

An aerial photograph of a winding asphalt road cutting through a dense, lush green forest. The road curves from the bottom center towards the top left. In the background, mist or low clouds are visible, partially obscuring the forested hills. The overall scene is serene and natural.

Principles related to sustainability risks in OP Financial Group

This document describes the general principles of OP Financial Group for the integration of sustainability risks and consideration of adverse sustainability impacts. The principles apply to investment activities and investment advice, including insurance advice. A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

The integration of sustainability risks in investment decisions, investment-related processes and investment advice is an essential part of investment due diligence and the provision of investment advice for our clients. An analysis of environmental and social aspects and corporate governance (ESG) produces information on an investment instrument beyond its present financial situation. Ideally, a more broad-based analysis can reveal risks or opportunities which may emerge later and exert a significant impact on the financial situation and value of the investment.



The following OP Financial Group companies and all OP cooperative banks comply with these principles:

	OP Asset Management Ltd	OP Fund Management Company Ltd	OP Life Assurance Company Ltd	OP Real Estate Asset Management Ltd	OP Card Company Plc	OP Corporate Bank plc	OP Bank Group Pension Foundation	OP cooperative banks	Pohjola Insurance Ltd
Investment activities	x	x	x	x		x	x	x	
Investment advice	x		x		x	x		x	x

OP Fund Management Company Ltd, OP Life Assurance Company Ltd, OP Bank Group Pension Foundation and OP cooperative banks have outsourced their investment activities mainly to OP Asset Management Ltd, which complies with the principles related to sustainability risks in its investments. OP cooperative banks distribute mutual funds of OP Fund Management Company Ltd. The portfolio manager for the funds is OP Asset Management Ltd or OP Real Estate Asset Management Ltd. OP Asset Management Ltd and OP Real Estate Asset Management Ltd have adopted Principles for Responsible Investing that they apply in their investment activities.

Principles for responsible investing are available online at www.op.fi/en/responsible-investing

1. Managing sustainability risks in investments

OP Financial Group strives to manage sustainability risks through its decision-making processes related to investments. Management of sustainability risks is governed by regulations, official recommendations and international standards, commitments and agreements, for example. We strive to assess current and future long-term ESG risks and return potential from the standpoint of both adapting to as well as being the cause of global environmental and social changes.

There is no widely accepted formula or model to calculate the impact of sustainability risks on the returns of financial products. At present, OP Financial Group does not carry out detailed assessment of the impacts of sustainability risks on the returns of offered financial products. The general view is that the magnitude of the potential impacts on returns, inflicted by sustainability risks, depends on various factors, including the investment's time horizon, geographical breakdown and industry breakdown. We actively monitor the development of calculation methods and, where possible, strive to assess the impact of sustainability risks on returns going forward.

Changes that investors must prepare against, such as climate change, will pose risks to certain sectors while opening up opportunities for others. Systemic sustainability risk is related to events that have far-reaching impacts and against which diversification is ineffective. Climate change is one example of a systemic sustainability risk. In the case of climate change and its impacts, the uncertainties have to do with both the difficulty of anticipating changes in natural conditions and the predictability of socioeconomic developments that affect the degree of exposure and vulnerability to such changes. Predictability is made more difficult by the complexity of sustainability risks and the many ways in which human activity and natural conditions are connected. With respect to climate risks, we have identified the transition risks as well as the physical risks. Transition risks have to do with the inability of investments to combat climate change or transition and adapt to a low-carbon economy. Physical risks refer to damaging natural phenomena resulting from climate change (such as floods, heavy rains, exceptionally high temperatures) that may cause financial risks to investments.

Key principles in the management of sustainability risks include considering material risk factors, controlled risk appetite and risk mitigation through active shareholder engagement.

From an investor's perspective, financially material sustainability risks are considered by identifying the ESG factors that have an impact on the company's financial performance. Sustainability risks vary from sector to sector. In determining whether a sustainability risk is material, we use international frameworks and service providers that carry out ESG research. We also observe the reporting requirements of sustainability metrics defined by various regulators. We use these material ESG factors and ESG analyses to support investment decision-making in the manner best suited for each asset class and investment strategy.

The return potential and risks of sustainability solutions are intertwined. We take controlled risks in our investments in order to achieve returns.

We also seek to minimise sustainability risks through active shareholder engagement, including participating in AGMs, influencing companies, and engaging in active dialogue between investors and investee companies. OP Financial Group's principles of shareholder engagement describe in more detail how active shareholder engagement is carried out in practice.

Consideration of sustainability risks – including understanding material ESG factors, active stakeholder co-operation, extensive reporting, and defining and tracking threshold values for ESG exposures – plays a key role in ensuring our capability to quickly respond to external changes.

2. Principles of sustainability risks in investment and insurance advice

2.1 OP cooperative banks and OP Card Company

OP cooperative banks and OP Card Company provide investment advice on the products and services of OP Fund Management Company, OP Life Assurance Company, OP Corporate Bank, and OP Asset Management. The sustainability risks of the products and services are considered in the manner described above.

With respect to investment products external to OP Financial Group, each financial market participant is responsible for their part in considering sustainability risks according to their own operating principles.

According to regulations, detailed information on the ESG factors of funds must be provided in the fund prospectus.

In providing advice, OP cooperative banks and OP Card Company ascertain the client's objectives on responsible and sustainable investing and seek to recommend investment products that match the client's sustainability objectives.

2.2 OP Asset Management

OP Asset Management provides investment advice on the products and services of OP Fund Management Company, OP Life Assurance Company, OP Corporate Bank, OP Real Estate Asset Management and OP Asset Management. The sustainability risks of the products and services are considered in the manner described above.

As a rule, with respect to investment products external to OP Financial Group, each financial market participant is personally responsible for considering sustainability risks in accordance with their own operating principles. With respect to active funds by external asset managers offered by OP Asset Management, OP Asset Management investigates how ESG factors are considered before investing in the fund, and continues to monitor the fund regularly after investing. We employ minimum criteria for new external asset managers of active funds. According to these, external asset managers must have a policy or set of principles in place for responsible investing. With respect to passive funds managed by external asset managers, OP Asset Management regularly inquires into the asset managers' level of active shareholder

engagement, including investigating whether the external asset manager exercises a vote in AGMs or engages in dialogue on sustainability issues with investments in the passive fund.

According to regulations, detailed information on the ESG factors of funds must be provided in the fund prospectus.

In providing advice, OP Asset Management will ask the client's objectives on responsible and sustainable investing and seeks to recommend investment products that match the client's sustainability objectives.

2.3 OP Life Assurance Company

OP cooperative banks, OP Card Company and OP Asset Management act as insurance intermediaries to provide products by OP Life Assurance Company. The insurance intermediaries provide insurance advice on OP Life Assurance Company's insurance products and the investment products attached to them. The investment products are offered by OP Fund Management Company, OP Life Assurance Company, OP Corporate Bank, OP Real Estate Asset Management and OP Asset Management. Pohjola Insurance provides insurance advice on OP Life Assurance Company's certain products. The sustainability risks of the products are considered in the manner described above.

With respect to investment products external to OP Financial Group, each financial market participant is responsible for their part in considering sustainability risks according to their own operating principles.

According to regulations, detailed information on the ESG factors of funds must be provided in the fund prospectus.

In providing advice, the insurance intermediaries and Pohjola Insurance will ask the client's objectives on responsible and sustainable investing and, in providing insurance advice, seek to recommend products that match the client's sustainability objectives.

2.4 OP Corporate Bank

The OP Markets function of OP Corporate Bank provides investment advice on interest, currency and commodity derivatives for hedging purposes. From the standpoint of interest, currency and commodity derivative contracts, events or conditions related to sustainability risks can impact the price of the underlying asset of the derivative contract and therefore the value of the contract only indirectly. For this reason, the potential impact of events or conditions related to sustainability risks on the price of the underlying asset cannot be predicted. Derivatives offered by OP Markets' investment advice give the client the opportunity to hedge against potential indirect impacts of sustainability risks on commodity prices and exchange and interest rates. The guiding principle of investment advice by OP Markets is to help the client understand the sustainability risks which could, were they to materialise, indirectly impact the value of the client's derivative contract.

2.5 Pohjola Insurance

Pohjola Insurance provides insurance advice on OP Life Assurance Company's certain products, in which the sustainability risks have been considered as mentioned above.

In providing advice Pohjola Insurance will ask the client's objectives on responsible and sustainable investing and, in providing insurance advice, seek to recommend products that match the client's sustainability objectives.

3. Adverse impacts on sustainability factors

Sustainability factors refer to environmental, social and employee matters, respect for human rights and anti corruption and anti-bribery matters.

Companies' operations can have adverse impacts on the environment and society. These impacts include carbon emissions and human rights violations. OP Financial Group takes these adverse impacts on sustainability factors into consideration in its investment decisions and in systematically monitoring the factors in its investment activities. These processes apply to funds managed by OP Fund Management Company in which OP Asset Management is the portfolio manager as well as in direct and active discretionary investment management. We use ESG metrics and ESG analysis that take into account the materiality of sustainability factors to identify adverse sustainability impacts on our investments activities. We review our investments regularly in order to identify controversial and damaging business connections and violations of international standards. Adverse sustainability impacts are thus taken into consideration in the investment products of OP Financial Group.

In providing investment and insurance advice, OP Financial Group primarily seeks to recommend the Group's own investment products that take into consideration adverse sustainability impacts. We do not currently take adverse sustainability impacts into consideration in our investment and insurance advice. Principal adverse sustainability impacts have to do with regulations by the European Union to companies within the jurisdiction of EU regulations. Investment advice by OP may involve hundreds of investment products managed by OP Fund Management Company or external asset managers that invest in thousands of companies worldwide. For the time being, external asset managers do not efficiently share information about their products' adverse sustainability impacts and investee companies do not extensively report on principal adverse sustainability impacts.