S&P Global Ratings

Research

OP Corporate Bank PLC

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2142557

OP Corporate Bank PLC

SACP	a+

Anchor	a-	
Business Position	Strong	+1
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating

AA-/Stable/A-1+

Resolution Counterparty Rating

AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Successful bancassurance strategy and solid domestic retail and corporate franchise. • Conservative capital policy, underpinned by sound earnings. • Cooperative banking model with joint liability between OP Cooperative and member credit institutions.	• Geographic concentration in Finland. • Weaker cost efficiency than peers', although improving.

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Outlook: Stable

The stable outlook on Finnish bank OP Corporate Bank PLC reflects our expectation that the creditworthiness of the wider OP Financial Group is unlikely to change over the next two years and that the support mechanism within the group--underpinned by the joint liability between OP Cooperative and member credit institutions of the group--remains unchanged. Owing to OP Financial Group's position as a leading bancassurance group, we expect it will continue to benefit from the improving operating environment over the next two years. This should translate into stable high earnings and retention of capital reserves. Specifically, the outlook reflects our expectation that our risk-adjusted capital (RAC) ratio for the bank will reach a sustainable level above 15% in the next two years and that the bank will continue to build up its regulatory minimum requirement for own funds and eligible liabilities (MREL), which we consider a rating strength in our one-notch uplift for additional-loss absorbing capacity (ALAC).

We could lower the rating if we considered that the bank's ALAC buffer was unlikely to exceed our threshold of 5% of S&P Global Ratings' risk-weighted assets over a two-to-four-year ramp-up period.

An upgrade is remote at this stage.

The stable outlook on OP Insurance reflects that on its parent, OP Corporate Bank.

Rationale

The ratings on OP Corporate Bank reflect the dominant franchise and high capitalization of the wider OP Financial Group, comprising 156 member cooperative banks; OP Cooperative, the group's central institution; OP Corporate Bank; insurance businesses and specialized institutions. OP Corporate Bank, a wholly owned subsidiary of OP Cooperative, acts as the cooperative's corporate bank for large clients and small and midsize enterprise (SME) customers and the central bank of the wider OP Financial Group. All of the group's member cooperative banks have operated since 1997 as a single entity for regulatory purposes under a joint liability scheme, established under Finnish law. Given OP Corporate Bank's systemic importance and the full ownership by the OP Cooperative, we view the bank as integral to the group.

We anticipate that the group will maintain its dominant position within the Finnish market, where its business lines have market shares of 20%-40%. Moreover, the group's cooperative nature translates into a stable customer base and supports revenue stability.

The capitalization level remains a key strength of the rating assessment as the sustained organic capital generation will lead OP Corporate Bank to build up its RAC ratio to 16.5%-17.0% by December 2020. At the same time, our ratings incorporate the bank's geographical concentration in Finland--by contrast with more-diversified international peers--and its exposure to the Finnish real estate sector, mainly income-producing real estate. However, the risk profile continues to benefit from the strong loan-loss track record, in line with Nordic peers, and solid asset quality.

The group's funding mix is well-balanced, and mostly reliant on customer deposits. It also has proven access to capital markets. The group has gradually increased its liquidity buffers, which now cover its maturing short-term wholesale debt by a comfortable amount. Based on the above, we assign an unsupported group credit profile (GCP) of 'a+'.

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Our assessment of ALAC at OP Financial Group leads us to incorporate one notch of uplift to the GCP. Consequently, the issuer credit rating on OP Corporate Bank is aligned with the 'aa-' supported GCP.

Anchor: Reflects Finland's cyclical, but resilient, economy and low debt

We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating under our criteria. Our anchor for a commercial bank, such as OP Corporate Bank, operating only in Finland is 'a-', based on an economic risk score of '2' and an industry risk score of '3'. We view the economic risk trend and the industry risk trend in the Finnish banking industry as stable.

We view Finland as an innovative, wealthy, and open economy that has mature political and institutional structures. The near-term economic picture has brightened following a prolonged recession over 2012-2015. After strong growth in 2017, supported by healthy domestic demand and a strongly improving external environment that benefitted Finnish exports, we forecast growth will slow somewhat as domestic factors and structural constraints weigh on the economy. House prices have stabilized nationwide and market activity, especially in the growth regions, is now picking up. Although we forecast moderate credit demand from households in 2018-2019, we observe a gradual increase in household debt. However, we expect Finnish banks' asset quality to remain strong in the next two years, based on the sound financial position of the household and corporate sectors, the banking sector's moderately conservative underwriting standards, and the continued low interest rates.

We do not consider the banking sector's competitive landscape to be distorted, despite concentration caused by the presence of large pan-Nordic banks and the domestic cooperative banking group OP Financial Group. We also deem the sector's overall profitability and capitalization to be resilient and expect the banks to maintain their restrained risk appetite. That said, the sector remains highly interconnected with the Nordic banking systems, which results in potential spillover risks on the Finnish economy from external events. As a key industry risk, we see that Finnish banks depend more on international market funding than many other banking systems in Europe. That said, we consider that the banks continue to have good access to the euro-denominated unsecured and secured market.

Table 1

OP Financial Group Key Figures					
		--Year-ended Dec. 31--			
(Mil. €)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	120,785	117,161	109,663	105,825	94,060
Customer loans (gross)	86,547	82,731	79,112	75,686	71,166
Adjusted common equity	9,582	8,547	7,397	7,596	5,422
Operating revenues	2,286	3,090	2,912	2,894	2,783
Noninterest expenses	1,545	1,990	1,773	1,714	1,780
Core earnings	576	834	854	853	607

*As of Sept. 30.

Business position: Dominant domestic franchise in both banking and insurance

We expect OP Financial Group to maintain its leading position in the Finnish market, where its business lines in corporate and retail banking have market shares of 35%-40%. This is further supported by the group's life and non-life

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insurance operations enjoying strong market shares of 22% and 33%, respectively.

OP Financial Group--with total assets of €140.0 billion as of Sept. 30, 2018--has a strong retail franchise. It has a countrywide branch network, about 3.9 million private customers, and more than 400,000 corporate customers. In our view, the group has a stable operating platform based on consistently strong and recurring revenue; an average return on equity of about 8.7% over the past five years (8% annualized in September 2018); and its retail focus and coherent long-term strategy. We expect the current group strategy, focused on digitalization and the formation of a more broad-based service company, will support the group's successful cross-selling between banking and insurance in the rapidly evolving operating environment. OP Financial Group aims to transform into a fully digitalized group and follows a collaborative fintech strategy.

OP Financial Group's revenues consist of interest income (35% of total income), fee and commission income (25%-30% of total income), and net insurance income (about 20% of income)--a split that we expect to remain relatively unchanged in the coming years.

We consider that the stable cooperative ownership structure underpins the strengths and stability of the business model. OP Cooperative, all 156 member cooperative banks, OP Corporate Bank and other member credit institutions operate with joint liability, defined by the Finnish Act on the Amalgamation of Deposit Banks. We think it will enable the group to better focus on the long-term returns and management to adhere to its strategy, providing the owners with stable returns.

Moreover, the group's revenue diversity through its banking and insurance operations is a strength in the relatively consolidated Finnish banking sector, and we think the group still has significant room to further exploit its cross-selling opportunities over the medium term. The group's efforts in this respect have been very successful and are reflected by a continuous increase in joint clients to about 1.8 million in September 2018 from about 700,000 in 2005.

Table 2

OP Financial Group Business Position					
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (currency in millions)	2,286	3,115	2,988	2,894	2,783
Commercial & retail banking/total revenues from business line	62.55	60.03	64.39	66.59	69.24
Insurance activities/total revenues from business line	19.86	19.71	18.64	19.38	21.38
Asset management/total revenues from business line	15.70	16.28	12.22	11.09	9.20
Other revenues/total revenues from business line	1.88	3.98	4.75	2.94	0.18
Return on average common equity	6.46	8.03	9.42	10.31	8.08

*As of Sept. 30.

Capital and earnings: Strong prospective capitalization supported by stable earnings and issuance of profit share

Our assessment primarily reflects our expectation that the bank's capitalization, as measured by our projected RAC ratio before diversification adjustments, will be sustainably above 15% over the next 18-24 months, compared with 14.6% as of year-end 2017. Furthermore, we expect OP Financial Group's stable earnings generation and conservative

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capital policy in the cooperative network will remain unchanged.

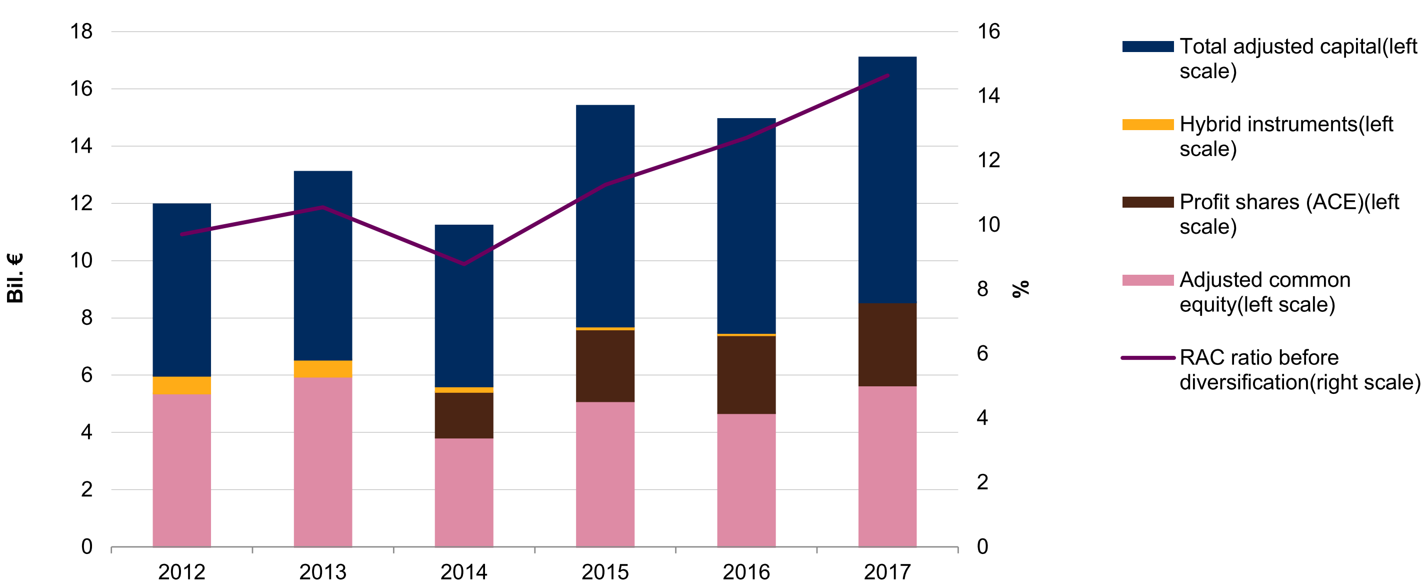
Our measure of capital (total adjusted capital, TAC) has increased steadily since 2014; we attribute this to a combination of increased core earnings and the issuance of member profit shares to its retail clients in the amount of €3 billion. Specifically, since March 2014, the group has issued profit shares to its retail owner-customers, through the member cooperative banks, which is seen as an integral part of recapitalizing the group. We consider the profit shares to be part of our TAC, in line with regulatory approach.

Our RAC projection for the next 18-24 months incorporates the following assumptions:

- The group generating stable operating revenues supported by all business lines.
- Improving cost efficiency allowing continuous investment in the digitalization and service improvements (costs growing, but at a lower pace than in the past, as efficiency gains will start to materialize).
- Loan impairments remaining at their current low levels of around 10 basis points (bps).
- Capital position being supported by further issuance of profit shares and distributions for profit shares that we estimate at about €100 million annually in 2018.
- Sound loan growth of about 4%-5%, translating into a moderate increase in S&P Global Ratings' risk-weighted assets.

Chart 1

OP Financial Group Capitalization Statistics Show Its Growing Equity Base



Sources: Company data and S&P Global Ratings.

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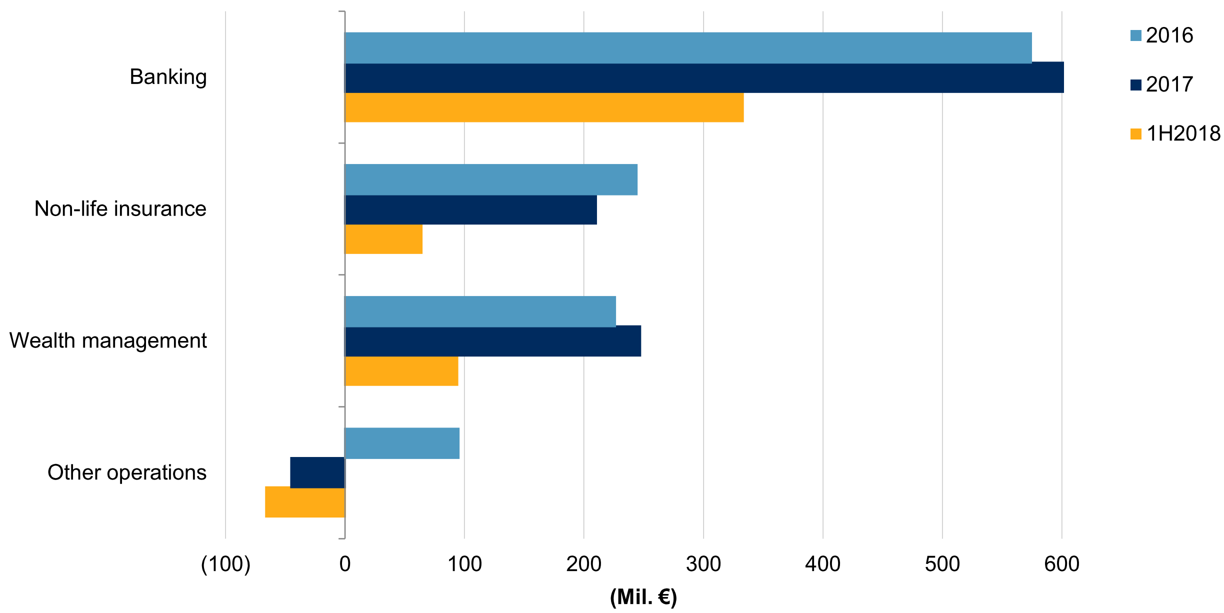
Chart 2

OP Financial Group's Earnings Before Tax Are Well Diversified



Source: Company data and S&P Global Ratings.

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Pretax earnings are diversified by segment; 68% of total pretax earnings in the first nine months of 2018 were generated in the banking business, on the back of increased net interest income (up 3%), stable net fee and commission income, and lower operating expenses. Pretax earnings from non-life insurance and wealth management (including life insurance) reached €267 million in the first nine months of 2018 or about 35% of OP Financial Group's pretax profits. The stable profitability levels in insurance activities were based on strong annual growth of assets under management (AUM) of 2%, and a still favorable claims development for its non-life operations (combined ratio of 92% in the first nine months of 2018). (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Investment risk has declined significantly over the past three years, and we expect the trend will continue, leading to more stable earnings from insurance operations.

We expect our earnings buffer metric on OP Corporate Bank, which measures the capacity of a bank to cover its normalized losses, will be about 100 basis points (bps) to 105bps and will support the group's buildup of capital. However, even if OP Financial Group's cost efficiency improves, it still lags somewhat behind its large Nordic peers; it reported a cost-to-income ratio of around 60% in the first nine months of 2018. We expect the group will be able to improve its cost efficiency through improved operational cost efficiency and productivity of investments of €300 million-€400 million a year in digitalization and service capacity during 2016-2020, under the current strategy.

OP Financial Group's common equity Tier 1 (CET1) ratio of 20% and its total capital ratio of 22.1% as of Sept. 30, 2018, both comfortably met the regulatory requirements of at least 10.8% and 14.3%, respectively. The group's CET1

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target is 22% in the medium term.

The non-life and life insurance operations have capital targets of 120% and 130%, respectively, (without transitional measures) of the Solvency Capital Requirement (SCR) under Solvency II, with any excess capital to continue being upstreamed to the ultimate parent, OP Financial Group.

Under our RAC framework, we deduct the equity invested and risk weight at 1.250% subordinated debt held by the life and non-life subsidiaries. We consider this to be commensurate with the risk level in the insurance businesses.

Table 3

OP Financial Group Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	20.1	20.3	20.3	19.9	15.5
S&P Global Ratings' RAC ratio before diversification	N.A.	14.65	12.72	11.25	8.78
S&P Global Ratings' RAC ratio after diversification	N.A.	13.43	12.07	11.82	9.24
Adjusted common equity/total adjusted capital	100.00	100.00	98.97	98.62	96.58
Net interest income/operating revenues	37.97	35.40	36.33	35.38	37.26
Fee income/operating revenues	28.65	30.03	29.50	24.33	26.12
Market-sensitive income/operating revenues	12.60	21.00	21.05	6.70	5.82
Noninterest expenses/operating revenues	67.59	64.40	60.89	59.23	63.96
Preprovision operating income/average assets	0.71	0.81	0.88	1.00	0.95
Core earnings/average managed assets	0.55	0.62	0.66	0.72	0.57

*As of Sept. 30. N.A.--Not available.

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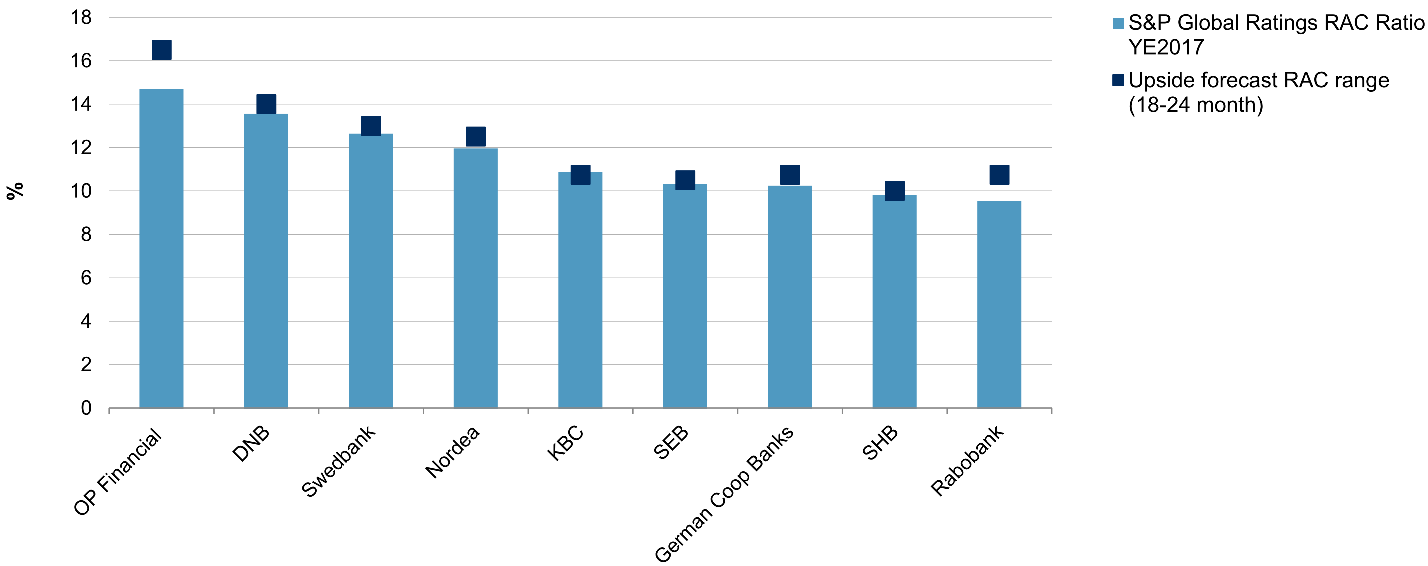
Chart 3

Risk-Adjusted Capital Ratio: Relative Capital Strength



Sources: Company data and S&P Global Ratings. RAC--Risk-adjusted capital.
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Table 4

OP Financial Group Risk-Adjusted Capital Framework Data

	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	19,216,897,028	18,474,560	0	214,807,618	1
Of which regional governments and local authorities	3,047,837,816	18,474,560	1	116,990,380	4
Institutions and CCPs	7,817,950,587	1,061,569,570	14	1,339,490,714	17
Corporate	39,085,820,201	23,726,254,625	61	26,644,670,138	68
Retail	53,287,636,359	6,150,447,298	12	15,720,569,191	30
Of which mortgage	41,825,891,872	2,796,561,864	7	9,462,874,660	23
Securitization§	517,707,717	42,121,803	8	116,835,174	23
Other assets†	1,316,091,930	1,382,028,731	105	2,484,871,595	189
Total credit risk	124,289,941,638	32,380,896,587	26	46,521,244,431	37
Credit valuation adjustment					
Total credit valuation adjustment	--	204,662,701	--	0	--
Market risk					
Equity in the banking book	546,272,076	541,256,458	99	5,355,906,863	980
Trading book market risk	--	1,177,742,214	--	1,766,613,321	--

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Table 4

OP Financial Group Risk-Adjusted Capital Framework Data (cont.)					
Total market risk	--	1,718,998,672	--	7,122,520,184	--
Operational risk					
Total operational risk	--	4,136,350,140	--	4,713,039,047	--
		Basel III RWA		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		42,932,453,074		58,356,803,662	100
Total Diversification/Concentration Adjustments		--		5,278,814,973	9
RWA after diversification		42,932,453,074		63,635,618,635	109
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		9,972,752,976	23.2	8,546,796,668	14.6
Capital ratio after adjustments‡		9,972,752,976	20.3	8,546,796,668	13.4

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred tax assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

Risk position: A bank with a retail profile predominately concentrated in Finland

Our view of OP Corporate Bank's risk position reflects its geographically concentrated business in Finland and its commercial real estate sector, partially compensated for by the generally conservative underwriting standards.

The group's gross loan book is dominated by granular retail loans (60% of total loans as of Sept. 30, 2018). Growth has mainly been driven by the retail mortgage loans, which comprise more than two-thirds of the retail portfolio. OP Financial Group has maintained conservative underwriting standards with adequate collateralization.

OP Financial Group's corporate loan book, including housing associations, comprises about 33% of the total loan portfolio and is predominantly housed at OP Corporate Bank (one-third is booked in member banks). The group's strong loan-loss record is offset by some concentration risk arising from exposure to Finland's commercial real estate sector (about 20% of the corporate exposures). This excludes the exposure toward housing associations, around 9% of corporate loans, which are mostly related to income-producing real estate. We therefore consider this exposure to be of moderate risk. The single-name concentrations are gradually decreasing and are generally to well-rated corporate customer groups.

Consequently, we expect OP Financial Group's asset quality will remain sound, with gross nonperforming loans amounting to 1.7% of the loan portfolio in the next two years, which is in line with levels at large Nordic peers. Loan losses have averaged 11bps of the loan book over the past five years and decreased to 8bps in 2017 (4bps as of Sept. 30, 2018). These levels compare favorably with those of large Nordic peers and with our expectations of its normalized losses. In our base-case scenario, we expect the group will maintain its impairments around 9-10bps in 2018-2020. Owing to a supportive economy in Finland, we anticipate no significant credit losses in its mortgage portfolio over the near term, provided interest rates do not increase sharply. However, a dampening in consumption could hurt the

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corporate sector, particularly small and midsize enterprises.

Investment risk in the insurance subsidiaries has declined because the group has decreased equity investments and steered life insurance business toward less-capital intensive, unit-linked products instead of guaranteed solutions (+10% year-on-year unit-linked AUM as of December 2017).

Table 5

OP Financial Group Risk Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	6.2	4.6	4.5	6.4	3.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	9.0	5.4	(4.9)	(5.0)
Total managed assets/adjusted common equity (x)	14.6	16.1	18.1	16.5	20.4
New loan loss provisions/average customer loans	0.0	0.1	0.1	0.1	0.1
Net charge-offs/average customer loans	0.1	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.6	1.8	1.7	1.6	1.7
Loan loss reserves/gross nonperforming assets	37.8	33.5	37.2	40.1	39.5

*As of Sept. 30. N.A.--Not available.

Funding and liquidity: A balanced funding profile dominated by customer deposits

Our view is based on the group's dominant franchise and proximity to customers through the local member banks, which should continue to provide the bank with stable and granular customer deposits. Furthermore, we factor in to our assessment the group's wholesale funding profile and its sound liquidity position.

The group has one of the highest ratios of deposit funding among large Nordic banks--61% as of Sept. 30, 2018. The deposit base's structure is well balanced between corporate, institutional, and retail clients (the latter represent two-third of total deposits), and does not show single-name concentration risk. We note that almost 60% of the deposits are covered by the Finnish Deposit Guarantee Fund.

Over the past couple of years, the group has optimized its long-term funding position by issuing both covered bonds and senior unsecured instruments. The group's diversified funding profile (by source and maturity) is underpinned in OP Financial Group's stable funding ratio of 98% at December 2017, and we expect the ratio will remain around 100% in the next two years.

Given our view of the wider Finnish banking system, we consider the bank's funding profile to be inherently dependent on external wholesale financing given the limited size of the domestic debt market.

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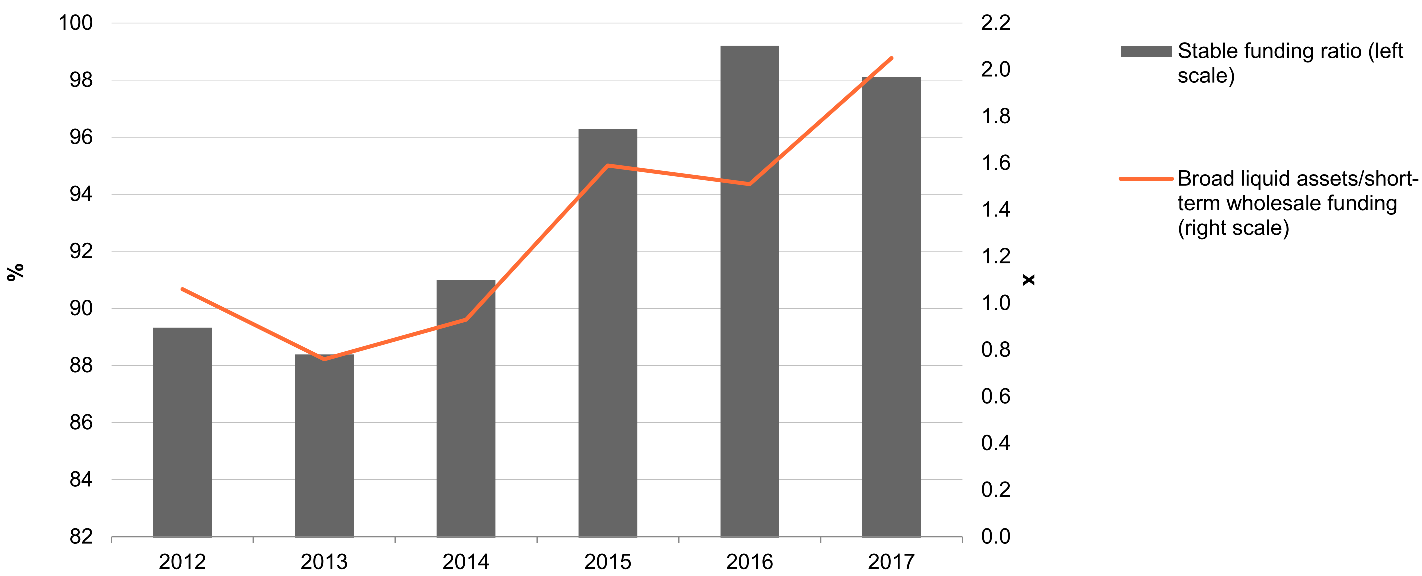
Chart 4

OP Financial Group: Improved Funding And Liquidity Metrics



Source: Company data and S&P Global Ratings.

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By our measures, OP Financial Group's one-year liquidity ratio (broad liquid assets to short-term wholesale funding) has strengthened considerably to 2.1x as of December 2017 (0.76x at year-end 2013) owing to a high liquidity position of €12.8 billion held with the central bank and €9.1 billion of adjusted liquid securities eligible as collateral. We consider that the group might reduce the ample liquidity buffers as credit grows and the €4 billion in targeted longer-term refinancing operations (TLTRO) funds are reimbursed.

Relative to its Nordic peers, OP Financial Group's asset encumbrance level, at about 15% as of Dec. 31, 2017, is contained and there is room for further covered bond issuance.

We understand that the group already comfortably fulfils the regulatory requirements on liquidity, with liquidity coverage ratio of 143% as of Sept. 30, 2018 (well above the minimum requirement of 100%). Although the member cooperative banks have no liquidity coverage ratio requirements on a stand-alone basis, the central cooperative closely monitors the liquidity situation of the member banks.

Table 6

OP Financial Group Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	64.3	63.5	61.4	62.6	63.7
Customer loans (net)/customer deposits	136.9	141.8	143.4	144.8	144.9

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Table 6

OP Financial Group Funding And Liquidity (cont.)					
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Long-term funding ratio	89.0	88.8	86.1	87.4	85.0
Stable funding ratio	101.3	98.1	99.2	96.2	91.0
Short-term wholesale funding/funding base	12.1	12.3	15.3	13.8	16.2
Broad liquid assets/short-term wholesale funding (x)	2.0	2.1	1.5	1.6	0.9
Net broad liquid assets/short-term customer deposits	16.7	18.3	11.7	11.8	(1.6)
Short-term wholesale funding/total wholesale funding	33.8	33.8	39.5	36.9	44.3
Narrow liquid assets/Three-month wholesale funding (x)	3.5	3.6	2.2	2.2	1.7

Support: One notch of uplift for ALAC support

Owing to its dominant market share of customer loans and deposits, we see OP Financial Group having a high systemic importance in Finland. We consider the prospect of extraordinary government support for Finnish banks is uncertain, following the full implementation of the EU Bank Recovery and Resolution Directive (BRRD), including bail-in powers.

We view the Finnish resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We have added one notch of uplift within the GCP, and thus to the long-term ratings on OP Corporate Bank, because we consider that the group is likely to increase its ALAC materially over the next four years. We estimate that the ALAC buffer equaled about 200bps of S&P Global Ratings' risk-weighted assets at year-end 2017 and project that it will grow above our threshold of 5.0% for a one-notch uplift by end-2021. This reflects our expectation that the group's strong earnings will support a further capital buildup reflected in the excess amount of TAC included in the GCP; the group will gradually replace maturing capital instruments with ALAC-eligible instruments; and that future regulatory requirements would lead the group to maintain or moderately increase its existing buffer of loss-absorbing capacity.

We include in our ALAC assessment all hybrid and subordinated instruments issued by OP Financial Group and OP Corporate Bank (apart from those we expect to be called within the next 12 months) because we consider they have capacity to absorb losses without triggering a default on OP Corporate Bank's senior obligations.

Additional rating factors:

No additional factors affect the ratings.

Issue ratings on hybrid instruments

We rate OP Corporate Bank's nondeferrable subordinated debt instruments two notches below the 'a+' unsupported GCP, reflecting the debt's contractual subordination as Tier 2 instruments and our view that the BRRD creates the equivalent of a contractual write-down clause. The starting point for the notching is the unsupported GCP.

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Resolution Counterparty Ratings

We set 'AA-/A-1+' resolution counterparty rating (RCR) on OP Corporate Bank, at the same level of the long-term issuer credit ratings. The RCR also reflect our jurisdiction assessment for Finland.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Core subsidiary: OP Insurance Ltd.

Although we also regard OP insurance as a core entity, we anticipate that the Finnish resolution framework will exclude insurance activities from a bail-in process. For this reason, we equalize our long-term ratings on the subsidiary with our 'a+' assessment of OP Financial Group's unsupported GCP. The stable outlook on the long-term rating assigned reflects our view that the subsidiary will remain integral to the enlarged group's strategy. It also takes into account that group will maintain an above-average business profile, strong earnings capacity, and an adequate capital and risk profile.

OP Insurance Ltd. could further build up its market-leading position of 33% in Finland, despite a stagnating non-life insurance market. Underwriting earnings in non-life insurance somewhat decreased in 2017 with an operating combined ratio of 96.1%, compared with 87.6% in 2016. The main reason for the increase was lowering of the discount rate for insurance liabilities and, to a smaller extent, the higher losses compared with the previous year. As we see the lowering of the discount rate as an extraordinary effect, we expect OP Insurance Ltd. to deliver sound and stable underwriting profitability and sustainable growth in the non-life segment over 2018-2020. This assumption is based on the ongoing risk-adequate pricing and efficient management of claims expenses. In addition, OP is constantly modernizing its insurance business in terms of claims handling processes and digitalization to retain its market-leading position.

In the life insurance segment, OP is gradually shifting its business to unit-linked. Its unit-linked provision increased to €10.2 billion in 2017 from €3.3 billion in 2011, and comprises more than 80% of the total reserves for with-profit and unit-linked insurance (excluding Suomi-Mutual portfolios). We regard this shift to capital-light products as positive. Additionally, we see an increasing trend in commission and fee income, which makes the overall life insurance earnings less interest-rate-sensitive.

OP Financial Group is steering its insurance subsidiaries capitalization according to Solvency II targets: life insurance has a Solvency II ratio of 151% (Limit: 130%) and the non-life insurance has a ratio of 135% (Limit: 120%) for year-end 2017, excluding transitional measures. We do not expect OP Financial Group to overcapitalize its insurance subsidiaries and therefore, we expect ongoing dividend payouts from the subsidiaries to its parent and a relatively stable development of capitalization levels.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty

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Ratings, April 19, 2018

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment Update: October 2018, Oct. 26, 2018
- Nordic Banks Sport Strong Capital--And It's Not Likely To Soften, Oct. 17, 2018
- Risk-Adjusted Capital (RAC) Ratios For The Top 50 Western European Banks: October 2018, Oct. 17, 2018
- Nordic Bank Ratings Continue To Stand Tall, Aug. 16, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Finland Completed, June 29, 2018
- Second Chapter Of Nordic Resolution Regimes Approaches An End, But The Book Is Not Complete, Feb. 14, 2018
- Banking Industry Country Risk Assessment: Finland, Feb. 2, 2018

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Anchor Matrix

Industry Risk	Economic Risk 1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 11, 2018)

OP Corporate Bank PLC	
Issuer Credit Rating	AA-/Stable/A-1+
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA-
Short-Term Debt	A-1+
Subordinated	A-
Issuer Credit Ratings History	
17-Nov-2016	AA-/Stable/A-1+
30-May-2014	AA-/Negative/A-1+
06-Feb-2014	AA-/Watch Neg/A-1+
Sovereign Rating	
Finland	AA+/Stable/A-1+
Related Entities	
OP Insurance Ltd	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
OP Mortgage Bank	
Senior Secured	AAA/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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