FINANCE FINLAND

2018

Financial sector increases transparency in its climate work

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Climate change affects every branch of industry and every function of society. The single most important way to manage the risks caused by climate change is to cut down greenhouse gas emissions worldwide.

Finance Finland (FFI) has a strategic mission to be a strong and responsible builder of wellbeing. Together with our member companies, we are constructing an operating environment in which our business activities promote Finnish wellbeing.

In February 2017, the FFI Board made a definition of policy, supporting actions that seek to limit global warming to below 2°C as per the Paris Climate Agreement. As a major investor, creditor, asset manager and insurer, the financial sector also wants to document its work in combatting climate change. To solidify this objective, the sector laid out its climate target in a Commitment to Sustainable Development. Through the Commitment, FFI also participates in Finland's implementation of the Global Action Programme 2030 Agenda for Sustainable Development.

Together with its member companies, FFI also created a reporting framework and climate indicators that the companies can use to describe their actions in mitigating climate change over the years and to increase the transparency of their work. Companies can independently choose how they apply these indicators. Collaboration in creating guidelines for best reporting practices can also introduce new approaches to the development of the member companies' own responsibility reporting.

With the climate rapidly changing, companies must learn to manage risks and adopt new practices. Indeed, anticipation and adaptation must gain a growing role in their everyday actions. With proper anticipation, companies can even save money and seize new business opportunities.

Investors have already begun to demand for companies to assess and manage their climate risks more transparently. The claim for transparency is backed up by the Financial Stability Board (FSB) that monitors the global financial system: it considers climate risk transparency a cornerstone for the global economy's stability.

Many of FFI's member companies already had advanced responsibility programmes that covered climate change. But with the help of the indicators introduced in this publication, the financial sector's climate actions can soon be evaluated as a whole.

This publication introduces the first set of recommended indicators to describe the financial sector's work in fighting climate change. The sector seeks to annually examine and update the recommendations, which are founded on the FSB's Recommendations on Climate-related Financial Disclosures.

The recommended climate change indicators introduced here have been prepared by a working group with reporting and climate change experts from FFI and its member companies. The working group strongly recommends that the sector include these indicators in their reporting practices. FFI also encourages companies to report more extensively the risks and opportunities climate change presents in their business activities as well as the objectives and actions they take in reducing greenhouse gases.

In June 2018,

Esko Kivisaari
Deputy Managing Director

1 FINANCIAL SECTOR SHOULDERS CLIMATE CHANGE RISKS

The insurance sector and the entire financial sector play a critical role in fighting climate change: as major investors, creditors and asset managers, they help carry the risks. Ahead of many others, the insurance sector began to consider climate change a major risk in the 1980s, and the entire financial sector joined the fight in recent years. According to the European Commission's estimate, achieving the EU climate and energy targets requires an annual investment of EUR 270 billion into renewable energy and other sustainable solutions. (Source: European Commission.)

In early 2018, the EU High-Level Expert Group on Sustainable Finance (HLEG) released its final report that included several recommendations about how the financial sector could better direct funding to sources that help mitigate climate change. The report also included recommendations about how sustainable finance could be better integrated into the EU's activities. These recommendations also aimed to improve the financial market's stability and to better account for climate risks. FFI's Deputy Managing Director Esko Kivisaari was one of the group's twenty members.

In March 2018 following the expert group's report, the Commission published its Action Plan, and in May 2018, the first legislative proposals have already been made. FFI supports the Commission's objective to make sustainable finance a permanent part of the financial market and decision-making in Europe.

But the financial sector cannot control climate change alone – it needs all other industries to join in. The financial sector can, however, promote the desired developments by sharing information and channelling funding into a sustainable direction.

Starting from 2017, an EU directive made non-financial reporting obligatory for all public-interest companies and all large companies with more than 500 employees. The new reporting requirements also call for specific indicators. Thanks to consumers growing increasingly aware and demanding, companies can even gain competitive strength from measuring and improving their climate impact.

2 FINANCIAL SECTOR STEERS MONEY FLOWS

The financial sector has great influence over money flows. The main institutional investors are pension insurers and insurance companies. In addition, banks not only grant credit for the investments of companies and households, but they also invest their own funds. Fund management companies and other asset managers also offer various investment solutions to both institutional and retail customers. Moreover, investment advisory services offered to customers affect how investments are channelled.

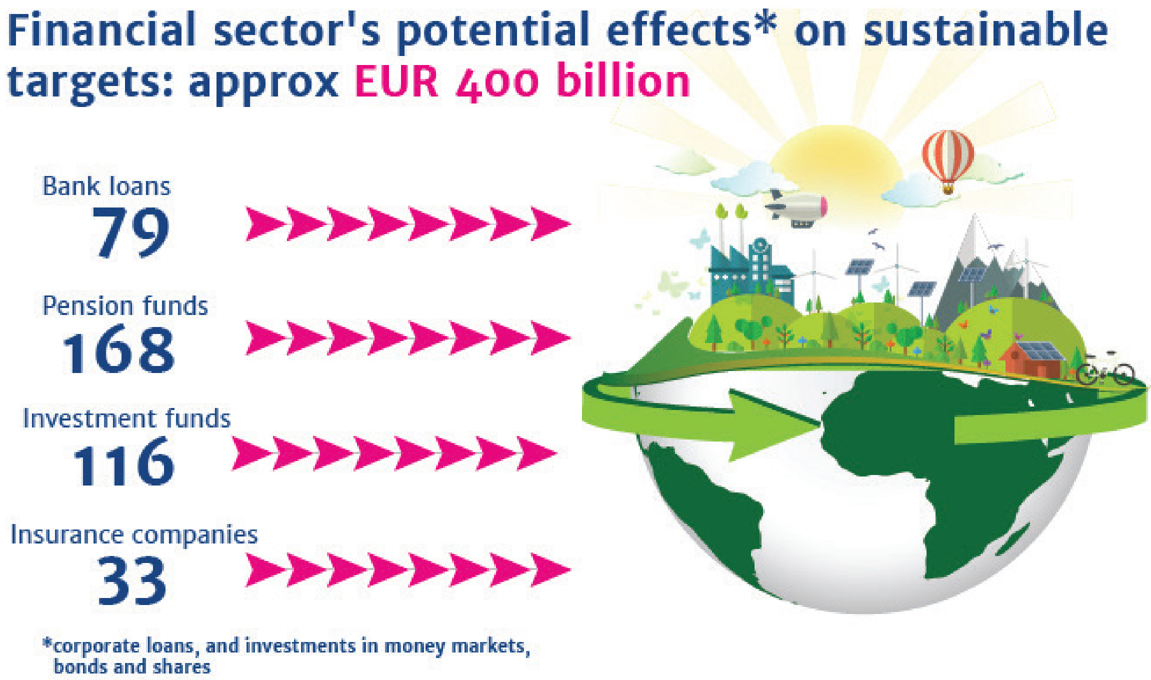
A company's investment strategy is determined firstly by the law and secondly by the company's own values and principles. The investment strategy determines how funds are allocated to companies, projects and households.

Many projects that promote sustainable development are long-term in nature. A successful investment strategy includes the avoidance of loss, but because risks and rewards are inseparable, investments that mainly avert risks are rarely very profitable. Companies therefore aim at a combination of risks and rewards that is in line with the objectives set for their investment activities

Pension insurers nurture the pensions of Finns

The financial sector's subsectors all have different roles in the economy, which is why they also have different investment strategies. Because the purpose of pension insurers is to secure the pensions of Finnish employees, their investment horizons automatically span several decades. This allows them to fund sustainable development.

> **Finnish pension insurers**
>
> According to the nature conservation group WWF's estimate, Finnish pension companies rank at the top in Europe when assessing how well their investments align with the Paris Climate Agreement.



CAPITAL ADEQUACY UNDER THE MICROSCOPE

Banks must have adequate capital to cover possible operating losses. To ensure capital adequacy, banks must reserve a certain amount of capital on their balance sheet whenever they invest or loan money. The amount set aside is determined by the risk weights of different investments and loans.

According to the EU Sustainable Finance Action Plan, the European Commission will investigate if investments and loans classified as sustainable bear a lighter credit risk. The current strict capital adequacy requirements for banks may hinder sustainable investing if these investments are estimated risky. Similar solvency regulation also concerns the investment decisions of insurance companies. Changes in capital adequacy regulation always have a major impact on banks' investment and loan decisions. The smaller the capital adequacy requirement, the easier it is to invest.

Insurance companies prepare for sudden payouts

Like pension insurers, insurance companies also often have long-term liabilities, which means that they tend to invest in objects that yield a steady profit. They must also be able to make sudden payments, meaning that their investment portfolios must be versatile and meet the company's obligations under all circumstances. Insurance companies may need to compensate for very large damages unexpectedly, which is why they have installed their own mutual systems, including the reinsurance system.

Banks fund the economy

Banks fund the economy in many ways. They are the main source of funding for households and small and medium-sized enterprises (SMEs), but large companies also rely on them. Moreover, banks are a central channel for companies seeking funding in the capital market. In addition to funding the investments of others, banks also have their own investment activities.

Regulation requires that banks have certain liquidity buffers and enough capital for a good loss-absorbing capacity.

Fund management companies offer investment options

Fund management companies offer various investment options for institutional and individual investors alike. Those who invest in a fund own its assets but also carry the investment risk. A fund's rules determine its investment policy and thus also how its assets are invested. Investors can choose among various options with different expected risks and rewards.

Handelsbanken

The Handelsbanken Hållbar Energi (sustainable energy) fund was among the first investment funds to receive the Nordic Swan Ecolabel. The fund invests globally in companies that focus on reducing emissions or boosting the efficiency of energy use to mitigate global warming.

Investment funds cannot receive the Nordic Swan Ecolabel if they include companies that use fossil fuel to produce energy.

Greener driving

Handelsbanken compensates for the CO_2 emissions of the cars it funds by acquiring the corresponding amount of emissions allowances from First Climate.

3 CLIMATE CHANGE INDICATORS

FFI has put together a set of indicators financial companies can use to describe their climate work and to help curb climate change while taking into account the risks climate change poses.

The indicators fall in four different categories. These have been chosen in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board, a collaboration body for the G20 central bank governors. The reporting categories are: 1) corporate governance, 2) strategy, 3) risk management and 4) metrics and targets.

4 SUSTAINABILITY INDICATORS ON INVESTING

Governance

Governance indicators describe the company's decision-making and internal processes related to climate change. This section also includes a question about disclosing climate risks. A central question in governance is the transparency of the company's operations, a matter that also directly affects stakeholders – if the investors do not know what is happening in the company, it is very difficult for them to evaluate its governance.

Strategy

A financial company's investment strategy directly determines the actions towards which it directs funds. Moreover, the investment strategy also determines the preconditions for investment options and steers the operations of the entire company or group. The strategy indicators allow financial companies to provide a general overview of how their investment strategy accounts for climate change.

Through their investment strategy, many companies can influence their shareholder companies and try to steer their operations into a better direction. In practice, this may mean planning new business models or managing risks, for example.

Ilmarinen Mutual Pension Insurance Company

At the end of 2017, Ilmarinen's investments in sustainable solutions totalled 7.5% of the turnover of the direct listed equity investments, up by 1.8% from 2016. Most of the growth came from climate change related turnover, including investments in energy efficiency, energy sources replacing fossil fuel, and green building.

In total, the investments in companies focusing on sustainable development amounted to EUR 517 million.

Ilmarinen's objective is to double the share of sustainable solutions in its portfolio (from 6% to 12%) by 2020.

Varma Mutual Pension Insurance Company

Varma's climate policy in investments covers all asset classes and outlines how it helps mitigate climate change in its investment activities. Varma's objective is to reduce carbon footprint by 2020 as follows:

- By 25% in listed equity investments
- By 15% in listed corporate bond investments
- By 15% in real estate investments

Varma has reached this objective in 2017.

Aktia Bank plc.

Aktia's equity funds boast a carbon footprint that is approximately 50% smaller than that of the reference market.

Elo Mutual Pension Insurance

Elo influences companies and political decision-makers through its membership in IIGCC, Europe's major climate change fighting investor network, and through participation in the Climate Action 100+ and other projects. Elo's aim is for all its external fund managers to commit to taking climate change into account in their investments by 2020.

The FFI indicators intentionally do not include a strict definition of engagement policy, allowing companies to freely describe different ways of engagement for both large and small corporate shareholders. One way to do so is to have a direct bilateral discussion with the target company's management. In any case, the engagement policy must have a clear objective that the shareholder pursues. Engagement policy can be an effective way to gently persuade companies to account for their climate change impact and risks.

Financial companies can use the indicators to describe their engagement policy in climate change issues. In addition to influencing shareholding companies, financial companies can also influence public authorities. One of the indicators describes this work in particular. If investors use external asset managers, it is important to know whether they are also required to take climate risks into account as part of the investment strategy. Financial companies can also use the indicators to list all the international initiatives and agreements to which they have committed.

Risk management

Climate change may cause unexpected changes in asset values. Extreme weather conditions, such as storms, draughts or rises in water levels, can result in net assets dropping and business operations plummeting. Another risk climate change poses to investments is the changes that take place in the adaptation period, usually in legislation.

The most immediate pressure for legislative change is in reducing emissions, preserving natural resources and limiting the use of clean water. Such changes have a direct effect on not only emission-producing companies, but also on the companies that have invested in them.

What can investors do to manage the risks related to climate change? One of the TCFD's recommendations is to conduct a scenario analysis that outlines different outlooks for the future. How would the different scenarios affect economic development? To be as realistic as possible, the scenarios must also involve human social consequences. For example, growing migration is likely to have a far-reaching impact on companies.

Metrics and targets

Companies with investments can use metrics to measure how prone their investment portfolio is to climate change risks. At the moment, there is no unambiguous definition of what constitutes sustainable or climate-friendly business or investment activities. With so many different kinds of actors in the market, it is particularly difficult to create definitions for direct and indirect sustainable investments. Mere greenhouse gas emissions may not offer a full picture of how environmentally friendly the company is because such figures do not project future or account for product development.

Bond markets have witnessed the birth of a particular category of green bonds. Green bonds have several internationally agreed criteria, which are already widely used in the market. These international criteria are not, however, supervised by authorities.

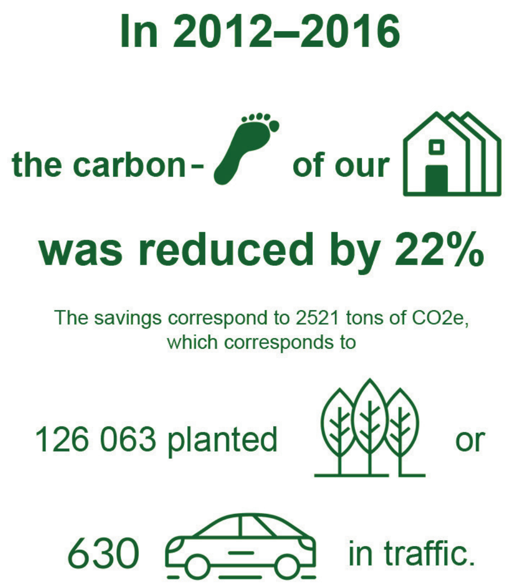
It is recommended to assess the climate impact of real estate with the EU energy efficiency rating for owned real estate and other quality classifications. Alternatively, companies can report their real estate investments with an external recognition for energy efficiency.

The recommended indicator for reporting the emissions of investment portfolios is the proportion of companies that have reported their greenhouse gas emissions. Companies can also report the emissions of their own portfolio, if they can do so fairly accurately.

In the future, the FFI indicator recommendations can also make use of the upcoming EU taxonomy for sustainable finance.

Veritas Pension Insurance

One of the main climate actions of Veritas is to reduce the emissions from its real estate.



LocalTapiola Group

The aim of LocalTapiola Real Estate Asset Management is to reduce the energy consumption of the real estate it governs by 7.5% of the 2015 consumption by 2025 and to encourage leaseholders to also reduce their energy consumption.

LocalTapiola Asset Management invests in companies that actively seek to reduce their carbon footprint or produce goods and services with a positive carbon footprint impact. LocalTapiola also aims to reduce the carbon footprint of its investment portfolios by encouraging smaller companies to adopt better reporting practices and reduce their carbon footprint.

Danske Bank

The green bond market is experiencing strong growth in the Nordic countries and especially in Sweden, which is a lead market in this sector. In 2017, Danske Bank was Sweden's second largest green bond provider with its SEK 5 million volume.

5 SUSTAINABILITY INDICATORS ON LENDING

Banks, too, can examine the contents of their loan portfolios from a sustainability perspective. Climate change can affect the operations of many companies very quickly, and companies that have not prepared for climate change or related legislative changes can become unprofitable and even insolvent in no time, thus risking loan paybacks.

The sustainability indicators on lending aim to describe how creditors account for the impact of climate change in their loan portfolio risks. The indicators also reveal if the creditor has a climate change strategy or objectives in its own loan processes.

Moreover, the indicators are a way to determine the levels of governance on which the bank discusses climate change.

Due to the stiff competition between companies issuing loans, it is often difficult to influence the credit-seeking company. The creditor can, however, discuss with the company the effects of climate change on the company's operations when discussing the credit application and decision.

Because banks and investors can exercise similar active engagement on climate issues in relation to political decision-makers, the active engagement indicator is the same in both the investing and lending indicators. The recommended indicators for governance, risk management, and metrics and targets are also the same for investing and lending, which allows companies that practice both to report these indicators together for the entire company.

Nordea Bank AB

Mitigating climate change is an integral part of Nordea's operations. Nordea regularly analyses the environmental and social practices of its client companies and investments and seeks to influence them.

In addition, Nordea promotes access to information by publishing market studies and disclosing the carbon footprint of its own funds.

Nordea also helps make the transition to a low-carbon world by

- offering green bonds
- limiting investments and lending in coal mining companies
- limiting funding in energy companies whose production is mainly coal-based

SEB – Skandinaviska Enskilda Banken AB

Together with the World Bank, SEB has developed a concept for green financing. As the green bond market has grown, SEB has had a decisive role as an advisor in developing practices in impact reporting. As a result of this Nordic project, ten public sector issuers published the "Position Paper on Green Bonds Impact Reporting" that includes several tools investors can use to assess green investments.

The assets of SEB's first own EUR 500 million green bond have been used to fund environmental projects in renewable energy and green building, for example. Its positive environmental impact, including a 220,000-tonne reduction in carbon emissions, has been reported according to the Green Bond Impact Reporting principles.

Bank of Åland

Conservation of the Baltic Sea is an important part of the operations and responsibility at the Bank of Åland. With the Baltic Sea Project, the Bank of Åland wants to make it easier to acquire funding for environmental projects.

The biodegradable Baltic Sea Card is the first card in the world to calculate an estimate of the carbon footprint of the purchases made with it, thanks to the interlinked Åland Index. In calculating the carbon footprint, the card can help change consumption patterns.

The Åland Index is available to all banks – the Bank of Åland wants to make it a world-wide standard in banking. The UN has shown interest in the index, and the Bank of Åland is currently engaged in negotiations with several banks across the world.

6 CLIMATE CHANGE AND PAYMENT SYSTEMS

Finland and the banks operating in Finland rank at the global top in payment transaction efficiency. The majority of Finland's payment systems are already digital, and Finland has long worked to achieve paperless payments and to enable bank-provided identification procedures in dealing with authorities. Moreover, our banks can be reached online around the clock.

Online services and electronic documents reduce carbon dioxide emissions significantly by making processes more efficient and minimising transport. In connection with its Commitment to Sustainable Development, FFI has calculated how digitalisation affects carbon dioxide emissions. For more information, read about the environmentally friendly electronic invoice and the financial sector's commitments.

The preferred payment methods in Finland are credit transfers and card payments. Of all Finns, 92% pay their invoices online, 75% receive e-invoices, and 75% pay their daily purchases by card. Electronic services help make banks and shops more efficient. In fact, cash payments are the most burdensome payment method for the environment, with card payments straining it much less.

Thanks to the features offered by banks, Finns enjoy a wide range of online services. We can use our banking credentials to identify ourselves in the online services of authorities, insurance companies and healthcare providers, for example. The identification service is highly popular: in 2016, Finns used their banking credentials 84.7 million times for identification purposes.

Indicators for payments

Although the majority of Finland's payment systems have already been digitalised, we can monitor the progress of digitalisation by investigating how the proportion of paper vs. electronic bank statements develops each year. Another good measure is the proportion of paper vs. electronic invoices received and sent.

Finland is already on solid ground with these, but we are only beginning to adopt electronic receipts. Their adoption can be monitored through annual statistics, and their carbon footprint can be calculated using the figures offered by the French Banking Federation.

To monitor the digitalisation of payment systems, FFI uses the Bank of Finland's aggregated annual statistics on electronic invoices, cash payments and card payments, because these payment methods have the largest climate impact.

7 DAMAGE PREVENTED IS BETTER THAN DAMAGE COMPENSATED

Loss prevention is an important tool in curbing climate change. It can entail, for example, the regular service and repair of machinery and equipment, or the installation of fire extinction systems. Loss prevention helps prevent both the direct climate impact of the damaged property and the indirect climate impact of the reconstruction.

For example, a single family dwelling that burns down releases thousands of kilos of carbon dioxide and other harmful emissions, and building a replacement requires a great deal of energy.

Fires produce 50 million kilos of CO2 each year

According to a study by VTT Technical Research Centre of Finland, the total annual emissions of harmful substances from fires total some 50 million kilos. The 2004 study of the environmental effects of accidental fires shows that of the carbon dioxide emissions, 40 million kilos result from different types of building fires. In addition to carbon dioxide, these fires also release millions of kilos of other harmful substances, including carbon monoxide. In

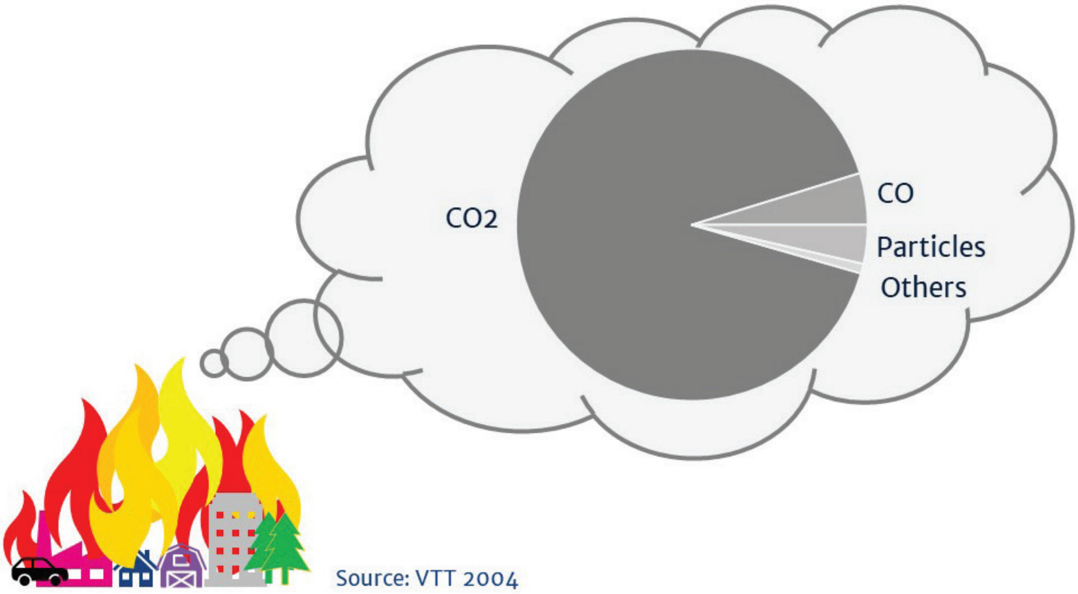
INSURANCE COMPENSATIONS

Every year, insurance companies compensate for material damage worth EUR 600 million. Material damage encompasses fire, water and criminal damage.

Insurance companies compensate for approximately 7,000 fire damages annually, most of which are related to electricity. The annual compensation sum for fire damages totals EUR 165 million.

Insurance companies also compensate for approximately 40,000 leak damages annually, with the annual compensation sum totalling EUR 170 million. Leak damages are usually the result of old water and sewer pipes, the growing number of appliances using water, and construction defects.

Fires release nearly 50 million kg of CO2 in a year



Source: VTT 2004

comparison, a regular single family dwelling with an annual 20,000 kWh electricity consumption only produces 3,280 kilos of carbon dioxide a year (source: Motiva).

On average, repairing fire damage produces over 2,300 kilos of carbon dioxide. These emissions result from removing contaminated material, rebuilding, transporting people and materials, and using energy on site. In comparison, repairing leak damage produces 300 kilos of carbon dioxide. These figures are derived from the Swedish Insurance Federation's survey from 2009.

When damage is prevented, everyone wins. The insured can continue to live or work in the building without interruption, the insurance premiums remain modest, and the environment is preserved.

By following safety and loss prevention guides, a major part of damage can be avoided, thus cutting down on emissions. The insured can prevent damage either on their own or together with their insurance company. The indicators can be used to monitor the loss prevention work and its impact.

Indicators for non-life insurance

The absolute effects of loss prevention cannot be calculated; instead, the impact estimate must be based on the repetition of correctly evaluated measures. Together with non-life companies, we have put together a set of indicators that are easy to verify and monitor.

The development of the realised measures and their numbers are monitored annually.

The effectiveness of the work put in can also be monitored through FFI's insurance survey. FFI conducts this consumer sample survey to examine trends in insurance approximately every second year.

8 SUSTAINABLE DEVELOPMENT IN PRACTICE

Finland takes part in the global Sustainable Development Action Programme Agenda 2030 for example through the Society's Commitment to Sustainable Development. In this commitment, the public sector, along with other actors, pledge to promote sustainable development in all their work. In order to reach the objectives detailed in the commitment, companies, associations, educational institutions and other organisations can also make their own operational commitments. These operational commitments aim to implement concrete measures, change practices and make innovative experiments to promote the mutually agreed objectives. All the operational commitments are compiled on the Finnish Government's Kestavakehitys.fi site, and their progress is reported annually for the next three to five years.

The purpose of the Finnish National Commission on Sustainable Development is to promote the implementation of the Society's Commitment to Sustainable Development. The Commission is chaired by Prime Minister Juha Sipilä, with the Minister of Agriculture and the Environment Kimmo Tiilikainen serving as its vice-chair.

Financial sector takes action

Together with its partners, FFI has made four commitments to sustainable development. The mutual goal of all these commitments is to lower climate emissions. Finalised in June 2018, the fourth commitment aims to promote actions that seek to limit global warming to below 2°C.

The climate change indicators for the financial sector's reporting practices were drawn up together with the commitment. FFI's member companies are free to decide what action they choose to take to curb climate change.

FFI'S COMMITMENTS TO SUSTAINABLE DEVELOPMENT

2015	2015	2017	2018/6
Automation of structured data, development of the e-receipt	**Combining the registration and insurance of vehicles**	**Digitalisation of health records**	**Limiting global warming to below 2°C**
Together with the financial management union Taloushallintoliitto and the accountancy firm Leppävaaran laskenta Regardless of company size, automation creates an 80–90% saving in the environmental effects of the company's accounting. In three years, e-invoices save 70 million kilos of CO2.	Together with the Motor Insurers' Centre and the Finnish Transport Safety Agency Trafi In two years, 55% of all registrations were digitalised. Moreover, CO2 emissions dropped by more than 25%.	Together with the Ministry of Social Affairs and Health, Kela and the Finnish Transport Safety Agency Trafi The aim was to calculate the improvements in services and carbon footprint. The starting level of digitalisation in selected documents was close to 0%.	Indicators prepared for reporting in the financial sector.

Finance Finland's commitment to streamline financial management systems together with the financial management union Taloushallintoliitto seeks to use more structured data in financial management by making use of the structured data from e-invoices, electronic bank statements and, in future, card payments. The automation of financial management also allows official reporting to take place in real time. Regardless of company size, automation can reduce the climate impact of a company's accounting by 80–90%. The reduction in the company's carbon footprint is primarily thanks to processes growing markedly more efficient through digitalisation. The commitment's results are monitored until 2020.

Since late 2015, it has been possible to insure and register a vehicle in one electronic system. Finance Finland, the Motor Insurers' Centre and the Finnish Transport Safety Agency Trafi drew up a mutual commitment to sustainable development that is used to determine how much the new electronic systems can reduce the services' carbon footprint. The calculations take into account, for example, the number of registrations in different parts of Finland, the transport and paper streams caused by these registrations, and the insurance services used. The climate impact of digitalisation is significant thanks to reduced transportation. The commitment's results are monitored until 2019.

Finance Finland, Kela, the Finnish Transport Safety Agency Trafi and the Finnish Ministry of Social Affairs and Health have made a commitment to sustainable development for the digitalisation of health records. The commitment aims at reducing carbon footprints, improving customer equality, and increasing resource efficiency. The commitment's results are monitored until 2020.

More information about the commitments is available on Finance Finland's website.

9 FINANCE FINLAND'S FOURTH COMMITMENT TO SUSTAINABLE DEVELOPMENT

1. Finance Finland has made a commitment to sustainable development whereby it and its members pledge to promote actions that seek to limit global warming to below 2°C in all their work.

2. Short description of the commitment
Finance Finland (FFI) represents banks, insurers, employee pension companies, finance houses, fund management companies and securities dealers. The FFI Board made a policy decision stating that the financial sector supports the internationally agreed target of limiting global warming to below 2°C. To follow up this decision, FFI prepares indicators for its member companies that they can use to illustrate the practices they have in place to mitigate climate change. Companies choose independently how they apply these indicators.

3. What's new about the commitment
Finance Finland and its member companies have worked on a shared reporting framework to increase transparency in their actions. These reporting practices include indicators that describe how the sector's climate actions will develop over the years.

4. Goals of the commitment
The goal of the commitment is carbon-neutral society. In a carbon-neutral situation, operations do not change the carbon content in the atmosphere.

5. Geographic location
The whole world.

6. Background information
As a major investor, creditor, asset manager and insurer, the Finnish financial sector wants to document its work in mitigating climate change. Collaboration in creating best practices guidelines on reporting practices can also introduce new approaches to the development of member companies' own responsibility reporting. The first version of the climate change indicators will be published together with the Sustainable Development Commitment.

   The reporting recommendations are based on the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosure (TCFD).

7. What are the measures and indicators?
Finance Finland's member companies can freely choose which indicators to implement in their reporting and when. The recommended climate change indicators are appended.

8. How long does it take to implement the measures?
Finance Finland will monitor the use of the indicators for five years.

9. When the commitment has been made, its progress will be reported
FFI will provide annual reports about its members' actions in mitigating climate change by using these indicators. A few key indicators have been chosen among the recommended indicators. The sector uses them to annually describe their work in mitigating climate change. The indicators listed on the form are appended.

Finance Finland's annual follow-up on climate change reporting

1. Company information and reporting practices related to climate change
    a. Does the company disclose its actions in mitigating climate change and its climate indicators?
    b. Does the company's board discuss climate change?
    c. Does the company participate in commitments/collaboration projects?
    d. Total assets?
    e. Assets under management?

2. Is climate change accounted for
    a. in the company's strategy?
    b. in the company's business operations (lending, funds, payment transactions, insuring)?
    c. in the company's investments?
    d. in the company's risk management?

3. Targets
    a. Does the company have concrete targets related to climate change?
    b. Does the company have targets related to reducing the risks of climate change in its operations?
    c. Other targets related to sustainable development?

4. Indicators
    a. Investments
       How much has the company invested in positive climate solutions?
    b. Investment funds
       Does the company disclose its investing indicators?
       How many of the company's funds have a climate strategy?
       What proportion do these funds make up of the company's total assets under management?
    c. Lending
       Does the company disclose its lending indicators?
    d. Payment transactions
       The annual development of the account statements from banks, proportion (%) of paper vs electronic
       The annual development of the proportion (%) of sent and received invoices by companies and other organisations in the financial sector, paper vs electronic
    e. Non-life insurance
       The searching for/downloading of safety guidelines on insurance companies' websites (vi sits per year)
       The number of risk assessment in households and companies (assessments per year)

A summary of the results is recorded on the Kestäväkehitys.fi website annually.
http://kestavakehitys.fi/sitoumus2050

10 FFI SUSTAINABILITY INDICATORS ON INVESTING

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS AND TARGETS
1.1. In which management levels are climate related factors discussed in your company: a) Board b) Chief Executive Officer C) Other Chief-level staff or head of department, specify role d) Portfolio managers e) Investment analysts f) Dedicated responsible investment staff g) External managers or service providers h) Investor relations i) Other role, specify	2.1 Describe your company's strategy for managing climate-related risks in investment, if any.	3.1 Mark which of the following activities the company applies to identify and/or reduce risk exposure to climate change: a) Targeted low-carbon or climate resilient investments. b) Reduced portfolio exposure to emissions-intensive or fossil fuel holdings.) c) Used emissions data or service providers to advise in investment decision making. d) Scenario testing e) Other, specify	4.1 Describe the metrics and tools that your company uses to measure exposure to material climate-related risks, if any.
1.2. Describe how climate related factors are handled in your company's governance.	2.2 Engagement policy: Select if described action applies to your company: a) Sought positive impact on climate change by portfolio companies. b) Engage directly or indirectly with policy makers on climate change mitigation.	3.2 Describe how your company performs climate-related risks disclosure, if any.	4.2. Describe your company's targets related to climate change, if any. (E.g. target setting for climate risk reduction.)

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS AND TARGETS
1.3. Does your company have disclosure for climate-related risks, and if yes, to whom?	2.3 Describe your company's engagement policy* with regards to portfolio companies. *Engagement = wide interpretation, comprising voting behaviour and/or any active communication with the invested company.		4.3 Performance indicators: Investments to positive climate impact solutions* % of assets / euros invested: - Direct / indirect (e.g. funds) - Listed / unlisted - Green bond - Real estate investments • Qualified by certificate(s) • EU energy efficiency rating of owned real estates • Other, specify - Examples + explanation of positive climate impact investments' role in overall investment strategy/ portfolio. * Positive climate impact solution to be explained and justified by the company based on its own criteria.
	2.4 Indicate if the following climate change management processes apply to your company: a) Encouraging internal and/ or external portfolio managers to monitor climate risk b) Climate risk monitoring and reporting are formalised into contracts when appointing portfolio managers c) Other, specify		4.4 Performance indicators: investment portfolio's impact on emissions* Disclosure of emissions recommended only for applicable/material parts of investment portfolio - Carbon/GHG** emissions per 1 million EUR/USD invested - Carbon/GHG emissions from real estate owned by m2 - Percentage of companies/ investments that have reported their Greenhouse Gas (GHG) emissions. * Primary greenhouse gases: e.g. carbon dioxide, methane and nitrous oxide ** Scope 1 and 2 emissions

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRIC AND TARGETS
	2.5 Indicate the collaborative engagement initiatives and/ or industry associations you participate in [ ] Carbon Disclosure Project (CDP) [ ] Principles for Responsible Investment (PRI) [ ] Institutional Investors Group on Climate Change (IIGCC) [ ] Climate leadership Coalition (CLC) Climate action 100+) [ ] United Nations Environmental Program Finance Initiativ (UNEPFI) [ ] Montreal Pledge [ ] Portfolio Decarbonisation Coalition [ ] ClimateWise [ ] Other, specify		4.5. Engagement policy: Engagement on climate change, specify the number of companies/assets under management as % of investments.

11 FFI SUSTAINABILITY INDICATORS ON LENDING

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRIC AND TARGETS
1.1 In which management levels are climate related factors discussed in your company: a) Board b) Chief Executive Officer c) Other Chief-level staff or head of department, specify role d) Business head e) Credit analysts f) Dedicated ESG experts g) External managers or service providers h) Investor relations i) Other role, specify	2.1 Describe established climate change sensitive or climate change integrated lending strategy, if any.	3.1. Does your company have internal processes to identify and/ or manage climate risk in the lending activity? If yes, please describe.	4.1 Describe the metrics and tools that your company uses to measure exposure to material climate-related risks, if any.
	2.2 Engagement policy: Select if described action applies to your company: a) Climate change impacts, risks and mitigation opportunities are discussed in lending or relationship process, if relevant to borrower's core business model. b) The company produces information for market participants and aims to increase climate change awareness. c) Engagement directly or indirectly with policy makers on climate change mitigation. Please describe. *Engagement = wide interpretation, comprising any active communication on climate change with the mentioned stakeholder.	3.2 Mark which of the following activities the company applies to identify and/or reduce risk exposure to climate change: a) Targeted low-carbon or climate resilient loans. b) Reduced exposure to emissions intensive or fossil fuel holdings. c) Used emissions data or analysts to advise in lending decision making. d) Scenario testing e) Other, specify	4.2. Describe your company's targets related to climate change in lending or relationship management, if any (e.g. target setting for climate risk reduction).

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS AND TARGETS
	2.3 Indicate the collaborative engagement initiatives and/or industry associations you participate in: ( ) Carbon Disclosure Project (CDP) ( ) Climate leadership Coalition (CLC) ( ) Principles for Responsible Investment (PRI) ( ) Institutional Investors Group on Climate Change (IIGCC) ( ) International Corporate Governance Network (ICGN) ( ) United Nations Environmental Program Finance Initiative (UNEPFI) ( ) ClimateWise ( ) Other, specify	3.3 Does your company disclose identified climate risks that are relevant to the lending portfolio?	

12 FFI CLIMATE CHANGE INDICATORS ON PAYMENTS

1. **Account statements from banks, proportion (%) of paper vs electronic, annually**

2. **Proportion (%) of sent paper letters and bank statements by companies and other organisations in the financial sector, paper vs electronic, annually**

   In assessing the carbon footprint, companies can use the calculations of the Finnish postal service whereby delivering one letter generates 20g of CO_2.

3. **Proportion (%) of sent and received invoices by companies and other organisations in the financial sector, paper vs electronic, annually**
   Carbon footprint gCO_2e per invoice:
   - Electronic invoice sent/received: 150 gCO_2e
   - Paper invoice sent/received: 450 gCO_2e

Finance Finland monitors the digitalisation of payment systems
FFI also monitors the aggregated annual statistics of electronic invoices, cash payments and card payments in the financial sector, because these payment methods have the largest climate impact in Finland.

Electronic receipts generate 3g CO_2e as calculated by the French Banking Federation. In addition to the payment transaction itself, the processing of receipts must also be taken into account. Receipts processed through a company's financial administration generate the same carbon footprint as received electronic invoices (150 gCO_2e). Paper receipts generate 450 gCO_2e.

13 FFI CLIMATE CHANGE INDICATORS FOR NON-LIFE INSURANCE

1. **Loss prevention by non-life insurance customers**
   - Searching for safety guides on the insurer's website (visits per year)
   - Downloading safety guides from the insurer's website (downloads per year)
   - Buying safety products and services from the insurer (number per year)

2. **Loss prevention by non-life insurers and their customers together**
   - Households' risk assessment (assessments per year)
   - Companies' risk assessment (assessments per year)

3. **Surveys for consumers, FFI's insurance survey every two years. Monitoring of the effects of conducted loss prevention.**
   - Have you received home insurance related safety guides from your insurance company?
   - Have you acted according to the guides?

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