NIBC COMMERCIAL REAL ESTATE SUSTAINABILITY POLICY

December 2024

COMMERCIAL REAL ESTATE

The commercial real estate (CRE) sector plays a critical role in efforts to develop sustainable cities and communities, countering the increasing threat of climate change.

Business context

The business operating environment of commercial real estate is complex and its value chain is extensive. Within the sector development and renovation of commercial real estate can involve developers which are purely focused on the asset development or renovation phase. It can also involve owners who intend to acquire, develop/renovate and own and manage the asset for the foreseeable future.

Third parties may be contracted to facilitate construction or renovation. Materials used in construction and demolition are increasingly sourced from recycled or responsible sources. Connections are installed to energy and water utilities.

It can involve brownfield situations in which the land has already been developed or greenfield situations in which the land has not yet been developed. Each situation is unique and therefore involves third party assessments, permits from local authorities, and expert consultants.

NIBC and CRE

NIBC provides a range of financial services to the real estate sector. We are committed to continuing to be a long term financial services provider to our clients in this sector, whilst at the same time ensuring that such services are provided in a responsible manner.

NIBC provides financial services to the commercial real estate sector in the following ways:

- Development & renovation finance
- Acquisition & ownership of buildings

In the markets served by NIBC, commercial real estate is highly regulated. Sustainability aspects within the regulatory landscape are rapidly evolving and creates risks and significant opportunities for NIBC and its clients.

Asset-based financing provided by NIBC is primarily secured financing, collateralised by the asset itself and other asset collateral. Our clients are essentially high-net-worth-entrepreneurs (HNWEs), small and mid-sized real estate companies and institutional investors involved in the development, operating, renting and selling of residential buildings and most classes of commercial buildings. The majority of real estate activities financed by NIBC occur in the Netherlands, a high income OECD country.

We also partner with professional parties to finance objects in urban settings in the UK and other European countries. Therefore we are guided by regulatory frameworks for buildings which address ESG aspects like the Energy Performance of Buildings Directive (EPBD) of the European Union, the EU Taxonomy, and applicable certification frameworks applicable to buildings.

NIBC believes the commercial real estate sector can transition to achieve net zero before 2050. In doing so, the climate transition represents an opportunity for NIBC to support our clients with the asset-based financing needed to transition and adapt buildings.

The transition to near net zero energy buildings and net positive buildings is already well underway. Nearly every commercial real estate financings of NIBC involves transformation of less efficient assets to high performing assets as part of the financing. Often this only becomes visible after the tenor of our

financing. A social benefit is also achieved in cases where poorly utilised buildings are reimagined and transformed into multi-use communities.

A broad range of short term, medium term and long term ESG concerns are considered within NIBC's approach. These include the following among others

Climate and environmental impacts and risks

CRE can have certain climate impacts due to its energy consumption, carbon emissions from heating and cooling, and urban heat island effects. The operation and maintenance of commercial buildings consumes a significant portion of overall energy, resulting in the release of greenhouse gases into the atmosphere. The heating, cooling, and lighting systems in these buildings, along with the use of fossil fuels for transportation, construction and renovations, contribute to carbon emissions and exacerbate climate change.

The sector faces climate transition risks as the world shifts towards a low-carbon economy. One risk is the potential loss of value of properties which are less energy inefficient. As stricter regulations and carbon pricing measures are implemented, these assets may become less desirable and financially viable. Physical impacts of climate change, increased frequency of extreme weather events, flood risk and heat stress may materialise. These factors can lead to property damage, increased insurance costs, and operational disruptions. Such risks are also opportunities for NIBC and its CRE clients. Climate transition will require investments in retrofitting existing buildings, improving energy efficiency, and buildings becoming sources of renewable energy.

In the short term, CRE may face physical risks such as increased frequency and intensity of extreme weather events, including heavy rainfall and flooding. These events can cause damage to properties, disrupt business operations, and lead to higher insurance costs. In the medium term, flooding or land subsidence may become an increasing concern. In the long term, the cumulative effects of climate change may become more pronounced, with the potential for prolonged heatwaves, and changing precipitation patterns.

Commercial real estate may have impacts on biodiversity due to greenfield expansion and development activities. Nature contributes materials needed for building construction and renovation. If not well managed the construction of buildings, infrastructure, and associated urbanization can lead to the loss, fragmentation, and degradation of natural habitats, thereby disrupting ecosystems and threatening biodiversity. The conversion of arable land, wetlands, and forests into commercial properties can result in the displacement and loss of various species, including plants, animals, and insects.

The sector may have impacts on water resources due to its development and operational activities. Access to clean water is a prerequisite for the use of most types of buildings. The construction and expansion of buildings may involve land reclamation and drainage, which can alter hydrological patterns and disrupt natural water flow. This can lead to increased flooding risks in some areas and reduced water availability in others. Moreover, the discharge of pollutants such as chemicals, sediments, and wastewater from commercial buildings into water bodies can result in water pollution, affecting the quality and biodiversity of aquatic ecosystems. Additionally, the high demand for water within commercial establishments, including for cooling systems, sanitation, and landscaping, can put pressure on freshwater resources.

CRE can have impacts on pollution due to its various operational activities. The construction phase itself can generate pollution through dust, noise, and the emission of construction vehicles. Once operational, commercial buildings contribute to air pollution through their energy consumption, particularly if fossil fuels are used for heating, cooling, and electricity generation. These activities release pollutants such as carbon dioxide, nitrogen oxides, and particulate matter, which contribute to climate change and pose health risks to both humans and ecosystems. Commercial properties also generate waste, including packaging materials, electronic waste, and hazardous substances, which, if not properly managed, can lead to soil and water pollution.

CRE can have impacts on circularity, which refers to the efficient use of resources and the reduction of waste throughout the lifecycle of a building. The construction and operation of commercial properties require a vast amount of raw materials, energy, and water, contributing to resource depletion and environmental degradation. However, there is a growing recognition of the importance of circularity in the sector, with initiatives aimed at minimizing waste, promoting recycling and reuse, and adopting sustainable building practices. Implementing circular principles in CRE involves strategies such as designing for disassembly, using recycled or renewable materials, optimizing energy and water efficiency, and incorporating renewable energy systems.

Human rights impacts and risks

CRE may have positive and negative impacts on workers. On the positive side, the sector creates numerous job opportunities throughout the value chain, including construction workers, architects, engineers, real estate agents, property managers, and maintenance staff. These jobs contribute to the local economy and provide income and livelihoods for individuals. Furthermore, the development and operation of sustainable commercial buildings can prioritize worker safety, health, and well-being, providing a conducive working environment.

If not well-managed, there can also be adverse impacts. Construction workers in the sector may face challenges such as long working hours, physical strain, and exposure to hazardous materials, which can impact their health and safety. Additionally, the temporary and project-based nature of construction work can result in job instability and limited access to social protections. In the operational phase, workers in commercial properties may experience issues related to indoor air quality, ergonomic factors, and work-life balance.

The sector also has both positive and adverse impacts on affected communities. On the positive side, the development of commercial properties can lead to economic growth, job creation, and increased tax revenues, benefiting local communities. The presence of commercial buildings also provides opportunities for local businesses to thrive, attracting customers and generating foot traffic. Moreover, sustainable commercial real estate projects can contribute to the improvement of community well-being through the integration of green spaces, public amenities, and social infrastructure.

However, there are negative impacts that can arise as well. The construction phase of commercial real estate projects may cause disruptions to local communities, including noise, traffic congestion, and limited access to public spaces. Moreover, the conversion of land for commercial use can lead to the displacement of communities or the loss of cultural and historical heritage. Additionally, rising property prices and gentrification associated with commercial development can result in the exclusion of lower-income residents from the area.

OUR POLICY

NIBC recognises that the commercial real estate industry has developed responsible approaches to address any adverse ESG impacts resulting from its activities. It also must continue to evolve to mitigate the risks posed by a changing climate, become more energy efficient, reduce reliance on fossil sources for energy, heat and cooling and meet the changing needs of society.

New Buildings

For new real estate, NIBC expects our clients to at least meet minimum EU, national and local rules, building performance regulations and standards at the time of construction and permitting. Furthermore, NIBC encourages use of best available technologies and sustainably sourced and/or recycled building materials.

Existing Real Estate

For investment in existing real estate we encourage a green energy performance certificate which at minimum conforms to national regulations and stimulate the transformation and improvement of unsustainable buildings to meet future requirements.

The sustainability regulations for offices require a green energy label from 2023. Certain exceptions are made for monumental buildings, offices as secondary function (<50%) and office real estate that will be demolished / transformed / expropriated within 2 years after the required deadline in 2023. In this way, NIBC also incentivises the modernisation of older commercial real estate which might not otherwise be sustainably improved or utilised.

Conventions and Standards

NIBC is guided by the following industry standards when assessing a client's approach to managing the ESG impacts resulting from its activities.

- EU Energy Performance of Buildings Directive (EPBD), including national implementations
- EU Energy Efficiency Directive 2023
- EU Taxonomy and its TSC and DNSH criteria related to buildings
- World Green Building Council;
- Dutch Green Building Council;
- German Sustainable Building Council;
- BRE Environmental Assessment Methods (BREEAM);
- Leadership in Energy and Environmental Design (LEED);
- IWBI / WELL Building Standard;
- Global Real Estate Sustainability Benchmark;
- ILO Core Conventions;
- Equator Principles for project financings;
- Cement Sustainability Initiative;
- Forest Stewardship Council (FSC).

NIBC's clients must be compliant with local climate, environmental and social laws and regulations, including permitting processes and other local requirements.

Transparency

For each asset financed by NIBC, we expect clients to share the data which is required for NIBC to meet its regulatory disclosure requirements, supervisory expectations and the client's disclosure requirements. Although many of NIBC's clients are effectively SMEs, transparency and good cooperation are crucial to

ensure effective progress continues to be made. Disclosure requirements will also continue to evolve over the coming years.

Scope & Boundary

This policy applies to clients of NIBC's corporate bank and new services provided to them by NIBC. This policy is applied in addition to the NIBC Sustainability policy, Human Rights policy and Environment & Climate policy.

Additional considerations

NIBC works with clients who meet or aim to meet our sustainability standards and will review our commitment to any client or transaction where such standards are not or no longer met.

In all cases, the future users of the property and the flexibility to adapt to changing needs should be considered. Aspects like energy efficiency, exposure and use of gas connections, and other characteristics are considered in NIBC's risk assessments. Furthermore, we encourage sustainable neighbourhood planning and close proximity to public transport to ensure mobility.

NIBC prefers a "circular" approach to both new developments and renovations, including the use of recycled and responsibly sourced materials where possible and practicable. We also prefer that materials are reused or recycled in the case of demolition.

NIBC encourages companies to include clauses on compliance with human rights, environmental and governance criteria in their contracts with subcontractors and suppliers. These should be evidenced by the companies concerned where practicable via certifications, site visits, and/or audits to help ensure responsible practice throughout their supply chains.

In cases where our clients act as lessors of real estate, we expect them to act as good lessors in line with standards as defined in national regulations with respect to tenant rights, FPIC, pricing, service, and maintenance.

We acknowledge that legacy issues may arise from continuing engagements entered before the implementation of this policy. Although the policy is not intended to be applied to financing agreements and investments retrospectively, NIBC endeavours to address potentially material legacy issues relevant to a particular engagement whenever a specific issue arises. In addition, clients are assessed against these policies as part of the periodic review process or as they become due for renewal.

NIBC will exercise discretion in deciding whether to apply this policy to the provision of financial services to a company that has only marginal involvement in the CRE sector. NIBC will make such decisions on a case-by-case basis after assessing the materiality of the risk that NIBC is supporting unsustainable activities.

Policy Oversight

NIBC's Risk Management Committee (RMC) has approved and periodically monitors adherence to these policy standards.