

# **Green Finance Framework**

## **LocalTapiola Finance**

May 2024



# 1 Introduction

## About LocalTapiola Finance

LocalTapiola Finance Ltd (“LocalTapiola Finance”, “Company”, “us”, “we”) is part of LocalTapiola Group (“Group”), operating under the parent company LocalTapiola General Mutual Insurance Company.

LocalTapiola Finance is a company specialising in financing of vehicles and machinery, partners and importers being its main distribution channels. The Company cooperates with various players in vehicle sector throughout Finland. LocalTapiola Finance’s end-customers include private consumers, companies and other entities. The Company was established in 2017.

The vision of LocalTapiola Finance is to be a leading fully digital car finance company, providing sustainable growth and returns for its owners and new and improved profitable business opportunities for its dealers and partners.



# 1 Introduction

## Vision and strategy at LocalTapiola Finance

The vision of LocalTapiola Finance is to be a leading and fully digital car finance company, providing sustainable growth and returns for its owners and new and improved profitable business opportunities for its dealers and partners.

LocalTapiola Finance's key strategic areas are:

- partnership with dealers and importers
- disruption through digitalisation
- LocalTapiola Group
- personnel
- sustainability

The first key pillar of LocalTapiola Finance's strategy is to **develop partnerships with its dealers and importers to enable active distribution**. LocalTapiola Finance believes that this is achieved through innovative products and services and by supporting the dealers' profitability and growth by providing personal service to dealers and helping them succeed. LocalTapiola Finance aims to build lasting partnerships with the dealers and importers while adding value in everything it does.

The second strategic pillar is **disruption through digitalisation**. LocalTapiola Finance's aim is to achieve cost efficiency and simplification. It believes that digitalisation allows for simple, easy and lean processes, fastest time to cash for dealers, scalability for growth, tailored products for dealers and fastest time to market with new products, as well as enabling easy entry to new market areas.

The third pillar of the LocalTapiola Finance's strategy is to **leverage the competitive advantage of LocalTapiola Group** through a common customer base and a strong and valued brand. LocalTapiola Finance believes that cooperation enables the combining of finance and insurance operations in an innovative way and creates cross-selling opportunities to 1.8 million insurance customers. This also creates the ability to generate unique propositions to partners and customers and enables joint customer acquisition.

The fourth pillar is personnel, which means LocalTapiola Finance is **committed to support employees' satisfaction and well-being**. LocalTapiola Finance focuses on competent and committed personnel within new multi-locational working habits with emphasis on professional development and education.

The fifth pillar is sustainability, which means LocalTapiola Finance is **committed to have sustainability more linked to company's strategic planning and daily operations**. LocalTapiola Finance continues its current environmental work and goals and aim to become carbon neutral in its own operations in 2025. LocalTapiola Finance's goal is to enable cleaner and more sustainable way of driving.

# 1 Introduction

## Sustainability at LocalTapiola Group

LocalTapiola Group is owned by 1.6 million private and corporate or other institutional customers. LocalTapiola Group is the market leader in Finland in farm and forestry insurance, motor insurance and motor liability insurance. By balancing risks, the Group contributes to the stability and well-being of trust-based Finnish society.

LocalTapiola Group wants to be a pioneer in impactful sustainability in its sector, across Finland. As an insurer, the Group contributes to the stability and safety of Finnish society. The importance of its strong local expertise is highlighted in how the Group prevents losses and manages evolving risks.

As a responsible investor, the Group creates sustainable well-being. Customer expectations and tightening regulation challenges to step up the impact of the Group's sustainability work. By focusing investment assets sustainably and by engaging the entities in which the Group invests, the Group leaves its mark on society.

LocalTapiola Group's sustainability programme defines its sustainability goals and actions up to the year 2026. The insurance, investment, asset management and finance experts working at LocalTapiola Group are currently integrating sustainability as part of their and their own company's daily work by setting concrete goals on a function-specific basis. Tightening sustainability regulation gives more prominence to corporate sustainability reporting while also improving the comparability of sustainability data.



# 1 Introduction

## Managing sustainability

LocalTapiola Group has established new sustainability management approach in 2022. Group-level sustainability steering group is responsible for guiding and overseeing development and implementation of sustainability actions, as well as monitoring performance and ensuring alignment on a Group-level with applicable regulations, with the help of dedicated regulatory working group on sustainable finance.

Board of directors follows up the Group's sustainability target development semi-annually and is responsible for strategic sustainability decisions and relevant regulatory topics.

Each Group company is responsible for the implementation of relevant sustainability actions and targets in their own business areas. Group's sustainability and communication team maintains consolidated oversight on individual Group companies' actions and oversees the overall work.

## Group's climate change mitigation and adaptation approach

Climate change is important topic for LocalTapiola Group's business, and it forms a central piece in the Group's sustainability targets during the strategy for 2022-2026. Group's target is to offer solutions for climate change mitigation and adaptation. This target includes five sub-targets related to the Group's core business operations and to carbon neutrality of the Group's own operations.

In 2022, the Group developed roadmap to carbon neutrality, with a target year of 2025. In addition, climate risks were added as a core component into the Group's risk assessment.

The Group is working on climate risk reporting, initially aligned with the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations. As the TCFD has been integrated with the International Sustainability Standards Board's (ISSB) sustainability reporting standards, the Group is aiming to align with ISSB's recommendations going forward. Details of the Group's climate risk disclosures can be found from the annual sustainability report.

## Our five climate goals

1. A regional partner in climate change adaptation
2. A strong partner in the green transition
3. Carbon-neutral LocalTapiola in 2025 (Scope 1 and 2)
4. Net zero CO<sub>2</sub> emissions from LocalTapiola Group's insurance by 2050 or sooner
5. Net zero CO<sub>2</sub> emissions from LocalTapiola Group's investment portfolios by 2050 or sooner



# 1 Introduction

## Sustainability at LocalTapiola Finance

LocalTapiola Finance follows the Group’s sustainability principles and policies, and the sustainability themes laid down in LocalTapiola Group’s sustainability roadmap steer the activities of LocalTapiola Finance. The Company has identified the following goals to support the Group level sustainability commitment:

- Strong partner in green transition;
- Carbon neutral LocalTapiola Finance 2025;
- Promoting regional vitality through financing;
- Highly skilled and thriving personnel;
- Sustainability goals in remuneration and
- Impactful partnership and donations.



LocalTapiola Finance is committed to group-level sustainability commitments and continues to seek ways to link sustainability more to the Company’s strategic planning and daily operations. As a finance company, the biggest impact comes through financing activities, where actions have been taken to support the Finnish government's strategy of low emission transportation but also LocalTapiola Group carbon neutral commitment. LocalTapiola Finance has also joined in the Green deal –climate agreement drawn between the Car Dealers Association, Association of Automobile Industry in Finland, Ministry of Transport and Communications and Ministry of the Environment aiming to reduce the carbon footprint of traffic. We strive to systematically reduce our own carbon footprint by transitioning to low-emission company cars and mobility as well as by cutting down on paper consumption through increased digital services. In addition, we strive to save energy in the daily activities of our office. LocalTapiola Finance and the Group strive to raise the security and well-being of our customers and society and ensures the Company follows responsible lending principles. The Company acknowledges the importance of motivated, committed personnel and has initiated large scale personnel training programme to further support its personnel satisfaction. Regarding the impactful partnership, Local Tapiola Finance is currently implementing a methodology to ensure that Social Responsibility principles will be a part of whole supply chain when services are outsourced.

## 2 Green Finance Framework

### Overview and rationale

LocalTapiola Finance wants to continue integrating sustainability into its vehicle financing activities as part of its strategy. This Green Bond Framework (“Framework”) is established to support LocalTapiola Finance in enabling cleaner mobility for its customers.

The Framework is done in alignment with the 2021 version of the Green Bond Principles (GBP)<sup>1</sup> and 2023 version of the Green Loan Principles<sup>2</sup>. In addition, market developments, voluntary standards and recent regulatory developments, especially the Green Bond Regulation<sup>3</sup>, have been taken into account in the preparation of this Framework.

The four core components of Green Loan and Bond Principles together with the recommended external review component form the basis of this Framework:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

This Framework is applicable for issuance of green debt instruments, including but not limited to, green senior bonds, green asset-backed securities and other types of debt instruments where an amount equal to the net proceeds will be applied to finance or re-finance, in part or in full, new and/or existing financial assets directly linked with clear environmental benefits, as defined in this Framework (“Green Financing”).

In relation to the EU Taxonomy, this Framework refers to the EU environmental objectives and to section 6.5 of Climate Delegated Act<sup>4</sup>. The criteria within this Framework includes specifically the substantial contribution criteria for section 6.5 of Climate Delegated Act, but given the nature and role of LocalTapiola Finance as a consumer financier, this Framework does not take fully into account the do no significant harm criteria.



## 2.1 Use of Proceeds

### General Principles

An amount equivalent to the net proceeds from Green Financing will be used to finance or re-finance, in part or in full, expenditures or assets meeting the technical screening criteria in the table on this page (“Green Assets and Expenditures”).


Financing and refinancing shall be limited to financial assets generated with up to three (3) year lookback period before the issuance date and within two (2) years after the issuance date of any Green Financing issued under this Framework.

In accordance with the European Green Bond Regulation, allocation of proceeds for asset-backed securities, issued through separate special purpose vehicles, may be assessed and applied on the originating entity, ie. LocalTapiola Finance, level. Similarly, in case of financing at LocalTapiola Finance entity level, use of proceeds may be assessed on LocalTapiola Finance entity level and by including financial assets included in the sale of assets to separate special purpose vehicles.

### Exclusions

For the avoidance of doubt, LocalTapiola Finance’s Green Financing will not be allocated, in whole or in part, to finance or refinance combustion-engine vehicles or hybrid vehicles.

### Green Assets and Expenditures

<b>EU Environmental Objective</b>	Climate Change Mitigation
<b>ICMA GBP category</b>	Clean Transportation
<b>Technical Screening Criteria</b>	Customer financing and/or re-refinancing of hire purchase and financial leasing contracts used for the purchase / financing of electric vehicles.  Eligible electric vehicles must have zero specific tailpipe emissions of CO2.
<b>Sustainable Development Goals</b>	 



## 2.2 Process for Project Evaluation and Selection

### Selection of eligible Green Assets and Expenditures

The evaluation and selection process for eligible Green Assets and Expenditures is key in ensuring that an amount equal to net proceeds from Green Financing is allocated to financial assets that directly relate to assets and expenditure that meet the criteria in this Framework.

To oversee the selection of eligible Green Assets and Expenditures, a committee has been established with members from Head of Capital Markets and Funding, the CIO, the CFO and the CEO (the “Green Finance Committee”). All decisions are made in consensus. Green Finance Committee will convene when necessary, and at least once a year to validate and report eligible Green Assets and Expenditures and will keep track of all decisions made.

The Committee will continuously exercise its professional judgement, discretion and expertise when identifying and evaluating the Green Assets and Expenditures.

The Green Finance Committee holds following responsibilities:

- Any Green Finance Committee member may propose potential assets and/or expenditures to be evaluated in alignment with this Framework
- The Green Finance Committee confirms, with the help of other LocalTapiola Finance or Group units where necessary, that proposed potential assets and/or expenses are eligible and aligned with the criteria in this Framework.
- The Green Finance Committee will monitor the underlying assets and/or expenses regularly, and at least once a year
- The Green Finance Committee is responsible for the maintenance of this Framework



## 2.3 Management of Proceeds

### Approach to managing proceeds

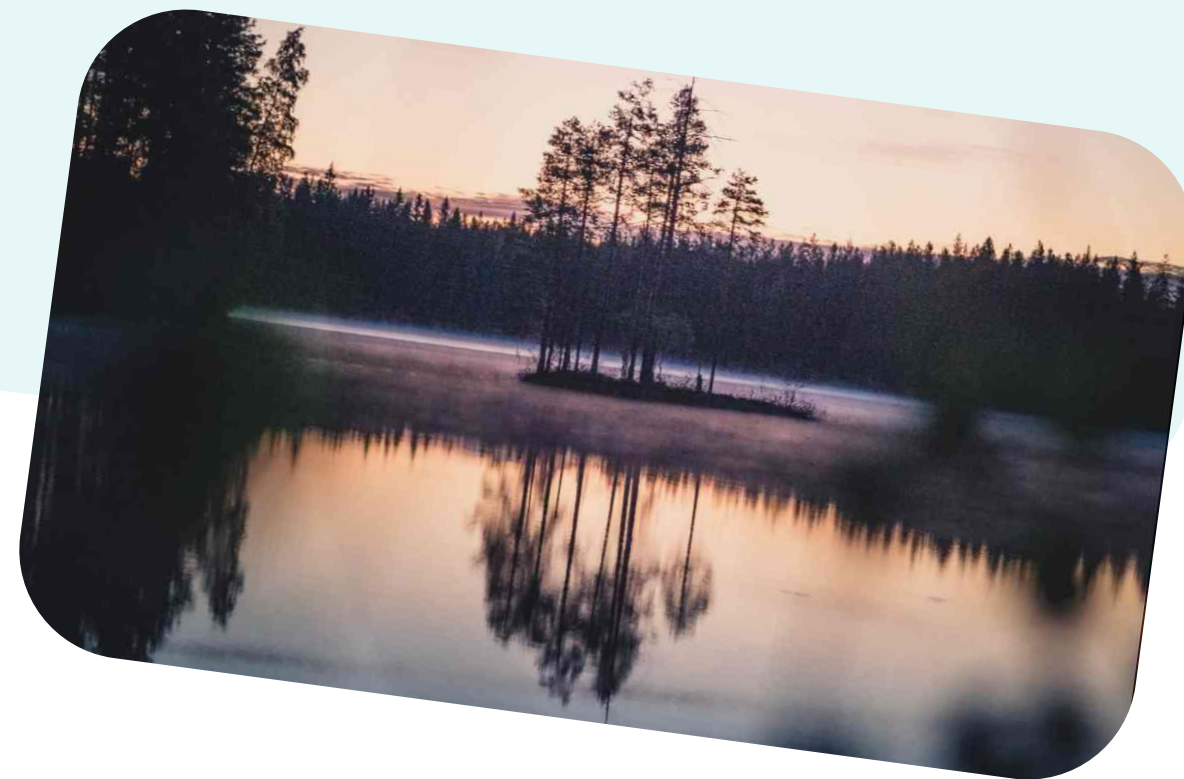
Amount equal to the net proceeds from LocalTapiola Finance's Green Financing will be tracked by the finance function using a register where all issued amounts of Green Financing and underlying financial assets related to Green Assets and Expenditures will be monitored ("Green Debt Register"). Proceeds from any Green Financing are placed on general account, and the purpose of the Green Debt Register is to ensure that an amount equal to the Green Financing net proceeds only support the financing or refinancing of Green Assets and Expenditures.

LocalTapiola Finance will maintain a possibility to choose, at its own discretion, the most suitable allocation method for any Green Financing net proceeds. Commonly used approaches, as described in the Green Bond Principles, and subsequently described in the EU Green Bond Regulation, are based on a portfolio approach and gradual approach. LocalTapiola Finance will maintain high level of transparency in reporting to investors and will always state the chosen allocation method at the latest in connection to the first allocation and impact reporting of each Green Financing instrument. LocalTapiola Finance will ensure full allocation of proceeds within two (2) years from issuance.

The list of Green Assets and Expenditures is monitored always at issuance of Green Financing, and at least annually thereafter to ensure that the proceeds are sufficiently allocated to financial assets related to Green Assets and Expenditures. Assets and expenditures can, if deemed by Green Finance Committee to not fulfil eligibility criteria, be removed or added to/from the Green Debt Register.

### Temporary holdings

There may be periods where the net proceeds of Green Financing have not yet been fully allocated to financial assets related to Green Assets and Expenditures. Any unallocated proceeds will be placed in the liquidity reserve and are managed in accordance with LocalTapiola Finance's liquidity management policy.



## 2.4 Reporting

To enable investors and other stakeholders to follow the development of the assets and expenditure (re-) financed by Green Financing, a dedicated report will be made available on LocalTapiola Finance's website ("Green Finance Report"). First such report will, subject to the timing of inaugural Green Financing instrument issuance, cover either i) rolling 12-month period from issuance or ii) the ongoing financial year. The Green Finance Report will be published either as a stand-alone document or it may be integrated into LocalTapiola Finance's or the Group's annual review or sustainability report.

The Green Finance Report will include information about allocation and impact of proceeds. The Green Finance Report will be published annually as long as there is Green Financing outstanding or until full allocation of proceeds. Each Green Financing instrument will have at least one Green Finance Report available during its lifetime, and multiple Green Finance instruments may be combined in one Green Finance Report.

In case LocalTapiola Finance has Green Financing outstanding in a form of bank loans or other bilateral facilities, reporting related to such loans may be done directly to lenders, as may be agreed in respective facilities' final documentation.

### Allocation Reporting

Information included in the allocation section shall include at least:

- Total amount (EUR and/or other currencies) of Green Financing outstanding during the reporting period
- Share of proceeds used for refinancing and financing
- Share of unallocated proceeds (if any)
- Chosen allocation method (portfolio or bond-by-bond)

### Impact Reporting

The impact report includes metrics related to the environmental impacts of our eligible Green Assets and Expenditures financed under this Framework. Given the large volume of individual financing agreements for consumers, LocalTapiola Finance may provide an aggregated estimate of the environmental impact, including:

- CO<sub>2</sub> saved over the life-cycle of the zero-emission vehicles compared to combustion engine vehicles in LocalTapiola Finance's Portfolio



## 2.5 External Review

### Pre-Issuance Review

To confirm the transparency, robustness and alignment with market standards of this Framework, LocalTapiola Finance has engaged Moody's Ratings ("Moody's") to act as an external reviewer of this Framework. Amongst other things, the independent second party opinion by Moody's confirms the alignment of this Framework with the Green Bond Principles set out in 2021 by ICMA and with Green Loan Principles as set out in 2023 by LMA.

This Framework and independent second party opinion by Moody's will both be publicly available under the investors section on LocalTapiola Finance's website.

LocalTapiola Finance shall acquire new second party opinion in connection to any update to this Framework, and shall publish both updated documents on LocalTapiola Finance's website.

### Post-Issuance Review

Allocation of proceeds shall be subject to an external auditor's review annually until full allocation or if material re-allocation is done for already allocated amounts.

LocalTapiola Finance may publish external review in connection to the Green Finance Report or the external review may be included as a part of LocalTapiola Finance's or the Group's annual review or sustainability report.

