06.07.2018	A+ / A-
PSU / NPS / T2	17.09.2019	19.09.2019	A+ / A / A-
Rated Members of the Group	**Rating Date**	**Publication Date**	**Result**
OP Yrityspankki Oyj (OP Corporate Bank Plc)			
Initialrating	04.12.2018	14.12.2018	A+ / stable / L2
Rating Update	17.09.2019	19.09.2019	A+ / stable / L2
Bank Capital and Debt Instruments of OP Corporate Bank Plc			
Senior Unsecured / T2 (Initial)	04.12.2018	14.12.2018	A+ / A-
PSU / NPS / T2	17.09.2019	19.09.2019	A+ / A / A-
OP Mortgage Bank Plc			
Initialrating	31.08.2019	05.09.2018	A+ / stable / L2
Rating Update	17.09.2019	19.09.2019	A+ / stable / L2
Bank Capital and Debt Instruments of OP Mortgage Bank Plc			
Senior Unsecured / T2 (Initial)	31.08.2019	05.09.2018	A+ / A-
PSU / NPS / T2	17.09.2019	19.09.2019	A+ / A / A-

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	1.026.000	1.058.000	1.102.000	+6,1	1.169.000
Net Fee & Commission Income	855.000	859.000	879.000	+0,9	887.000
Net Insurance Income	461.000	320.000	294.000	+61,9	476.000
Net Trading Income	452.000	587.000	572.000	-47,6	300.000
Equity Accounted Results	9.000	2.000	27.000	+51,9	41.000
Dividends from Equity Instruments	47.000	39.000	107.000	-97,2	3.000
Other Income	46.000	46.000	58.000	+32,8	77.000
Operating Income	**2.895.000**	**2.913.000**	**3.039.000**	**-2,8**	**2.953.000**
Expenses (€000)				-	
Depreciation and Amortisation	162.000	160.000	246.000	+32,1	325.000
Personnel Expense	781.000	762.000	758.000	+5,8	802.000
Tech & Communications Expense	241.000	280.000	371.000	+5,1	390.000
Marketing and Promotion Expense	32.000	36.000	35.000	+5,7	37.000
Other Provisions	-	-	-	-	-
Other Expense	500.000	536.000	575.000	+11,0	638.000
Operating Expense	**1.716.000**	**1.774.000**	**1.985.000**	**+10,4**	**2.192.000**
Operating Profit & Impairment (€000)				-	
Pre-impairment Operating Profit	**1.179.000**	**1.139.000**	**1.054.000**	**-27,8**	**761.000**
Asset Writedowns	78.000	77.000	48.000	-4,2	46.000
Net Income (€000)				-	
Non-Recurring Income	-	76.000	25.000	> +100	302.000
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**1.102.000**	**1.138.000**	**1.031.000**	**-1,4**	**1.017.000**
Income Tax Expense	249.000	223.000	214.000	+4,2	223.000
Discontinued Operations	-	-	-	-	-
Net Profit	**853.000**	**915.000**	**817.000**	**-2,8**	**794.000**
Attributable to minority interest (non-controlling interest)	8.000	2.000	6.000	+33,3	8.000
Attributable to owners of the parent	845.000	913.000	812.000	-3,2	786.000

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	59,27	60,90	65,32	+8,91	74,23
Cost Income Ratio ex. Trading (CIRex)	70,24	76,27	80,46	+2,16	82,62
Return on Assets (ROA)	0,69	0,68	0,60	-0,03	0,57
Return on Equity (ROE)	9,15	8,94	7,37	-0,66	6,71
Return on Assets before Taxes (ROAbT)	0,89	0,85	0,75	-0,03	0,72
Return on Equity before Taxes (ROEbT)	11,82	11,12	9,30	-0,71	8,59
Return on Risk-Weighted Assets (RORWA)	2,04	2,07	1,66	-0,14	1,52
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,63	2,58	2,09	-0,14	1,95
Net Interest Margin (NIM)	1,34	1,39	1,38	-0,21	1,18
Pre-Impairment Operating Profit / Assets	0,95	0,85	0,77	-0,23	0,54
Cost of Funds (COF)	1,56	1,16	0,86	-0,10	0,76
Customer Interest Spread (CIS)	0,80	0,90	1,02	+0,03	1,05
Change in %Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	8.619.000	9.471.000	12.937.000	-4,5	12.350.000
Net Loans to Banks	425.000	337.000	504.000	-63,7	183.000
Net Loans to Customers	75.192.000	78.604.000	82.202.000	+5,9	87.085.000
Total Securities	20.795.000	24.744.000	22.069.000	-1,2	21.798.000
Total Derivative Assets	5.138.000	4.879.000	3.412.000	+2,1	3.482.000
Other Financial Assets	82.000	101.000	13.000	+100,0	26.000
Financial Assets	**110.251.000**	**118.136.000**	**121.137.000**	**+3,1**	**124.924.000**
Equity Accounted Investments	93.000	91.000	228.000	+3,9	237.000
Other Investments	-	-	-	-	-
Insurance Assets	9.268.000	9.813.000	10.612.000	-3,2	10.271.000
Non-current Assets & Discontinued Ops	-	-	-	-	-
Tangible and Intangible Assets	3.073.000	3.296.000	3.357.000	-4,5	3.205.000
Tax Assets	118.000	210.000	224.000	-6,7	209.000
Total Other Assets	1.652.000	2.201.000	1.647.000	-6,7	1.536.000
Total Assets	**124.455.000**	**133.747.000**	**137.205.000**	**+2,3**	**140.382.000**

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans/ Assets	60,42	58,77	59,91	+2,12	62,03
Risk-weighted Assets/ Assets	33,61	32,97	35,87	+1,26	37,13
NPLs*/ Net Loans to Customers	1,22	1,25	1,56	-0,14	1,41
NPLs*/ Risk-weighted Assets	2,19	2,22	2,60	-0,24	2,36
Potential Problem Loans**/ NPLs*	143,17	174,77	581,94	+111,07	693,01
Reserves/ NPLs*	53,99	51,69	38,39	+4,29	42,68
Reserves/ Net Loans	0,66	0,64	0,60	+0,01	0,60
Net Write-offs/ Net Loans	0,10	0,10	0,06	+0,00	0,06
Net Write-offs/ risk-weighted Assets	0,19	0,17	0,10	+0,01	0,11
Change in %Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.

** Potential Problem Loans are represented from 2017 onwards by Stage 2 Loans.

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	1.673.000	4.669.000	5.157.000	-6,8	4.807.000
Total Deposits from Customers	51.941.000	54.822.000	57.991.000	+5,8	61.326.000
Total Debt	29.296.000	29.732.000	28.241.000	+12,7	31.814.000
thereof: Senior Debt	-	-	-	-	-
thereof: Subordinated Debt	1.590.000	1.445.000	1.400.000	-3,0	1.358.000
Derivative Liabilities	4.678.000	4.044.000	3.027.000	-6,8	2.821.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	6.279.000	5.255.000	7.559.000	-36,7	4.785.000
Total Financial Liabilities	**93.867.000**	**98.522.000**	**101.975.000**	**+3,5**	**105.553.000**
Insurance Liabilities	16.415.000	19.838.000	20.175.000	-4,1	19.348.000
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	866.000	894.000	889.000	+3,6	921.000
Provisions	4.000	3.000	9.000	> +100	21.000
Total Other Liabilities	3.979.000	4.253.000	3.074.000	-12,0	2.704.000
Total Liabilities	**115.131.000**	**123.510.000**	**126.122.000**	**+1,9**	**128.547.000**
Total Equity	**9.324.000**	**10.237.000**	**11.083.000**	**+6,8**	**11.835.000**
Total Liabilities and Equity	**124.455.000**	**133.747.000**	**137.205.000**	**+2,3**	**140.382.000**

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	7,49	7,65	8,08	+0,35	8,43
Leverage Ratio	7,20	7,40	7,90	+0,70	8,60
Phased-in: Common Equity Tier 1 Ratio (CET1)	19,50	20,10	20,10	+0,40	20,50
Phased-in: Tier 1 Ratio (CET1 + AT1)	19,90	20,30	20,30	+0,30	20,60
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	22,90	23,10	22,50	+0,00	22,50
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	19,20	19,90	20,10	+0,40	20,50
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	19,20	19,90	20,10	+0,40	20,50
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	22,20	22,80	22,40	+0,00	22,40
Net Stable Funding Ratio (NSFR)	-	114,00	116,00	-5,00	111,00
Change in %Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans/ Deposits (LTD)	144,76	143,38	141,75	+0,25	142,00
Interbank Ratio	25,40	7,22	9,77	-5,97	3,81
Liquidity Coverage Ratio	116,00	117,00	123,00	+20,00	143,00
Customer Deposits / Total Funding (excl. Derivates)	47,03	45,89	47,11	+1,67	48,78
Change in %Points					

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 the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 64 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 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”.

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document “Rating Criteria and Definitions" is published on the following homepage:

www.creditreform-rating.de/de/regulatory-requirements/.

On 17 September 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to OP Financial Group and the relevant member institutions, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound 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 or any other natural person 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 approving credit ratings and rating outlooks.

In case 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 policy “Rating Committee,” 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 following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank

There are no other attributes and limitations of the credit rating or rating outlook other than 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 available historical data as sufficient.

Between the 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 case 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 credit rating and indicates how the different methodologies or these 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 as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first 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.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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