

Policy and guidelines

# Sustainability policy

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Decision-making body:	Board of Directors
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Responsible for document:	Chief Credit Officer
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This document has been translated from Swedish. In the case of any discrepancies between the Swedish and English versions, the Swedish version is the original.

## 1. INTRODUCTION

EKN is a government agency with the task of promoting Swedish exports of goods and services as well as the internationalization and competitiveness of Swedish companies. EKN does this by providing financial guarantees which covers companies' risks of not getting paid in export transactions. EKN also provides guarantees to banks' lending and credit to both exporting companies and their buyers. EKN is financed by the guarantee holders' premiums which reflect the risk in the transaction. EKN has no budgetary allocation from the Swedish government. EKN's operations shall be financially self-sustaining over time.

Through its business activities, EKN has an impact on the environment, human rights and sustainable development of society – the latter includes measures to counteract corruption, tax evasion and over-indebtedness of states. EKN's impact is primarily indirect through providing guarantees, and by engaging in dialogue and collaboration. The effects can be both positive and negative in the same transaction, which means that conflicting objectives may have to be balanced against each other.

EKN's sustainability policy is a tool for communicating and clarifying EKN's role, objectives and overall guidelines in promoting responsible, sustainable exports. The policy also clarifies EKN's expectations on its clients, both companies and banks, that apply for export credit guarantees from EKN.

The policy is also a decision-making and planning tool for underwriters and management at the government agency. The policy shall be used to (i) manage sustainability issues in transactions and (ii) develop time-bound goals, action plans, monitoring and implementation methods related to the environment, people and society.

The sustainability policy is approved by EKN's Board of Directors, together with principally important guidelines, which are described in the policy's appendix. EKN's day-to-day management of the aspects that the policy covers are developed and approved in accordance with EKN's decision-making procedure and are described in detailed guidelines for each subject area.

EKN's sustainability policy does not cover EKN's direct impact on the environment, people and society from business travel or the purchase and use of goods and services. These issues are covered in other policies and guidelines. EKN's expectations and requirements on employees are covered in EKN's Code of Conduct.

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## 2. OVERARCHING SUSTAINABILITY POLICY

### EKN's SUSTAINABILITY POLICY

EKN's goal is – through the provision of guarantees as well as in dialogues and collaboration with exporters, banks, authorities and other parties – to also contribute to the realisation of the UN's Sustainable Development Goals and the Paris Climate Agreement.

EKN shall work proactively to enable and guarantee exports that contribute to the transition required to achieve the UN's global goals. In this way, EKN can also contribute to the development of long-term sustainable business models for Swedish exporters and their customers.

EKN shall analyse risks and impacts on the environment, people and society – including risks of corruption - in transactions and across the portfolio. Together with other actors, EKN shall maximize opportunities for positive impact.

With the support of international standards<sup>1</sup> and good practice, EKN shall continuously improve methods and risk management tools that ensure long-term sustainability in transactions and address both current and future sustainability and credit risks.

### FACTS

#### **The role of business and financial actors in sustainable development**

The UN's Sustainable Development Goals and the Paris Climate Agreement (under the UN Framework Convention on Climate Change) summarize the goals and interim targets of the global efforts towards ensuring a stable climate, sustainable use of natural resources, reduced poverty and increased respect for human rights. Both agreements describe the role of business and financial actors in implementing the global sustainability commitments in cooperation with states and civil society.

The transition to a sustainable development of society requires innovation and financing for the development of business operations that contribute to sustainable development. In addition, prevention and counteracting of corruption, tax evasion, unsustainable indebtedness of states, environmental degradation and human rights violations are of central importance.

<sup>1</sup> "International standards" refers to conventions, recognized standards, certification systems and good practice for their application.

### 3. SUSTAINABILITY GUIDELINES

#### Applicable regulatory framework

In its operations to promote exports, EKN shall follow the principles in:

- UN Guiding Principles on Business and Human Rights;
- OECD Guidelines for Multinational Enterprises; and
- UN Global Compact.

In its efforts to achieve sustainable business performance, EKN shall abide by:

- OECD Recommendation of the Council on Bribery and Officially Supported Export Credits;
- OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the so-called “Common Approaches”); including the application of the International Finance Corporation’s (IFC’s) Performance Standards and the World Bank Group’s Environmental, Health and Safety Guidelines;
- OECD Recommendation on Sustainable Lending Practices and Officially Supported Export Credits; and

EKN shall endeavour to ensure that the “generation goals” for environmental protection and the environmental quality objectives laid down by the Swedish parliament are achieved.

#### Overarching principles for EKN’s business activities

When the above goals and regulatory frameworks are applied in EKN’s business activities, this means for instance that:

- EKN shall develop methods and collaboration to promote transactions with positive contributions to sustainable development.
- EKN shall contribute to the realisation of transactions with responsible management of the environment and human rights, without corruption and which facilitate social and economic development of low-income countries.

#### FACTS

#### UN and OECD principles and recommendations on responsible business practices

##### Principles aimed at companies

The UN Guiding Principles on Business and Human Rights; OECD Guidelines for Multinational Enterprises; and the UN Global Compact are based on internationally recognized norms. These frameworks set out expectations on companies to prevent and manage sustainability risks in their global value chains, i.e. including customer relations in the sales of goods and services. EKN’s instruction from the Swedish government clarifies that also EKN shall conduct its export promotion activities in accordance with these principles.

##### OECD Recommendations aimed at export credit agencies

The OECD Recommendation of the Council on Bribery and Officially Supported Export Credits; the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the so-called “Common Approaches”); and the OECD Recommendation on Sustainable Lending Practices and Officially Supported Export Credits are all specifically targeting how sustainability issues shall be managed by export credit agencies. As these recommendations and principles are negotiated within the OECD, Sweden and EKN can influence their development together with other export credit agencies.

- EKN shall have a risk-based approach. This means that EKN's assessment shall prioritize transactions with high sustainability risk and impact on the environment, people and society – regardless of buyer, country, size of transaction, credit period and type of guarantee product. The main focus of EKN's assessment is on the operation where the goods or services are to be used.
- EKN shall refrain from participating in transactions where the conditions are deemed unacceptable and where EKN cannot influence the situation positively, or where information necessary for EKN is not obtained or expected to be obtained at a later stage, as well as in cases where the primary purpose of the transaction structure is to avoid taxation or where the risk of corruption is considered too high.
- EKN shall be restrictive in its support for transactions to operations with high negative climate impacts. In transactions to new projects with an expected high negative climate impact, EKN's risk assessment shall consider the operation's life cycle greenhouse gas emissions, possible lock-in effects, and transition plans in line with the Paris Agreement's 1.5-degree target. As a general rule, guarantees shall not be granted for transactions related to fossil fuel-based extraction and power generation; see Annex.
- EKN shall continuously analyse its exposure to climate-related transition and physical risks in the portfolio, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and use the results of these analyses to strategically reduce exposure to climate-related financial risks.
- Human rights shall be respected in transactions guaranteed by EKN. Transactions shall be managed in accordance with the UN Guiding Principles on Business and Human Rights. EKN applies enhanced due diligence in transactions in conflict-affected areas, as well as in countries and sectors with a high risk of human rights violations.
- EKN shall avoid negative impacts on biodiversity and sensitive natural areas. In transactions related to new projects, EKN follows the principles of the IFC Performance Standards, whereby negative impacts shall be prevented to the extent possible and any damage shall be restored or compensated in line with international good practice.

## FACTS

### Balancing risk in EKN's assessments

In the operations which EKN guarantees, negative and positive impacts are unevenly distributed across different actors and stakeholders: globally, in buyer countries and in Sweden. Climate impacts from projects and business operations affect the stability of the climate at a global level. Projects and operations in buyer countries can have both positive and negative impacts on people and the environment at the local level. For exporters and Swedish exports in general, there is often no negative impact. Instead the transactions contribute positively to job creation and economic growth in Sweden.

In sustainability assessments at transaction-level, EKN particularly considers sustainability risks at the global level and in the buyer country. When balancing transaction decisions, positive aspects for Swedish exports and sustainable development must be taken into account, but these cannot offset what EKN considers to be unacceptable impact on climate, the environment and people in buyer countries.

In large transactions, EKN often has greater leverage and uses it to ensure that the transactions comply with international standards. In transactions where EKN has little or no possibility to influence the circumstances, the purpose of the sustainability review is to ensure that there are no credible indications of serious adverse impacts in which EKN cannot participate.

### **Requirements on EKN's customers**

- Companies and banks are expected to apply proactive risk assessment<sup>2</sup>. This means to assess, communicate and – as far as possible – prevent, manage and remedy potential risks and negative impacts on the environment, people and society in their transactions, with a focus on high-risk situations.
- Companies and banks exposed to corruption risks shall demonstrate a strong ability to manage such risks in accordance with the local context, complexity and risk level of the transaction.

### **Collaboration and influence**

- EKN shall maximize opportunities to exert positive leverage and influence, together with companies, banks, authorities and other actors through transactions, dialogue and partnerships.
- EKN shall work closely with companies and banks to promote international regulatory frameworks and support their application in customers' operations.
- EKN shall have ongoing dialogues with Swedish government authorities, other countries' export credit agencies and other stakeholders in order to share sustainable business practices, drive effective collaboration and promote a level playing field in sustainable global development.

### **Transparency and grievance mechanisms**

- EKN shall regularly communicate the results of its activities in the area of sustainable business practices.
- Within the legal requirements regarding business confidentiality, EKN shall regularly provide information about transactions with high sustainability risks, to which the government agency has issued guarantees or refrained from participating in.
- EKN shall ensure effective and secure channels for feedback and complaints from stakeholders, both concerning the agency itself and new projects guaranteed by EKN.

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<sup>2</sup> So-called "due diligence"

## ANNEX: EKN’s approach to fossil fuels

The appendix clarifies EKN’s approach to guarantees for applications which in different ways relate to fossil fuels.

**Guarantees will not be issued** for transactions where the product or service is intended for use in the following sectors or activities:

Fossil fuel	End-user’s business activity	Phase of the activity (new project or existing operation <sup>3</sup> )	Exception
Coal	Exploration and extraction (coal for any type of use)	All	—
	Transportation <sup>4</sup> and storage (coal for any type of use)	All	—
	Coal-fired power plants	All	The project or the specific operation has documented and realistic transition plans in line with the Paris Agreement’s 1,5-degree target, rendering significant reductions in greenhouse gas emissions by 2030. E.g., through technology for so called carbon capture and storage (CCS) or other technology which reduces the emissions to corresponding levels.
	Operations which include <sup>5</sup> coal-fired power plants where the primary purpose is to provide the industrial operation with power	All	
Oil and gas	Exploration, extraction, and production	All	—
	Transportation <sup>6</sup> and storage	All	—
	Processing of gas and production of liquified natural gas (LNG)	New projects or larger expansion of existing operations	The project or the specific operations has documented and realistic transition plans in line with the Paris Agreement’s 1,5-degree target, rendering significant reductions in greenhouse gas emissions by 2030. E.g., through technology for so called carbon capture and storage (CCS) or other technology which reduces the emissions to corresponding levels.
	Refineries	New projects or larger expansion of existing operations	
	Power plants, oil/gas	New projects or larger expansion of existing operations	
Other extraction-related operations	Unconventional extraction methods and operations in sensitive areas <sup>7</sup>	All	—

Transactions to fossil fuel-related operations will be handled in accordance with EKN’s generally restrictive position on fossil fuel-related operations, as well as EKN’s adjustment of its provision of guarantees to align with the Paris Agreement’s 1,5-degree target, and not to create lock-in effects in fossil fuel dependency.

Transactions supporting significant environmental or safety improvement measures may be considered, provided that they do not create lock-in effects in fossil fuel dependency.

### Exemption concerning gas-fired power plants

Projects involving gas-fired power plants may be exempted from the transition plan requirement in low- and lower-middle-income countries experiencing significant energy shortages, provided that the investment can be demonstrated to be better from an environmental or climate perspective than other plannable<sup>8</sup> alternatives.

Safety and climate improvement measures in existing gas-fired power plants shall be permissible in low- and middle-income countries. Existing gas-fired power plants in these countries may be replaced, provided that such replacement results in reduced CO<sub>2</sub> emissions per kWh.

In the aforementioned exemptions, the gas-fired power plant in question must be capable of being transitioned and able to operate using fossil-free fuel.

<sup>3</sup> In accordance with definitions in OECD Common Approaches.

<sup>4</sup> Where the primary purpose is to transport coal.

<sup>5</sup> As part of a specific operation, the project or an associated facility (in accordance with definitions in OECD Common Approaches).

<sup>6</sup> Where the primary purpose is to transport oil or gas in the value chain up to a refinery or gas processing and in connection with production (LNG).

<sup>7</sup> E.g. fracking and oil sand extraction, and in sensitive areas such as in the Arctic region.

<sup>8</sup> Plannable power refers to coal-,oil-, and gas-fired power, nuclear power, and hydropower, but not solar or wind power.