

OP Financial Group

Type of Engagement: Annual Review

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Introduction

In 2019, OP Financial Group (OP Financial) issued a green bond aimed at financing Renewable Energy, Green Buildings, and Sustainable Land Use businesses and projects. In January 2020, OP Financial engaged Sustainalytics to review the assets funded through the issued green bond and provide an assessment as to whether the assets met the Use of Proceeds criteria and the Reporting commitments outlined in the OP Financial Group Green Bond Framework.

Evaluation Criteria

Sustainalytics evaluated the assets funded in 2019 based on whether the businesses and projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the 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 Green Bond Framework.

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

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria	Indicative performance indicators
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. 	<ul style="list-style-type: none"> • kWh of power generated from renewable energy • Tonnes of carbon dioxide (CO₂) equivalent avoided

Green Buildings	<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)
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 ¹ 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

Issuing Entity’s Responsibility

OP Financial is responsible for providing accurate information and documentation relating to the details of the businesses and projects that have been funded, including description of businesses and projects, estimated and realized costs, and impact.

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/>

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 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 businesses and projects, funded through proceeds of OP Financial’s Green Bond⁴, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Green Bond Framework. OP Financial has disclosed to Sustainalytics that the proceeds of the green bond were fully allocated as of December 2019.

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 green bond in 2019 to determine if projects aligned with the Use of Proceeds Criteria outlined in the 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 green bond in 2019 to determine if impact of projects was reported in line with the KPIs outlined in the Green Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1 and 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.

⁴ ISIN XS1956022716

Appendix 1: Proceeds Allocation Based on Eligibility Category

- A. OP Financial Group's green bond amounted to €500 million which was fully allocated, with a reserve of unallocated green assets worth €461 million in the Green bond register, as of December 2019.

Use of Proceeds and Eligibility Criteria Category	Assets included in the Green Bond Register (EUR Million)	Percentage of proceeds used in each category in the overall portfolio
Renewable Energy	656.3	68.3%
Green Buildings	158.5	16.5%
Sustainable Land Use	146.0	15.2%
Total	960.8	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 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 emissions⁵ • MWh of energy produced • Installed capacities of assets (actual production) 	<ul style="list-style-type: none"> • 328,600 tCO₂e avoided (actual figure + estimation: 324.0 ktCO₂e + 4.6 ktCO₂e) • 864.7 GWh of renewable energy generated (actual figure + estimation: 852.7 GWh + 12.0 GWh) • 271.5 MW of renewable energy installed capacity
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"> • 32,000 m² of area is certified by green building certificates as outlined in the Framework • 1.2 ktCO₂e avoided
Sustainable Land Use	<ul style="list-style-type: none"> • Hectares under forestry certification, e.g. FSC and PEFC 	<ul style="list-style-type: none"> • In total, 69,160 hectares of land was financed under forestry certification, namely FSC and PEFC.

B. Calculation Methodology and Assumptions for Impact Estimation

1. Calculation method for weights used in calculating the impacts for OP Financial Group's 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 register	Total share of impact for OP Financial's Green Bond
Renewable Energy	53%	52%	28%
Green Buildings	26%	52%	14%
Sustainable Land Use	100%	52%	52%

2. Following recommendation from the Nordic Public Sector Issuers (NPSI), the baseline chosen is 380 gCO₂/kWh, hence the estimation of CO₂ avoided is calculated based on below (Y represents the amount of electricity generated or saved):

$$(Y \text{ kWh electricity generated}) \times (380 \text{ gCO}_2/\text{kWh}) = \text{gCO}_2 \text{ avoided}$$

⁵ 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>

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Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

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