°CICERO Shades of Green

The Bank of Åland
Green Finance Second Opinion

September 21, 2021

The Bank of Åland (Ålandsbanken) is a Finnish bank established in 1919. The bank's lending mainly consists of home mortgages financing for private individuals (75%) and the remaining 25% of the lending to support its customers' savings and investments activities within various sectors.

Categories in the green finance framework cover green buildings (approx. 75% of the net proceeds) and renewable energy (approx. 25% of the net proceeds). Within the net proceeds attributed to the green commercial and/or residential buildings project category, around 60% is expected to be allocated to projects in Finland, and around 40% in Sweden. In Finland, eligible green buildings built before January 2018 require an energy performance certificate (EPC) of minimum B, and buildings built after January 2018 require an EPC of A. In Sweden, eligible green buildings built before January 2021 require an EPC of minimum C, and buildings built after January 2021 require an EPC of minimum B. Investors should be aware that buildings that are not better than regulations when built could be financed under the framework (e.g., energy label C in Sweden), and that buildings built during the last 10 years can be eligible, which are considerably weaker energy wise that what is required today. Buildings heated directly with fossil fuels are excluded. No other screening criteria are included. Furthermore, environmental impact assessments, life cycle analyses and climate risk screenings are currently not standard practice across all projects. Eligible renewable energy projects are related to wind and solar energy. Eligible projects can include the use of fossil fuel construction equipment.

Ålandsbanken has the long-term goal to become climate neutral at the company level. However, no specific measures are given yet. Ålandsbanken is not reporting according to the TCFD guidelines nor uses climate scenarios for assessing climate risks. The selection process is clear and environmental expertise is included but does not have veto power. The selection process does not include supply chain considerations, but take into account risk of lock-in and potential controversies. The allocation and impact reporting covers relevant key performance indicators for each project category and is available on the company's website. However, the issuer mentioned that is has not yet decided if the green finance reporting will be externally reviewed, nor if it will publish the methodology and assumptions used in impact calculations for impact reporting.

Based on the overall assessment of the project types in the framework of Ålandsbanken, governance and transparency considerations, the green finance framework receives an overall **CICERO Medium Green** shading and a governance score of **Fair**. The green buildings category could be improved by having stronger eligibility criteria, such as supply chain and associated emissions (scope 3) considerations. The issuer could also improve by including more specific targets at the company level, by requiring life cycle and climate risks assessments systematically, and by having better reporting procedures.

SHADES OF GREEN

Based on our review, we rate the Ålandsbanken's green finance framework **CICERO Medium Green.**

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Ålandsbanken's framework to be **Fair**.

GREEN BOND/LOANS PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.

°CICERO Medium Green

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Contents

1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated **September 2021.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green	Examples
Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.	Wind energy projects with a strong governance structure that integrates environmental concerns
Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.	Bridging technologies such as plug-in hybrid buses
Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.	Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of Ålandsbanken's green finance framework and related policies

The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq Helsinki Oy) since 1942. The Head Office is located in Mariehamn, Åland, a Finnish group of islands laying between Sweden and Finland. Ålandsbanken has a total of two offices in the Åland Islands, six in Finland (in Helsinki, Tampere, Vaasa, Turku, Parainen, and Oulu), and three in Sweden (Stockholm, Gothenburg and Malmö). The bank's lending mainly consists of home mortgages financing for private individuals (75%) and the remaining 25% of the lending to support its customers' savings and investments activities within various sectors, including the shipping sector. Ålandsbanken has two subsidiaries: the fund management company Ålandsbanken Fondbolag and the information technology company Crosskey Banking Solutions. Ålandsbanken has business partnerships with several financial technology ("fintech") companies and supplies services to companies operating in the financial services sector.

Environmental Strategies and Policies

Ålandsbanken's main sources of emissions come from electricity consumption, travel, and paper printouts, representing a total carbon footprint of 348 tCO_2e in 2019, and a decrease to 140 tCO_2e in 2020. Ålandsbanken's emissions decreased by 208 tCO_2e between 2019 and 2020, with the purchases of more green electricity starting in late 2019, and with the suspension of nearly all business travel as a consequence of the coronavirus pandemic. The bank's long-term ambition is to exclusively use green electricity, as well as to decrease its paper (eco-labelled) consumption by 10% yearly, which would reduce CO_2 emissions by about 2,000 kg per year. The bank informed us that during 2020, total energy consumption fell from 2.24 GWh to 2.11 GWh. Of the energy consumed, 77 % was generated using renewal sources, and the target for 2021 is to reach at least 90 % of renewal sources from all the energy consumed. Ultimately, the bank aims at becoming completely climate neutral, and the company informed that this objective will be better defined as of 2021, but that is has joined the NZBA (Net Zero Banking Alliance) in order to reach climate neutrality in 2050 with a focus on credit and investments. The bank does not monitor nor report on scope 3 emissions, and it does not require GHG reporting on its suppliers yet, but the bank informed that it is currently investigating opportunities to monitor and report further data within this scope, e.g., at the supplier level.

One of Ålandsbanken's flagship projects is the Baltic Sea Project, which offers to the bank's customers an account called the Baltic Sea account, of which 0.2% of the balance is given out yearly to projects and companies that promote sustainability. Another feature of the Baltic Sea Project is that every card issued by the bank is linked to the Åland Index program, which connects the purchase price with kilo carbon dioxide spent and puts a price on carbon dioxide, visualizing the cost of consumption to the end-user. The customer can voluntarily choose to donate the amount of CO_2 costs to various projects or NGOs that it would require to mitigate that purchase or choose to invest the amount in sustainable funds. However, the issuer informed us that as these two options are voluntarily, as customer can decide to not do any of these actions, without consequences. Ålandsbanken has also invested in Doconomy, an impact tech company that is globally spreading the Åland Index founded by Ålandsbanken. By using the Åland Index, the customers not only belonging to Ålandsbanken but also to other banks can become more aware of their environmental footprint, defined currently as their CO_2 emissions and H_2O consumption. The bank further informed us that during 2020, it has conducted a materiality analysis based on the UN's 17 Sustainable Development Goals, focusing on areas where the bank has a negative or positive impact on the environment. As a result, the bank is now setting new targets in these areas in order to reduce its impact and monitor the progress of its sustainability work.

Ålandsbanken reviews companies´ environmental, social and governance (ESG) actions, based on the lenders' data collected by the bank, such as data on certificates (Green buildings), project type (renewable energy), installed capacity added (MW) and amount of energy saved (kWh) in order to convert it into avoided CO_2 emissions. The issuer informed us that the review of ESG action is done systematically on the investment side with specified processes and schedules, but that the ESG review is not done systemically for credit applications. The bank further mentioned that it offers solutions to its customers that contribute to climate transition through the development of a sustainable product range, enables its customers to increase their environmental awareness via the Åland Index and via its business partner Doconomy, and offers to various stakeholders the opportunity to receive funding to implement their ideas for achieving a cleaner Baltic Sea. The bank also aims at protecting the water quality of the Baltic Sea by limiting its lending for maritime-based fish farming only to those investments that decrease environmental impact. The company further informed us that in all investment decisions, it reviews sustainability-related risks and opportunities affecting the company in question, based on a sustainability analysis from MSCI, which includes the UN's Global Compact principles.

The bank also mentioned that it aims at integrating sustainability risk into its risk assessment when approving new loans. The risk control is also aligned with the bank's sustainability plan and strategy. This work has two aspects: both to preserve those parts of the bank's lending that already have a positive impact on sustainable development, and to design its lending with the aim to have a positive impact on selected targets under the UN sustainable development goals. The issuer further informed us that they are not reporting according to the TCFD guidelines, nor use climate scenarios for assessing climate risks. However, the bank confirmed that it reports according to UNPRI framework[1], and from April 2021, also according to UNEPFI framework[2]. The bank also mentioned being in the process of implementing the ECB guidelines on climate-related and environmental risks.

Use of proceeds

The net proceeds of the Green Debt issued by Ålandsbanken will be used to finance or refinance the green assets selected and evaluated by Ålandsbanken according to the Green Finance Framework. The eligible green assets will be attributed to the category of green buildings (around 75% of the net proceeds to loans for houses and buildings with specific energy performance certificate) within Finland (approx. 60% of the net proceeds in the category of green buildings for the cities of Helsinki, Turku, Parainen, Tampere, Vaasa and Oulu on the mainland and the Åland Islands), and Sweden (approx. 40% of the net proceeds in the category of green buildings for the cities of Stockholm, Gothenburg and Malmö), and to the category of renewable energy (around 25% of the net proceeds to wind and solar energy related projects). The company informed us that they are working on increasing the share of proceeds attributed to the category of renewable energy in the future.

The issuer informed us that the majority of proceeds are expected to be attributed to refinancing, as the main share of the proceeds are expected to be allocated to many small loans, which will finance energy efficiency in the form of housing loans for new buildings or buildings built during the last 10 years. When the main green asset will be attributed to renewable energy projects, it would then be expected that a more important share of the proceeds will be attributed to financing instead of refinancing. Concerning the look-back period for refinancing, the issuer informed us that there is no look-back period for housing loans, however, renewable energy projects should have a look-back period of maximum 3 years, but judgment can be used if necessary, according to the issuer. The issuer further informed us that it has no explicit target share of new versus old buildings, but that the stock of new buildings will grow in the coming years.

[1] https://www.unpri.org/reporting-and-assessment/investor-reporting-guidance/5373.article
[2] https://www.unepfi.org/fileadmin/documents/operational_framework.pdf

The proceeds of Ålandsbanken Green Debt will not be used towards financing entities involved in fossil fuel energy operations, weapons manufacturing, coal mining, tobacco or alcohol as well as fish farming operations that do not improve the quality of water.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Initial screening of green assets will be done by the relevant business unit. The business unit will then provide the supporting documentation that can potentially make an asset a green asset to Group Treasury. If a potential green asset fulfills the required criteria, the Group Treasury will verify from the relevant sources that the asset is eligible. Group Treasury will then submit the potential green asset, along with any additional documentation provided originally by the business unit, for final approval to the Credit Committee.

The Credit Committee meets once a week and consists of the CEO, the CRO, as well as the Chief Credit Officer of the whole concern and of the Swedish business unit, and decisions are made by majority rule. The issuer informed us that a new sustainability position has been created within Ålandsbanken, and that the Credit Committee, the Group Treasury and business units will benefit from the expertise of the new sustainability expert. However, no one has veto power, including the sustainability expert.

If the asset meets all the relevant criteria and is approved, the asset will be registered as an eligible green asset in a green asset register, that will be monitored by the 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.

The bank does not conduct LCA analyses of investments/lending, nor integrate supply chain considerations into the selection process. The issuer however considers risk of lock-in within the selection process, by excluding investments in infrastructure using fossil fuel that might be associated with emissions, and that might become obsolete in the future. Potential controversial projects are also identified within the normal screening process, which is done for all the potential projects, according to the issuer.

Management of proceeds

CICERO Green finds the management of proceeds of Ålandsbanken to be in accordance with the Green Bond/Loans Principles.

Ålandsbanken has internal systems in place to track the proceeds of its green debt. It is the Group Treasury's responsibility 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 eligible green assets. Ålandsbanken cannot issue green debt unless there is enough volume of eligible green assets, that have been identified and verified in the green assets register which at least amounts to the intended issuance size.

Ålandsbanken can reallocate funds to other eligible green assets at any time during the term of the green debt, and if some assets exit the green assets register due to, e.g., divestments or maturities, they will be replaced by other eligible green assets if available. In the case that there are no eligible green assets available for replacement, and that the net proceeds of Ålandsbanken green debt exceed the amount of eligible green assets, the Group Treasury will invest excess proceeds according to its internal frameworks and the requirements for the liquidity reserves in

green bonds that follow the Green Bond Principles. According to the issuer these would be replaced by eligible green asset according to the green finance framework whenever available. The issuer also confirmed that the expected maximum time to hold green bonds instead of green housing loans is 2 months. The issuer informed us that the intended types of temporary investment instruments for unallocated proceeds will not be invested in fossil fuel related assets, but rather invested in green bonds from the bank's liquidity portfolio. These bonds have the following characteristics: Classified as green bonds as they have been issued, investment grade rating, maturity of maximum 10 years, fixed or floating rate bullet bonds, no options, government, supra, sovereign, agency, covered bonds or senior bank bonds.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

As long as there is green debt outstanding, Ålandsbanken, mostly the Treasury Middle Office, commits to annually publish on its website a Green Debt Report, on a portfolio basis, that provides information on:

- The eligible green assets financed or refinanced by the net proceeds and their relevant environmental impact indicators.
- The allocation of the green debt net proceeds to eligible green assets detailing the aggregate amount dedicated to each of the eligible project categories.
- The balance of unallocated cash and/or cash equivalent and/or other liquid marketable instruments still held by Ålandsbanken.

If baseline data and information is available, Ålandsbanken will report impact measures per project categories. Most likely, the issuer informed us that the indicators that will be reported are: installed capacity added (MW) and corresponding estimation of avoided CO_2 emissions compared to baseline, amount of energy saved (kWh) and corresponding estimation of avoided CO_2 emissions, where possible. The issuer informed us that the comparison baseline will be reported to justify the calculations of avoided CO_2 emissions and that the Nordic Public Sector Issuers: Position Paper on Impact Reporting is most likely to be used as grid factors for calculating CO_2 emissions. However, the issuer mentioned that is has not yet decided if the reporting will be externally reviewed, nor if it will publish the methodology and assumptions used in impact calculations.

3 Assessment of Ålandsbanken's green finance framework and policies

The framework and procedures for Ålandsbanken's green finance investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Ålandsbanken should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Ålandsbanken's green finance framework, we rate the framework **CICERO Medium Green.**

Eligible projects under the Ålandsbanken's green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds/ loans aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) and the Green Loans Principles (GLP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Renewable Energy	Renewable energy projects that will be defined as renewable energy from the following sources: • Wind Energy • Solar Energy	**Dark Green** ✓ Renewable energy is part of a low carbon future solution. ✓ Around 25% of the net proceeds will be attributed to this category. ✓ The projects will be located both in Sweden and Finland only. ✓ The issuer confirmed that wind energy projects can be both onshore and offshore, and that solar energy projects can be both standalone solar projects and rooftop installations. ✓ Local environmental impacts, such as on biodiversity, habitat, and landscape, can be of concern for renewable energy projects. The bank does not set specific metrics on how to evaluate the local environmental impacts of its projects. ✓ The bank has not developed a process to screen for construction emissions, and the use of fossil fuel construction equipment might be implied. However, the issuer mentioned that it might develop better screening procedures in the future.

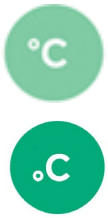
Green buildings 	Commercial or residential buildings which meet one of the following standards: ✓ **Finnish buildings built before 1 January 2018 and Swedish buildings built before 1 January 2021 with an Energy Performance Certificate (EPC)** ○ issued by The Housing Finance and Development Centre of **Finland** (ARA)[3] of at least level A or B. ○ issued by The **Swedish** National Board of Housing, Building and Planning (Boverket)[4] 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)** ○ 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.	**Light to Medium Green** ✓ Around 75% of the net proceeds will be attributed to this category, and will be divided as following: approx. 60% of the projects will be located in Finland, and approx. 40% in Sweden. ✓ Proceeds are expected to be allocated to new buildings or buildings built during the last 10 years. Therefore, older buildings can have energy labels that are up to 10 years old, and thus are considerably weaker energy wise that what is required today. ✓ The issuer informed us that it has no explicit target share of new versus old buildings, but that the stock of new buildings will grow in the coming years. ✓ Due to the EPC requirements of the framework, we expect most eligible buildings to have better energy performance than regulations at the time of construction, except for EPC C in Sweden which is the same as the regulation. ✓ Swedish requirements are stricter than the requirements in Finland (e.g., EPC A must be 50% better than the requirement for a new building). ✓ In Finland, the requirements for EPC levels changed in 2018, which is why the issuer has distinguished between buildings built in Finland before or after that year. Under the new rules, only buildings with an EPC A are better than regulation[5]. ✓ No other screening criteria are included. In a 2050 perspective, building energy performance needs to improve. Transport solutions, limiting emissions related to the building materials, access to renewable energy for heating and electricity are also important. ✓ The use of district heating can represent a concern. However, buildings heated directly with fossil fuels are excluded. ✓ Environmental impact assessments, life cycle analyses and climate risk screenings are currently not standard practice across all projects. Life cycle analysis of building materials will become mandatory in Sweden from 1 January 2022 for all new buildings.

Table 1. Eligible project categories

Background

Green buildings

In Finland, a significant share of greenhouse gas emissions is produced by buildings, as they account for some 38% of the final energy consumption of the country, and nearly one-third of energy consumption was provided by

[3] https://www.ara.fi/en-us/
[4] https://www.boverket.se/en/start
[5] https://www.motiva.fi/ratkaisut/energiatodistusneuvonta/energiatodistusten_laatijat/energiatodistusten_laskentaohjeet_2018

district heat[6], where approximatively one-half of district heat was produced with fossil fuels, and 15% of district heat was produced with peat in 2019 in Finland [7]. Finland has, however, developed the National Energy and Climate Plan that sets the course for achieving an 80% − 95% reduction in greenhouse gas emissions by 2050 in all sectors[8]. Climate change mitigation measures associated with the built environment are also considered in the Land Use and Building Act, including land use decisions, energy-efficient new construction and renovations, building maintenance, material efficiency and the use of renewable energy[9].

Sweden has as an objective to establish a fossil fuel-free Sweden by 2045[10]. In Sweden, the residential and service sectors account for almost 40% of the total energy use[11]. Housing and non-residential buildings accounted for approximately 90% of total end-use energy in the sector, just over 132 TWh in 2017[12]. Although heating-related GHG emissions have been reduced since the transition from oil-based heating to district heating during the 1990's, non-ETS emissions must decrease by 63% by 2030. Sweden has further developed a National Energy and Climate Plan (NECP)[13], including measures such as increasing energy efficiency, and targets that energy use shall be 20 % more efficient compared to 2008 by 2020[14].

Renewable Energy

Finland proposes a contribution to the EU renewable energy target with a 50% share of energy from renewable sources in gross final consumption of energy in 2030. The proposed renewable energy share in the transport sector is 32%. The 'with additional measures' scenario provided by Finland demonstrates attainment of the national contribution to the EU renewable energy target for 2030[15]. Sweden, in the other hand, targets the share of renewable energy to be at least 50 per cent of total energy consumption in 2020[16], and has adopted the target of generating all electricity from renewable sources by 2040[17]. In extension, this means phasing out all nuclear power generation by the same time. In the same time period, power demand is expected to grow by 19%. More than half of this increase is driven by the electrification of transport. A smaller share of this increase is driven by new data centers. The increase in renewable energy will be mostly met by wind power, which is expected to increase by a factor of almost 3.8.

Governance Assessment

Four aspects are studied when assessing the Ålandsbanken's governance procedures: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Ålandsbanken has a long-term goal to exclusively use green electricity, as well as to decrease its paper (eco-labelled) consumption by 10% yearly. Ultimately, the bank has the ambitious goal to become climate neutral at the company level, however, no specific measures have been given yet, but the bank mentioned that is has joined

[6] Statistics Finland - Energy consumption in households 2019
[7] Statistics Finland - Production of electricity and heat 2019
[8] National Energy and Climate Strategy of Finland for 2030 – Policies - IEA
[9] https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/79247/TEMjul_12_2017_verkkojulkaisu.pdf?sequence=1&isAllowed=y
[10] https://fossilfrittsverige.se/en/start-english/
[11] Energimyndighetens webbshop (a-w2m.se)
[12] se_2020_ltrs_official_translation.pdf (europa.eu)
[13] se_final_necp_main_en.pdf (europa.eu)
[14] Energimyndighetens webbshop (a-w2m.se)
[15] necp_factsheet_fi_final.pdf (europa.eu)
[16] Energimyndighetens webbshop (a-w2m.se)
[17] Statnett, 2018. "Langsiktig markedsanalyse Norden og Europa 2018–2040»

the NZBA (Net Zero Banking Alliance) in order to reach climate neutrality in 2050 with a focus on credit and investments. Ålandsbanken monitors its scope 1 and 2 emissions but does not monitor nor report scope 3 emissions yet. The bank further does not require GHG reporting from its suppliers. However, the bank informed that it is currently investigating opportunities to monitor and report further data within this scope, e.g., at the supplier level. Environmental impact assessments, life cycle analyses and climate risk screenings are currently not standard practice across all projects. Ålandsbanken is not reporting according to the GRI initiative, nor in accordance with the TCFD guidelines for assessing climate risks. However, the bank confirmed that it reports according to the UNPRI and UNEPFI frameworks. The bank also mentioned that it is in the process of implementing the ECB guidelines on climate-related and environmental risks.

The selection process is clear, and environmental expertise is included but does not have veto power. The selection process does not include life cycle assessments nor supply chain considerations within its selection process. According to the issuer, the bank considers risk of lock-in of fossil technologies within the selection process, by excluding investments in infrastructure using fossil fuel that might be associated with emissions, and that might become obsolete in the future. Potential controversial projects are also identified within the normal screening process, which is done for all the potential projects. The issuer informed us that the intended types of temporary investment instruments for unallocated proceeds will not be invested in fossil fuel related assets and will be allocated temporarily to green bonds according to the Green Bond Principles where possible. The reporting covers key relevant indicators and metrics for each project category. Impact reporting is done when feasible, and if relevant data is available. The reporting is available on the company's website. The issuer informed us that the comparison baseline will be reported to justify the calculations of avoided CO_2 emissions and that the Nordic Public Sector Issuers: Position Paper on Impact Reporting is most likely to be used as grid factors for calculating CO_2 emissions. However, the issuer mentioned that is has not yet decided if the green finance reporting will be externally reviewed, nor if it will publish the methodology and assumptions used in impact calculations for impact reporting.

We encourage Ålandsbanken to strengthen its governance procedures by reporting on emissions for scope 3, by having specific timeframe and measures for goals and objectives at the company level, and by assessing climate risks using TCFD recommendations and scenarios. In addition, the selection process could be strengthened by including life-cycle assessments, climate risks screening and supply chain considerations. CICERO Green also encourages the issuer to obtain an external review on its annual green finance report, and by having better reporting procedures.

The overall assessment of Ålandsbanken's governance structure and processes gives it a rating of **Fair**.

Strengths

It is strength that the issuer focuses on low-carbon solutions, such as solar PV and wind farm projects. Investments in production of electricity from solar PV and farm are considered to contribute substantially to climate change mitigation and represent a key to a low-carbon transition.

We expect the EPC requirements set by the bank to be substantially better than regulations at the time of construction, which are likely to meet the mitigation criteria set in the EU Taxonomy for relevant activities, except for EPC C in Sweden, which is the same as the requirement imposed on new building.

It is a strength that the bank's intended types of temporary investment instruments for unallocated proceeds will be allocated temporarily to green bonds according to the Green Bond Principles.

Weaknesses

CICERO Green sees no material weaknesses in Ålandsbanken's Green Finance Framework.

Pitfalls

Ålandsbanken is not conducting life cycle assessments for its property portfolio and its renewable energy projects portfolio, nor considers the supply chain and associated emissions, and fossil fuel construction equipment could be use. As emissions associated with building material/construction/demolition can be significant, the bank is encouraged to systematically assess the life cycle of all its projects, including scope 3 emissions, performing GHG accounting on the suppliers, and integrating building materials considerations.

The green building category criteria represents a pitfall. No other screening criteria than EPC level are included, and proceeds are expected to be allocated to new buildings or buildings built during the last 10 years. Therefore, older buildings can have energy labels that are up to 10 years old, and thus are considerably weaker energy wise that what is required today. In a 2050 perspective, building energy performance needs to improve. Transport solutions, voluntary environmental certifications, limiting emissions related to the building materials, access to renewable energy for heating and electricity are also important to consider.

It constitutes a pitfall that the bank does not have very specific targets, measures and timeframe at the company level. The issuer has further not yet decided if the green finance reporting will be externally reviewed, nor if it will publish the methodology and assumptions used in impact calculations for impact reporting.

We note that district heating/cooling is an important heating/cooling method in Sweden, and that the share of fossil fuels in district heating are significantly higher in Finland. In Sweden, most of the district heating companies seek to minimize the use of oil or other fossil fuels, but without specific information of suppliers on district heating, some of the district heating might be using fossil fuels. In Finland, approximatively half of district heat was produced with fossil fuels, and 15% of district heat was produced with peat in 2019, which may constitute a pitfall of locking in fossil fuels if the utility companies do not transition quickly enough towards renewable energy. To the extent that the buildings rely on district heating, there is an inherent probability that some fossil fuels will be involved. However, buildings with direct fossil fuel heating are excluded, according to the issuer.

Environmental impact assessments and climate risk screenings, in line with the TCFD recommendations, are currently not standard practice across all projects. According to the Finnish climate guide[18], increased rainfall, and snowfall being replaced by rainfall in winter, will probably increase river flows and floods. Finland has property with a total value of at least EUR 550 million across all the flood risk areas. Developing projects with climate resilience in mind is therefore critical for this sector. Furthermore, a changing climate could significantly impact the durability of the equipment related to renewable energy projects. The issuer would benefit from a more systematic inclusion of climate risk and scenarios into management systems and reporting, which could have improved the governance score.

While solar and wind energy are considered to have positive climate mitigation and resilience impacts, local environmental impacts, such as on biodiversity, habitat, and landscape, can also be of concern for renewable energy projects and the bank does not set specific metrics on how to evaluate the local environmental impacts of its projects. Particularly, wind projects can have local environmental impacts, including on birds and bats migration trajectories, and impacts on local communities. Furthermore, the supply chain considerations should also be extended, where feasible, to social risks and local environmental impacts where raw materials are sourced.

[18] https://ilmasto-opas.fi/en/ilmastonmuutos/vaikutukset/-/artikkeli/51d0c5f5-349b-4ffa-9419-7a78d612c17e/suomen-talous.html

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Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Ålandsbanken's Green Finance Framework	Dated September 2021
2	Ålandsbanken's Code of Conduct	Ålandsbanken | Code of Conduct
3	Annual Report 2020	arsredovisn2020en.pdf (alandsbanken.fi)
4	Medium Term Note, Covered Bond, Tier 2 Note and Additional Tier 1 Capital Note Programme	https://www.alandsbanken.com/uploads/pdf/Medium-Term-Note-Covered-Bond-Tier-2-Note-and-Additional-Tier-1-Capital-Note-Programme-2021.pdf
5	PRI Transparency Report	Public HTML RI reports - PRI reporting framework 2020 (unpri.org)

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Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).