



OP Mortgage Bank
Green Covered Bond Framework
November 2020

Contents

1	Introduction	3
1.1	CR Governance at OP.....	3
1.2	CR Reporting and key guidelines	3
1.3	Economic, social and environmental responsibility at OP.....	4
1.4	OP's ESG ratings	5
1.5	OP's participation in CR organizations	5
1.6	OP's international CR commitments.....	5
2	Green Covered Bond Framework	5
3	Green Projects (Use of Proceeds)	6
4	Process for selection of Green Projects	7
5	Management of Proceeds	7
6	Reporting.....	8
7	External review and verification	8

1 Introduction

OP Financial Group (“OP” or the “Group”) is the leading financial services provider in Finland and truly owned by its customers. Finnish roots, Finland’s most extensive service network and true customer focus make OP a unique player in many ways.

OP Mortgage Bank (“OPMB”) is a wholly-owned subsidiary of the Group’s central institution, OP Cooperative. OPMB is responsible for the Group’s secured funding by issuing mortgage-backed covered bonds. OPMB acts as special-purpose bank of the Group and a funding vehicle for the OP member cooperative banks where the mortgages are originated. OPMB’s covered bonds are highly rated: AAA from S&P and Aaa from Moody’s. OPMB’s Euro Medium Term Covered Note Programme (“EMTCN Programme”) qualifies for the ECBC’s Covered Bond Label.

One of OP Financial Group’s core values is Responsibility. Corporate Responsibility (CR) is an integral part of OP’s business and strategy and is based on OP’s mission to promote the sustainable prosperity, security and wellbeing of our owner-customers and operating region.

By issuing Green Covered Bonds, OPMB supports the Group’s value-based strategy implementation and contributes to its mission. One of OP’s CR Programme’s key themes and commitments is “We foster a sustainable economy”. This includes supporting sustainable development as well as mitigating climate change and adapting to it. At OP, fostering sustainable economy means, for example, financing sustainable business, developing green financing products and strengthening the practices of responsible investment. Issuance of green bonds and green covered bonds contributes to growth in sustainable finance. OP Financial Group’s other issuing entity, OP Corporate Bank plc published its Green Bond Framework in 2018 and issued the first green bond in 2019.

There are various reasons for OP to grow its presence in the green bond market through OPMB’s Green Covered Bonds;

- From the responsibility aspect, the rationale is strengthening OP’s responsible role in the Finnish society and promoting one of the four key themes and commitments of OP’s CR Programme – fostering sustainable economy;
- From the retail banking aspect, reasons include OP’s ambition to conduct banking business in

a more responsible manner and create a basis for understanding mortgage customers’ ESG (Environmental, Social and Governance) risks better, while integrating sustainable policies into retail lending. Providing customers with services that enable sustainable choices is a key driver for green transition, as well; and

- From the funding aspect, core reasons are diversifying the funding sources, expanding the investor base and simply responding to markets’ growing green bond demand

1.1 CR Governance at OP

Corporate responsibility is governed at group level. The CR policy, CR Programme and annual CR Report are approved by OP Cooperative’s Board of Directors. Executive Management Team’s CR Committee (established in 2020) prepares the CR Programme for the Board’s approval and tracks progress against the agreed targets. OP Cooperative’s Supervisory Council reviews the CR Programme regularly and follows its implementation. The Chief Communications and Corporate Responsibility Officer is responsible for CR in respect of Group Executive Management and reports to the President and Group Chief Executive Officer. Additionally, OP has established CR working groups for each business line and a CR Chapter for ESG specialists from different functions of the Group.

1.2 CR Reporting and key guidelines

OP Financial Group publishes the group level CR Report annually in connection with its annual reporting. The CR Report is integrated in the Annual Report (e.g. OP Year 2019 Report). The Annual Report entity includes Corporate Governance Statements (group and issuer level) and Remuneration Statement (group level) as well as Data Balance Sheet (describing e.g. the responsible use of data).

The applied CR reporting principles include the Global Reporting Initiative (GRI) Standards (Core), the GRI Financial Services Sector Supplement and the UN Global Compact initiative. The CR reporting takes into account the International Integrated Reporting Council (IIRC) Framework and OP is working towards compliance with the TCFD’s (Task Force on Climate-related Financial Disclosures) recommendations. Since 2016, OP’s CR Report has been

externally assured. Assurance for the CR Report 2019 was performed by KPMG Oy Ab.

OP's guidelines concerning corporate responsibility include e.g. the CR Programme, the Corporate Governance Statements and Management System Guidelines, the Code of Business Ethics (incl. OP's climate principles), business-line-specific CR policies and Ethical Guidelines for Artificial Intelligence. All group level guidelines are binding to companies belonging to OP Financial Group, i.e. issuing entities, such as OPMB, comply with group level CR guidelines.

OP has committed to pursuing the UN Sustainable Development Goals (SDGs). OP has identified the SDGs with the most relevance to its operation and factored them into the new Corporate Responsibility Programme (2019). OP aims to develop reporting on the SDGs more extensively in the future. For further information on SDG integration in OP's CR Programme please view [OP Year 2019 Report](#) page 24.

1.3 Economic, social and environmental responsibility at OP

As a cooperative business, OP Financial Group aims not to maximize profits for its owners but to provide, as efficiently as possible, the services which its owner-customers need, ensuring its strong capital base and competitiveness. OP's role as a responsible, domestic financial service provider is emphasized particularly during difficult times. This was proven yet again in 2020, amid the coronavirus crisis that affected the entire world. In spring 2020, OP took several measures to support its customers, employees and the entire Finnish society. These included home and SME loan repayment holidays, payment time flexibility for corporate customers' insurance bills, adjustments to rent payments and rent reliefs for commercial real estate, increasing Covid-19 testing capacity in Finland in cooperation with other Finnish companies, donating Pohjola Hospital personnel's work contribution to public healthcare and offering remote work opportunities to OP's employees in all positions where feasible.

OP Financial Group is one of the largest taxpayers in Finland measured by income tax expense. Each OP member cooperative bank pays their corporate income tax locally in their operating region. By paying taxes in Finland, the Group is contributing to prosperity in the entire Finnish society.

With regards to social responsibility, OP takes active part in developing local and regional vitality. This is demonstrated by the launch of SME financing programmes that support economic growth and employment in Finland, commitment to improving financial literacy of young people in Finland and organizing introductions to digital service channels for the elderly in Finland. By maintaining the largest branch network in Finland, OP ensures access to financial services for all Finns.

From the environmental perspective, OP seeks to support transition towards a more sustainable economy while preventing climate change and adjusting to it. OP takes into account the effects of its operations on the climate. OP wants to reduce climate change related risks to its customers and provides information on climate change and solutions to mitigate its negative effects. OP has developed products and services that encourage its customers to act in a responsible manner.

In 2020, OP is committed to take 20 climate actions. This means offering new financing products aimed at mitigating climate change, channeling investments towards climate change mitigation, supporting agriculture and forestry sectors towards more sustainable future, helping customers become aware of their own climate impacts, supporting companies on their path towards more sustainable economic growth through e.g. ESG-performance-linked corporate loans and increasing knowledge of financial impacts caused by climate change. So far in 2020, OP has, for instance, supported the Carbon Action project, which trains farmers to utilize the soil in an even more sustainable manner and supported WWF Finland's survey "How will climate change effect familiar landscapes in Finland?". Additionally, from here on in, OP's Vallila premises are heated with emission-free Recycled Heat, which is 100 per cent recycled waste heat. The move to emission-free Recycled Heat permits emission savings of about 4.6 per cent from OP Financial Group's own emissions.

The Code of Business Ethics contains OP's key environmental and climate objectives. In its CR Programme updated in 2019, OP set a target to be carbon-neutral by 2025. The most significant direct and indirect emissions caused by OP's own operations derive from the energy consumption of heating/cooling of premises. OP's direct GHG emissions (Scopes 1 & 2) totaled 23,762 tn CO2e in 2019 – down by 32% since 2011. 34% of OP's total energy consumption is produced with renewable energy, while energy used at OP's headquarters is 100% renewable. There are solar power stations installed in OP HQ, Pohjola Hospitals and properties of OP Real Estate Asset Management. Additionally, WWF Finland Green Office system is applied to OP HQ and some member cooperative banks. Carbon footprint of OP's employees is mitigated by remote work opportunities and incentives to use public transportation.

For further information on OP's responsibility actions please see [OP's annual reporting](#).



1.4 OP's ESG ratings

OP Financial Group has ESG ratings from MSCI (A), Sustainalytics (ESG Risk Rating Score 16.0/Low in 2020), ISS ESG (C- in 2019), VigeoEiris (54/100 in 2019), and Imug (OP Corporate Bank plc's unsecured bonds Neutral CCC in 2020 and OPMB's covered bonds Positive B in 2019). Additionally, OP participates annually in Carbon Disclosure Project's (CDP) survey, from which the latest result (2019) was A- (Leadership level).

1.5 OP's participation in CR organizations

OP Financial Group is present in national and international CR organizations in order to be able to have an influence on sustainability matters concerning the financial sector. This means cooperation in e.g. Finland's Sustainable Investment Forum (FINSIF), Climate Leadership Coalition (CLC), Global Compact Nordic Network, International Capital Markets Association (ICMA), Climate Bonds Initiative (CBI, Partnership agreement), CR Network and Diversity Charter of the Finnish Business & Society association (FIBS), CR Working Group of the European Association of Co-operative Banks (EACB), CR Working Group of Finance Finland and EEMI (Energy Efficient Mortgages Initiative).

OP is an active member in various sustainable finance and green bond working groups and aims to contribute to the development of best market practices and standards related to sustainable finance. For example, OP is a member of International Capital Markets Association's (ICMA) Green and Social Bond Principles and Finnish Standards Association's (SFS) Standardization Group on Sustainable Finance, which both aim to develop guidelines and unified classification for green activities, increase transparency and develop reporting methods. Additionally, the SFS working group mirrors the ISO standardization work on sustainable finance. Through the participation in the European Association of Co-operative Banks (EACB), OP is able to provide feedback on the usability of the EU Action plan for sustainable activities and the EU Taxonomy on sustainable finance.

1.6 OP's international CR commitments

OP has signed several commitments related to corporate responsibility that are in line with minimum safeguards outlined in the EU Taxonomy. In 2019, OP signed UN Environment Programme Finance Initiative's (UNEP FI) Principles for Responsible Banking. This ensures commitment to aligning portfolios to reflect and finance low-carbon, climate-resilient economy required to limit global warming to well-below 2, striving for 1.5 degrees Celsius in accordance with the Paris Agreement. Signing ensures alignment with SDGs as well.

In 2019, OP also signed the Collective Commitment to Climate Action, which requires commitment to monitoring lending in accordance with the principles on sustainable and low-carbon economy, stated in the Paris Agreement.

In 2016, OP signed the Equator Principles which promote project financing that manages risks related to environmental issues and social responsibility.

In 2015, OP signed the Montréal Carbon Pledge which requires measuring the carbon footprint of funds and complying with CDP's climate change, water and deforestation initiatives.

In 2011, OP signed the UN Global Compact initiative which includes 10 principles on human rights, labour standards, environment and anti-corruption.

In 2009, OP signed the UN Principles for Responsible Investment (UNPRI). The commitment was made by the Group's companies running investment operations: OP Asset Management Ltd, OP Fund Management Company Ltd and OP Real Estate Asset Management Ltd.

Additionally, OP complies with the OECD Guidelines for Multinational Enterprises which include voluntary CR principles and standards. OP has also signed the National Commission on Sustainable Development's Commitment 2050 pledge. Furthermore, OP complies with ILO's Declaration on Fundamental Principles and Rights at Work.

2 Green Covered Bond Framework

OPMB's Green Covered Bond Framework (the "Framework") has been prepared in accordance with the ICMA Green Bond Principles (GBP) and it complies with the EU Green Bond Standard and EU Taxonomy on a best effort basis. The Framework takes into consideration the CBI Residential Buildings Criteria¹ and EU Taxonomy's Construction and real estate activities (Green buildings) related criteria. The Framework contributes to the EU Environmental objective "Climate Change Mitigation" and takes into consideration Do No Significant Harm (DNSH) requirements and the minimum safeguards. Most of the

DNSH requirements regarding Green buildings are met due to the fact that OPMB as part of OP is subject to EU regulation, national legislation, OP's commitment to international policies outlined above and OP's own policies and environmental commitments outlined in the Code of Business Ethics.

Under this Green Covered Bond Framework, OPMB may issue Green Covered Bonds in various formats, according to the prevailing terms described in the documentation.

¹ Until the EU Taxonomy is fully finalized, we will also fulfil the CBI criteria. Upon finalization we will only consider the Taxonomy criteria.

3 Green Projects (Use of Proceeds)

In OPMB's case, the Green Projects refer to green buildings and apartments that serve as collaterals for mortgages in Finland. Hence, OPMB intends to allocate the proceeds from the Green Covered Bonds to a portfolio of new and existing collaterals for mortgages that are tagged as green

in the OPMB's cover pool (under EMTCN Programme) and thus meet the use of proceeds eligibility criteria. These Green Projects fall under ICMA GBP's eligible sector "Green Buildings".

Eligible sector	NACE Code	OPMB Green Covered Bond Eligibility Criteria*	Mapping to UN SDGs
Green Buildings	<p>Acquisition and ownership: NACE code L68 "Real estate activities".</p> <p>Construction of new buildings: NACE codes F41.1 - Development of building projects and F41.2 - Construction of residential and non-residential buildings.</p> <p>Building renovation: NACE codes F41.2 - Construction of residential and non-residential buildings and F43 - Specialised construction activities.</p> <p>Individual measures and professional services: NACE codes F43 - Specialised construction activities and M - Professional, scientific and technical activities.</p>	<p>Green buildings that serve as collaterals for mortgages meeting the following criteria:</p> <ol style="list-style-type: none"> Acquisition and ownership: Buildings built before 2021 energy performance must be among top 15% of similar stock (in terms of number of buildings), buildings built after 2021: primary energy demand** 20% lower than NZEB (Nearly Zero Energy Buildings) requirements. <p>Primarily, existing Energy Performance Certificates (EPCs) are used for screening and in case EPC information cannot be linked to a collateral, the secondary approach will be statistical modeling. EPCs' energy label must be A or B (if issued under 2018 legislation) or equivalent (if issued under 2013 legislation). The threshold (for energy label) will be adjusted as necessary in order to fulfil EU Taxonomy Eligibility Criteria.</p> <ol style="list-style-type: none"> Construction of new buildings: primary energy demand** 20% lower than NZEB requirements. (for buildings built from 2021 onwards, for buildings built before YE2020 the top 15% criteria is applied). Building renovation: complies with relevant local "major renovation" regulations (based on the Energy Performance of Buildings Directive, EPBD) or delivers 30% energy savings. Individual measures and professional services: list of eligible measures and services with individual criteria as outlined in the Taxonomy.*** 	 <p>7.2. By 2030, increase substantially the share of renewable energy in the global energy mix</p> <p>7.3. By 2030, double the global rate of improvement in energy efficiency</p>  <p>11.6. By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management</p>

*Criteria as of 2020. For further revisions view the [Technical annex to the TEG final report on the EU Taxonomy](#)

** In Finland, E-value is used to assess the energy efficiency of buildings and will be used as a proxy

*** The eligible measures and services with individual criteria are listed in the [Technical annex to the TEG final report on the EU Taxonomy](#)

In the future, green projects may include certified buildings approved by Sustainable Finance Platform.

Energy efficiency related projects are instrumental in the transition to low carbon economy. These Green Projects will increase financing to low carbon infrastructure.

4 Process for selection of Green Projects

To identify eligible Green Projects, OPMB utilizes data from various sources including e.g. the Housing Finance and Development Centre of Finland (ARA) and other statistical sources. Information is derived from the general data on buildings that serve as collateral for the mortgages in the cover pool. The energy performance certificates (EPCs) for all buildings securing the mortgages in the cover pool are used to determine the eligible green mortgages. In case EPCs are not available, the secondary approach is to utilize energy efficiency statistical modeling. Buildings that use fossil fuels as their main heating source are automatically excluded.

OPMB manages the mortgages that are used to finance Green Projects and serve as collateral for the green covered bonds by tagging the eligible green collaterals in the existing cover pool. OPMB is responsible for selecting the eligible collaterals, keeping track of them and reviewing the pool (with regard to new and existing eligible mortgages) regularly as a part of regular pooling process and managing the net proceeds.



5 Management of Proceeds

The Green Covered Bond proceeds will be managed by OPMB utilizing a portfolio approach.

OPMB has developed a system that automatically analyzes whether a collateral meets the eligibility criteria and selects eligible collaterals where proceeds will be allocated daily. OPMB intends to allocate the proceeds from the Green Covered Bonds at the time of issuance or at the latest, within 12 months of issuance, to a portfolio of mortgages of which collaterals are tagged as green in the cover pool and thus meet the use of proceeds eligibility criteria and are in accordance with the selection process presented above.

OPMB manages the net proceeds and supervises and reviews the cover pool as a part of regular pooling process on a regular basis in order to ensure that the eligibility criteria are met at all times. This includes reviewing the pool regularly regarding at least the construction years and heating methods.

Green Bond Committee

OP has established a dedicated Green Bond Committee already in 2018 with responsibility for governing and monitoring OP Corporate Bank plc's Green Bond Framework. In 2020, the committee's operation was expanded to cover OPMB's Green Covered Bond Framework as well.

The Green Bond Committee comprises of at least of:

- an OP Financial Group's Management Team Member (Committee Chairman),

as well as Senior management representatives from:

- Finance and Group Treasury
- Corporate Responsibility
- Banking

The Green Bond Committee approves the eligibility criteria set out in OPMB's Green Covered Bond Framework. The summary of green mortgages included in OPMB's cover pool against the eligibility criteria is reported to the Green Bond Committee quarterly.

Green Covered Bond Report will be published on an annual basis and reporting is approved by the Green Bond Committee before publication.

Internal monitoring system on tagged eligible collaterals for mortgages in the existing cover pool monitors and accounts for the green covered bond allocation regularly. OPMB's aim is that the size of the eligible mortgage portfolio will always exceed the total balance of all outstanding Green Covered Bonds. In case there are periods where there is an insufficient aggregate amount of Green Covered Bond Assets, OPMB will hold or invest any unallocated green covered bonds net proceeds in accordance with OP's conventional liquidity management policy and in alignment with the Finnish Covered Bond Act that is in effect. If a mortgage is repaid or a collateral does not fulfil the eligibility criteria, it will be removed from the cover pool.

In case the national or international standards or criteria related to energy-efficient residential buildings change in the future, or any other changes occur, OPMB will evaluate its Green Covered Bond Framework to reflect the potential criteria changes. However, this will be done keeping in mind the outstanding green covered bonds and their integrity in the changing operating environment. Any amendments shall be subject to an updated Second Party Opinion.



6 Reporting

The Green Bond Principles require green bond issuers to keep investors and other stakeholders updated on the allocation of proceeds. In addition to information related to the projects to which green bond proceeds have been allocated, the Green Bond Principles recommend communicating on the expected impact of the projects.

OPMB will publish a Green Covered Bond Report within one year from the date of a Green Covered Bond issuance and thereafter annually until the maturity of the Green Covered Bond. The Report will include at least:

- the (aggregated) amount of net proceeds allocated to the mortgages within the Eligible Sector mentioned in the Framework;

- the origination timeframe and maturity profile of the mortgages within the Eligible Sector;
- the number of eligible mortgages; and
- the estimated environmental impacts of the mortgages within the Eligible Sector.

OPMB has identified the following, however indicative, impact metrics for residential green buildings, based on ICMA Guidelines on Eligible Sector specific impact metrics:

Eligible sector	Indicative Impact Metrics (ICMA)
Green Buildings	<ul style="list-style-type: none"> • Annual energy reduced/avoided in MWh or GWh • Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent

Green Covered Bond Reports, and all other green covered bond related documentation, including the Green Covered Bond Framework, will be published on [OP's Debt IR website](#).

7 External review and verification

OPMB has engaged Sustainalytics to act as an independent Second Opinion Provider of its Green Covered Bond Framework to ensure its alignment with the ICMA Green Bond Principles. In case the Framework is updated, an updated second opinion will be obtained. 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 Covered Bond proceeds to Eligible Assets, provided by an external auditor. The limited assurance report will be attached to the Green Covered Bond Report.