ASSESSMENT
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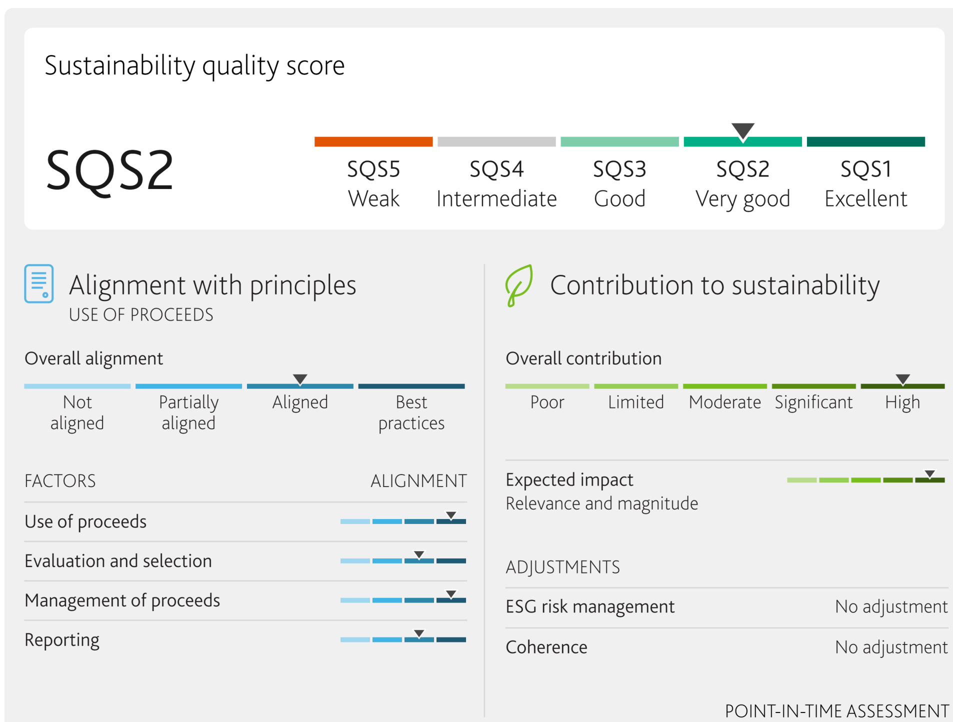
LocalTapiola Finance Ltd

Second Party Opinion – Green Finance Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (Very Good) to LocalTapiola Finance Ltd's (LocalTapiola Finance) green finance framework dated May 2024. The issuer has established its use-of-proceeds framework with the aim of financing projects across one eligible green category — clean transportation. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (including the June 2022 Appendix 1) and the Loan Market Association, Asia-Pacific Loan Market Association and Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2023. The framework demonstrates a high contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the green credentials of LocalTapiola Finance's green finance framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023. Under its framework, LocalTapiola Finance plans to issue use-of-proceeds green financing instruments such as green senior bonds, green asset-backed securities and other types of debt instruments to finance projects across one green category, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 7 May 2024, and our opinion reflects our point-in-time assessment[1] of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

LocalTapiola Finance Ltd (LocalTapiola Finance) is a subsidiary of, and fully owned by, LocalTapiola Group — one of the largest insurance companies in Finland. LocalTapiola Finance was established in 2017 as a dedicated car financing company, and offers mainly hire-purchase and lease contracts to its clients for the acquisition of both new and used vehicles. The contracts to private individuals and small businesses are marketed through car dealerships. LocalTapiola Finance works with a wide array of around 700 dealerships across Finland. The company had a market share of around 17% in the auto financing sector in Finland as of December 2023.

LocalTapiola Finance’s exposure to environmental risks is low because the vehicles backing the loans are subject to regulations on carbon emissions and air pollution. As environmental regulations become more stringent, automakers are pursuing more ambitious electrification goals. However, the risks are largely mitigated by the short tenor of the assets and liabilities in most transactions. In line with the parent Group’s high-level targets, the issuer has committed to achieving carbon neutrality in scope 1 and 2 emissions by 2025. Net zero for all insurance- and investment-associated emissions is targeted to be reached at the LocalTapiola Group level by 2050.

Strengths

» Supporting the adoption of electric vehicles is likely to make a high contribution to sustainability in the long term.

» The eligibility criteria for the financed assets follow the substantial contribution criteria for the economic activity “clean transportation” as laid out in the EU Taxonomy (Climate Delegated Act) for sustainable activities.

» The environmental objective is clearly defined and relevant.

Challenges

» Reporting will only be conducted until the full allocation of proceeds.

» There is no commitment to undertake an independent review of the impact reporting.

Alignment with principles

LocalTapiola Finance's green finance framework is aligned with the four core components of the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023:

- ☑ Green Bond Principles (GBP)
- ○ Social Bond Principles (SBP)
- ☑ Green Loan Principles (GLP)
- ○ Social Loan Principles (SLP)
- ○ Sustainability-Linked Bond Principles (SLBP)
- ○ Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned	Partially aligned	Aligned	Best practices ▼

Clarity of the eligible categories – BEST PRACTICES

LocalTapiola Finance has clearly communicated the nature of expenditures for the single eligible category as a 100% refinancing of car loans in the context of hire purchase and financial leasing. The eligibility criteria are also clearly defined and refer to the substantial contribution criteria for the economic activity "clean transportation" as laid out in the EU Taxonomy for sustainable activities. The refinancing of internal combustion engine vehicles or hybrid vehicles is excluded from the outset. All projects are located within Finland.

Clarity of the environmental objectives – BEST PRACTICES

LocalTapiola Finance has clearly outlined the environmental objective as climate change mitigation, which is considered relevant for the single eligible category and is set coherent with recognized international standards, including the United Nations' (UN) Sustainable Development Goals (SDGs) and the EU Taxonomy.

Clarity of the expected benefits – BEST PRACTICES

The expected environmental benefits are clear and relevant, and they refer to the amount of CO_2 emissions avoided vis-à-vis comparable internal combustion engine vehicles. These benefits are measurable and the company will report on these quantitative benefits in its ongoing reporting. There will always be full refinancing of projects, and the lookback period for such projects will be limited to 36 months. This will be communicated to investors during the bond issuance process or shared between loan finance parties.

Best practices identified - use of proceeds

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned | Partially aligned | Aligned | Best practices

Transparency and quality of process for defining eligible projects – BEST PRACTICES

LocalTapiola Finance has established a clear process for the evaluation and selection of eligible projects, including detailed decision-making criteria, and clearly defined roles and responsibilities formalized in its publicly available framework. The process relies on relevant internal expertise convened in the form of the Green Finance Committee, which is composed of members from the head of the capital markets and funding, chief investment officer, chief financial officer and chief executive officer. The Green Finance Committee is responsible for reviewing and validating the selection of eligible green projects. The committee meets at least once a year.

Monitoring of the continued compliance of the selected assets with the eligibility criteria is carried out at the level of car manufacturers, but not at the level of an individual financed vehicle. In addition, the issuer does not have any specific ESG selection criteria for the car manufacturers in its dealership network, but does conduct due diligence at the dealership level.

The traceability of the process is ensured through meeting minutes. If an asset is deemed to not meet the eligibility criteria, it will be removed from the so-called Green Debt Register, where all the financial assets related to green assets and expenditures are monitored.

Environmental and social risk mitigation process – ALIGNED

Environmental and social (E&S) risk monitoring takes place at the customer and at the dealership level, and at the car manufacturer level in connection with the eligible asset overview. In the event that certain car manufacturers are deemed not operating sustainably, LocalTapiola Finance may exclude all of that car manufacturer's vehicles from its green financing. Environmental risk monitoring is only at the car manufacturer level, but social risks are monitored at the customer level, in that LocalTapiola Finance proactively identifies vulnerable customers at risk of over-indebtedness. The E&S risk mitigation process will be disclosed to investors on demand only.

Best practices identified - process for project evaluation and selection

» The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise

» There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed

» The process for project evaluation and selection is traceable

» Presence of corrective measures to address environmental and social risks across projects

Management of proceeds

Not aligned | Partially aligned | Aligned | Best practices

Allocation and tracking of proceeds – BEST PRACTICES

LocalTapiola Finance has clearly defined the process for the allocation and tracking of proceeds in the framework. The net proceeds will be held in the company's general account and tracked adequately. While the bonds are outstanding, the balance of tracked net proceeds will be adjusted annually to match allocations to eligible assets. The issuer has committed to an allocation period in line with the best practice of 24 months from the time of issuance.

Management of unallocated proceeds – BEST PRACTICES

The issuer intends to place temporarily unallocated proceeds in a liquidity reserve managed in accordance with LocalTapiola Finance's liquidity management policy. The management is based predominantly on short-term money market funds, and there are no high environmental risks associated with such instruments. In the event that a particular vehicle acquisition does not occur, the proceeds will be reallocated to other similar eligible vehicles.

Best practices identified - management of proceeds

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned	Partially aligned	Aligned	Best practices

Transparency of reporting – ALIGNED

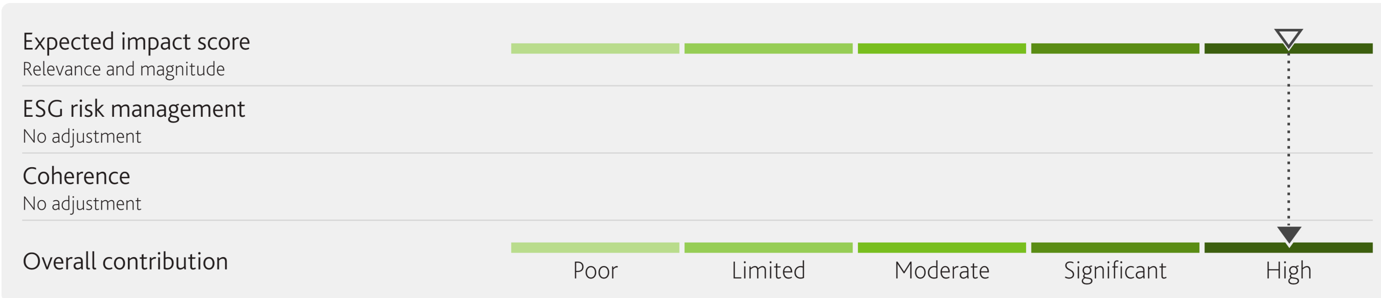
LocalTapiola Finance has committed to provide annual allocation and impact reporting in its Green Finance Report until full allocation and in case of material developments. The report will be published either as a standalone document, or it may be integrated into LocalTapiola Finance's or the Group's annual or sustainability report, but will in any case be publicly available. Any material changes to the allocation will be reported. The impact reporting will encompass data that contrasts the theoretical emissions saved by electric vehicles against those of comparable combustion engine vehicles in the LocalTapiola Finance (non-green) lending portfolio. The calculation methodologies and assumptions used to report on environmental benefits will be included in the Green Finance Report. The allocation reporting will be verified through a review by an external auditor until full allocation and in case of significant changes. There will be no external verification or assurance of impact data or indicators related to issuance under the framework.

Best practices identified - reporting

- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes

Contribution to sustainability

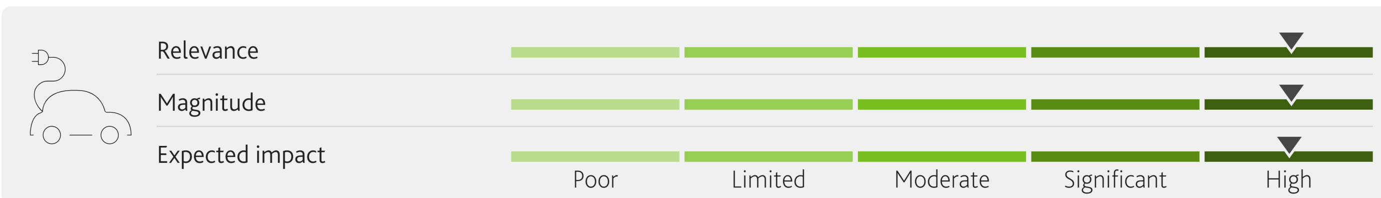
The framework demonstrates a high overall contribution to sustainability.



Expected impact

The expected impact of the eligible category on the environmental objective is high. A detailed assessment is provided below.

Clean transportation



The eligible assets in this category, which is zero-tailpipe emission electric vehicles, are highly relevant investments to decarbonize transportation emissions in Finland. According to the International Energy Agency (IEA), global CO_2 emissions from transport continued to rise in 2022, almost returning to the 2019 levels, with road transport being the largest source of CO_2 emissions within the transport sector[2]. In 2020, emissions from transport accounted for 22% of Finland's total emissions, making it the third-largest emitting sector after electricity, and heat- and land-use change[3]. In 2022, according to the European Environment Agency, electric vehicles made up 18% of new vehicle registrations in Finland, significantly below the proportion in its Nordic neighbors Norway (79%) and Sweden (35%)[4]. Achieving GHG emission reduction in the Finnish transport sector depends heavily on its rapid electrification, specifically by increasing the adoption of zero-emission vehicles.

The eligible assets are assessed to have a highly positive impact, and therefore a high magnitude in mitigating emissions, through the use of best available technologies without negative lock-in effects. Eligible electric vehicles must meet relevant market-recognized thresholds, namely having zero-tailpipe CO_2 emissions, as defined by the EU Taxonomy Regulation. The use of zero-tailpipe emission vehicles is likely to contribute substantially to the goal of mitigating climate change in the long term.

ESG risk management

We have not applied a negative adjustment for the management of ESG externalities to the expected impact score. The company has ESG risk management processes in place that are notably detailed, particularly in dealing with social and governance risks. At the Group level, commitments exist with regard to social responsibility and responsible lending, which are integrated into LocalTapiola Finance's credit policy at the subsidiary level. LocalTapiola Finance's customer service guidelines include the proactive identification of vulnerable customers — for example, those in financial difficulties because of sudden changes in life circumstances — who are then informed of their rights to changes in payment schedules and to other kinds of available support, including from relevant government organizations, on debt restructuring or assistance from the consumer ombudsman's office in case of disputes with dealerships. Governance-related commitments are laid out in LocalTapiola Finance’s business principles and its code of conduct, including anti-money laundering and anti-bribery policies and procedures. With regard to environmental risks, as a finance company operating mainly through dealerships, LocalTapiola Finance does not have any criteria for the financed assets related to broader environmental risks or externalities other than identifying them as zero-tailpipe vehicles. However, indirect management of ESG externalities takes place at the dealership level, through the firm's due diligence, and at the car manufacturer level, in the sense that if a car manufacturer is subject to significant controversies or high ESG risks, LocalTapiola Finance can exclude all eligible vehicles of that car manufacturer from its green financing.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. Projects to be financed under LocalTapiola Finance's framework align with LocalTapiola Group's overall sustainability objectives focused on carbon neutrality in its own operations by 2025 and reaching net-zero for the Group's insurance and investment portfolio by 2050. In addition, (re-)financing of loans for cars with zero-tailpipe CO_2 emissions contributes to Finland's targets to reduce the country's GHG emissions by 60% by 2030 compared with 2005 levels and to become carbon neutral by 2035[5].

Appendix 1 - Mapping eligible category to the United Nations' Sustainable Development Goals

The single eligible category included in LocalTapiola Finance's framework is likely to contribute to one of the UN's SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 13: Climate Action	Clean Transportation	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the eligible project category and associated sustainability objectives/benefits documented in the issuer's green finance framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG mapping guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of eligible categories in LocalTapiola Finance's framework

Eligible Category	Description	Sustainability objective	Unit of measurement
Clean Transportation	Customer financing and/or refinancing of Hire Purchase and Financial Leasing contracts used for the purchase / financing of electric vehicles. Combustion engine vehicles or hybrid vehicles are exluded from (re-)financing. Eligible electric vehicles must have zero specific tailpipe emissions of CO_2. Specific emissions of CO_2 are measured as defined in Article 3(1), point (h), of Regulation (EU) 2019/631.	Climate Change Mitigation	CO_2 emissions savoided compared to comparable combustion engine vehicle

Endnotes

1 The point-in-time assessment is applicable only on the date of assignment or update.

2 International Energy Agency, Transport, retrieved in April 2024.

3 Traficom, Greenhouse gas emissions and energy consumption in transport, December 2022.

4 European Environment Agency, New registrations of electric vehicles in Europe, November 2023.

5 Ministry of Finance Finland, Net-Zero Government Initiative (NZGI) Finland, May 2023.

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