

# Second-Party Opinion

## OP Financial Group Green Bond Framework

### Evaluation Summary

Sustainalytics is of the opinion that the OP Financial Group Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles. Although the bond is not exclusively project-based, Sustainalytics considers the range of eligible categories to have positive environmental or social impacts and to advance the UN Sustainable Development Agenda. While a lookback period for refinancing is not disclosed, OP Financial committed to disclose the origination timeframe and maturity profile of loans in its annual reporting.



**PROJECT EVALUATION / SELECTION** OP Financial's internal process in evaluating and selecting projects is aligned with market practice, including a dedicated green bond committee, chaired by a member of the company's executive board and comprised of senior management from corporate sustainability, finance and group treasury, and the banking, corporate and institutional customers business segment. The committee approves each loan against the framework's eligibility criteria. OP Financial developed detailed internal guidelines for the loan selection that address environmental and social risk management. Sustainalytics considers this process to be aligned with market best practice.



**MANAGEMENT OF PROCEEDS** OP Financial has committed to establishing a green bond register for each separate green bond issuance, to earmark the proceeds and track their allocation, which is aligned with market practice.



**REPORTING** OP Financial intends to publish a green bond report on an annual basis, including allocation of proceeds in accordance with market standards. In addition, OP Financial intends to include information on the environmental impacts of the green bond per eligible sectors, including, kWh of renewable energy generated, tonnes of CO<sub>2</sub> avoided, energy savings, buildings with certification, annual amount of water purified, number of public trams/ trains/ metros financed and location, among other indicators. Sustainalytics views the impact indicators as aligned with market practice.

|                        |                   |
|------------------------|-------------------|
| <b>Evaluation date</b> | November 2018     |
| <b>Issuer Location</b> | Helsinki, Finland |

### Report Sections

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## Introduction

OP Financial Group (OP Financial) is one of the largest financial companies in Finland, providing banking, insurance, wealth management and other services. It currently operates three segments: Banking Private and SME customers, Banking Corporate and Institutional customers and Insurance Private and Corporate customers. The company was founded in 1902 and is headquartered in Helsinki, Finland.

OP Financial has developed the OP Financial Group Green Bond Framework (the “framework”) under which it is planning to issue multiple green bonds and use the proceeds to finance and refinance, in whole or in part, existing and future projects and businesses that support one of OP’s core values – responsibility. The framework defines eligibility criteria in six areas:

1. Renewable Energy
2. Energy Efficiency
3. Green Buildings
4. Pollution Prevention and Control (including Sustainable Water Management)
5. Sustainable Land Use
6. Clean Transportation

OP Financial engaged Sustainalytics to review the OP Financial Group Green Bond Framework and provide a second-party opinion on the alignment of the green bond with the Green Bond Principles 2018 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”),<sup>1</sup> with the framework’s environmental credentials. This framework has been published in a separate document on OP Financial’s debt IR website.<sup>2</sup>

As part of this engagement, Sustainalytics held conversations with various members of OP Financial’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of OP Financial’s green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion<sup>3</sup> of the OP Financial Group Green Bond Framework and should be read in conjunction with that framework.

<sup>1</sup> ICMA’s Green Bond Principles 2018: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> [www.op.fi/debtinvestors](http://www.op.fi/debtinvestors)

<sup>3</sup> This second-party opinion was revised November 12, 2018 to account for revisions made to the OP Financial Green Bond Framework. The revised Framework excludes general purpose lending to companies that are “leading players in terms of ESG criteria in their relevant fields”. Sustainalytics considers that this strengthens the framework.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the OP Financial Group Green Bond Framework

#### Summary

Sustainalytics is of the opinion that the OP Financial Group Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles (GBP) 2018. Some of the key elements of the bonds are:

- Use of Proceeds:
  - The use of proceeds categories, (i) Renewable Energy, (ii) Energy Efficiency, (iii) Green Buildings, (iv) Pollution Prevention and Control (including Sustainable Water Management), (v) Sustainable Land Use and (vi) Clean Transportation are recognized as impactful by the GBP and OP Financial uses recognized third party standards, such as LEED and BREEAM for green buildings and FSC/PEFC for sustainable forestry. A detailed analysis of the standards used is disclosed in Appendix 1 and 2.
  - OP Financial will finance new or recently built commercial or public Green Buildings with an EPC label of B or higher in Finland. Commercial or public buildings includes new and existing buildings based on 2013 and 2018 laws and excludes single family housing. Based on EPC data provided by the issuer and the Finance Housing and Development Center of Finland, Sustainalytics has assessed that through this eligibility criteria OP Financial is financing buildings that fall in the top 9% of most energy efficient commercial or public buildings in the Finnish building stock. This is above the 15% guideline set by the Climate Bonds Initiative.
  - While OP Financial intends to refinance existing loans, OP Financial does not provide a lookback period for the refinanced projects and companies. However, OP Financial commits to disclose the origination timeframe and maturity profile of the loans per eligible criteria in its annual reporting.
- Project Selection Process:
  - OP Financial has a dedicated green bond committee, chaired by a member of the company's executive board and comprised of senior management from corporate sustainability, finance and group treasury, and the banking, corporate and institutional customers business segment, which approves each loan against the framework's eligibility criteria. This is aligned with market practice.
  - OP Financial developed internal guidelines for the selection of eligible projects and businesses. For the financing of general purpose loans to pure players (see further information below), OP Financial applies an additional three-step process that includes exclusionary criteria, ESG performance of a company and detailed criteria per eligible category that speak, among others, to the environmental and social risk management of the eligible project/business. Sustainalytics considers the inclusion of ESG performance assessment in the selection process to be aligned with market best practice.
- Management of Proceeds:
  - OP Financial has committed to establishing a green bond register for each separate bond issuance to earmark the proceeds and track their allocation, as aligned with market practice.
  - Any unallocated proceeds in the Green Bond Register will be held in accordance with OP's conventional liquidity management policy.
- Reporting:
  - Aligned with market standards, OP Financial has committed to reporting annually on the allocation of proceeds and intends to report impact indicators in a separate green bond report. OP Financial intends to report on the allocation of proceeds to eligible sectors including a description of the types of business and projects financed, as well as the amount of unallocated proceeds.
  - OP Financial intends to report annually on the impact of the use of proceeds per sector financed, including impact metrics, such as renewable energy generated (kWh), tonnes CO<sub>2</sub> avoided, energy saved (kWh/year), number of certified buildings, amount of water recycled/reduced/purified, land area under sustainably certified forests, land area transformed

from heavily polluting land use to eco-friendly land use and number of public trams/ trains/ metros financed. If projects are not yet operational, OP Financial plans to report on estimated impact. This approach and indicators are aligned with market standards.

### **Inclusion of non-project based lending**

Sustainalytics recognizes that the GBP prefer project-based lending and financing. The OP Financial Group Green Bond Framework includes project based lending and it also contemplates the inclusion of non-project based lending activities and expenditure for general purpose loans to pure play companies (named “dedicated businesses”) deriving 90% of their turnover from the eligible categories.

Given the provisions set out above, Sustainalytics is of the opinion that the proceeds of the OP Financial Group green bonds – whether they are used for capital and/or operational expenditures associated with financing/refinancing project-based or non-project-based lending/expenditure activities - will contribute to supporting businesses and activities which ensure the provision of products and services that are necessary to achieving sustainable development in the long term.

### **Alignment with Green Bond Principles 2018**

Sustainalytics has determined that OP Financial’s green bond aligns with the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

## **Section 2: Sustainability Performance of OP Financial**

### **Contribution of framework to OP Financial’s sustainability strategy and targets**

OP Financial integrates sustainability into its business strategy. The company revised its sustainability strategy in 2017, setting targets to have its own operations carbon positive by 2025, and formulating binding climate principles for the entire OP Financial Group. The company offers sustainable services such as mobility services for car sharing and is committed to the construction of approximately 100 charging stations for electric cars in Finland.

Since 2017, OP Financial publishes fund-specific environmental, social and governance (ESG) analyses, including companies’ carbon footprints and positive environmental impact, for its customers. Moreover, OP Financial excludes high-carbon companies from active investments and has established an ESG unit for sustainable investing to broaden ESG activity and utilize more ESG information in investment decision-making, demonstrating its efforts towards sustainable finance.<sup>4</sup>

The group’s commitment to sustainable finance is further supported by its signatory status to the UN Global Compact Principles since 2011. In addition, its fund and asset management companies signed the UN Principles for Responsible Investment (UNPRI) in 2009 and signed the CDP Climate change and Water initiatives whereby investors encourage companies to report their impact on climate and their water usage in a better way.<sup>5</sup>

Given OP Financial’s sustainability strategy, targets and efforts, Sustainalytics is of the opinion that the company is well positioned to issue a green bond.

### **Well positioned to address common environmental and social risks associated with the projects**

While Sustainalytics recognizes that some of the eligible criteria included in the green bond framework have potential environmental and social risks, such as risks related to biodiversity, depletion of carbon pools,

<sup>4</sup> OP Financial corporate website: Sustainable investment, accessed June 2018: <https://uusi.op.fi/op-financial-group/reponsibility/responsible-business/sustainable-investment>

<sup>5</sup> OP Financial corporate website: Commitments and principles, accessed June 2018: <https://uusi.op.fi/op-financial-group/corporate-social-responsibility/commitments-and-principles>

occupational health and safety and community relations related to large renewable energy projects, transportation infrastructure, forestry and buildings, Sustainalytics is of the opinion that OP Financial is well positioned to manage related environmental and social risks as follows:

- i. OP Financial's project and business selection process for the green bond use of proceeds considers the ESG performance of businesses and excludes loans that finance the production and trade of weapons and ammunition, gambling, casinos and related businesses and loans that directly finance nuclear or fossil-fuel energy generation.
- ii. The selection process for general purpose loans includes an additional step of selection, including a more detailed set of indicators for each eligible category, which OP Financial has disclosed to Sustainalytics. The indicators include environmental life-cycle impact assessments for power plants, asset allocation in countries with high health and safety standards for employees and contractors and involvement of residents in the construction of new buildings. Sustainalytics considers the additional criteria to be strong, contributing to mitigating risks related to the use of proceeds.
- iii. OP Financial is a signatory to the Equator Principles,<sup>6</sup> a globally recognized third-party risk management framework.
- iv. OP Financial limits investments in forestry activity to recognized third-party certified forests, i.e. Forest Stewardship Council's® (FSC) and Endorsement of Forest Certification (PEFC). While PEFC has faced criticism from civil society organizations, FSC is considered to be the strongest forest certification system for sustainable forest management. See Appendix 2 for Sustainalytics' assessment of the FSC and PEFC standards.
- v. OP Financial limits investments financed by green bond proceeds in hydropower projects and businesses to plants below 20 MW for new projects, limiting risk related to community and biodiversity, as well as greenhouse gas emissions related to large hydro plants. Furthermore, financing includes large hydro power plants but only existing ones in Finland, Sweden and Norway which are more than 10 years old. Sustainalytics considers the risk related to existing large hydro power plants in the regions targeted as limited given the low GHG emissions in boreal reservoirs<sup>7</sup> older than 10 years.<sup>8</sup>

### Section 3: Impact of Use of Proceeds

All six use of proceeds categories are recognized as impactful by GBP. Sustainalytics has focused on the four below where the impact is specifically relevant in the local context.

#### Impact of renewable energy, energy efficiency and clean transportation

Finland in its National Climate Act (609/2015) set the target to reduce GHG emissions by at least 80% by 2050, compared to the 1990 levels.<sup>9</sup> In 2014, approximately 80% of all GHG emissions in Finland came from energy production and consumption, with transport accounting for 27%.<sup>10</sup> In 2016, the energy industry accounted for 32% of the country's GHG emissions,<sup>11</sup> highlighting the importance of the sector's contribution to the country's GHG reduction targets. Thus, Sustainalytics believes that the use of proceeds to foster energy efficiency and low carbon transportation can meaningfully contribute to Finland's GHG reduction targets.

While Finland already exceeded its 2020 renewable energy target of 38% in 2016,<sup>12</sup> Sustainalytics believes that supporting the further growth of renewable energy production can contribute to Finland's GHG reduction targets and the EU renewable energy target of 20% by 2020.

<sup>6</sup> The Equator Principles: <http://equator-principles.com/>

<sup>7</sup> International Rivers, Reservoir Emissions: <https://www.internationalrivers.org/campaigns/reservoir-emissions>

<sup>8</sup> The Issue of Greenhouse Gases From Hydroelectric Reservoirs: From Boreal Regions to Tropical Regions:

[http://www.un.org/esa/sustdev/sdissues/energy/op/hydro\\_tremblaypaper.pdf](http://www.un.org/esa/sustdev/sdissues/energy/op/hydro_tremblaypaper.pdf)

<sup>9</sup> Finland Ministry of the Environment, October 2017: [http://www.ym.fi/en-US/The\\_environment/Climate\\_and\\_air/Mitigation\\_of\\_climate\\_change/National\\_climate\\_policy](http://www.ym.fi/en-US/The_environment/Climate_and_air/Mitigation_of_climate_change/National_climate_policy)

<sup>10</sup> Ministry of Employment and the Economy, Energy and Climate Roadmap 2050:

<https://tem.fi/documents/1410877/3437254/Energy+and+Climate+Roadmap+2050+14112014.pdf>

<sup>11</sup> Statistics Finland, December 2017, Finland's greenhouse gases made an upturn: [https://www.stat.fi/til/khki/2016/khki\\_2016\\_2017-12-08\\_tie\\_001\\_en.html](https://www.stat.fi/til/khki/2016/khki_2016_2017-12-08_tie_001_en.html)

<sup>12</sup> European Commission, Europe 2020 targets: statistics and indicators for Finland: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country/finland/europe-2020-targets-statistics-and-indicators-finland\\_en#share-of-renewable-energy](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country/finland/europe-2020-targets-statistics-and-indicators-finland_en#share-of-renewable-energy)

### Impact of green buildings

In 2012, housing was the main source of energy consumption from private use, accounting for 21.1% of Finland's total energy end-use.<sup>13</sup> Thus Sustainalytics considers the improvement of energy performance of buildings to contribute to Finland's GHG reduction target. In the absence of internationally recognized certifications (LEED, BREEAM etc.), OP Financial's eligibility criteria alternatively include new or recently built commercial or public buildings with EPC B or higher in Finland, representing approximately 9% of the Finnish commercial or public building stock.<sup>14</sup> This approach will channel financing to the top energy efficient buildings in the country, as the eligible pool is tighter than the Climate Bond Initiative's recommendation of the top 15% of energy efficient buildings. OP Financial also intends to use the proceeds from the issuance of green bonds to improve the overall efficiency of the Finnish building stock by targeting renovations and refurbishments of buildings that lead to either an improvement in EPC label or a 15% improvement in energy use as measured against the building code for the relevant structure.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond framework advances the following SDG goals and targets:

| Use of Proceeds Category                                                  | SDG                                        | SDG target                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------------------|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pollution Prevention and Control (including sustainable water management) | 3. Good health and Well-being              | 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.                                                                                                                                                                     |
|                                                                           | 6. Clean Water and Sanitation              | 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally                                                               |
| Renewable Energy<br><br>Energy Efficiency<br><br>Green Building           | 7. Affordable and Clean Energy             | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix<br><br>7.3 By 2030, double the global rate of improvement in energy efficiency                                                                                                                                              |
|                                                                           | 8. Decent Work and Economic growth         | 8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead |
|                                                                           | 9. Industry, Innovation and Infrastructure | 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all                                                                                   |
|                                                                           |                                            |                                                                                                                                                                                                                                                                                                                        |

<sup>13</sup> Lorek, Sylvia and Trotta, Gianluca (2015). Consumers and Energy Efficiency – Country Report Finland.

An inventory of policies, business and civil society initiatives, focusing on heating, hot water and the use of electricity. EUFORIE – European Futures for Energy Efficiency: <https://www.utu.fi/en/units/euforie/Research/deliverables/country-reports/PublishingImages/Pages/home/EUFORIE%20D%205%201%20%20Country%20Report%20Finland.pdf>

<sup>14</sup> Finance Housing and Development Center of Finland:

[https://www.energiatodistusrekisteri.fi/public\\_html?command=browse&s=etusivu\\_section&lang=fi](https://www.energiatodistusrekisteri.fi/public_html?command=browse&s=etusivu_section&lang=fi)

|                      |                                        |                                                                                                                                                                                                                                                                                                           |
|----------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                      |                                        | countries taking action in accordance with their respective capabilities                                                                                                                                                                                                                                  |
| Sustainable Land Use | 15. Life on Land                       | 15.B Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation                                                          |
| Clean Transportation | 11. Sustainable Cities and Communities | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons |

## Conclusion

OP Financial has developed the OP Financial Group Green Bond Framework to finance and refinance projects and businesses dedicated to eligible categories that contribute to advancing one of its core values – responsibility. While most of the proceeds are not used on a project basis, Sustainalytics considers OP Financial’s selection process for general purpose loans to be credible. In addition, the use of proceeds categories (i) Renewable Energy, (ii) Energy Efficiency, (iii) Green Buildings, (iv) Pollution Prevention and Control (including Sustainable Water Management), (v) Sustainable Land Use and (vi) Clean Transportation are recognized as impactful by the Green Bond Principles 2018 and includes credible third-party certification for green buildings and forest activities.

Additionally, while a lookback period for refinancing is not disclosed, OP Financial commits to disclose the origination timeframe and maturity profile of the loans per eligible criteria in its annual reporting.

OP Financial’s processes of project and business evaluation and selection as well as management of proceeds and reporting is aligned with market practice.

Based on the above, Sustainalytics considers that OP Financial is well positioned to issue green bonds and that the OP Financial Group Green Bond Framework is credible, robust and aligns with the four pillars of the Green Bonds Principles.

## Appendices

### Appendix 1: Comparison of building certification schemes

|                                                                       | BREEAM                                                                                                                                                                                                                                                                  | LEED                                                                                                                                                                                                                                                                                                              | "The Swan" Nordic Ecolabel <sup>15</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Type                                                                  | Certificate                                                                                                                                                                                                                                                             | Certificate                                                                                                                                                                                                                                                                                                       | Certificate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Background</b>                                                     | British Certification System; Adapted to Swedish regulations (BREEAM SE) used in Sweden since 2013; Used for new, refurbished and extension of existing buildings                                                                                                       | Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.                  | Svanen is owned by "Ecolabelling Sweden", a Swedish state company responsible for both the Swan ecolabel and the EU Ecolabel (or EU Flower). Svanen was first released in 1989 by the Nordic Council of Ministers.                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Certification levels</b>                                           | Outstanding<br>Excellent<br>Very Good<br>Good<br>Passed                                                                                                                                                                                                                 | Platinum<br>Gold<br>Silver<br>Certified                                                                                                                                                                                                                                                                           | Certified level                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Areas of Assessment: Environmental Performance of the Building</b> | <ul style="list-style-type: none"> <li>• Management</li> <li>• Health and Wellbeing</li> <li>• Energy</li> <li>• Transport</li> <li>• Water</li> <li>• Materials</li> <li>• Waste</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Innovation</li> </ul> | <ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul> | <ul style="list-style-type: none"> <li>• General requirements<sup>16</sup></li> <li>• Resource efficiency</li> <li>• Indoor environment</li> <li>• Chemical products, construction products and materials</li> <li>• Quality Management of construction</li> <li>• Quality and regulatory requirements</li> <li>• Instructions for residents and property managers</li> <li>• Point-score requirements (e.g. Energy contributions from local energy sources or energy recovery; Cement and concrete with reduced energy and climate impact; Ecolabelled construction products; Green initiatives, etc.</li> </ul> |

<sup>15</sup> Svanen Ecolabels: <http://www.svanen.se/en/About-us/The-swan-and-the-EU-Ecolabel/>

<sup>16</sup> Svanen criteria for Real Estate, available at: <http://www.svanen.se/Vara-krav/Svanens-kriterier/kriterie/?productGroupID=52>

|                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                               |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Requirements</b>        | <p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item<sup>17</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p> | <p>Prerequisites (independent of level of certification) + Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p> | <p><u>Minimum thresholds to receive the Swan certification:</u></p> <p>For apartment buildings at least 17 out of 44 possible points must be achieved.</p> <p>For small houses at least 16 out of 42 possible points must be achieved.</p> <p>For pre-school and school buildings at least 15 out of 39 possible points must be achieved.</p> |
| <b>Performance display</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                           |

<sup>17</sup> BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

## Appendix 2: Sustainalytics' Analysis of FSC and PEFC Certifications

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labor Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance, and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

- (i) *Type of organization:* Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms, and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
- (ii) *Indigenous People's Rights:* FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
- (iii) *Sourcing wood from non-certified sources:* Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.

## Appendix 3: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

|                                                                                                                                                    |                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| <b>Issuer name:</b>                                                                                                                                | OP Financial Group                      |
| <b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>                                         | OP Financial Group Green Bond Framework |
| <b>Review provider's name:</b>                                                                                                                     | Sustainalytics                          |
| <b>Completion date of this form:</b>                                                                                                               | 12 November, 2018                       |
| <b>Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i></b> |                                         |

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- |                                                            |                                                                                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |                                                                                 |                                        |
|---------------------------------------------------------------------------------|----------------------------------------|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification                                           | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |                                        |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Executive Summary above.

## Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

The use of proceeds categories are recognized as impactful by the GBP and OP Financial uses recognized third party standards, such as LEED and BREEAM for green buildings and FSC/ PEFC for sustainable forestry. OP Financial intends to use most of the bond's proceeds to finance and refinance general purpose loans for companies with 90% turnover from eligible categories. While OP Financial intends to refinance loans, the company does not provide a lookback period for the refinanced projects and companies. However, OP Financial commits to disclose the origination timeframe and maturity profile of the loans per eligible criteria in its annual reporting.

#### Use of proceeds categories as per GBP:

- |                                                                                                                                                    |                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Renewable energy                                                                                               | <input checked="" type="checkbox"/> Energy efficiency                                                               |
| <input checked="" type="checkbox"/> Pollution prevention and control                                                                               | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation                                                                         | <input checked="" type="checkbox"/> Clean transportation                                                            |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management                                                                    | <input type="checkbox"/> Climate change adaptation                                                                  |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                  | <input checked="" type="checkbox"/> Green buildings                                                                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):                                                           |

If applicable please specify the environmental taxonomy, if other than GBPs:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

OP Financial has a dedicated green bond committee, chaired by a member of the company's executive board and comprised of senior management from corporate sustainability, finance and group treasury, and the banking, corporate and institutional customers business segment, which approves each loan against the framework's eligibility criteria. This is aligned with market practice. OP Financial developed detailed internal guidelines for the selection of eligible projects and businesses. For the financing of general purpose loans, OP Financial applies an additional three-step process that includes exclusionary criteria, ESG performance of a company and detailed criteria per eligible category that address the environmental and social risk management of the eligible project/business. Sustainalytics considers this process to be aligned with market best practice.

#### Evaluation and selection

- |                                                                                                         |                                                                                                                 |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|

- |                                                                                                                    |                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other <i>(please specify)</i> :                                                                      |

#### Information on Responsibilities and Accountability

- |                                                                                                                |                                                         |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> :                                                       |                                                         |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

OP Financial has committed to establishing a green bond register for each separate bond issuance to earmark the proceeds and track their allocation, which is aligned with market practice. Any portion of the net proceeds of Green Bonds that have not been allocated to Green Bond Assets in the Green Bond Register will be held in accordance with OP's conventional liquidity management policy.

#### Tracking of proceeds:

- |                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner          |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other <i>(please specify)</i> :                                                                      |

#### Additional disclosure:

- |                                                                                  |                                                                                         |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                                |

### 4. REPORTING

Overall comment on section *(if applicable)*:

Aligned with market standards, OP Financial has committed to reporting annually on the allocation of proceeds and impact indicators in a separate green bond report. OP Financial intends to report on the

allocation of proceeds to eligible sectors including a description of the types of business and projects financed, as well as the amount of unallocated proceeds.

OP Financial intends to report annually on the impact of the use of proceeds per sector financed, including impact metrics, such as renewable energy generated, tonnes CO<sub>2</sub> avoided, energy saved, number of certified buildings, amount of water recycled/reduced/purified, land area under sustainably certified forests, land area transformed from heavily polluting land use to eco-friendly land use and number of public trams/ trains/ metros financed. If projects are not yet operational, OP Financial plans to report on estimated impact. This approach and indicators are aligned with market standards.

#### Use of proceeds reporting:

- ☒ Project-by-project
 ☐ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☒ Other (*please specify*):

#### Information reported:

- ☒ Allocated amounts
 ☒ Green Bond financed share of total investment
- ☒ Other (*please specify*):

#### Frequency:

- ☒ Annual
 ☐ Semi-annual
- ☐ Other (*please specify*):

#### Impact reporting:

- ☐ Project-by-project
 ☐ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☒ Other (*please specify*): per sector basis

#### Frequency:

- ☒ Annual
 ☐ Semi-annual
- ☐ Other (*please specify*):

#### Information reported (expected or ex-post):

- ☒ GHG Emissions / Savings
 ☐ Energy Savings
- ☒ Decrease in water use
 ☐ Other ESG indicators (*please specify*):

#### Means of Disclosure

- ☐ Information published in financial report
 ☐ Information published in sustainability report

- ☒ Information published in ad hoc documents
 ☐ Other (please specify):
- ☒ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): External audit carried out on the green-bond-eligible loan amounts by sector

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**

OP Financial corporate website: Corporate Sustainability: <https://uusi.op.fi/op-financial-group/corporate-social-responsibility>

OP Financial corporate website: Debt Investors: [www.op.fi/debtinvestors](http://www.op.fi/debtinvestors)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- ☐ Consultancy (incl. 2<sup>nd</sup> opinion)
 ☐ Certification
- ☐ Verification / Audit
 ☐ Rating
- ☐ Other (*please specify*):

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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