MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 October 2018

Update

Rate this Research

RATINGS

OP Corporate Bank plc

Domicile	Finland
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
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.

Analyst Contacts

Niclas Boheman +46.8.5025.6561
AVP-Analyst
niclas.boheman@moodys.com

Malika Takhtayeva +44.20.7772.8662
Associate Analyst
malika.takhtayeva@moodys.com

Jean-Francois Tremblay +44.20.7772.5653
Associate Managing Director
jean-francois.tremblay@moodys.com

Sean Marion +44.20.7772.1056
MD-Financial Institutions
sean.marion@moodys.com

OP Financial Group

Credit Opinion Update

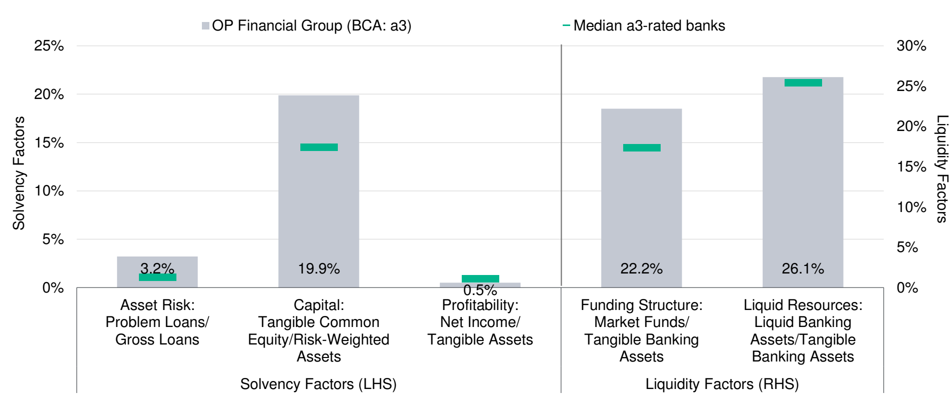
Summary

Moody's Aa3 rating on OP Corporate bank reflects its key role within the OP Financial Group (OPFG), which is an amalgamation of member banks, and credit institutions, who are all part of a joint liability. This credit opinion primarily reflects Moody's view on the creditworthiness of the OPFG, with OP Corporate bank being the issuing entity within the group and acting as the group's treasury.

OP Corporate Bank Plc's Aa3/Prime-1 deposit and senior unsecured debt ratings incorporate: (1) the bank's standalone baseline credit assessment (BCA) of baa2, (2) our assumption of affiliate support from the OPFG with an Adjusted BCA of a3, indicating two notches uplift from the bank's BCA, (3) the results from our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution, and indicating two notches of rating uplift for OP Corporate Bank's deposit and senior unsecured ratings, and (4) our assumption of moderate likelihood of support from the Finnish Government (Aa1, stable) in case of need, which results in one notch of additional uplift.

The group's BCA of a3 incorporates Finland's Macro Profile of Strong+ reflecting its strong national franchise, the joint liability, the group's high capitalisation, stable profitability, and an improving funding profile as well as a loan portfolio with moderately high amounts of forbearance.

Exhibit 1
Rating Scorecard - Key Financial Ratios as of Q2 2018



The bank's problem loan and profitability ratios are the weaker out of the average of the latest three year-end ratios or the latest reported ratio. The capital ratio is the latest reported figure. The funding structure and liquid asset ratios are the latest year-end figures.
Source: Moody's Financial Metrics

The corporate bank's standalone assessment of baa2 reflects in stable asset quality, adequate capitalisation and stable profitability. The funding profile is characterised by its function as treasury for the group with substantial intragroup deposits.

Credit strengths

» High capitalisation, with strong leverage ratio of the OPFG and good capital position of the bank.

» The group is market leader within bank and insurance with successful cross-selling

» The joint liability amongst member credit institutions

» Sound profitability aided by business growth and stable costs

Credit challenges

» Group wide asset quality expected to stabilise because of lower levels of forbearance

» The group has a certain reliance on wholesale funding, although with extended maturity profile

Rating outlook

The outlooks on OPFG's ratings and OP Corporate Bank's issuer, deposit and senior unsecured ratings are stable. This reflects our expectation that the financial fundamentals of the Group and the bank will remain in line with the current ratings over the next 12 to 18 months.

Factors that could lead to an upgrade

An upgrade of OPFG's BCA would lead to increased uplift from affiliate support and thereby trigger an upgrade of OP Corporate bank's ratings, assuming that the liability structure of the group is unchanged. Upward pressure on the ratings could develop as a result of a combination of: (1) stronger profitability; (2) reduction in the overall wholesale funding dependence in favour for a higher proportion of deposit funding for the group; and a longer debt maturity profile for the bank; (4) a stabilisation of asset risk.

An upgrade of OP Corporate Bank's BCA on its own, would not automatically lead to an upgrade of the bank's ratings, but rather reduce the number of notchings from affiliate support as the BCAs of the bank and the group align.

Factors that could lead to a downgrade

A downgrade of OPFG's BCA would lead to a reduced uplift from affiliate support incorporated in the corporate bank's ratings. A smaller cushion of loss absorbing obligations, such as junior debt, senior debt, and junior deposits (on consolidated OPFG level) or less likely government support would also result in downward rating pressure.

Downward pressure could develop on OPFG's BCA if (1) the group's funding conditions were to deteriorate; (2) asset quality weakened beyond our current expectations; and/or (3) profitability were to deteriorate.

Key indicators

Exhibit 2

OP Corporate Bank plc (Consolidated Financials) [1]

	6-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR million)	63,568	61,322	58,186	55,520	45,111	10.3[4]
Total Assets (USD million)	74,219	73,635	61,372	60,311	54,587	9.2[4]
Tangible Common Equity (EUR million)	3,152	3,148	2,909	2,735	2,301	9.4[4]
Tangible Common Equity (USD million)	3,680	3,780	3,068	2,971	2,784	8.3[4]
Problem Loans / Gross Loans (%)	2.1	1.9	2.2	2.3	3.1	2.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.3	13.7	13.2	12.8	10.5	12.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.8	11.4	13.1	13.6	19.3	14.1[5]
Net Interest Margin (%)	0.4	0.5	0.4	0.5	0.6	0.5[5]
PPI / Average RWA (%)	2.1	2.4	2.6	3.1	2.8	2.6[6]
Net Income / Tangible Assets (%)	0.6	0.7	0.7	0.9	1.1	0.8[5]
Cost / Income Ratio (%)	56.1	50.2	46.8	41.1	46.6	48.2[5]
Market Funds / Tangible Banking Assets (%)	54.0	52.3	54.5	48.4	58.9	53.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	61.0	62.5	62.3	61.8	55.0	60.5[5]
Gross Loans / Due to Customers (%)	114.2	108.0	117.1	99.3	137.8	115.3[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; 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 III periods presented

Source: Moody's Financial Metrics

Exhibit 3

OP Financial Group (Consolidated Financials) [1]

	6-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR million)	138,534	134,185	129,013	121,066	104,887	8.3[4]
Total Assets (USD million)	161,746	161,129	136,077	131,513	126,919	7.2[4]
Tangible Common Equity (EUR million)	10,153	9,288	8,343	7,617	5,386	19.9[4]
Tangible Common Equity (USD million)	11,854	11,153	8,800	8,274	6,517	18.6[4]
Problem Loans / Gross Loans (%)	1.6	4.0	3.9	3.4	2.9	3.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.9	18.9	18.9	18.2	12.7	17.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.4	34.1	34.7	31.3	35.2	29.6[5]
Net Interest Margin (%)	0.9	0.9	0.9	0.9	1.1	0.9[5]
PPI / Average RWA (%)	1.8	2.4	2.7	3.2	2.4	2.5[6]
Net Income / Tangible Assets (%)	0.5	0.7	0.7	0.8	0.7	0.7[5]
Cost / Income Ratio (%)	70.8	62.5	60.8	53.9	63.2	62.2[5]
Market Funds / Tangible Banking Assets (%)	24.3	22.2	24.6	23.8	26.8	24.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	21.5	26.1	25.7	27.0	15.6	23.2[5]
Gross Loans / Due to Customers (%)	125.9	126.2	131.7	130.0	139.1	130.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; 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 III periods presented

Source: Moody's Financial Metrics

Profile

OP Financial Group is Finland's largest financial and insurance conglomerate that provides banking, non-life insurance and wealth management services to private individuals and corporate and institutional customers. The products and services offered by the group include retail banking, corporate and investment banking, asset management, and insurance products.

As of 31 December 2017, OPFG held Finnish market shares of 35.5% in terms of loans and 37% in terms of deposits. As of 30 June 2018, it operated mainly in Finland through a nationwide service network of 377 branches. As of the same date, the group reported a consolidated asset base of €141.9 billion.

The group originated in 1902 as the Central Lending Fund of the Cooperative Credit Societies Limited Company. In 1970, cooperative societies became cooperative banks. As of end-June 2018, the OPFG comprised 157 independent cooperative banks, their central management body (OP Cooperative, or "the Central Cooperative") and its subsidiaries. As of that date, the cooperative member banks reported 1.9 million owner-customers. Each member is entitled to one vote.

OP Corporate Bank Plc (formerly, Pohjola Bank Plc) is part of the OPFG and in addition of conducting corporate lending, capital markets activities, and non-life insurance, it acts as the central treasury within the group and issuer of unsecured debt.

For further information on the bank's profile see OPFG Key Facts and Statistics - H1 2017.

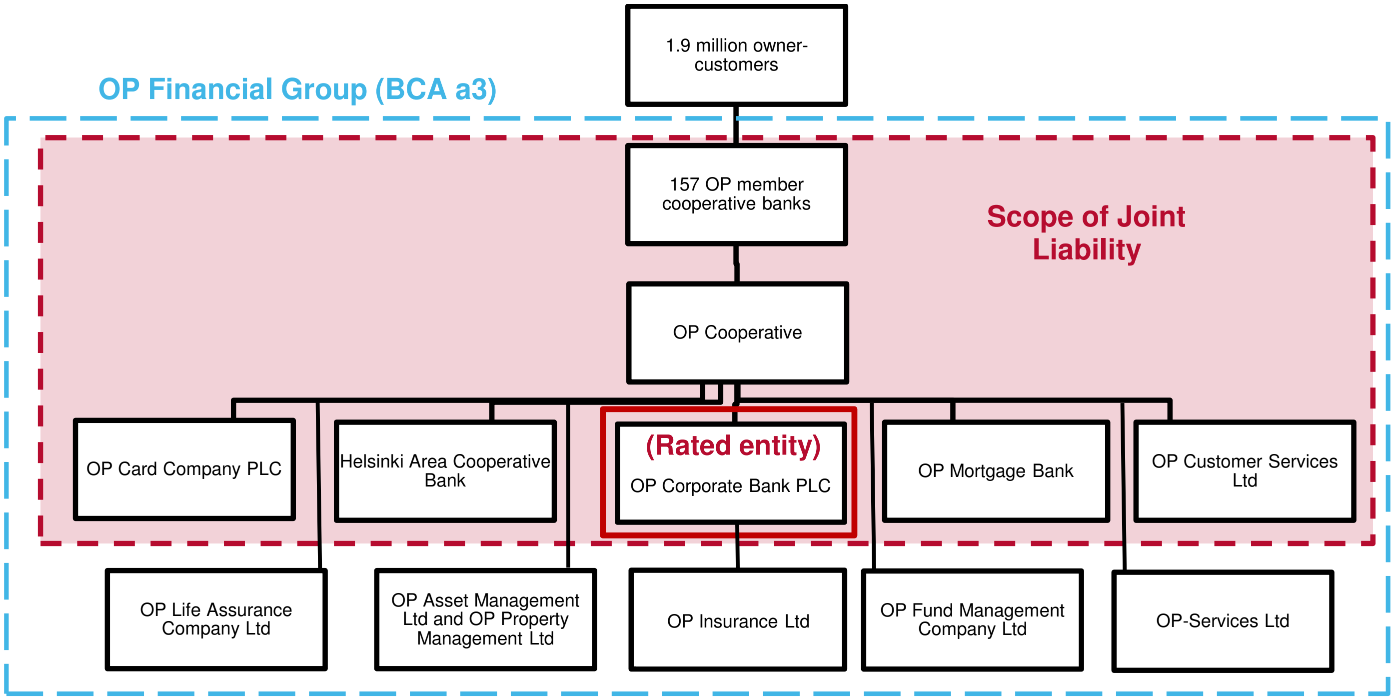
Detailed credit considerations

OP Financial Group benefits from a joint liability amongst member credit institutions

Under Finland's Cooperative Bank Act, the OP Cooperative, OP Corporate Bank, Helsinki Area Cooperative Bank, OP Card Company Plc, OP Mortgage Bank, OP Customer Services Ltd and the member cooperative banks (combined, the bulk of OPFG's member credit institutions excluding insurance companies and other Group entities) are jointly responsible for each other's liabilities. Creditors can claim payment from the central cooperative if any member institution is unable to pay. Each member institution has an unlimited obligation to pay the debts of the central cooperative if the latter is unable to do so independently.

As OP Corporate Bank and other member credit institutions of OPFG are responsible for each other's liabilities, as outlined in the Act on the Amalgamation of Deposit Banks, OP Corporate Bank can issue debt at more advantageous interest rates, a credit positive.

Exhibit 4
Structure of OP Financial Group and the scope of the joint liability.



Source: OP Financial Group, Moody's Investors Service

Asset risk is stable, but coverage is low and some sector concentration risks exist

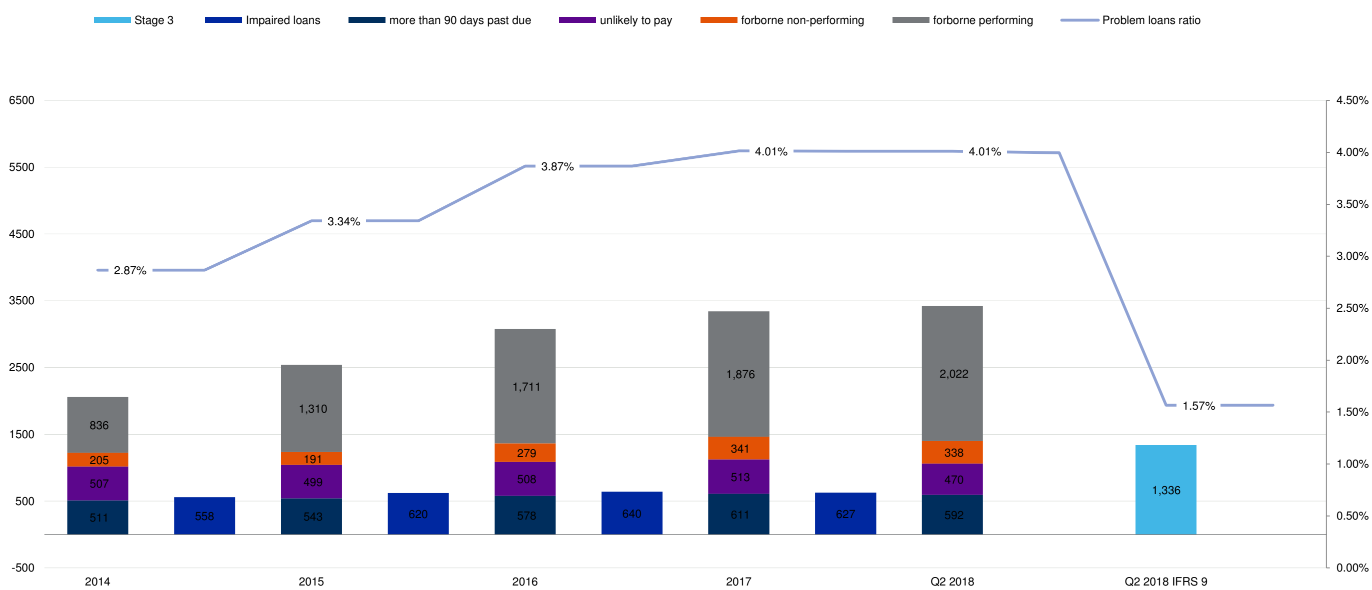
Due to implementation of IFRS 9 from 1 January 2018, the problem loan to gross loan ratio for OP will be presented differently in Moody's adjusted figures. We previously included the forborne performing loans in our asset risk ratio calculation, however, going forward, the ratio will be based on Stage 3 exposures in order to increase comparability. In the second quarter 2018 OPFG reported Stage 3 (on and off balance sheet) represented 1.57% of gross loans compared to 4.01% as of December 2017. For OP Corporate Bank the Stage 3 exposures remained on a similar level at 2% of gross loans as of H1 2018 compared to 1.9% as of YE 2017.

The change in calculation does not imply a change in our assessment of asset risk of the group. As can be seen in the problem loans exhibit (Exhibit 4), the amount of stage 3 exposures is at a comparable level as non-performing loans including non-performing forborne loans in previous periods.

OPFG's problem loans including performing forborne loans amounted to 4.01% of gross loans as of end-June 2018, comparable to year-end 2017, however increased from 3.9% in 2016, 3.4% in 2015, 2.9% in 2014, and 2.3% in 2013, primarily because of increased reporting of performing forborne loans (Exhibit 4). We partly attribute the increase to a lag in reporting forborne loans according to the EBA definitions, implemented in 2015. Finnish banks have also been granting generous amortisation holidays in an otherwise conservative amortisation culture as a competitive advantage. Longer term amortisation holidays would force the bank to report loans as forborne although the borrower is not necessarily more likely to default. We expect that performing forborne loans will gradually be reclassified as performing loans during the coming quarters, due to the 2 year probation period once classified as performing forborne loan.

The Group has a relatively low coverage with loan loss reserves over problem loans of 39% as of end-June 2018. However, the group has a large portfolio of housing loans (45% of loans) that we consider to be well covered by collateral.

Exhibit 5
Problem loan increase is primarily due to increase in performing forborne loans



Source: OP Financial Group, Moody's Investors Service

The group is exposed to some concentration risks mainly owing to its large corporate lending book, which includes more volatile sectors. Exposure to the construction, renting and operating of residential or other real estate accounted for 35.9% of all corporate exposures as of June 2018, which is broadly in line with last year's contribution. As a mitigating factor, we note the group's conservative borrower concentration limits which are well below regulatory requirements that no single customer exceeds 10% of the group's capital base after allowances and other credit risk mitigation. OPFG's Asset Risk at a3 score reflects the above-mentioned constraints and sector concentration.

On a standalone basis, OP Corporate Bank has a track record of strong asset quality with impaired loan ratio of 1.1% at the end of 2017, slightly below 1.3% at the end of 2016, and 1.5% in 2015. If we take into account all doubtful receivables the problem loan ratio would be 1.9% at the end of 2017 from 2.2% at the end of 2016 and from 2.3% in 2015. The improvement between 2014-17 is primarily driven by loan book growth, although the stock of impaired loans has also seen a decline. The bank's asset quality is constrained by its high sector concentration and the most significant exposures included energy 13%, trade 11% and services 11% as of end-June 2018. The bank's Asset Risk at baa2 score reflects the above-mentioned constraints.

High capitalisation, with strong leverage ratio of the OP Financial group and good capital position of the bank.

OPFG continues reporting strong capital ratios with reported Common Equity Tier 1 (CET1) and Total Capital ratios (TCR) of 19.8% and 22%, respectively, as of end-June 2018. The group's CET1 target for 2019 is to reach 22%. These levels compare well to the groups minimum requirement of 10.8% CET1 and 14.3% TCR. Additionally, the group has a strong leverage ratio relative to large Nordic peers, at 7.7%.

To meet the CET1 management target of 22%, and in order to build its capital base, the Group has been issuing profit shares. Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares and cooperative shares equalled to EUR 3.1 billion as of 30 June 2018. The assigned score of aa2 reflects OPFG's strong capital position and expected trends.

The Finnish Financial Supervisory Authority issued a macroprudential decision on March 28, 2017, introducing a 15% risk weight on housing loans for banks that have adopted the Internal Ratings Based (IRB) Approach, which was implemented January 1 2018 (an increase from the initially announced level at 10%). However, OP had already received information from the European Central Bank (ECB) on February 2, 2017 to raise risk weights on certain retail exposures for an 18 month period due to shortcomings in capital adequacy measurement (delayed validations). The impact of this was a 2 percentage point decline in the CET1 ratio at year-end 2017. Thus the ECB's action largely upfronted the impact of the 15% floor introduced by the Finnish FSA.

We consider OP Corporate Bank to be well capitalised on a standalone basis as well. The bank reported a CET1 ratio of 15.6% at the end of June 2018, while the target is 15%. The Total Capital ratio of the bank reached 20.3% at the end of June 2018 a slight decrease from 21.5% at the end of 2017. The assigned score of baa1 reflects OP Corporate bank's capital position and recent trends.

Sound profitability within the group aided by business growth while costs expected to increase

OPFG has a track record of consistent profitability. With the positive momentum in GDP growth in 2018 and 2019, OPFG is well positioned to increase its business volumes to largely offset increased costs due to investments in digitalisation, with annualised net income to tangible assets remained stable at 0.69% during 2017, compared to 0.70% during 2016. OPFG's net income to tangible assets has decreased slightly to 0.49% in the second quarter 2018, comparing to 0.74% as of the second quarter 2017 due mainly to lower net investment income and some non-recurring items in other operating income while expenses increased as higher development costs were recognised. This was partly offset by increasing net interest income and insurance income, which increased 7%, and commissions which increased 2% compared to the same period 2017.

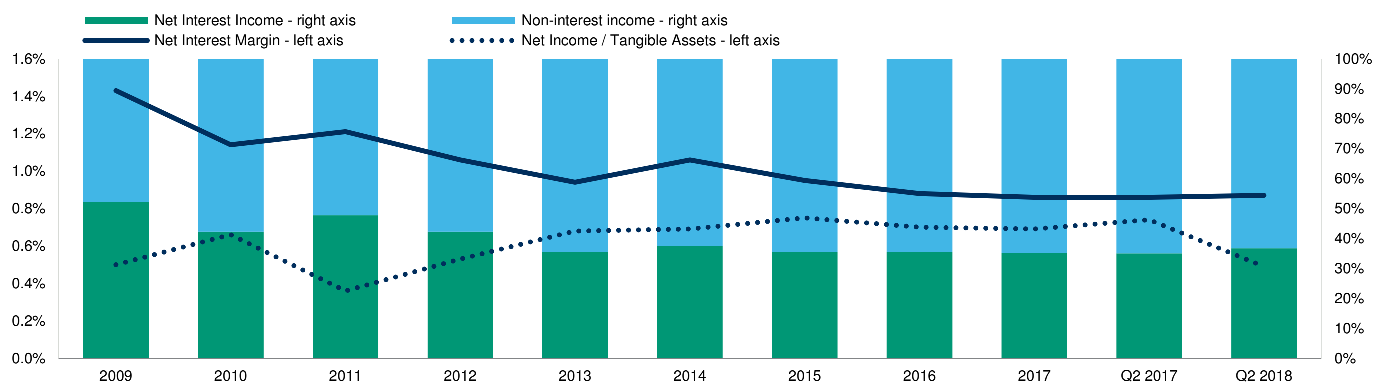
We expect that the strategy of improving its IT platforms will involve significant spending, which will constrain improvement in the group's cost structure in the next two to three years, while on a longer-term, digitalisation investments will lead to efficiency gains.

We forecast that net income to tangible assets for the FY 2018 at the group level will improve back to the previous years' level of 0.6%-0.7%, largely based on increases in its recurring income, reflecting Moody's expectation that both net interest income and commissions will perform in line with the first six months of 2018.

We recognise that OPFG has a well-diversified stream of income, and has successfully increased the contribution of non-interest income (mostly from its insurance operations) to the overall total income. As a result, the group has managed to keep the return on assets at a relatively stable level in recent years, despite notable decline in margins (see Exhibit 6).

Exhibit 6

Non-interest income is a large contributor for the total income of OP Financial Group



Source: OP Financial Group, Moody's Investors Service

At the OP Corporate Bank's level we expect the profitability to remain strong, despite the weaker results during first half of 2018, owing to the bank's corporate banking focus which is a higher return/risk business compared to household mortgage lending. During the first half of 2018, consolidated earning before tax decreased to EUR244 million from EUR280 million year-on-year. Total income was 1.8% lower, in addition to the higher expenses, which have grown by 14.3% due to increased ICT costs, personnel costs and charges of financial authorities.

Our assigned Profitability score of baa3 reflects the bank's earnings volatility as a corporate bank and the negative impact on bottom-line profitability as a result of the transfer of wealth management and other businesses away from the bank. The assigned score does not, however, incorporate the impact on the bank's profitability if non-life operations are also transferred.

High reliance on short-term wholesale funding, although mitigated by liquidity buffer

OP Corporate Bank currently has the role of central treasury for OPFG. Among other things, the bank is responsible for issuing senior unsecured debt and short-term debt as well as managing the group's liquidity buffer.

The bank and the group continue to be reliant on market funding, which expose them to swings in investor sentiment. Market funding of the group (including interbank) amounted to approximately 24.4% of tangible banking assets at end of June 2018, largely stable compared to 2015 and 2016. Covered bonds, which we deem a stable source of funding, issued via OP Mortgage Bank (a specialised group subsidiary), accounted for approximately 39% of all issued debt securities. We note positively that the proportion of long-term debt over market funds has increased over the last few years.

OPFG's liquidity buffer at market value and after collateral haircuts amounted to EUR24.3 billion at end of June 2018, which compares well to debt maturing in the remaining part of 2018. We calculate that the liquid assets to tangible assets are 21.5% as of end-June 2018. OPFG monitors its liquidity and the adequacy of its liquidity buffer using the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100% from the beginning of 2018 and on 30 June 2018, OPFG's LCR stood at 148%.

The corporate bank's market funds accounted for 54% of tangible banking assets at the end of June 2018, just slightly above 52% at end-2017, however, still below 59% at end-2014. At the end of June 2018 the bank's short-term funds accounted for 70% of market funds and 40% of total liabilities, including internal borrowings from banks (42% of market fund), and commercial paper (27% of market funds). While reliance on market funding is usually considered a credit weakness, we note that OP Corporate bank's funding profile is geared toward supporting the group's liquidity, and that approximately half of borrowings from banks is excess liquidity from OPFG entities. We also note positively that the bank has taken steps to lengthen its debt maturity profile.

On a standalone basis, the corporate bank maintains a large, high quality liquidity buffer, in accordance with its central treasury role. The buffer (at market value and after haircuts) amounted to EUR24.3 billion, or 72% of wholesale funds at the end of June 2018. Most securities are eligible for Central Bank repo transactions, which gives the bank some flexibility in a currently unlikely stress scenario. The liquid assets as proportion of tangible assets ratio were 61% as of the same date. The bank's funding and liquidity buffer is captured in the baa2 Combined Liquidity Score.

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) is OPFG's resolution authority, and has set the Minimum Requirement for own funds and Eligible Liabilities (MREL) at EUR12.2 billion, accounting for 27.6% of the total risk exposure amount at the end of 2016. OPFG's MREL ratio stood at 35% at YE 2017. In the same connection, the SRB confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry. Under the current SRB guidelines, we do not expect that OPFG will be required to issue non-preferred senior unsecured debt because requirements are already fulfilled with senior debt and excess capital.

Support and structural considerations

Affiliate Support

We assess the probability of parental support from OPFG as very high based on the relationship between the two entities, the close brand association, and the existing joint liability.

This assessment leads to two notches of uplift from OP Corporate bank's baa2 BCA to an adjusted BCA of a3.

Loss Given Failure

Finland is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% runoff in “junior” wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. In line with large European banks, we assume 26% of deposits are junior. These are in line with our standard assumptions.

Our advanced LGF analysis is based on the balance sheet of the entire OPFG (including OP Corporate Bank), because all member credit institutions in OPFG (excluding insurance companies and some other group companies) are liable for each other's obligations, in accordance with the Amalgamations Act.

This results in a Preliminary Rating Assessment (PRA) of a1 for the deposits and senior unsecured debt, two notches above the Adjusted BCA, reflecting a very low loss-given failure.

For junior securities issued by OP Corporate Bank, our advanced LGF analysis confirms a high loss-given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments reflecting the coupon features.

Government Support

The implementation of an operational resolution regime in Finland has caused us to reconsider the potential for government support to benefit certain creditors. Following the introduction of BRRD, we believe the probability of government support for OP Corporate Bank's long-term and deposits ratings to be moderate, translating into one notch of uplift from its unsupported rating level, reflecting OP Corporate Bank's profile as one of the leading financial institutions in Finland. This results in one notch of uplift for the deposit and senior unsecured debt ratings to Aa3.

For other junior securities, we continue to assume that potential government support is low and as such these ratings do not include any related uplift. As a result, we assign a Baa1 rating for the bank's “plain vanilla” junior subordinated debt and Baa3(hyb) for the preference shares it is Baa3(hyb). The ratings are one and three notches, respectively below the bank's adjusted BCA of a3.

Counterparty Risk 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 both 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.

OP Financial Group's and OP Corporate Bank's CR Assessment ratings are positioned at Aa2(cr)/Prime-1(cr).

OPFG's and OP Corporate Bank's CR Assessment ratings are positioned at Aa2(cr)/Prime-1(cr). The CR Assessment ratings, prior to government support, are positioned three notches above the Adjusted BCA of a3, based on the substantial cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Additionally, the CR Assessment benefits from one notch of systemic support, in line with our support assumptions on deposits and senior unsecured debt for OP Corporate Bank. This reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our assumption that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

Counterparty risk ratings

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

The counterparty risk rating of Aa2 reflects the adjusted BCA of a3, and four notches of uplift, which consists of three notches of uplift reflecting the extremely low loss-given failure from the high volume of instruments that are subordinated to CRR liabilities and one notch of moderate government support. The short-term CRR is P-1.

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 7

OP Corporate Bank plc

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.1%	a2	←→	baa2	Single name concentration	Sector concentration
Capital						
TCE / RWA	13.3%	a2	←→	baa1	Expected trend	
Profitability						
Net Income / Tangible Assets	0.6%	baa2	←→	baa3	Expected trend	
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	52.3%	b3	←→	ba3	Market funding quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	62.5%	aa2	←→	aa2	Quality of liquid assets	
Combined Liquidity Score		baa3		baa2		
Financial Profile				baa2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa1		
Scorecard Calculated BCA range				baa1-baa3		
Assigned BCA				baa2		
Affiliate Support notching				2		
Adjusted BCA				a3		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	42,499	35.9%	48,765	41.2%
Deposits	61,431	51.9%	55,165	46.6%
Preferred deposits	45,459	38.4%	43,186	36.5%
Junior Deposits	15,972	13.5%	11,979	10.1%
Senior unsecured bank debt	9,433	8.0%	9,433	8.0%
Dated subordinated bank debt	1,263	1.1%	1,263	1.1%
Preference shares (bank)	90	0.1%	90	0.1%
Equity	3,548	3.0%	3,548	3.0%
Total Tangible Banking Assets	118,264	100%	118,264	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted 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	22.3%	22.2%	22.3%	22.2%	3	3	3	3	0	aa3
Counterparty Risk Assessment	22.2%	22.2%	22.2%	22.2%	3	3	3	3	0	aa3 (cr)
Deposits	22.2%	4.1%	22.2%	12.1%	2	3	2	2	0	a1
Senior unsecured bank debt	22.2%	4.1%	12.1%	4.1%	2	1	2	2	0	a1
Dated subordinated bank debt	4.1%	3.1%	4.1%	3.1%	-1	-1	-1	-1	0	baa1
Non-cumulative bank preference shares	3.1%	3.0%	3.1%	3.0%	-1	-1	-1	-1	-2	baa3 (hyb)

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	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2 (cr)	--
Deposits	2	0	a1	1	Aa3	Aa3
Senior unsecured bank debt	2	0	a1	1	Aa3	Aa3
Dated subordinated bank debt	-1	0	baa1	0	Baa1	Baa1
Non-cumulative bank preference shares	-1	-2	baa3 (hyb)	0	Baa3 (hyb)	Baa3 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Exhibit 8

OP Financial Group

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.2%	a3	←→	a3	Sector concentration	
Capital						
TCE / RWA	19.9%	aa2	←→	aa2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.5%	ba1	↑	ba1	Expected trend	
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	22.2%	baa1	←→	baa1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	26.1%	a3	←→	a3	Stock of liquid assets	
Combined Liquidity Score		baa1		baa1		
Financial Profile				a3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa1		
Scorecard Calculated BCA range				a2-baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	in-scope (EUR million)	% in-scope	at-failure (EUR million)	% at-failure
Other liabilities	42,499	35.9%	48,765	41.2%
Deposits	61,431	51.9%	55,165	46.6%
Preferred deposits	45,459	38.4%	43,186	36.5%
Junior Deposits	15,972	13.5%	11,979	10.1%
Senior unsecured bank debt	9,433	8.0%	9,433	8.0%
Dated subordinated bank debt	1,263	1.1%	1,263	1.1%
Preference shares (bank)	90	0.1%	90	0.1%
Equity	3,548	3.0%	3,548	3.0%
Total Tangible Banking Assets	118,264	100%	118,264	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted 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	22.3%	22.2%	22.3%	22.2%	3	3	3	3	0	aa3
Counterparty Risk Assessment	22.2%	22.2%	22.2%	22.2%	3	3	3	3	0	aa3 (cr)

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	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2 (cr)	--

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 9

Category	Moody's Rating
OP CORPORATE BANK PLC	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	Baa1
Pref. Stock Non-cumulative	Baa3 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
PARENT: OP FINANCIAL GROUP	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
OP INSURANCE LTD	
Outlook	Stable
Insurance Financial Strength	A3

Source: Moody's Investors Service

REPORT NUMBER 1146128

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE