An aerial photograph of a white three-bladed wind turbine situated on a rugged, rocky island. The island is surrounded by dark blue water with white foam from breaking waves. The sky is a deep, clear blue. The wind turbine's shadow is cast onto the rocks below it.

The Bank of Åland Green Finance Framework

September 2021

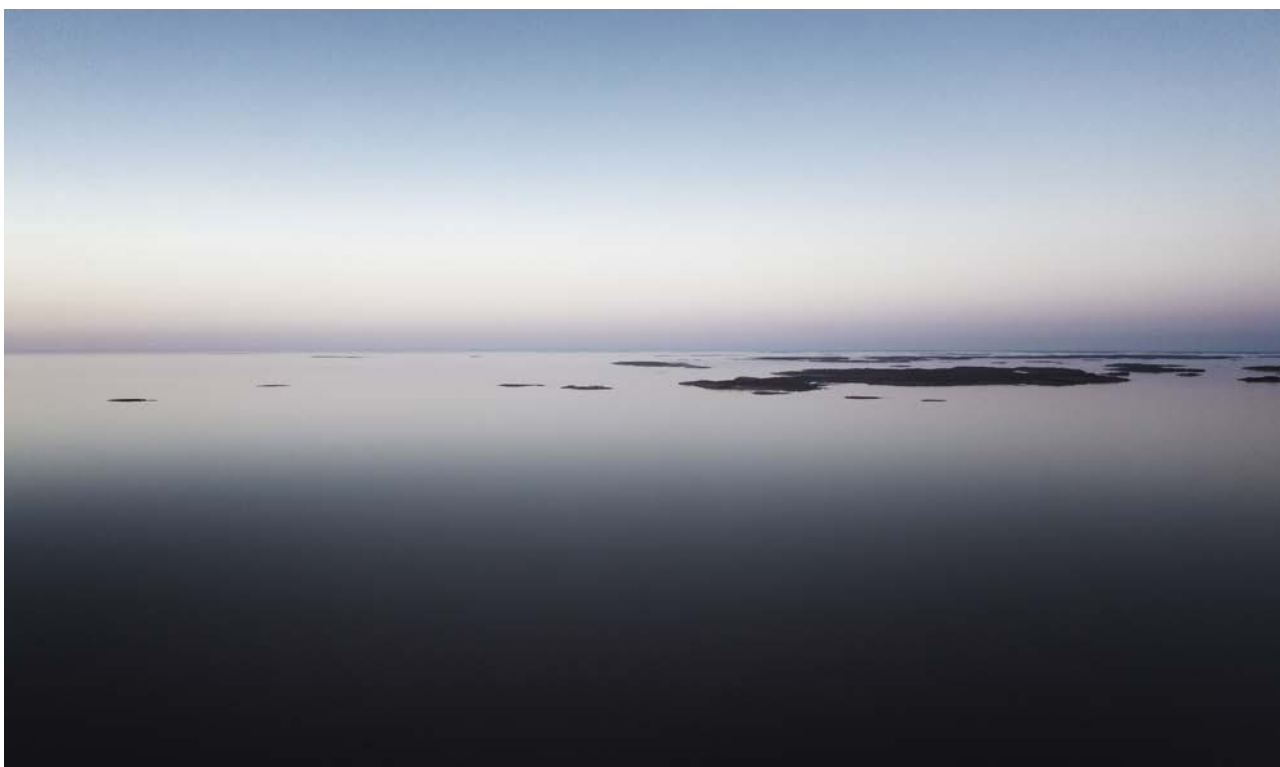
Best archipelago wishes

ÅLANDSBANKEN

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1. Introduction

1.1 Background



The Bank of Åland was founded in 1919 by local fishermen and farmers 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 the awareness regarding 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 % of the annual account balance to projects and companies that promote sustainability.

The Åland Index, another project connected to the Baltic Sea Project, entails that every card issued by the Bank is linked to the Åland Index program, which connects the purchase price with kilo carbon

spent and puts a price on carbon, visualizing the cost of consumption to the end-user. The card holder is then given the option of donating an amount equivalent to the CO₂ costs of the purchase to a project or a non-governmental organization in order to mitigate the climate effect of the purchase. Another option presented to the card holder is to invest a corresponding amount in sustainable funds. Using the Åland Index can help raise consumer awareness regarding the environmental footprint of lifestyle choices, for example CO₂ emissions and H₂O consumption. Awareness, in turn, may help shift consumer behaviour in a more sustainable direction. To create an even further reaching impact, the impact tech company Doconomy is engaged in making Åland Index available globally. As the founder of the Åland Index, The Bank of Åland has invested in Doconomy.

The Bank of Åland has signed the United Nations' Principles for Responsible Investment (UNPRI), and implements these guidelines when reviewing companies' environmental, social and governance (ESG) actions. In 2019, the Bank of Åland signed the United Nations Principles for Responsible Banking, created through coo-

peration between the UN Environment Programme Finance Initiative (UNEPFI) and the global financial services sector. The aim of the principles is to align the financial services sector with the UN Sustainable Development Goals and the Paris Climate Agreement by engaging financial service actors in a collaboration and by clarifying the sector's responsibility within the process of creating a sustainable society.

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 mortgages financing for private individuals and lending to support our customers' savings and investments activities. 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 only to investments that decrease environmental impacts.

1.2 The Bank of Åland Green Debt

By issuing Green Debt, the Bank of Åland has an opportunity to further promote long-term development of sustainability according to the UN Sustainable Development Goals (SDG), Agenda 2030.

Our Green Finance Framework is based on the Green Bond Principles¹, 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.



SUSTAINABLE DEVELOPMENT GOALS








¹ International Capital Market Association and Green Bond Principles:
<http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/>

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 within 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. In addition, it excludes fish farming activities that aim to increase marine operations.

The criteria for the Eligible Green Assets are the following:

Green Bond Principle category	Project types
<p>Renewable Energy</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> <div style="text-align: center;">  <p>13 CLIMATE ACTION</p> </div> </div>	<p>“Renewable energy”, is defined as renewable energy from the following sources:</p> <ul style="list-style-type: none"> • Wind Energy • Solar Energy
<p>Green Buildings</p> <div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="display: flex; justify-content: space-around; width: 100%;"> <div style="text-align: center;">  <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> <div style="text-align: center;">  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> </div> </div> <div style="margin-top: 10px;">  <p>13 CLIMATE ACTION</p> </div> </div>	<p>“Green Buildings” are defined as commercial or residential buildings that meet one of the following standards:</p> <ul style="list-style-type: none"> • Finnish buildings built before 1 January 2018 and Swedish buildings built before 1 January 2021 with an Energy Performance Certificate (EPC) <ul style="list-style-type: none"> • issued by The Housing Finance and Development Centre of Finland (ARA)² of at least level A or B • issued by The Swedish National Board of Housing, Building and Planning (Boverket)³ of at least level A, B or C • Finnish buildings built from 1 January 2018 onwards and Swedish buildings built from 1 January 2021 onwards with an Energy Performance Certificate (EPC) <ul style="list-style-type: none"> • issued by The Housing Finance and Development Centre of Finland (ARA) of at least level A • issued by The Swedish National Board of Housing, Building and Planning (Boverket) of at least level A or B

² <https://www.ara.fi/en-us/>

³ <https://www.boverket.se/en/start>

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

The 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 either a credit committee or an authorized individual. If an asset fails the normal credit process, it cannot be considered an Eligible Green Asset.

3.2 SELECTION, ANALYSIS, EVALUATION, AND APPROVAL OF ELIGIBLE GREEN ASSETS

The initial screening of assets will be carried out by the relevant business unit. Group Treasury will gather the documentation that supports making an asset green. If a potential Green Asset fills the criteria presented in chapter 2 of this Framework, Group Treasury will verify from relevant sources that the asset is Eligible. Next, Group Treasury will submit the potential Green Asset, along with all relevant documentation for final Eligible Green Asset approval, to the Credit Committee.

Then, the Credit Committee will evaluate the asset according to the Framework criteria categorized in chapter 2 of this Framework. The Credit Committee, that meets once a week, consists of the CEO, the CRO, and the CCO of the entire concern as well as the CCO of the Swedish business unit.

If the asset meets all the relevant criteria and is approved, the asset will be registered as an Eligible Green Asset in the Bank's Green Asset Register, which will be monitored by Group Treasury. The register will be continuously used for monitoring, matching and reporting the use of proceeds. Tracking will be done on a regular basis to make sure that Green Debt proceeds are allocated in a sufficient manner to the Eligible Green Assets.

4 Management of Proceeds

The Bank of Åland has internal systems in place for tracking the proceeds of its Green Debt. 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 the said assets are 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 outstanding Green Debt and the intended new issuance size put together.

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 to e. g. divestments or maturities, will primarily be replaced by other Eligible Green Assets.






In case 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, Group Treasury will invest excess proceeds in Green Bonds according to the Bank's internal Frameworks and the requirements for the liquidity reserves, though it is preferred to invest in Green Debt following the Green Bond Principles.

5 Reporting

As long as there is Green Debt outstanding, the Bank of Åland commits to annually publishing on its website a Green Debt Report that provides information on:

- The Eligible Green Assets financed or refinanced by the net proceeds, including their relevant environmental impact indicators
- The allocation of the Green Debt net proceeds to the Eligible Green Assets detailing the aggregate amount dedicated to each of the Eligible sectors
- The balance of unallocated cash and/ or cash equivalent and/ or other liquid marketable instruments still held by the Bank of Åland

If baseline data and information is available, the Bank of Åland will report impact measures according to the following table:

Green Bond Principles Category	The Bank of Åland Category	Impact Measurement Indicators
<p>Renewable Energy</p>  	Wind and Solar Energy	<ul style="list-style-type: none"> • Installed capacity added (MW) • Estimation of avoided CO2 emission compared to baseline
<p>Green Buildings</p>   	Green Buildings	<ul style="list-style-type: none"> • Amount of Energy saved (kWh) • Estimation of avoided CO2 emission

6 External Review

The Bank of Åland will obtain a Second Party Opinion from CICERO Shades of Green AS in order to confirm the transparency and strength of the Bank of Åland Green Finance Framework. The opinion will be published on our website.



www.alandsbanken.com

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