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NIB Environmental Bond Framework

Framework for the undertaking of NIB Environmental Bond issuance – the underlying rationale and methodology for loan selection, and the governance of bond issuance, proceeds management and reporting

Aug 2024

Contents

Adopted by	President
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Document ownership	Treasury & Finance
Implementation responsibility	Treasury & Finance, Sustainability & Mandate

1 Introduction

The Nordic Investment Bank (NIB or the Bank) is an international financial institution owned by eight member countries: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden.

NIB finances projects that promote productivity gains and environmental benefits for the Nordic and Baltic countries to support a prosperous and sustainable member region. NIB assesses whether the projects considered for financing support the Bank's vision and mandate. The drivers of environmental benefits are pollution reduction, preventive measures, resource efficiency, development of clean technology and climate change mitigation.

In response to investors' willingness to support sustainable investments in particular, NIB introduced its NIB Environmental Bond ("NEB") in 2011. Under the NIB Environmental Bond framework ("NEB framework"), NIB issues Use of Proceeds environmental bonds, the proceeds of which are used to finance selected projects that benefit the environment and support the transition to a low-carbon economy.

Due to the environmental mandate, the green transition is essential for NIB. NIB Environmental Bonds support the mandate and provide a visible impact to our investors. Furthermore, NIB believes that issuing NIB Environmental Bonds enhances NIB's sustainability profile among stakeholders. NEB issuance also allows the Bank to reach out to environmentally aware and climate-conscious investors, thus further diversifying NIB's investor base. Funding through NIB's Environmental Bonds is part of NIB's overall funding activities, meaning internal policies regarding funding (Financial Policy and Liquidity Policy) apply.

This NEB framework is aligned with the Green Bond Principles[1] and its four core components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

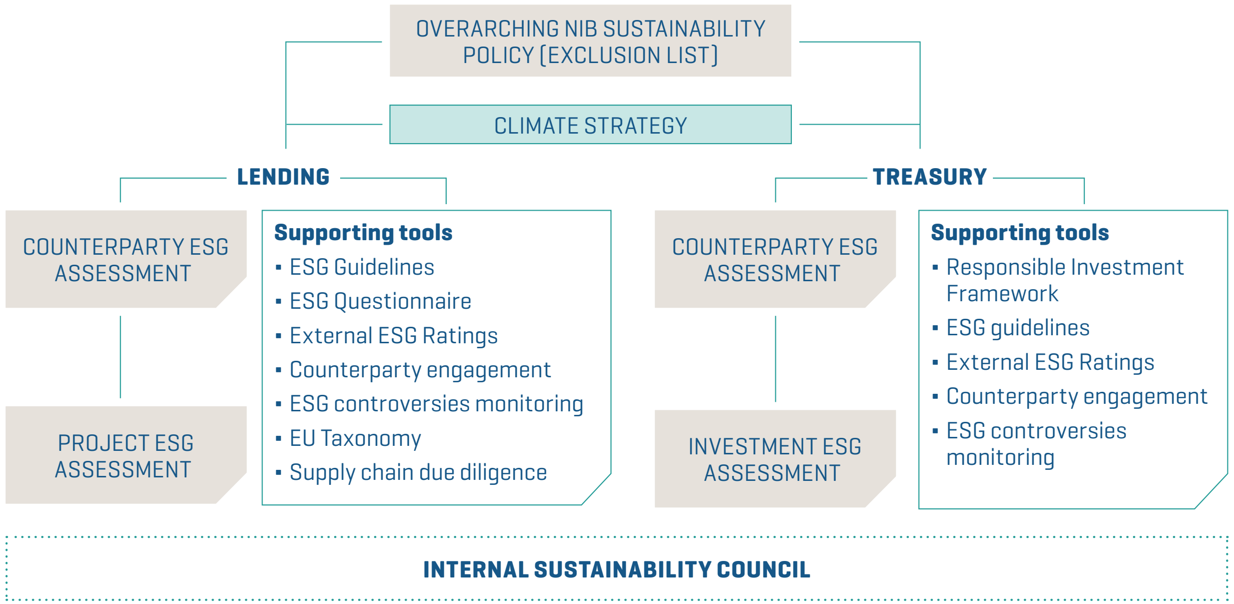
This document is the third update of the NEB framework, following the first version in 2011 and updates in 2014 and 2018.

[1] 2021 edition of the Green Bond Principles ("GBP") with June 2022 Appendix

1.1 Sustainability strategy

Sustainability and Environmental, Social and Governance ("ESG") factors are an integral part of the Bank's operations. The picture below visualises how sustainability is integrated in all NIB's activities.

Sustainability at NIB



Sustainability Policy

NIB's Sustainability Policy sets out the principles, commitments and framework for sustainability at NIB and is approved by the Board of Directors. Its purpose is to define how sustainability is taken into account in all NIB's business conduct, credit and investment decisions. The Sustainability Policy applies Bank-wide and to all NIB's operations. The Sustainability Policy includes an exclusion list of counterparty-level activities and projects that NIB will not knowingly finance or invest in.

Climate strategy

NIB calculates Financed Emissions based on the Global GHG Accounting and Reporting Standard for the Financial Industry, established by PCAF (Partnership for Carbon Accounting Financials). NIB is committed to addressing the climate challenge in accordance with the Paris Climate Agreement and to becoming a net-zero bank by 2050. NIB's Climate Strategy operationalises the net-zero goal and sets out intermediate 2030 climate targets for our lending portfolio and internal operations. Our targets and methodologies are set in accordance with the Science-Based Target initiative ("SBTi") to ensure they are based on the latest scientific evidence to limit global warming to 1.5 °C. NIB's Climate Strategy has been adopted by the Board of Directors. NIB endorsed the Taskforce on Climate Related Financial Disclosures ("TCFD") recommendations in 2019 and has since continued to enhance its capacity to manage climate-related risks and opportunities.

Climate risk management has focused mostly on identifying and managing risks at the project and counterparty levels and is gradually moving towards portfolio-level thinking. NIB's Climate Strategy sets out the action plan for integrating climate considerations into NIB's operations, and all relevant counterparties and transactions are assessed against NIB's 2030 climate targets. Where ESG or climate risks are or may become financially material, they are managed in accordance with the governance structure for risk management as set out in the Risk Management Policies.

Sustainability management and governance

The roles and responsibilities of the main bodies for NIB's lending, treasury and internal operations are described in our Annual Report (Sustainability management section). A more detailed description of NIB's sustainability governance can be found in NIB's Sustainability Policy.

The governance of climate-related risks and opportunities and ESG risks in general are integrated into NIB's core governance structure.

An ESG assessment is made at both a counterparty and project/investment level with the aid of supporting tools like the ESG Guidelines for lending operations and the Responsible Investment Framework for treasury operations. The ESG assessment in lending operations gives more information about how a project financed by NIB supports the client's overall journey towards more sustainable operations. The review also helps identify potentially significant ESG risks.

NIB recognises the importance of equal opportunities, inclusion, diversity and gender equality, human rights, labour rights and freedom, business ethics, and prevention of fraud and corruption. Social factors are related but not limited to laws and regulations regarding human rights, health and safety, and fair market practices. NIB reviews its clients' performance and checks that the minimum social safeguards are in place. The assessment (due diligence) also extends to the supply chain where relevant.

Supporting regulations, standards or frameworks for sustainability related disclosure and reporting

NIB reports its impacts in accordance with global frameworks and standards, including the Global Reporting Initiative ("GRI") and Principles for Responsible Investments ("PRI"). NIB is dedicated to international principles, standards and agreements and actively participates in global partnerships and networks, including the Paris Agreement, the UN Sustainable Development Goals ("SDGs"), the EU Taxonomy, and the Principles.

As stated in the Sustainability Policy, the Bank draws on and bases its core sustainability principles on several international agreements, frameworks, and conventions: the International Labour Standards ("ILO"), the UN Guiding Principles on Business and Human Rights, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises.

For more on reporting, commitments and ESG ratings, please see NIB's ESG Library.

2 Framework

NEB loans will only be allocated to projects where NIB's **counterparty** ESG assessment has concluded that:

- the counterparty is not on NIB's exclusion list for counterparties
- the counterparty has a general ESG performance that is adequate/acceptable
- the counterparty does not jeopardise the achievement of NIB's Climate Targets

2.1 Use of proceeds

NEB loans will only be allocated to **projects**:

- located in an NIB member or EU country
- that have not been commissioned more than one year prior to NIB's project review
- that are not on NIB's exclusion list for projects
- where NIB's project ESG review has not identified any potentially threatening risk elements (including nature and climate risks) that could jeopardise the project implementation or its anticipated positive outcome
- that have received the relevant necessary permits
- where relevant, uses best available techniques (BAT) as defined by the EU
- that when considered EU Taxonomy-eligible, are compliant with the relevant Technical Screening Criteria ("TSC") for at least one environmental objective
- where the risk of fossil fuel lock-in (including fossil fuel-based infrastructure) or the lock in of emission intensive practices is considered insignificant

Projects that satisfy the above criteria and that **belong to one or more of the project categories as described in section 2.2** are eligible for NEB.

EU Taxonomy alignment

NIB screens all loan projects' eligibility and alignment against the EU Taxonomy's technical screening criteria for substantial contribution, the do no significant harm ("DNSH") criteria and the minimum safeguard standards.

The projects that are EU Taxonomy-eligible need to comply with the relevant Technical Screening Criteria to be included in the NEB framework. This ensures a substantial contribution to the achievement of EU environmental objectives. EU Taxonomy-eligible projects will also be screened against the DNSH criteria and minimum safeguard standards. However, due to potentially limited data availability, NIB will not exclude projects based on DNSH criteria or minimum safeguard standards as long as they comply with NIB's Sustainability Policy (with the exception of real estate, where DNSH criteria must also be fulfilled).

2.2 Eligible categories

1. Renewable energy

a. Electricity generation (and heat/cooling where relevant) from wind turbines (onshore and offshore), solar (photovoltaics (PV) and concentrated solar power (CSP), ocean energy, and hydropower plants.

b. Electricity or heat generation from geothermal installations.

c. Electricity or heat generation based on advanced bioenergy feedstock.[2]

d. Heat generation based on green or waste heat (heat pumps, integration of waste heat, seawater cooling system).

e. Electricity transmission, distribution and storage, expansion or upgrades.

f. District heating and cooling networks, including storage.

GBP category: Renewable Energy

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Climate change mitigation objective

The sector is covered by the climate targets in the NIB Climate Strategy

Main SDGs:[3]

2. Sustainable fuel production and infrastructure

a. Production of green hydrogen and green anhydrous ammonia and its infrastructure.

b. Production or processing of biofuels and biogas based on advanced feedstock.[2]

GBP category: Renewable Energy

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Climate change mitigation objective

Main SDGs:

[2] As defined in Part A of Annex IX of the EU Renewable Energy Directive, including feedstock from (a) to (p) but excluding (g) related to palm oil, DIRECTIVE (EU) 2018/ 2001 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL - of 11 December 2018 - on the promotion of the use of energy from renewable sources (europa.eu)

[3] In alignment with the ICMA "Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals";
Mapping to the Sustainable Development Goals » ICMA (icmagroup.org)

3. Clean transportation

Zero carbon emission vehicles and supporting infrastructure:

a. Zero-carbon emission vehicles. Vehicles with zero direct (tailpipe) CO_2 emissions, such as electric or hydrogen vehicles, electric ferries, green ammonia vessels, and electric rolling stock.

b. Infrastructure for zero direct (tailpipe) CO_2 emissions, such as electrified rail, charging stations, green fuel distribution, bicycle and pedestrian infrastructure.

GBP category: Clean transportation

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Climate change mitigation objective

The sector is covered by climate targets in the NIB Climate Strategy

Main SDG:

The sector is covered by the climate targets in the NIB Climate Strategy

4. Green buildings

a. Construction of new buildings: Green buildings certified according to LEED Platinum or BREEAM Excellent or Outstanding and aligned with the EU Taxonomy's TSC and DNSH criteria (including LCA analysis) and passive houses.

b. Major renovations: Refurbishment of buildings leading to an improvement of two Energy Performance Certificate levels (EPC), to at least EPC B.[4]

GBP category: Green buildings

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Climate change mitigation objective

Main SDG:

The sector is covered by the climate targets in the NIB Climate Strategy

[4] Improvements of two EPC classes indicate 40–60% energy improvement.
[5] This is intended only for public applications. NEBs will not finance water treatment systems specifically for industrial applications or fossil-based transport infrastructure.
[6] Carbon captured directly from fossil fuel-based energy installations is excluded.

5. Water management and protection

a. Wastewater collection and treatment[5] to reduce discharges into water.

b. Protection of water resources with the aim of minimising groundwater extraction and contamination and improving the replenishment of aquifers.

GBP category: Sustainable water and wastewater management

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Sustainable use and protection of water and marine resources objective

Main SDGs:

6. Climate change adaptation

a. Improvements of stormwater and flood protection systems.[5]

b. Projects that strengthen resilience and adaptation to climate change within the defined project categories in this framework.

GBP category: Climate change adaptation

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Climate change adaptation objective

Main SDG:

7. Sustainable technology innovation, sustainable manufacturing and carbon capture storage

a. Investments in research, development, design and manufacturing of technologies essential to meet the objective of the categories in this framework or NIB's climate targets.

b. Carbon Capture and Storage, with geological permanent storage (reservoir or fixation) and its infrastructure[6].

GBP category: Pollution prevention and control

Category aligned with the relevant EU Taxonomy technical screening criteria primarily under the Climate change mitigation objective

Main SDG:

The sector is partly covered by climate targets in the NIB Climate Strategy (targets are established for Capital goods)

2.3 Process for project evaluation and selection

NIB has a Sustainability & Mandate unit ("SUM"), which assesses the mandate fulfilment of all projects. The assessment of projects under its environmental mandate focuses on evaluating the extent to which a project contributes to benefiting the environment. The SUM performs a qualitative sector assessment and a project-specific quantitative analysis —as visualised in the picture below— to achieve an overall environmental rating using the NIB Mandate Rating Framework.

In addition to the mandate assessment, all projects also undergo a review of the environmental and social risks, as well as resilience to the effects of climate change, in accordance with NIB's Sustainability Policy. The SUM identifies projects that meet the NEB eligibility criteria for receiving proceeds from NEBs during the mandate assessment (see sections 2.1 and 2.2) of potential loans and is therefore responsible for preselecting the loans suitable for receiving funding from NEBs. As part of the regular credit process, all loan proposals are taken to the Mandate and Credit Committee, which is responsible for approving the eligibility of recommended NEB loans.

Mandate rating process

1 Qualitative sector assessment

Contribution of the sector towards the environmental objectives for:

i. Pollution reduction
ii. Preventive measures (inc. adaptation)
iii. Resource efficiency (inc. circular economy)
iv. Climate change mitigation

Negative | 0 | | 10 | | 20

+

2 Quantitative impact assessment

Local/Regional impact: -10…10

i. Pollution: air, water, other
ii. Transformative industry
iii. Closure of material loops
iv. Green building standards

Global impact: -10…10

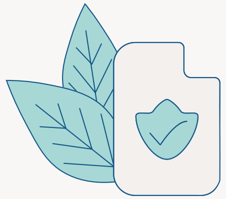
i. Renewable energy
ii. Energy use and efficiency
iii. Greenhouse gas emissions

-20 | | | | | +20

Sector score

+

Impact score



Total score	Sectoral score
> 20	Excellent
16 – 20	Good
11 – 15	Moderate
6 – 10	Marginal
-5 – 5	Neutral
< -5	Negative

Realisation risk assessment

Technological, ecological, social, governance, legal realisation risks

Following project completion, NIB evaluates the realisation of the estimated productivity gains and/or environmental benefits as agreed during the loan negotiation. When a project has reached operating maturity (normally, within three years of completion), it receives an ex-post evaluation to assess if adherence to NIB's Sustainability Policy and mandate criteria have been fulfilled. The principles for this process are set out in NIB's Monitoring and Ex-Post Mandate Assessment Framework. During this assessment, if the Sustainability & Mandate Unit observes that a loan has not fulfilled the NEB eligibility criteria, and the anticipated environmental impact has deviated substantially from the ex-ante assessment, the unit brings this to the attention of the Bank's Mandate & Credit Committee. The Mandate & Credit Committee's responsibility is to approve any recommendations, including the removal of a specific loan from the NEB eligible Loan Pool.

The picture below visualises the entire NIB Environmental Bond financing process.

1 ESG review

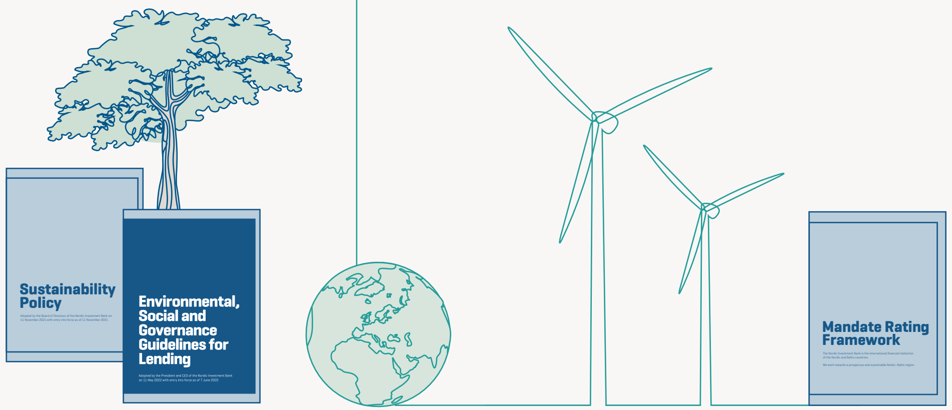
We confirm that there are no significant environmental, social or governance risks connected to the project or counterparty.

2 Mandate rating

Environmental benefits
- Pollution reduction
- Preventive measures
- Resource efficiency (incl. circular economy)
- Climate change mitigation

Rating scale

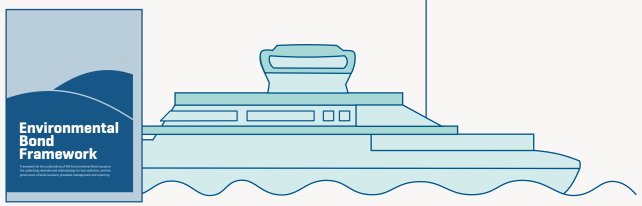
Excellent
Good
Moderate
Marginal
Neutral
Negative



3 NEB Bond Framework

We confirm projects' eligibility against a set of criteria within the following project categories:

- Renewable energy
- Sustainable fuel production and infrastructrure
- Clean transportation
- Green buildings
- Water management and protection
- Climate change adaptation
- Sustainable technology innovation, sustainable manufacturing and carbon capture storage



4 NEB Fund Pool

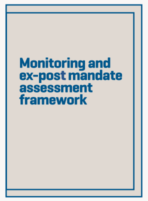
Straight link between NEB proceeds and disbursements to eligible projects.

5 Reporting

Annual Report on the allocation of NEB proceeds and the impact of projects financed.

6 Ex-post assessment

Three years after project implementation, NIB will assess the fulfilment of the Bank's mandate and realisation of impact.

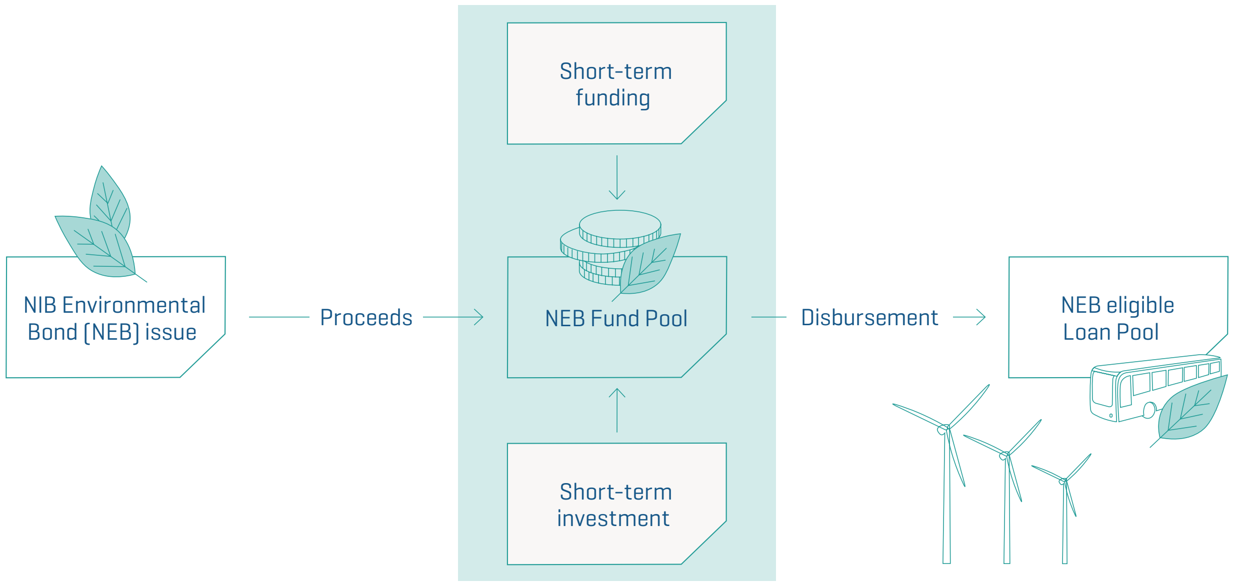


2.4 Management of proceeds

The separation of the flow of funds and use of proceeds from NIB's general funding is a fundamental principle of the NEB framework. The monitoring and documentation of the flow of funds from the NEB bond issuance to disbursement is therefore important.

Bond proceeds or an equivalent amount are allocated to a separate portfolio, the NEB Fund Pool.

Flow of separated funds



The NEB Fund Pool

The proceeds of NEBs are managed on an aggregated basis for multiple NIB Environmental Bonds (portfolio approach). The balance of the tracked proceeds is constantly adjusted to match allocations to eligible projects. Mismatches in the timeliness of funding and disbursements are managed within NIB's asset and liability management in accordance with NIB's liquidity policy and remain subject to NIB's Sustainability Policy.

NIB only allocates disbursed projects to its NEB Loan Pool of projects when fully covered with proceeds from NIB Environmental Bonds. Mismatches between disbursed loans and allocated proceeds from NEBs are kept within a reasonable timeframe.

Proceeds from NEB issuance will only be allocated to environmental projects that have not been commissioned more than a year prior to NIB's project review. When projects have a long construction period, disbursements can be stretched over several years through tranches. Hence, multiple NEBs can finance different tranches for the same project over several years. Allocation and impact will only be counted for the share of the loan that has been financed by NEB. Double-counting of the achieved impact is not allowed, which is reflected in our reporting.

The maturity of loans is likely to be longer than the maturity of the NIB Environmental Bonds. NIB will not re-finance a project with a new NEB.

Liquidity warehousing

Warehousing currencies can be EUR, USD and the Nordic currencies. NIB monitors and documents nominal amounts, calculated in EUR, when accounting for NEB proceeds and disbursements. Interest paid or received under bonds, loans and warehousing is excluded from the calculation and monitoring.

Increases and buy-backs

NEBs can be increased (tapped), as long as proceeds are used to finance eligible projects. Partial or whole buy-backs of NEBs are possible to support NIB's funding programme. Buybacks are financed from the Bank's general liquidity pool.

NEB loan repayment

When a loan is repaid early or has matured, the proceeds will become part of the Bank's general liquidity pool. The same applies if NIB requests an early repayment due to non-compliance with loan terms.

Coupon payment

Coupon payments of NEBs are not directly linked to any associated NEB loan interest payments, as the interest payment periods, cash flow distribution and maturities may not match. Coupons are therefore paid out of the general liquidity pool at NIB's sole discretion.

Redemption

As there can be mismatches in timeliness between financed projects and NEBs, and there is no direct credit link between the NEB and the project, the final redemption payment of an NEB is not necessarily sourced from cash flows from projects but can be financed from NIB's general liquidity pool.

2.5 Reporting

In our annual report, we provide information about our NEB issuance, allocation and the aggregated impact of our NEB financed projects until full allocation. Impact reporting is done based on disbursed amounts. Project-level impact data and information about the methodology used are available on our website.

The impacts of financed projects are estimated ex-ante in accordance with a set of environmental and other sector-specific indicators and in line with the ICMA's Harmonised Framework for Impact Reporting.

Impact reporting is under continuous development. The main indicators currently include but are not limited to: "GHG emissions reduced or avoided"; "Additional capacity of renewable energy plant(s) constructed or rehabilitated"; "Annual renewable energy generation"; "Additional capacity of renewable energy plant(s) to be served by transmission systems"; "Annual volume of wastewater treated or avoided"; and/or "Added/upgraded wastewater treatment capacity"; "Waste that is prevented, minimised, reused or recycled"; "Annual energy savings"; "Type of certification scheme, certification level and m^2 GBA'; etc.

Aggregated impacts are pro-rated to NIB's share of financing, i.e. the disbursed loan amount divided by the total project cost. For further information, please see "How we calculate impact". The methodology used for the project-specific impact report by NEB category is explained in our impact tables on our website. The reporting also includes information about EU Taxonomy alignment.

3 Legal and Credit rating

NEBs can be issued under any of NIB's debt issuance programmes or as standalone issues. The offering materials for issuances of NEBs indicate that the proceeds are to be used for financing selected loans to projects which are considered to benefit the environment of NIB's member countries. The NIB Environmental Bond framework, the Second Opinion and the Impact Report are for information only. They are not incorporated by reference in the transaction documents and do not form part of the terms and conditions of the bonds.

NEBs constitute direct and unsecured obligations of NIB ranking pari passu without any preference among themselves and equally with all other unsecured indebtedness (other than subordinated indebtedness) of NIB from time to time outstanding. Payment of the principal of and interest on NEBs is made solely on the credit standing of NIB as a single institution and is not directly linked to the performance of the projects that receive the proceeds. The bonds are therefore expected to carry the same credit ratings as all other outstanding bonds issued by NIB.

4 External Review

NIB has obtained a Second Party Opinion (SPO) for its NIB Environmental Bond framework from S&P Global Ratings. The SPO is published on our website.

NIB obtains an independent practitioners' assurance report providing limited assurance on selected sustainability indicators, information and responses presented in NIB's Annual Report. The review includes management, internal tracking, allocation and the impact of NIB Environmental Bond proceeds.

5 Documents and Websites

NIB website provides information about its NIB Environmental Bond financing, including framework, second opinion, investor presentation, project allocation and impact report. Please also see our ESG Library.

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