ASSESSMENT

29 August 2024

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Ålandsbanken Abp

Second Party Opinion – Green Finance Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (very good) to Ålandsbanken Abp's (Ålandsbanken or Bank of Åland) green finance framework dated August 2024. The issuer has established its use-of-proceeds framework with the aim of financing projects across three eligible green categories — renewable energy, green buildings and clean transportation. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (including the June 2022 Appendix 1). The framework demonstrates a significant contribution to sustainability.

Sustainability quality score

SQS2

SQS5 Weak | SQS4 Intermediate | SQS3 Good | SQS2 Very good | SQS1 Excellent

Alignment with principles

USE OF PROCEEDS

Overall alignment

Not aligned | Partially aligned | Aligned | Best practices

FACTORS	ALIGNMENT
Use of proceeds	
Evaluation and selection	
Management of proceeds	
Reporting	

Contribution to sustainability

Overall contribution

Poor | Limited | Moderate | Significant | High

Expected impact
Relevance and magnitude

ADJUSTMENTS	
ESG risk management	No adjustment
Coherence	No adjustment

POINT-IN-TIME ASSESSMENT

Scope

We have provided a Second Party Opinion (SPO) on the green credentials of Ålandsbanken's green finance framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1). Under its framework, the bank plans to issue green bonds to finance projects across three green categories, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 28 August 2024, and our opinion reflects our point-in-time assessment[1] of the details contained in this version of the framework, as well as other public and non-public information provided by the bank.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

Ålandsbanken Abp (Ålandsbanken or Bank of Åland) is a Finnish bank that was originally established in 1919 on the Åland Islands, an autonomous, Swedish-speaking region of Finland. The bank provides personal banking, business banking, wealth management and investment services. Ålandsbanken also has a subsidiary, Crosskey Banking Solutions (Crosskey), which provides IT solutions for banks and other financial companies. In Finland and Sweden, the main focus is private and premium banking, wealth management and investment services, with offices located in the larger urban areas. On the Åland Islands, the bank offers a full product range of banking services. Ålandsbanken has a market share of above 50% on the Åland Islands for universal banking, as well as well as less than 5% of private banking in Sweden and more than 5% of private banking in Finland.

The bank faces moderate environmental risks, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Ålandsbanken is developing its climate risk and portfolio management capabilities. It is proactively engaging with customers and stakeholders to reduce their footprint by initiating the Åland index. In line with Finland's national target, Ålandsbanken plans to achieve carbon neutrality by 2035. Its corporate climate goals include reducing its CO_2e emissions by 50% by 2030, compared with the 2021 level; reaching climate neutrality no later than 2035; and reaching net-zero emissions by 2050. In addition, its climate targets support the Bärkraft initiative for a sustainable Åland.

Strengths

» Eligible projects target key sustainability challenges for the financial sector by addressing the avoidance of and decrease in carbon emissions.

» The eligibility criteria for the financed assets follow the substantial contribution criteria for selected economic activities, as laid out in the EU Taxonomy Climate Delegated Act for Climate Change Mitigation.

» The environmental objective is clearly defined and relevant for all eligible categories.

Challenges

» The environmental and social risk evaluation and mitigation process is not detailed in the framework, but is part of the issuer's annual report.

» There is no commitment to undertake an independent review of the allocation and impact reporting.

Alignment with principles

Ålandsbanken's green finance framework is aligned with the four core components of the ICMA's GBP 2021 (including the June 2022 Appendix 1):

- [x] Green Bond Principles (GBP)
- [ ] Social Bond Principles (SBP)
- [ ] Green Loan Principles (GLP)
- [ ] Social Loan Principles (SLP)
- [ ] Sustainability-Linked Bond Principles (SLBP)
- [ ] Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned	Partially aligned	Aligned	Best practices ▼

Clarity of the eligible categories – BEST PRACTICES
Ålandsbanken has clearly and comprehensively communicated the nature of expenditures, as well as the eligibility and exclusion criteria for the three eligible green categories. The general definitions include references to the substantial contribution criteria for several economic activities, as laid out in the EU Taxonomy Climate Delegated Act for Climate Change Mitigation, thus constituting a reference to stringent, internationally recognized technical thresholds (see Appendix 2 for more details). All projects are located within Finland and Sweden.

Clarity of the environmental objectives – BEST PRACTICES
The Bank of Åland has clearly outlined the environmental objective as climate change mitigation, which is relevant for the three eligible categories and is coherent with recognized international standards, including the United Nations' (UN) Sustainable Development Goals (SDGs) and the EU Taxonomy Climate Delegated Act.

Clarity of the expected benefits – BEST PRACTICES
The expected environmental benefits are clear and relevant for all eligible categories. These benefits are measurable, and the bank will report on these quantitative benefits in its ongoing reporting. Further, the issuer commits to disclose the estimated share of refinancing before any green bond issuance. Typically, the lookback period for the eligible projects is limited to five years, although leeway may be granted, particularly for long-lived renewable energy projects.

Best practices identified - use of proceeds

» Eligibility criteria are clearly defined for all project categories

» Objectives set are defined, relevant and coherent for all project categories

» Relevant benefits are identified for all project categories

» Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting

» Commitment to transparently disclose the share of proceeds used for refinancing where feasible

» Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned	Best practices ▼

Transparency and quality of process for defining eligible projects – BEST PRACTICES
Ålandsbanken has established a clear and structured decision-making process for determining the eligibility of projects and assets in its framework, which will be disclosed in the framework and published on its website. The traceability of the decision-making process is ensured throughout the evaluation and selection process in the so-called green asset register file that is stored in a designated folder. The roles and responsibilities for project evaluation and selection are clearly defined and rely on relevant internal expertise convened in the form of the credit committee of the executive team, which is composed of the managing director, director of the Åland business area and further credit managers. The decision-making criteria are formalized in Ålandsbanken's public green financing framework.

Monitoring of the continued compliance of the selected assets with the eligibility and exclusion criteria is carried out quarterly by Group Treasury. This will be done throughout the life of any outstanding instrument issued under this framework. In case of non-compliance, divestments or maturities, assets will be replaced by another qualifying green asset.

Environmental and social risk mitigation process – BEST PRACTICES
The issuer has established an adequate environmental and social risk mitigation process, including monitoring for controversies, and the identification and management of risks. The process is part of the general credit portfolio risk analysis performed by the risk control department and is publicly disclosed in Ålandsbanken's public annual reports. As a small-scale, relationship-focused bank, lending is based on thorough customer understanding; enabling the assessment of repayment capabilities; and identifying risks from climate change, changing consumer behavior or new regulations.

The monitoring of potential risks and controversies is performed throughout the life of a financial instrument. In the event an asset already included in the eligible green asset register no longer meets the criteria in this framework, such an asset will be replaced by other eligible green assets.

Best practices identified - process for project evaluation and selection

» The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise

» There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed

» The process for project evaluation and selection is traceable

» Material environmental and social risks for most project categories are identified

» Presence of corrective measures to address environmental and social risks across projects

» ESG controversies are monitored

Management of proceeds

Not aligned	Partially aligned	Aligned	Best practices ▼

Allocation and tracking of proceeds – BEST PRACTICES
Ålandsbanken has clearly defined the process for the allocation and tracking of proceeds in its framework. The net proceeds from issuances under the framework will be held in the bank's general treasury and tracked adequately. While the bonds are outstanding, the balance of tracked net proceeds will be adjusted on a quarterly basis to match allocations to eligible assets. The proceeds are to

be allocated in close proximity to any issuance, with a provision allowing for their reallocation to other green or temporary assets throughout the instrument's life span.

Management of unallocated proceeds – BEST PRACTICES
The issuer intends to temporarily invest unallocated proceeds in green bonds, managed per the bank's internal frameworks and liquidity reserve requirements, with a preference toward GBP-aligned green bonds. If a project is postponed, canceled or otherwise becomes ineligible, Ålandsbanken has stated its commitment to reallocate the funds to other qualifying projects.

Best practices identified - management of proceeds

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned | Partially aligned | Aligned | Best practices

Transparency of reporting – ALIGNED
Ålandsbanken has committed to provide annual allocation and impact reporting in its green bond impact report as long as there is green debt outstanding. The report will be publicly available on the bank's website and will cover relevant information about the allocation of proceeds and the expected sustainable benefits of the projects. In case of any material developments, the issuer commits to publishing an impact report encompassing both allocation and impact changes, supplemental to the standard annual report. The calculation methodologies, assumptions and metrics used to report on environmental impacts will be included in the report.

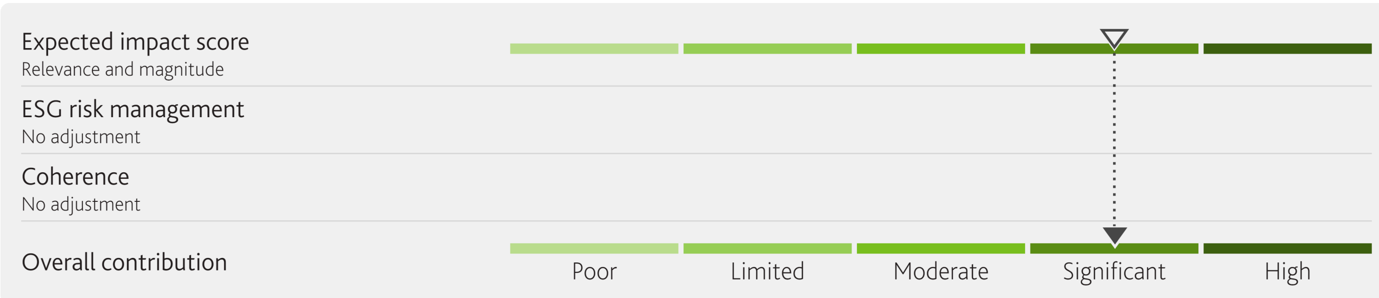
There will be no external verification or assurance of the allocation nor of the impact data related to issuances under the framework.

Best practices identified - reporting

- Reporting until full bond maturity or loan payback
- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum

Contribution to sustainability

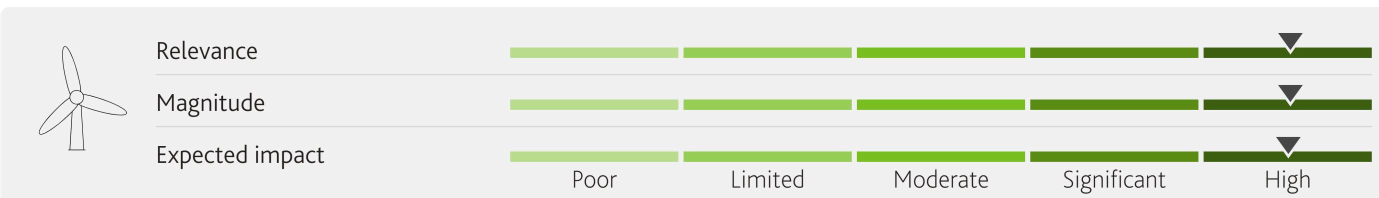
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the three eligible categories on the environmental objective is significant. Based on information provided by the bank, the largest share of proceeds from forthcoming issuances will be allocated to green buildings. We have, therefore, assigned a higher weight to that category when we assess the overall structure's contribution to sustainability. A detailed assessment by eligible category is provided below.

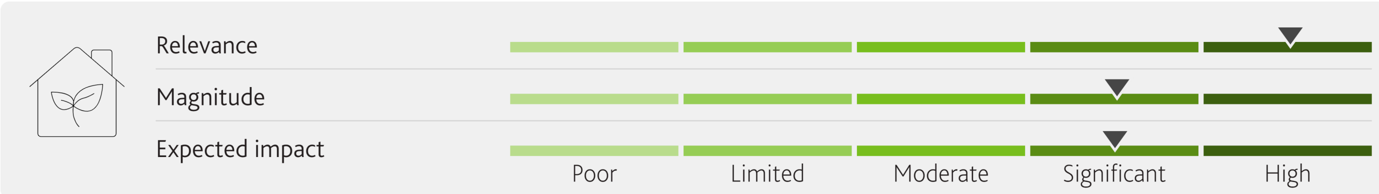
Renewable energy



For the bank operating across sectors, the financing of renewable energy deployment is highly relevant to address climate change. Finland and Sweden have ambitious decarbonization targets, with goals to achieve carbon neutrality by 2035[2] and 2045[3], respectively. Both countries' energy mixes rely heavily on nuclear, hydropower, biofuels and wind, with minimal fossil fuel electricity. Wind power contributes to 17% of Finland's electricity generation and 19% of Sweden's, while the solar photovoltaic (PV) contribution is less than 1% in Finland and 1.1% in Sweden. Sweden experienced a 46% increase in solar installations from 2020 to 2021[4]. Despite having a predominantly clean electricity mix, Finland and Sweden still have significant emissions from the energy sector, contributing 29%[5] and 17%[6] of total emissions, respectively, as of 2022. Therefore, both countries could benefit from additional renewable energy installations to further reduce these emissions.

The eligible projects under this category are likely to have a highly positive long-term impact by reducing greenhouse gas (GHG) emissions while also minimizing any risk of lock-in effects and inherent environmental negative externalities. The issuer's criteria for this category align with the latest technology and strictest standards, namely the substantial contribution criteria for activities “3.1 Manufacture of renewable energy technologies”, “4.1 Electricity generation using solar photovoltaic technology” and “4.3 Electricity generation from wind power” in the EU Taxonomy Climate Delegated Act for Climate Change Mitigation.

Green buildings

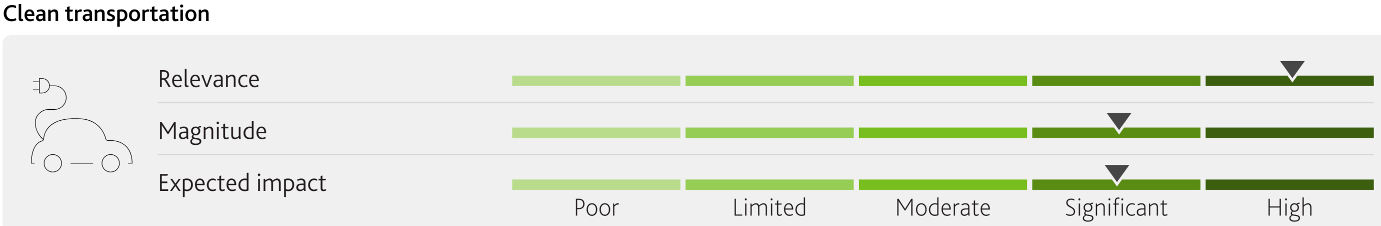


Investment in the energy efficiency of buildings is highly relevant to tackle climate change because of the building sector's high energy consumption and the absence of the 'low-hanging fruit' of grid improvements in the context of the clean energy supply in both Sweden and Finland. In Finland, the building and construction sector accounts for around one-third of the country's emissions, and is an important part of the government's broader, country-level commitment to reach net zero by 2035.[7] In Sweden, the building and construction sector accounts for around 20% of the country's emissions. The sector has various goals to reduce its impact, including a 50% reduction in GHG emissions in 2030 compared with the level in 2015, culminating in a goal of net zero by 2045, in line with national goals.[8] In addition, real estate-related assets represent a prominent part of the bank's portfolio, highlighting the relevance for the bank to invest in the overall energy efficiency of buildings.

The magnitude is significant because green building projects financed under this category are likely to significantly reduce GHG emissions from the building sector in both Finland and Sweden. Projects in the eligible portfolio will adhere to applicable substantial contribution criteria of the EU Taxonomy for economic activities "7.1. Construction of new buildings," "7.2 Renovation of existing buildings" and "7.7 Acquisition and ownership of buildings", thus referring to recognized international standards. The issuer expects most of the proceeds to be allocated toward existing residential buildings. The issuer has different sets of criteria for buildings built before 2021, buildings built in or since 2021, and for the renovation of buildings. With regard to acquiring buildings built before 2021, the eligibility criterion of belonging to the top 15% of the country's building stock in terms of energy efficiency is considered ambitious, but not the most ambitious threshold. Buildings in the top 15% of the local housing stock can have Energy Performance Certificates (EPCs) of A or B (Finland); or A, B or C (Sweden). In Finland, the top 15% of buildings have an energy performance below 92 kWh/m^2/year, which, although low, is higher than the long-term 1.5°C compatible threshold of 70 kWh/m^2/year for Finnish residential buildings, as calculated by the Carbon Risk Real Estate Monitor (CRREM).

Buildings built since 2021 are considered newly constructed. Such buildings can be considered eligible on the basis of an operational emissions threshold alone, a performance that is at least 10% better than a nearly-zero energy building (NZEB), or holding a Nordic Swan certification. Although the Nordic Swan scheme includes thresholds and criteria around embodied emissions, which are meaningful in the Nordic context because they account for a substantial share of life cycle emissions, buildings satisfying the operational energy criterion alone will not be subject to any embodied emissions criteria. Lastly, building renovations must demonstrate an improvement in energy efficiency that results in an annual reduction of primary energy demand (PED) of at least 30% directly or through a succession of measures within a maximum of three years, which is in line with good market standards, but not the most ambitious ones.

Clean transportation



These eligible assets are highly relevant investments to decarbonize transportation emissions. According to the International Energy Agency (IEA), global CO_2 emissions from transport continued to rise in 2022, almost returning to 2019 levels, with road transport being the largest CO_2 emitter[9]. In both Finland and Sweden, the transport sector is a significant contributor to emissions, constituting around 30%-35% of total emissions, respectively, excluding land use, land-use change, and forestry (LULUCF). Despite reductions in transport emissions (22% in Finland since 2005[10] and 30% in Sweden since 1990[11]), the sector's proportional contribution to total emissions has remained steady in both countries. The adoption of electric vehicles (EVs) is on the rise, with battery electric vehicles (BEVs) predicted to constitute 42% of new vehicle registrations in Finland by 2025[12], while plug-in hybrid vehicles (PHEVs) accounted for 20% of new registrations in 2022[13]. In Sweden, EVs represented 58% of new car registrations, and PHEVs made up an additional 23% in 2022[14]. Achieving GHG emission reduction depends heavily on the rapid electrification of the transportation sector by increasing the uptake of zero-emission vehicles.

The eligible assets are likely to have significant magnitude in mitigating GHG emissions in the long term through the financing of zero tailpipe vehicles, with some negative lock-in effects through the financing of hybrid vehicles being eligible until year-end 2025. Eligible hybrid and zero-tailpipe (including battery electric and hydrogen fuel cell) vehicles must meet the EU Taxonomy's threshold under activity "6.5 Transport by motorbikes, passenger cars and light commercial vehicles", namely that vehicles financed before year-end 2025 should produce less than 50 gCO_2/km. The issuer has not provided an estimate of allocation to zero versus low-emission vehicles.

ESG risk management

We have not applied a negative adjustment for the management of ESG externalities to the expected impact score. Ålandsbanken has a general risk assessment in place across its entire lending portfolio. From the ESG perspective, it mainly covers climate risks. Going forward, risk identification and assessment will expand to include social and governance risks, which are currently not considered in the risk control department's evaluations. This enhanced assessment approach will be applied uniformly at the bank level to all credits, not just restricted to eligible projects. In terms of environmental stewardship, the bank cultivates environmental awareness among its employees to achieve climate targets. Leveraging its relationship-focused approach, the bank evaluates projects on the grounds of sustainability; repayment ability; and potential risks stemming from climate change, shifts in consumer behavior or new regulatory requirements. From the social perspective, there are initiatives spanning employee welfare to the involvement in local communities. Because the eligible projects are confined to Finland and Sweden, where strong legislative and collective agreements protect employee rights, the associated social risks are typically lower. In addition to managing the risks associated with violations of human and labor rights, the bank has established procedures to tackle issues of non-compliance with good governance, such as corruption, abuse or deficient business processes.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The projects to be financed under the framework align with the bank's overall sustainability strategy, which includes three climate targets. The bank's immediate commitment is to halve its GHG emissions by 2030, a step toward the medium-term target of achieving climate neutrality by 2035, and ultimately reaching the long-term goal of net-zero emissions by 2050. Green eligible projects further support the targets of the Governments of Finland and Sweden to become carbon neutral by 2035[15] and by 2045[16], respectively.

Appendix 1 - Mapping eligible category to the United Nations' Sustainable Development Goals

The eligible categories included in Ålandsbanken's framework are likely to contribute to two of the UN's SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	*Renewable Energy*	7.2: Increase substantially the share of renewable energy in the global energy mix
	Green Buildings *Clean Transportation*	7.3: Double the global rate of improvement in energy efficiency
GOAL 13: Climate Action	*Renewable Energy* *Green Buildings* *Clean Transportation*	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer's green finance framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG mapping guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of eligible categories in Ålandsbanken's framework

Eligible Project Category	Description	Sustainability Objective	Impact Reporting Metrics
Renewable Energy	Renewable energy projects, including development, manufacturing, construction, operation, and maintenance of renewable energy from the following sources: - Wind Energy - Solar Energy <u>EU Taxonomy economic activities:</u> 3.1 Manufacture of renewable energy technologies 4.1 Electricity generation using solar photovoltaic technology 4.3 Electricity generation from wind power	Climate Change Mitigation	- Expected annual generation (MWh) - Estimated annual GHG emissions avoided (tCO_2e)
Green Buildings	Residential buildings, including buildings owned by tenant-owner associations, which meet one the following criteria: *Certifications* Buildings with the Nordic Swan Ecolabel certification. *New buildings* Construction of new buildings with an energy performance classification that is at least 10 % lower than the primary energy demand resulting from the current national building regulation in accordance with nearly zero-energy building (NZEB) requirements. The energy performance is certified using an Energy Performance Certificate (EPC). *Existing buildings* Ownership or acquisition of buildings, that meet one of the criteria: - Buildings built before 31 December 2020, where the building has at least an Energy Performance Certificate (EPC) class A or where the building is within the top of 15 % of the national or regional building stock. - Renovations and refurbishment of existing buildings resulting in an annual reduction in primary energy demand on a square meter basis of at least 30 % compared to the pre-renovation levels. - Buildings built after 31 December 2020 must meet the criteria specified under “New buildings” above. <u>EU Taxonomy economic activities:</u> 7.1 Construction of new buildings 7.2 Renovation of existing buildings 7.7 Acquisition and ownership of buildings	Climate Change Mitigation	- Expected annual generation (MWh) - Estimated annual GHG emissions avoided (tCO_2e)
Clean Transportation	Fully electric and other low-carbon (e.g. hydrogen, plug-in hybrid) vehicles that meet the following criteria: - Passenger cars and commercial vehicles with zero tailpipe emissions. - Low-carbon vehicles for passenger cars and commercial vehicles with tailpipe emission intensity lower than 50g CO_2/km (WLTP) until December 31, 2025. <u>EU Taxonomy economic activity:</u> 6.5 Transport by motorbikes, passenger cars and light commercial vehicles	Climate Change Mitigation	- GHG emissions per kilometer (CO_2e) - Estimated annual GHG emissions reduced or avoided (tCO_2e)

Endnotes

1 The point-in-time assessment is applicable only on the date of assignment or update.

2 International Energy Agency, Finland, retrieved in June 2024.

3 International Energy Agency, Sweden, retrieved in June 2024.

4 Energimyndigheten, Energy in Sweden 2022 - an overview, April 2022.

5 Climate Action Progress Report 2023, Finland, retrieved in June 2024.

6 Climate Action Progress Report 2023, Sweden, retrieved in June 2024.

7 Finnish Ministry of Economic Affairs and Employment, Carbon neutral Finland 2035 – National Climate and Energy Strategy, September 2022.

8 Fossil Free Sweden, "Building and construction sector," retrieved in June 2024.

9 International Energy Agency, Transport, retrieved in June 2024.

10 Ministry of the Environment Finland, Annual Climate Report 2023, retrieved in June 2024.

11 Climate Roadmaps 2035, Low-carbon roadmap for the Finnish logistics and transport sector, retrieved in June 2024.

12 Autoalan Tiedotuskeskus, Vuoden 2023 tiedotteet, June 2023.

13 European Environment Agency, New registrations of electric vehicles in Europe, October 2023.

14 European Environment Agency, New registrations of electric vehicles in Europe, October 2023.

15 Ministry of Finance Finland, Net-Zero Government Initiative (NZGI) Finland, November 2022.

16 Government Offices of Sweden, Sweden's climate policy framework, March 2021.

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