

OP Financial Group Green Bond Framework

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A photograph of a dense forest with tall, slender trees. Sunlight filters through the canopy, creating a hazy, golden atmosphere. The ground is covered in green undergrowth.

1 Introduction

1 Introduction

OP Financial Group's ("OP") mission is to create sustainable prosperity, security and wellbeing for its owner-customers and in its operating region by means of its joint values, strong capital base and efficiency. By issuing Green Bonds, OP Financial Group intends to support one of OP's core values – Responsibility.

Corporate Social Responsibility (CSR) is an integral part of OP's business and strategy. CSR is based on OP's mission, joint values, solid capital adequacy and good risk management, supported by customer-owned business model. CSR measures encompass economic, social and environmental responsibility. Strong of its long history of more than 100 years in supporting development of the Finnish society, OP's aim is to be a forerunner in CSR within its sector in Finland. OP's mission and values bind it to take care of the operating region – both locally and nationwide.

OP's CSR targets are guided and coordinated by the Corporate Social Responsibility Programme. The programme was updated in 2017 under the umbrella theme "Positive driver of change through responsibility". The programme is built around four main themes: 1) We foster a sustainable economy, 2) We support local vitality, 3) We act with a people-first approach and through engagement and 4) We foster health, security and wellbeing.

1.1 OP's participation in CSR organizations

In addition to various CSR commitments, OP is active in national and international CSR organizations. OP is one of the founding members of Finland's Sustainable Investment Forum (FINSIF). OP is also involved in Finnish FIBS CR Network, the Corporate Social Responsibility and Co-operative Affairs Working Group of the European Association of

Co-operative Banks (EACB) as well as the Communication and CSR Committee of Unico Banking Group.

1.2 OP's ESG ratings

Currently, the ESG performance of OP is being assessed by the following extra-financial rating providers: Oekom Research, VigeoEiris, Sustainalytics, Imug and MSCI. Additionally, OP has been included in CDP Survey, with a score of B in 2016, corresponding to "Company has taken actions to address environmental issues beyond initial screenings or assessments".

1.3 Economic responsibility at OP

OP's strong presence and leading market position in Finland makes OP domestically significant financial institution. Customer responsibility plays a fundamental role as OP is fully customer-owned. OP's role as a domestic financial service provider is emphasized in particular during difficult economic times.

The financial sector is essential in financing sustainable economy. OP enables sustainable investments in new technology and new services such as renewable energy. As OP finances sustainable economy, it enables changes in society. We continue to create new responsible products and services.

OP Financial Group is one the largest taxpayers in Finland measured by tax on profits. Each OP member cooperative bank pays their corporate tax locally in their operating region. By paying taxes in Finland, the Group is contributing to prosperity in whole Finland. Some other examples on socially responsible measures taken by OP are past donations e.g. to Finnish universities and scientific research in Finland.

1.4 Social responsibility at OP

One of OP's values is 'prospering together'. OP wishes to represent a positive driving force in our communities. In line with this, OP takes active part in developing local and regional vitality. OP is also present digitally in communities.

OP is strongly committed to working for Finnish economic development and prosperity in society. This is apparent as concrete actions for the benefit of the operating environment through #Suominousuun (Putting Finland on a new growth path) initiatives, for example.

1.5 Environmental responsibility at OP

OP seeks to build a sustainable economy while supporting the prevention of climate change and adjusting to it. OP will develop products and services that will encourage its customers to act in a responsible and environment-friendly manner and take into account the effects of its operations on the diversity of nature. OP wants to reduce risks caused by climate change to its customers and provides information on climate change and solutions to mitigate its negative effects.

The Code of Business Ethics updated in 2017 contains OP's key environmental and climate objectives. In its CSR Programme updated in 2017, OP sets a target to be carbon positive by 2025. The most significant direct and indirect emission effects are caused by the consumption of heating and electrical energy on premises. OP is developing its premises to generate lower emissions, for example, by producing and utilizing renewable energy.

1.6 OP's international CSR commitments

OP Financial Group signed the UN Global Compact initiative in 2011, becoming committed to the initiative's ten principles on human rights, labour standards, environment and anticorruption.

OP signed the Equator Principles in 2016 and thereby committed to project financing that manages risks related to environmental issues and social responsibility.

OP Wealth Management (including OP Asset Management Ltd, OP Fund Management Company Ltd and OP Property Management Ltd) signed the UN Principles for Responsible Investment (UNPRI) in 2009.

OP signed the Montréal Carbon Pledge in 2015 and thereby committed to measure the carbon footprint of its funds. In its role as an investor, OP Wealth Management has signed CDP's climate change, water as well as deforestation initiatives¹.

The Group is continuously developing its responsible investment practices while seeking to foster a more responsible investment sector. In 2015, OP announced that it would exclude high-carbon companies from active investments. Based on its analysis of high-carbon companies, OP excluded 60 companies from its investment universe. In 2016, OP established an ESG unit for sustainable investing. The unit aims to deepen and broaden ESG activity and utilize more ESG information in investment decision-making and to engage actively with OP's investee companies e.g. through proxy voting.

¹ <https://www.cdp.net/en/investor/signatories-and-members>

2 Green Bond Framework

OP



2 Green Bond Framework

OP Green Bond Framework follows the voluntary guidelines of the Green Bond Principles, 2018 ("GBP") and is presented through the following four core components of the GBP:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

2.1 Use of proceeds

Under this Green Bond framework, OP Financial Group, via OP Corporate Bank plc or any other issuing entity,

may issue Green Bonds in various format, according to the prevailing terms described in the documentation.

An amount equivalent to the proceeds of each OP Green Bond will be exclusively used to finance, or refinance, in all or in part, projects and businesses ² that promote sustainable economy and provide clear environmental benefit ("Eligible Assets") and belong to the "Eligible Sectors";

1. Renewable Energy
2. Energy Efficiency
3. Green Building
4. Pollution Prevention and control
5. Sustainable Land Use and
6. Clean Transportation

defined below.

The Green Bond Eligible Assets are required to meet the following ("Eligibility Criteria"):

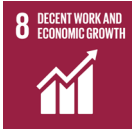













Eligible Sectors	OP Green Bond Eligibility Criteria	Mapping to UN SDG ³
Renewable Energy	<p>Loans to finance projects and businesses dedicated to the development, manufacturing, construction, operation, distribution and maintenance of renewable energy:</p> <ul style="list-style-type: none"> • Offshore and onshore wind • Solar energy • Hydropower <ul style="list-style-type: none"> • Nordic (Finland, Sweden, Norway or Denmark) hydro power plants excluding construction of new large scale hydro plants (>20MW). • Refurbishment investments or refinancing of large hydro power plants (>20MW) is permitted if the size of the water reservoir is not increased and the project is assessed and deemed to be compliant with the local regulations. • Waste to energy including energy from by-products of the forest sector, excluding biomass derived from sources of high biodiversity, that compete with food sources or that deplete carbon pools. 	

² See section 2.2.3 for more detailed description of OP's eligibility assessment procedure for dedicated businesses

³ Based upon the high level mapping provided by the Green Bonds Principles in June 2018:

www.icmagroup.org/green-social-and-sustainability-bonds/mapping-to-the-sustainable-development-goals/

Eligible Sectors	OP Green Bond Eligibility Criteria	Mapping to UN SDG
Energy Efficiency	<p>Loans to finance projects and businesses dedicated to energy efficiency:</p> <p>Infrastructure, equipment, technology and processes that reduces energy consumption and increase energy efficiency (such as transmission and distribution infrastructure that results in reduced energy losses, smart grids or energy storage, but excluding energy efficiency improvement on fossil-fuel technologies). Efficiency improvement should be at least 10 % or otherwise approved by the Green Bond Committee.</p>	   
Green Buildings	<p>Loans to finance projects and businesses dedicated to:</p> <ol style="list-style-type: none"> Commercial or residential buildings that have obtained one of the following certifications: <ul style="list-style-type: none"> LEED “gold” or better; BREEAM “very good” or better; the Nordic Swan Ecolabel (Svanen) certification; or any other equivalent regional recognised certification with similar standards and approved by the Green Bond Committee. <p>OR</p> <ol style="list-style-type: none"> New or recently built commercial or public real estate buildings that are in class B or better in the Finnish energy classification for buildings <p>OR</p> <ol style="list-style-type: none"> Upgrade retrofits (renovations and refurbishments of buildings): <ul style="list-style-type: none"> leading to better Energy Performance Certificates (EPCs), or leading to at least 15% lower energy use than that required by the applicable national building code for comparable buildings. 	
Pollution Prevention and Control (including Sustainable Water Management)	<p>Loans to finance projects and businesses dedicated to:</p> <ul style="list-style-type: none"> Pollution prevention and control including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction and waste recycling. Sustainable water and wastewater management including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems. Eco-efficient and/or circular economy adapted products, production technologies and processes (such as reduction of packaging or innovation contributing to reduction and recyclability of packaging) or development and introduction of environmentally sustainable products, with an eco-label or environmental certification, resource-efficient packaging and distribution. 	   

Eligible Sectors	OP Green Bond Eligibility Criteria	Mapping to UN SDG
Sustainable Land Use	<p>Loans to finance projects and businesses dedicated to:</p> <ul style="list-style-type: none"> • Sustainable forestry projects with a certification from FSC or PEFC • The conversion of land from energy-intensive industry and/or fossil fuel intensive use to greenzones, conservation areas or energy-neutral urban districts (e.g. highways to bikeways type projects) • Sustainable agriculture, in the EU comprised of organic farming as certified in compliance with EU and national regulations 	
Clean Transportation	<p>Loans to finance projects and businesses dedicated to clean transportation such as:</p> <ul style="list-style-type: none"> • Electric and hybrid vehicles or mobility as a service and the supporting infrastructure e.g. IT upgrades, signalling, communication technologies and charging infrastructure. • Projects, activities and technology that supports clean transportation infrastructure such as expansion and improvements of train, tram, metro networks and bicycle schemes (excluding such infrastructure that is primarily dedicated for transportation of fossil fuels). 	 

2.2 Process for project evaluation and selection

OP has established a dedicated Green Bond Committee with responsibility for governing and monitoring the OP Green Bond Framework.

The Green Bond Committee comprises of at least of:

- an OP Financial Group's Executive Board Member (Chairman),

as well as Senior management representatives from:

- Finance and Group Treasury,
- Corporate Sustainability,
- Banking, Corporate and Institutional Customers business segment

Eligible Assets are subject to both the conventional OP credit process and the Green Bond evaluation and selection process, which are complementary.

2.2.1 Conventional credit process

As a pre-requisite, Eligible Assets are expected to comply with local laws and regulations, including any applicable regulatory environmental and social requirements.

A thorough loan evaluation and selection is therefore an integral part of the process to ensure that the loans

financed by Green Bond Proceeds are allocated to projects or businesses that meet the Green Bond Framework criteria.

OP evaluates all its clients, or projects, as a part of its conventional credit process. The credit process includes Know-Your-Customer ("KYC") assessment, credit risk analysis, validation by the risk management as well as Credit Committee or Senior Credit Committee decision. Following an approved credit decision, OP will execute the specific Green Bond process described in 2.2.2.

It is clear within OP, that the qualification for Eligible Assets as part of the Green Bond Framework does not overlook financial analysis and credit risks.

2.2.2 Green Bond Framework dedicated process

In the context of the Green Bond Framework, OP will carry out the following steps for project evaluation and selection in the portfolio of Eligible Assets (the "Green Bond Register").

- The OP Business Units (OP Corporate Analyst Team and OP Financing and Agency Unit) of OP are in charge of the identification of existing or new loans to be included in the Green Bond Register. Projects or businesses that are involved in the following sectors will not be eligible for Green Bond financing in OP:

- Weapons and ammunition; the financing of the production of and trade in weapons and ammunition of any kind
 - Direct financing of nuclear or fossil-fuel energy generation
 - Gambling; casinos and related businesses
 - Other identified risky industries, as defined in OP's internal client selection guidelines
- b. OP Corporate Analyst Team provides the financial and non-financial (Environmental, Social and Governance) analysis and opinion on each loan (and borrower), as well as the rationale for potential selection in the OP Green Bond Register.
 - c. The Green Bond Committee approves each loan against the OP Green Bond Eligibility Criteria and makes the decision to remove assets that are not aligned with the Framework.
 - d. The Green Bond Register is updated quarterly by the OP Financing and Agency Unit.
 - e. The Green Bond Register is approved quarterly by the Green Bond Committee
 - f. Reporting is performed on annual basis.

2.2.3 Specific case of “dedicated businesses”

As part of its local development core mission, OP has been financing Finnish private and public sector companies for decades on general corporate purposes basis. A number of such domestic actors are collectively dedicated to environmental friendly activities and purposes.

Based on its intimate knowledge of such actors of the environmental transition and the specific functioning of the Finnish corporate banking market, OP will initially include in its Green Asset Register a significant proportion of loans to dedicated businesses meeting the eligibility criteria. To provide investors with a robust and ambitious investment framework, OP has put in place a specific assessment procedure (the Eligibility Assessment for Dedicated Businesses), and commits to report on the use of proceeds allocation to such dedicated companies. The procedure provides a three steps selection check-list including:

Step 1) Clear exclusion criteria

Step 2) ESG performance assessment at company level

Step 3) Specific checklist for each eligibility criteria in line with the Green Bond Principles definition of “pure players”⁴. The dedicated businesses are expected to derive more than 90 % of their turnover from environmental friendly activities, which are in line with the Green Bond Framework. Moreover, the part of the turnover that is not classified as “green” is not allowed to be in any means environmentally harmful (environmentally neutral activities).

It is the responsibility of the business analysts to prepare the relevant eligibility assessment, which will be approved on a case by case basis by the Green Bond Committee.

2.3 Management of proceeds

OP will establish a specific Green Bond Register in relation to each separate Bond issuance for tracking the Eligible Green Assets and the allocation of the net proceeds from each Bond.

OP Financing and Agency Unit will supervise and review the assets that have been earmarked and allocated to each dedicated Green Bond on a monthly basis. If an asset no longer meets the eligibility criteria, OP Financial and Agency Unit will make a proposal to remove the asset from the Green Bond Register and will propose to replace it with potential Eligible Asset, subject to availability.

All potential changes in each Green Bond Register are reported quarterly to the Green Bond Committee that will approve the proposed removals and replacements relating to each Green Bond Register based on the proposal of the OP Business Units.

Until the full allocation of the proceeds to Eligible Assets, OP intends to maintain an aggregate amount of assets in the Green Bond Register that is at least equal to the aggregate net proceeds of all outstanding OP's Green Bonds.

However, there may be periods when a sufficient aggregate amount of Green Bond Assets has not yet been allocated to the Green Bond Register to fully cover the proceeds of each Green Bonds. 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.

⁴<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles---June-2018-140618-WEB.pdf>
It is recognised that there is a market of environmental, climate or otherwise themed bonds, in some cases referred to as “pure play”, issued by organisations that are mainly or entirely involved in environmentally sustainable activities, but that do not follow the four core components of the GBP. In such cases, investors will need to be informed accordingly and care should be taken to not imply GBP features by a Green Bond reference. These organisations are encouraged to adopt where possible the relevant best practice of the GBP (e.g. for reporting) for such existing environmental, climate or otherwise themed bonds, and to align future issues with the GBP.

2.4 Reporting

OP will publish annually (until full allocation) on its website a Green Bond Report that includes at least:

- the (aggregated) amount of net proceeds allocated to each of the Eligible Sector together with a description of the types of business and projects financed.
- the origination timeframe and maturity profile of the loans per Eligible Sector category
- the remaining balance of net proceeds which have not yet been allocated to Green Assets

Where appropriate and subject to confidentiality arrangements and competition issues, examples of eligible businesses and projects that have been financed or refinanced by the net proceeds of Green Bond shall also be disclosed.

OP's Treasury, Sustainability and Loan units are responsible for preparing the Green Bond Report relating to each bond issuance. Each report will be reviewed and approved by the Green Bond Committee. The Green Bond Report(s) will be made available to the public at the OP's Debt IR website (www.op.fi/debtinvestors)

OP recognise investors requirement for transparent information regarding impact reporting. Where possible, OP intends to include information on the environmental impacts of the Green Bond as per each Eligible Sectors. OP reviews the following areas on each eligible sector and aims to disclose the impact of OP's financing on the project or asset. Projects that are not yet operational, OP will provide estimates regarding the expected future environmental performance of the asset in question. Current and future savings in energy or emissions will be reported separately.

Eligible Sector	Indicative Performance Indicator
Renewable Energy	<ul style="list-style-type: none">• kWh of power generated from renewable energy• Tonnes of carbon dioxide (CO2) equivalent avoided
Energy Efficiency	<ul style="list-style-type: none">• Energy saved per year (kWh/year)
Green Buildings	<ul style="list-style-type: none">• Number of eligible buildings that received third-party-verified green building certification• Reduction in energy use (kWh/year)
Pollution Prevention	<ul style="list-style-type: none">• Annual amount of waste reduced/avoided• Annual amount of waste recycled• Annual amount of water purified
Sustainable Land Use	<ul style="list-style-type: none">• Total land area under sustainably certified forests• Amount organic Sustainable agriculture land financed in m²• Total land area transformed from heavily polluting land use to eco-friendly land use
Clean Transportation	<ul style="list-style-type: none">• Number of public trams/ trains/ metros financed and location• Capacity created through financing• Number of cars avoided

3 External Review and verification

OP has engaged Sustainalytics to act as an independent Second Opinion Provider (SOP) of OP's Green Bond Framework. Sustainalytics' second opinion is publicly available on OP's Debt IR website.

OP will request on an annual basis, starting one year after issuance and until maturity, a limited assurance report of the allocation of the Green Bond proceeds to Eligible Assets, provided by an external auditor.