MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 June 2017

Update

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RATINGS

OP Insurance Ltd

Domicile	Finland
Long Term Rating	A3
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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OP Insurance Ltd

Semi-Annual Update

Summary Rating Rationale

Moody's A3 (stable outlook) insurance financial strength rating (IFSR) on OP Insurance Ltd (OPIL) reflects OP Insurance's strong non-life market position in Finland, as well as its good financial fundamentals with consistent profitability and relatively low, though increased financial leverage. These strengths are off-set by its relative lack of brand reach and geographic diversification outside of Finland, a relatively high proportion of high risk assets in recent years, and a relatively low target Solvency II ratio. The A3 IFSR of OPIL, which represents the vast majority of OP's non-life insurance business (OPNLI), receives no uplift as a result of its ownership by the Finnish cooperative banking group, OP Financial Group, given the a3 BCA of the banking operation.

The vast majority of OPNLI is accounted for by OPIL which is a separate legal entity to the other smaller Non-Life operation, A-Insurance Ltd, which provides insurance for commercial truckers and taxi service branches, although all employees are employed by OPIL. Since it has acquired the minority shares in OP Corporate Bank, which currently owns OPIL, OP Cooperative intends transferring ownership of the Non-life Insurance directly to itself in the future, while it has already transferred the Wealth Management segment at the end of 2015.

As part of the re-organisation process, starting from 1 January 2015, OP-Pohjola Group has been renamed as OP Financial Group. From 4 April 2016, the business names of OP Financial Group's main operating companies have also been renamed under the OP brand. Therefore the Banking, Non-Life insurance, Wealth Management and Property Management businesses have been renamed respectively OP Corporate Bank plc, OP Insurance Ltd, OP Asset Management Ltd and OP Property Management Ltd. As part of the reorganization of the banking activities the Group decided to abandon the plan to merge the two banking operations, OP Corporate Bank plc and Helsinki OP Bank Ltd. Helsinki OP Bank Ltd has been converted from a limited liability company to a cooperative bank effective from 1 April 2016 and it has been renamed Helsinki Area Cooperative Bank (OP Helsinki).

On June 10 2016 OP Financial Group announced an updated long-term strategy aimed at transforming the group from a plain financial services provider into a diversified services company with a strong financial services expertise. The business diversification will involve expanding the Health and Wellbeing business which is intended to become the Group's fourth business line alongside Banking, Non-Life Insurance and Wealth Management.

At Q1 2017, OPNLI's business, which is almost exclusively conducted in Finland, was split, in terms of net earned premiums, 55% private customers, 41% corporate customers, with the remaining 4% from the Baltic States.

On 15 May 2015, OPIL's IFSR was affirmed with a stable outlook. Prior to that in May 2012, the IFSR was downgraded to A3 with a stable outlook assigned, driven primarily by the wider downgrade of the OP Financial Group (please see relevant press release for further details).

Credit Strengths

» Strong market position in Finland

» Very good profitability, with relatively low combined ratio, although reliance on realised gains

» Relatively low, though increased financial leverage

» Importance to OP Financial Group in light of cross-selling opportunities

Credit Challenges

» At least 90% of premiums come from a single country, namely Finland

» Relatively high proportion of high risk assets has been a feature for several years

» Relatively low target Solvency II ratio, with meaningful dividend payments to parent a recent feature

Rating Outlook

The rating outlook is stable.

What to Watch for:

» Potential for market value losses on the investment portfolio due to the relatively higher risk investment portfolio

» Seasonality of losses (particularly in Q1 due to winter related claims)

» Potential for reserve volatility with OPNLI's reserves vulnerable to longevity risk and a lowering of the discount rate

» Profitability and investment portfolio mix trends against the background of very low interest rates and equity market volatility

» Evolution of Finland's gradual economic recovery and its impact on growth prospects and profitability for Non-Life insurance products (particularly in the corporate segment)

» Evolution of Finnish Competition and Consumer Authority's investigation on OP Financial Group's market position in retail banking services and pricing of non-life insurance products

» Transfer of ownership of OPIL to OP Cooperative from OP Corporate Bank

Factors that Could Lead to an Upgrade

In the medium term, positive rating pressure could arise from the following:

» An upgrade of OP Financial Group's BCA

» A material reduction in high risk assets

» Meaningful geographic and product line diversification without sacrificing profitability

Factors that Could Lead to a Downgrade

Negative pressure could arise from:

» A downgrading of OP Financial Group's BCA

» Material weakening of market position

» Failure to produce a combined ratio, on a cross-cycle and IFRS basis, of below 95%

» A weakening of capital adequacy

Key Indicators

Exhibit 1

OP Insurance Ltd[1][2]	2016	2015	2014	2013	2012
As Reported (Euro Millions)					
Total Assets	3,914	3,710	3,454	3,205	3,054
Total Shareholders' Equity	392	563	441	392	372
Net income (loss) attributable to common shareholders'	159	197	228	150	216
Gross Premiums Written	1,281	1,257	1,259	1,149	1,033
Net Premiums Written	1,236	1,209	1,205	1,093	984
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	168.3%	129.0%	142.7%	163.1%	150.1%
Reinsurance Recoverable % Shareholders' Equity	13.3%	13.9%	16.1%	15.4%	15.7%
Goodwill & Intangibles % Shareholders' Equity	15.7%	9.5%	9.6%	10.6%	10.5%
Gross Underwriting Leverage	7.0x	5.5x	6.6x	6.5x	6.0x
Return on avg. Capital (1 yr. avg ROC)	19.7%	26.0%	35.7%	24.2%	36.8%
Sharpe Ratio of ROC (5 yr. avg)	381.7%	192.0%	181.3%	NA	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	1.2%	0.6%	-0.4%	1.5%	-0.2%
Financial Leverage	18.1%	15.1%	9.4%	9.3%	9.3%
Total Leverage	18.1%	15.1%	9.4%	9.3%	9.3%
Earnings Coverage (1 yr.)	28.5x	42.3x	73.8x	50.7x	66.8x
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

[1] Information based on IFRS financial statements as of Fiscal YE December 31
[2] Certain items may have been relabeled and/or reclassified for global consistency
Source: Company reports, Moody's Investors Service

Notching Considerations

Not applicable.

Detailed Rating Considerations

Moody's rates OPIL A3 for insurance financial strength which is consistent with the adjusted rating indicated by the Moody's insurance financial strength rating scorecard. The scorecard and associated text below are based on OP Insurance Limited on an unconsolidated basis unless otherwise stated.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Market Position, Brand and Distribution: A - LARGE MARKET SHARE BUT CONCENTRATION IN A RELATIVELY SMALL MARKET (FINLAND)

With its strong market position in Finland, in which it is currently the largest non-life player with around 32.4% market share at YE2016, OPNLI's relative market share metric (of which OPIL is the vast majority) remains very good. Whilst the OP Financial Group connection helps to enhance its customer base and to consolidate its market position (at Q1 2017 40% of OP Financial Group's clients are both banking and non-life insurance customers), Moody's believes that a challenge for OPNLI will be to increase its market share meaningfully without compromising profitability. Notwithstanding its strong market position, OPNLI operates almost exclusively in the relatively small Finnish market which means it lacks the franchise strength and brand reach which characterises a number of other European P&C operations including some Nordic peers.

Furthermore Moody's notes that underwriting expense as percentage of net written premiums has increased in the last 2 years to 17.2% in 2016 from 15.5% in 2014, driven mainly by higher acquisition costs and administrative expenses.

Overall, we consider the market position, brand and distribution to be consistent with an A rated company.

Product risk and Diversification: Baa - COMMERCIAL ACCOUNT AND LIABILITY ORIENTATION, AND CONCENTRATION IN FINLAND

With a Commercial account (40%) and Liability orientation (60%), Moody's views the portfolio as potentially more volatile than, for example, some of its Nordic peers. Product diversification is considered good with four distinct lines of business - Motor, Workers Compensation, Accident and Health and Property- producing at least 10% of premium each. However, this is off-set by the concentration in Finland, which itself is highly concentrated, and in three business lines – Motor, Property and Accident and Health which together account for 74% of gross written premiums.

Overall, we consider the product focus and diversification to be consistent with a Baa rated company.

Asset Quality: A - HIGH RISK ASSETS SOMEWHAT PRESSURISE ASSET QUALITY

Moody's considers OPIL's overall asset quality to be good, albeit high risk assets remain elevated at OPIL. At YE2016, goodwill/ intangibles and reinsurance recoverables only represented around 16% and 13%, respectively, of shareholders' equity. Goodwill and intangibles, despite remaining low if related to shareholders' equity, have increased in 2016 by 41% driven by higher development costs and goodwill.

However, the proportion of high risk assets to equity remains significant, particularly at the OPIL level, at 169% as at YE2016 (YE2015: 129%). Within OPIL's high risk assets, the largest holdings were equities (45%), not rated/non-investment grade fixed income securities (25%), real estate (15%) and investments in associates (15%). Although we note a trend in the last two years of increasing high risk assets within the investment portfolio (+11% y-o-y both in 2016 and 2015), the main driver of the deterioration in the high risk assets metric between 2016 and 2015 is the 28% increase in 2015 reported shareholders' equity which did not deduct, compared to previous years, the dividend for 2015, therefore contributing to a strong improvement in 2015 metrics. After deducting the dividend on a like for like basis, high risk assets, reinsurance recoverables and goodwill/intangibles increased respectively to 157%, 17% and 12% of equity at YE2015.

Furthermore, at the OPNLI level Moody's notes the historically high equities concentration in the Finnish market, and the meaningful exposure to financials, including banks subordinated debt, in the bonds and bond funds portfolio which has increased further in 2015 and 2016 reaching 39% of the total investment portfolio at fair value at YE2016, before reducing slightly in Q1 2017 to 34%. More positively, we note that in recent years the overall direct exposure to sovereign debt in peripheral countries has materially reduced and at Q1 2017 equities exposure was stable at 8% of the total investment portfolio at fair value. Overall, invested asset risk remains higher than for most of OPIL's Nordic insurance peers. However, at the OPNLI level, invested asset risk (as a % of Solvency Capital under Solvency II) was somewhat stronger (albeit still significant) at approximately 111% as at YE2016 (88% at YE2015).

Capital Adequacy: Baa - RELATIVELY LOW TARGET SOLVENCY II RATIO, WITH MEANINGFUL DIVIDEND PAYMENTS TO PARENT A RECENT FEATURE

OPNLI is targeting a long term solvency ratio of 120% on a Solvency II basis (excluding transitional provisions) which Moody's views as relatively low. Solvency II ratio target was publicly disclosed until Q3 2016 and is now monitored internally. At YE2016, the Solvency II ratio (excluding the effect of transitional provisions) stood at 127% (YE2015 139%) declining from Q3 2016 level of 146% due to the deduction from own funds of the 2016 proposed dividend of EUR200m. Including the effect of transitional provisions Solvency II ratio at YE2016 was 143% (YE2015 158%). At Q1 2017 the Solvency II ratio was 138% excluding the effect of transitional provisions (153% including transitional provisions).

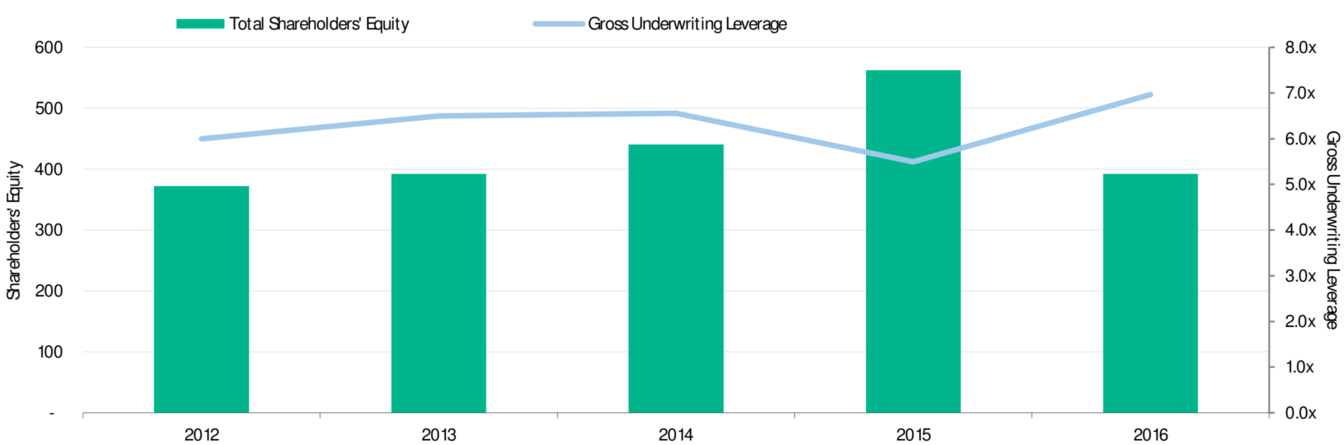
We note that in the past at YE2014 the Solvency II ratio dropped below the target level to 117%, due to the combined impact of lower interest rates and a higher dividend payment. The Solvency II position was later strengthened in Q2 2015 with the issuance of new Tier II subordinated loans of EUR85m.

Meaningful dividend payments to its parent have been a recent feature for OPIL with an average payout ratio in the last 5 years (2016-2012) of 81%, in contrast to capital injections provided to OPNLI during 2008. At YE2016 OPIL's board of directors proposed to distribute a dividend for 2016 of EUR200m (EUR130m in 2015), which represents a payout ratio of 125% (66% in 2015) the highest level in the last 5 years. In 2015 following the issuance of the Tier II subordinated debt, OPIL repaid equity capital for EUR75m. Including the equity repayment the total payout ratio in 2015 was 104%.

At YE2016 reported shareholders' equity declined by 30% to EUR392m compared to YE2015. In contrast to previous years, the 2015 dividend was not deducted from shareholders' equity at YE2015; therefore on a like for like basis, in 2016 reported shareholders' equity declined by 9%.

OPIL's gross underwriting leverage (GUL) deteriorated in 2016 to 7x compared to 5.5x at YE2015, although on a like for like basis after deducting the 2015 dividend, GUL increases to 6.9x at YE2015. GUL reduces back to around 5.2x at YE2016 if the difference between fair value and carrying amount of investments is added to equity.

Exhibit 2
Shareholders' Equity and Gross Underwriting Leverage



Source: Company reports, Moody's Investors Service

Moody's also considers OPIL's business to be higher risk than some of its Nordic peers in view of the liability and commercial account orientation, although notes that OPIL has consistently delivered bottom-line profits and has meaningful reinsurance cover.

Profitability: A - VERY GOOD PROFITABILITY AND UNDERWRITING PERFORMANCE, ALTHOUGH HISTORICALLY SUBJECT TO VOLATILITY

OPIL's 2016 five year average return on capital (excluding fair value gains/losses) is an excellent 28% although this has been historically offset by a relatively high volatility due to the impact of investment gains and losses. For example, in the period 2011-2012, ROC was very volatile recording a weak return in 2011 of 4% impacted by fair value investment losses followed by a very strong return in 2012 of 37%. In the last 5 years, the Sharpe ratio, which measures volatility, improved to 382% following more stable returns in the period 2012-2016.

Furthermore, the underwriting environment for Nordic P&C players in recent years has been very favourable. Notwithstanding this, OPNLI's recent underwriting performance has been very good with at YE2016 a reported operating combined ratio of 87.6% (2015: 87.3%). Until Q3 2016, OPNLI had a publicly disclosed target for its operating combined ratio and operating expense ratio of respectively below 92% and 18%. The overall combined ratio, which includes changes in reserving basis and amortization on intangible assets arising from the corporate acquisition, deteriorated slightly to 89.1% (88.8% at YE2015). Moody's notes that at the beginning of 2015 OP Financial Group introduced a new model to calculate operating combined ratio, which now also reflects changes in the discount rate.

At Q1 2017 OPNLI's operating combined ratio increased significantly to 95.5% (88.6% at Q1 2016), driven mainly by the deterioration of the operating combined ratio for the corporate segment. The overall combined ratio also deteriorated to 97% (90.2% at Q1 2016). At YE2016, OPIL reported a slightly improved overall combined ratio of 89.9% (2015: 90.2%) which reduces to 87.3% (87.4%) excluding the unwinding of discount.

At YE2016, OPNLI reported weaker earnings before tax of EUR230m (YE2015: EUR259m), impacted by a lower investment result which reduced by 22% to EUR97m and higher other operating expenses (operating expense ratio increased by 80bps to 18.5%), only partially offset by lower charges as a result of reducing the discount rate for pension liabilities from 2.22% to 1.97% (YE2015: from 2.5% to 2.2%) of EUR55m (EUR62m in 2015). OP Financial Group changed the valuation model for non-life insurance liability in Q1 2015 in such a way that it takes account of a change in the discount rate as one continuously updated variable of an accounting estimate. Earnings before tax at fair value increased in 2016 to EUR298m (EUR171m in 2015) impacted by a EUR68m positive change in fair value reserves compared to a negative change of EUR87m in 2015.

At Q1 2017, OPNLI reported lower earnings before tax of EUR49m (EUR61m at Q1 2016), driven by the combined effect of higher loss ratio (up by 5.3% pts compared to Q1 2016) due to increased price competition in the motor liability insurance segment, higher large claims and by increasing operating expenses (operating expense ratio increased by 1.6% pts to 19.7%) due to higher ICT costs and the expansion of the health and wellbeing business. Net investment income increased by 30% to EUR39m (EUR30m in Q1 2016).

Overall, Moody's considers profitability to be consistent with an A rated company, and going forward, Moody's expects OP Insurance to continue to benefit from the relatively stable market conditions in Finland, despite growth prospects in the corporate segment remaining weak, and its underwriting performance to remain good.

Reserve Adequacy: A - RELATIVELY PREDICTABLE RESERVING ALTHOUGH EXPOSURE TO LONGER-TAIL LINES OF BUSINESS

The reserve adequacy metric is good, driven by a small net reserve deterioration on a weighted average basis of 0.7% of opening net reserves over the last five years, based on IFRS reserve triangles for the 2007-2016 accident years. We note that both in 2016 and 2015 claims development was negative with a reserve strengthening of respectively EUR26m and EUR13m, in contrast to a small reserve release of EUR7m in 2014. However, Moody's notes the presence of longer-tail lines which presents the challenge of associated reserving risk. Moody's also notes that there were methodological changes in the reserving process during 2010 which affected the 2009 vs. 2010 comparative figures.

As has been seen in recent years, OPNLI's reserves are vulnerable to longevity risk and a lowering of the discount rate, the former for example negatively impacting the 2010 combined ratio by 3% points. In light of the low interest rate environment, we expect further discount rate reductions following the progressive reductions from 3.0% at YE2012 to 1.88% at Q1 2017 which led to a cumulative pre-tax charge of EUR230m. In 2016 the discount rate was lowered to 1.97% from 2.22% with a pre-tax charge of EUR55m. In Q1 2017 the discount rate was further reduced by 9bps to 1.88% with a pre-tax charge of EUR13m.

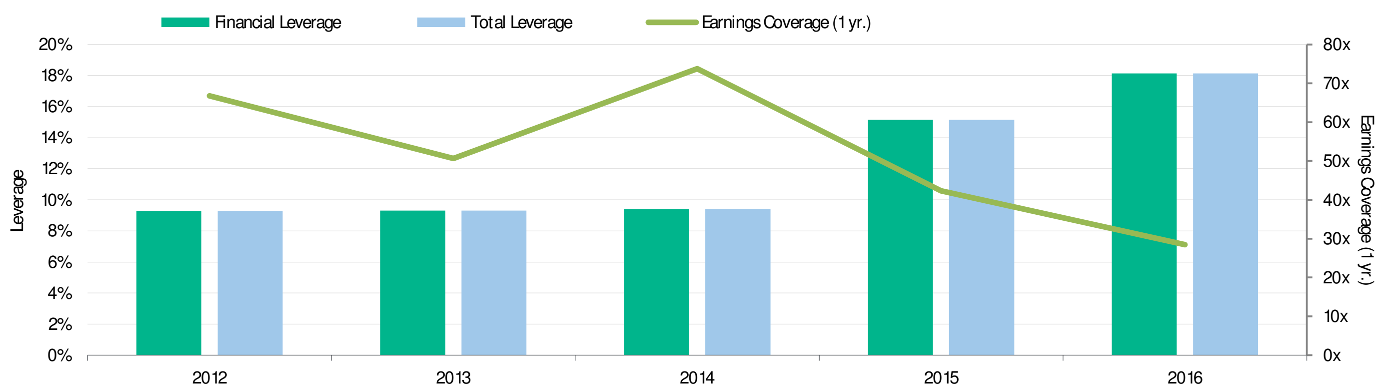
Financial Flexibility: A - EXCELLENT METRICS ALTHOUGH INCREASED LEVERAGE AND ACCESS TO CAPITAL MARKETS MORE RESTRICTED THAN LISTED PEERS

Overall financial flexibility is considered good. Financial leverage remains relatively low, although increased, at 18.1% at YE2016 (YE2015: 15.1%). On a like for like basis, deducting the 2015 proposed dividend from shareholders' equity, financial leverage increased in 2015 to 17.8%. Financial debt includes a EUR50m internal subordinated loan issued during 2008 to improve the solvency position and more recently a EUR75m Tier II subordinated loan issued during Q2 2015, which replaced equity for the same amount thus increasing leverage by 6% pts during 2015.

The relatively low leverage is reflected in an excellent earnings coverage which on a 5 year average (2012-2016) remains excellent at 52x.

Moody's notes that on a stand-alone basis, none of the OP Insurance non-life companies are listed in their own right. Therefore, access to capital is not viewed as comparable to larger European players.

Exhibit 3



Source: Company reports, Moody's Investors Service

Other considerations

Nature and Terms of Implicit Support

The A3 IFSR of OPIL receives no uplift as a result of its ownership by OP Financial Group, given the a3 BCA of the banking operation. The adjusted a3 BCA of OP Corporate Bank (including cooperative support) and the a3 BCA of OP Cooperative, which is intended to directly own OP Insurance's non-life business in the future, are used as a reference point for the maximum rating of OPIL. The integration to-date of OP non-life insurance business into OP Corporate Bank and OP Financial Group has been successful and well-managed. However, OP Financial Group's support mechanism in which all the member banks provide each other with joint and several guarantees providing immediate and direct support in case of distress, does not cover, by law, insurance operations.

Rating Methodology and Scorecard Factors

Exhibit 4

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								A	Baa
Market Position and Brand (25%)								Aa	A
- Relative Market Share Ratio			X						
- Underwriting Expense Ratio % Net Premiums Written	17.2%								
Product Focus and Diversification (10%)								A	Baa
- Product Risk			X						
- P&C Insurance Product Diversification		X							
- Geographic Diversification						X			
Financial Profile								A	A
Asset Quality (10%)								A	A
- High Risk Assets % Shareholders' Equity				168.3%					
- Reinsurance Recoverable % Shareholders' Equity	13.3%								
- Goodwill & Intangibles % Shareholders' Equity	15.7%								
Capital Adequacy (15%)								Baa	Baa
- Gross Underwriting Leverage				7.0x					
Profitability (15%)								Aa	A
- Return on Capital (5 yr. avg)	28.5%								
- Sharpe Ratio of ROC (5 yr. avg)		381.7%							
Reserve Adequacy (10%)								A	A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)			0.7%						
Financial Flexibility (15%)								Aa	A
- Financial Leverage		18.1%							
- Total Leverage		18.1%							
- Earnings Coverage (5 yr. avg)	52.4x								
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								A1	A3

[1] Information based on IFRS financial statements as of Fiscal YE December 31
[2] The Scorecard is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis
Source: Company reports, Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
OP INSURANCE LTD	
Rating Outlook	STA
Insurance Financial Strength	A3
OP FINANCIAL GROUP	
Rating Outlook	STA
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 Investors Service

Moody's Related Research

Special reports:

- » Nordic Non-Life Insurance Stability and Underwriting Outperformance to Continue
- » European Non-Life Insurance: Risk of Gradual Deterioration in Underwriting Profit is Increasing
- » EMEA Insurance Monitor
- » Insurance - Europe: Lower Interest Rates Accelerate Decline in Profits, Constrain Solvency Ratios

Industry outlook:

- » Global P&C Insurance Outlook 2017: Continued Premiums Growth Supported by Economy, but Pricing and Investment Headwinds Remain; Stable Sector Outlook

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