

OP Financial Group

Type of Engagement: Annual Review

Date: April 22nd, 2021

Engagement Team:

Charles Cassaz, charles.cassaz@sustainalytics.com, (+31) 20 205 02 09

Flora Mile, flora.mile@sustainalytics.com, (+31) 20 205 0087

Introduction

In February 2019, OP Financial Group (OP Financial) issued a 2019 Green Bond aimed at financing loans for Renewable Energy, Green Buildings, and Sustainable Land Use assets and companies. In April 2021, OP Financial engaged Sustainalytics to review the assets funded through the issued 2019 Green Bond and to provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the OP Financial Group Green Bond Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded between February 2019 and December 2020 based on whether the projects and companies financed:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the OP Financial Group Green Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the OP Financial Group Green Bond Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Renewable Energy	Loans to finance projects and businesses dedicated to the development, manufacturing, construction, operation, distribution and maintenance of renewable energy: <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. 	<ul style="list-style-type: none"> • kWh of power generated from renewable energy • Tonnes of carbon dioxide (CO₂) equivalent avoided

<p>Green Buildings</p>	<p>Loans to finance projects and businesses dedicated to:</p> <ol style="list-style-type: none"> 1. 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"> 2. 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"> 3. 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. 	<ul style="list-style-type: none"> • Number of eligible buildings that received third party-verified green building certification • Reduction in energy use (kWh/year)
<p>Sustainable Land Use</p>	<p>Loans to finance projects and businesses dedicated to:</p> <ul style="list-style-type: none"> • Sustainable forestry projects with a certification from FSC¹ or PEFC² • The conversion of land from energy-intensive industry and/or fossil fuel intensive use to green zones, 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 	<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

¹ FSC: The Forest Stewardship Council promotes environmentally appropriate, socially beneficial, and economically viable forest management all over the world. Retrieved from: <https://fi.fsc.org/fi-fi/briefly-in-english-01>

² PEFC: Programme for the Endorsement of Forest Certification is an international forest certification system promoting ecologically, socially and economically sustainable forestry throughout the world. Retrieved from: <https://pefc.fi/english/>

Issuing Entity’s Responsibility

OP Financial is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of OP Financial’s Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from OP Financial employees and review of documentation to confirm the conformance with the OP Financial Group Green Bond Framework.

Sustainalytics has relied on the information and the facts presented by OP Financial with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by OP Financial.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,³ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of OP Financial’s 2019 Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the OP Financial Group Green Bond Framework. OP Financial has disclosed to Sustainalytics that the proceeds of the 2019 Green Bond were fully allocated as of December 2020.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the 2019 Green Bond in 2020 to determine if projects aligned with the Use of Proceeds Criteria outlined in the OP Financial Group Green Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the 2019 Green Bond in 2020 to determine if impact of projects was reported in line with the KPIs outlined in the OP Financial Group Green Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

³ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendices

Appendix 1: Allocation by Eligibility Criteria

OP Financial has disclosed to Sustainalytics, the amount allocated to each eligible category. A summary of these allocations, broken-down by eligibility criteria, is provided below.

- A. OP Financial Group's 2019 Green Bond amounted to proceeds of EUR 500 million, which was fully allocated, with a reserve of unallocated green assets worth EUR 835.5 million in the Green Bond Register, as of December 2020

Use of Proceeds and Eligibility Criteria Category	Assets included in the Green Bond register (EUR Million)	Assets included in the Green Bond register by eligible sector (%)
Renewable Energy	1023.1	77%
Green Buildings	166.4	12%
Sustainable Land Use	146.0	11%
Total	1,335.5	100%

Appendix 2: Impact Reporting by Eligibility Criteria

- A. Impact Reporting Overview

Use of Proceeds and Eligibility Criteria Category	Impact Metric	Environmental Impact of the 2019 Green Bond Reported by Eligibility Criteria
Renewable Energy – offshore and onshore wind, solar energy, hydropower, waste to energy	<ul style="list-style-type: none"> Avoided CO₂ emissions⁴ MWh of energy produced Installed capacities of assets (actual production) 	<ul style="list-style-type: none"> 199,600 tCO₂e (metric tons) 710.3 GWh generated 390.5 MW installed capacity, 14.1 MW under construction
Green Buildings	<ul style="list-style-type: none"> Square meters of area under green building certification GHG emission avoided from reduced energy consumption (estimation) 	<ul style="list-style-type: none"> 20,000 m² certified, 3,770 m² under construction 2,300 tCO₂e
Sustainable Land Use	<ul style="list-style-type: none"> Hectares under forestry certification, e.g. FSC and PEFC Carbon sinks 	<ul style="list-style-type: none"> 48,298 hectares of forest 142,500 tCO₂e in carbon sinks

⁴ Estimation following the Nordic Public Sector Issuers (NPSI): Position Paper on Green Bonds Impact Reporting Guidelines: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/NPSIPositionpaper2019final-120219.pdf>

B. Calculation Methodology and Assumptions for Impact Estimation

1. Calculation method for weights used in calculating the impacts for OP Financial Group's 2019 Green Bond (proportioned to impacts of the entire Green bond register and OP's share of lending to the assets):

Use of Proceeds and Eligibility Criteria Category	OP Financial's average share of lending to the assets	Green Bond's share in the Green bond register⁵	Total share of impact for OP Financial's 2019 Green Bond
Renewable Energy	44%	37%	16%
Green Buildings	23%	37%	9%
Sustainable Land Use	100%	37%	37%

2. Following recommendation from the Nordic Public Sector Issuers (NPSI), the default baseline chosen for accounting and disclosure of electricity⁶ is 315 gCO₂/kWh,⁷ hence the estimation of CO₂ emissions avoided is calculated based on below (Y represents the amount of electricity generated or saved):

$$(Y \text{ kWh electricity generated}) \times (315 \text{ gCO}_2/\text{kWh}) = \text{gCO}_2\text{e avoided}$$

For district heating, OP Financial has used the Finnish national emission factor of 148gCO₂/kWh. For other energy production assets, OP Financial has used figures provided by the producer.

⁵ This percentage adjusts the Green Bond's share of financing as part of the portfolio-level impacts

⁶ OP Financial has assumed that renewable energy assets are carbon free.

⁷ EU Mainland grid factor (including Norway)

Disclaimer

Copyright ©2021 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.

5th Green Bond Pioneer Awards

Climate Bonds Initiative

Largest Verifier for Certified
Climate Bonds of 2019

awarded to Sustainalytics



More information conference.climatebonds.net/awards



GlobalCapital SRI Awards

Named

2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider



The
Green Bond
Principles