

Rating Action: Moody's affirms Pohjola Bank and OP-Pohjola Group's Ratings; stable outlook

Global Credit Research - 07 Feb 2014

London, 07 February 2014 -- Moody's Investors Service, ("Moody's") has today affirmed Pohjola Bank Plc's Aa3 long-term debt and deposit ratings and issuer rating, P-1 short-term debt and deposit rating, Baa1 subordinate and (P)Baa1 junior subordinate debt ratings, Baa3(hyb) preferred stock non-cumulative ratings, and C- standalone bank financial strength rating (BFSR), equivalent to a baa2/a3 baseline/adjusted baseline credit assessment (BCA). The outlook on the long-term ratings and BFSR remains stable.

Moody's also affirmed OP-Pohjola Group's C BFSR, equivalent to an a3 BCA. The outlook on the BFSR remains stable.

Today's rating action does not affect Pohjola Insurance Ltd's A3 insurance financial strength rating.

The rating action follows OP-Pohjola Group's announcement on 6 February 2014 that it would tender an offer to buy the 63% of Pohjola Bank's shares that it does not already directly hold. The tender offer is due to take place from 24 February -- 1 April 2014 with the transaction due to close soon afterwards.

RATING RATIONALE

Today's affirmations reflect Moody's view that the negative impact of the transaction does not have a material impact on the current ratings of Pohjola Bank or OP-Pohjola Group. Positively, the transaction results in future profits of Pohjola Bank accruing solely to the OP-Pohjola Group, with no dividend payments to minority shareholders. The deal may also result in some limited synergies and will further simplify the group structure.

Negatively, the transaction will result in an immediate negative impact on OP-Pohjola Group's capital levels. Given the initial tender offer of EUR16.80 per share, OP-Pohjola Group estimate their pro-forma common equity tier 1 ratio would decrease to 11.7% from 17.6% at end-2013.

OP-Pohjola Group also announced it would increase its common equity tier 1 capital target to 18% by 2016 from 15% and would recapitalise the bank through a mixture of retained earnings and the issuance of EUR1.3 billion of new profit shares by the cooperative banks during 2014-15. Additionally, OP-Pohjola Group intends to convert around EUR0.6 billion of existing supplementary cooperative capital into profit shares by the cooperative banks and to issue around EUR0.2 billion of tier II subordinated debenture loans out of Helsinki OP Bank Plc.

Moody's notes that such a recapitalisation inevitably features some level of uncertainty. Nonetheless our affirmation and stable outlook on the ratings of OP-Pohjola Group reflects Moody's view that the recapitalisation strategy, combined with OP-Pohjola Group's track record of capital improvements over the past 7 years (its Basel II tier 1 ratio with transitional floors rose to 14.3% at end-2013 from 12.2% at end-2007) and its above-target bank profit performance during 2013 (reporting an earnings before tax of EUR705 million), are achievable.

Moody's added that a failure of the Group to hit its capitalisation targets over the next two years may place downwards pressure on the rating.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upward pressure on OP-Pohjola Group's ratings would be contingent on the successful recapitalisation of the group. Additionally, an upgrade of OP-Pohjola Group and/or Pohjola Bank's ratings may follow: (1) an improvement in profitability levels without increasing 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.

In addition to OP-Pohjola Group missing its capital targets, downward ratings pressure could develop on both Pohjola Bank and OP-Pohjola Group should Moody's consider that: (1) financing conditions are likely to deteriorate; or (2) that a macroeconomic slowdown and/or a worse-than-expected deterioration in the bank's financial fundamentals is likely. Additionally, a weakening of OP-Pohjola Group's standalone rating may result in a

downgrade of Pohjola Bank's supported ratings.

The principal methodology used in these ratings was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Based in Helsinki, Finland, OP-Pohjola Group reported total assets of EUR100.9 billion at end-2013.

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