NORDIC INVESTMENT BANK

FINANCING THE FUTURE

# 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**

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# Background for issuing NIB Environmental Bonds

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

NIB Environmental Bonds (NEBs) are funding transactions, the proceeds of which are used for selected environmental projects to be financed by NIB. Investors are offered a purpose-defined investment; therefore the flow of proceeds from bond issuance to disbursement is separated from the common cash flows within NIB.

NEBs benefit the environment and support the transition to a low carbon economy. Through impact reporting, investors receive better insight and knowledge about the financed projects and their estimated impact on the environment.

NIB believes that issuing NIB Environmental Bonds enhances NIB's sustainability profile amongst stakeholders and is aligned with its mandate. NEB issuance also allows the Bank to reach out to new investors, thus further diversifying NIB's investor base.

Funding through NIB's Environmental Bonds is part of NIB's funding plan, so all policies regarding funding (Financial Policy and Liquidity Policy) apply.

The 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 lays the framework for the undertaking of NIB Environmental Bonds. The framework describes each of the above components and the governance of bond issuance.

[1] 2018 edition of the GBP

# 1 Process for Project Evaluation and Selection

NIB has a separate Sustainability & Mandate unit, which assesses the mandate fulfilment of new projects. The assessment focuses on evaluating the extent to which a project considered for financing contributes to strengthening the member countries' productivity and benefitting the environment. The mandate unit performs a qualitative sector assessment and a project-specific quantitative analysis to reach 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 towards the effects of climate change in accordance with NIB's ***Sustainability Policy and Guidelines***.

The Sustainability & Mandate Unit identifies projects meeting NEB eligibility criteria during the above-mentioned mandate assessment of potential loans, and is therefore responsible for pre-selecting the loans suitable for receiving funding from NEBs. When assessing NEB-eligible projects, the Sustainability & Mandate Unit focuses on the environmental benefits. All loan proposals are as part of the regular credit process taken to the Credit Committee, which is responsible for approving recommended NEB loans as being eligible.

# 2 Use of Proceeds

NEB loans will be identified through the following selection criteria:

- That the proceeds from NEB issuance will be used only for disbursement of loans to new environmental projects that have been completed not more than one year prior to NIB's project review

- That the project is located in a member or EU country

- That the review of environmental and social risks has not identified any potentially threatening risk elements to the project. Risk elements that could potentially jeopardise the project implementation include (not an exhaustive list):
  - *Lack of or pending environmental permits*
  - *Failure to comply with the best available techniques (BAT) as defined by the EU*
  - *Reputational risks (fossil fuels, nuclear, biofuels sourced from unsustainable feedstock[2])*
  - *Client's lack of commitment and capacity to identify and manage environmental risks*

- That the project has a high likelihood of achieving the targeted environmental benefits

- That NIB has access to reliable project data for impact reporting

- That the **project belongs to one or more of the project categories below**. Projects that provide resilience and adaptation to climate change within the defined project categories without necessarily showing a direct environmental impact are also eligible.

The proceeds from a NEB can be allocated to specific subset of the below categories or to a project belonging to several categories. This allows NIB to channel funds to target a specific theme or category of impact.

**1. Energy efficiency:**

a. *Energy efficiency projects in industry leading to a reduction in energy use of at least 30%, including improvements in compressed air systems, the replacement of light fittings, the recovery of waste heat, the installation of heat exchangers in ventilation systems, making drying processes more efficient (including kilns), and making cooling/heating more efficient.*

b. *Refurbishment of existing buildings, including improvements to heating systems, insulation, lighting or electrical equipment. The energy use should decrease by at least 30%.*

*Note: The risk for fossil fuel lock-in is considered in the assessment. Efficiency projects for fossil fuelled power or heat generation are not eligible.*

**2. Renewable energy generation:**

*a. Electricity generation from wind turbines, solar, tidal and wave and existing hydropower plants or small (<10 MW) greenfield hydropower. Medium-scale greenfield hydropower (typically up to 100 MW) may be included based on assessment of the environmental impacts (e.g. projects in already-exploited rivers with limited protection values).*

*b. Electricity or heat generation from geothermal installations and from biomass[2].*

*c. Infrastructure for the production or processing of liquid biofuels[2].*

*d. Investments in the development, design and manufacturing of renewable energy technologies.*

**3. Transmission, distribution and storage systems:**

*a. Transmission and distribution system expansion or upgrades to allow for more renewable electricity to be connected to the grid, and storage solutions to balance fluctuating generation and demand patterns.*

*b. Projects in district heating and cooling networks enabling transition to carbon-neutral energy supply systems (e.g. heat pumps, seawater cooling systems, integration of industrial waste heat in the network).*

*Note: The risk of fossil fuel lock-in is considered in the assessment.*

**4. Clean transport solutions:**

*Clean transport solutions are primarily based on electricity or sustainable biofuels[2].*

*a. Infrastructure for clean transport (e.g. rail, charging stations, fuel distribution systems, bicycle and pedestrian infrastructure, vehicle sharing systems, supporting infrastructure)*

*b. Vehicles and vessels supporting clean transport solutions (such as electric vehicles and vessels, rolling stock, biogas busses)*

[2] Biomass and biofuels used in projects should be based on sustainable feedstock, considering the environmental impacts of changes in land use and avoiding life-cycle GHG emissions from cultivation, harvesting, processing and transportation. This includes the assessment of e.g. sustainable forest management certification for biomass sources, and the types of biomass and biofuels used (wood from thinning and residues versus large logs and stumps). Peat is not considered a biofuel.

**5. Water management and protection:**

*a. Wastewater treatment and water pollution prevention: with the aim of reducing discharges into water (mainly phosphorus, nitrogen, organic matter, heavy metals, plastics and pharmaceuticals)*

*b. Stormwater systems and flood protection: with the aim of supporting pollution prevention and the development of climate change resilient infrastructure*

*c. Protection of water resources: with the aim of minimising groundwater extraction and contamination, and improving the replenishment of aquifers*

*d. Protection and restoration of water and marine ecosystems: projects aimed at the extension of protected areas, protection and restoration of water and marine ecosystems, and biodiversity (such as wetlands, rivers and lakes, coastal areas and open sea zones)*

**6. Resources and waste management systems:**

*a. Projects in resource efficiency aimed at maintaining the value of products, materials and resources in the economy for as long as possible in support of the transition to a circular economy model (closing material loops, substitution of virgin raw materials, and reduced waste and pollution).*

*b. Infrastructure for better waste management supporting pollution prevention (such as emissions of air pollutants and discharges into water)*

*c. Energy recovery from waste:*

- *i. Production of biogas from organic waste*
- *ii. Waste-to-Energy plants, considering the targets of the Circular Economy Policy and minimising the combustion of recyclable materials*

**7. Green buildings:**

*The construction of buildings certified, or to be certified according to LEED Platinum or BREEAM Excellent or Outstanding*

## 2.1 Compliance

Evaluation of the compliance of the projects with the criteria before disbursement is of great importance, not least in order to reduce reputational risks. Therefore, NIB will request insight into available reporting from authorities and will only consider projects that have acceptable follow-up reporting on the performance with regard to above criteria.

## 2.2 Legal

NIB Environmental Bonds can be issued under any of NIB's debt issuance programs or as stand-alone issues.

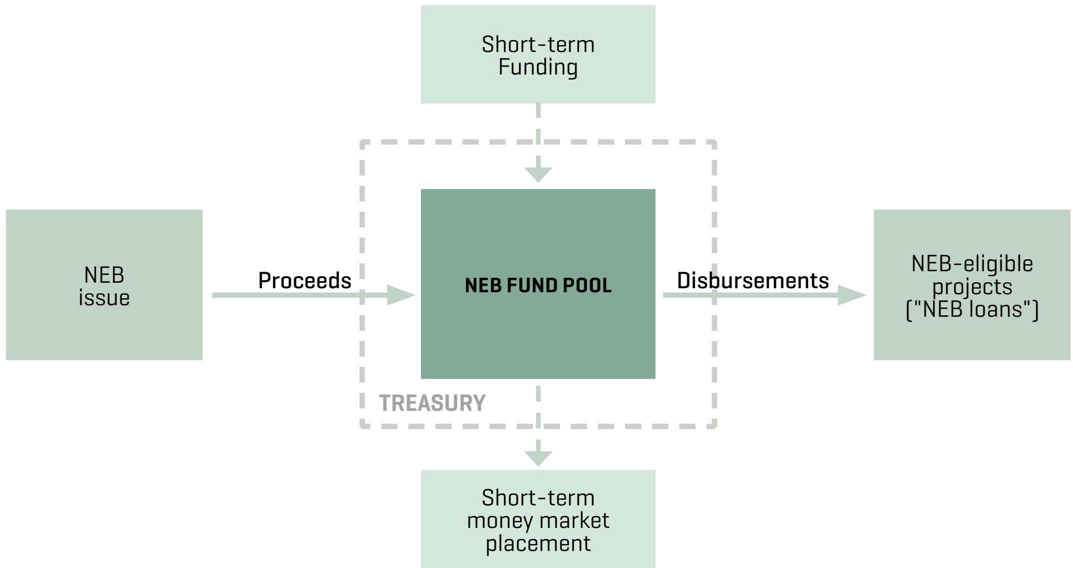
The offering materials for issuances of NEBs will indicate that the proceeds are to be used for financing selected loans to projects which are considered to benefit the environment of NIB's member countries.

NEBs will 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.

# 3 Management of proceeds

Separation of flow of funds and use of proceeds from NIB's general funding is a fundamental principle for the NEB programme. Therefore, monitoring and documentation of flow of funds from the NEB bond issuance to disbursement is important.

Bond proceeds are allocated to a separate portfolio, the NEB Fund Pool. Mismatches in the timeliness of funding and disbursements are managed within NIB's short-term asset and liability management according to NIB's liquidity policy. Ultimately, however, a straight link between proceeds and disbursements to loan for projects is established.




**As per the above illustration, NIB issues NIB Environmental Bonds and channels the proceeds to a separate NEB Fund Pool until loans are disbursed to eligible projects.**

## 3.1 Funding profile

The net proceeds of a NEB or an amount equal to these net proceeds will be used for eligible projects.

Ideally, the size and maturity of a NIB Environmental Bond closely match those of the projects receiving the proceeds; mismatches are, however, expected to occur, and are managed by Treasury. For example, the maturity of loans (defined as the first possibility for termination) are likely to be longer than the associated NIB Environmental Bond.

## 3.2 Re-financing

Should the NEB have a shorter maturity than the associated eligible loans, NIB has the possibility to either again assign funds from the NEB Fund Pool or to refinance the loans out of the Bank's general liquidity pool. When NEB funds are reassigned to a project, this is indicated in the reporting, and no double-counting of achieved impact is allowed.

## 3.3 Increases and buy-backs

NIB Environmental Bonds can be increased (tapped), as long as proceeds are used for financing eligible projects.

Partial or whole buy-backs of NIB Environmental Bonds are possible to support NIB's funding programme. Buybacks can either be financed from funds in the NEB Fund Pool or from the Bank's general liquidity.

## 3.4 Coupon payments

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. Thus, coupons are paid out of the general liquidity pool at NIB's sole discretion.

## 3.5 Redemption

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

## 3.6 Liquidity warehousing

The NEB proceeds in the NEB Fund Pool are invested in accordance with NIB's liquidity policy. 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 will be excluded from the calculation and monitoring for the reasons mentioned in sections 3.4 and 3.5.

## 3.7 NEB loan repayment

If a loan is repaid early, the proceeds will either go back into the NEB Fund Pool so it can be re-used for loans to new eligible projects, or become part of the Bank's general liquidity pool. The same applies if NIB requests early repayment due to non-compliance with loan terms.

# 4 Project monitoring and Reporting

The need for monitoring specific environmental or social issues is assessed as part of NIB's sustainability review. The Bank expects clients to be in compliance with the ***Sustainability Policy and Guidelines*** throughout the project and provisions entitling the NIB to monitor projects are incorporated into the loan agreement. The projects are assessed ex-ante during the mandate rating process (MRF), where environmental benefits are estimated and monitoring indicators set for follow-up with the client.

After NIB's financing is agreed and disbursed, the Bank monitors projects with significant environmental and social risks and impacts. This is done in accordance with the environmental review or when deemed necessary by NIB due to unexpected events.

Upon completion of financed projects, NIB follows up on the realisation of the estimated environmental benefits andperforms an ex-post assessment (see NIB's ex-post assessment framework). If during this assessment, 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 will bring this to the attention of the Bank's Credit Committee. The Credit Committee's responsibility is to approve any recommendations, including removing a specific loan from the NEB Fund Pool.

Up-to-date information on all NIB Environmental Bonds and projects that have either been partially or wholly allocated NEB proceeds is published on NIB's website. NIB regularly reports on the expected impact of financed projects on its website, and in the NIB Environmental Bond Annual Report. NIB uses qualitative and quantitative performance indicators whenever feasible and discloses the key underlying methodology used.

Before NEB proceeds are disbursed, the Bank will seek consent from the customer to publish the estimated impact from the project as calculated by NIB. This involves no further require-ments or benefits for the customer.

The NIB Environmental Bond webpage used for reporting is continuously updated: ***http://www.nib.int/capital_markets/environmental_bonds***

# 5 Second opinion and credit rating

For the framework of NIB Environmental Bonds, the Bank has acquired a second opinion from the research institute ***CICERO***.

Payment of the principal of and interest on NIB Environmental Bonds 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. Consequently, the bonds are expected to carry the same credit ratings as all other outstanding bonds issued by NIB.

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