S&P Global Ratings

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OP Corporate Bank PLC

Primary Credit Analyst:
Antonio Rizzo, Madrid (34) 91-788-7205; Antonio.Rizzo@spglobal.com

Secondary Contacts:
Manuel Adam, Frankfurt (49) 69-33-999-199; manuel.adam@spglobal.com
Salla von Steinaecker, Frankfurt (49) 69-33-999-164; salla.vonsteinaecker@spglobal.com

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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 Bank PLC and member credit institutions	• Geographic concentration in Finland • Weaker cost efficiency than peers', although improving

Outlook: Stable

The stable outlook on Finnish bank OP Corporate Bank reflects S&P Global Ratings' expectation that the creditworthiness of the wider OP Financial Group is unlikely to change over the next two years, and the support mechanism within the group--underpinned by the joint liability between OP Cooperative and the group's member credit institutions--will not change. 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 during the outlook period is unlikely.

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 153 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. It is also 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 role as central financial institution for OP Financial Group and the member institutions 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, because 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+'.

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

Under our bank criteria, we use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine the anchor that starts our bank rating. The anchor for OP Corporate Bank is 'a-', in line with the anchor used for commercial banks based in Finland, 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 classify Finland's banking sector in group '2' under our BICRA, alongside Sweden, Norway, Switzerland, and Germany.

We view Finland as an innovative, wealthy, and open economy, with mature political and institutional structures. The near-term economic picture has brightened following a prolonged recession from 2012-2015. After sound growth in 2017 and 2018, supported by healthy domestic demand and a strongly improving external environment benefiting 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 growth regions is picking up. While we forecast moderate credit demand from households in 2019-2020, household debt has increased gradually.

However, we expect Finnish banks' asset quality to remain strong over 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 low-interest-rate environment.

We do not consider the banking sector's competitive landscape to be distorted, despite concentration due to the presence of large pan-Nordic banks and the domestic cooperative banking group OP Financial Group. We also regard the sector's overall profitability and capitalization as resilient and expect banks will maintain their restrained risk appetite.

Still, 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, Finnish banks depend more on international market funding than many other banking systems in Europe. Nevertheless, we believe 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. €)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	124,718.0	121,066.0	117,161.0	109,663.0	105,825.0	94,060.0
Customer loans (gross)	90,233.0	87,606.0	82,731.0	79,112.0	75,686.0	71,166.0
Adjusted common equity	10,075.4	9,183.6	8,547.0	7,397.0	7,596.0	5,422.0

Table 1

OP Financial Group--Key Figures (cont.)						
		--Year ended Dec. 31--				
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Operating revenues	1,598.0	2,937.0	3,090.0	2,912.0	2,894.0	2,783.0
Noninterest expenses	1,077.0	1,916.0	1,990.0	1,773.0	1,714.0	1,780.0
Core earnings	387.9	761.2	834.0	854.0	853.0	607.0

*As of June 30.

Business position: Leading domestic franchise in banking and insurance

We expect OP Financial Group to consolidate 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 nonlife insurance operations enjoying strong market shares of 26% and 34%, respectively.

OP Financial Group--with total assets of €144.3 billion as of June 30,2019--has a strong retail franchise. It has a countrywide branch network, about 3.9 million private customers, and about 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 8.5% over the past five years (5.6% annualized in June 2019); and its retail focus and coherent long-term strategy.

We expect the current group strategy, focused on digitalization, 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. More than 90% of customers' payments come through digital channels and more than 70% of clients are active digital users. Moreover, OP is focusing on artificial intelligence to improve its banking offer and customer interaction; it is also pioneering digital home selling in Finland and blockchain solutions.

OP Financial Group's revenues consist of interest income (35%-40% of total income), fee and commission income (25%-30%), and net insurance income (15%-20%)--a split that we expect to continue in coming years.

We consider that the stable cooperative ownership structure underpins the strengths and stability of the business model. OP Cooperative, all 153 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, with a continuous increase in joint clients to more than 1.8 million in June 2019 from about 700,000 in 2005.

Table 2

OP Financial Group--Business Position

	--Year ended Dec. 31--					
(%)	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil. €)	1,598	2,979	3,115	2,988	2,894	2,783
Commercial and retail banking/total revenues from business line	70.6	64.1	60.0	64.4	66.6	69.2
Insurance activities/total revenues from business line	31.4	18.2	19.7	18.6	19.4	21.4
Asset management§/total revenues from business line	0.0	15.1	16.3	12.2	11.1	9.2
Other revenues/total revenues from business line	N.M.	2.5	4.0	4.8	2.9	0.2
Return on average common equity	5.6	6.9	8.0	9.4	10.3	8.1

*As of June. 30. §Asset Management included mainly in commercial banking since Jan. 1, 2019. N.M.--Not meaningful.

Capital and earnings: Strong prospective capitalization supported by sound 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 15.0% over the next 18-24 months, compared with 15.3% as of year-end 2018. Furthermore, we expect OP Financial Group's stable earnings generation and conservative capital policy in the cooperative network will not change. Our measure of capital (total adjusted capital [TAC]) has increased steadily since 2014; we attribute this to increased core earnings and the issuance of member profit shares to its retail clients for €3 billion as of June 2019. Specifically, since March 2014, the group has issued shares sharing to its retail owner-customers, through the member cooperative banks, which is an integral part of recapitalizing the group. We consider the profit shares to be part of our TAC, in line with the regulatory approach.

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

- The group will generate stable operating revenues supported by all business lines.
- Improving cost efficiency will allow continuous investment in the digitalization and service improvements (costs will rise, but more slowly than before, as efficiency gains materialize).
- Loan impairments will remain at low levels of 5-10 basis points (bps).
- Loan growth will be sound, at 4%-5%, translating into a moderate increase in S&P Global Ratings' risk-weighted assets.
- We do not include an incremental amount of profit shares in our projections.

Pretax earnings are diversified by segment; 56% of total pretax earnings in the first six months of 2019 came from the banking business both retail and corporate segments combined, on the back of increased net interest income (up 3%)and net fee and commission income (up 1%). Operating expenses started to decline on account of cost-saving initiatives and lower IT development expenditure compared with the year before. Pretax earnings from insurance reached €192 million in the first six months of 2019 or about 46% of OP Financial Group's pretax profits. Claims development for nonlife operations deteriorated, with a slight increase in combined ratio to 92.5% in the first six months of 2019 from 92.0% as of year-end 2018. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Investment risk declined significantly over the past three years, and we expect it 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 remain a robust 115-120 bps 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 65% as of year-end 2018. We expect the group to enhance its cost efficiency through operational improvements and productivity of investments of €300 million-€400 million a year in digitalization and service capacity during 2016-2020, under the current strategy.

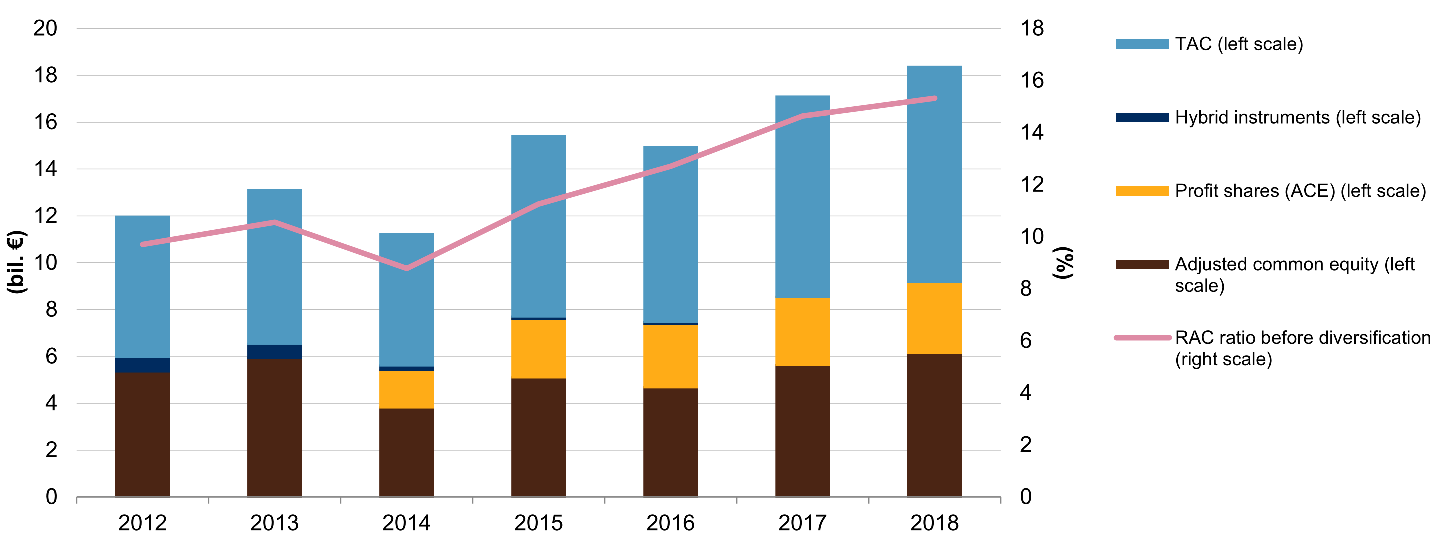
OP Financial Group's common equity Tier 1 (CET1) ratio of 19.5% and its total capital ratio of 21.2% as of June 30, 2019. Both ratios comfortably met the regulatory requirements of at least 11% and 14.5%, respectively, while still below the group's CET1 target of 22% by the end of 2019.

The nonlife 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 heading 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 nonlife subsidiaries. We consider this to be commensurate with the risk level in the insurance businesses.

Chart 1

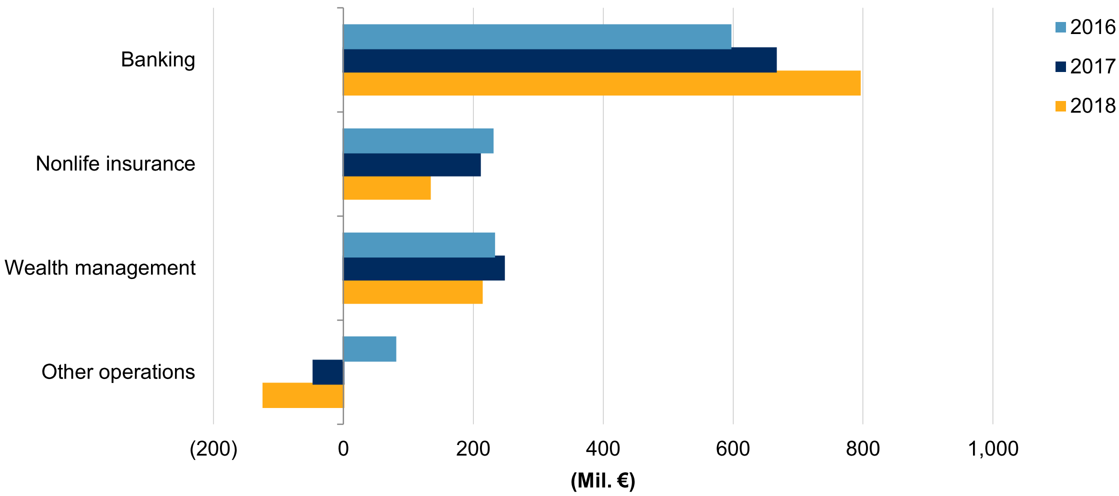
OP Financial Group--Capitalization Statistics Show Its Growing Equity Base
TAC Components And RAC Ratio Development



TAC--Total adjusted capital. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Chart 2

OP Financial Group--Earnings Before Tax Are Well Diversified



Source: Company data and S&P Global Ratings.

Table 3

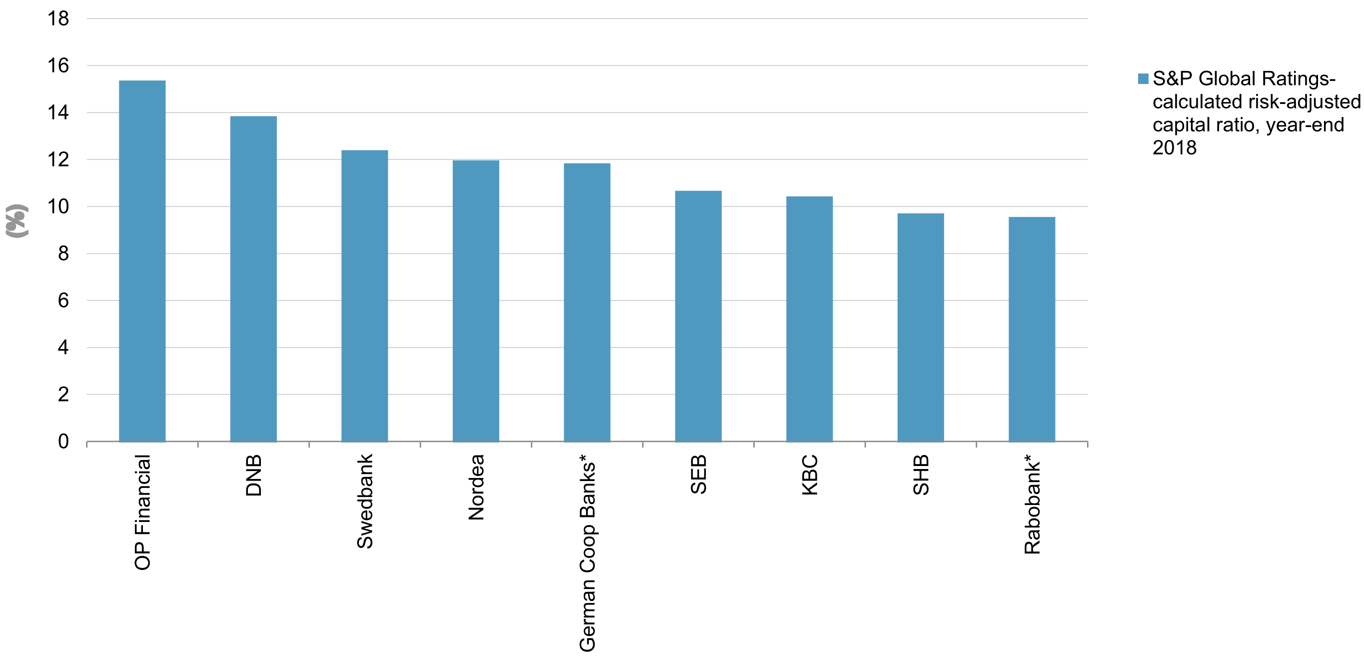
OP Financial Group--Capital And Earnings

		--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	19.6	20.6	20.3	20.3	19.9	15.5
S&P Global Ratings' RAC ratio before diversification	N/A	15.3	14.7	12.7	11.3	8.8
S&P Global Ratings' RAC ratio after diversification	N/A	14.1	13.4	12.1	11.8	9.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	99.0	98.6	96.6
Net interest income/operating revenues	36.7	40.0	35.4	36.3	35.4	37.3
Fee income/operating revenues	28.2	30.2	30.0	29.5	24.3	26.1
Market-sensitive income/operating revenues	36.9	7.9	21.0	21.1	6.7	5.8
Noninterest expenses/operating revenues	67.4	65.2	64.4	60.9	59.2	64.0
Preprovision operating income/average assets	0.7	0.7	0.8	0.9	1.0	1.0
Core earnings/average managed assets	0.5	0.5	0.6	0.7	0.7	0.6

*As of June. 30. N/A--Not applicable.

Chart 3

OP Financial Corp.--Risk-Adjusted Capital Ratio: Relative Capital Strength
RAC ratio



*German Coop Banks and Rabobank RAC ratios are as of Dec 2017. Source: S&P Global Ratings.

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	18,137,093,599.3	32,007,419.0	0.2	197,818,073.3	1.1
Of which regional governments and local authorities	2,965,976,889.5	0.0	0.0	111,038,274.6	3.7
Institutions and CCPs	7,366,420,191.9	939,337,038.6	12.8	1,158,410,873.4	15.7
Corporate	40,428,821,074.9	25,809,791,053.2	63.8	27,515,122,141.7	68.1
Retail	54,891,488,265.4	5,786,305,444.5	10.5	15,135,666,172.2	27.6
Of which mortgage	46,305,785,088.3	2,843,130,205.5	6.1	10,512,004,368.5	22.7
Securitization§	613,470,738.1	45,519,528.8	7.4	122,694,147.6	20.0
Other assets†	4,353,762,003.4	2,077,698,582.3	47.7	4,489,220,007.8	103.1
Total credit risk	125,791,055,873.0	34,690,659,066.2	27.6	48,618,931,416.0	38.7
Credit valuation adjustment					
Total credit valuation adjustment	--	175,279,264.2	--	0.0	--

Table 4

OP Financial Group--Risk-Adjusted Capital Framework Data (cont.)

Market Risk					
Equity in the banking book	474,238,353.2	204,540,067.2	43.1	4,632,983,013.1	976.9
Trading book market risk	--	1,319,389,247.5	--	1,979,083,871.3	--
Total market risk	--	1,523,929,314.7	--	6,612,066,884.3	--
Operational risk					
Total operational risk	--	4,232,204,530.0	--	4,707,241,745.7	--

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	45,515,120,478.2	--	59,938,240,046.0	100.0
Total diversification/concentration adjustments	--	--	--	5,321,396,407.5	8.9
RWA after diversification	--	45,515,120,478.2	--	65,259,636,453.5	108.9

		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		10,756,233,804.0	23.6	9,183,621,473.4	15.3
Capital ratio after adjustments‡		10,756,233,804.0	20.6	9,183,621,473.4	14.1

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings-calculated risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡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, 2018; S&P Global Ratings.

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

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

Granular retail loans (58% of total loans as of June 30, 2019) dominates the group's gross loan book. Growth has mainly come through the retail mortgage loans, which constitute more than two-thirds of the retail portfolio. OP Financial Group has maintained cautious lending policies with adequate collateralization (new mortgages are stressed for 6% interest rate and 25 years' maturity).

OP Financial Group's corporate loan book, including housing associations, comprises about one-third 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 17.5% of the corporate exposures as of June. 30, 2019). This excludes the exposure toward housing associations, about 10% of corporate loans, which mostly relate to income-producing real estate. We therefore consider this exposure moderate. The single-name concentrations are gradually decreasing and are generally well-rated corporate customer groups.

Consequently, we expect OP Financial Group's asset quality will remain sound, with gross nonperforming loans amounting to 1.5% of the loan portfolio in the next two years, which is in line with levels at large Nordic peers. Loan losses have averaged 9 bps of the loan book over the past five years, but decreased to 5 bps in 2018. These levels compare favourably 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 at about 10 bps in 2019-2021. Owing to a sound 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 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.

Table 5

OP Financial Group--Risk Position

		--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	6.0	5.9	4.6	4.5	6.4	3.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	8.9	9.0	5.4	(4.9)	(5.0)
Total managed assets/adjusted common equity (x)	14.3	15.3	16.1	18.1	16.5	20.4
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.1	0.1	0.1
Net charge-offs/average customer loans	0.1	0.1	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.6	1.6	1.8	1.7	1.6	1.7
Loan loss reserves/gross nonperforming assets	36.5	38.0	33.5	37.2	40.1	39.5

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

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

We base our view on the group's dominant franchise and proximity to customers through the local member banks, which should continue to provide the cooperative 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--64% as of June. 30, 2019 of total funding base. Although this is still below international peers, 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.

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

To cover the funding gap (loans minus deposits), the group has optimized its long-term funding position by issuing both covered bonds and senior instruments (both preferred and non-preferred). The group's diversified funding profile (by source and maturity) is underpinned in OP Financial Group's stable funding ratio of 96% at December 2018, and we expect the ratio will remain near 100% in the next two years.

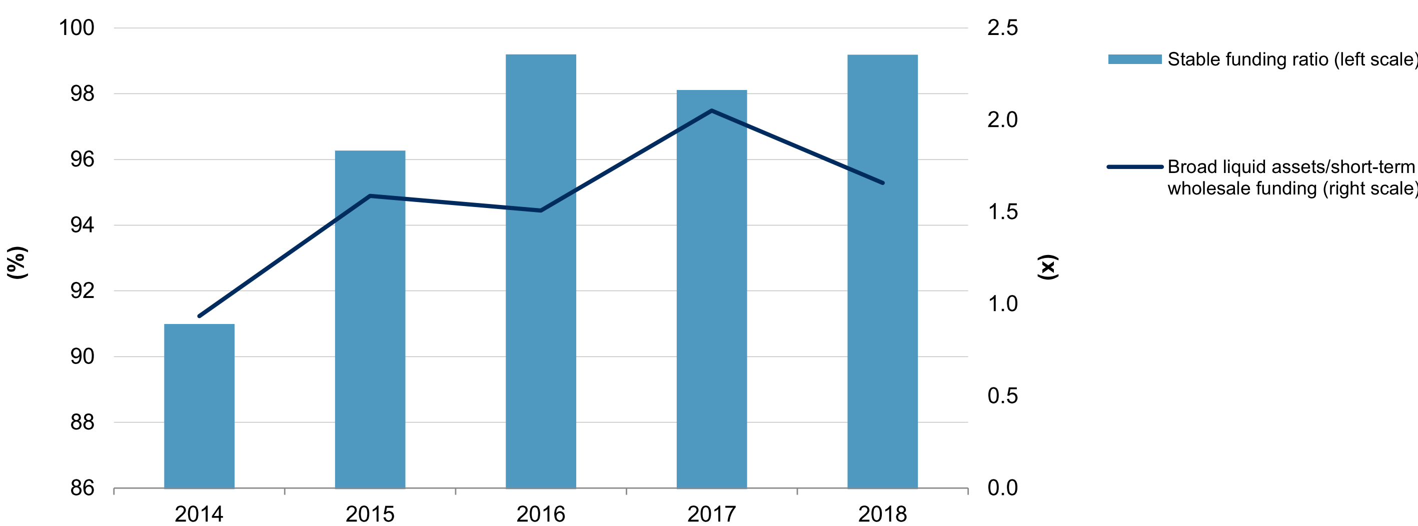
By our measures, OP Financial Group's one-year liquidity ratio (broad liquid assets to short-term wholesale funding) has strengthened considerably ,to 1.7x as of December 2018 (0.76x at year-end 2013), owing to a high liquidity position of €12.2 billion held with the central bank and €9.2 billion of adjusted liquid securities eligible as collateral as of December 2018. We believe the group might reduce the ample liquidity buffers as credit grows and no additional European Central Bank long-term refinancing operations (so called TLTRO III) funds are taken up.

Relative to its Nordic peers, OP Financial Group's asset encumbrance level, at about 16% as of Dec. 31, 2018, is limited and there is room for further covered bond issuance.

We understand that the group already comfortably fulfills the regulatory requirements on liquidity, with liquidity coverage ratio of 151% as of June 30, 2019 (well above the minimum requirement of 100%). Although the member cooperative banks have no stand-alone liquidity coverage ratio requirements, the central cooperative closely monitors the member banks' liquidity.

Chart 4

OP Financial Group--Improved Funding And Liquidity Metrics
BLAST And Stable Funding Ratio



Source: S&P Global Ratings.

Table 6

OP Financial Group--Funding And Liquidity						
		--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	63.5	62.6	63.5	61.4	62.6	63.7
Customer loans (net)/customer deposits	139.3	142.0	141.8	143.4	144.8	144.9
Long-term funding ratio	87.8	87.5	88.8	86.1	87.4	85.0
Stable funding ratio	99.7	99.2	98.1	99.2	96.2	91.0

Table 6

OP Financial Group--Funding And Liquidity (cont.)

		--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Short-term wholesale funding/funding base	13.5	13.8	12.3	15.3	13.8	16.2
Broad liquid assets/short-term wholesale funding (x)	1.6	1.7	2.1	1.5	1.6	0.9
Net broad liquid assets/short-term customer deposits	12.0	13.6	18.3	11.7	11.8	(1.6)
Short-term wholesale funding/total wholesale funding	37.0	36.8	33.8	39.5	36.9	44.3
Narrow liquid assets/three-month wholesale funding (x)	2.6	2.7	3.6	2.2	2.2	1.7

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

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 group credit profile, and thus to the long-term ratings on OP Corporate Bank, because we believe that the group is likely to increase its ALAC materially over the next four years. We estimate that the ALAC buffer equaled more than 200 bps of S&P Global Ratings-calculated risk-weighted assets at year-end 2018 and project that it will grow just 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 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 believe they have capacity to absorb losses without triggering a default on OP Corporate Bank's senior obligations. This includes, for example, the recently issued €500 million senior nonpreferred debt instrument.

Issue ratings on hybrid instruments

We rate the bank's senior nonpreferred debt instruments one notch below the 'a+' group SACP, reflecting our standard notching for investment-grade (higher than 'BB+') entities issuing an instrument contractually or statutorily subordinated to preferred senior unsecured debt. In our view, holders of senior nonpreferred notes face a higher default risk than holders of senior preferred notes and other senior liabilities, because the former would be bailed in before more senior debt in the event of a resolution.

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.

Resolution counterparty ratings

We have assigned our 'AA-/A-1+' resolution counterparty ratings (RCR) to OP Corporate Bank, the same level at 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 might 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 believe 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 reflects our view that the subsidiary will remain integral to the enlarged group's strategy. It also takes into account that group will maintain its strong business franchise, strong earnings capacity, and an adequate capital and risk profile. OP Insurance Ltd. could further build up its market-leading position of 34% in Finland, despite a stagnating nonlife insurance market. Underwriting earnings in nonlife insurance improved in 2018 with an operating combined ratio of 92.0%, compared with 96.1% in 2017. The higher combined ratio of the previous year was mainly because of the lower discount rate, which was stable in 2018. Excluding any extraordinary effects of changes in the discount rate, we expect OP to further deliver sound and stable underwriting profitability and sustainable growth in the nonlife segment during 2019-2021. 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 €9.8 billion in 2018 from €3.3 billion in 2011, and constitutes about 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.

In addition, commission and fee income has increased, 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 176% (limit: 130%) and the nonlife insurance of 132% (limit: 120%) for year-end 2018, excluding transitional measures. We do not expect OP Financial Group to overcapitalize its insurance subsidiaries and therefore, we expect ongoing dividend payouts to the parent from the subsidiaries and a relatively stable development of capitalization levels.

Additional rating factors:None

No additional factors affect this rating.

Related Criteria

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

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: July 2019, July 31, 2019
- Nordic Banks' Strong Capital Will Cushion Them From The Challenges Ahead, March 28, 2019
- Nordic Banks Sport Strong Capital--And It's Not Likely To Soften, Oct. 17, 2018
- Nordic Bank Ratings Continue To Stand Tall, Aug. 16, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Finland Completed, June 29, 2018
- Banking Industry Country Risk Assessment: Finland, Feb. 2, 2018

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 August 23, 2019)*

OP Corporate Bank PLC		
Issuer Credit Rating		AA-/Stable/A-1+
Resolution Counterparty Rating		AA-/--/A-1+
Commercial Paper		
Local Currency		A-1+
Senior Subordinated		A
Senior Unsecured		AA-
Short-Term Debt		A-1+
Subordinated		A-
Issuer Credit Ratings History		
17-Nov-2016	*Foreign Currency*	AA-/Stable/A-1+
30-May-2014		AA-/Negative/A-1+
06-Feb-2014		AA-/Watch Neg/A-1+
17-Nov-2016	*Local Currency*	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

Ratings Detail (As Of August 23, 2019)*(cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.