



# Principles related to sustainability risks in OP Financial Group

OP Financial Group



## Principles related to sustainability risks in OP Financial Group

This document describes how OP Financial Group companies that engage in investment, or provide investment and insurance advice, take account of sustainability risks in their investment-related decision-making processes and when providing investment and insurance advice, in accordance with the Regulation of the European Parliament and of the Council on sustainability related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation) (2019/2088, Article 3). The principles apply to investment activities, and investment and insurance advice.

A sustainability risk means an environmental, social or governance event or circumstance that, if realised, could have a negative material impact on the value of an investment. The integration of sustainability risks in investment decisions, investment-related processes, and investment and insurance advice is an essential part of investment due diligence and the provision of investment and insurance advice for our clients. Analysis of environmental and social aspects and corporate governance (ESG) provides information on investment instruments beyond the financial situation at the time. Ideally, a broader-based analysis can reveal risks or opportunities which may emerge later and have a significant impact on an investment's financial situation and value.



The following OP Financial Group companies and all OP cooperative banks comply with these principles:

	OP Asset Management Ltd	OP Fund Management Company Ltd	OP Life Assurance Company Ltd	OP Real Estate Asset Management Ltd	OP Retail Customers Ltd	OP Corporate Bank plc	OP Bank Group Pension Foundation	OP cooperative banks	Pohjola Insurance
Investment activities	x	x	x	x		x	x	x	
Investment and insurance advice	x		x		x	x		x	x

OP Fund Management Company Ltd, OP Life Assurance Company Ltd, OP Bank Group Pension Foundation and OP cooperative banks have outsourced their investment activities – mainly to OP Asset Management Ltd, which invests in compliance with principles related to sustainability risks. OP cooperative banks distribute mutual funds of OP Fund Management Company Ltd. The portfolio manager of the funds is OP Asset Management Ltd or OP Real Estate Asset Management Ltd. OP Asset Management Ltd and OP Real Estate Asset Management Ltd have adopted Principles for Responsible Investing, which they apply in their investment activities ([Principles for Responsible Investing](#)).

# 1. Managing sustainability risks in investments

This section describes how OP Financial Group companies that engage in investment take account of sustainability risks as required by the Sustainable Finance Disclosure Regulation. OP Financial Group strives to manage sustainability risks through its investment-related decision-making processes. Management of sustainability risks is governed by, for example, regulations, official recommendations and international standards, commitments and agreements. We strive to assess current and future long-term ESG risks and return potential from the standpoint of both adaptation to, and the causes of, global environmental and social changes.

There is no widely accepted formula or model for calculating the impact of sustainability risks on investment returns. OP Financial Group does not closely analyse the impact of sustainability risks on the returns of the investment products it offers. The general view is that the potential impact of sustainability risks on returns depends on a number of factors, including the investment horizon and geographical and sector diversification. We actively monitor the development of calculation methods and, where possible, strive to assess the impact of sustainability risks on returns going forward.

Changes that investors must prepare for, such as climate change, will pose risks to certain sectors while opening up opportunities for others. Systemic sustainability risk involves events with far-reaching impacts and against which diversification is ineffective. Climate change is one example of a systemic sustainability risk. In the case of climate change and its impacts, uncertainty is created by the difficulty of anticipating changes in natural conditions and the unpredictability of socioeconomic developments affecting the degree of exposure and vulnerability to such changes. The complexity of sustainability risks and the many ways in which human activity and natural conditions are connected makes the outlook even less predictable. With respect to climate risks, we have identified transition risks and physical risks. Transition risks concern the possible ineffectiveness of investments in combating climate change or promoting the transition and adaptation to a low-carbon economy. Physical risks refer to damaging natural phenomena resulting from climate change (such as floods, heavy rains and exceptionally high temperatures) that may pose financial risks to investments.

Key principles in the management of sustainability risks include considering material risk factors, controlled risk appetite, and risk mitigation through active shareholder engagement.

From an investor's perspective, financially material sustainability risks are considered by identifying ESG factors that have an impact on the company's financial performance. Sustainability risks vary from sector to sector. In determining whether a sustainability risk is material, we use international frameworks and service providers that carry out ESG research. We also observe the reporting requirements of sustainability metrics defined by various regulators. We use these material ESG factors and ESG analyses to support decision-making in the manner best suited for each asset class and investment method.

The return potential and risks of sustainability solutions are intertwined. We take controlled risks in our investments in order to achieve returns.

Active ownership is another way in which we may seek to minimise sustainability risks. OP Fund Management Company Ltd and OP Asset Management Ltd engage in active ownership by participating in AGMs, influencing investment instruments, and through active dialogue between investors and investments. The principles of shareholder engagement followed by the OP Financial Group companies in question include further information on how active shareholder engagement is carried out in practice with such companies.

Consideration of sustainability risks – including understanding material ESG factors, active stakeholder co-operation, extensive reporting, and defining and tracking threshold values for ESG exposures – plays a key role in ensuring our capability to respond quickly to external changes.

## 2. Principles of sustainability risks in investment and insurance advice

This section describes how OP Financial Group companies that provide investment and insurance advice take account of sustainability risks as required by the Sustainable Finance Disclosure Regulation. Investment and insurance advice takes account of sustainability risks in the product selection offered, as follows.

### 2.1 OP cooperative banks and OP Retail Customers plc

OP cooperative banks provide investment advice regarding funds and discretionary investment management agreements managed or administered by OP Fund Management Company Ltd and OP Real Estate Asset Management Ltd, as well as advice on the insurance products and insurance-based investment products offered by OP Life Assurance Company. Either OP Asset Management or OP Real Estate Asset Management typically acts as the portfolio manager of these fund-based products, asset management mandates or investment baskets: sustainability risks are considered, as described above, in the related investment decisions.

The investment and insurance advice provided may concern funds that are not managed or administered by OP Financial Group companies. If this is the case, each fund's portfolio manager is responsible, in accordance with their own operating principles, for taking account of sustainability risks. Regulations state that fund prospectuses must provide detailed information on the fund's ESG factors.

Sustainability risks concerning other products on which investment and insurance advice are provided are not integrated in the investment and insurance advice process.

### 2.2 OP Asset Management

OP Asset Management provides investment advice regarding funds managed or administered by OP Fund Management Company and OP Real Estate Asset Management, insurance advice on OP Life Assurance Company's insurance products and insurance-based investment products, and the products and services of OP Asset Management, including the discretionary investment management service. OP Asset Management or OP Real Estate Asset Management typically acts as the portfolio manager of these fund-based products, asset management mandates or investment baskets. Investment decisions on the products take account of sustainability risks, as described above.

The investment and insurance advice provided may concern funds that are not managed or administered by OP

Financial Group companies. If this is the case, each fund's portfolio manager is responsible, in accordance with their own operating principles, for taking account of sustainability risks. Regulations state that fund prospectuses must provide detailed information on a fund's ESG factors.

Sustainability risks concerning other products on which investment and insurance advice are provided are not integrated in the investment and insurance advice process.

### 2.3 OP Life Assurance Company

OP Life Assurance Company's products are provided by OP cooperative banks, OP Retail Customers and OP Asset Management that act as agents of OP Life Assurance Company. These agents provide insurance advice on the insurance products of OP Life Assurance Company and on insurance-based investment products, such as the funds managed or administered by OP Fund Management Company or OP Real Estate Asset Management, investment baskets managed by OP Asset Management, or structured products issued by OP Corporate Bank. Sustainability risks are considered in the manner described in section 1, when making investment decisions related to these products.

Insurance-based investment products may also concern funds that are not managed or administered by OP Financial Group companies. If this is the case, each fund's portfolio manager is responsible, in accordance with their own operating principles, for taking account of sustainability risks. Regulations state that fund prospectuses must provide detailed information on a fund's ESG factors.

Sustainability risks concerning other insurance-based investment products are not integrated in the insurance advice process.

### 2.4 OP Corporate Bank

The OP Markets function of OP Corporate Bank provides investment advice on interest, currency and commodity derivatives for hedging purposes. From the standpoint of interest, currency and commodity derivative contracts, events or conditions related to sustainability risks can only have an indirect impact on the price of the derivative contract's underlying asset, and therefore the value of the contract. For this reason, there is no way of predicting how events or circumstances related to sustainability risks might impact on the price of the underlying asset. Accordingly, sustainability risks have not been integrated in the investment advice process.

## 2.5 Pohjola Vakuutus

Pohjola Insurance provides insurance advice on certain OP Life Assurance Company products, for which sustainability risks have been considered as mentioned above.