



NORDIC
INVESTMENT
BANK

Environmental, Social and Governance Guidelines for Lending

**Adopted by the President and CEO of the Nordic Investment Bank
on 11 May 2022 with entry into force as of 7 June 2022**

Adopted by	President and CEO of the Nordic Investment Bank
Entry into force	7 June 2022
Version and adoption date	Version 1 adopted on 11 May 2022
Document ownership	Sustainability and Mandate Unit
Implementation responsibility	Lending Department
Control responsibility	Integrity and Compliance Office
Review cycle	At least every three years
Replaced document	Sustainability Guidelines of 21 March 2012

Contents

1	Introduction.....	2
2	ESG assessment in NIB’s lending operations.....	3
2.1	Counterparty ESG assessment	3
2.1.1	Counterparty definition	3
2.1.2	Exclusion List.....	4
2.1.3	Defining material ESG factors	4
2.1.4	Collecting relevant ESG information	5
2.1.5	ESG performance assessment.....	5
2.1.6	ESG rating.....	5
2.2	Project ESG assessment	5
2.2.1	Project definition	6
2.2.2	Exclusion list	6
2.2.3	Risk category	6
2.2.4	Review	7
2.2.5	Legal requirements and benchmarks.....	7
2.2.6	Project information requirements.....	8
2.3	Financial intermediaries.....	9
2.4	Acquisitions	9
3	ESG monitoring.....	9
4	Implementation	10

1 Introduction

The Nordic Investment Bank [“NIB”] is the international financial institution of the Nordic and the Baltic countries. NIB’s vision is a prosperous and sustainable Nordic-Baltic region. In line with its mission, NIB’s mandate is to finance projects that improve productivity and benefit the environment of the Nordic and Baltic countries. To ensure that projects proposed for NIB financing fulfil the mandate, all projects undergo a mandate rating prior to the credit decision.

A parallel process, as described in these Guidelines, is the Environmental, Social and Governance [ESG] assessment that focuses on ensuring compliance with NIB’s Sustainability Policy, including the Exclusion List, and provides guidance on ESG factors on both the project and counterparty level.

NIB applies risk-based due diligence to assess any potential significant negative environmental, social and governance aspects of projects. Within the scope of the due diligence, all projects are reviewed for their compliance with international and/or national legislation, regulations, and standards.

NIB assesses its counterparties’ 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 increasingly 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.

On both the project and counterparty level, ESG assessments form an integral part of the Bank’s credit process and decision-making, including adherence to other relevant NIB policies, and considerations are brought to the attention of the decision-making bodies of NIB.

As stated in the Sustainability Policy, a credit proposal can be rejected on the grounds of non-compliance to the Policy, whether at the project or client level. These Guidelines supplement and detail the requirements set out in the Policy.

The hierarchy of the governing documents for NIB’s ESG review is detailed in the figure below. The overarching Sustainability Policy, including its Exclusion List, governs all the activities of the Bank. The ESG Guidelines cover the ESG aspects for NIB’s Lending operations. Documents related to the ESG aspects for Treasury and Internal operations can be found here [www.nib.int].

NIB’s Sustainability Policy & Exclusion List		
Lending operations	Treasury operations	Internal operations
ESG Guidelines for Lending	Responsible Investment Framework	Procurement Rules

2 ESG assessment in NIB's lending operations

NIB believes that economic growth and sustainable development can go hand-in-hand and that taking environmental, social and governance aspects into account is consistent with sound business practice and enhances both NIB's and the client's competitive advantage. NIB commits to supporting its clients by sharing knowledge to foster sustainability and ESG integration. Thus, the overarching purpose of NIB's ESG assessment is, through dialogue, to elevate ESG issues in the counterparty's organisations and projects, improve the client's sustainability performance and support the effective implementation and execution of projects.

Further objectives of the ESG assessments are to understand:

- the possible risks and opportunities, and to ensure that all material issues and relevant impacts are sufficiently well considered;
- the extent to which counterparties are resilient to environmental and societal changes;
- the commitments and performance towards fulfilling environmental objectives and global and regional climate targets in alignment with the Paris agreement; and
- key corporate governance topics, including sustainability related governance.

2.1 Counterparty ESG assessment

NIB's ESG counterparty assessment follows the principles and commitments detailed in the Sustainability Policy. Those are reflected in the dialogue with NIB's clients as part of our lending operations. The counterparty ESG assessment is performed prior to the credit decision. The assessment includes the following key components:



2.1.1 Counterparty definition

The ESG assessment is performed for the counterparty and is seen as the most relevant considering the ESG risks and opportunities. For corporates, it is crucial to identify which company in the corporate structure represents the actual risk of the counterparty. The review boundaries may need to be more extensive than that of the counterparty and include the relevant related entities. The counterparty can be the borrower or risk owner, and in some cases, both entities may be analysed.

2.1.2 Exclusion List

The review on the counterparty level includes a check of its activities against the NIB Exclusion List for activities, as defined in the Sustainability Policy. NIB will not knowingly be involved with counterparties engaged in activities listed in the Exclusion List.

2.1.3 Defining material ESG factors

NIB uses the concept of materiality when identifying environmental, social and governance factors to be assessed.

Materiality is the principle of defining the issues that matter most to the business and its stakeholders. These material issues can be due to historical or current activities or may relate to future activities conducted by the counterparties.

NIB uses a risk-based approach when assessing material ESG factors related to the upstream or downstream value chain activities. The material environmental, social and governance factors may also have financial implications. Where ESG risks are or may become financially material, they will be managed in accordance with the Risk Management Policy.

What are considered material ESG factors varies between different sectors and businesses. In general, material ESG factors are related, but not limited, to the following:

- Environment: climate, pollution and waste, biodiversity and resource efficiency
- Social: laws and regulations regarding human rights, health and safety, and fair market practices
- Governance: board composition and diversity, remuneration principles and risk management

NIB utilises an internal ESG handbook document when identifying the material ESG issues for different sectors. The handbook includes a description of material ESG issues in a certain sector and provides supporting information on both general and sector-specific ESG questions and indicators.

The handbook is based on NIB's own sectoral and industry expertise and additional supporting information, for example, the Sustainability Accounting Standards Board's Materiality Map. The material ESG issues reflect the sector and relevant regions of NIB's operations. NIB's guidance covers over 20 different sectors, which are the most prominent ones in NIB's lending portfolio.

The handbook includes general ESG factors and questions that are related to the counterparty's ESG performance, strategy and how the business model is aligned with the transition towards a sustainable economy. These general questions form the basis for a systematic counterparty ESG assessment. In addition, sector- and industry-specific guidance assist in a more detailed way which questions and indicators are relevant for the counterparty in question. The questions aim to capture also sector specific opportunities, which are forward-looking by nature.

2.1.4 Collecting relevant ESG information

NIB collects applicable benchmark information related to material ESG issues. The benchmarks can consist of sector and industry specific voluntary or regulatory standards including, for example, industry best practices guidelines, EU Taxonomy, EU Emission Trading System product benchmarks and EU Best Available Techniques References. Special emphasis is given to research and scientific reports. In addition, relevant sectoral studies, ESG rating reports and peer assessments are gathered from internal sources and multiple external ESG service providers.

The sector and business size of the counterparty may affect the ESG information available. Irrespective of the size of the counterparty, NIB engages in client dialogue during the credit process. It is more likely that an external ESG rating is available for a large and listed company. When external ESG reports are available, NIB uses the information as part of its proprietary counterparty assessment. However, NIB does not limit itself to publicly disclosed information, but also collects non-public information in client interaction.

2.1.5 ESG performance assessment

When performing the assessment NIB aims to benchmark the client's performance and commitments on material ESG issues compared to its best-suited peers (e.g. sectoral, geographical), industry standards and science.

Climate risks and opportunities are reviewed in each transaction. NIB assesses the client's decarbonisation targets and transition strategy to reach alignment with the Paris Agreement.

2.1.6 ESG rating

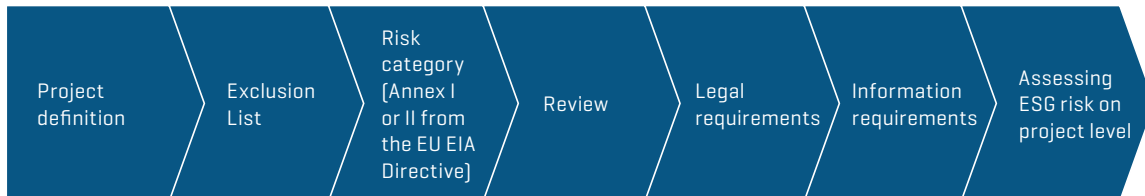
The outcome of the counterparty assessment is a qualitative rating included in the credit proposal. The qualitative rating is presented separately for environment, social and governance. NIB can reject a loan on the grounds of inadequate counterparty ESG performance.

2.2 Project ESG assessment

NIB requires all the projects it finances to comply with the legal requirements defined in this document [see section 2.2.5]. In addition to the core investment, a project comprises of all the additional components that are required to achieve the core project's scope.

A proposed project can be rejected due to non-compliance with NIB's Sustainability Policy, including the Exclusion List and the requirements set out in these Guidelines.

The review includes the following key components:



2.2.1 Project definition

The environmental, social and governance review relates to the entire project and its sphere of influence. To fully include all potential impacts and risks of the project in the review, its boundaries may need to be more extensive than the actual project definition. Furthermore, the scope of the review may be expanded to the related business activities and value chains of the project.

NIB finances investment projects. An investment or a set of investments is a project if it meets the following general criteria. The investments should:

- be quantified in monetary terms;
- have a clearly described objective that preferably is measurable; and
- have a specified timeframe for implementation and execution.

2.2.2 Exclusion list

The review on a project level includes a check against the NIB Exclusion List for activities, as defined in the Sustainability Policy. NIB will not knowingly be involved with projects engaged in activities listed in the Exclusion List.

2.2.3 Risk category

All projects are categorised according to the significance of their likely negative environmental and social impact. The basis for the categorisation is the European Union (EU) Environmental Impact Assessment (EIA) Directive with annexes (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0052>). https://ec.europa.eu/environment/eia/pdf/EIA_Directive_in-formal.pdf

The categories are:

- **Category A Projects:** Projects with likely significant adverse environmental and social impacts that are diverse, irreversible or unprecedented, Annex I in the EU EIA Directive. Will require a full EIA process.
- **Category B Projects:** Projects with likely limited environmental and social impacts, generally

site-specific, largely reversible and readily addressed through mitigation measures, Annex II in the EU EIA Directive. Will require a focused environmental assessment.

- **Category C Projects:** Projects with likely minimal or no negative environmental and social impact. No formal requirement for an environmental assessment.

2.2.4 Review

The review should be appropriate to the nature and scale of the project, and proportional to the level of risks and impacts and follows the sequence outlined below (for Category A and B projects):

- Projects with granted, in force environmental permits, concessions or equivalent licences to operate: The client is only required to demonstrate and supply to NIB the related EIA or equivalent and all applicable environmental permits. In these cases, limited or no further reviews are conducted by NIB. NOTE: This is only applicable for projects located in countries governed by EU legislation, also including countries within the European Economic Area [EEA]. Projects located outside EU legislation are always reviewed by NIB to ensure minimum safeguards such as compliance with applicable laws, regulations, or other sustainability standards.
- Projects with the EIA or equivalent concluded, and permit, concession or equivalent licences to operate submitted but not granted: A full review is conducted by NIB to verify adherence with applicable laws, regulations or other sustainability standards.
- Projects with the EIA or equivalent process initiated but no EIA concluded: A concluded EIA and submitted permit application are a prerequisite for NIB to be able to review the projects sustainability performance and make a credit decision.

A site visit and interviews with relevant stakeholders will normally form part of all Category A and B projects, unless the first requirement above is fulfilled. In case of complex social or governance issues, a review of documentation and a site visit may also be required for Category C projects.

Information relating to Category A projects are made publicly available for comments to NIB in the form of a short description of the project. Project descriptions are available at www.nib.int according to NIB's Disclosure Policy.

2.2.5 Legal requirements and benchmarks

Managing the environmental, social and governance aspects of projects in a manner consistent with applicable laws, regulations, standards and NIB's Sustainability Policy and ESG Guidelines is the responsibility of the clients.

NIB is a signatory to the European Principles for the Environment [EPE], which promotes sustainable development and the protection and improvement of the environment. The EPE is based on the environmental principles, practices and standards of the European Union and applies the "polluter pays principle". The ambition of NIB is to apply the EPE to projects in all the countries in which the Bank operates.

Of the relevant EU legislation, particular emphasis is given to the EU acquis related to environmental assessment and protection (https://ec.europa.eu/environment/index_en) and EU legislation on safety and health at work (<https://osha.europa.eu/en/safety-and-health-legislation>).

Projects should also comply with any obligations and standards enshrined in relevant Multilateral Environmental Agreements [MEAs]. A benchmark reference often applied in NIB's projects is the Helsinki Commission [HELCOM] recommendations for discharges to the Baltic Sea. See also the Sustainability Policy.

Other benchmarks are the World Bank Group policies and Guidelines, including the IFC Performance Standards, or other equivalent international standards.

2.2.6 Project information requirements

The client is responsible for supplying NIB with all the required information. The type and need of information depend among other issues on the risk categorisation [see section 2.2.3] of the project.

Depending on risk categorisation of projects, the information to be supplied to NIB should include but not be limited to:

- A detailed project description
- An environmental impact assessment [EIA] in accordance with the requirements in the EU EIA Directive or a description of potential significant environmental, social or governance impacts
- Quantification of the project's impacts on greenhouse gas emissions [Scope 1, 2 and 3] and other relevant emissions and discharges to the environment
- The client must demonstrate that all applicable permits and licences relating to environmental and/or social aspects are in force for the project. In case of pending permits, a satisfactory plan for obtaining permits needs to be demonstrated.
- An environmental and social management plan for project where relevant issues have been identified and where proper frameworks are not in place [usually required for project finance and non-member country lending]
- For large and complex Category A projects outside EU legislation, NIB reserves the right to request the client to engage an independent social or environmental expert, not directly associated with the client or the project, to review and give a second opinion of the EIA. The EIA should not be carried out and reviewed by the same party.

Furthermore, in the case of co-financing with other international financial institutions [IFI], NIB will work together with the other partners to agree to a common approach and sharing of information for the project.

2.3 Financial intermediaries

NIB will perform an ESG counterparty and project assessment when engaging with a financial intermediary (FI). NIB seeks to ensure that ESG project requirements are implemented equally well in allocations under NIB's loan with the FI. NIB delegates part of the responsibility for the ESG assessments to the FIs. The extent to which the review can be delegated to the FI will depend on the ESG risks associated with each allocation under NIB's loan with the FI.

Category A projects implemented under a loan programme must always be reviewed by NIB.

2.4 Acquisitions

When NIB finances an acquisition, the assets and the related activities acquired must comply, as all other NIB-financed projects, with the Sustainability Policy, Exclusion List and the ESG Guidelines.

In case of acquisitions there is sometimes a need for a due diligence. Due diligence is also conducted to assess the risk of environmental liabilities from impacts of past and current operations of existing projects and company facilities. The clients ESG performance related to acquisitions will be assessed as part of the ESG performance of counterparties.

NIB will also take into consideration environmental liability risks that it may face through pledges and collateral, such as becoming responsible for polluted property or real estate.

3 ESG monitoring

The need for monitoring is assessed as part of NIB's ESG assessment. The Bank expects the clients to follow the Sustainability Policy including the Exclusion List and ESG Guidelines throughout the engagement with NIB and provisions entitling NIB to monitor and visit projects are incorporated in the loan agreement.

If the client is found to be in non-compliance with agreed ESG undertakings in the loan agreement during the tenor of the NIB loan, NIB will engage with the client to address the concerns found.

NIB has a Complaints process regarding non-compliance of counterparties and projects where a complaint can be filed (<https://www.nib.int/contacts/report-misconduct-corruption-and-non-compliance>).

4 Implementation

The primary responsibility for implementing the ESG Guidelines for Lending rests with the Lending Department. The Sustainability and Mandate Unit is responsible for updating of the ESG Guidelines for Lending and supports, as an expert function, its implementation.

