



Jukka Ahonen

Senior Director
Head of Communications
Tel. +358 10 618 0295

Søren Kjær Mortensen

Senior Director
Head of Origination
Tel. +358 10 618 0249

Lars Eibeholm

Vice-President
Head of Treasury
Tel. +358 10 618 0400

Jens Hellerup

Senior Director
Head of Funding and Investor Relations
Tel. +358 9 618 11401

NORDIC INVESTMENT BANK

Fabianinkatu 34
P.O. Box 249
FI-00171 Helsinki, Finland

Phone: +358 10 618 001
Fax: +358 10 618 0723
Email: info@nib.int

<http://www.nib.int>
Follow us on Twitter: @NIB



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Sustainable financing

Updated June 2018

- ✔ Pollution reduction
- ✔ Preventive measures
- ✔ Resource efficiency
- ✔ Climate change mitigation
- ✔ Technical progress and innovation
- ✔ Human capital and equal economic opportunities
- ✔ Improvements in infrastructure
- ✔ Market efficiency and business environment

Financing the future

NIB finances projects that improve productivity and benefit the environment of the Nordic and Baltic countries. This mission, given by the Nordic and Baltic owner countries, is well suited to meet future challenges such as climate change, the protection of marine environments, promoting economy and technical progress, high quality education, health care, and resilient infrastructure.

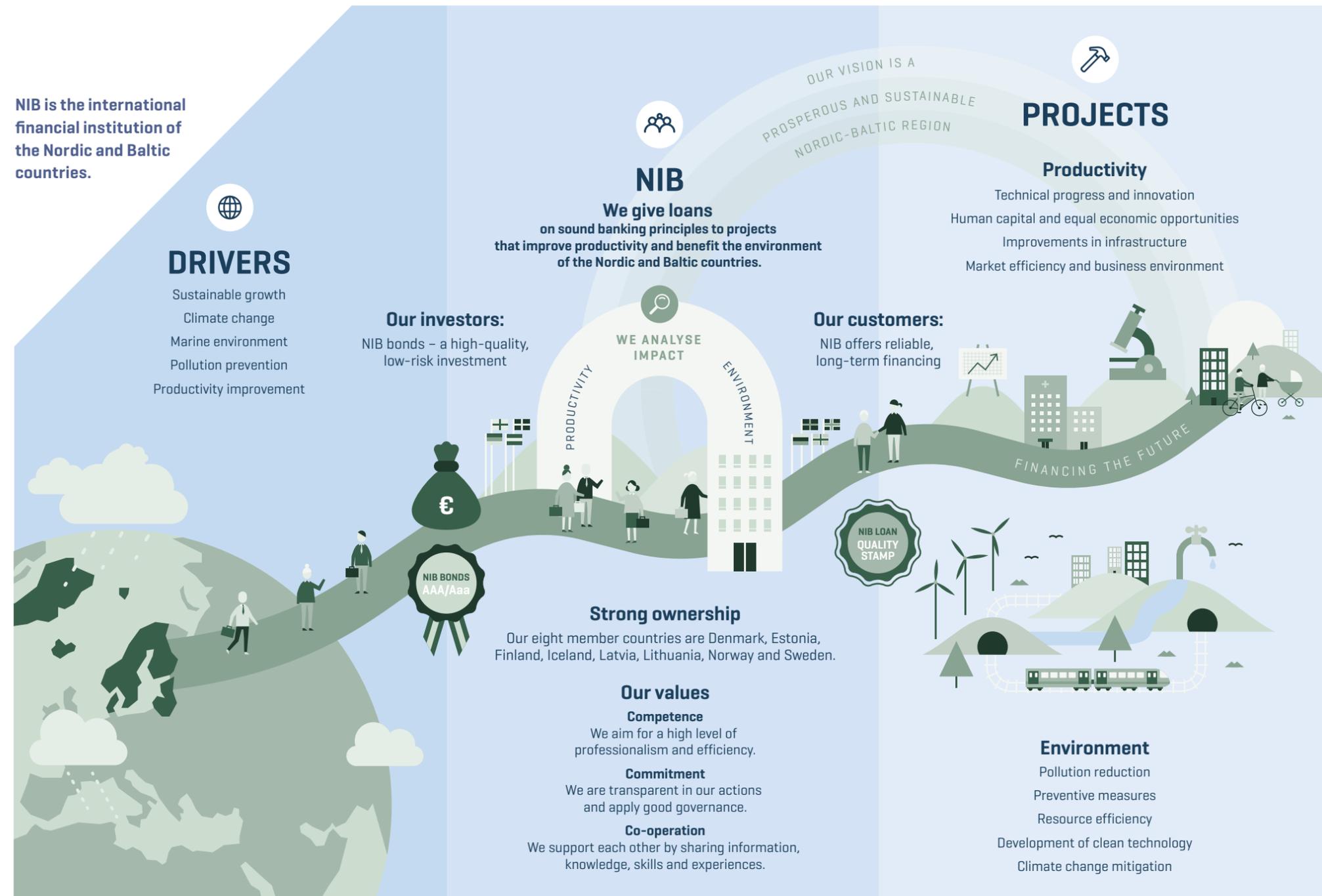
There is a growing realisation that there are no alternatives to sustainable development. The UN 2030 Agenda for sustainable development sets integrated goals that aim to achieve a balance between the economic, social and environmental dimensions. As agreed at the UN's Climate Change Conference in Paris in 2015, a green transition is required to limit the increase in the average global temperature. In 2018, the European Commission also issued an Action Plan that sets out an EU strategy for sustainable finance. To achieve these aims, private actors and governments need to co-operate to steer finance flows into sustainable projects. One way of doing this is for governments to involve international financial institutions with clearly defined mandates, such as the Nordic Investment Bank.

Lending with purpose

The Nordic Investment Bank is owned by the governments of the Nordic and Baltic countries. The Nordic countries created NIB in 1975 to overcome investment barriers and attract commercial lending. Since 2005, the focus has been on a prosperous and sustainable Nordic-Baltic region. Further integration between the member countries' economies is still an essential part of the Bank's purpose. NIB's major impact comes from its long-term lending to projects. After projects are completed, our analysts follow up on the benefits achieved. This may help clients and investors capture the wider implications of the implemented projects for the society at large.

Patient money

Located in Helsinki, Finland, NIB has an international staff of about 190 experts who work for a prosperous and sustainable Nordic-Baltic region. The Bank is a reliable source of long-term lending for its customers. NIB acquires the funds for its lending by borrowing on the international capital markets. This way, NIB serves as a tool for the Nordic and Baltic member countries in financing investments towards a more sustainable economy.



Doing more with less

A large part of NIB's lending contributes to improve productivity gains, measured as the economy's overall efficiency in the use of capital, labour and raw materials. Financing projects that boost productivity is a way for NIB to support societies in reaching higher levels of prosperity and well-being.

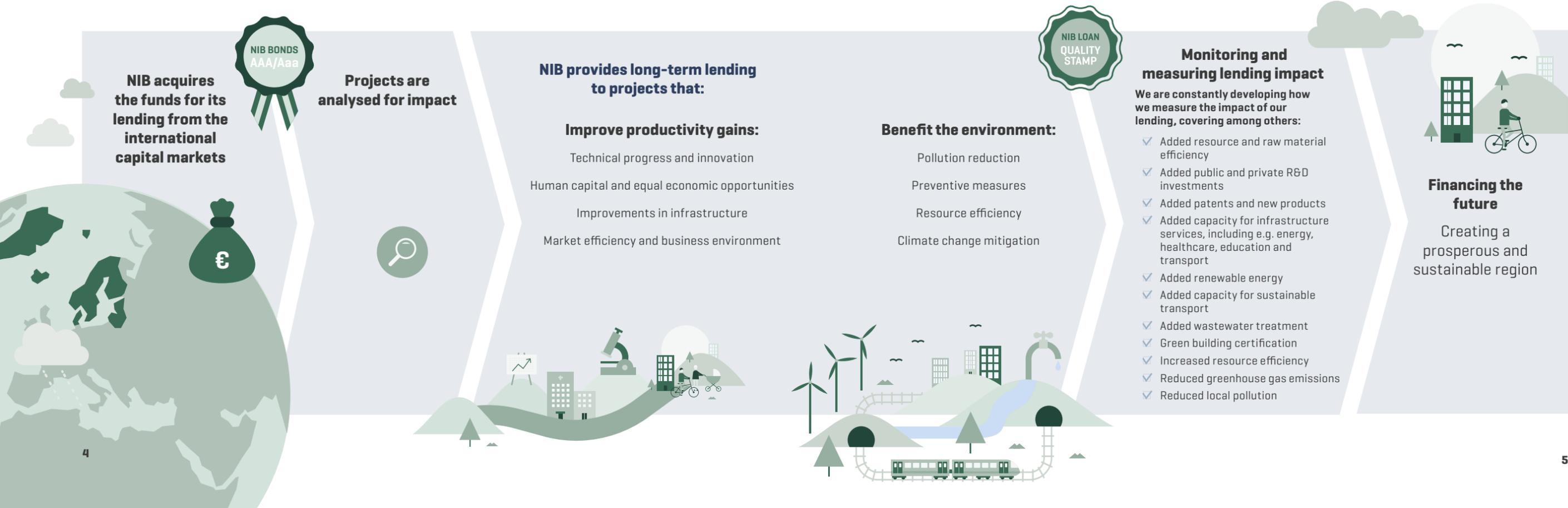
The quality of labour inputs and accumulation of knowledge is fundamental to long-term productivity growth. NIB therefore lends to projects that improve the quality of research, education, and healthcare in the Nordic-Baltic region, while advancing equal opportunities for individuals.

Innovation and adaptability to technological change are necessary components for productivity gains. For NIB, it is important that innovation projects benefit borrowers and induce spillover of expertise across firms and industries.

While investments that streamline business processes may result in efficiency and market expansion possibilities for one company, this may cause competitive pressure causing other companies to adopt new operating models.

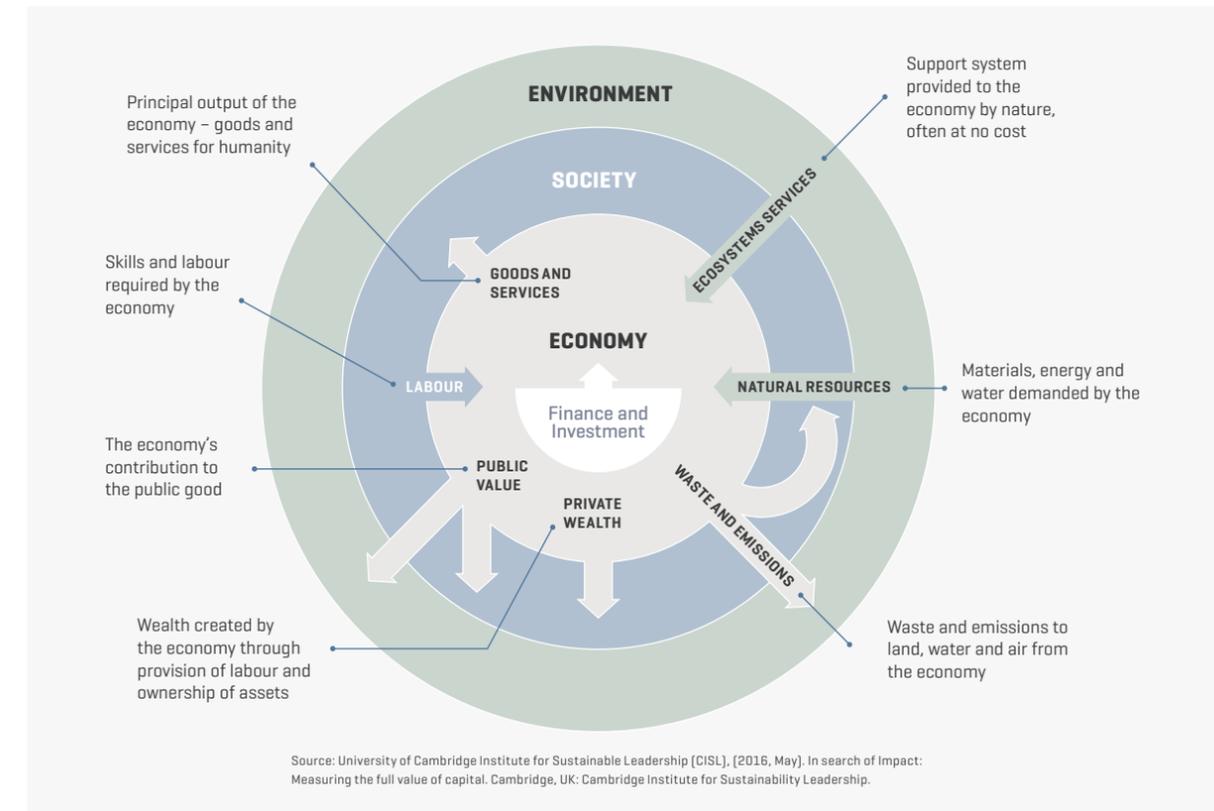
Further, high-quality infrastructure services, such as railways, roads and electricity networks, improve the efficiency of labour and product markets. NIB has a long tradition of funding infrastructure projects that have a positive impact on the region's transport and communications sectors, as well as on urban development.

NIB sustainable financing process



Typical inflows and outflows from an economy

In the economy, companies and projects depend on the environment and society for raw materials, ecosystem services, human skills and labour. These resources produce goods and services, employment and wealth in society. Other outputs, such as waste and emissions, are released into the environment, which to some extent functions as a sink. Development of a more circular economy helps to improve the resource efficiency, while reducing the environmental impact and maintaining ecosystem services.



Leading the way in green financing

Companies are increasingly expected to be both profitable and to act responsibly towards society and the environment. Societies need to tackle the challenge of climate change, develop circular economy and further reduce local pollution. For project owners it is therefore reassuring that NIB reviews all loan projects from a sustainability perspective.

The Nordic and Baltic owner countries have given NIB an explicit mission to finance investments that provide environmental benefits. In addition to the sustainability reviews of all loan projects, NIB therefore assesses the environmental impacts of all its lending.

NIB lends to projects that lead to

- pollution reduction
- preventive measures
- resource efficiency
- climate change mitigation

NIB defines loans to projects with significant direct or indirect positive environmental impact as environmental loans, regardless of the sector in which

they occur. Every year, NIB also lends to projects that benefit the Baltic Sea environment.

We have expanded our lending by purchasing green bonds issued by companies and municipalities in the member countries. This financing complements NIB's ordinary lending and supports the green bond market.

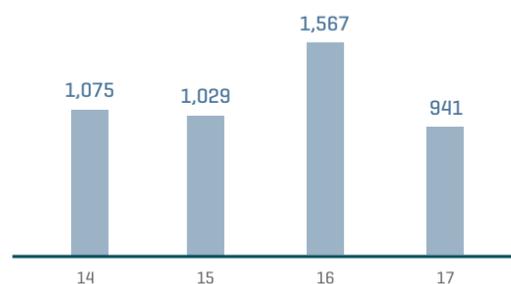
Leading Nordic green bond issuer

Since 2011, NIB has raised funds for part of its environmental lending through issuing green bonds. As the leading Nordic green bond issuer, we have a strong interest in participating in setting the standards for environmental financing.

NIB's environmental lending

in EUR million

In 2017, twenty-one loans with a total volume of EUR 941 million were agreed for projects with an environmental mission rating of "good" or "excellent", which is equivalent to 27% of all agreed and rated loans.



Sergelhuset at Sergel's Square in Stockholm: Vasakronan is renovating Sergelhuset and transforming it into office spaces, shops, a hotel and apartments with a gross floor area of 85,000 square metres. The property is to receive Platinum status under the Leadership in Energy and Environmental Design (LEED) certification system. Construction started in the summer of 2017 and is scheduled for completion by the end of 2020.

"The financing from NIB is very competitive, and since the Bank analyses the projects it funds very thoroughly, the loan has become a quality stamp for Vasakronan's brand", says Fredrik Wirdenius, CEO of Vasakronan.



Thomas Wrangdahl, NIB's Head of Lending, hands over a NIB Environmental Bond (NEB) certificate to Fredrik Wirdenius, CEO of Vasakronan, for two projects co-financed by a ten-year loan of SEK 2,345 million funded with the proceeds of NEBs.

Selecting projects for financing

NIB finances projects that generate long-term environmental benefits and productivity gains.

The benefits arising from such projects form the base for our financing.

Sustainable financing

As part of our loan process, we always assess to what extent a project considered for financing is in line with the Bank's mandate. We use the NIB Mandate Rating Framework and rate all projects on a scale from negative to excellent. Potential projects also undergo a sustainability review in accordance with our Sustainability Policy and Guidelines.

We review the environmental and social performance of all loan projects and benchmark it against recognised

standards to ensure compliance. Special monitoring is done for projects with potential significant environmental and social risks.

Assessing productivity gains

We review projects for improvement relative to our customers' performance before the project. Those projects that have significant positive impact on the productivity of economic activities in the member country area are considered for financing.

Assessing environmental benefits

We assess the environmental benefits of projects qualitatively and quantitatively. The qualitative assessment is based on the sector of the project. The quantitative impact is estimated using selected indicators describing the changes, e.g. in the use of resources or pollutant emissions. The projects having significant environmental benefits are rated good or excellent and are considered for green financing.

Green bond eligibility

Only the very best of NIB's environmental projects can be funded by proceeds from NIB Environmental Bonds. To be eligible, projects must have significant environmental benefits, low environmental and social risks and a high likelihood of succeeding.

Minimising negative outcomes

The best of NIB's loan projects are excellent both in terms of improved productivity and environmental benefits. However, not all projects that increase the productivity have positive impacts on the environment. In those projects, NIB checks that precautionary measures are taken to minimise any potential negative environmental outcomes.

Green bonds for best environmental benefits

NIB is the leading Nordic issuer of green bonds. NIB issues NIB Environmental Bonds (NEBs) to attract investors who particularly want to finance projects that benefit the environment.

Only the very best environmental projects receive loans funded by the proceeds of NIB Environmental Bonds. The owners of such projects are entitled to receive a NEB certificate. The NEB Framework is compatible with the Green Bond Principles*, a voluntary guidance scheme for green bond market participants. The NEB framework has also received a second opinion from the Norwegian research institute CICERO.

Harmonised impact reporting

Transparent reporting is crucial for investors in the green bond market. We therefore publish a list of all NEB-financed loans and an annual NEB report. Data on environmental benefits is reported in harmony with other IFIs and Green Bond Principles. This makes NIB a respected contributor to improving the standards of environmental financing.

NEB-financed projects belong to the categories of:

- Energy efficiency
- Waste management
- Renewable energy
- Sustainable public transport
- Transmission and distribution systems
- Green buildings
- Wastewater treatment

We calculate the reduction of CO₂ equivalents for all loan projects funded by the proceeds of NIB Environmental Bonds.

*In June 2018, NIB was re-elected as a member of the Green Bond Principles Executive Committee, a group within the International Capital Markets Association.

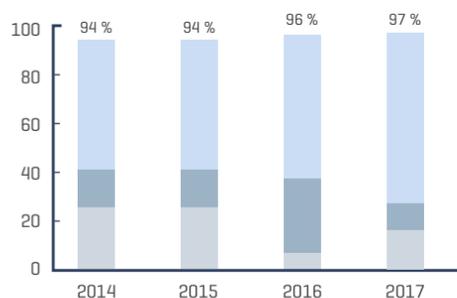


NIB's Funding team invites investors in NIB Environmental Bonds to visit projects they finance.

Mandate rating

% of loans agreed, excluding Lending Green Bond purchases

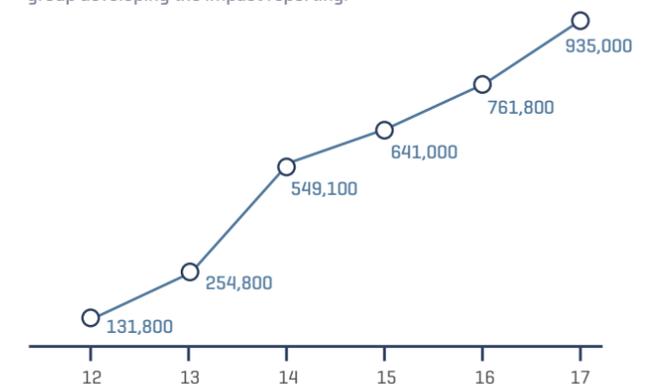
Before approval is given in each individual loan case, all eligible investments are scrutinised and rated against the criteria developed on the basis of NIB's mission. Loans achieving a "good" or "excellent" mandate rating are shown in the graph.



■ Good or excellent in productivity only
■ Good or excellent in both
■ Good or excellent in environment only

Cumulative annual CO₂ emission reductions

Total CO₂ equivalent impact of financed projects by NIB Environmental Bonds is 935,000 tonnes. The figure is calculated in accordance with the new harmonised methodology implemented by international financial institutions in January 2016. NIB is part of the working group developing the impact reporting.



Renewable energy in northern Norway

- ✔ Climate change mitigation
- ✔ Pollution reduction

89%
financed with NIB
Environmental Bonds

NOK 470 M

133 GWh
annually

Helgeland Kraft AS has signed a 15-year loan agreement of NOK 470 million with NIB to finance six hydropower plants in the Helgeland region of Nordland County, Norway.

The Øvre Forsland hydropower plant generates 33 GWh annually. Combined, the Leirå, Bjørnstokk, Tverråa, Storelva and Tosdalen plants are expected to generate 133 GWh per year. All six hydropower plants are designed to have a beautiful appearance adapted to the surrounding nature.

Environmental assessments have been carried out as part of the concession applications for all the six hydropower plants. Some 70%-80% of the water flow is utilised for power generation and 1-2 kilometres of the rivers is bypassed.

Helgeland Kraft AS is owned by 14 municipalities in the region of Helgeland in Nordland, where it distributes electricity to around 80,000 inhabitants through its 7,800 kilometre distribution network.

“Hydropower is one of the most mature technologies among renewable energies and has among the best conversion efficiencies of all known energy sources”, says Henrik Normann, President & CEO of NIB.

Measuring impact

All loan projects are subject to follow-up during the lifetime of NIB's loan. Within three years after commissioning a project, our analysts will assess how the project actually turned out.

Impact parameters

We measure the impact from our lending according to a set of environmental and productivity parameters. We are in the process of developing the parameters and the collecting of data. These parameters include:



Added resource and raw material efficiency



Added public and private R&D investments



Added patents and new products



Added capacity for infrastructure services, including e.g. energy, healthcare, education and transport



Added renewable energy



Added capacity for sustainable transport



Added wastewater treatment



Green building certification



Increased resource efficiency



Reduced greenhouse gas emissions



Reduced local pollution

Increased energy security, Lithuania

Klaipėdos Nafta has signed a EUR 34.8 million loan agreement to finance a liquefied natural gas (LNG) terminal at the Port of Klaipėda, Lithuania. The project will increase the security of the country's natural gas supply and improve its competitiveness.

The 20-year maturity loan for the LNG terminal allows Lithuania to purchase natural gas from several global suppliers. Before the terminal, Lithuania purchased all of its natural gas via a pipe from a single supplier and paid among the highest prices in the European Union.

"We hope that NIB's long-term loan for the LNG terminal will increase Lithuania's competitiveness and energy security and help it to further integrate into the European energy market," says Henrik Normann, NIB President & CEO.

- ⌚ Improvements in infrastructure
- ⌚ Increased market efficiency

20 YEAR
maturity loan

EUR **34.8** M

2-3 BILLION M³
annual gas capacity



Algirdas Kubaitis

Bioscience R&D, Denmark

- ⌚ Technical progress and innovation
- ⌚ Development of human capital

Chr. Hansen Holdings A/S has signed a EUR 50 million loan for its 2017-2018 R&D programme. The Danish bioscience company's research and development will focus on process optimisation and development of new innovative products. The programme includes more than 100 R&D projects, half of which are in the fresh dairy and cheese sector. The five-year maturity loan from NIB will fund part of the programme's EUR 150 million budget.

Chr. Hansen is a pioneer in probiotics, and its portfolio features some of the most-documented bacterial strains. Its ongoing R&D programme is geared towards customer needs and employs leading technology to deliver unique microbial solutions for a wide range of industries.

5 YEAR
maturity loan

EUR **50** M



Wastewater treatment in Stockholm, Sweden

- ✔ Pollution reduction
- ✔ Improvements in infrastructure

The City of Stockholm has signed a 10-year loan of SEK 3,000 million to construct the world's largest underground wastewater treatment facility at Henriksdal. The city estimates annual population growth of around 2.5% until 2040.

The increased capacity of the sewer network is expected to reduce the overflow of untreated wastewater into Lake Mälaren. The new membrane bioreactor will result in 40% lower discharges of phosphorus and 33% lower discharges of nitrogen into the Baltic Sea. It will also remove all particles larger than 0.04 micrometres, i.e. all microplastics, from the wastewater. NIB has handed over a NEB certificate to the city that states that 100% of the loan is funded by the proceeds of NIB Environmental Bonds.

SEK 3,000M **-40%** phosphorus **-33%** nitrogen

Public transport in Helsinki, Finland

EUR 60M **60 million** passengers annually

- ✔ Climate change mitigation
- ✔ Improved resource efficiency
- ✔ Improvements in infrastructure

Helsinki City Transport has signed a 20-year loan of EUR 60 million to purchase forty new trams. The new fleet will be more energy efficient, offer more comfort and better access for wheelchairs and prams, and have a significantly greater passenger capacity than the older trams built in the 1970s. Helsinki's green trams are an integral part of the urban landscape and the main form of public transport in the inner city. About 60 million passengers per year are using the tram network. The new tram fleet has been designed to cope with Helsinki's demanding conditions, not least the challenging climate.

