Sustainability Policy

Adopted by the Board of Directors of the Nordic Investment Bank on 11 November 2021 with entry into force as of 11 November 2021
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1 NIB’s view on sustainability

NIB promotes sustainable growth of the Nordic-Baltic region by providing long-term complementary financing, based on sound banking principles, to projects that improve productivity and benefit the environment. The foundation of the mission is the recognition that sustainability is fundamental for building prosperous and well-functioning societies. This century will be characterized by humanity’s strive towards redefining the balance between economic growth and the associated impact on the planet. As the world population grows and societies develop at an uneven pace, we need to solve the climate challenge in line with the Paris Climate Agreement, whilst building resilient, prosperous and well-functioning societies. This requires us to rethink the way we use environmental, human and financial resources to promote green and just transitions and opportunities for sustainable economic growth.

This shift will require time, effort and coordination. NIB is committed to play its role as an International Financial Institution in this reality, by financing elements of the transition, by raising practices and standards and by promoting dialogue across all actors involved. The transition will require capital investments into physical assets, but it will also require investments to transform business models at company level, and to reinvent entire supply/value chains across clusters of companies. The introduction of circular economy solutions will be paramount to reduce the resource intensity of human activity. The expected disruptions are likely to have societal consequences that need to be managed carefully. Divergences, inequalities and a sense of being left behind are negative in themselves and can also set forth a backlash and opposition to change - jeopardising the transition humanity needs. NIB believes that equal economic opportunities are an important driver for productivity and long term sustainable growth. Progress needs to be inclusive and allow for the entire society to grow towards a wellbeing, well-functioning and productive society. When society is stable and the citizens have trust in their institutions, it is easier to take a long-term view on developing the economy and protecting the environment. It is in this context that NIB operates and sees its role in adopting sustainability throughout all its operations.
2 Scope and objective

The Sustainability Policy ("Policy") sets out the principles, commitments and framework for sustainability at the Nordic Investment Bank ("NIB" or "the Bank"). Its purpose is to define how sustainability is taken into account in all NIB’s business conduct, credit and investment decisions.

This Policy applies bank-wide to all of NIB’s operations. This Policy covers the sustainability and environmental, social and governance ("ESG") standards the Bank follows in its lending, treasury and own internal operations. These standards ensure that the Bank lives up to its mission statement. Further details on approaches, rules and procedures are described in the ESG Guidelines.

This Policy should be read in conjunction with the NIB Mission, Strategy and Values as well as other relevant Bank policies and frameworks, such as, Integrity and Compliance Policy, Integrity Due Diligence Policy, Code of Conducts, Mandate Rating Framework and Responsible Investment Framework. As this Policy also supports the management of ESG-related risks and the assessment of their materiality, it should also be read in conjunction with the NIB risk management framework (policies & procedures).

3 Our principles and commitments

Sustainability is at the core of NIB’s mission and mandate. In today’s world, sustainability has many and diverse definitions. For NIB, and throughout this Policy, the term sustainability should be read as encompassing NIB’s strategy choices, operational and investment decisions and due diligence processes. The following principles and commitments towards sustainability guide NIB’s everyday decision-making and behaviour:

**Supporting sustainable, prosperous and well-functioning societies by providing long-term financing to investments with positive socioeconomic and environmental impacts.**

These impacts are corner stones in NIB’s mandate assessment. The projects and counterparties should comply with the environmental and social standards and exclusions presented in this policy and should align with the ambition of the United Nations Sustainable Development Goals (SDGs). NIB is committed to supporting the transition to economies where sustainability forms integral part of businesses’ operations and decision-making.

1Document currently under preparation
Addressing the climate challenge in accordance with the Paris Climate Agreement by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. NIB will address and integrate the management of climate-related risks and opportunities in its business operations and report on NIB’s climate performance and targets in line with the recommendations of the Task Force on Climate-related Financial Disclosures. NIB will support its member countries’ efforts to achieve climate goals and enhance biodiversity in nature.

Supporting the special protected status of the Baltic Sea and its importance for sustainable growth in the region. NIB focuses on the mitigation of eutrophication, elimination of hazardous substances, improved status of biodiversity and maritime safety in the Baltic Sea area. Further to this, NIB has a focus on the protection of the Arctic region’s unique and vulnerable nature.

Incorporating ESG factors in NIB’s investment and credit decisions according to the Principles for Responsible Investment and Principles for Responsible Banking. NIB is committed to always consider material non-financial factors in its decision-making and to have an open dialogue about them with its investors, clients and treasury counterparties.

Further developing and supplying financial and investment products that support sustainable finance and encourage and enable sustainable economic activities. NIB is active in the sustainable capital market for its funding and maintains engaged dialogues on sustainability matters with investors and clients along its finance supply chain.

Sharing knowledge and experience to promote sustainable finance in a collaborative and inclusive manner. NIB engages and seeks a dialogue with its stakeholders and collects their feedback to continuously develop NIB’s business operations within responsible banking.

Promoting transparency and integrity and disclosing our sustainability performance and impact. NIB follows best practice and reports in line with recognized international agreements, frameworks and conventions.

In addition to indirect impacts, actively working to increase the sustainability of NIB’s internal operations. NIB aims at continuously reducing its environmental footprint.

Adhering to the sustainability aspects of sound banking principles and recognising the importance of:

• Equal opportunities, diversity and gender equality
• Human rights, labour rights and freedom
• Business ethics, fighting fraud and corruption
Framework for implementation

This Policy is directly implemented in NIB’s lending operations, treasury operations and internal operations. NIB is committed to use its financing to provide long-term economic, social and environmental value to its member countries and reviews all of its transactions and operations accordingly.

Sustainability governance

Sustainability aspects are integrated in NIB’s core governance structure and the roles and responsibilities of the main bodies for NIB’s lending, treasury and internal operations are described below.

The Control Committee is NIB’s supervisory body and monitors that NIB’s operations are conducted in accordance with its Statutes. In the area of sustainability, the Control Committee is responsible for monitoring the fulfilment of NIB’s purpose and mandate.

The Board of Directors ("BoD") approves the Sustainability Policy and Mandate Rating Framework and has the overall responsibility to ensure that the Bank operates according to the respective principles, commitments and guidelines. The BoD annually approves the target for the mandate fulfilment of NIB’s overall lending and the target for environmental financing. Individual credit decisions for lending operations including mandate rating are approved by the BoD.

The President and ExCo review the Sustainability Policy, ESG Guidelines and Mandate Rating Framework as well as the annual mandate fulfilment targets. The President approves the Responsible Investment Framework and the ESG rating approach for treasury counterparties and the Head of Treasury and Finance is responsible for the implementation of this approach.

The Mandate, Credit and Compliance Committee ("MCC") is chaired by the President and responsible for decisions on loans within the powers delegated to the President by the BoD. In its decision making about a proposed Loan, the MCC considers among other things mandate rating and sustainability and integrity issues.

The Sustainability and Mandate Unit is responsible for the development of the Sustainability Policy, ESG Guidelines and Mandate Rating Framework. It oversees that the sustainability and mandate assessments for credit proposals are performed accordingly and independently informs credit decision making in the MCC. Lending engages with borrowers on mandate and ESG matters.

The responsibility for ESG integration into investments decisions resides with the Balance Sheet Management (BSM) function in the Treasury & Finance department. BSM engages with the treasury counterparties and reports on the ESG matters to the Treasury Committee.
NIB applies a three lines of defence model and where ESG risks are or may become financially material they shall be managed in accordance with the governance structure for risk management as set out in the Risk Management Policies.

The Internal Sustainability Council acts as a central reference group for all sustainability matters concerning NIB’s internal operations.

The Head of Communications is responsible for communicating NIB’s sustainability performance and reporting sustainability impacts according to the acknowledged frameworks.

**Lending operations**

NIB assesses all projects it finances for their economic, environmental and social impact and its clients for their ESG performance.

All projects financed by NIB are assessed and rated according to the Mandate Rating Framework. Additionally, NIB applies a risk-based due diligence to assess the potential significant negative environmental and social impacts of projects. Within the scope of the due diligence, all projects are reviewed for their compliance to international and/or national legislation, regulation and standards.

Clients are assessed for their ESG performance using external data providers and information from direct client engagement. As the integration of sustainability into the operations of NIB’s clients becomes more and more relevant, NIB expects its clients to manage these issues effectively and to have clear strategies in place to further integrate sustainability in their business models. NIB recognizes this is a transition, and commits to support its clients with knowledge sharing to foster sustainability and ESG integration. NIB actively engages with its clients and lending counterparties.

The sustainability and mandate assessments form an integral part of the Bank’s credit process and decision-making and all relevant considerations are brought to the attention of the MCC Committee and BoD prior to credit decision. A credit proposal can be rejected on the grounds of non-compliance to this Policy, whether at project or client level.

The integration of sustainability aspects into NIB’s lending operations are described in further detail in NIB’s ESG Guidelines for lending.
**Treasury operations**

NIB considers ESG factors in its investment decisions in its Treasury operations. Each portfolio manager is responsible for considering ESG factors when making investments. NIB’s Responsible Investment Framework covers all investment and treasury activities and it strengthens the objective to mitigate risk and generate stable earnings for the Bank.

NIB incorporates ESG factors into its investment process through the following five different approaches.

1. Application of the exclusion list as defined in this Policy
2. Best in class approach to tilt the portfolio holdings towards higher ESG-scores
3. Sustainable thematic investments
4. Counterparty selection and controversies monitoring
5. Active engagement with the issuers and treasury counterparties.

NIB’s Treasury relies on external data from ESG-data providers both for ESG-scores and for the controversies monitoring. External ESG-data is also used when selecting counterparties for hedging and funding transactions.

The integration of sustainability aspects into NIB’s treasury operations are described in further detail in the Responsible Investment Framework.

**Internal operations**

While NIB’s greatest impact comes through its financing and engagement with clients, the Bank also wants to lead by example by minimizing the negative impact of its own operations. NIB aims at integrating sustainability in the way it conducts its activities, offices and business travel.

NIB has an Internal Sustainability Council that aims at strengthening NIB’s internal sustainability agenda and ensuring that the Bank walks the talk with regards to sustainability matters. NIB has environmental guidelines for office practices and facilities management. NIB favours sustainable solutions and assesses ESG aspects in the procurement of goods and services for its internal use and screens for ESG in the procurement of goods and services.

NIB measures, monitors and transparently reports its ecological footprint and emissions. NIB strives to become carbon-neutral in its operations.

NIB also commits to act as a good corporate citizen pursuing improvements on a permanent basis and applying best practices in its internal operations and human resources management.

NIB supports the competence development of its employees, offering internal and external training to ensure that sustainability knowledge and awareness remains a priority in the organisation.
5 Exclusion list

5.1 Counterparty activities

NIB will not knowingly be involved with counterparties engaged in the following activities:

- Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans\(^5\)
- Forced labour\(^3\) or child labour\(^4\)
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
- Destruction\(^7\) of High Conservation Value areas\(^6\)
- Radioactive materials\(^7\) and unbonded asbestos fibers
- Pornography and/or prostitution
- Racist and/or anti-democratic content
- In the event that any of the following activities form a significant\(^8\) part of a counterparty’s business activities:
  - Alcoholic beverages (excluding beer and wine)
  - Tobacco
  - Military goods and weapons\(^9\)
  - Gambling, casinos and equivalent enterprises
  - Mining, extraction or processing of thermal coal or peat
  - Energy generation based on thermal coal or peat
  - Exploration, extraction, production and transport of unconventional\(^10\) or Arctic oil and gas

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\(^{5}\) Such as: wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); ozone depleting substances, PCBs (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals; unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length).

\(^{6}\) Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

\(^{7}\) Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

\(^{8}\) Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area’s ability to maintain its role is lost.

\(^{9}\) High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).

\(^{10}\) This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radio-active source is understood to be trivial and/or adequately shielded.

\(^{11}\) “Unconventional” refers to hydrocarbons that are produced through techniques other than traditional vertical well extraction. Sources of this type include oil/gas shale, tight oil/gas, oil/tar sands, natural bitumen, heavy and extra-heavy oil.
## 5.2 Projects

NIB will not knowingly finance, directly or indirectly, projects involving the following activities:

### Energy

- Mining, extraction or processing of thermal coal and peat
- Exploration, extraction or production facilities (i.e. upstream) for crude oil or natural gas
- Any energy generation based on fossil fuels (natural gas, oil, coal or peat)
- Producing, processing and/or trading of palm oil and its derivatives for energy use

### Infrastructure

- Transportation, storage and refining infrastructure (i.e. mid- and downstream) for oil
- Transportation, storage or processing infrastructure (i.e. mid- and downstream) for natural gas not supporting energy transition to low-carbon gases (e.g. fossil-free hydrogen, biogas)
- Other transportation infrastructure such as ports, rail networks and vehicles, if the majority of business consists of coal (i.e. hard coal or lignite), peat and oil transport

### Extractive industries (non-energy)

- Mining, mineral processing and chemical extraction of radioactive mineral resources
- Mining and processing of minerals for the sole purpose of using as gems
- Sand mining

### Research and development

- Research in exploration, extraction or production of fossil fuels
- Research in purely fossil fuel based power trains for road transport or stationary energy generation
- Research involving animal testing not in compliance with EU directives or national legislation
Annex 1

Reference to international agreements, frameworks and conventions

The Bank draws upon and bases its core sustainability principles on the following international agreements, frameworks and conventions:

- Baltic Sea Action Plan
- Convention on hazardous chemicals and waste (Basel, Rotterdam, Stockholm and Montreal)
- Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention)
- Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)
- Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention)
- Equator Principles
- European Principles for the Environment
- Free, Prior and Informed Consent (FPIC) as covered in the ILO Convention 16922 and the UN Declaration on the Rights of Indigenous Peoples
- Green and Social Bond Principles (member of the executive committee)
- ILO Core Conventions on Labour Standards
- International Union for Conservation of Nature (IUCN)
- Minimum Age Convention
- Network for Greening the Financial System
- OECD Guidelines for Multinational Enterprises
- Principles for Responsible Banking (signatory)
- Principles for Responsible Investment (signatory)
- Task Force on Climate-Related Financial Disclosures (signatory)
- UN Convention on Biological Diversity and the related Nagoya Protocol and Cartagena Protocol
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- UN Sustainable Development Goals (SDGs)
- UNESCO World Heritage List
- UNFCCC Paris Agreement
- Worst Forms of Child Labour Convention