

Social Finance Framework

May 2023



Työllisyysrahasto

Sysselsättningsfonden | Employment Fund

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1.1 Introduction to the Employment Fund

The Employment Fund (Työllisyysrahasto in Finnish) ("us", "we", "the Fund") plays a crucial role in the Finnish social security system providing security amid labour market changes. Launched in 2019 through the merger of Unemployment Insurance Fund and the Education Fund, Employment Fund is established by law, managed by social partners and supervised by the Finnish Financial Supervisory Authority. The Fund collects unemployment insurance contributions from both employers and employees based on their actualized wage bill.

The Fund allocates and disburses payments for two main purposes, as described below.

Firstly, the net contributions are used to provide earnings-related unemployment benefits. These benefits include unemployment allowance paid by unemployment funds. The contribution rates are set yearly by an act of parliament and contributions are based on the actual wage payments made by employers, as submitted to the Finnish Incomes Register¹. Additionally, the Fund also has the responsibility for financing earning-related pensions accumulated during period when daily unemployment allowances, job alternation compensation, or adult education allowances are paid.

Secondly, the net contributions are also used to grant adult educational benefits. These benefits include adult education and scholarships with the primary goal of

supporting professional capabilities and competence development.

Furthermore, the Fund provides guidance to its customers in topics related to unemployment insurance contributions and adult education and as well as actively participating in the development of legislation within its industry.



MISSION

Providing security for changes in working life



VISION

Superior executor of social security



VALUES

Our customers come first
We renew, we evolve, we act
We are a united team

1) <https://www.vero.fi/en/incomes-register/>

1.2 Employment Fund's role in the Finnish society

The Finnish welfare state is recognized as one of the most advanced social welfare systems in the world². It reflects the Nordic belief that the state can play an active role in promoting socio-economic equality in society by intervening on behalf of citizens. Based on this model, the Finnish social security system is designed to guarantee dignity and decent living conditions for all its citizens through a range of financial support and benefits. This ensures that everyone has an equal opportunity to participate in working life and the Finnish society. At the core of the system are various forms of support and benefits comprising of, among others, accessible healthcare services, welfare programs and social insurance.

The Finnish social security system is funded by taxes and insurance contributions and administered by organizations like the Social Insurance Institution of Finland (Kela), municipalities, pension institutions, unemployment funds, and the Employment Fund.

Two key components of the social security system are central to emphasize in connection to this framework: the role of unemployment insurance and adult education. The provision of unemployment security is a central feature of the Finnish social security system designed to safeguard the livelihood of individuals who become unemployed. Individuals can get basic unemployment allowance from Kela or alternatively earnings-related unemployment allowance if the individual is a member of an unemployment fund. Similarly, universal access to high-quality education is a core pillar of the Finnish educational system. Through the provision of adult education allowance, the Finnish state enables working adults to upskill or find a new profession while providing financial security throughout their studies.

While Finland is an advanced welfare society, it still faces challenges in providing the financial security to citizens during high unemployment economic periods and offering quality re-education to adapt to a rapidly evolving job market. Under this scenario, Employment Fund plays an important role in supporting the state and helping safeguard Finland's leadership in social welfare. The Employment Fund's primary mission is to offer stability and security for employees during changes in their working life. To achieve this, it provides financing of unemployment insurance and pays adult education benefits to support employees during period of unforeseen circumstances. In Finland, all employers are the Fund's customers and all employees are contributing to the Fund by paying unemployment insurance contributions.



2) <https://www.oecd-ilibrary.org/sites/83f2a08d-en/index.html?itemId=/content/component/83f2a08d-en>

1.3 Fund flows and the role of debt financing

Fund flows

The Employment Fund is responsible for managing fund inflows and outflows. Unemployment insurance contributions are collected from both employers and employees on the basis of the actualised wage bill. Contributions are paid to Employment Fund by the employer, which withholds the employee's share from the employee's pay. The Employment Fund is responsible for coordinating the distribution of funds, with the unemployment funds being the largest recipients of the allocated resources.

The Employment Fund takes a proactive approach to managing economic ups and downs by allocating a portion of unemployment insurance contributions to a business cycle buffer. This buffer enables the Fund to maintain stability in its financial position even in the light of unexpected economic fluctuations in the Finnish economy. During times of economic growth, the buffer builds up which can then be used to resist the pressure of increasing contribution during times of rising unemployment benefits costs i.e., economic downturns.

This approach helps employers and employees avoid significant fluctuations in unemployment insurance contributions providing stability for all

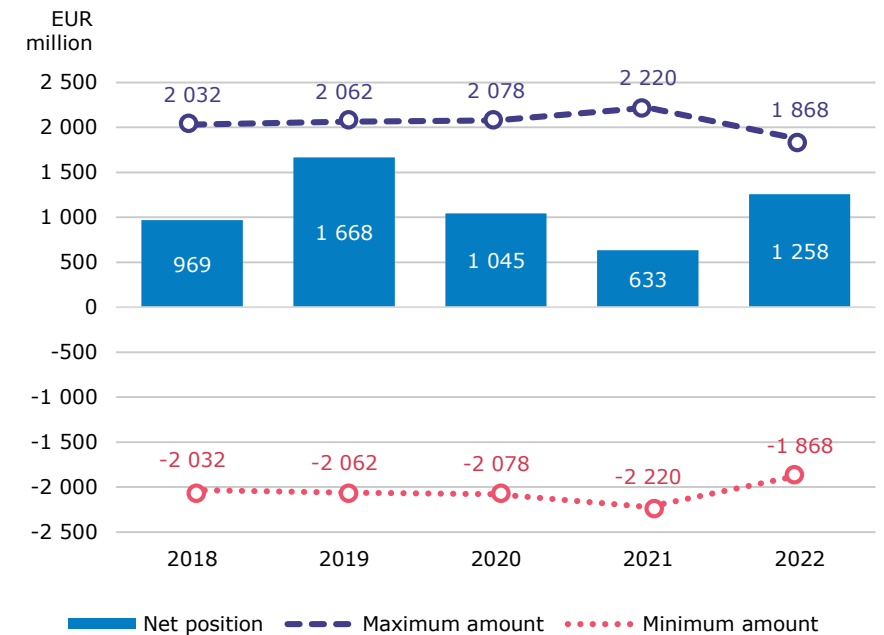
involved parties. Moreover, by handling the funding of unemployment allowances and other benefits at a steady pace, Employment Fund can continue to provide support to those in need.

Debt financing

The Employment Fund's fundamental mandate is to ensure the distribution of unemployment benefits to the members of single unemployment funds. During times of economic crisis, the Fund might require external financing to cover its buffer deficit and thereby cover the distribution of benefits.

During economic downturns with rising expenses, having a buffer is crucial. In this content, debt financing plays a critical role in the Employment Fund's ability to fulfill its mandate and secure its commitments. Typically, the Fund only incurs debt financing during period of economic downturns and repays it once the period ends due to the cyclical buffer nature of the Fund.

Development of the business cycle buffer



1.4 Unemployment insurance contributions

A core responsibility of Employment Fund involves evaluating and collecting contributions for unemployment insurance, while also overseeing and enforcing compliance with legal requirements pertaining to unemployment insurance contributions. These critical tasks are vital to maintaining the financial stability of the fund and its ability to provide crucial support to those who are unemployed.

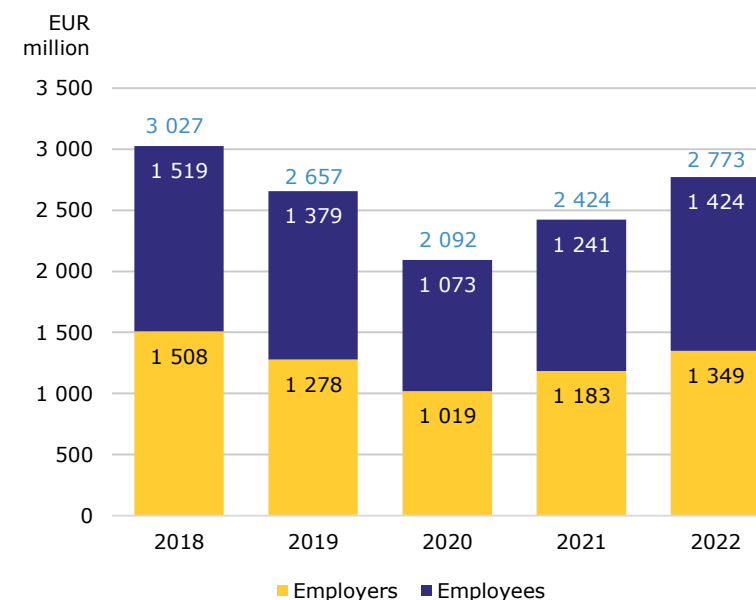
As per the Finnish Act on Financing Unemployment Benefits (555/1998), employees aged between 18 and 64 years old as well as their employers are obliged to make unemployment contributions, paying their respective shares. If the total wages paid by an employer during the calendar year exceed EUR 1,400, they are liable to pay unemployment insurance contribution. For entrepreneurs, no unemployment insurance contributions are deducted from their earnings. However, part-owners, as defined by the Unemployment Allowance Act (1290/2002), are required to pay unemployment insurance contributions but they are subject to paying the reduced employee rate. Unemployment contribution payments are made by the employer.

The Employment Fund determines the contributions owed by employers based on income information reported in the Finnish Incomes Register. This includes wages, during the course of

employment, bonuses, and similar forms of compensation that have been paid or agreed upon practice. The employer deducts the employee's unemployment contribution from their wage and reports the earnings payment to the Finnish Incomes Register. Using this data, Employment Fund calculates the unemployment insurance contribution owed by the employer, which is collected quarterly (in April, July, October and January). The amount is based on the actual wages paid by the employer during the previous three months.

Moreover, The Employment Fund plays a critical role in ensuring that earnings payment data reported by employers used as the basis for calculating unemployment contributions correspond to actual wage payments. This is essential to guarantee that the correct amount of unemployment insurance contributions are collected, which in turn helps sustain the unemployment insurance system. Any payment failures discovered during the supervision exercises are also addressed by Employment Fund, which takes corrective action to ensure compliance with the obligations of the employer.

Unemployment insurance contributions collected



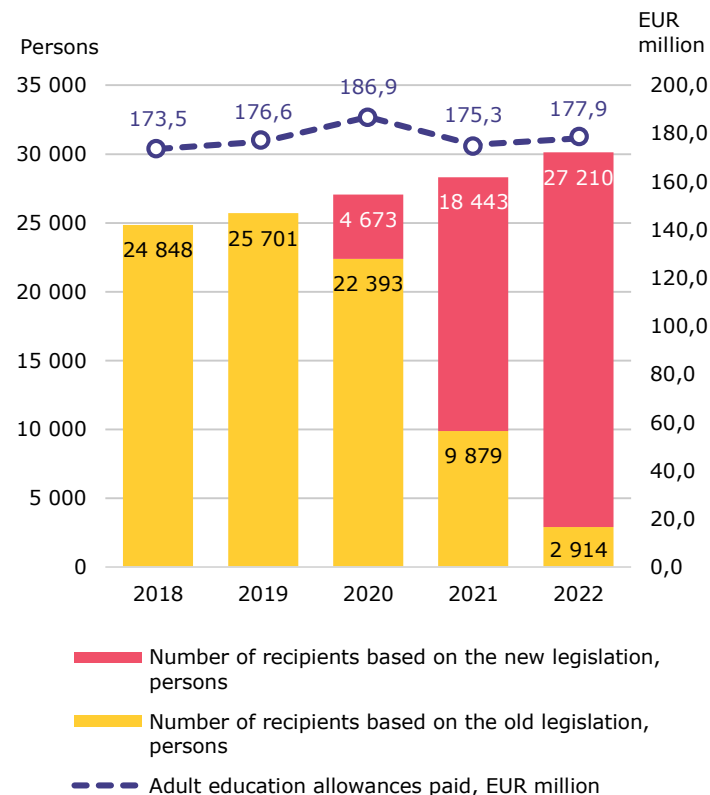
1.5 Adult education benefits

The Employment Fund plays a vital role in a fast-changing labor market by granting and paying adult education allowances and scholarships to qualified employees for professional development. The allowance aims to maintain and develop professional competence and is granted for studies conducted under public oversight in Finland.

Both full-time and part-time employees, as well as entrepreneurs, are eligible for the allowance. The Employment Fund finances the employee's education allowance from collected unemployment insurance contributions, while the state funds educational allowances for entrepreneurs and scholarships for qualified employees working for the central government. Employees and entrepreneurs who have been working for at least eight years can apply for adult education allowance to support their vocational competence and development.

Scholarships for qualified employees are granted to persons that have received vocational upper secondary level qualifications, completed further vocational education or received specialist vocational. Moreover, the applicant must be under 68 years old, and have worked for at least five years by the date they complete the new qualification.

Number of recipients and adult education allowances paid



Approvals and scholarships paid to qualified employees



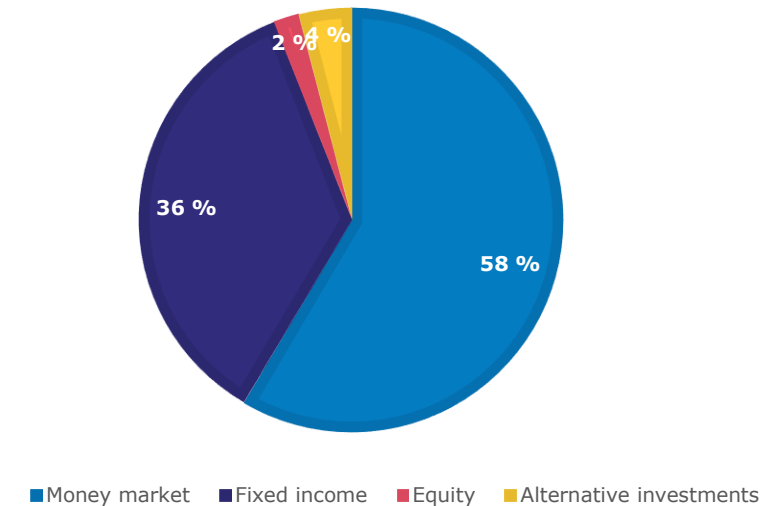
1.6 Investment activities

Although not central to its operations, Employment Fund engages in investment activities to manage cash flow timing differences and ensure sufficient liquidity. These activities are conducted in accordance with investment principles approved by the Supervisory Board and an investment plan set by the Board of Directors.

The Employment Fund prioritizes sustainability in its investment decisions, taking into account not only financial considerations but also ESG factors. To ensure the validity of this approach, an external party is commissioned to review the investment portfolio twice a year and to report any deviations found, except for index investments. Investments in companies involved in irresponsible practices such as child labor, violations of employee and human rights are excluded from consideration, and preference is given to those compliant with the UN Global Compact guidelines.

The Employment Fund actively evaluates the sustainability of its investments through quantitative assessments that classify them based on effectiveness and compliance with EU taxonomy. Moreover, the Fund also examines investment weighting in sectors aligned with UN Sustainable Development Goals. The analysis reviews operational sustainability metrics, such as equality, good governance, and environmental impact. The organization's investment portfolio aligns with the Paris Agreement's climate path, according to an external asset management company responsible for evaluating the sustainability of Employment Fund's investments.

Asset allocation



Social Finance Framework

This Social Finance Framework ("Framework") is done in alignment with Social Bond Principles (SBP)³ version from June 2021 and the Social Loan Principles (SLP)⁴ version from February 2023. The four core components of Social Bond/Loan Principles are:

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

The Framework is applicable, but not limited to, for issuance of social debt instruments including, but not limited to, social bonds, social commercial papers, social loans 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 expenditures with social benefits, as defined in this Framework ("Social Financing").

3) The Social Bond Principles are published by the International Capital Markets Association ("ICMA")

4) The Social Loan Principles are published by the Loan Market Association ("LMA")

2.1 Use of proceeds

The net proceeds of the Social Financing issued by Employment Fund will be used to finance or re-finance Eligible Expenditures that have been evaluated and selected by Employment Fund in accordance with this Framework.

The Employment Fund's Social Financing aims to address the social and economic impacts of unemployment and create opportunities for career development. To achieve this objective, eligible social expenditure are divided into two main categories that align with the Employment Fund's core mission:

- **Alleviate social and economic consequences for changes in working life** due to involuntary unemployment, reduce work hours or partial unemployment by ensuring financial security through a replacement income, and
- **Support individuals with their professional development and re(integration)** by providing the opportunity to develop skills and qualification or support career changes or entrepreneurial projects.

The target population includes all people eligible for traditional unemployment or education benefits.

Social Bond Principles (SBP) Category

Eligible Expenditures

SDG contribution

Socioeconomic empowerment and advancement

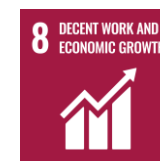
Eligibility criteria:

Programmes focused on providing security for changes in working life:

- Allowances and benefits guaranteeing replacement income to those out of work involuntarily e.g., financing unemployment security
- Contribution to beneficiaries' pension scheme
- Other types of social security schemes

Target population:

Individuals who are seeking employment after a period of involuntary unemployment, as well as employees who have experienced reduced work hours or partial unemployment due to economic factors



Access to essential services (e.g. education and vocational training)

Eligibility criteria:

Programmes focused on maintaining and developing professional competence:

- Adult educational allowance* for entrepreneurs or employees

*include: initial vocational qualification, bachelor's or master's degrees, specialisation studies, etc.

Target population:

Individuals who are undergoing retraining or pursuing advanced qualifications, as well as job seekers, particularly those with limited education or qualifications



2.2 Process for project evaluation and selection

The evaluation and selection process for Eligible Expenditures plays a crucial role in guaranteeing that the funds raised through social financing are allocated towards expenses that align with the criteria outlined in this framework, and that adhere to the Employment Fund's risk management principles.

There are no material environmental risks associated with the Use of Proceeds. Potential social risks relate mainly to the equal, transparent and just process of distributing unemployment and adult education benefits to eligible beneficiaries. Employment Fund follows its risk management procedures, and Use of Proceeds under this Framework is covered by the overarching risk management principles.

The Employment Fund has designed and implemented a process to ensure that only expenditures aligned with the criteria set out in the previous section will be selected as Eligible Expenditures. To oversee this a dedicated group, the Social Financing Committee, has been established. The committee consists of members from the management group, including CEO and CFO, assisted by members from the finance department.

The Social Financing Committee will meet at least twice a year to analyse, validate and report Eligible Expenditures and will keep track of all decisions made.

The Social Financing Committee adheres to the following tasks when choosing and assessing expenses for the category of Eligible Expenditures:

1. Any Social Financing Committee member may propose potential expenditures to be considered eligible according to this Framework
2. The Social Financing Committee will jointly evaluate eligibility of proposals according to eligibility criteria defined in this Framework and will remove such expenditures that do not meet the eligibility criteria
3. The Social Financing Committee jointly verifies the eligibility of expenditures and labels them Eligible Expenditures
4. The Social Financing Committee oversees the Social Financing Register and allocation of net proceeds towards Eligible Expenditures
5. The Social Financing Committee is responsible for the Reporting related to each Social Financing instrument, and will also manage the Framework and related external opinions/reviews

2.3 Management of proceeds

The Employment Fund will establish a Social Financing Register to track and monitor all issued amounts of social debt instruments. The purpose of the Social Financing Register is to ensure that an amount equal to the Social Financing net proceeds is allocated to Eligible Expenditures.

The Employment Fund will over the duration of the outstanding Social Financing build up and maintain an aggregate amount of expenditures in the Social Financing Register that is at least equal to the aggregate net proceeds of all outstanding Social Financing. There may be periods when the total outstanding net proceeds of Social Financing exceed the value of the Eligible Expenditures in the Social Financing Register. Any such portion will be held in accordance with Employment Fund's normal liquidity management policy. The Employment Fund undertakes to have a full allocation of net proceeds of any Social Financing within 24 months of the issuance at latest.

To ensure transparency in reporting, Employment Fund will disclose the chosen allocation method before or during the first allocation and impact reporting of each Social Financing instrument. Employment Fund maintains flexibility to choose between portfolio and bond-by-bond allocation methods.

During the term of any Social Financing, the Eligible Expenditures list is regularly monitored to ensure that an amount equal to the net proceeds is allocated properly. The Social Financing Register can be updated as needed by adding or removing expenditures.



2.4 Reporting

The Employment Fund will publish on the Fund's website a report on the allocation and impact of Social Financing issued under this framework (the "Report"). The Report shall be published annually until full allocation, as long as Employment Fund has Social Financing outstanding. However, Employment Fund will publish the Report at least once for each Social Financing instrument. Several Social Financing instruments can be included in one Report.

In case Employment Fund only has Social Financing outstanding in a form of bank debt, Employment Fund may choose to only report bilaterally towards banking counterparties as may be required under respective financing agreements.

In the Report, Employment Fund will provide an overview of the amount of proceeds raised under the Social Finance Framework as well as an overview of the proceeds committed and disbursed. Employment Fund will further report on the impact of allocated proceeds and, to the extent feasible, also include a section on methodology used in impact calculations. Impact reporting shall be based on Employment Fund's annual reporting.

Due to the nature of the expenditures being one-off payments, the impacts will also be measured as one-off annual impacts. As such, it may not be feasible to report continuously on such impact after full allocation of the proceeds.

The Employment Fund can, to the extent feasible, look to provide relevant updates to the market after full allocation such as, but not limited to, case studies and statistical information related to the socio-economic circumstances of people benefitting from proceeds from Social Financing under this framework.

Allocation Reporting

The development of Eligible Expenditure on Employment Fund's balance sheet, including but not limited to:

- Total amount of Social Financing outstanding
- Share of proceeds used for financing and re-financing
- Share and/or amount of proceeds allocated per each eligible category
- Share of unallocated proceeds (if any)
- Types of temporary unallocated funds placements (if any)
- Chosen allocation method (portfolio or bond-by-bond)

Impact Reporting

Impact reporting will be based on Employment Fund's annual report and the social indicators contained therein. In addition, the Report is guided by the Social Bond Principles' Harmonized Framework for Impact Reporting for Social Bonds, as applicable. To the extent feasible, Employment Fund will include a breakdown of the distributions that the various unemployment funds receive. The targeted indicators for reporting on the impact can include:

- Aggregate amount of benefits paid incl. unemployment benefits, pension contributions and education allowances
- The number of people receiving unemployment benefits, pension contributions and education allowances
- Beneficiaries profile (sex, age, education level, etc.)

3. External Review

Pre-Issuance Review

To confirm the transparency, robustness and alignment with market standards of this Framework, Employment Fund has engaged ISS ESG to act as an external reviewer of this Social Finance Framework. Amongst other things, it confirms the alignment of this Framework with the Social Bond Principles set out in 2021 by ICMA and the Social Loan Principles set out in 2023 by LMA, LSTA, and APLMA. ISS ESG has assessed the Framework to be aligned with the Social Bond Principles and to be consistent with Employment Fund's sustainability work.

This Framework and the Second Party Opinion will both be publicly available on Employment Fund's website

<https://www.employmentfund.fi/investors/>

Post-Issuance Review

Employment Fund will ensure that each Report related to Social Financing, specifically the allocation of proceeds section, shall be externally reviewed. Such review will be done by auditors, at least on a level of limited assurance, and review statement shall always be included either in the Report or published separately on Employment Fund's website.

Employment Fund

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