CREDIT OPINION

8 July 2024

Update

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RATINGS

Pohjola Insurance Ltd	
Domicile	HELSINKI, Finland
Long Term Rating	A2
Type	Insurance Financial Strength
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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Americas	1-212-553-1653
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EMEA	44-20-7772-5454

Pohjola Insurance Ltd

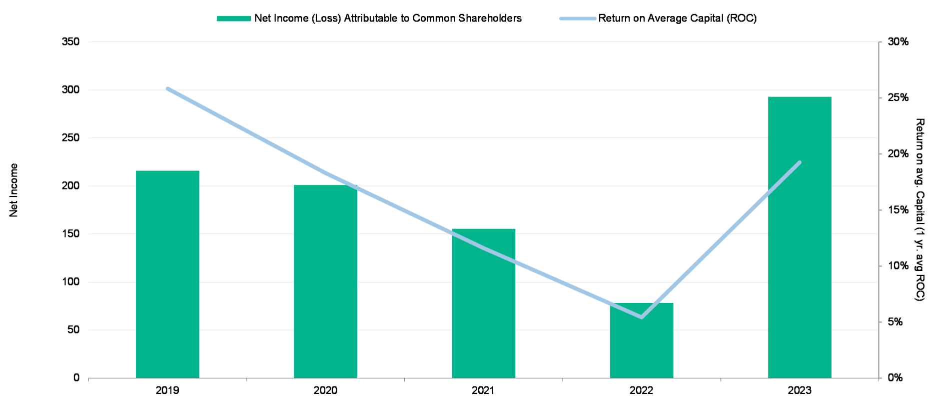
Update following rating affirmation

Summary

The A2 insurance financial strength rating (IFSR), stable outlook on Pohjola Insurance Ltd (Pohjola) reflects its strong position in the Finnish property-casualty sector, as well as its good financial fundamentals with consistent profitability, solid capital adequacy and limited financial leverage. These strengths are partly offset by the relatively high proportion of longer tailed commercial business and Pohjola's lack of brand reach and geographic diversification outside of Finland. In addition, Pohjola has relatively high proportion to risky assets, notably equities, which can result in high earnings volatility. The rating also reflects the issuer's strong integration into the OP Financial Group (OPFG), in terms of both business and capital management.

Exhibit 1

Net income and return on capital (1 yr. avg.)



Source: Company filings and Moody's Ratings

Credit strengths

» Leading market position in Finland

» Strong profitability but sensitive to market movements

» Solid capitalisation

» Relatively low leverage and strong earnings coverage

» Strong integration into the larger OPFG

Credit challenges

» Lack of geographic diversification beyond the domestic Finnish market

» High exposure to equity risk with potential for earnings volatility

» Elevated product risk due to exposure to longer-tail business and reserves susceptible to interest rate movements

Rating outlook

The stable outlook for Pohjola reflects our expectation that the company will retain its leading market position as well as strong profitability and capital adequacy. It also reflects the expectation that Pohjola will remain highly integrated into the larger OPFG, having access to financial support by the group.

Factors that could lead to an upgrade

Upward pressure on Pohjola's ratings could result from an upgrade of OPFG's ratings; or a significant strengthening of Pohjola's standalone credit profile as reflected in:

» meaningful strengthening of its business profile via geographic diversification and product risk profile improvement;

» Solvency II ratio consistently above 200%; and

» meaningful and sustained improvement in profitability with no material deterioration in asset quality.

Factors that could lead to a downgrade

Conversely, downward pressure on Pohjola's ratings could arise from a downgrade of OP Financial Group's banking operations, as reflected by a multi-notch downgrade of OP Corporate Bank plc's a3 BCA; At the same time, a significant weakening of Pohjola's standalone credit profile could also result in downward pressure, as reflected in:

» material weakening of market position;

» decline in capital adequacy, including Solvency II capital coverage falling to levels below 130% over a sustained period of time; and

» underperformance both in terms of earnings and capital generation over a sustained period of time.

Key indicators

Exhibit 2
Pohjola Insurance Ltd

Pohjola Insurance Ltd [1][2]	2023	2022	2021	2020	2019
As Reported (Euro Millions)					
Total Assets	4,975	4,808	5,099	4,794	4,218
Total Shareholders' Equity	1,120	937	958	802	530
Net Income (Loss) Attributable to Common Shareholders	293	79	156	201	217
Gross Premiums Written	1,787	1,699	1,625	1,507	1,339
Net Premiums Written	1,689	1,612	1,570	1,458	1,298
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	107.2%	92.4%	102.4%	119.0%	150.9%
Reinsurance Recoverables (or Reinsurance Contract Assets) / Shareholders' Equity	15.8%	26.5%	14.5%	13.9%	16.0%
Goodwill & Intangibles % Shareholders' Equity	3.6%	7.4%	8.3%	10.6%	13.6%
Gross Underwriting Leverage	3.3x	3.8x	3.9x	4.6x	5.9x
Return on Average Capital (ROC)	19.3%	5.4%	11.6%	18.3%	25.8%
Sharpe Ratio of ROC (5 yr.)	206.1%	204.5%	340.0%	555.0%	537.6%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-0.1%	-3.5%	-0.9%	0.4%	2.8%
Financial Leverage	9.2%	10.5%	11.2%	12.8%	19.7%
Total Leverage	9.2%	10.5%	11.2%	12.8%	19.7%
Earnings Coverage	8.4x	7.6x	12.2x	16.5x	16.2x
Cash Flow Coverage	NA	NA	NA	NA	NA

[1] Information based on local GAAP financial statements as of the fiscal year ended 12/31/2023. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Company filings and Moody's Ratings

Profile

Pohjola is part of the Finnish cooperative banking group OPFG, a leading cooperative financial conglomerate on its domestic market. In 2021, Pohjola's shares have been transferred from the direct ownership of OP Corporate Bank plc (Aa3/Aa3 stable, a3[1]) to OP Cooperative, which is the central cooperative of OPFG. Pohjola represents the main non-life insurance legal entity of the group, providing a wide range of non-life insurance services for personal, corporate and institutional clients. Through OP Life Assurance Company Ltd, OPFG also offers life insurance products to the group's customers.

Detailed credit considerations

Moody's rates Pohjola A2 for insurance financial strength which is in line with the adjusted score indicated by our rating scorecard. The scorecard and associated text below are based on Pohjola Insurance Ltd on an unconsolidated basis unless otherwise stated.

Market Position, Brand and Distribution: Market leadership in Finnish non-life market and very strong Pohjola brand

Pohjola is the leading insurer in the Finnish non-life insurance sector, maintaining a market share of around one-third. While the market is moderately sized compared to other European sectors, the company has been able to continuously grow its top-line in the past years, benefitting from exposure growth and rate increases. In addition, Pohjola's market standing in Finland is supported by its very strong brand recognition, as reflected by very high customer retention levels.

Pohjola forms part of Finland's leading financial services group, OPFG. It both benefits from and contributes to the group's strong market position, based on full integration into the group's customer management approach. As part of OPFG's strategic priorities, cross-selling between the banking and insurance operations has been increasing over the recent years. Nevertheless, there remains significant scope for further growth in this area. Currently, around one-third of the total number of OPFG's customers are combined banking and non-life insurance customers.

Pohjola is continuously improving and expanding its service and product offering, with a strong focus on online and mobile communication channels, as well as its underwriting and claims management capabilities. Within the private customer segment, more than a quarter of sales are generated online.

Product Risk and Diversification: Good diversification by line of business, but moderate product risk and limited geographic diversification

Pohjola's book of business is well diversified by line of business and by customer groups. Commercial business, with a higher frequency of large losses and longer-tail nature, accounts for about 43% of the insurance premium revenue, rendering Pohjola's product risk moderately high. However, the company has been shifting its focus towards private customers, leading to a gradual decline in the share of the commercial business.

Longer-tail lines of business, such as motor third party liability and workers' compensation, account for relatively high share of Pohjola's technical provisions, making it susceptible to changes in longevity experience and discounting rates.

Pohjola is operating solely in Finland and therefore has limited geographic diversification.

Asset Quality: Elevated high-risk assets exposure partially offset by good capital base and low intangibles

Moody's considers Pohjola's overall asset quality to be good, reflecting elevated exposure to risky assets partially offset by low intangibles and reinsurance recoverables as a percentage of shareholders' equity.

Pohjola, similar to some Nordic peers, follows an asset-liability management approach in the way that it aims for ordinary investment returns on bonds to cover return requirements of liabilities. At YE2023 the majority of the group's investment portfolio was invested in fixed-income securities and cash. The company's exposure to equity and alternative investments, as well as property investments, accounted for 21% and 8% of total invested assets, respectively. Credit risk is relatively low, with more than half of the fixed income portfolio invested in securities rated A and above, and below investment grade or non-rated investments accounting for around 10%.

The high-risk asset ratio of Pohjola has considerably improved over the past five years driven by strong increase in shareholder's equity, which more than offset the rise in the overall exposure to risky assets. During the low interest rate environment, the company has been gradually increasing its exposure to equities and illiquid assets. At the same time, Pohjola has increased its share of Baa-rated and non-rated debt in its fixed income portfolio.

Following the recent strengthening of its Solvency II ratio and in line with its new investment plan, Pohjola has actively increased its investments in equities during 2023 and beginning of 2024, resulting in c. 15%points increase compared to 2022. Going forward, the company aims to maintain its equity exposure close to 20%. Therefore, we expect Pohjola's high-risk asset ratio as percentage of shareholders' equity to remain close to current levels.

Pohjola's asset quality benefits from low levels of goodwill and intangibles, as well as reinsurance recoverables in relation to shareholders' equity, respectively.

Capital Adequacy: Strong Solvency II ratio reinforced by capital management of the group

Pohjola's Solvency II ratio has significantly improved over the recent years. In 2020, Pohjola's Solvency II ratio target, set by OPFG's centrally driven capital management policies, was raised to 170% from 120% previously, which we consider as credit positive. The targeted strengthening was to enable the company to take on more asset risk to support its earnings base and at the same time increase the carrier's resilience to stress.

During 2023, Pohjola's Solvency II ratio decreased to 205%, from 247% in 2022, largely driven by the increased exposure to equities, resulting in higher solvency capital requirement (SCR) for market risk. In Q1 2024, the Solvency II ratio reduced further to 183% reflecting the continuing increase in equity investments. Going forward, Moody's expects Pohjola to operate with a Solvency II ratio closer to the 170% target level, considering the company's recently increased exposure to equity risk and potential upstreaming of dividends to the group.

Pohjola was a strong payer of dividends to the parent company until 2018, with high payout ratios, but did not pay a dividend in 2019 and in 2020, in order to increase its capital buffers. The company targets a dividend payout ratio of 70% of net profit, which is more moderate than in the past.

The company's Solvency II ratio is relatively resilient, with its main sensitivity to falling equity markets and moderate sensitivity to interest rate movements and credit spreads. As is common for Nordic insurers with high equity exposure, the negative effect of moderately falling equity markets at least in the short term is largely offset by the symmetrical adjustment, which under Solvency II reduces the equity charge in case of falling equity markets, but this effect tapers off with more material equity stresses.

Profitability: Very good historic profitability although sensitive to market volatility

Pohjola's 2019-2023 five-year average return on capital (based on Local GAAP figures) is very strong at 16.1%. However, earnings are highly susceptible to financial market movements, mainly reflecting the exposure to equity investments. In 2023, the overall profitability has significantly improved driven by stronger investment income due to favorable equity markets and higher running fixed income running yields. The reported return on investment improved to 8.1% in 2023 from negative 10.8% during the prior year.

Pohjola's combined ratio remained healthy at 93.8% (IFRS 17) in 2023, but it increased from 89.8% in 2022. The weakening of the underwriting profitability was largely driven by an increase in the expense ratio caused by higher technological development costs, as well as personnel expenses due to pay rises and increased headcount. Thanks to robust price increases, Pohjola was able to largely offset the negative impact from claims inflation, higher claims frequencies and rising reinsurance costs. In Q1 2024, Pohjola reported an underwriting loss, as the combined ratio significantly deteriorated to 108.9% (Q1 2023: 100.5%). The increase was largely driven by an unusually high number of major losses, accounting for 18.0% of the claims ratio compared to 4.9% in Q1 2023. Furthermore, Pohjola's claims ratio deteriorated due to an increase in weather-related claims, driven by harsh winter conditions in Finland, as well as a rise in the frequency of health insurance claims. We expect the combined ratio to improve by year-end as Pohjola continues to implement active re-pricing and underwriting actions.

We expect Pohjola will be able to maintain the strength of its underwriting performance and to operate with a combined ratio close to mid 90% over the medium term. We believe that Pohjola has sufficient pricing power in the Finnish P&C insurance market. This should allow for the implementation of robust price increases, which are expected to substantially offset the adverse impact of higher claims costs. The expense ratio will likely continue to be inflated by the significant investments Pohjola is undertaking to further digitalize its business model, although the tangible benefit of this will not show immediately. As far as investment returns are concerned, these are largely a consequence of equity market performance.

Reserve Adequacy: No material reserve releases on a normalized basis paired with high sensitivity to changes in discounting factors

For the period 2019-2023, Pohjola reported a weighted average reserve release of 0.9% of initial claims reserves, based on IFRS reserve triangles. In 2021 and 2022, Pohjola has benefitted from higher reserve releases as a results of the increase in discounting rates due to higher interest rates, which reduced the present value of the insurance liabilities. Reserves for annuities, which account for almost half of total technical reserves, are long-tail in nature and sensitive to changes in longevity experience and in discounting rates, the latter of which are driven mainly by changes in interest rates.

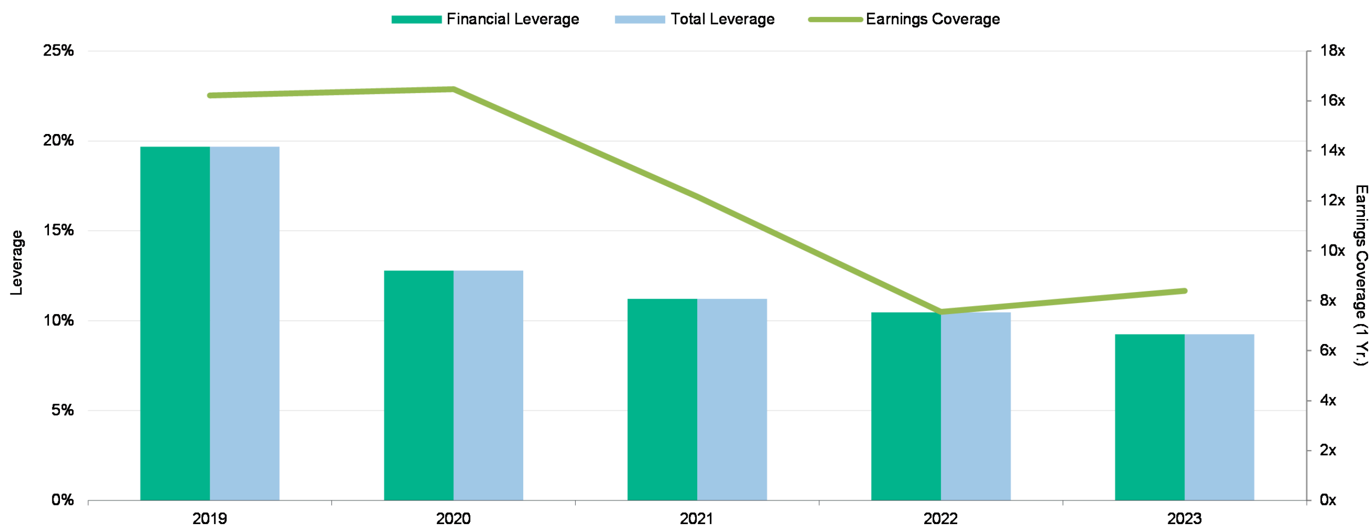
In 2023, in response to the rising claims cost trend driven by higher claims inflation and frequency, Pohjola has strengthened its reserves in certain lines of business, such as health insurance, which has been particularly affected. The persistent claims inflation will continue to add pressure on Pohjola's reserving levels, however we expect the company to maintain a prudent reserving approach.

Financial flexibility: Low leverage, insurer benefits from the group's access to funding

Pohjola's adjusted financial leverage is low at around 9.5% at YE2023. Earnings coverage is strong with 5 year average earnings coverage for FY2023 of 12.2x, reflecting strong earnings and moderate interest expenses.

On a stand-alone basis, Pohjola's access to external 3rd party funding is limited, also when compared to some Nordic peers, which are either publicly listed or issue debt more frequently. However, Pohjola is part of the capital and funding management of the larger OPFG, which is a regular issuer.

Exhibit 3
Financial Leverage

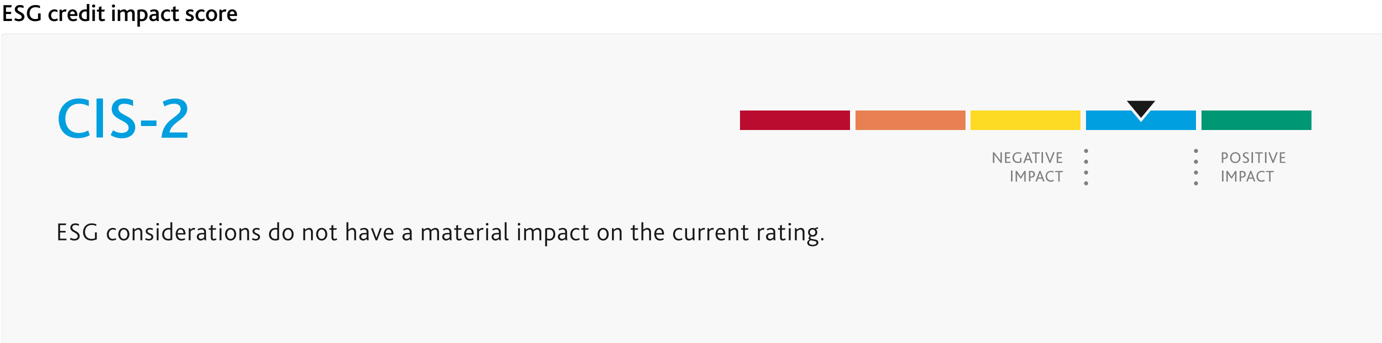


Source: Company filings and Moody's Ratings

ESG considerations

Pohjola Insurance Ltd's ESG credit impact score is CIS-2

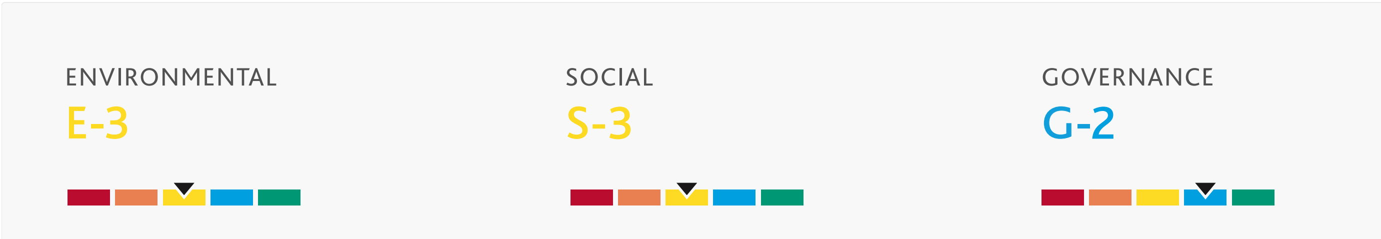
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Pohjola's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating. Pohjola's risk management and effective governance mitigate the group's exposure to environmental and social risks, in particular physical risk and customer relations risk.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Pohjola faces moderate environmental risks, in particular physical climate risk related to the effects of natural catastrophes on its P&C insurance operations. The company has a good track record of managing this risk through underwriting, pricing and reinsurance. As the frequency and severity of natural catastrophes increase over time, Pohjola and its peers could find mitigating this risk more challenging.

Social

Pohjola is exposed to moderate social risk, most notably with respect to customer relations and changing societal and demographic trends in its retail P&C insurance business. Customer relations risks are elevated in relation to Pohjola's insurance products and significant interactions with retail customers. This is mitigated by well-developed policies and procedures. Changes in societal attitudes and the legal environment can impact P&C claims costs and reserve development. Rising digitization and interconnectedness of devices will increase customer privacy and data security risks.

Governance

Pohjola faces low governance risks. Being part of the larger OP Financial Group, Pohjola benefits from strong governance and risk management structures in place at the group. Pohjola' capital base has significantly strengthened recently as a result of its more conservative financial strategy, which helps mitigate the volatility inherent to its investment portfolio that is associated with significant risk exposures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Aa	A
Market Position, Brand and Distribution (25%)								Aa	A
-Relative Market Share Ratio			X						
-Net Underwriting Expense Ratio		20.1%							
Product Focus and Diversification (10%)								A	A
-Product Risk			X						
-P&C Insurance Product Diversification	X								
-Geographic Diversification						X			
Financial Profile								Aa	A
Asset Quality (10%)								A	A
-High Risk Assets % Shareholders' Equity				107.2%					
-Reinsurance Recoverables (or Reinsurance Contract Assets) / Shareholders' Equity	15.8%								
-Goodwill & Intangibles % Shareholders' Equity	3.6%								
Capital Adequacy (15%)								A	A
-Gross Underwriting Leverage			3.3x						
Profitability (15%)								Aa	A
-Return on Capital (5 yr. avg.)	16.1%								
-Sharpe Ratio of ROC (5 yr.)			206.1%						
Reserve Adequacy (10%)								A	A
-Net Loss Reserves Development / Beginning Net Loss Reserves (5 yr. wtd. avg.)			-0.9%						
Financial Flexibility (15%)								Aa	A
-Financial Leverage		9.2%							
-Total Leverage		9.2%							
-Earnings Coverage (5 yr. avg.)	12.2x								
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Aa3	A2

[1] Information based on LOCAL GAAP financial statements as of fiscal year ended 12/31/2023. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Ratings

Ratings

Exhibit 7

Category	Moody's Rating
POHJOLA INSURANCE LTD	
Rating Outlook	STA
Insurance Financial Strength	A2
OP CORPORATE BANK PLC	
Rating Outlook	STA
Senior Unsecured	Aa3
Senior Unsecured MTN	(P)Aa3
Subordinate	Baa1
Commercial Paper	P-1
LT Issuer Rating	Aa3
LT Bank Deposits	Aa3

Source: Moody's Ratings

Endnotes

1 The ratings shown are OP Corporate Bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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