

An aerial photograph showing a two-lane asphalt road with white dashed lines, curving through a lush green landscape. To the left of the road is a dense forest of tall, thin trees. To the right is a more open area with lower vegetation and some scattered trees. The lighting suggests a bright, sunny day.

The Bank of Åland Green Finance Framework

August 2024

Best archipelago wishes

ÅLANDSBANKEN

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1. Introduction

1.1 BACKGROUND



The Bank of Åland was founded in 1919 by local farmers and sea captains on the Åland Islands. The Bank's head office is still located on these islands, which form a unique archipelago in the Baltic Sea between Finland and Sweden. Since the Baltic Sea has historically provided the main source of livelihood for the population of Åland, the sea is an inalienable part of the local culture. Since the Baltic Sea is regrettably one of the world's most polluted seas today, the bank has long since committed to integrating sustainability in its strategy.

As awareness of climate change along with its known and potential effects has risen, the Bank of Åland has successively ramped up its efforts to mitigate the adverse effects of climate change. The flagship project of our commitment to a more sustainable future is the Baltic Sea Project. Within the framework of the project, the Bank of Åland launched the Baltic Sea account that donates 0.2 per cent of the annual account balance to conservation and environmental projects around the Baltic Sea.

The Bank's Baltic Sea Cards were the world's first debit/credit cards linked to a climate transaction solution for calculating environmental impact, the Åland Index. With the help of this index, the Bank's customers

are able to monitor how their card purchases impact on the environment in terms of the quantity of carbon dioxide emissions and water consumption. The card holder is given the option of compensating for their environmental footprint by donating to environmental projects or investing in sustainable funds. Using the Åland Index can help raise consumer awareness regarding the environmental footprint of lifestyle choices. Awareness may, in turn, help shift consumer behaviour in a more sustainable direction. Today, the Åland Index is a world-leading Climate Transaction solution and is used by 90+ financial institutions in more than 40 countries to help their customers convert every transaction into its CO₂e footprint, driving climate action globally.

The UN Sustainable Development Goals (SDGs) are an established source of guidance for the Bank of Åland's sustainability work. As another source of guidance in our efforts to integrate the most important sustainability areas to help achieve these goals, the Bank of Åland has joined five international initiatives: the United Nations Principles for Responsible Investment (UNPRI), the United Nations Principles for Responsible Banking (UNEP FI), the Net-Zero Banking Alliance (NZBA), Climate

Action 100+ and the Science Based Target Initiative (SBTi).

The Bank of Åland supports responsible lending by making lending decisions based on an objective assessment of the customer's repayment capacity. The Bank's lending consists mainly of home mortgage financing for private individuals and lending to support our customers' savings and investment activities. The Bank promotes a shift towards green mortgage loans and actively seeks ways to encourage our customers to choose environmentally friendly and sustainable alternatives when making real estate investments. The ambition of the Bank's Corporate Services Unit is to be in the forefront in supplying the Åland business community with capital to invest in our transition towards a more sustainable society. The Bank protects the water quality of the Baltic Sea by limiting its lending for marine fish farming solely to investments that decrease environmental impacts.

1.2 THE FRAMEWORK

The Bank of Åland's first framework was published in September 2021, and almost immediately after, in December, the Bank issued its first green T2 (supplementary capital) instrument amounting to SEK 150 million.

This updated framework has been developed to, more broadly, comply with the Substantial Contribution criteria of the EU Taxonomy Climate Delegated Act published in December 2021¹. In addition, EU Taxonomy DNSH (Do No Significant Harm) Principles and Minimum Social Safeguards are taken into consideration for those assets where required data is available.

Our Green Finance Framework follows the voluntary guidelines of the Green Bond Principles², which are published by the International

Capital Markets Association. The Framework will be laid out in the following core components:

- Use of Proceeds
- Green Asset Evaluation and Selection Process
- Management of Proceeds
- Reporting
- External Review

The Green Finance Framework may be expanded or updated as the Green Bond Principles and market practices evolve.

Under the Framework, Bank of Åland may issue Green Bonds in any format listed under its base prospectus in force or standalone prospectus.

¹ EU Taxonomy Climate Delegated Act (December 2021). [Link](#).

² Green Bond Principles (GBP) 2021. [Link](#).

2. Use of Proceeds

The net proceeds of the Green Debt issued by the Bank of Åland will be used to finance or refinance the Green Assets selected and evaluated by the Bank of Åland according to this Green Finance Framework. The Green Assets will be located on Finland or Sweden. The proceeds of the Bank of Åland Green Debt will not be used towards financing entities involved in fossil fuel energy operations, weapons manufacturing, coal mining, tobacco production or alcohol production. Fish farming activities aiming to increase marine operations are also excluded.






New financing is defined as Eligible Green Assets that are planned, ongoing, or have been finalised up to one year before the

approval by the Credit Committee of the Executive Team. If the Eligible Green Assets were finalised and taken into operation more than one year before approval by the Credit Committee of the Executive Team, they are defined as refinancing.

The Bank of Åland generally applies a five-year look-back period for the refinancing of Eligible Green Assets, but judgement can be used if necessary.

The distribution between new financing and refinancing will be reported in the Green Bond Impact Report.

The Eligible Green Assets must fulfil the Eligibility Criteria as outlined in the following table:

GBP Categories	Eligibility Criteria	UN SDGs	EU Environmental Objective	EU Economic Activity
Renewable Energy	<p>Renewable energy projects, including development, manufacturing, construction, operation, and maintenance of renewable energy from the following sources:</p> <ul style="list-style-type: none"> • Wind Energy • Solar Energy 	 	Climate Change Mitigation	<p>3.1 Manufacture of renewable energy technologies</p> <p>4.1 Electricity generation using solar photovoltaic technology</p> <p>4.3 Electricity generation from wind power</p>
Green Buildings	<p>Residential buildings, including buildings owned by tenant-owner associations, which meet one of the following criteria:</p> <p>Certifications Buildings with the following certification:</p> <ul style="list-style-type: none"> • The Nordic Swan Ecolabel certification³ <p>New buildings⁴ Construction of new buildings with an energy performance classification that is at least 10 per cent lower than the primary energy demand resulting from the current national building regulation in accordance with nearly zero-energy building (NZEB) requirements.⁵ The energy performance is certified using an Energy Performance Certificate (EPC).</p> <p>Existing buildings Ownership or acquisition of buildings, that meet one of the criteria:</p> <ul style="list-style-type: none"> • 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 15 per cent of the national or regional building stock.⁶ • Renovations and refurbishment of existing buildings resulting in an annual reduction in primary energy demand on a square meter basis of at least 30 per cent compared to the pre-renovation levels. • Buildings built after 31 December 2020 must meet the criteria specified under “New buildings” above. 	  	Climate Change Mitigation	<p>7.1 Construction of new buildings</p> <p>7.2 Renovation of existing buildings</p> <p>7.7 Acquisition and ownership of buildings</p>
Clean transportation	<p>Fully electric and other low-carbon (e.g. hydrogen, plug-in hybrid) vehicles that meet the following criteria:</p> <ul style="list-style-type: none"> • 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 CO₂/km (WLTP)⁷ until December 31, 2025. 	 	Climate Change Mitigation	6.5 Transport by motorbikes, passenger cars and light commercial vehicles

³ A Nordic Swan label is sufficient for New buildings, built after 31 December 2020, to be considered eligible. Existing buildings, built before 31 December 2020, with a Nordic Swan label must also either fall within the top 15 per cent or have an EPC rating of A.

⁴ Large buildings (>5000 m²) are excluded.

⁵ NZEB means nearly zero-energy building, a building that has a very high energy performance regulated in the Energy Performance of Buildings Directive (EPBD), thus Member States have the responsibility of defining their national building code in line with NZEB. In Finland, NZEB requirements for energy performance are in accordance with energy class B. In Sweden, NZEB requirements for energy performance are in accordance with energy class C.

⁶ Calculation methodology as per the EU Climate Taxonomy Delegated Act i.e. the building should be “within the top 15 per cent of the national or regional building stock expressed as operational Primary Energy Demand (PED) and demonstrated by adequate evidence, which at least compares the performance of the relevant asset with the performance of the national or regional building stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings”.

⁷ Worldwide Harmonised Light-Duty Vehicles Test Procedure (WLTP), which measures fuel consumption, CO₂ emissions as well as pollutant emissions.

3. Process for Asset Evaluation and Selection

Careful evaluation and selection of Green Assets is vital to make sure that only projects and assets that meet the criteria given in section 2 of the Framework will be considered as Eligible Green Assets. This chapter explains how the Bank of Åland will evaluate, select, approve and register the Eligible Green Assets.

3.1 CREDIT PROCESS

Potential Green Asset evaluation and selection is integrated in the regular credit process where the client, project or asset is approved for financing by the Bank of Åland. Normal procedures apply, such as Know-Your-Customer (KYC) processes, credit risk and sustainability analysis, followed by a credit decision from an authorised individual, the country-specific Credit Committee, or the Credit Committee of the Executive Team, depending on the size of the credit. If an asset fails the normal credit process, it cannot be considered a potential Green Asset.

3.2 SELECTION, ANALYSIS AND EVALUATION

Group Treasury identifies potential green assets from among the financing originated by each of the relevant business units. If a potential Green Asset fulfils the criteria presented in chapter 2 of this Framework, Group Treasury will verify from relevant sources that the asset is, in fact, eligible. When eligibility is confirmed, Group Treasury will gather the supporting documentation for the approval process.

3.3 APPROVAL AND REGISTRATION

The potential Green Asset is submitted, along with all relevant documentation, to the Credit Committee of the Executive Team for final approval. The Credit Committee will evaluate the asset according to the Framework criteria categorised in chapter 2 of this Framework.

The Credit Committee of the Executive Team, which generally meets once a week, consists of the Managing Director, credit managers and the director of the Åland Business Area.

Following an approval in the Credit Committee of the Executive Team, the Eligible Green Asset is registered in the Bank's Green Asset register, which is monitored by Group Treasury. The register will be continuously used for monitoring, matching, and reporting the use of proceeds. Tracking is done on a quarterly basis to make sure that Green Debt proceeds are allocated in a sufficient manner to the Eligible Green Assets.

4. Management of Proceeds

The proceeds are placed in General Treasury but are tracked in internal systems. It is the responsibility of Group Treasury to monitor the Green Asset Register on a quarterly basis and to ensure that all proceeds from Green Debt issuances are allocated to a corresponding amount of the Eligible Green Assets. The Bank of Åland can only issue Green Debt if a large enough volume of Eligible Green Assets has been identified and verified, and if these assets are approved and registered in the Green Assets Register. Before a new Green Debt instrument may be issued, the size of the Green Assets Register must be at least equal in size with the sum of the outstanding Green Debt and the intended new issuance. The Bank of Åland can reallocate funds to other Eligible Green Assets at any time during the term of the Green Debt, and assets that exit the Green Assets Register due e.g. to divestments or maturities, will primarily be replaced by other Eligible Green Assets.

In cases where there are no Eligible Green Assets available for replacement, and the net proceeds of the Bank of Åland Green Debt exceed the amount of the Eligible Green Assets, proceeds will temporarily be invested in green bonds, in accordance with the Bank's internal frameworks and the requirements for the liquidity reserve. A preference will be given to GBP-aligned green bonds.

5. Reporting

As long as there is outstanding Green Debt, the Bank of Åland commits to annually and on a timely basis in case of material changes, to publish an Impact Report on its website.

The Impact Report provides information on:

- Total amount of Green bonds issued
- Allocation of proceeds within each Eligible Green Asset category
- Total amount of unallocated proceeds
- Share of proceeds used for financing or refinancing
- The geographical distribution of the Green Assets on a country level.

The Green Bond Impact Report also discloses the environmental impact of the Eligible Green Asset Portfolio financed under this Framework. The impact assessment is provided where feasible and is subject to data availability. On projects that are not yet operational, the Bank of Åland will provide estimates regarding the expected future environmental performance of the asset in question.

The Green Bond Impact Report is prepared by Group Treasury and is published annually in February. The Green Bond Impact Report(s) will be made available to the public on the Bank of Åland's Debt investors website [Link](#).

The Bank aims to include indicators outlined in the table below, subject to the availability of information and baseline data:

GBP Categories	Impact Measurement Indicators
Renewable Energy	<ul style="list-style-type: none">• Expected annual generation (MWh)• Estimated annual GHG emissions avoided (tCO₂e)
Green Buildings	<ul style="list-style-type: none">• Annual energy savings (MWh)• Estimated annual GHG emissions avoided (tCO₂e)
Clean transportation	<ul style="list-style-type: none">• GHG emissions per kilometre (tCO₂e)• Estimated annual GHG emissions reduced or avoided (tCO₂e)

6. External Review

The Bank of Åland will obtain a Second Party Opinion from Moody's Investors Service in order to confirm the transparency and strength of the Bank of Åland Green Finance Framework. The opinion will be published on our website.



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