Creditreform Bank Rating
OP Mortgage Bank Plc (OP-Asuntoluottopankki Oyj) as part of OP Financial Group (Group)

Creditreform Rating

Rating Object	Rating Information			
OP Mortgage Bank Plc (OP-Asuntoluottopankki Oyj) as part of OP Financial Group (Group)	Long Term Issuer Rating / Outlook: **A / stable**		Short Term: **L2**	Type: Update unsolicited
	Rating of Bank Capital and Unsecured Debt Instruments:			
	Preferred Senior Unsecured: **A**	Non-Preferred Senior Unsecured: **A-**	Tier 2: **BBB+**	Additional Tier 1: **-**

Creditreform ID: 400987922
Incorporation: 1902
(Main-) Industry: Banks
Management: Timo Ritakallio (President & Group Executive Chairman)

Rating Date: **31 August 2020**
Monitoring until: withdrawal of the rating
Rating Methodology: CRA "Bank Ratings v.2.0"
CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0"
CRA "Environmental, Social and Governance Score for Banks v.1.0"
CRA "Rating Criteria and Definitions v.1.3"
Rating History: www.creditreform-rating.de

Our rating of OP Mortgage Bank Plc is reflected by our rating opinion of OP Financial (Group) due to the group structure. Therefore we refer to our rating report of OP Financial Group (Group) from 31 August 2020:

Contents

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Key Rating Driver

Strengths

+ Joint liability system of member banks
+ Leading domestic financial institution
+ Sound asset quality
+ Satisfying capitalization
+ Sufficient liquidity

Weaknesses

- Business concentration in Finland
- Relatively high cost to income ratios and declining earnings figures
- Relatively high exposure to the real estate sector in Finland

Opportunities / Threats

+ Steady growth as in recent years
+ One of the leading financial institution in Finland
- Uncertain impact of Corona pandemic
- High dependency on the economic situation in Finland
- Low interest rate environment puts pressure on the Group's interest income

Company Overview

OP Financial Group (hereafter: OPF or the Group) 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. 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 35.5% in loans and 39.2% in deposits in Finland (as of December 2019). OPF consists of 141 member cooperative banks as of May 2020 and their central cooperative, OP Cooperative, with its subsidiaries and affiliates. With 12,226 employees and 352 branches at the end of 2019, OPF serves approximately 3.3 million customers (thereof 3.6 million private and 0.3 million corporate customers).

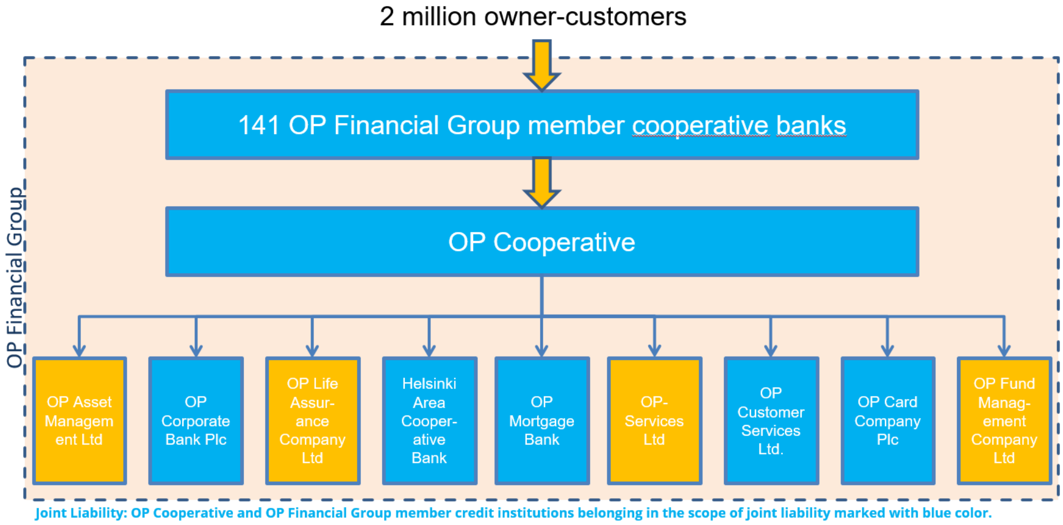
OP Financial Group comprises banking and insurance business activities in its three main business segments: Retail Banking (Private Banking and SME Customers), Corporate Banking (Banking Corporate and Institutional Customers), and Insurance. In addition, the Group's operations, which support these segments, 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. See chapter Profitability for the contribution of each operating segment to the Group's operating pre-tax profit in 2019.

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 Group denotes two major fully owned entities (note that our rating of the Group reflects in particular the rating of these 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.

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.

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



The Group's strategic priorities for 2020 are as follows: Best customer experience, more benefit for owner-customers, excellent employee experience, fast growth in profits than in expenses and a productive development.

In addition, the Group's long-term targets up to 2025 are to maintain a CET1 ratio of 4 percentage points above the regulatory requirements (in June 2020 at 13.7%), a return on equity ratio of 8% and to reach a credit rating of at least "AA-".

Business Development

Profitability

OPF's operating income amounted to €3.1 billion in 2019, remaining roughly constant over the past years. Net interest income as major source of income contributed 39% to OPF's operating income, increasing by 6% compared to the previous year (€70 million) as a result of increasing interest income from customer loans and reduced interest expense, due to favorable derivatives contracts hedges. Net fee and commission income as well as Net trading income accounted each for about 29% of the Group's operating income. The strong increase in net trading income is primarily a result from fair value gains in derivatives as well as in shares, thus likely not sustainable for following years. By contrast, the strong decline in net insurance income is a result from a change in supplementary interest rate provisions as well as to a larger extent from technical items in the life insurance business.

Operating expenses amounted to €2.26 billion in 2019, increasing by 2.5% in a year-over-year comparison (€56 million). On one hand, OPF is able to keep the personnel expenses roughly constant. On the other hand, OPF reveals rising other expense. The increase in other expense is due to rising expense in relation to OP bonuses to owner-customers (+23m EUR) and the temporary exemption item (+131m EUR) in relation with its insurance business / IFRS accounting issue. In addition, Tech and communications expenses increased over the past years due to rising investments in digital services such as a Group-level IT platform.

OPF's pre-impairment profit amounted to €917 million in the fiscal year 2019. After deduction of write-downs, non-recurring items and taxes, the operating net profit decreased by 10% YOY (€77 million) to a total of €670 million in 2019. In addition, considering the past years in general, OPF reveals a steady decrease of its net profit, a main driver of the rating downgrade. Moreover, in 2018 OPF has benefited from non-recurring income in the amount of 286m EUR in relation with the transfer of the management of OPF's pensions costs. Thus, OPF is currently not able to reach its prior level of profitability in recent years.

Considering OPFs first-half results 2020 and the Corona pandemic impact, the Group records declining earnings (EBT H1-2020: €287 million vs. EBT H1-2019: €396 million), in particular in its net trading income. In addition, the impairments are more than 4 times higher than in the same period in 2019 (166m EUR vs. 39m EUR). The annualized cost of risk of OPF reached 35bp, which is compared to the European peers still on a low level. However, the net profit is likely to decrease in 2020 again.

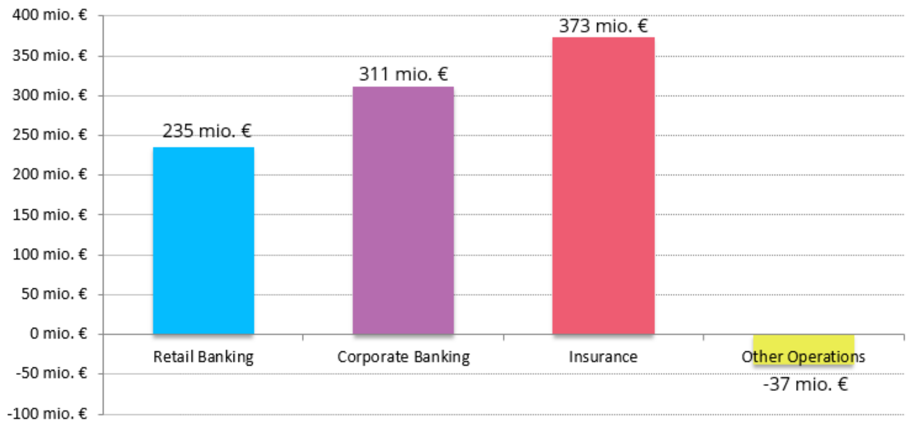
A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	1.059.000	1.101.000	1.180.000	+5,9	1.250.000
Net Fee & Commission Income	859.000	879.000	887.000	+5,5	936.000
Net Insurance Income	320.000	294.000	477.000	-98,5	7.000
Net Trading Income	624.000	583.000	250.000	> +100	917.000
Equity Accounted Results	1.000	27.000	41.000	-95,1	2.000
Dividends from Equity Instruments	40.000	109.000	-	-	-
Other Income	119.000	155.000	71.000	-9,9	64.000
Operating Income	**3.022.000**	**3.148.000**	**2.906.000**	**+9,3**	**3.176.000**
Expenses (€000)					
Depreciation and Amortisation	159.000	246.000	325.000	-14,8	277.000
Personnel Expense	762.000	758.000	802.000	-2,6	781.000
Tech & Communications Expense	301.000	371.000	390.000	+0,0	390.000
Marketing and Promotion Expense	36.000	35.000	37.000	+5,4	39.000
Other Provisions	-	-	-	-	-
Other Expense	573.000	643.000	649.000	+19,0	772.000
Operating Expense	**1.831.000**	**2.053.000**	**2.203.000**	**+2,5**	**2.259.000**
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	**1.191.000**	**1.095.000**	**703.000**	**+30,4**	**917.000**
Asset Writedowns	129.000	89.000	46.000	+89,1	87.000
Net Income (€000)					
Non-Recurring Income	76.000	25.000	302.000	-97,4	8.000
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**1.138.000**	**1.031.000**	**959.000**	**-12,6**	**838.000**
Income Tax Expense	223.000	214.000	212.000	-20,8	168.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	**915.000**	**817.000**	**747.000**	**-10,3**	**670.000**
Attributable to minority interest (non-controlling interest)	2.000	6.000	8.000	-25,0	6.000
Attributable to owners of the parent	913.000	812.000	739.000	-10,3	663.000

See Chart 2 for the contributions of each business segment to OPF's pre-tax profit of €882 million in 2019.

Chart 2: Pre-tax profit by business segments of OPF in 2019 | Source: Source: Own presentation based on data of Annual Report 2017 of OPF



Due to the decline in OPF's net profit in 2019, the Group recorded deteriorated earnings figures, which are now on a below peer group average level.

As a result of the steady deterioration of the Group's main earnings figures (ROA, ROE and RORWA), OPF's figures are now below the average of the Group's competitors. In addition, considering OPF's cost income ratio ex. Trading, OPF reveals a ratio of 100%. Thus, without the trading income, which is in 2019 primarily boosted by fair value gains, OPF is hardly being profitable. As a result of the current Corona pandemic, OPF is likely to experience a further weakening of its earnings figures. However, due to the relatively low negative impact of the Corona pandemic on the Finnish economy, OPF will likely reach a positive result for 2020.

OPF's earnings figures are the least favorable performers of all the areas analyzed. In addition, the OPF denotes a general decline in profitability over the recent years. This development is the main driver of the rating downgrade.

A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	60,59	65,22	75,81	-4,68	71,13
Cost Income Ratio ex. Trading (CIRex)	76,36	80,04	82,94	+17,06	100,00
Return on Assets (ROA)	0,68	0,60	0,53	-0,08	0,46
Return on Equity (ROE)	8,94	7,37	6,36	-1,03	5,33
Return on Assets before Taxes (ROAbT)	0,85	0,75	0,68	-0,11	0,57
Return on Equity before Taxes (ROEbT)	11,12	9,30	8,17	-1,50	6,67
Return on Risk-Weighted Assets (RORWA)	2,07	1,66	1,43	-0,23	1,21
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,58	2,09	1,84	-0,33	1,51
Net Interest Margin (NIM)	1,43	1,39	1,14	+0,51	1,65
Pre-Impairment Operating Profit / Assets	0,89	0,80	0,50	+0,12	0,62
Cost of Funds (COF)	1,16	0,86	0,08	-0,03	0,05
Change in %- Points					

Asset Situation and Asset Quality

OPF's financial assets accounted for 89% of total assets in 2019. Net loans to customers represented the largest share of assets, accounting for 62% and increasing by 5% YOY (€4.4 billion) as a result of increased demand in home loans, corporate loans and housing company loans. Due its business model, OPF's loan portfolio consists of 42% home loans, 25% corporate loans, 10% housing company loans, 14% other household loans and 8% of other loans (as of June-2020). Thus, the majority of OPF's loan book are attributable to the real estate sector in Finland. Due to the Corona pandemic impact, we see a particular risk in OPF's commercial real estate business, which might be strongly affected.

Total securities, as the second largest asset, represented 15% of OPF's total assets, increasing by 3% YOY (€0.75 billion), and consists primarily of bonds and notes. Moreover, the Group maintains a solid cash buffer with 8% of its total assets. The non-current assets of €314 million relate to the sale and lease back of the Vallila property, which comprises a block located in Vallila (Helsinki). The sale was completed in January 2020 and will improve OPF's CET1 ratio by about 0.2pp.

The Group's total assets amounted to €147 billion in 2019, remaining roughly unchanged YOY. However, considering the Group's H1-2020 report, OPF was able to boost its total assets to about €160 billion, in particular due to increased customer deposits and loans from credit institutions, which were just added up to increase the Group's cash stock.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

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

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	9.471.000	12.937.000	12.350.000	-2,9	11.988.000
Net Loans to Banks	337.000	504.000	183.000	+34,4	246.000
Net Loans to Customers	78.706.000	82.354.000	87.030.000	+5,1	91.463.000
Total Securities	24.744.000	21.931.000	21.832.000	+3,4	22.575.000
Total Derivative Assets	4.732.000	3.412.000	3.581.000	+34,7	4.824.000
Other Financial Assets	-	-	-	-	-
Financial Assets	**117.990.000**	**121.138.000**	**124.976.000**	**+4,9**	**131.096.000**
Equity Accounted Investments	91.000	228.000	237.000	-7,2	220.000
Other Investments	951.000	1.004.000	979.000	-27,1	714.000
Insurance Assets	9.913.000	10.698.000	10.357.000	+9,8	11.368.000
Non-current Assets & Discontinued Ops	-	-	-	-	314.000
Tangible and Intangible Assets	2.345.000	2.353.000	2.227.000	-13,3	1.930.000
Tax Assets	210.000	224.000	232.000	+0,9	234.000
Total Other Assets	2.247.000	1.560.000	1.286.000	-10,7	1.148.000
Total Assets	**133.747.000**	**137.205.000**	**140.294.000**	**+4,8**	**147.024.000**

OPF maintained its sound asset quality in 2019, which is represented by very sound asset quality figures.

The NPL ratio of 1.41% is far below the average of the peer group and indicates a sound loan portfolio of the Group in general. In addition, OPF's NPL ratio has been very stable on a level over recent years. In addition, OPF maintains a convincing NPL / RWA ratio in the last years as well.
Considering the potential problem loans / net loans to customer's ratio, OPF reveals higher stage 2 loans in relation to the peer group. The Group's net-write-offs in relation to its risk-adjusted assets as well as in relation to its net loans to customers ratios outperform the peer group considerably, which again shows OPF's very sound and impressive asset quality. OPF's RWA ratio of 37.7% remained relatively constant year over year, but the peer group was able to catch up to OPF on overage with regards to

its RWA ratio. However, the Group's RWA ratio leaves OPF some room for further business expansion in higher risk weighted business areas if necessary.

In general, OPF records a very sound asset quality. However, the current Corona pandemic will likely have an impact on these figures. According to the Group's H1-2020 report, OPF reveals annualized cost of risk of 35bp, which shows a strong increase in comparison to the same period in the previous year 17bp. Thus, we expect a certain worsening of the Group's asset quality. However, despite the higher cost of risk, OPF seems to overcome the Corona affects pretty well in relation to some other peer group banks. Nevertheless, there is still a high level of uncertainty regarding the final impact of Corona on OPF's asset quality.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

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

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	58,85	60,02	62,03	+0,18	62,21
Risk-weighted Assets/ Assets	32,97	35,87	37,15	+0,57	37,72
NPLs*/ Net Loans to Customers	1,24	1,21	1,41	-0,00	1,41
NPLs*/ Risk-weighted Assets	2,22	2,03	2,36	-0,03	2,33
Potential Problem Loans**/ Net Loans to Customers	1,11	1,09	9,79	-0,34	9,45
Reserves/ NPLs*	51,69	49,20	42,65	+0,23	42,88
Reserves/ Net Loans	0,64	0,60	0,60	+0,00	0,61
Net Write-offs/ Net Loans	0,16	0,11	0,05	+0,04	0,10
Net Write-offs/ Risk-weighted Assets	0,29	0,18	0,09	+0,07	0,16
Level 3 Assets/ Total Assets	1,80	1,84	1,60	+0,35	1,94
Change in %- Points					

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

Refinancing and Capital Quality

OPF's financial liabilities accounted for 75% of total liabilities in 2019, increasing by 4% YOY (€4.1 billion). Total deposits from customers represent the largest share of the Group's liabilities with 44%, increasing by 4% YOY (€2.6 billion). Thus, OPF is able to attract a steady inflow of customer deposits as a favorable source of funding. The H1-2020 report also confirms this development. While 62% of the deposits are from private customers with strong increases over recent years, 39% are made by corporates and public entities. Total debt, accounting for 27% of OPF's liabilities, increased by 12% YOY (€3.8 billion). This source of funding consists primarily of covered bonds (€12 billion), other bonds (€11.5 billion) and commercial paper (€9.7 billion) with strong increases in the first two mentioned. In addition, almost 40% of this source of funding matures within a year. By contrast, OPF's derivative liabilities are primarily attributable to interest rate hedges.
Furthermore, OPF noticed an over proportional increase of its total equity in relation to its total assets in recent years.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

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

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	4.669.000	5.157.000	4.807.000	-45,2	2.632.000
Total Deposits from Customers	54.822.000	57.991.000	61.327.000	+4,4	63.998.000
Total Debt	29.732.000	28.241.000	31.816.000	+12,1	35.659.000
Derivative Liabilities	4.044.000	3.026.000	2.992.000	+10,8	3.316.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	5.332.000	7.559.000	4.785.000	-10,3	4.291.000
Total Financial Liabilities	**98.599.000**	**101.974.000**	**105.727.000**	**+3,9**	**109.896.000**
Insurance Liabilities	19.853.000	20.175.000	19.348.000	+5,5	20.410.000
Non-current Liabilities & Discontinued Ops	-	-	-	-	6.000
Tax Liabilities	894.000	889.000	921.000	+14,0	1.050.000
Provisions	3.000	9.000	21.000	+57,1	33.000
Total Other Liabilities	4.161.000	3.074.000	2.536.000	+20,6	3.059.000
Total Liabilities	**123.510.000**	**126.121.000**	**128.553.000**	**+4,6**	**134.454.000**
Total Equity	**10.237.000**	**11.084.000**	**11.741.000**	**+7,1**	**12.570.000**
Total Liabilities and Equity	**133.747.000**	**137.205.000**	**140.294.000**	**+4,8**	**147.024.000**

OPF's capital ratios show a sound a capitalization of the Group. The Group's CET1, Tier 1, as well as its total capital ratio, are significantly more favorable than those of the peer group. However, OPF regulatory capital ratios decreased year-over-year due to an over proportional increase in the Group's risk-weighted assets (2019: €55.4bn; 2018: €52.1bn) in relation to its regulatory equity, which shows a more risky asset allocation. Nevertheless, the Group's sound capitalization is underlined by its steady and good leverage ratio as well as its total equity / total assets ratio, which are a result of the OPF's steady increase of its equity. Both ratios clearly outperform the average of the peer group. 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 unfortunately 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 2020, the regulatory required CET1 ratio of OPF was 13.7%. In addition, regulatory easing due to the Corona pandemic might lead to a further decrease of OPF's regulatory capital ratios as well.

A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

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

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	7,65	8,08	8,37	+0,18	8,55
Leverage Ratio	7,40	7,90	8,60	-0,30	8,30
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	19,90	20,10	20,50	-1,00	19,50
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	19,90	20,10	20,50	-1,00	19,50
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	22,80	22,40	22,40	-1,40	21,00
Change in %- Points					

Due to OPF's bank capital and debt structure, the Group's preferred senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. However, the Group's non-preferred senior unsecured debt is rated one notch below and the Tier 2 capital is rated two notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital of OPF is not rated due to its transitional character and the low volume.

Liquidity

The Group's liquidity situation is sufficient. The liquidity coverage ratio of 141% in 2019 complies with regulatory requirements; however, this ratio is below the average of the peer group.

At 9.3%, OPF's interbank ratio is at a very low level. The loan-to-deposit ratio of the Group remained very stable over the past years. However, this ratio below the average of the peer group. In addition, this issue shows a steady demand for OPF' loans, which the increasing deposits are not able to cope. Moreover, the Group reveals a sound funding portfolio, with 48% of the funding streaming from deposits and 27% from issued debt obligations. In 2019, OPF issued long-term bonds worth €6.7 billion (€3.3 billion in 2018).

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	143,57	142,01	141,91	+1,00	142,92
Interbank Ratio	7,22	9,77	3,81	+5,54	9,35
Liquidity Coverage Ratio	117,00	123,00	143,00	-2,00	141,00
Customer Deposits / Total Funding (excl. Derivates)	45,89	47,11	48,84	-0,04	48,80
Net Stable Funding Ratio (NSFR)	114,00	116,00	111,00	+1,00	112,00
Change in %- Points					

Environmental, Social and Governance (ESG) Score Card

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

• Corporate Governance is identified as a highly signifikant 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 track record, the lived gender equility 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, Coporate Behaviour is rated positive due the sustainable owner-customer structure and the exemplary conduct in accordance with the law without any siginificant legal disputs.

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 2020	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 Environ-mental 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, but 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, but 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 strong positive in terms of the CRA ESG criteria.	1	(+ +)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	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 "Consodering the Impact of ESG Factors".

Conclusion

Overall, OPF - as one of the major financial institutions in Finland - recorded stable growth while revealing a declining level of profitability. In addition, OPF maintains its impressive asset quality and its sound capitalization. However, due to the Corona pandemic, we expect a worsening of asset quality as well as further reduced profitability, which leads overall to a down-notch of the long-term issuer rating.

Despite the low interest environment in Europe, OPF records stable net interest income in the past years. However, this development reached OPF through increased customer loans. Moreover, the Group maintains its stable source of income from fees and commission in recent years. Thus, the Group's operating income is shaped by a very resilient and stable development. Notwithstanding, the Group noticed increasing operating expenses, mainly driven by higher tech and communication expense in addition to higher other expense, which lead eventually to lower earnings figures. Considering the recent development, we expect a further decline of OPF's earnings figures due to the Corona pandemic effects.

The asset quality of OPF significantly outperforms that of its competitors in 2019. The NPL ratio of the Group has been at a stable and remarkably low level in recent years. Moreover, the Group benefited from a favorable economic situation in Finland's past; however, as a result of its focus on Finland, OPF faces a high geographic concentration risk. Furthermore, the Group denotes relatively high exposures to the real estate sector in Finland, which might be a particular risk as a result of the Corona pandemic. In addition, we expect a general decrease of OPF's asset quality due to the Corona effects, even though the impact seems to be of a lesser extent on Finland's economy.
Cost of risk double

On the liabilities side, OPF achieves steady growth in its deposits from customers. Moreover, the Group benefits from its stable and diversified funding base. The Group complies with and exceeds all regulatory capital requirements, and is above the average of the peer group with its regulatory capital ratios. In addition, the Group benefits from its cooperative banking model with its joint liability system. However, due to the Corona pandemic impact as well as the Group's new targeted CET1 capital ratio, we expect the capitalization of OPF to decline in the upcoming years. Furthermore, the liquidity situation of the Group remains satisfactory.

It remains to be seen to what extent the Corona pandemic eventually has an impact on OPF's business. Up to now, the Group seems to be affected to a lesser extent than some other peer group banks in Europe. The Group sticks still to its Return of Equity target of 8% up to FY 2025 targets. Nevertheless, a high level of uncertainty exists due to the Corona pandemic and requires a close monitoring of the development.

Outlook

We consider the outlook of OPF's long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that OPF 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 OPF's capitalization and whether OPF will be affected in its business operations by the Corona pandemic.

Scenario Analysis

Best-case scenario: A+

Worst-case scenario: A-

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.

In a scenario analysis, the OPF is able to reach an "A+" rating in the "best case" scenario and an "A-" 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 OPF's long-term issuer credit rating and its bank capital and debt instruments if we see OPF significantly improves it earnings figures. In addition, a further improvement of the capital figures might lead to an upgrade as well.

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

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 8: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	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
Bank Capital and Debt Instruments	**Rating Date**	**Result**
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+
Rated Members of the Group	**Rating Date**	**Result**
OP Corporate Bank Plc (OP Yrityspankki Oyj)		
Initialrating	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
Bank Capital and Debt Instruments of OP Corporate Bank Plc		
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+
OP Mortgage Bank Plc (OP-Asuntoluottopankki Oyj)		
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
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+

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. Subject to a peer group analysis were 64 competing institutes.

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 (Version 2.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

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

On 31 August 2020, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to OP Financial Group and the rated member institutes, 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.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

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.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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