

Rating Object	Rating Information
OP Corporate Bank Plc (Group)	Long Term Issuer Rating / Outlook: A / stable Short Term: L2
Creditreform ID: 01999207 Management: Katja Keitaanniemi (President and CEO)	Stand Alone Rating: A Type: Update / Unsolicited
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Rating History: www.creditreform-rating.de	

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Key Rating Driver

- + Joint liability system within OP Financial Group
- + Leading domestic financial institution
- + Sound asset quality
- + Satisfying capitalization
- + Steady growth as in recent years
- + Stable performance despite the Corona pandemic impact
- +/- Business concentration in an strong economy leads to high dependency on the economic environment in Finland
- Decreasing capital ratios, among other due regulatory adjustments of the RWA calculation
- Low interest rate environment puts pressure on the bank's interest income

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Executive Summary

Creditreform Rating affirms the unsolicited long-term issuer rating of OP Corporate Bank plc at A/stable. The affirmation of the credit rating is a result of OPC's stable performance, which is in line with our expectations. OPC still benefits from its leading domestic position in an economic strong country, its sound asset quality, the resilient profitability, but shows decreasing capital figures.

Company Overview

OP Corporate Bank Plc (Group) (hereafter: OPC or the bank) is the major entity and part of OP Financial Group (hereafter: OPF or the Group). OPF is a cooperative financial service group formed by independent cooperative banks and the Group's central cooperative (central institution) with its subsidiaries operating under the principle of joint and several liability. For this reason, we emphasize and take into account in this rating the OPF. The Bank's and the Group's headquarters are located in Helsinki and its roots date back to the year 1902. The amalgamation of OPF is the second-largest financial conglomerate in Finland (in terms of total assets) with a market share of 35% in loans and 38% in deposits in Finland (as of June 2021). OPF consists of 132 member cooperative banks as of June 2021 and their central cooperative, OP Cooperative, with its subsidiaries and affiliates. With 12,604 employees (2019: 12,226) and 342 branches (2019: 352) at the end of 2020, OPF serves approximately 3.6 million customers (thereof 3.3 million private and 0.3 million corporate customers).

OP Financial Group comprises banking and insurance business activities in its three main business segments: Retail Banking (Private Banking and SME Customers), Corporate Banking (Banking Corporate and Institutional Customers), and Insurance. OPC primarily represents OPF's corporate banking segment. In addition, the Group's operations, which support these segments, such as the activities of OP Cooperative as well as OP Corporate Bank Group's Treasury and the Markets division, are condensed into other operations.

OP Financial Group comprises the member cooperative banks and those non-amalgamation entities of which entities belonging to the amalgamation hold more than half of the total votes. The Group's member cooperative banks are independent, local deposit banks primarily engaged in retail banking, and provide their services to households, SME and public-sector entities. The central cooperative of OP Financial Group is OP Cooperative. The purpose of OP Cooperative is to equitably contribute to and support the development of the Group. Thereby, the central cooperative controls the Group's centralized services, develops the Group's business, manages the Group's strategic control and supervision duties. In addition, OP Cooperative acts as OPF's strategic owner institution.

The Group operates two major, fully owned entities. OP Corporate Bank plc (OP Yrityspankki Oyj), which is responsible for the senior unsecured bond issues of the Group and OP Mortgage Bank PLC (OP-Asuntoluottopankki Oyj), which is responsible for the Group's secured funding by issuing mortgage-backed covered bonds.

OP Corporate Bank Group comprises OP Corporate Bank Plc, the parent company, and its subsidiaries. The most significant subsidiaries includes Pohjola Insurance Ltd. and A-Insurance Ltd. engaged in non-life insurance business, Pohjola Hospital Ltd. (sell

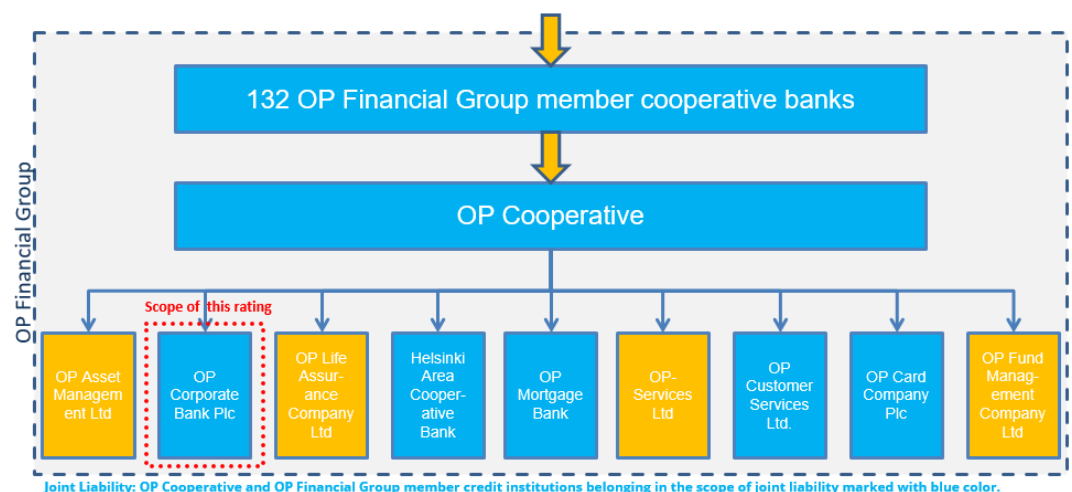
announced in July 2021) engaged in special healthcare services and OP Custody Ltd. engaged in securities custody and clearing services. In addition, OPC has branches in Estonia, Latvia and Lithuania and subsidiaries engaged in asset and sales finance operations. Of the structured entities, real estate funds Real Estate Fund II and Real Estate Fund III have been consolidated into OPC.

Within the Group exists a joint liability system, based on the 'Act on the Amalgamation of Deposit Banks' in Finland. OP Cooperative and its member credit institutions are liable for each other's debts and commitments in accordance with this Amalgamations Act; however, insurance companies do not fall within the scope of joint liability. Following this structure, we consider OPF in our rating process of OPC.

In the Institutional Support Assessment, Creditreform Rating examines to what extent the joint liability scheme of OPF can have an impact on the rating of OPC. As a result, Creditreform Rating concludes that the Long-Term Issuer rating of OPC is strongly affected by the joint liability scheme of OPF, which in turn allows an additional notching if necessary. OPF forms a strong joint liability scheme, as all member credit institutions are liable for each other's debts and commitments in accordance with this Amalgamations Act. A stand-alone rating of the OPC is possible due to the individual financial statements, but due to the structure and divisions of functions are inseparably intertwined with the OPF. Therefore, the assessment of OPF has a strong impact on the stand-alone rating of OPF.

The major fully-owned subsidiaries and the Group structure of OPF can be found in Chart 1 below:

Chart 1: Main subsidiaries and structure of OP Financial Group | Source: Website of OP Financial Group
2 million owner-customers



The Group's strategic priorities for 2021 are as follows: Best customer experience, more benefit for owner-customers, excellent employee experience, faster growth in revenues than in expenses and more efficient operations. In addition, the Group's long-term targets up to 2025 are among others to maintain a CET1 ratio of 4 percentage points above the regulatory requirements (most recent 13.7%) and a return on equity ratio of 8%. OPC does not publish any individual strategic targets.

Business Development

Profitability

Major driver of the increase in operating income of OPC is the increased net insurance income. While OPC was able to increase its insurance premiums by about €14mn, the bank benefited strongly from decreased insurance claims following lower activities due to the Corona pandemic (-€63mn) next to lower provisions for unpaid claims. The second driver of the increase in operating income of OPC was the strong increase in net interest income. OPC was able to counteract the increasing interest expense (+€47mn from higher negative expenses for central bank deposits) by a stronger increase of the interest income by about €82mn (relating to higher lending margins and growth of the loan portfolio in addition to lower interest expenses resulting from TLTRO funding). By contrast, OPC's net trading income dropped by about €149mn due to fair value changes of shares and participations (-€86mn), fair value changes of derivatives (-€49mn) in addition to lower capital gains and losses at fair value through other comprehensive income.

Considering the operating income of OPF, the Group denotes a decrease in its operating income by about 1.3% (-€41mn). Major driver of the decreased income is the Group's significant lower net trading income following strong adverse fair value changes as mentioned already at the OPC. However, OPF was partially able to counteract this development by increased net insurance income due to lower claims paid. Moreover, on the Group basis the net interest income remained almost unchanged, however, the Group benefits from significant gains through its hedging positions. With regard to the gains in relation to the sale of the Vallila property of about €98mn which were reported under other operating income, we transferred this item to non-recurring revenue to better reflect the Group's intrinsic financial performance.

OPC's operating expense remained widely unchanged. In contrast to the bank's financial statement, we transferred the bank's gains in relation to the transfer of the remainder of the management of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company of about €85mn to non-recurring revenues (€96mn at Group basis). Thus, the bank's personnel expense increased slightly YOY. Other expense of the bank comprises various items, with IT production costs being the most significant and the driver of the increase with about €174mn.

Considering the operating expense of OPF, the Group shows a similar development with increasing personnel expense and higher IT production costs.

OPC's asset write-downs of about €55mn are in line with the previous year result. However, 2019 was mainly related to risk provisioning instead of actually write-downs. Compared to the banking industry is this development remarkable, as most of Euro-

pean banks recorded mostly risk provisions instead write-offs in 2020. OPC's low allowance was at €318mn unchanged YOY. By contrast, OPF's asset-write downs are equally related to write-downs and risk provisions in 2020 and the Group increased its loss allowance to €708mn in 2020 from €585mn in 2019.

Overall, OPC was able to increase its net profit in 2020 significantly; however, this result is primarily attributable to the aforementioned one-off effect in relation statutory earnings-related pension insurance. Considering OPF, the Group records a decline of its net profit despite the aforementioned one-off gain of €96mn, which is mainly driven by the additional loan loss provisions in 2020 following the Corona pandemic. Thus, OPC achieves remarkable 66% of the Group's net profit.

Considering OPCs first-half results 2021, the bank records increasing earnings (net profit H1-2021: €246 million vs. €112 million in H1-2020), in particular in its net trading income which benefits from fair value gains. In addition, the bank records reversals of impairments on loans of about €12mn (H1-2020: -€67mn). OPF records an equal development in this regard (net profit H1-2021: €452mn vs. H1-2020: €224mn) but impairment losses of about €35mn in H1-2021 vs. €166mn in H1-2020.

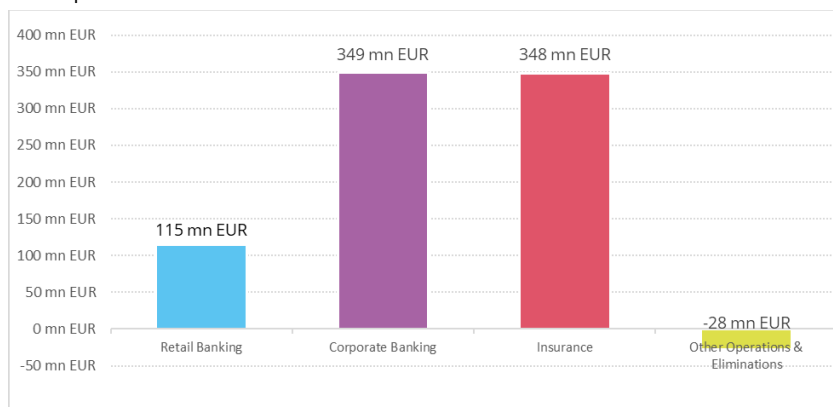
A detailed income statement for the years of 2017 through 2020 can be found in Figure 1 below:

Figure 1: OP Corporate Bank Plc income statement | Source: eValueRate / CRA

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	329	+11,9	294	274	259
Net Fee & Commission Income	5	< -100	-28	-23	-17
Net Insurance Income	535	+43,0	374	520	427
Net Trading Income	224	-39,9	373	203	354
Equity Accounted Results	2	+100,0	1	1	1
Dividends from Equity Instruments	25	-21,9	32	30	50
Other Income	23	-57,4	54	60	64
Operating Income	1.143	+3,9	1.100	1.065	1.138
Expense					
Depreciation and Amortisation	53	-15,9	63	83	64
Personnel Expense	196	+6,5	184	159	164
Tech & Communications Expense	10	+0,0	10	10	9
Marketing and Promotion Expense	11	-15,4	13	13	13
Other Provisions	-	-	-	-	-
Other Expense	377	+2,4	368	348	341
Operating Expense	647	+1,4	638	613	591
Operating Profit & Impairment					
Pre-impairment Operating Profit	496	+7,4	462	452	547
Asset Writedowns	52	+2,0	51	13	12
Net Income					
Non-Recurring Income	85	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	529	+28,7	411	439	535
Income Tax Expense	108	+36,7	79	87	105
Discontinued Operations	-	-	-	-	-
Net Profit	421	+26,8	332	352	430
Attributable to minority interest (non-controlling interest)	-8	< -100	5	7	6
Attributable to owners of the parent	429	+30,8	328	346	424

See Chart 2 for the contributions of each business segment to OPF's pre-tax profit of €785mn in 2020 (2019: €882mn). Considering the business segments of OPC's, the bank records at its Corporate Banking segment a pre-tax profit of €301mn, at its Insurance segment a pre-tax profit of €288mn.

Chart 2: Pre-tax profit by business segments of OPF in 2020 | Source: Source: Own presentation based on data of Annual Report 2020 of OPF



Due to the increase in OPC's net profit in 2020, the bank recorded improving earnings figures, which now reached an average level. In particular the banks cost to income ratio with about 56% is convincing and shows a sound intrinsic profitability. By contrast, OPF reaches only a cost to income ratio of about 70%. OPC's net financial margin is at a low level, representing its prudent approach with regard to its assets.

Considering OPF, the Group records a lower profitability level. In particular, the increasing asset-write downs lead to a declining net profit YOY. In addition, in almost every single earnings figure is OPC ahead of OPF.

With regard to the H1-21 results, we expect increasing earnings figures, in particular due to lower loan loss impairments at OPF while OPC expects even reversals of impairments.

Despite decent earnings figures at OPC, these category remains the banks least favorable performers of all the areas analyzed which also applies for OPC.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

Figure 2: OP Corporate Bank Plc key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	56,61	-1,39	58,00	57,56	51,93
Cost Income Ratio ex. Trading (CIRex)	70,40	-17,36	87,76	71,11	75,38
Return on Assets (ROA)	0,50	+0,02	0,48	0,53	0,67
Return on Equity (ROE)	8,78	+1,19	7,59	8,49	10,36
Return on Assets before Taxes (ROAbT)	0,63	+0,04	0,59	0,66	0,83
Return on Equity before Taxes (ROEbT)	11,03	+1,63	9,40	10,59	12,89
Return on Risk-Weighted Assets (RORWA)	1,51	+0,27	1,25	1,41	1,92
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,90	+0,36	1,54	1,76	2,39
Net Interest Margin (NIM)	0,68	-0,32	1,00	0,75	1,00
Pre-Impairment Operating Profit / Assets	0,69	+0,02	0,67	0,68	0,85
Cost of Funds (COF)	0,21	+0,03	0,18	0,20	1,76
Change in %-Points					

Asset Situation and Asset Quality

OPC's major asset are its corporate loans. The bank was able to increase its loan portfolio slightly by about 2.7% YOY despite increasing loan drawdowns during the year. About €1bn of OPC's loan portfolio was affected by repayment holidays due to the Corona pandemic and the overall asset quality decreased. Of the corporate exposure related to repayment holidays, 23% concerned the real estate sector, 22% concerned transportation and storage and only 15% concerned the service sector. However, OPC benefited from higher lending margins during the fiscal year 2020.

At OPF basis, Net loans to customers represented the largest share of assets as well, increasing by 2.4% YOY (€2.2 billion) primarily a result of increased demand in home loans and housing company loans. Due its business model, OPF's loan portfolio consists of 42% home loans, 24% corporate loans and 33% housing company loans and other household loans. Thus, the majority of OPF's loan book are attributable to the real estate sector in Finland, which bears a particular risk in OPF loan book.

Total securities, as the second largest asset at OPF and OPC, consists primarily of bonds and notes with a residual maturity of 1-5 years. Moreover, the OPC almost doubled its cash buffer to €21bn reflecting a lack of investment opportunities.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

Figure 3: Development of assets of OPC | Source: eValueRate / CRA

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	21.764	+82,7	11.914	12.239	12.825
Net Loans to Banks	11.252	+23,3	9.126	9.726	9.294
Net Loans to Customers	24.485	+2,8	23.829	22.351	20.191
Total Securities	18.016	+7,9	16.692	15.929	15.722
Total Derivative Assets	5.371	+10,2	4.875	3.663	3.426
Other Financial Assets	27	-54,2	59	32	-
Financial Assets	80.915	+21,7	66.495	63.940	61.458
Equity Accounted Investments	84	+0,0	84	72	49
Other Investments	306	-9,7	339	320	303
Insurance Assets	460	+5,0	438	465	428
Non-current Assets & Discontinued Ops	-	-	-	-	-
Tangible and Intangible Assets	842	+2,3	823	839	892
Tax Assets	34	-33,3	51	66	35
Total Other Assets	1.350	+50,7	896	1.023	1.280
Total Assets	83.991	+21,5	69.126	66.725	64.445

Following the increase in stage 3 loans from €384mn gross in 2019 to €499mn gross in 2020, OPC's NPL ratio clearly worsened YOY. Nevertheless, OPC's NPL ratio of 2.04% represents a sound quality of its customer loans. However, in contrast to most other European large banks, OPC was able to reduce its potential problem loans (measured as stage 2 loans) and achieved with a ratio of about 5.5% a satisfying level. In addition, despite the Corona pandemic, OPC maintained sound asset write-down ratios. Moreover, following only a smaller increase of the risk exposure amount in comparison to the total assets, OPC was able to reduce its RWA ratio. Main driver of the increased risk exposure amount is related to the banks retail exposure. Moreover, the bank's RWA ratio leaves OPC some room for further business expansion in higher risk weighted business areas if necessary.

In contrast to OPC, OPF shows slightly worse asset quality figures. In particular, the reserves to NPL ratio shows a less prudent approach with regard to loan impairments. However, most figures are only marginally worse and the overall quality of assets of OPF remained despite the Corona pandemic impact satisfying.

Considering the H1-21 reports, OPC and OPF report only little increases in its stage 3 exposure. However, while OPC was able to reduce its stage 2 exposure by more than one percentage point (mostly due to write-offs), OPF's potential problem loans increased to almost 9%. Thus, with almost twice that many potential problem loans OPC bears clearly more risk with regard to its credit portfolio.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

Figure 4: Development of asset quality of OPC | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	29,15	-5,32	34,47	33,50	31,33
Risk-weighted Assets/ Assets	33,14	-5,41	38,55	37,46	34,67
NPLs*/ Net Loans to Customers	2,04	+0,43	1,61	1,61	1,22
NPLs*/ Risk-weighted Assets	1,79	+0,35	1,44	1,44	1,11
Potential Problem Loans**/ Net Loans to Customers	5,50	-1,61	7,11	6,89	1,52
Reserves/ NPLs*	56,31	-19,99	76,30	71,67	89,07
Reserves/ Net Loans	1,15	-0,08	1,23	1,15	1,09
Net Write-offs/ Net Loans	0,21	-0,00	0,21	0,06	0,06
Net Write-offs/ Risk-weighted Assets	0,19	-0,00	0,19	0,05	0,05
Net Write-offs/ Total Assets	0,06	-0,01	0,07	0,02	0,02
Level 3 Assets/ Total Assets	1,47	-1,59	3,07	1,75	2,20

Change in %- Points

* NPLs are represented from 2017 onwards by Stage 3 Loans.

** Potential Problem Loans are Stage 2 Loans where available.

Refinancing, Capital Quality and Liquidity

OPC records two main sources of funding. On one hand, OPC's deposits from banks represents primarily the banks liabilities to OPF member institutions in addition to the TLTRO funding. On the other hand, OPC issued long-term bonds (€12bn) and short-term commercial paper (€7bn) with a balanced maturity profile. Considering the TLTRO III funding, OPC increased the taken amount from the ECB operations to about €16bn as of June 2021 (from €8bn end of 2020), which enable OPC to further reduce its refinancing costs as the bank will likely meet the conditions for a negative interest

rate. Deposits from customer represents OPC's third significant source of funding which consist almost entirely of demand deposits from companies and public-sector companies.

On OPF Group basis, Total deposits from customers represent the largest share of the Group's liabilities with 48%, increasing by 11% YOY (€6.95bn). Thus, OPF was able to attract a steady inflow of customer deposits as a favorable source of funding. The H1-2021 report also confirms this development (€75.9bn). While 60% of the on demand deposits (risk of quick withdrawals) are from private customers with strong increases over recent years, the remaining are almost entirely made by corporates and public entities. Total debt, accounting for 25% of OPF's liabilities, increased by 3.6% YOY (€1.3bn). This source of funding consists primarily of covered bonds (€13 billion), other bonds (€12 billion) and commercial paper (€7 billion) with strong decreases of the latter one. In addition, almost 14% of this source of funding matures within a year, which shows OPF's transfer to long-term funding sources over recent years. By contrast, OPF's derivative liabilities are primarily attributable to interest rate hedges, which are held for trading purposes. Furthermore, OPF increase in equity is related to retained earnings. OPF's TLTRO III participation is entirely executed by OPC.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy of OPC | Source: eValueRate / CRA

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	28.888	+88,4	15.334	14.874	14.035
Total Deposits from Customers	13.300	+19,8	11.103	11.531	11.189
Total Debt	24.347	+0,6	24.200	21.820	18.338
Derivative Liabilities	4.264	+9,8	3.882	3.287	3.216
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	2.594	-41,0	4.400	5.592	7.648
Total Financial Liabilities	73.393	+24,6	58.919	57.104	54.426
Insurance Liabilities	3.398	+2,8	3.304	3.215	3.206
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	492	+8,8	452	421	420
Provisions	29	+45,0	20	12	12
Total Other Liabilities	1.882	-8,5	2.057	1.826	2.232
Total Liabilities	79.194	+22,3	64.752	62.578	60.296
Total Equity	4.797	+9,7	4.374	4.147	4.149
Total Liabilities and Equity	83.991	+21,5	69.126	66.725	64.445

OPC's capitalization is adequate. The CET1 ratio increased slightly due to retained earnings. However, the bank's RWA increased and will further increase due to regulatory adjustments (TRIM, CRR2, IRBA) which will eventually have a significant negative impact on the banks regulatory capital ratios. OPC partially counteracts this development by issuing Tier 2 bonds in the amount of €1bn in 2020. As of June 2021, OPC reported a CET1 ratio of about 14.3% and a Total Capital ratio of about 19.4%.

OPF's capital ratios show a very sound capitalization of the Group and exceed the ones of OPC. The Group's CET1, Tier 1, as well as its total capital ratio, are significantly more favorable than those of the most large banks in Europe. However, OPF CET1 ratio decreased over the last years due to an over proportional increase in the Group's risk-

weighted assets (2020: €59.7bn; 2019: €55.4bn; 2018: €52.1bn) in relation to its regulatory equity, which shows a more risky asset allocation. However, OPF issued two Tier 2 bonds in the total amount of €1.3bn but redeemed early a Tier 2 bond worth €0.4bn and thus improved its total capital ratio an outstanding level at 21.6%.

In addition, the Group's sound capitalization is underpinned by its good leverage ratio as well as its total equity / total assets ratio despite recent lowering's. Furthermore, OPF very clearly complies with and exceeds all regulatory requirements with its capital ratios.

Considering the Group's recent development and targets according to the H1-2020 report, we expect a further worsening of the Group's regulatory capital ratios. As announced, OPF new CET1 target up to 2025 will be 4% above the CET1 regulatory requirement. As of June 2021, the regulatory required CET1 ratio of OPF was 13.7%. In addition, regulatory adjustments (TRIM, calculation RWA's) lead to an increase of the Group's RWA. As of June 2021, the Group's CET1 ratio is already at 18.3%.

Despite recent worsening of its capital ratios, this category remains OPC's and OPC's best performers of all the areas analyzed.

OPC's as well as OPF's LCR ratios meet comfortably the regulatory requirements. The Net Stable Funding Ratio of 123% is in line with other large banks, however, this ratio is only binding starting 2021.

Overall, the liquidity situation of the entire OPF is very satisfactory. Up to now, we do not perceive any liquidity issues and the whole banking sector and we do not expect a change in this regard.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios of OPC | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	5,71	-0,62	6,33	6,22	6,44
Leverage Ratio	-	-	-	-	-
Common Equity Tier 1 Ratio (CET1)*	15,10	+0,20	14,90	15,10	16,00
Tier 1 Ratio (CET1 + AT1)*	15,10	+0,20	14,90	15,10	16,00
Total Capital Ratio (CET1 + AT1 + T2)*	20,80	+2,70	18,10	19,10	20,80
Net Loans/ Deposits (LTD)	184,10	-30,52	214,62	193,83	180,45
Interbank Ratio	38,95	-20,56	59,51	65,39	66,22
Liquidity Coverage Ratio	197,00	+56,00	141,00	143,00	123,00
Customer Deposits / Total Funding (excl. Derivates)	17,75	-0,49	18,24	19,45	19,60
Net Stable Funding Ratio (NSFR)	123,00	+11,00	112,00	111,00	-
Change in %-Points					

*Fully loaded figures whenever available.

Due to OPC's bank capital and debt structure, the bank's preferred senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. However, OPC's non-preferred senior unsecured debt is rated one notch below and the Tier 2 capital is rated three notches below the long-term issuer rating based

on the bank's capital structure and seniority in accordance with our rating methodology. The Tier 2 capital rating was downgraded by one notch from BBB+ to BBB primarily as a result of applying our new methodology "Institutional Protection Scheme Banks". Additional Tier 1 capital of OPC is not rated due to its transitional character and the low volume.

Environmental, Social and Governance (ESG) Score Card

As OP Corporate Bank is inseparably intertwined with OPF and both follow the same strategy, thus we consider the whole Group into our ESG consideration.

OP Financial Group has one significant and two moderate ESG rating driver.

- Corporate Governance is identified as a significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to OPF's sustainable economic track record, the cooperative values and the widespread ESG policies.

- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to relatively low amount of ESG linked-loans and green bonds, Corporate Behaviour is rated positive due the sustainable owner-customer structure and the exemplary conduct in accordance with the law without any significant legal disputes.

ESG Score

3,9 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
<= 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	()
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated very positive in terms of the CRA ESG criteria.	1	(+ +)

ESG Relevance Scale		ESG Evaluation Guidance	
5	Highest Relevance	(+ +)	Strong positive
4	High Relevance	(+)	Positive
3	Moderate Relevance	()	Neutral
2	Low Relevance	(-)	Negative
1	No significant Relevance	(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage <https://creditreform-rating.de/en/about-us/regulatory-requirements.html>. In addition, we refer to CRA's position paper "Considering the Impact of ESG Factors".

Conclusion

Creditreform Rating affirms the rating of OPC at 'A' with a stable outlook. Moreover, as outlined in the first chapter, OPC's rating is strongly correlated with OPF due to the joint liability scheme.

Overall, OPC as well as OPF - as one of the major financial Groups in Finland - recorded a stable and resilient performance in 2020 despite the Corona pandemic impact. Despite significant asset-write downs, OPC was able to improve its profitability and achieved 65% of OPF's net profit. Following the low impact of the Corona pandemic to date, we expect a significant increase of the profitability figures in 2021 due to lower loan impairments and higher operating income primarily due to fair value gains of its financial assets.

OPC as well as OPF benefited amid the Corona pandemic from its sound asset quality and a favorable economic situation in Finland; however, because of the focus on Finland, OPC faces a high geographic concentration risk. The Group recorded only little increases in the NPL ratio. However, in particular at OPF level, there is still significant potential problem loans exposure, which bears a risk once the government support measures run out. Furthermore, the Group denotes relatively high exposures to the real estate sector in Finland, which might be a particular risk as well.

In addition, following the regulatory adjustments with regard to the calculation of risk-weighted assets, OPC as well as OPF have to expect increasing RWA ratios. This increase will cause a reduction of the regulatory capital ratios. Nevertheless, in particular OPF will be still be ahead of most other European banks with regard to its capitalization. At OPC, a further reduction of the regulatory capital figures will likely result in only average figures.

On the liabilities side, the Group benefits from its stable and diversified funding base and the favorable conditions of the TLTRO III program. The Group complies with and exceeds all regulatory capital requirements. Furthermore, the liquidity situation of the Group and the banking sector in general remains satisfactory.

Outlook

We consider the outlook of OPC's long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that OPC is likely to keep its solid level of profitability while maintaining a low amount of non-performing assets in the upcoming years. However, we will closely observe the development of OPC's capitalization. In addition, we expect an equivalent development at OPF level as well.

Best-case scenario: A+

Worst-case scenario: BBB

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Scenario Analysis

In a scenario analysis, the OPC is able to reach an "A+" rating in the "best case" scenario and an "BBB" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt instruments would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We could upgrade OPC's long-term issuer credit rating and its bank capital and debt instruments if we see OPC significantly improves its earnings figures. In addition, a further improvement of the capital figures might lead to an upgrade as well. Moreover, an equivalent development of OPF is appropriate for an upgrade.

By contrast, a downgrade of OPC's long-term issuer credit rating and its bank capital and debt instruments is likely if we notice a further decrease of the bank's capitalization. In addition, increasing non-performing assets might lead to a downgrade of the OPC's long-term issuer rating and its bank capital and debt instruments as well. Moreover, an equivalent development of OPF is appropriate for a downgrade.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A / stable / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A**
 Non-Preferred Senior Unsecured Debt (NPS): **A-**
 Tier 2 (T2): **BBB**
 Additional Tier 1 (AT1): **-**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating OP Corporate Bank Plc	Rating Date	Result
Initial Rating	04.12.2018	A+ / stable / L2
Rating Update	17.09.2019	A+ / stable / L2
Monitoring	24.03.2020	A+ / NEW / L2
Rating Update	31.08.2020	A / stable / L2
Rating Update	03.09.2021	A / stable / L2
Bank Capital and Debt Instruments of OPC		
Senior Unsecured / T2 (Initial)	04.12.2018	A+ / A-
PSU / NPS / T2	17.09.2019	A+ / A / A-
PSU / NPS / T2	24.03.2020	A+ / A / A- (NEW)
PSU / NPS / T2	31.08.2020	A / A- / BBB+
PSU / NPS / T2	03.09.2021	A / A- / BBB
Bank Issuer Rating OP Financial Group	Rating Date	Result
Initial Rating	27.06.2018	A+ / stable / L2
Rating Update	17.09.2019	A+ / stable / L2
Monitoring	24.03.2020	A+ / NEW / L2
Rating Update	31.08.2020	A / stable / L2
Rating Update	03.09.2021	not rated (n.r.)

Bank Capital and Debt Instruments		
Senior Unsecured / T2 (Initial)	27.06.2018	A+ / A-
PSU / NPS / T2	17.09.2019	A+ / A / A-
PSU / NPS / T2	24.03.2020	A+ / A / A- (NEW)
PSU / NPS / T2	31.08.2020	A / A- / BBB+
PSU / NPS / T2	03.09.2021	n.r. / n.r. / n.r.
OP Mortgage Bank Plc	Rating Date	Result
Initialrating	31.08.2019	A+ / stable / L2
Rating Update	17.09.2019	A+ / stable / L2
Monitoring	24.03.2020	A+ / NEW / L2
Rating Update	31.08.2020	A / stable / L2
Rating Update	03.09.2021	not rated (n.r.)
Bank Capital and Debt Instruments of OP Mortgage Bank Plc		
Senior Unsecured / T2 (Initial)	31.08.2019	A+ / A-
PSU / NPS / T2	17.09.2019	A+ / A / A-
PSU / NPS / T2	24.03.2020	A+ / A / A- (NEW)
PSU / NPS / T2	31.08.2020	A / A- / BBB+
PSU / NPS / T2	03.09.2021	n.r. / n.r. / n.r.

Figure 8: Income statement of OP Financial Group | Source: eValueRate / CRA

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	1.286	+2,9	1.250	1.180	1.101
Net Fee & Commission Income	931	-0,5	936	887	879
Net Insurance Income	310	>+100	7	477	294
Net Trading Income	476	-48,0	915	250	583
Equity Accounted Results	-	-	3	41	27
Dividends from Equity Instruments	-	-	-	-	109
Other Income	33	-48,4	64	71	155
Operating Income	3.036	-4,4	3.175	2.906	3.148
Expense					
Depreciation and Amortisation	273	-1,4	277	325	246
Personnel Expense	811	+3,8	781	802	758
Tech & Communications Expense	431	+10,5	390	390	371
Marketing and Promotion Expense	30	-23,1	39	37	35
Other Provisions	-	-	-	-	-
Other Expense	675	-12,5	771	649	643
Operating Expense	2.220	-1,7	2.258	2.203	2.053
Operating Profit & Impairment					
Pre-impairment Operating Profit	816	-11,0	917	703	1.095
Asset Writedowns	225	>+100	87	46	89
Net Income					
Non-Recurring Income	194	>+100	8	302	25
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	785	-6,3	838	959	1.031
Income Tax Expense	144	-14,3	168	212	214
Discontinued Operations	-	-	-	-	-
Net Profit	641	-4,3	670	747	817
Attributable to minority interest (non-controlling interest)	-	-	6	8	6
Attributable to owners of the parent	641	-3,3	663	739	812

Figure 9: Key earnings figures of OP Financial Group | Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	73,12	+2,00	71,12	75,81	65,22
Cost Income Ratio ex. Trading (CIRex)	86,72	-13,19	99,91	82,94	80,04
Return on Assets (ROA)	0,40	-0,06	0,46	0,53	0,60
Return on Equity (ROE)	4,89	-0,44	5,33	6,36	7,37
Return on Assets before Taxes (ROAbT)	0,49	-0,08	0,57	0,68	0,75
Return on Equity before Taxes (ROEbT)	5,99	-0,68	6,67	8,17	9,30
Return on Risk-Weighted Assets (RORWA)	1,07	-0,13	1,21	1,43	1,66
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,31	-0,20	1,51	1,84	2,09
Net Interest Margin (NIM)	1,23	-0,43	1,65	1,14	1,39
Pre-Impairment Operating Profit / Assets	0,51	-0,11	0,62	0,50	0,80
Cost of Funds (COF)	0,05	-0,01	0,05	0,08	0,86
Change in %-Points					

Figure 10: Development of assets of OP Financial Group | Source: eValueRate / CRA

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	21.827	+82,1	11.988	12.350	12.937
Net Loans to Banks	306	+24,4	246	183	504
Net Loans to Customers	93.644	+2,4	91.463	87.030	82.354
Total Securities	22.776	+0,9	22.575	21.832	21.931
Total Derivative Assets	5.216	+8,1	4.824	3.581	3.412
Other Financial Assets	-	-	-	-	-
Financial Assets	143.796	+9,7	131.096	124.976	121.138
Equity Accounted Investments	163	-25,9	220	237	228
Other Investments	623	-12,7	714	979	1.004
Insurance Assets	11.770	+4,2	11.300	10.357	10.698
Non-current Assets & Discontinued Ops	-	-	314	-	-
Tangible and Intangible Assets	1.944	+0,8	1.929	2.227	2.353
Tax Assets	188	-19,7	234	232	224
Total Other Assets	1.750	+43,8	1.217	1.286	1.560
Total Assets	160.207	+9,0	147.024	140.294	137.205

Figure 11: Development of asset quality of OP Financial Group | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	58,45	-3,76	62,21	62,03	60,02
Risk-weighted Assets/ Assets	37,28	-0,45	37,72	37,15	35,87
NPLs*/ Net Loans to Customers	2,53	+1,11	1,41	1,41	1,21
NPLs*/ Risk-weighted Assets	3,96	+1,63	2,33	2,36	2,03
Potential Problem Loans**/ Net Loans to Customers	8,60	-0,85	9,45	9,79	1,09
Reserves/ NPLs*	27,99	-14,89	42,88	42,65	49,20
Reserves/ Net Loans	0,71	+0,10	0,61	0,60	0,60
Net Write-offs/ Net Loans	0,24	+0,15	0,10	0,05	0,11
Net Write-offs/ Risk-weighted Assets	0,38	+0,22	0,16	0,09	0,18
Net Write-offs/ Total Assets	0,14	+0,08	0,06	0,03	0,06
Level 3 Assets/ Total Assets	1,30	-0,80	2,10	1,60	1,84
Change in %Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Figure 12: Development of refinancing and capital adequacy of OP Financial Group | Source: eValueRate / CRA

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	8.086	> +100	2.632	4.807	5.157
Total Deposits from Customers	70.940	+10,8	63.998	61.327	57.991
Total Debt	36.967	+3,7	35.659	31.816	28.241
Derivative Liabilities	3.423	+3,2	3.316	2.992	3.026
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	2.482	-42,2	4.291	4.785	7.559
Total Financial Liabilities	121.898	+10,9	109.896	105.727	101.974
Insurance Liabilities	20.770	+1,8	20.410	19.348	20.175
Non-current Liabilities & Discontinued Ops	-	-	6	-	-
Tax Liabilities	1.069	+1,8	1.050	921	889
Provisions	32	-3,0	33	21	9
Total Other Liabilities	3.326	+8,7	3.059	2.536	3.074
Total Liabilities	147.095	+9,4	134.454	128.553	126.121
Total Equity	13.112	+4,3	12.570	11.741	11.084
Total Liabilities and Equity	160.207	+9,0	147.024	140.294	137.205

Figure 13: Development of capital and liquidity ratios of OP Financial Group | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	8,18	-0,37	8,55	8,37	8,08
Leverage Ratio	7,80	-0,50	8,30	8,60	7,90
Common Equity Tier 1 Ratio (CET1)*	18,90	-0,60	19,50	20,50	20,10
Tier 1 Ratio (CET1 + AT1)*	18,90	-0,60	19,50	20,50	20,10
Total Capital Ratio (CET1 + AT1 + T2)*	21,60	+0,60	21,00	22,40	22,40
MREL / TLAC Ratio	40,00	-3,00	43,00	-	-
Net Loans/ Deposits (LTD)	132,00	-10,91	142,92	141,91	142,01
Interbank Ratio	3,78	-5,56	9,35	3,81	9,77
Liquidity Coverage Ratio	197,00	+56,00	141,00	143,00	123,00
Customer Deposits / Total Funding (excl. Derivates)	49,38	+0,57	48,80	48,84	47,11
Net Stable Funding Ratio (NSFR)	123,00	+11,00	112,00	111,00	116,00
Change in %-Points					

*Fully loaded figures whenever available.

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for [bank ratings as \(v3.0\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(v2.0\)](#), the methodology for the rating of [Institutional Protection Scheme Banks \(v1.0\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(v1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(v1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

<https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html>

On 03 September 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to OP Corporate Bank Plc (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

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In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

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