MOODY'S
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CREDIT OPINION
26 October 2016

Update

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RATINGS

OP Corporate Bank plc

Domicile	Finland
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.

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OP Corporate Bank plc

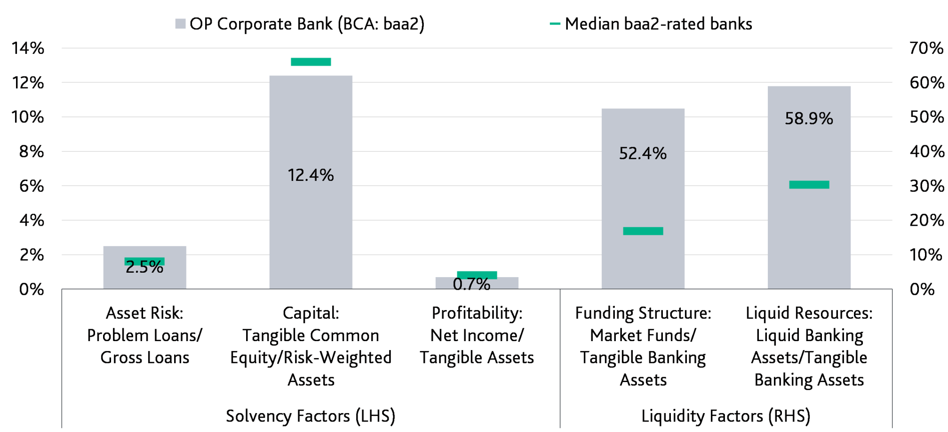
Semiannual update

Summary Rating Rationale

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 OP Financial Group (BCA a3) which results in 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 which leads to 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 bank's Counterparty Risk Assessment (CR Assessment) is Aa2(cr)/Prime-1(cr).

OP Corporate Bank's BCA of baa2 is supported by Finland's Macro Profile of Strong+, and reflects the bank's strong national franchise, focused mainly on corporate lending, its stable asset quality and improving capitalisation. The BCA is constrained by the bank's high sector concentration and reliance on market funding.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

» Strong domestic franchise in corporate banking although some functions are transferred to other parts of the OP Financial Group

» Asset quality is stable in spite of some sector concentration

» Good capital position likely to strengthen further

» Profitability is sound, but could suffer as functions are transferred away from the bank

Credit Challenges

» Downward pressure on net interest margins due to the low interest rate environment

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

Rating Outlook

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

Factors that Could Lead to an Upgrade

Upward pressure on the ratings could develop as a result of: (1) stronger profitability; (2) reduced reliance on market funding and a longer debt maturity profile; and (3) a sustained reduction in sector concentration risks, particularly related to real estate.

Factors that Could Lead to a Downgrade

OP Corporate Bank's ratings could be downgraded as a result of weaker asset quality, capitalisation or a downgrade of OP Financial Group. A smaller cushion of bail-in eligible liabilities (on consolidated OP Financial Group level) or less likely government support would also result in downward rating pressure.

Key Indicators

Exhibit 2

OP Corporate Bank plc (Consolidated Financials) [1]

	6-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (EUR million)	54,404	56,211	45,111	40,664	44,623	5.1[4]
Total Assets (USD million)	60,440.2	61,061.7	54,586.7	56,032.6	58,830.6	0.7[4]
Tangible Common Equity (EUR million)	2,721	2,736	2,301	1,970	1,680	12.8[4]
Tangible Common Equity (USD million)	3,022.9	2,972.1	2,784.3	2,714.5	2,214.9	8.1[4]
Problem Loans / Gross Loans (%)	1.1	2.3	3.1	3.3	2.4	2.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.4	12.8	10.5	12.3	11	11.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.1	13.6	19.3	22.2	17.4	15.9[5]
Net Interest Margin (%)	0.4	0.5	0.6	0.6	0.6	0.5[5]
PPI / Average RWA (%)	2.3	3.1	2.8	3.2	2.8	2.7[6]
Net Income / Tangible Assets (%)	0.7	0.9	1.1	1.1	0.7	0.9[5]
Cost / Income Ratio (%)	49.5	41.5	46.6	52.5	57.4	49.5[5]
Market Funds / Tangible Banking Assets (%)	50.9	52.4	58.9	59.3	60.2	56.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	60.7	58.9	55	54.2	49.2	55.6[5]
Gross loans / Due to customers (%)	115.5	99.3	137.8	145	130.7	125.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Source: Moody's Financial Metrics

Detailed Rating Considerations

Strong domestic franchise in corporate banking, although some functions are transferred to other parts of the OP Financial Group

OP Corporate Bank's strong franchise supports its asset quality and profitability, and is underpinned by its strong domestic market position in corporate banking. The bank is also a leading player in non-life insurance. In addition, the bank benefits from being part of OP Financial Group, a leading financial services group in Finland, thus laying ground for cross-selling insurance products to banking customers and vice versa.

OP Corporate Bank will play a lesser role within OP Financial Group in the future, negatively impacting the bank's franchise. On 30 December 2015, OP Corporate Bank announced that it had executed its de-merger plan by which Group treasury, corporate bank activities, equities and non-life insurance remained with OP Corporate Bank plc while all other operations, namely wealth management, card and property management operations were transferred to a newly-created company. In addition, OP Financial Group is assessing whether the bank should continue to play the role of central bank for the group or whether the central banking operations should be separated as a detached subsidiary, wholly owned by OP Cooperative (the central institution of OP Financial Group). Since a more specific plan or schedule for the structural change of the non-life insurance segment (potentially transferring from OP Corporate Bank to the direct ownership of OP Cooperative) has not yet been decided, it is reported as continuing operations together with Banking and Other Operations in OP Corporate Bank's financial reporting.

As OP Corporate Bank and other member credit institutions of OP Financial Group 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.

Asset quality is stable in spite of some sector concentrations

OP Corporate Bank has a track record of strong asset quality for a corporate bank: we estimate that its problem loans ratio stood at 1.1% in June 2016, down from 2.3% at the end- 2015, down from 3.1% at year-end 2014. The decline is driven by increased recoveries. This ratio is slightly higher compared to large Swedish banks and mainly explained by the fact that OP Corporate Bank is focused more exclusively on corporate lending. Nordic banks with a high share of household mortgage lending tend to benefit from a lower level of problem loans.

Finland's economy emerged from three years of recession in 2015, although revisions to the growth rate by Statistics Finland show the economy expanded at a weaker pace of 0.2% than the 0.5% initially reported. We expect GDP growth to pick up but remain slow in 2016 (0.9%) and 2017 (1.2%). Although private consumption has been increasing, this is to some extent a reflection of the low interest rate environment. We expect the persistent absence of strong economic growth to continue to weigh on the bank's asset quality.

OP Corporate Bank's asset quality is constrained by its high sector concentration. As of June 2016, the most significant industry exposures included energy 12.7%, wholesale and retail trade 10.1%, and renting and operating of residential real estate 9.2%. In mitigation, a total of 43% (as of Dec 2015) of exposures within renting and operating of real estate were guaranteed by the government of Finland (Aa1 stable).

The bank's Asset Risk at baa2 score reflects the above-mentioned constraints.

Good capital position, likely so strengthen further

We consider OP Corporate Bank to be well capitalised. The bank reported a CET1 ratio of 14.2% at June 2016, slightly above the 14.1% in 2015, but improved from 12.4% at year-end 2014.

In March 2014, the bank announced a CET1 ratio target of 15%, which it intends to reach by year-end 2016. On top of this, the bank is subject to a 13% return on equity target. OP Corporate Bank will not pay out more than 30% of profits in dividends before the CET1 target is reached, after which the pay-out ratio target will be at least 50%.

The assigned score of baa1 reflects OP Corporate bank's more recent regulatory capital ratios as well as the evolution of leverage metrics which have been more stable during the current year.

Profitability is sound, but could suffer as functions are transferred away from the bank

We expect OP Corporate Bank's profitability to remain strong, 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 2016 the net profit of OP Corporate Bank declined to EUR187 million (-36% year-on-year). This was primarily driven by lower net investment income impacted by reduced gains from investment securities (-61% year-on-year to EUR82 million). Nonetheless, we recognise that the core revenues of the bank have increased, namely higher net interest income (+7% year-on-year to EUR117 million) and net insurance income (+4% year-on-year to EUR260 million). As a result, we calculate that the annualised return on average assets and return on average equity were 0.7% and 10.3%, respectively.

In absolute terms, OP Corporate Bank's profits decreased as the wealth management and other businesses were transferred away from the bank at year-end 2015. Further decrease would be significant if non-life operations were eventually moved out of the bank, as they accounted for 50% of OP Corporate Bank's earnings before tax for the first half of 2016.

OP Corporate Bank's earnings before tax for the first half of 2016.

OP Corporate Bank has a track record of strengthening its efficiency over many years. However, we note that due to the lower revenues, but also resulting from higher expenses (+5% to EUR 247 million) the cost to income ratio for the first half of 2016 increased to 49.5%, compared to 41.6% in 2015. We are assessing the longer term impacts of OP Corporate Bank's de-merger as they are announced and implemented.

Our assigned Profitability score of baa2 reflects the bank's earnings volatility as a corporate bank and to the expected negative impact on bottom-line profitability as a result of the transfer of wealth management and other businesses away from the bank. The score does not incorporate the impact on the bank's profitability if non-life operations are also transferred.

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

OP Corporate Bank currently plays the role of central bank for OP Financial Group. 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 is reliant on market funding, which exposes it to swings in investor sentiment. Market funds accounted for 51% of tangible banking assets at June 2016, down from 59% at end-2014. More than half of funds were short term in nature, including commercial paper. While reliance on market funding is a credit weakness, we note positively that the bank has taken steps to lengthen its debt maturity profile. However, the current reorganisation of functions within OP Financial Group could result in the bank losing its central bank role, and may therefore change the bank's funding profile. A decision to strip OP Corporate Bank of its central bank role has not been taken nor has another suitable entity been identified by the group.

The bank maintains a large, high quality liquidity buffer, which is common for Nordic banks. The buffer (at market value and after haircuts) amounted to EUR20.8 billion, or 63.7% of market funding, as of June 2016. 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 60.7% as of the same date.

The bank's high exposure to short-term funding and its large liquidity buffer is captured in the baa2 Combined Liquidity Score.

Notching Considerations

Affiliate Support

We assess the probability of parental support from OP Financial Group as very high based on the relationship between the two entities, the close brand association, and the existing guarantee.

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% run-off in “junior” wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. 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 OP Financial Group (including OP Corporate Bank), because all member credit institutions in OP Financial Group (excluding insurance companies and some other group companies) guarantee each other's liabilities, 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

Counterparty Risk (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.

The CR Assessment of OP Corporate Bank is positioned at Aa2(cr)/Prime-1(cr), three notches above the Adjusted BCA of a3, based on the cushion against default provided to the senior obligations. In addition, the low probability of government support does not result in any uplift.

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 3

OP Corporate Bank plc

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Financial Profile							
Factor		**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		2.5%	a2	↓	baa2	Single name concentration	Sector concentration
Capital							
TCE / RWA		12.4%	a3	←→	baa1	Expected trend	
Profitability							
Net Income / Tangible Assets		0.7%	baa2	←→	baa2	Earnings quality	
Combined Solvency Score			a3		baa2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		52.4%	b3	←→	ba3	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		58.9%	aa2	←→	aa2		
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)**	**% in-scope**	**at-failure (EUR)**	**% at-failure**
Other liabilities	36,461	32.7%	42,393	38.0%
Deposits	58,154	52.2%	52,222	46.9%
Preferred deposits	43,034	38.6%	40,882	36.7%
Junior Deposits	15,120	13.6%	11,340	10.2%
Senior unsecured bank debt	12,022	10.8%	12,022	10.8%
Dated subordinated bank debt	1,472	1.3%	1,472	1.3%
Junior subordinated bank debt				
Preference shares (bank)				
Senior unsecured holding company debt				
Dated subordinated holding company debt				
Junior subordinated holding company debt				
Preference shares (holding company)				
Equity	3,344	3.0%	3,344	3.0%
Total Tangible Banking Assets	111,453	100%	111,453	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus 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 Assessment	25.3%	25.3%	25.3%	25.3%	3	3	3	3	0	aa3 (cr)
Deposits	25.3%	4.3%	25.3%	15.1%	2	3	2	2	0	a1
Senior unsecured bank debt	25.3%	4.3%	15.1%	4.3%	2	1	2	2	0	a1
Dated subordinated bank debt	4.3%	3.0%	4.3%	3.0%	-1	-1	-1	-1	0	baa1
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	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 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)

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
OP CORPORATE BANK PLC	
Outlook	Stable
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
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

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