



Principles related to sustainability risks in OP Financial Group

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Principles related to sustainability risks in OP Financial Group

This document describes how OP Financial Group companies that engage in investment, or provide investment and insurance advice, take account of sustainability risks in their investment-related decision-making processes and when providing investment and insurance advice, in accordance with the Regulation of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation) (2019/2088, Article 3). The principles apply to investment activities, and investment and insurance advice.

A sustainability risk means an environmental, social or governance event or circumstance that, if realised, could have a negative material impact on the value of an investment. The integration of sustainability risks in investment decisions, investment-related processes, and investment and insurance advice is an essential part of investment due diligence and the provision of investment and insurance advice for our clients. Analysis of environmental and social aspects and corporate governance (ESG) provides information on investment instruments beyond the financial situation at the time. Ideally, a broader-based analysis can reveal risks or opportunities which may emerge later and have a significant impact on an investment's financial situation and value.

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 Retail Customers Ltd	OP Corporate Bank plc	OP-Eläkesäätiö (pension foundation)	OP cooperative banks
Investment activities	x	x	x	x			x	x
Investment and insurance advice	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 of 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, which they apply in their investment activities ([Principles for Responsible Investing](#)).

1. Managing sustainability risks in investments

This section describes how OP Financial Group companies that engage in investment take account of sustainability risks as required by the Sustainable Finance Disclosure Regulation. OP Financial Group strives to manage sustainability risks through its investment-related decision-making processes. Management of sustainability risks is governed by, for example, regulations, official recommendations and international standards, commitments and agreements. We strive to assess current and future long-term ESG risks and return potential from the standpoint of both adaptation to, and the causes of, global environmental and social changes.

OP Financial Group does not closely analyse the impact of sustainability risks on the returns of the investment products it offers. The general view is that the potential impact of sustainability risks on returns depends on a number of factors, including the investment horizon and geographical and sector diversification. We actively monitor the development of calculation methods and, where possible, strive to assess the impact of sustainability risks on returns going forward.

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

From an investor's perspective, financially material sustainability risks are considered by identifying ESG factors that have an impact on the company's financial performance. The majority of the sustainability risk factors can be viewed as sector specific. 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 decision-making in the manner best suited for each asset class and investment method.

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 ownership. OP Fund Management Company Ltd and OP Asset Management Ltd engage in active ownership by participating in AGMs, influencing investment instruments, and through active dialogue between investors and investments. The principles of shareholder engagement followed by the OP Financial Group companies in question include further information on how active shareholder engagement is carried out in practice with such companies.

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

Examples of sustainability risks include environmental risks, such as those related to climate change, social risks, such as risks to human rights, and governance-related risks. Changes that investors must prepare for, such as climate change, will pose risks to certain sectors while opening up opportunities for others. Systemic sustainability risk involves events with 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, uncertainty is created by the difficulty of anticipating changes in natural conditions and the unpredictability of socioeconomic develop-

ments affecting the degree of exposure and vulnerability to such changes. The complexity of environmental risks and the many ways in which human activity and natural conditions are connected makes the outlook even less predictable. With respect to climate risks, we have identified transition risks and physical risks. Transition risks concern the possible ineffectiveness of investments in combating climate change or promoting the transition and adaptation to a low-carbon economy. Physical risks refer to damaging natural phenomena resulting from climate change (such as floods, heavy rains and exceptionally high temperatures) that may pose financial risks to investments. As mentioned above, we manage sustainability risks through various means. Sectors that face a significant sustainability risk from the perspective of climate change are excluded from our equity and fixed income funds that make active direct investments. When making investment decisions, our portfolio managers use the most applicable climate change metrics while analysing climate risks.

In addition to the risks posed by climate change, another important example of sustainability risks that investors should recognise and take into account relates to the most significant and key human rights of the investment options: risks related to workers' rights and working conditions. Recognition and assessment of salient human rights impacts are based on the severity of risks and evaluation of their probability. Problems in our investment activities, such as those related to working conditions or forced labour, are possible as part of our investments' long value chains. We regularly review and report on our human rights impacts as part of our sustainability reporting. Moreover, we develop and update our human rights risk assessment work and the related action plans as part of other business-related decision-making. Our continuous monitoring includes the further development of consultation with stakeholders, particularly those subject to potential adverse impacts.

Analysing the investment options' governance is also an important part of the investment process. For us, good governance is a fundamental pillar for any company's financial success, regardless of the sector. In assessing the governance of investee companies, the analysis examines any disputes, the appropriateness of the company's governing structures and general risk management related to ESG factors. In our view, the company's ability to manage ESG risks also provides a comprehensive view of the company's level of governance.

2. Principles of sustainability risks in investment and insurance advice

This section describes how OP Financial Group companies that provide investment and insurance advice take account of sustainability risks as required by the Sustainable Finance Disclosure Regulation. Investment and insurance advice takes account of sustainability risks as follows.

2.1 OP cooperative banks and OP Retail Customers plc

OP cooperative banks provide investment advice regarding funds and discretionary investment management agreements managed or administered by OP Fund Management Company Ltd, as well as advice on the insurance products and insurance-based investment products offered by OP Life Assurance Company Ltd. Either OP Asset Management Ltd or OP Real Estate Asset Management Ltd typically acts as the portfolio manager of these fund-based products, asset management mandates or investment baskets: sustainability risks are considered, as described above, in the related investment decisions.

The investment and insurance advice provided may concern funds that are not managed or administered by OP Financial Group companies. If this is the case, each fund's portfolio manager is responsible, in accordance with their own operating principles, for taking account of sustainability risks. Regulations state that fund prospectuses must provide detailed information on a fund's ESG factors.

We integrate sustainability risks into our investment and insurance advice by taking into account the sustainability preferences of our clients and by informing them about the sustainability risks mentioned in section 1 above.

You can find more information about the ESG properties of OP Life Assurance Company Ltd's investment baskets at <https://www.op.fi/private-customers/savings-and-investments/saving-through-insurance/responsible-saving-through-insurance>.

2.2 OP Asset Management Ltd

OP Asset Management provides investment advice regarding funds managed or administered by OP Fund Management Company Ltd and OP Real Estate Asset Management Ltd, insurance advice on OP Life Assurance Company Ltd's insurance products and insurance-based investment products, and the products and services of OP Asset Management Ltd, including the discretionary investment management service. OP Asset Management Ltd or OP Real Estate Asset Management Ltd typically acts as the portfolio manager of these fund-based products, asset management mandates or investment baskets. Investment decisions on the products take account of sustainability risks, as described above.

The investment and insurance advice provided may concern funds that are not managed or administered by OP Financial Group companies. If this is the case, each fund's portfolio manager is responsible, in accordance with their own operating principles, for taking account of sustainability risks. Regulations state that fund prospectuses must provide detailed information on a fund's ESG factors.

We integrate sustainability risks into our investment and insurance advice by taking into account the sustainability preferences of our clients and by informing them about the sustainability risks mentioned in section 1 above. When choosing products for distribution, we take into account sustainable development factors and risks together with economic factors.

You can find more information about the ESG properties of OP Life Assurance Company Ltd's investment baskets at <https://www.op.fi/private-customers/savings-and-investments/saving-through-insurance/responsible-saving-through-insurance>.

2.3 OP Life Assurance Company Ltd

OP Life Assurance Company Ltd's products are provided by OP cooperative banks, OP Retail Customers plc and OP Asset Management Ltd which act as agents of OP Life Assurance Company Ltd. These agents provide insurance advice on the insurance products of OP Life Assurance Company Ltd and on insurance-based investment products, such as the funds managed or administered by OP Fund Management Company Ltd or OP Real Estate Asset Management Ltd, investment baskets managed by OP Asset Management Ltd, or structured products issued by OP Corporate Bank plc.

Sustainability risks are considered in the manner described in section 1, when making investment decisions related to these products.

Insurance-based investment products may also concern funds that are not managed or administered by OP Financial Group companies. If this is the case, each fund's portfolio manager is responsible, in accordance with their own operating principles, for taking account of sustainability risks. Regulations state that fund prospectuses must provide detailed information on a fund's ESG factors.

You can find more information about the ESG properties of OP Life Assurance Company Ltd's investment baskets at <https://www.op.fi/private-customers/savings-and-investments/saving-through-insurance/responsible-saving-through-insurance>.

Sustainability risks concerning other insurance-based investment products are not integrated in the insurance advice process.

2.4 OP Corporate Bank plc

The OP Markets function of OP Corporate Bank plc 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 only have an indirect impact on the price of the derivative contract's underlying asset, and therefore the value of the contract. For this reason, there is no way of predicting how events or circumstances related to sustainability risks might impact on the price of the underlying asset. For this reason, when giving investment advice, OP Corporate Bank plc does not assess the effect of sustainability risks arising from derivatives.