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Rating Action: Moody's assigns CR Assessments of Aa2(cr)/P-1(cr) to OP Financial Group and Pohjola Bank Plc

Global Credit Research - 29 Jun 2015

London, 29 June 2015 -- Moody's Investors Service has today assigned a long- and short-term Counterparty Risk Assessments (CR Assessments) of Aa2(cr)/Prime-1(cr) to OP Financial Group and to Pohjola Bank Plc, following the publication of Moody's revised bank rating methodology published on 16 March 2015 (see "Banks," http://www.moodys.com/viewresearchdoc.aspx?docid=PR_320662).

At the same time, Moody's affirmed the a3 baseline credit assessment (BCA) of OP Financial Group, the baa2 BCA and a3 Adjusted BCA of Pohjola Bank Plc, and Pohjola Bank Plc's Aa3 long-term debt, deposit ratings and issuer ratings, Prime-1 short-term debt and deposit rating, Baa1 subordinate and Baa3(hyb) preferred stock non-cumulative ratings. The outlook is stable on all long-term senior unsecured, issuer and deposit ratings of Pohjola Bank Plc.

For its own business reasons, Moody's has withdrawn the outlooks for all of the junior instrument ratings for Pohjola Bank Plc. Please refer to "Moody's Investors Service's Policy for Withdrawal of Credit Ratings", available at moodys.com. Outlooks, which indicate the direction of relevant rating pressures, now apply to the long-term senior debt and deposit ratings only.

The full list of affected ratings is provided at the end of the press release.

RATINGS RATIONALE

--- ASSIGNMENT OF COUNTERPART RISK ASSESSMENTS

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 expected loss 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.

In assigning the CR Assessment, Moody's evaluates the issuer's standalone strength and the likelihood, should the need arise, of affiliate and government support, as well as the anticipated seniority of counterparty obligations under Moody's Loss Given Failure framework. The CR Assessment also assumes that authorities will likely take steps to preserve the continuity of a bank's key operations, maintain payment flows, and avoid contagion should the bank enter a resolution.

The CR Assessment Moody's has assigned to OP Financial Group and Pohjola Bank Plc is positioned at Aa2(cr)/Prime-1(cr). The CR Assessment, prior to government support, is positioned three notches above OP Financial Group's BCA, and Pohjola Bank Plc's 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 Moody's 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, Moody's focuses purely on subordination and takes no account of the volume of the instrument class.

The CR Assessment also benefits from one notch of systemic support, in line with Moody's support assumptions on Pohjola Bank Plc's deposits and senior unsecured debt. This reflects the rating agency's 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 Moody's belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

--AFFIRMATION OF RATINGS

OP Financial Group

Moody's affirmation of OP Financial Group's a3 baseline credit assessment (BCA) reflects the cooperative group's strong domestic franchise in retail and corporate banking, insurance and asset management, which supports asset quality and profitability. The group operates under a joint and several guarantee between its member banks (excluding specific entities including the insurance companies). The BCA is constrained by the group's reliance on wholesale funding, as well as some concentrations in the loan book, a common feature of Nordic banks. OP Financial Group's a3 BCA acts as a component for determining the adjusted BCA (which includes affiliate support) of Pohjola Bank Plc, the group's corporate banking and debt issuing entity.

Pohjola Bank Plc

Moody's affirmation of Pohjola Bank Plc's baa2 baseline credit assessment (BCA) reflects the bank's strong domestic franchise in corporate banking, which supports its asset quality and profitability. The BCA is constrained by risks related to the bank's credit concentration and high reliance on market funding, which renders the bank susceptible to changes in investor sentiment.

Moody's affirmation of Pohjola Bank Plc's Aa3 long-term deposit and senior unsecured debt ratings reflect 1) the baa2 BCA, 2) a high probability of affiliate support from the wider OP Financial Group, reflecting the joint and several guarantee between the group's member banks, 3) a very low loss-given failure, which translates into two notches of LGF uplift reflecting the benefit of instrument volume and subordination protecting creditors from losses in the event of resolution, and 4) a moderate probability of government support reflecting the bank's double digit market share in Finland's corporate banking market, translating into one notch additional rating uplift.

WHAT COULD CHANGE THE RATINGS UP/DOWN: OP FINANCIAL GROUP

Upward pressure on OP Financial Group's BCA would be contingent on the successful recapitalisation of the group, following the acquisition of the remaining shares of Pohjola Bank Plc in 2014. In addition, an upgrade of the BCA is contingent on: (1) higher profitability without assuming more risks; (2) a higher proportion of deposit funding and longer maturities on liabilities; and/or (3) reduced concentration risks, particularly related to real estate.

In addition to OP Financial Group missing its capital targets, downward ratings pressure could develop if: (1) the group's funding conditions were to deteriorate; or (2) a material slowdown of economic growth in Finland, likely resulting in weaker asset quality and/or (3) profitability were to deteriorate.

WHAT COULD CHANGE THE RATINGS UP/DOWN: POHJOLA BANK PLC

Upward pressure on the ratings could develop following: (1) an improvement in the bank's profitability levels without materially increasing its risk profile; (2) a further sustained extension in its funding maturity profile combined with an increasing share of deposit funding; and/or (3) a sustained reduction in its concentration risk, particularly related to real estate.

Pohjola Bank Plc's BCA could be lowered following: (1) weakening financing conditions, (2) a material weakening of the bank's franchise, and/or; (3) weakening economic fundamentals, particularly with respect to the bank's asset quality, profitability and capital position. The bank's adjusted BCA could come under pressure if the OP Financial Group's creditworthiness were to deteriorate.

Pohjola Bank Plc's senior unsecured debt and deposit ratings could come under pressure if (1) its cushion of liabilities eligible for bail-in were to shrink and/or (2) the likelihood of government support were to be reduced further.

LIST OF AFFECTED RATINGS

OP Financial Group

- BCA and Adjusted BCA, Affirmed a3
- Long- and Short term CR assessment, Assigned Aa2(cr)/Prime-1(cr)

Pohjola Bank Plc

- BCA, Affirmed baa2
- Adjusted BCA, Affirmed a3
- Local currency and foreign currency long-term deposits, Affirmed Aa3 Stable/ Prime-1

- Local currency subordinated MTN Program, Affirmed (P)Baa1
- Local and foreign currency subordinated debt ratings, Affirmed Baa1
- Local and foreign currency senior unsecured debt, Affirmed Aa3 Stable
- Local currency senior unsecured MTN programme, Affirmed (P)Aa3
- Long-term issuer rating, Affirmed Aa3 Stable
- Pref. Stock Non-cumulative local and foreign currency, Affirmed Baa3(hyb)
- Commercial paper local currency, Affirmed Prime-1
- Local and foreign currency other short-term ratings, Affirmed (P)P-1/P-1
- CR assessment, Assigned Aa2(cr)/Prime-1(cr)

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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