

# Report of the Board and Financial Statements 2022

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# Report of the Board 2022

**Approved by the Board of Directors on 22 February 2023**

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## 1. Summary

Nefco's task is to accelerate the green transition by financing the initial scale-up of Nordic green solutions globally. As the Nordic Green Bank, Nefco can take greater financial risks than traditional financial institutions – if and when there is a green upside.

Nefco therefore plays a key role in implementing the Nordic Vision 2030 to make the region the most sustainable and integrated in the world.

Nefco aims to significantly increase financing for Nordic small and medium-sized companies (SMEs), to maintain its position in the Eastern European region as a key financier supporting the green transition in municipalities and to seek opportunities in fund management assignments for new green business solutions in other parts of the world that are of significant interest to the Nordic governments and aligned with global conventions on climate and biodiversity.

Two big themes have characterised Nefco's operations in 2022: Russia's brutal, illegal and unprovoked invasion of Ukraine and the growth in the Nordic SME business area. The first has had a negative effect, and the second is positive.

The Russian invasion has caused severe damage to people, infrastructure, and the environment in Ukraine. It has also led to a weakened economy both in Ukraine and globally, and had a major impact on Nefco's operations in Eastern Europe. Project activities in Ukraine were initially put on hold, but many projects resumed later in the year with grant financing from various donors replacing Nefco loans. The crisis has led to impairments in the form of loss provisions in Nefco's accounts, as many Ukrainian clients have difficulties paying back their loans. Due to the Russian aggressions, supported by Belarus, Nefco also decided to stop financing activities in Russia and Belarus.

While the need for reconstruction is immense, it also presents an opportunity to build back better in a sustainable way towards a carbon-neutral and nature-positive future for Ukraine. To support Ukraine in building back greener and better, Nefco's Board decided in June 2022 to set up a multi-donor grant programme, Nefco Green Recovery Programme for Ukraine, which supports Ukrainian municipalities in their sustainable reconstruction.

In the Nordic SME business, Nefco's project portfolio has grown according to plans. The Board approved 14 new investment fund loans for SME projects in 2022, while the goal was to approve at least 12. This development is in line with Nefco's strategic goals to significantly increase green financing for SMEs. The portfolio of investments in the SME segment now comprises 62 projects; 18 of these have been provided with small-scale fast-track loans under the Nefco Green Recovery Frame. Increased lending activities have also led to higher interest income compared to 2021.

In terms of environmental impact, mitigating biodiversity loss and the need for nature-based solutions have become a top priority for the Nordic countries. Addressing the need for financing and companies committing to the goals, Nefco launched a Biodiversity Pilot Programme for Nordic SMEs in autumn 2022. The objective is to help companies to learn about the biodiversity-related risks and opportunities for their business and to test scalable solutions addressing these. The two-year programme seeks to co-create concrete biodiversity actions with companies and share knowledge on nature-positive impact strategies.

To accelerate the green transition and adapt to a rapidly changing world, the ability to simplify processes is paramount. In response to these needs, the Nefco Board has taken more flexible meeting and decision-making models into use. This is environmentally more sustainable and has speeded up work at operational level and enabled more projects to start earlier.

The common Nordic ambition is to be a global frontrunner in the green transition and sustainability, and to increase competitiveness of Nordic businesses. The Nordic countries shall also be a role model for the global sustainable development goals (SDGs). Nordic cooperation is essential not only for the internal Nordic region, but also for Europe and the rest of the world. Nefco's role as a green financier filling a critical financing gap to accelerate the green transition has become even more important.

## 2. Environmental summary

Climate change mitigation and adaptation, pollution reduction and conserving biodiversity are the cornerstones of Nefco's financing, including lending and equity investments and trust fund-based grants. In 2022, Nefco updated its Environmental and Sustainability Policy and Guidelines. One objective was to increase the share of EU Taxonomy-aligned projects in the portfolio and set clear boundaries for activities, which Nefco is not willing to finance. The exclusion list contained in the policy is the first of its kind for Nefco. The policy lists a number of exclusions related to fossil fuels, forestry and husbandry, as well as those made on the basis of ethics, laws and conventions.

The renewed policy and ambitious exclusion criteria reflect Nordic priorities and Nefco's purpose to accelerate the green transition. They support concrete actions toward achieving carbon neutrality and a sustainable, circular and nature-positive economy.

For investment projects approved in 2022, Nefco actively used the EU Taxonomy, evaluating Eligibility, Substantial Contribution criteria (SC), Do No Significant Harm criteria (DNSH) and Minimum Social Safeguards criteria (MSS). A full analysis has not been applied retroactively for projects agreed before 2022, these have been analysed solely for EU Taxonomy eligibility.

New investments are spread across a wide range of sectors, but the emphasis continues to be on solutions in the energy, construction and real estate, and manufacturing and transport sectors with climate change mitigation as the main driver. Nefco would welcome more projects related to circular economy and the sustainable use of resources, as well as nature-based solutions. There is much expertise and potential in these sectors in the Nordic countries.

More information about the Taxonomy-related portfolio analysis and overall environmental and social impact of Nefco's activities can be found in *Other information: Annual Impact Report 2022*.

## 3. Financial summary

Nefco's paid-in capital and retained earnings, the so-called Investment Fund, is the core of Nefco's investment activities. From this capital Nefco can make green investments on market terms through loan and equity-type financing. The investments were initially limited to private and public projects in Eastern Europe, but since 2019, Nefco has been able to finance private sector projects by Nordic SMEs, which are being implemented globally.

Nefco also manages several trust funds for various donors and acts as an implementing agency for a number of multinational partnerships. These initiatives provide grants, conditional or soft loans, or results-based financing to support green projects and capacity building.

Only the Investment Fund balance sheet is included in the annual accounts, while the accounts of other fund management assignments are reported separately to their respective fund providers. However, to provide a more comprehensive overview of Nefco's operations, this report also shortly summarises all financing activities, including investments and trust funds.

### 3.1. Nefco's equity (Investment Fund):

- The paid-in capital reached its full amount of EUR 113.4 million in 2007.
- At the beginning of 2022, Nefco's equity amounted to EUR 172.6 million.
  - The equity included the Operational Fund (EUR 4.5 million), which was closed in 2022 and these funds were transferred to retained earnings. The Operational Fund was established by the Nefco Board in 1993 for project preparations and technical assistance.

- Due to the Russian invasion of Ukraine impairments (EUR 54.3 million) in the form of provisions for possible losses were made in 2022.
- Consequently, equity amounted to EUR 119.3 million at the end of 2022.
- Interest income was EUR 7.7 million in 2022 (2021: EUR 6.9 million).

#### **Project portfolio and disbursed funds:**

- 78 active investment projects at the end of 2022, total agreed value EUR 214.8 million (2021: 86, EUR 208.7 million)
  - 26 projects in Ukraine, total agreed value EUR 121.5 million (2021: 36, EUR 143.3 million)
- The Board approved 14 projects and the administration approved further 8 SME green recovery loans in 2022 (2021: 7 and 9). The total amount of these projects were EUR 46.8 million and EUR 3.6 million respectively (2021: EUR 19.5 million and EUR 3.6 million).
- 19 projects (whereof 7 SME green recovery projects) were contracted in 2022 for the total value of EUR 40.2 million (SME green recovery EUR 3.1 million) (2021: 15 (9) projects, EUR 18.5 (3.6) million)
- At the end of 2022, five approved projects totalling EUR 15.1 million in allocated funding were under negotiation (2021: 8 projects for the value of EUR 30 million)
- EUR 28.2 million was disbursed to investment projects (2021: EUR 28.5 million)
  - Of this, EUR 0.3 million was disbursed to investments in Ukraine (2021: EUR 13.5 million)
- EUR 55.0 million is contracted but undisbursed commitments (2021: EUR 82.9 million)
- 6 investment projects were repaid in 2022 (2021: 5).

#### **Outstanding loan investments (after impairments):**

- Green transition Nordic SMEs (private sector)
  - Ukraine - 12 projects, book value EUR 5.9 million (2021: 11 for EUR 33.2 million)
  - Other - 44 projects, book value EUR 40.2 million (2021: 26 for EUR 28.6 million)
- Green transition Eastern Europe (public sector)
  - Ukraine - 12 projects, book value EUR 9.4 million (2021: 14 for EUR 32.2 million)
  - Other - 1 project, book value EUR 2.0 million (2021: 2 for EUR 2.5 million)
- Loans outstanding: total book value EUR 55.9 million at the end of 2022.

#### **Investment assets:**

- Nefco has invested in the equity of 12 companies with fair value of EUR 13.4 million (in 2021: 12 for EUR 15.3 million).

A project with Nefco may include both equity and loan investment.

## **3.2. Trust Funds**

During the year, 11 new fund assignments were agreed:

- Green Recovery for Ukraine, in total EUR 114 million, from the EU, Denmark, Norway and Sweden. Finland announced a EUR 5 million contribution just before the end of the year.
- Energy efficiency for Georgia and Moldova, in total EUR 3 million from the Eastern Europe Energy Efficiency and Environmental Partnership (E5P)
- Beyond the Grid Fund for Africa, in total EUR 19 million, from Germany and Norway
- Modern Cooking Facility for Africa, EUR 12.5 million from the EU



At the end of 2022, Nefco managed trust fund assignments totalling EUR 498.3 million (2021: EUR 361.4 million). The total value of committed funds, including agreed and ended trust fund projects, amounted to EUR 261 million.

During 2022, EUR 16.3 million were disbursed to active trust fund projects (2021: EUR 15.9 million).

Note that trust fund projects in this report include, in addition to concrete projects, assignments such as technical assistance, consultancy and project preparation, which often are part of an investment project.

The administrative fees paid to Nefco for management assignments are reported in the Statement of Comprehensive Income under '*Trust Fund Income*'.

### 3.3. Nordic Environmental Development Fund (NMF)

The Nordic Environmental Development Fund (Nordiska Miljöutvecklingsfonden, NMF) was created in 1996 and has been managed by Nefco ever since. The trust fund is currently financed by the Nordic Council of Ministers. The aim of NMF is to provide soft financing to strengthen the profitability of urgent environmental projects, enable greater risk-taking in financing activities, accelerate project implementation or attract additional environmental investment. The support complements and contributes to the catalytic effect of investments made with Nefco's own capital (Investment Fund), amongst others.

In 2010, NMF Credits was established to lodge existing and future credit facilities separately from grant-funded activities in NMF, while grant money was kept in NMF. NMF Credits have been further divided into the Energy Saving Credits (ESC) small scale loans to municipalities; the Ukraine Municipal Lending Facility (ULF), designed as a scale-up of Energy Saving Credits (ESC) projects for municipalities; and the Cleaner Production Facility (CPF) for private sector projects in Eastern Europe. CPF loans have not been used for some years now.

NMF is administered by Nefco, and the Nefco Board decides on allocations under NMF. The Nordic Investment Bank (NIB) participates in project evaluations. Separate annual accounts are produced for NMF and NMF Credits funds. NMF is currently financed by annual grants from the Nordic Council of Ministers determined on an individual yearly basis. At the end of 2022, the total remaining funds in NMF amounted to EUR 44 million (EUR 50.3 million), of which EUR 12 million (EUR 39.2 million) was for NMF Credits.

NMF Credit funds have been particularly successful in municipal projects in Ukraine in the last six to seven years, preparing the ground for larger investment projects and building a network of over 100 municipalities.

After Russia's large-scale invasion of Ukraine and the following state-of-emergency in the country, Nefco halted the provision of loans to Ukraine, including the loans under NMF Credits. Due to the situation, Nefco deemed it relevant to consider alternative use of the remaining funds, which cannot be used within the abovementioned allocations. Based on recommendation from Nefco's Trust Fund Investment Committee, Nefco's Board decided in its December meeting to transfer some of the funds back from NMF Credits to NMF, making them available for other activities within Nefco.

#### 3.3.1. NMF funds to support green recovery in Ukraine

Nefco has encountered considerable interest from the donor community, including the EU and the Nordic countries, in the initiative Nefco Green Recovery Programme for Ukraine, which was launched in July 2022. The donors also welcome additional financing for including dark green components to complement the reconstruction activities.

Transferring funds back to NMF as described above provides an opportunity to enhance the environmental benefits and long-term impact of the programme. Funds from NMF provide a tool for implementing additional green components, possibly including Nordic solutions and considering the demonstration value of the projects.

Therefore, the Nefco Board decided, based on recommendations from Nefco's Trust Fund Investment Committee, to create a new NMF-funded window of EUR 5 million to finance development and implementation of activities within the Nefco Green Recovery Programme for Ukraine.

### **3.3.2. NMF funds to support Nefco's biodiversity pilot programme**

Mitigating biodiversity loss and addressing the need for nature-based solutions have become a top priority for the Nordic countries. A significant funding gap for biodiversity restoration and conservation has been impairing collective and global action against nature loss. The United Nations Biodiversity Conference (COP15) in Montreal in December 2022 emphasised the role of financial institutions in closing the funding gap. Society is reacting slowly, the financial sector lacks the instruments to tackle the challenge, and there are few good examples of what can be done to halt and/or reverse the negative development.

To test and develop suitable biodiversity solutions in collaboration with companies and set an example for nature-positive impact strategies among financial institutions, Nefco's Board approved a new biodiversity pilot programme for SMEs, which was launched in autumn 2022 with funds of EUR 250,000 from NMF. By working with companies and pilot projects, the intent is to raise awareness and lead by example.

## **4. Business overview**

### **4.1. Green transition Nordic SMEs**

The year has seen growth in project activities by small and medium-sized companies. In the Nordic SME business, new investments are spread across a wide range of sectors, but the emphasis continues to be on solutions related primarily to climate change mitigation, namely in the energy, construction and real estate, manufacturing and transport sectors. Based on assessment of the Nordic countries' strengths in technology innovations, there is potential for more projects related to circular economy and the sustainable use of resources, as well as nature-based solutions.

#### **4.1.1. Scale-up investments**

Although their technologies or solutions are commercially and technologically proven, small and medium-sized companies often have a higher financial risk profile than is acceptable for traditional commercial bank financing. Nefco provides risk financing such as subordinated and even unsecured loans, filling a financing gap between equity and traditional bank financing to enable the implementation of SME's scale-up investments.

One of Nefco's strategic goals is to increase the number of Nordic SME projects in the portfolio and thus contribute to the scale-up, competitiveness and green transition of these companies. The goal of 12 projects to be approved in 2022 was exceeded: 14 new projects were approved by the Nefco Board to a value of EUR 46.8 million (2021: 3 projects for EUR 5.3 million). Nine of these and three projects approved earlier, altogether 12 projects, were contracted by the administration before the end of the year (2021: 12 projects).

At the end of 2022, Nefco's portfolio included 44 active investment projects in the private sector. Of these, 13 projects were in Ukraine.

#### 4.1.2. Green recovery loans

The other investment instrument, the SME Green Recovery Loan Frame was initially developed as an immediate response to the global pandemic, with Nefco aiming to mitigate the negative economic effects among Nordic SMEs. The programme has remained an attractive offering among the Nordic target companies also in the post-pandemic situation, as SMEs are facing continued challenges due to supply chain issues, component shortages, effects from Russia's war in Ukraine, a deteriorating condition for raising risk capital, and other challenges. Moreover, commercial banks have been reluctant to offer financing to small growth companies due to the perceived increased risks.

These fast-track loans can be used for activities that support international growth, including for international business development and sales, investments aimed at internationalisation and/or as working capital needed to maintain or further develop international operations and business activities.

In 2022, seven new green recovery loans were contracted by the administration to a value of EUR 3.1 million (2021: 10 projects for EUR 3.9 million).

#### 4.1.3. Nopef grants

Nordic SMEs can also get financial support through Nopef, the Nordic Project Fund, for feasibility studies aimed at their internationalisation. Nopef is a trust fund, financed by the Nordic Council of Ministers and managed by Nefco since 2014.

Nopef's project activity has remained high during 2022 with 35 new projects approved during the year, in line with the targets for the year (37 projects in 2021). During the year, 23 projects have been successfully completed, resulting in a successful international market entry by a Nordic company. Nopef's project portfolio at the end of the year is comprised of 140 ongoing projects with a total approved funding of EUR 4,8 million (157 projects, EUR 5.3 million in 2021).

Budget funds from the Nordic Council of Ministers for 2022 amounted to DKK 11.2 million (corresponding to EUR 1.5 million), which is an increase of DKK 3.2 million (corresponding to EUR 0.4 million) compared to 2021. All approved projects are in line with the priorities in the Nordic business sector's action plans for the Nordic Vision.

#### 4.1.4. Biodiversity Pilot Programme

Nefco launched a Biodiversity Pilot Programme for SMEs in August 2022. Four companies started in the pilot programme, which aims to test and develop concrete biodiversity solutions in co-creation with the companies. The objective is to help small and medium-sized companies to learn about the biodiversity-related risks and opportunities for their business and to test scalable solutions to address them. The two-year programme will co-create concrete biodiversity actions with companies and share knowledge on nature-positive impact strategies.

### 4.2. Green transition in Eastern Europe

Nefco has a long history of financing environmental and climate-related projects positively impacting communities and people in Eastern Europe. Nefco is providing both investment loans from its own capital, the Investment Fund, and grants through trust funds for green projects in the region. Ukraine has been the most important country of operation for Nefco with a large number of projects in both the private and public sectors.

The war has affected Nefco's operations in Ukraine fundamentally, halting almost all credit financing and turning to grant funding of projects. Many projects financed by Nefco in Ukraine have been cancelled and some project sites

in the Eastern parts of the country have been damaged or even destroyed by Russian attacks. There are, however, projects that have been able to proceed although with some delays due to the difficult situation in the country.

Due to the war Ukraine was deprived access to credits and martial law was introduced. Nefco has been forced to make unique, substantial impairments this year, reflecting the reality of the situation. Compared to the projections before the invasion, disbursements of loans in Ukraine will suffer a paramount reduction in 2023 and for several years ahead. Even though loans have been impaired, most clients have continued interest and debt repayments. Nefco has offered clients to restructure loans, by giving clients two years of postponed debt repayments, and longer durations. No loans have so far been declared in default, but it is expected to happen at least in one private-sector renewable energy project that has been destroyed and is not likely to recover.

Despite the difficult situation in Ukraine, there are currently 85 Nefco-funded projects (16 investments and 69 trust fund projects) in the portfolio. Active physical work was ongoing to varying degrees in 23 projects by year end. These projects are related to energy efficiency in buildings, wastewater systems, installation of solar panels and modernisation of street lighting. Even though street lighting is not currently used, the cities are preparing for a brighter future.

#### **4.2.1. New programme for green recovery in Ukraine**

Adapting to the new reality, Nefco strives to use its strengths in the new context. The donor community greatly appreciates the combination of Nefco's vast network at municipal level, its contacts with central authorities, and its expertise in environmentally relevant project implementation in Ukraine. In Ukraine, both national authorities and municipal clients perceive Nefco as an international financial institution that gets things done.

On 14 June 2022, the Nefco Board approved the new concept 'Nefco Green Recovery Programme for Ukraine'. Green Recovery for Ukraine is a multi-donor programme comprising individual initiatives and funds from various contributors, which have been entrusted to Nefco. It is providing support for Ukrainian municipalities, which are playing a significant role in building Ukraine back greener and better. Activities financed by the programme include short-term repairs, longer-term restoration, rebuilding of facilities serving internally displaced people, rehabilitation of district heating and water and wastewater infrastructure using modern energy-efficient solutions. The programme also aims to support municipalities to design Local Green Recovery Plans.

The programme was launched in July 2022 and project preparations and implementations have already begun. The work to repurpose funds available to Nefco and attract new grant funds is generating good results. The EU, Denmark, Finland, Norway and Sweden are the programme's initial contributors through either repurposed initiatives or new funds.

In 2022, Denmark provided project-specific funding of EUR 9.5 million for projects in Kremenchuk. Finland allocated EUR 5 million, Norway NOK 30 million (corresponding to EUR 3 million) and Sweden SEK 110 million (corresponding to EUR 10 million) to various activities within the green recovery frame.

The EU has contributed EUR 27 million within the three Neighbourhood Investment Platform funded Nefco programmes for water and wastewater infrastructure, energy efficiency and housing for internally displaced people ("IDPs"), and EUR 50 million for the repair and reconstruction of damaged critical infrastructure in Ukraine. In addition, preparatory work continues on a new EU's programme related to sustainable housing for IDPs, which is expected to provide EUR 100 million in support for Ukraine.

#### 4.2.2. Belarus and Russia

In parallel with the continued work in Ukraine, measures related to winding down both Investment Fund and trust fund activities in Russia and Belarus have continued following the Board's decision in March 2022 to close down activities in Russia and Belarus.

At the beginning of the year, Nefco had one Investment Fund loan in Russia and three in Belarus. Nefco has fully impaired these loans, while taking steps to repatriate funds where possible taking into consideration applicable sanctions.

As for trust fund assignments in the region, Nefco has administered various funds or acted as implementing agency for different donors. Nefco has been fund manager for the Arctic Council Project Support Instrument (PSI) since 2014. The PSI is intended for project development, preparation and demonstration projects prioritised by the Arctic Council Working and Expert Groups. Based on a decision by the Nefco Board in June, Nefco formally remains as fund manager of a 'frozen' PSI, with no other activities in Russia than those related to winding down ongoing operations and fulfilling contractual obligations, considering the applicable sanctions.

Nefco has also managed the Barents Hot Spots Facility (BHSF) since 2004. The main aim of the fund has been to promote relevant actions and investments for the environmental 'hot spots' identified by the Barents Council in North-west Russia. BHSF funds have mainly been allocated to expert and feasibility studies and similar supporting measures. BHSF is funded by the Nordic countries and the Nordic Environmental Development Fund (NMF). Nefco formally remains a fund manager of a "frozen" BHSF, with no other activities in Russia than those related to winding down ongoing operations and fulfilling contractual obligations, considering the applicable sanctions.

Together with the Nordic Council of Ministers, BHSF also provided funding under the Programme for Environment and Climate Co-operation (PECC), managed by Nefco. PECC provided grant financing, with co-financing requirements, to encourage and promote Nordic-Russian non-commercial co-operation projects addressing the environment and climate at regional and local levels in Northwest Russia. PECC was cancelled in spring 2022 as a consequence of the Russian invasion of Ukraine.

#### 4.2.3. Other countries in the Eastern European partnership region

In Moldova, there has been active interest at both central and municipal levels, not least since the current EU-friendly government was installed. Administrative rules and regulations allow municipalities to work with loans from Nefco like in Ukraine. The first two small NMF-funded Energy Saving Credit (ESC) projects have been implemented, and there are four more ESC loan agreements related to energy efficiency in municipal buildings under evaluation. These loans are combined with grant funding from the Eastern Europe Energy Efficiency and Environmental Partnership (E5P).

In Georgia, lending to municipalities is not possible, but a first investment project was successfully implemented, with the loan provided to the state. A second loan to a new energy efficiency project was agreed upon in May 2022.

A small pipeline for ESC projects is under development in Armenia, with the first project possibly to be signed in 2023. While two of Nefco's owner countries have provided grant funds to E5P activities in Azerbaijan, Nefco is currently not exploring possibilities in that country.

### 4.3. Special Funds

The Special Funds unit is working solely with trust funds and multi-donor programmes. There has been positive progress in all its fund assignments, notably the Beyond the Grid Fund for Africa (BGFA), Modern Cooking Facility

for Africa (MCFA) and Baltic Sea Action Plan (BSAP) Fund. In addition, the unit managed the Green Climate Fund assignment for the mini-grid programme in Haiti. Some development activities continue under the Nordic Initiative for Cooperative Actions (NICA), which promotes carbon market mechanisms under Article 6 of the Paris Agreement.

The funds also aim to mobilise significant financing for new private investments in line with the Paris Agreement, in the context of meaningful mitigation actions and transparency on implementation.

#### **4.3.1. Beyond the Grid Fund for Africa**

Over 600 million people in Sub-Saharan Africa currently live without access to electricity. For most of these people, connection to the grid is not likely to happen for decades, or longer. The Beyond the Grid Fund for Africa (BGFA) aims to reduce this gap by stimulating and accelerating new business models to incentivise the private sector to offer affordable and clean energy access at scale to people living in rural and peri-urban areas.

The multi-donor BGFA is now a EUR 126 million flagship facility working in six African countries with results-based financing for off-grid energy sector companies. Norway joined the donor community, which consist of Sweden, Denmark and Germany in autumn 2022 with a contribution of NOK 200 million (corresponding to EUR 19 million).

During 2022, Nefco's administration contracted 13 projects to a total value of EUR 17.8 million. These represent 0.95 million energy service subscriptions, serving 4.8 million people in Sub-Saharan Africa. A number of contracts are at various stages of negotiation and further projects will be contracted throughout 2023, principally for the Norwegian contribution.

BGFA is also progressing with the monitoring, reporting and verification programme delivered by an externally contracted consultant, NIRAS, and the first payment requests based on reached milestones by the project owner have been processed through this route. In Uganda, a skills development subprogramme has been initiated.

#### **4.3.2. Modern Cooking Facility for Africa**

Almost 900 million people in Sub-Saharan African countries lack access to modern and clean cooking solutions, being the only region in the world where access to clean cooking solutions has not kept pace with population growth

The Modern Cooking Facility for Africa (MCFA) is funded by Sweden and the EU delegation in Zambia. MCFA works in six African countries. It is currently capitalised at EUR 32.5 million with the EU delegation in Zambia contributing a further EUR 12.5 for that country. The first Call for Proposals closed in June 2022 and has received significant interest in the Democratic Republic of the Congo, Kenya, Mozambique, Tanzania, Zambia and Zimbabwe. The round is expected to be finalised during the 2023 and a second Call launched towards the end of the year.

#### **4.3.3. Baltic Sea Action Plan Fund**

Eutrophication is the greatest environmental challenge of the Baltic Sea, addressed by both HELCOM and the Nordic Vision 2030. The goal of the Baltic Sea Action Plan by HELCOM is to restore the ecological status of the Baltic marine environment.

At the end of 2022, the Baltic Sea Action Plan Fund (BSAP Fund), financed by Finland and Sweden, and managed by Nefco and the Nordic Investment Bank, had 19 ongoing projects with a total allocation of EUR 2 million. The



Steering Committee of the BSAP Fund approved nine new projects, and six projects were finalised during 2022. A new funding round is ongoing with new project proposals expected to be submitted during the first quarter of 2023.

During 2022, EUR 715,504 was disbursed to 12 projects. Since the establishment of the fund in 2010, EUR 10.8 million has been disbursed to a total of 54 projects.

#### 4.3.4. Nordic Initiative for Cooperative Approaches

The Nordic Initiative for Cooperative Approaches (NICA), jointly developed by Finland, Norway, Sweden and Nefco in 2018, seeks to operationalise international carbon market activities under Article 6 of the Paris Agreement. The NICA programme aims to build capacity among Nordic private and public sector actors and their global peers for collaboration that is compatible with the Paris Agreement framework.

During 2022, Nefco arranged workshops in Reykjavik (September) and Helsinki (October). Carbon finance linkages with the ongoing Modern Cooking Facility for Africa are currently being explored as cooking services have significant emission reduction potential and therefore notable carbon market opportunities. Discussions on further fund-raising will continue during 2023 as additional funding would be required to support implementation of activities on the ground.

## 5. Other trust fund assignments

In addition to the specifically mentioned trust fund assignments, Nefco administered the following funds during 2022:

- *Finland-Ukraine Trust Fund (FUTF)* for energy efficiency, renewable energy and alternative energy sources in Ukraine;
- the *Norway-Ukraine Energy Efficiency Initiative (NUEE)* for demonstration projects to promote energy-efficiency improvements in Ukraine;
- *Sweden Ukraine District Heating Funds* and *DemoUkraina DH* for environmentally sustainable and energy-efficient district heating projects in Ukraine;
- the *Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU)*, a pan-Nordic initiative to finance the renovation and construction of municipal buildings in vulnerable areas of Ukraine.
- the *Danida Sustainable Infrastructure Finance Programme (DSIF)* for non-commercial sustainable infrastructure projects in Ukraine and other selected Eastern European partnership countries to complement Nefco loans;
- several actions under the EU's *Neighbourhood Investment Platform* for modernising and implementing energy-efficiency measures in municipal water management systems, as well as restoration, rebuilding of facilities serving internally displaced people, including rehabilitation of district heating, water and wastewater infrastructure;
- two new actions from the EU in Ukraine: *Internally Displaced People Housing* and *Critical Infrastructure*;
- the Danida-Georgia fund through the bilateral programme '*Support to Energy Efficiency and Sustainable Energy in Georgia*' to support energy-efficiency improvements and the development of sustainable energy in Georgia;
- funds for technical assistance and guarantees for projects in Eastern Europe by Sida, Sweden;
- a range of small funds for technical assistance used in connection with investments in the Eastern European region.

Nefco also acts as implementing agency for the Northern Dimension Environmental Partnership (NDEP), Eastern Europe Energy Efficiency & Environment Partnership (E5P) and the Green Climate Fund (GCF).

## 6. Staff

The Board approved an updated Code of Conduct for staff in September. Key updates include added focus on conflict of interest, revised rules on financial investments and some added provisions on the use of assets, social

media and the need to minimise environmental impact while working. The Code also includes referrals to Nefco's values and culture, and an expanded section on behaviour and harassment.

See the [Code of Conduct on Nefco's website](#).

At the end of 2022, Nefco had 53 employees at the headquarters in Helsinki, including four relocated staff members from Kyiv and one from St Petersburg. An additional four were employed by the Representative Office in Kyiv, Ukraine.

Nefco also had six full-time advisors connected to its operations and several additional consultants engaged in individual projects at the end of the year.

More information about staff diversity is presented in the *Impact Report, Annex to the Financial Statements*.

## 7. Board meetings

As focus on Nefco's lending has switched towards SMEs, whose business cycles require faster decision-making, the need for faster review and approval of financing decisions has increased. To respond to this need, the Nefco Board has taken more flexible meeting models into use; in addition to its ordinary meetings, the Board also convenes extraordinary online meetings and may make decisions in written procedure if lending decisions so require and when the topic has been previously discussed in Board meetings. This is environmentally more sustainable and has speeded up work at operational level and enabled more projects to be started.

In 2022, the Board convened ordinary meetings five times, and extra meetings three times. Part of these meetings were arranged online. Additionally, the Board made four decisions in written procedure. Special workshops focusing on strategy development were arranged twice, in conjunction with the March and September meetings.

## 8. Result

The annual accounts show a loss of EUR 53,305,027.98. The Nefco Board proposes that the incurred losses are covered (amounting to EUR 24,557,176.92) firstly from the 'Reserve for credit losses' and thereafter from 'Retained earnings'.

Helsinki, 22 February 2023

Agnethe Dahl, Chair, Norway

Carsten Møberg Larsen, Denmark

Saija Vuola, Finland

Danfríður Skarphéðinsdóttir, Iceland

Erik Kiesow, Sweden

Trond Moe, Managing Director



# Annual Impact Report 2022

**Approved by the Board of Directors on 22 February 2023**

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## 1. Review by the Managing Director

Nefco's task is to accelerate the green transition by financing the scale-up of Nordic green solutions globally. It makes us very happy to see the positive impact of projects we have financed.

Our work to finance Nordic small and medium-sized companies has resulted in many inspiring growth stories. We are further increasing our efforts to discover pioneering technologies that will be key in the green transition. We expect the new Biodiversity Pilot Programme to provide exciting learning opportunities as we test and develop concrete nature-based solutions in collaboration with companies.

Nefco has an extensive portfolio of projects in Ukraine. Amidst the war, we have launched a Green Recovery Programme for Ukraine. We are already working on concrete projects in close collaboration with Ukrainian authorities, municipalities and Nordic and European donors.

The state of the Baltic Sea continues to be an important area for us to help improve. Further south, in Africa, our new financing programme for modern clean cooking is now working alongside the Beyond the Grid Fund for Africa to support clean, affordable, off-grid energy access to millions. These programmes are great examples of how our initial financing can incentivise sustainable businesses and mobilise further funds in line with the Paris Agreement.

It is not enough to help others become greener. Being a green bank, we must also walk the talk ourselves. In 2022, we moved into new office facilities. In connection with the renovation, we decided to scrutinise our footprints and ensure our working methods are as sustainable as possible. We took the WWF Green Office criteria as a benchmark and were awarded the Green Office label in the autumn.

In turbulent times, Nefco's purpose as the Nordic Green Bank, to accelerate the green transition, is more important than ever.

*Trond Moe, Managing Director*



*Photo 1: Jussi Ratilainen*

## 2. About Nefco

Nefco, the Nordic Green Bank, is an international financial institution (IFI) that finances the initial scale-up of Nordic green solutions on international markets. Founded in 1990 by the five Nordic countries, we serve the interests of our owners, Denmark, Finland, Iceland, Norway and Sweden, support globally set environmental and climate targets and take concrete actions to accelerate the shift to green.

Our task is to accelerate the green transition by financing Nordic green solutions that have the potential to be scaled up on global markets. We are ready to take financial risks if a project has a scalable green upside. In addition to our paid-in capital, the Investment Fund, we manage several trust funds on behalf of various donors to support small and medium-sized green projects.

As a pioneer in green financing, we only finance projects that generate positive environmental and/or climate-related impacts. We place a particular focus on projects that can demonstrate the scale-up potential of a green solution and in which our financing can provide additionality, meaning that the project may otherwise not have been realised.

We are guided by Nordic priorities, the EU Green Deal, the Paris Climate Agreement and the Convention on Biological Diversity. We expect more than Return on Investment: we expect Return on Impact.

### Our Task

Our task is to accelerate the green transition by financing Nordic green solutions that have potential to be scaled up on global markets. In other words, we only offer financing to activities that generate direct or indirect environmental benefits.

### 2.1. Our business areas

To fulfil its mission, Nefco works in three business areas:

1. Global scale-up of Nordic SMEs green transition projects
2. Municipal financing for the green transition in Eastern Europe
3. Special green transition funds for international development initiatives



## 3. Our approach to impact

Over our 30-year journey, we have developed our own procedures for environmental and social assessments, project management and monitoring as well as financial and integrity due diligence.

Today, the scope of our operations has widened and there is increased need for a comprehensive analysis of impact. The green impacts of a project are assessed in broad terms and also include social and gender aspects. Moreover, we focus not only on recognising the potential benefits of projects but also on ensuring that environmental risks, such as biodiversity impacts, are sufficiently considered and appropriately mitigated.

We have requested annual environmental status reports from every project financed since Nefco was established. Our client's reporting on specific environmental and sustainability indicators allows us to analyse actual project outcomes.

Although environmental and climate-related impact remains our main priority, we also incorporate economic, social and governance-related considerations. As our financing activities seek to demonstrate the scale-up potential of green solutions in new markets, we must always consider their potential impact on the environment, economy and society. In line with the Paris Agreement, we strive to make projects bankable and help project owners with capacity building to mobilise additional funding.

We evaluate project proposals and expected impact against the EU Taxonomy, the UN Sustainable Development Goals and our own environmental and sustainability criteria, as well as other relevant benchmarks.

Based on defined Nefco impact indicators appropriate for the project, clients monitor and report actual achieved results on an annual basis. Annual and final monitoring allow us to track the operational performance of projects as well as gather lessons learned together with clients.

### Bottom-up approach for concrete results

We focus on practical project financing with a 'bottom-up' approach, processing a large number of projects by companies, public entities and other organisations. In our financing activities we assess

- the potential positive environmental impact of the project,
- the potential adverse effects,
- the potential for scaling up or replicating the project solution or technology, and
- the results of the projects on an annual basis during implementation and after completion until the loan has been repaid or until the exit phase.

### 3.1. Updated policy and guidelines

In 2022, Nefco updated its Environmental and Sustainability Policy and its Environmental and Sustainability Guidelines. One objective is to increase the share of EU Taxonomy-aligned projects in the portfolio and set clear boundaries for activities to which Nefco is unwilling to make commitments. The exclusion list contained in the policy is the first of its kind for Nefco. The policy lists a number of exclusion criteria related to fossil fuels, forestry and husbandry, as well as those determined on the basis of ethics, laws and conventions.

Urgent action is desperately needed. Climate change mitigation and adaptation, pollution reduction and conserving biodiversity are the cornerstones of Nefco's financing and our ambitious exclusion criteria reflect our mission to accelerate the green transition and require that our financed projects be less dependent on fossil fuels.

The renewed policy reflects Nordic priorities and supports concrete actions towards achieving carbon neutrality and a sustainable, circular and biodiversity-positive economy.

See our revised [Environmental and Sustainability Policy](#) for more information.

## What kind of green projects is Nefco financing?

- A company expanding into new markets with a green solution; Nefco also supports these companies in becoming greener overall while growing their business
- A municipality's transition to green
- Piloting of a new technology/solution/concept
- Incentivising clean off-grid energy business in low-income countries

## 3.2. How we assess projects

As a green financier we focus on understanding the environmental and sustainability aspects of all our financing. Nefco's Environment and Sustainability Department is responsible for environmental and sustainability assessments throughout a project's life cycle.

The updated guidelines give a more detailed view on how we assess project proposals and verify results both during and after the implementation of the projects. The environmental and sustainability assessment covers not only the activity financed but also how sustainability is incorporated throughout the client organisation. The aim is to support our clients in better understanding sustainability aspects as a whole and help them in their transition to becoming greener.

Our aim is to ensure

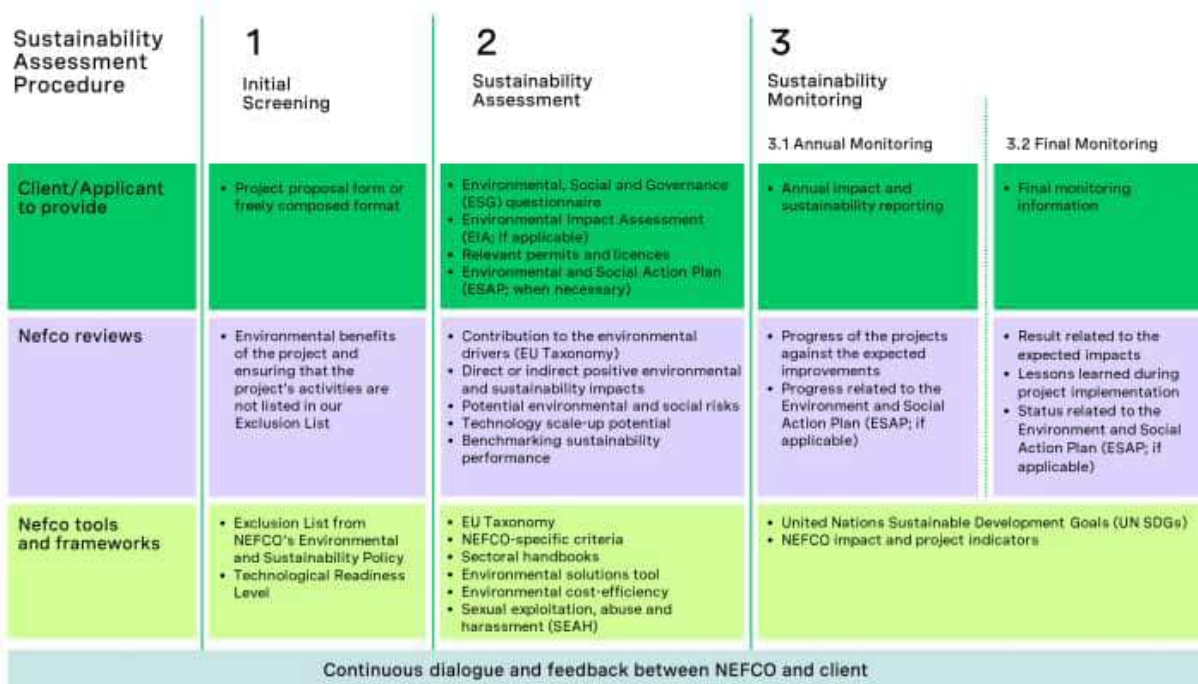
- that projects generate substantial positive environmental impacts and contribute to and accelerate the green transition,
- that potential environmental and other sustainability risks are sufficiently well considered and appropriately mitigated, and
- that clients work strategically and formally to anchor sustainability in their business plans and daily operations.

All these elements are integrated into the investment process. In addition to our own capital, we manage trust funds and implement projects on behalf of various donors, which may have different environmental priorities and goals. In principle, we use the same assessment methodology for these funds.

The following chart illustrates the sustainability assessment process for a typical investment project throughout the project life cycle, i.e., from project proposal through to the implementation and monitoring stage.

See our revised [Environmental and Sustainability Guidelines](#) for more information.





### 3.3. Investments in green economic activities

Nefco's main priority is to invest in green projects through loan or equity-type financing from its own paid-in capital (the Investment Fund).

These projects are normally economic activities that lead to concrete environmental or climate impacts, e.g., by saving energy and reducing emissions, pollution, harmful discharges or (hazardous) waste. They also generate economic and social impact such as business growth, stronger competitive edge and new jobs.

### 3.4. Trust fund support for green projects

Nefco also manages trust funds on behalf of various donors and acts as an implementing agency for a number of multinational partnerships to support green projects.

Trust funds are often used for feasibility studies and technical assistance. This means they often do not lead to immediate environmental impacts but rather facilitate project implementation in a near future.

Trust funds are also dedicated to capacity building and incentivising the development of sustainable businesses and solutions in new markets, like the results-based programmes for clean energy and modern cooking in Africa. In some projects, particularly the municipal sector in Eastern Europe, market-based or subsidised loan financing is blended with financial support from a trust fund. The new Green Recovery for Ukraine programme currently provides solely grant financing due to its emergency nature. These projects have a strong focus also on social impacts such as new jobs, gender equality and better comfort and safety for citizens of affected communities.

A list of funds managed by Nefco can be found at the end of this report.

**Investment projects** - projects financed with loan and equity through Nefco's paid-in capital, the Investment Fund established in 1990

**Trust fund projects** - projects financed with soft loans, grants and results-based financing through fund assignments financed by various donors

## 3.5. Seeking high demonstration value

An essential objective of Nefco's financing activities is to support the scale-up of new transformative technologies and solutions. We primarily finance small and medium-sized projects that demonstrate new technologies or solutions that have the potential to be replicated. Our financing supports the testing of green innovations in new markets. This is what we refer to as high demonstration value.

Projects with a high demonstration value have the potential for environmental impacts worth many times Nefco's initial investment. A demonstration project provides an indication of how well a solution can be adopted at scale and what kind of impact it can generate. Trying and testing is a bottom-up approach. It's a real-life alternative to top-down spending.

## 3.6. Providing high additionality

As an international finance institution, Nefco's role is to fill a financing gap that cannot be covered by other financiers for projects that meet Nefco's criteria. The goal is to promote new solutions, reduce implementation time and accelerate the green transition. When there is a green upside, we can take greater financial risks than are normally accepted by commercial banks and financiers; in many cases, projects would never be implemented without our financing. This is referred to as additionality.

Our higher risk tolerance for financing small projects and growth-phase companies makes projects bankable and often mobilises other financiers to invest, building capacity for the future needs of project owners.

## 3.7. Environmental and social risks

Nefco applies risk-reduction measures in its operations. We apply the mitigation hierarchy, which aims to avoid, minimise and restore adverse impacts in project design and during operations.

All projects should be carefully designed and implemented to sufficiently mitigate their potential environmental and social risks. In certain cases, clients are requested to prepare an Environmental and Social Action Plan (ESAP). The purpose of an action plan is to reduce sustainability risks to an acceptable level and improve clients' sustainability practices. Action plans must be approved by Nefco and form part of financing agreements.

## 3.8. About this report

In this impact report we present

**An overview of the portfolio**, including active, agreed and ended projects, environmental drivers, and an EU Taxonomy assessment of the portfolio

**An impact assessment of project activities** financed through our own capital (Investment Fund) and trust funds, also presented for each business area, and the extent to which ongoing investment projects are meeting set expectations

**An overview of internal operations**, including our own carbon footprint, staff diversity and governance

Project-related figures are based on realised results and reports by project owners. Due to our clients' reporting schedules, not all data from 2022 are available yet; in these cases, results from 2021 are presented. Impact indicators have also been updated since last year's report and will be further elaborated during 2023. Reports from previous and coming years may therefore not be fully comparable.

## 3.9. Status of projects

We use the following terms to define the status of projects in our external reporting:

- Agreed\* – contracted, financing agreement signed by all parties (the equivalent for Nopec is 'Approved'); funds disbursed and project under implementation; or implemented and reporting results
- Active – projects agreed and under implementation at the time indicated
- Ended – loan repaid and reporting ended

A list of all projects financed by and/or through Nefco, including the Investment Fund and trust funds, and their status can be found on Nefco's website [www.nefco.int/agreed-projects/](http://www.nefco.int/agreed-projects/).

\*) Note that the Report of the Board (with the Financial Statements) also indicates the number of investment projects Nefco's Board has approved during the year. As approval does not mean that an agreement has been signed, Nefco uses the Agreed status as the operational milestone in this report.

## 4. Biodiversity in Nefco's operations

Biodiversity is the variety of all life on earth. This includes all species and ecosystems, as well as the genetic diversity of organisms. Natural capital including biodiversity and the associated ecosystem services, is a crucial basis for enabling the global economy and societies to function. Globally, biological diversity is declining faster than ever before in human history. The rate of species extinctions and ecosystem degradation is accelerating, with grave impacts for people and businesses around the world who rely on the services and benefits provided by nature.

Nearly one million species are at risk of extinction from human activities, and 75% of the land surface has been significantly altered by human actions (IPBES, Global Assessment Report 2019). According to the World Economic Forum's recent Global Risks Report 2022, biodiversity loss is currently considered the third most severe global risk after climate action failure and extreme weather.

The protection of natural resources, species and ecosystems is just as important as tackling the climate crisis. Diverse, well-functioning and resilient ecosystems are better able to provide society with ecosystem services and benefits that support climate change mitigation, adaptation and disaster risk reduction.

In December 2022, we received the encouraging news that the United Nations (UN) Biodiversity Conference in Montréal (COP15) agreed to stop biodiversity loss by 2030. The Global Biodiversity Framework raised interest among private sector participants and for the first time set reporting obligations for large companies and financial institutions. This sent an important signal to the private sector of the need to start assessing and reporting on its impacts and dependencies on nature.



*Photo 2: Kimmo Ohtonen*

## 4.1. We analyse both positive and possible adverse impact

Nefco sees that biodiversity loss has the potential to affect its investment portfolio, sectors, and its geographical regions of activity. As a green financier, it is important for Nefco to consider long-term risks related to biodiversity and natural capital. We focus not only on recognising the benefits of projects but also on ensuring that possible environmental risks, such as biodiversity impacts, are sufficiently considered and appropriately mitigated in project design and during operations.

In our new [Environmental and Sustainability Policy](#) we share our stand on unsustainable sectors.

### On the exclusion list: Restrictions on forestry and animal husbandry

Land use change has the largest global impact on biodiversity loss, and Nefco has therefore put in place certain limitations on, for example, the forestry and animal husbandry sectors. We want to protect primary and old-growth forests and high conservation value areas and therefore refuse to finance any commercial activities in these areas. We will also not finance any new greenfield livestock husbandry farms.

## 4.2. Gaining experience through our unique biodiversity pilot programme

Acknowledging the need for action to address the rapid decline in biodiversity, we have decided to strengthen our biodiversity commitments and explore new opportunities for improving biodiversity and managing nature-related risks. Therefore, in 2022 we initiated a unique [Biodiversity Pilot Programme](#) for small and medium-sized companies.

The two-year programme will contribute to knowledge transfer and learning and deliver positive biodiversity impacts and conservation outcomes beyond simple risk management, which is the status quo for the market. The aim is to create a demonstration effect and inspire more companies and project owners to think in terms of nature-based solutions.

We believe that our work will accelerate biodiversity action. Over the course of 2023, we will support participants of the programme in building sufficient capacity to better address the biodiversity crisis and manage nature-related risks. By assessing their impacts and dependencies on nature, our clients will be able to take the first steps in strengthening their biodiversity management and take action.

At the same time, we will strengthen our own governance on biodiversity and nature to maximise our nature-positive impact. Our approach is to start working with biodiversity management rather than wait for established methodologies. There is no time to lose. Concrete steps, even small ones, are valuable in this process.



Figure 1: How Nefco plans to proceed – our Biodiversity Roadmap

Stage 1: Awareness and Capacity (2022-2023)	
<p>We have started by developing awareness and capacity to understanding the economic impact and dependencies in nature. It is also important to understand the sphere of influence for both for us at Nefco and our clients, to be able to access and use the right tools and methodologies, involve all required stakeholders and being able to follow the current regulatory trends, among other aspects. The awareness and capacity building will be continuous process and will continue throughout the year 2023.</p>	
<p><b>What we have achieved so far</b></p> <p>Nefco Environmental and Policy update with exclusion list has been concluded.</p> <p>Nefco's biodiversity pilot programme has been established, kicked off and designed to help clients better understand biodiversity and its implications for business. The first programme seminar was held in December and at the same time started the deep dive into the client company engagements.</p> <p>In addition, Nefco has so far been organizing two internal capacity building workshops for their investment managers. Nefco has published several articles on biodiversity and increased its public presence on this topic.</p>	<p><b>What will happen in 2023</b></p> <p>We will continue to work with pilot companies to help them and us to better understand the needs in terms of biodiversity management. Additional internal workshops and pilot company seminars will be held. Start building the biodiversity management plans for the pilot companies.</p> <p>Nefco will continue to publish articles sharing experience from the programme.</p>
Stage 2: Portfolio and Process Screening (2023)	
<p>The portfolio screening will be an essential step in understanding the Impacts and Dependencies of Nefco's investment on nature. By investigating each item in the portfolio, Nefco will learn how funds are being tied to specific impact drivers and ecosystem service.</p> <p>The screening will also identify potential high-risk sectors and risk areas within our portfolio.</p>	
Stage 3: Prioritization and Action Plan	
<p>Based on the results of the screening, we will identify potential high risk portfolio assets/projects for further evaluation. The Action Plan will provide the required information and schedule for developing an internal biodiversity action plan.</p>	
Stage 4: Portfolio management and Reporting (Late 2023 - 2024)	
<p>Towards the end of 2023 we will develop and implement biodiversity assessment practices and guiding principles for investment selection. We will incorporate the experience gained from the pilot programme for our investment process. We will also develop, if deemed suitable, actions for potential high-risk assets in our existing portfolio. The new assessment practices would allow us to better identify and avoid risks for future investments.</p> <p>We will also consider the variety of biodiversity reporting frameworks that are currently publicly available. This could for instance include deciding on whether to follow principles such as the Science-based Targets for Nature and/or the Partnership for Biodiversity-accounting Financials</p>	

## 5. Portfolio overview

### 5.1. Active projects in 2022

At the end of 2022, Nefco had a total of 319 active projects in its portfolio. This number includes both investments made from its own capital and trust fund projects. During the year, 59 projects ended and 92 new ones were agreed.

The majority of the projects in the active portfolio, including loan, equity and grant-funded projects, are related to climate change mitigation. Energy efficiency in buildings, renewable energy, water supply and waste management, construction and real estate, manufacturing, information and communication, and transport are the biggest sectors.

*Figure 2: Number of projects per environmental driver and business unit in the whole active portfolio at the end of 2022*

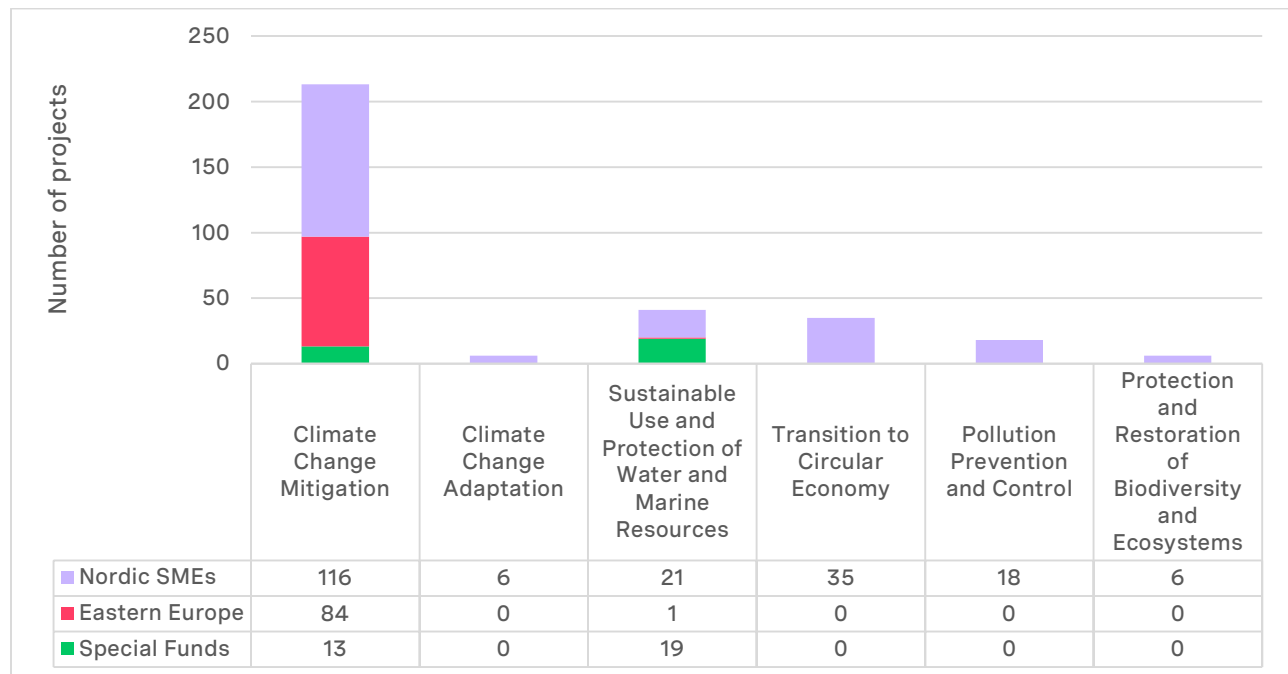


Figure 3: Committed funds per environmental driver and business unit in the whole active portfolio at the end of 2022

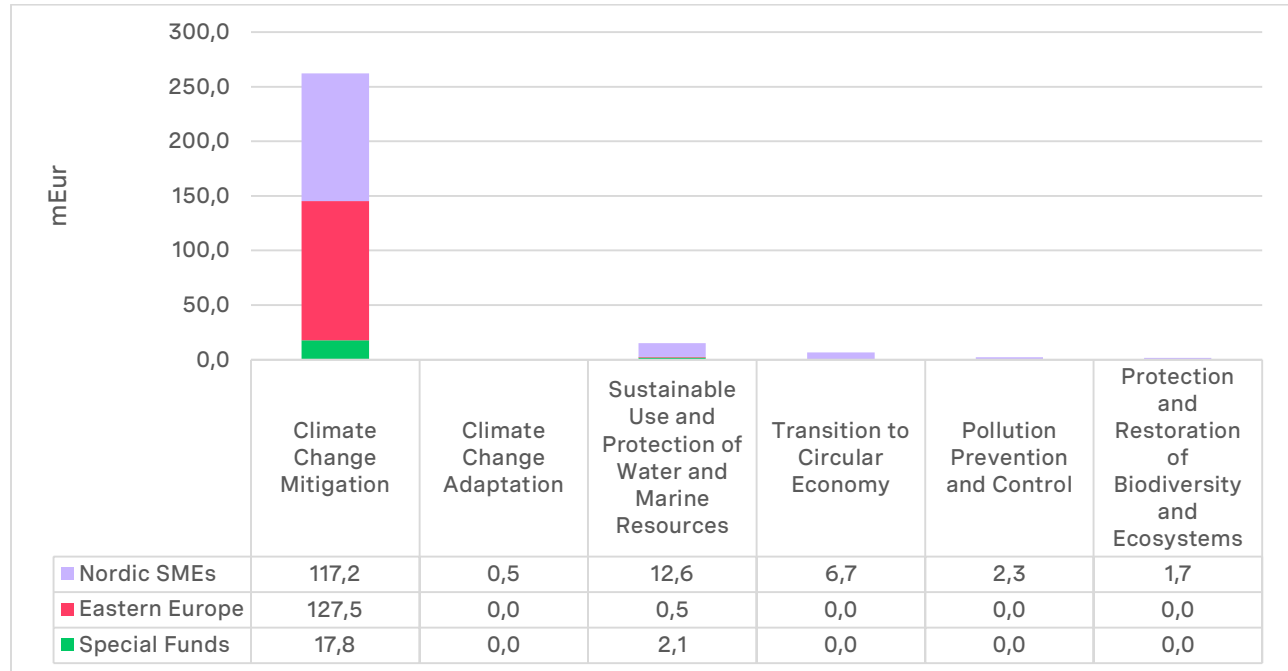
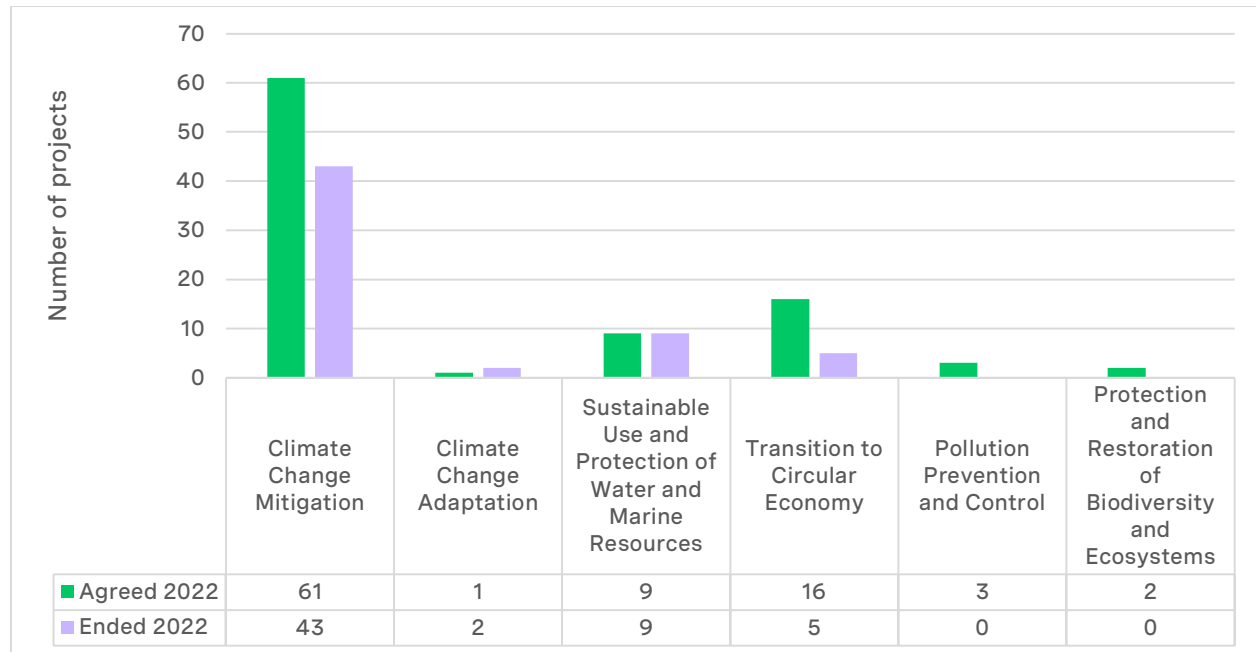


Figure 4: Number of projects per environmental driver agreed and ended in 2022





## 5.2. EU Taxonomy assessment of the active investment portfolio

The EU Taxonomy is a common classification of economic activities contributing significantly to environmental objectives using science-based criteria. Created by the European Commission in 2020 as part of the implementation of the EU Green Deal, it is a way to showcase whether a company, asset, project, product or service is contributing substantially to a sustainable economy. The classification is done according to the six environmental objectives.







For projects approved in 2022, Nefco has actively used a full EU Taxonomy alignment analysis on a best-effort basis for its investment fund projects, evaluating Eligibility, Substantial Contribution criteria (SC), Do No Significant Harm criteria (DNSH) and Minimum Social Safeguards criteria (MSS). However, MSS includes several integral parts and evaluating it has proven complex. We primarily work with SMEs, for which EU Taxonomy reporting is still voluntary and they seldom have all MSS information publicly available or fully implemented. Nonetheless, when gaps are identified we assist the company to take appropriate action to achieve closer alignment with the MSS criteria.

Furthermore, the full analysis has not been applied retroactively for projects agreed before 2022. The active projects agreed before 2022 have been analysed solely for EU Taxonomy eligibility.

'Green' is not defined by the Taxonomy alone. For economic activities that are not yet covered by the EU Taxonomy, we use our own definitions based on the spirit and logic of the taxonomy.

The EU Taxonomy evaluation is only applied to Nefco's investment projects. Trust fund projects are not evaluated.

*Figure 5: Allocated funds (EUR million) within the active portfolio including investment loans and equity, based on the environmental driver*

	<i>Environmental driver</i>	<i>Investment mEUR</i>	<i>% of portfolio</i>
	<i>Climate change mitigation</i>	<i>193.1</i>	<i>90%</i>
	<i>Climate change adaptation</i>	<i>0.3</i>	<i>0%</i>
	<i>Sustainable use and protection of water and marine resources</i>	<i>12.6</i>	<i>6%</i>
	<i>Transition to circular economy</i>	<i>5.5</i>	<i>3%</i>
	<i>Pollution prevention and control</i>	<i>1.8</i>	<i>1%</i>
	<i>Protection and restoration of biodiversity and ecosystems</i>	<i>1.5</i>	<i>1%</i>
	<b><i>Total</i></b>	<b><i>214.8</i></b>	<b><i>100%</i></b>

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## 5.2.1. Assessment of investment portfolio as of 2022

In this report, we assess how many of our active investment projects are eligible and/or aligned with the Taxonomy.

As of 2022, investment projects financed through Nefco's equity are categorised based on whether the economic activity is

- eligible for the Taxonomy, i.e.- can be linked to an eligible economic activity for substantial contribution as defined in the Delegated Regulation (EU 2021/2139).
- aligned with the Taxonomy, i.e.- fulfils the above and the Technical Screening Criteria (SC), the 'Do No Significant Harm' (DNSH) principle and complies with Minimum Social Safeguards (MSS).

The assessment has been carried out for investment projects that have received loan or equity-type financing from Nefco.

We utilise the following categorisation for investment projects agreed in 2022 and later:

**Considered aligned:** The project/economic activity is considered to be eligible and aligned with all applicable criteria (SC, DNSH, MSS).

**Considered partly aligned:** The project/economic activity is considered to be eligible and to be aligned with some of the applicable criteria (SC, DNSH and MSS)

**Eligible:** The project/economic activity is EU Taxonomy eligible but is not considered to be aligned with the applicable criteria (SC, DNSH and MSS).

**Not Eligible:** The project/economic activity is not EU Taxonomy eligible under the current Taxonomy\*.

\*EU Taxonomy objectives 'Sustainable Use and Protection of Water and Marine Resources', 'Transition to Circular Economy', 'Pollution Prevention and Control' and 'Protection and Restoration of Biodiversity and Ecosystems' are yet to be defined under the current Taxonomy and are thus considered not eligible for the time being.

Figure 6: Alignment assessment of investments agreed in 2022

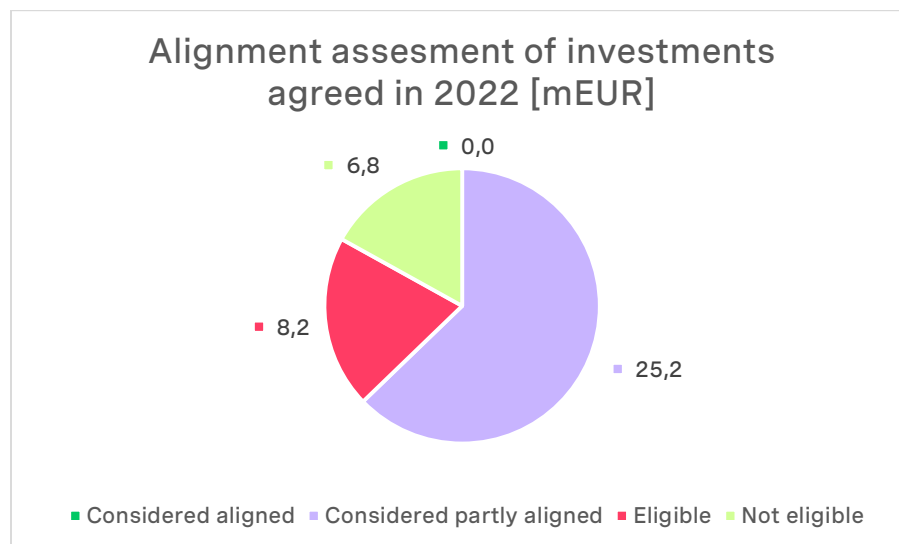


Table 1: Alignment assessment of investments agreed in 2022

Alignment assessment	Number of projects	% of projects	Investments (mEUR)	% of investments
Considered aligned	0	0%	0.0	0%
Considered partly aligned	13	68%	25.2	63%
Eligible	3	16%	8.2	20%
Not eligible*	3	16%	6.8	17%
<b>Total</b>	<b>19</b>	<b>100%</b>	<b>40.2</b>	<b>100%</b>

\*The projects are associated with EU Taxonomy objectives not defined in the current Taxonomy.

## 5.2.2. Assessment of other active investment projects

Active investment projects agreed before 2022 have only been evaluated for EU Taxonomy eligibility, i.e., the project activity can be linked to an eligible economic activity for substantial contribution as defined in the Delegated Regulation (EU 2021/2139).

Figure 7: Eligibility assessment of investments agreed before 2022

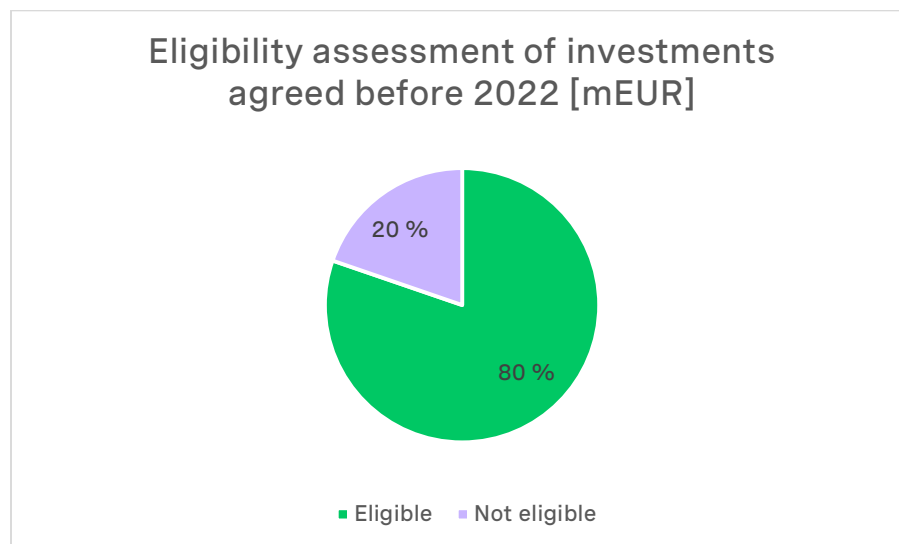


Table 2: Eligibility assessment for investments agreed before 2022

Eligibility assessment	Number of projects	% of projects	Investments [mEUR]	% of investments
Eligible	38	64%	140.1	80%
Not eligible	21	36%	34.5	20%
<b>Total</b>	<b>59</b>	<b>100%</b>	<b>174.6</b>	<b>100%</b>

## 5.3. Operations affected by Russia's war in Ukraine

The year 2022 has unfortunately been characterized by Russia's illegal and unprovoked invasion of Ukraine. Some projects financed by Nefco in Ukraine have been cancelled or put on hold, and some project sites have even been destroyed by Russian attacks. Many projects have been able to resume and proceed although with some delays due to the difficult situation in the country. This has naturally also affected the results from the active portfolio in Ukraine. At the time of this report, we haven't yet received reliable data from all projects.

The war has also caused tremendous damage on the environment, for example, forest fires, poisoned farmland, soil and groundwater contamination, and air pollution. Information about environmental damage is currently based on preliminary indications and fragmented data. Measuring and verifying will be challenging as long as the war is ongoing. It is, however, clear that both the Ukrainian society and nature are in desperate need of restoration.

## 6. Project activity impact

The figures presented are core environmental and social indicators used by Nefco. There are other, project-specific indicators considered when evaluating the overall results of a project, however, these are not presented in this report.

### 6.1. Environmental impact

The result of Nefco's own investments are based on data from 2021. The corresponding figures for 2022 are not yet available. See *Section 12. Accounting principles*. Nefco's aggregated impact is pro-rated to Nefco's share of financing, i.e.- agreed loan amount divided by the total project financing.

#### 6.1.1. Renewable energy

Increasing the amount of renewable energy in the energy mix reduces greenhouse gas emissions and helps to mitigate climate change.

In addition to smaller projects by Nordic SMEs going global, Nefco invested during 2018-2019 in several large renewable energy projects in Ukraine together with other IFIs and financiers. The total capacity was estimated to 155 MW from solar energy and 266 MW from wind energy. Most of the projects have been operating, producing energy to the national grid. However, Russian attacks have unfortunately caused severe damage to some of the power plants and therefore the goals haven't been fully achieved.

In total, projects in the renewable energy sector financed by Nefco have contributed to the installation of 1051.6 MW renewable electricity capacity and 71.4 MW of renewable heat capacity, of which Nefco's share was 12% and 4 % respectively. Moreover, the projects have increased the renewable heat generation by 501.6 GWh and the renewable electricity generation by 252.8 GWh, of which Nefco's shares were 4% and 19% respectively.

Altogether 754.4 GWh renewable energy generation corresponds roughly to 6% of Sweden's total electricity production from combined heat and power (CHP) plants in 2022.<sup>1</sup>

#### 6.1.2. Energy savings

Increased energy-efficiency is an efficient way to reduce greenhouse gas emissions and mitigate climate change. In the turmoil of the energy crisis, largely caused by the Russian invasion of Ukraine and subsequent sanctions,

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<sup>1</sup> Swedish Energy Agency, <https://www.energimyndigheten.se/en/facts-and-figures/statistics/>

energy-efficiency has become even more important. Over the years, Nefco has financed a large number of energy-efficiency projects particularly in Eastern Europe.

In terms of energy-efficiency measures, projects financed by Nefco directly reduced the heat consumption by 209.8 GWh and the electricity consumption by 30.6 GWh, of which Nefco's share was 52% and 63% respectively. Altogether, the energy saving of 240.4 GWh equals the annual energy need of approximately 14,000 single-family houses in Finland.<sup>2</sup>

The EU Taxonomy requires for the renovation of existing buildings to lead to at least 30% reduction of primary energy demand. Many of the public buildings covered by Nefco's projects have been in poor condition and have insufficient insulation. Thus, Nefco has been able to significantly increase the energy efficiency of the renovated buildings in Eastern European countries. In Ukraine, such energy savings have been over 50%.

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<sup>2</sup> Motiva, [https://www.motiva.fi/koti\\_ja\\_asuminen/remontoi\\_ja\\_huolla/energiatehokas\\_sahkolammitys](https://www.motiva.fi/koti_ja_asuminen/remontoi_ja_huolla/energiatehokas_sahkolammitys)

## Case: Energy-efficiency improvements in Ukrainian municipality

### Project in Ukraine awarded Green Energy Initiative of the Year

Nefco has a long history of financing municipal energy-efficiency projects in Ukraine. One of these projects, *Energy Efficiency in Public Buildings in Lutsk*, won the *Green Energy Initiative Award* at the Emerging Europe Awards held on 23 June 2022 in Brussels, Belgium.

The project, which encompassed 31 renovated educational, culture and sport buildings and facilities, and was highlighted for contributing to climate change mitigation and the transition to a green economy in Ukraine as well as quality-of-life improvements for the local community with some 217,000 inhabitants.

“In current times, energy efficiency is important for the functioning and development of the city. That is why Lutsk City Council is introducing energy-saving solutions for the buildings of our territorial community,” said **Iryna Chebeliuk**, Deputy Mayor of Lutsk (in picture on the right). “The work became a model for the modernisation and climate change adaptation of municipal buildings, aiming to foster climate change mitigation and the transition to a green economy.”

The modernisation is expected to annually save 11,000 MWh in wasted heat, 600 MWh in electricity usage and reduce 4,300 tonnes in CO<sub>2</sub> emissions. In addition to cost savings, the project has created good and comfortable learning environments for over 26,000 schoolchildren and teachers. The project was financed with contributions from the city of Lutsk, E5P, Sweden, and Nefco.

Photo: Mariusz Szachowski

Full story: [Energy-efficiency project in Ukraine awarded Green Energy Initiative of the Year | Nefco](#)



### 6.1.3. Reduced or avoided CO<sub>2</sub> emissions

Reducing greenhouse gas emissions is the greatest global climate challenge, as addressed by the Conference of the Parties (COP), the EU and the Nordic countries. Climate change mitigation is one of the six environmental objectives defined by the EU Taxonomy.

The majority of projects financed by Nefco contribute to climate change mitigation by reducing or avoiding CO<sub>2</sub> emissions. Collectively, active projects contributed to the reduction or avoidance of 0.34 million tonnes CO<sub>2</sub>, of which Nefco's share was 23%. 0.34 million tonnes of CO<sub>2</sub> correspond to about 120,000 roundtrips from Copenhagen to New York by flight.

Since its founding in 1990, Nefco has contributed to the reduction or avoidance of over 37 million tonnes CO<sub>2</sub> through its financing activities, of which Nefco's share has been about 9.5 million tonnes.

## 6.1.4. Nutrient discharge reductions

Eutrophication is the greatest environmental threat to the Baltic Sea, and the main reason Nefco was established back in 1990. Since 1996, we have financed 38 projects to improve wastewater treatment contributing to the reduction of phosphorus and nitrogen discharges. Mitigation of land and water pollution is still a focus area for Nefco, in line with the Nordic Vision 2030. Sustainable use of water and marine resources is also one of the six environmental Taxonomy objectives.

There are currently four active projects in the wastewater treatment sector being realised under the EU NIP programme in Ukraine. These focus on the renovation of deteriorated process parts and energy efficiency and will also help to reduce nutrient discharges. In addition, there are several new and ongoing projects within the Baltic Sea Action Plan Fund. Once implemented, we can report on the results of these projects.

Since the start in 1990, Nefco has through its financing activities contributed to the reduction or avoidance of over 11,700 tonnes phosphorus and 56,200 tonnes nitrogen discharge, of which Nefco's share has been about 2,332 and 11,359 tonnes respectively.

## 6.2. Social impact

In 2022, active municipal energy-efficiency projects in Eastern Europe benefited 84,852 children, teachers and other citizens. Since the initiatives started, energy-efficiency measures have benefited some 400,000 citizens in these regions. Street lighting and district heating projects active in 2022 have benefited over 1 million citizens and 220,000 citizens, respectively.

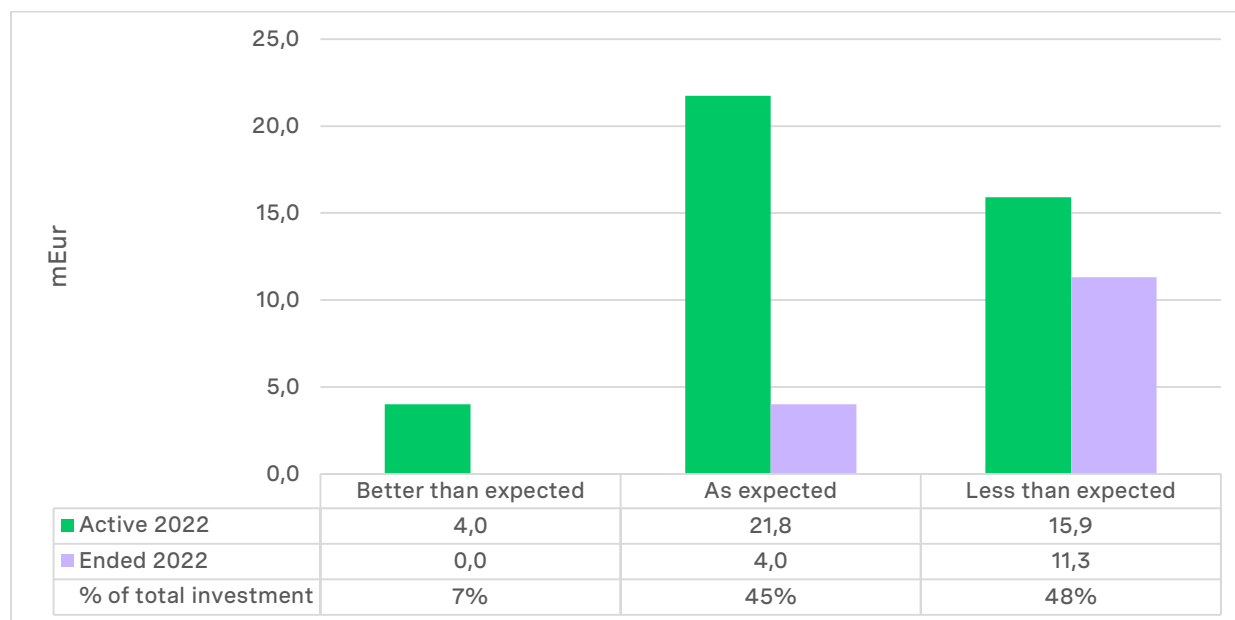
Based on reports from initial projects, already 200,395 people are benefiting from 38,519 energy service subscriptions by the end of 2022 within the Beyond the Grid Fund for Africa.

Early-stage internationalisation projects approved by Nopec in 2022 are expected to contribute to a total of some 172 new jobs and over EUR 23 million in green investments in the coming years.

## 6.3. Progress of the investment portfolio

Nefco continues to analyse the overall progress of its portfolio. We differ from many other financiers in that we collect annual environmental impact data, which enables us to assess our investment project portfolio, i.e., active and ended projects in 2022. The reported impact data for 2022 indicates that the majority of projects are performing as expected or better. The projects achieving  $\pm 15\%$  of the expected impact are set to be performing "as expected". It is worth noticing that many projects are still in the very early stages of their implementation and therefore their full impact has not necessarily materialised yet.

Figure 8: Project progress of investments reporting in 2022



## 7. Business units

### 7.1. Green transition for Nordic SMEs

A recent report indicates SMEs in OECD countries on average account for 60% of employment and 50-60% of the economy. Research also shows that 40-45% of SMEs are considered to have a significant impact on the environment, mostly companies with over 50 employees and/or in sectors that produce relatively high levels of pollution, such as manufacturing. Small firms make up for 50% of GHG emissions, SMEs contribute to 64% of industrial pollution in Europe and account for 60-70% of total industrial waste.<sup>3</sup>

It is fair to say that small and medium-sized companies play a significant role in making the planet a better place to live. One of Nefco's strategic goals is to increase the number of Nordic SME projects in its portfolio and thus contribute to the scale-up, competitiveness and green transition of these companies, particularly in sectors in which the Nordics demonstrate key competencies and innovation. We provide loan and equity-type financing for SMEs' scale-up investments through our own capital. We also offer smaller, unsecured loans for urgent operational needs. Furthermore, Nordic SMEs can get financial support through Nopef, the Nordic Project Fund, for feasibility studies aimed at their internationalisation. Nopef is a separate fund, financed by the Nordic Council of Ministers and managed by Nefco since 2014.

Financing the internationalisation of Nordic companies in their growth phases not only benefits the environment and climate but also strengthens their competitiveness and contributes to the creation of new jobs in both the Nordic and project countries. Although an individual project may be green, the company's overall operations might not be - through our environmental and sustainability criteria and reporting requirements, we also help these companies become greener in all their operations.

Due to many of the projects being in the implementation stage, this report focuses on the environmental drivers and trends in the Nordic SME segment.

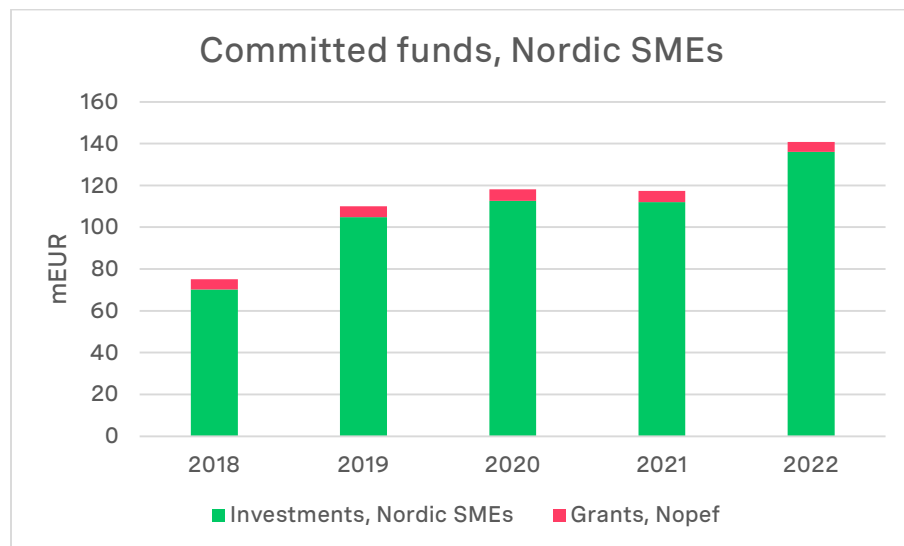
<sup>3</sup> NO NET ZERO WITHOUT SMES © OECD 2021



At the end of the year in the Nordic SME business segment, there were 62 active investment projects (EUR 136 million), of which 44 were scale-up loans (EUR 128.7 million) and 18 green recovery or fast-track loans (EUR 7.3 million). Additionally, 140 Nopef projects (EUR 4.8 million).

Altogether the active portfolio at the end of 2022 consisted of 202 projects. The allocated investments and funds amounted to a total of EUR 140.8 million, which is 48.8% of Nefco's total active portfolio.

Figure 9: Trend of committed funds in Nordic SMEs 2018-2022



## What do we mean by additionality?

Growth financing and filling the financing gap when there is scale-up potential but commercial banks are not ready to take such high financial risks

### 7.1.1. Support for entry on new markets through Nopef

Nopef's objective is to contribute to the green transition by financing projects that support the internationalisation of Nordic environmental and climate solutions. Nopef provides conditional loans for feasibility studies into international investments, demonstration projects and pilot installations of green technologies and solutions on international markets outside the EU. These loans are converted into grants, if the project is successfully completed, i.e. result in business establishment and investments in the project countries. Nopef contributes to Nordic interests, the goals of the Nordic Vision and increased employment, knowledge sharing and development of sustainable business models.

At the end of 2022, Nopef's active portfolio comprised 140 projects (157 in 2021). During the year, 35 new projects (37 in 2021) were approved for financing, in line with the set targets for the year, and 23 projects (17 in 2021) resulted in successful international market entry.

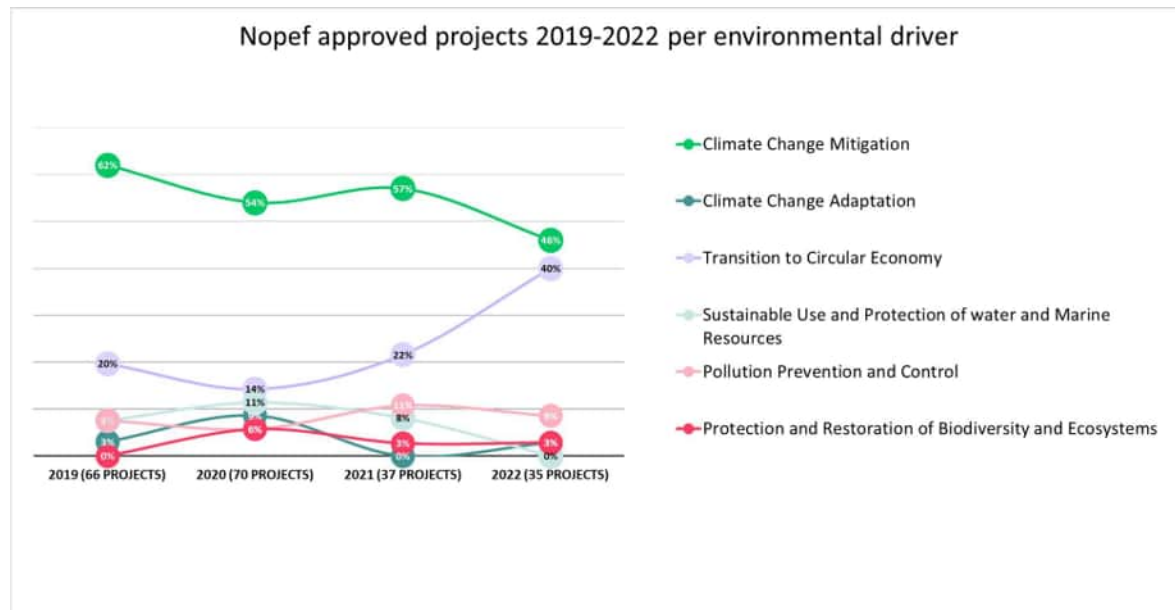
Of the projects that Nopef granted funding in 2022, 16 (46%) are climate change mitigation projects with the aim of reducing greenhouse gas emissions through increased energy efficiency or production of renewable energy. The share of projects related to solutions for the transition to a circular economy increased during the year with 14 projects in total, representing 40% of all approved projects.

During 2022, Nefco carried out its annual assessment of the results and outcomes of previously funded projects. The reported results from participating clients indicate that each realised project has on average contributed to 10 new jobs during the preceding three-year period, including 2 new jobs created within the Nordic region. The average project-related investment amounts to EUR 1.0 million per project. Given these average project outcomes, the projects financed by Nopef in 2022 are expected to contribute, in total, to some 172 new jobs and over EUR 23 million in green investments in the coming years.

Nopef projects are feasibility studies and therefore do not provide immediate environmental impact. Therefore, we look at the environmental challenges the companies are addressing.

Many Nopef clients return to Nefco to apply for further financing once their plans have proceeded. To date, some 70% of clients that have received fast-track loans, previously conducted a feasibility study with support from Nopef.

Figure 10: Approved Nopef projects per environmental driver 2019-2022



*Case: Replicating after demonstrating a concept - Kube Energy, Norway*

## Clean off-grid electricity for international aid organisations and surrounding communities

When a major humanitarian crisis is underway and an international aid organisation arrives to help, there are seldom power sources available in remote and undeveloped areas. Aid organisations like the UN have pledged to reduce emissions but are forced to use polluting diesel generators because they have no other option.

Kube Energy's idea is to build solar plants and sell the electricity to these organisations. The solution is modular, with the intention for it to be expanded to provide even more energy both to local communities and international organisations. While many UN projects last a long time, they are ultimately temporary. When they finally end, energy generation can be pivoted to fully serve local communities.

Their concept has proven to be replicable. In 2017, they approached Nopef about a feasibility study on expanding into South Sudan. In 2018, they returned to Nopef to study a move into Somalia. After finalising the first two projects, Nopef supported Kube Energy for a third time in 2022, helping the company with its expansion into the Central African Republic, for which the feasibility study is currently ongoing.

To date, Kube Energy has developed 3 MW of solar energy for one UN humanitarian project in South Sudan. In Somalia, it is in the process of building two more solar power plants connected to UN peacekeeping with a total capacity of 7 MW. Once their expansion into the Central African Republic has progressed, it is expected to provide 6-7 MW of solar power.

Thanks to Kube Energy, five major UN projects and surrounding communities now have access to safe, reliable, affordable and clean energy.

*Of all Nopef projects, 50% have successfully been completed, resulting in an international market entry by a Nordic company.*

*Photo: Kube Energy*

*Full story: [Powering peace with renewable energy | Nopef](#)*



## 7.1.2. Fast-track loans for operational growth

The SME Green Recovery Loan Programme (renamed to Fast-Track Loan in 2023) was initially developed as an immediate response to the global pandemic, with Nefco aiming to mitigate negative economic effects among Nordic SMEs. The programme has remained an attractive offering also beyond the pandemic, with Nordic SMEs facing supply chain issues, component shortages, effects from Russia's war in Ukraine, deteriorating market conditions for raising risk capital, and other challenges. Moreover, commercial banks have been reluctant to offer financing to smaller growth companies due to the perceived increase in risks.

*Case: Scaling up production - Pure Waste Textiles, Finland*

### Boosting recycled waste-based textiles internationally

The fashion and textile industries are two of the most polluting in the world with significant negative environmental impacts. In response, the sector is pushing for more businesses with a circular mindset that can create fully sustainable garments.

The Finnish company Pure Waste Textiles is a pioneer in producing sustainable garments from waste-based textiles. Pure Waste Textiles produces yarns, fabrics and ready-made garments made from 100% recycled and waste-based fibres. The company is seeking to make all its production and end products carbon neutral by 2026 and therefore uses only renewable energy, has reduced its carbon emissions by up to 50%, uses only recycled textiles as raw materials and has reduced its freshwater usage by up to 99%.

After conducting a feasibility study financed by Nopef, Pure Waste established a subsidiary in India in 2019. Having achieved positive results, Pure Waste saw in Nefco's financing options an opportunity to further its international growth by strengthening its inventories in the production phase in India to produce and process more waste-based textiles.

"The global demand for clothing is increasing rapidly due to population growth, but people have started to question if there could be more options for sustainable garments. Nefco's financing will help us increase our production quantities and meet consumer demand," says Anders Bengs, Co-Founder and Board Member of Pure Waste Textiles.

*About 70% of companies that have received (fast-track) loan financing from Nefco to scale-up started their entry into new markets by conducting a feasibility study with support from Nopef.*

*Photo: Pure Waste Textiles*

*Full story: [Pure Waste receives financing from Nefco to boost its recycled waste-based textiles internationally | Nefco](#)*





The fast-track loans can be used for activities that support international growth, including international business development and sales, investments aimed at internationalisation and/or as working capital to maintain or further develop international operations and business activities.

At the end of 2022, Nefco's portfolio included 18 active fast-track loans (11 in 2021). Seven new projects were contracted under the programme during the year.

The environmental benefits generated under the Green Recovery Loan Programme have mainly been indirect, by supporting the international growth and scale-up of efficient and modern technologies, equipment, products and processes, and thus facilitating investments in the support of the green transition.

### 7.1.3. Financing scale-up investments

Although their technologies or solutions are commercially and technologically proven, our clients often have a higher financial risk profile than is acceptable for traditional commercial banks. We provide risk financing such as subordinated and even unsecured loans, filling a financing gap between equity and traditional bank financing to enable the implementation of Nordic SME's scale-up investments.

In terms of project numbers, the goal (12 projects) for 2022 was exceeded; 14 projects were approved by the Nefco Board. Nine of these and three projects approved earlier, altogether 12 projects, were contracted by the administration before the end of the year (12 projects in 2021). Six projects ended.

At the end of 2022, Nefco's portfolio included 44 active investment projects to support the scale-up of Nordic SMEs. This number includes 13 private sector projects in Ukraine.

The new investments are spread across a wide range of sectors, but the emphasis continues primarily to be on solutions related to climate change mitigation. The most common sectors are energy, construction and real estate, manufacturing and transport.

In addition to SMEs going global, Nefco has invested in some private sector projects with Nordic interest in Ukraine. Private projects in Ukraine were primarily related to renewable energy and agriculture.

*Case: Circular economy solution going global - Tracegrow, FI*

## Groundbreaking technology for purifying metals from recyclable alkaline batteries and industrial side streams

The world's soil is deficient in zinc and manganese by 50% and 10% respectively. These deficiencies affect plant health and decrease crop yields. Tracegrow's organically approved fertilisers are rich in these micronutrients and can be used to improve plant health and yields within the agricultural industry.

Tracegrow's patented process is the first of its kind for extracting and purifying zinc and manganese from recyclable alkaline batteries and industrial side streams. Its recycled materials offer a low-emission solution for agriculture and other industries that prevents the need for energy-intensive mining operations of virgin raw materials.

Nefco's loan will help Tracegrow implement its new growth strategy and allow it to hire additional personnel to strengthen and extend its global reach. Tracegrow's technology increases material recycling rates and advances circular economy. It reduces the need for new mining operations and reduces CO<sub>2</sub> emissions.

*Nefco's fast-track loan can be used for both investments and working capital when a company needs that extra boost to growth.*

*Photo: Tracegrow*

*Full story: <https://www.nefco.int/news/nefco-finances-tracegrow/>*



### 7.1.4. Biodiversity pilot programme

Biological diversity is declining globally at a rate unprecedented in human history. More than half of global GDP is highly (or moderately) dependent on nature. Many businesses are dependent on nature and ecosystem services, and their fast deterioration poses a risk.

The UN Biodiversity Conference (COP15) in Montreal in December 2022 resulted in the adoption of the Kunming-Montreal Global Biodiversity Framework (GBF) on the final day of negotiations. The GBF aims to address biodiversity loss, restore ecosystems and protect indigenous rights. The plan includes concrete measures to halt and reverse nature loss, including putting 30 per cent of the planet and 30 per cent of degraded ecosystems under protection by 2030. It also emphasises the role of financing, including a target to mobilise at least USD200 billion per year from public and private sources for biodiversity-related funding. Financial institutions will also be required to monitor, assess, and transparently disclose risks and impacts on biodiversity through their operations, portfolios, and supply and value chains.

Nefco launched a Biodiversity Pilot Programme for SMEs in August 2022. Four companies started in the pilot programme, which aims to test and develop concrete biodiversity solutions in co-creation with the companies. The objective is to help small and medium-sized companies learn about biodiversity-related risks and opportunities for their business and test scalable solutions to address them. The two-year programme will co-create concrete biodiversity actions with companies and share knowledge on nature-positive impact strategies.

*“As a company in the sustainability business, biodiversity is very important for Norsepower. Norsepower Rotor Sails™ help to reduce the fuel consumption and emissions of large ships.*

*We want to make sure that we are also producing these devices in a sustainable way and that biodiversity is taken into account throughout the entire production chain.”*

Tuomas Riski, CEO, Norsepower.

## 7.2. Green transition in Eastern Europe

### 7.2.1. Investments in energy efficiency, district heating and wastewater management

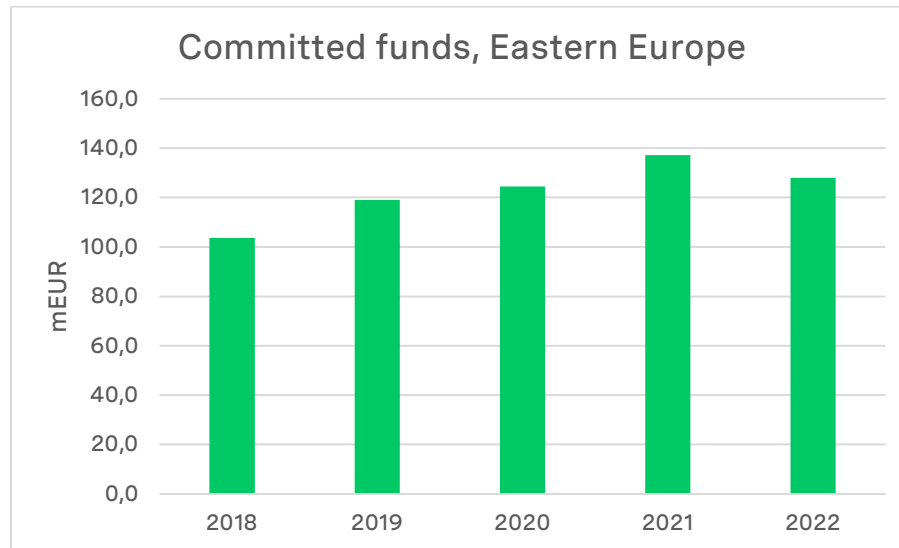
Energy use in buildings accounts for about 27 per cent of global greenhouse gas emissions (*Tracking Buildings 2022 – IEA*). Energy savings is one of the most efficient ways to reduce greenhouse gas emissions and mitigate climate change.

In the Eastern European region, many buildings are in poor condition, use out-of-date technology and rely on fossil fuels as their main energy source. To support municipalities in their green transition, Nefco has primarily been focusing on energy-saving measures in public buildings and the modernisation of street lighting systems in Georgia, Moldova and Ukraine, as well as making a substantial contribution to the modernisation of Ukraine's obsolete district heating sector based on Nordic expertise combined with policy-related efforts.

At the end of 2022, the portfolio for the Eastern Europe business unit consisted of 85 projects, all of which contribute to the climate change mitigation objective. Out of these 85 projects, 16 were investment loans (EUR 78.7 million) and 69 were trust fund projects (EUR 49.3 million). The allocated funds amount to a total of EUR 128 million, which is 44.3% of Nefco's total active portfolio.

Note that the Russian war on Ukraine has had negative effect on projects in Ukraine, and many of the projects in the active portfolio are on hold or proceed with delays. At the end of the year, Active physical work was ongoing to varying degrees in 23 projects.

Figure 11: Trend of committed funds in Eastern Europe 2018-2022



## 7.2.2. Georgia and Moldova

In Georgia and Moldavia Nefco has continued its original regional mandate of financing small and medium-sized, municipal sector projects using concessionary loan financing and blending loan financing with grant programmes from Nordic governments and E5P / other countries (see list of programmes at the end of this report).

Nefco had four energy-efficiency projects in Moldova and two in Georgia at the end of 2022.

## 7.2.3. Green recovery in Ukrainian municipalities

Due to the Russian invasion, project activities in Ukraine were initially put on hold, but some projects have been able to resume later and proceed although with some delays due to the difficult situation in the country.

Severe damage to critical infrastructure and the environment caused by the war is putting enormous pressure on people, society, businesses and nature. While there is a need for extensive reconstruction, this also presents an opportunity to build back better in a sustainable way towards a carbon-neutral and nature-positive future for Ukraine.

Despite the difficult situation in Ukraine, there are currently several Nefco-funded projects with active physical work ongoing in various degrees. These projects are related to energy efficiency in buildings, wastewater systems and installation of solar panels, as well as street lighting modernisation. Even though street lighting is currently not in use, the cities are preparing for a brighter future.

In July 2022, Nefco launched a new initiative, which aims to pave the way for a green recovery, providing financial and technical assistance to municipalities to conduct repairs and rebuild critical infrastructure greener and better. Green Recovery for Ukraine is a multi-donor programme comprising individual initiatives from various contributors. It is providing support for Ukrainian municipalities, which are playing a significant role in building Ukraine back greener and better. Activities financed by the programme may include immediate repairs and longer-term restoration, as well as rebuilding of facilities serving internally displaced people and critical infrastructure for energy, water and waste handling based on energy-efficient and modern European standards. The aim is also to support municipalities to design Local Green Recovery Plans.

The programme was launched in July 2022 and project preparations and implementations have already begun.

The EU, Denmark, Finland, Norway and Sweden are the programme's initial contributors either through repurposed initiatives or new funds.



*Case: Supporting Georgia in its transition to green*

## Improving learning environments and supporting the energy transition

Georgia is in the process of implementing energy reforms and moving towards a green transition. As part of this, the country has introduced new laws on energy efficiency and energy performance of buildings

In 2018, Nefco started a project to renovate and modernise 26 public buildings across the country, aligned with the national reforms and part of the wider reform agenda associated with the EU Georgia Association Agreement. The finalised project was inaugurated in 2022.

The project implemented the use of renewable and alternative energy sources. It is expected to result in annual reductions of about 5,000 MWh in heat and electricity usage, and 1,100 tonnes of CO2 emissions. The actual savings will be monitored on a continuous basis for a ten-year period.

It has also resulted in improved indoor conditions, creating good and comfortable environments for schoolchildren and municipal workers. Additionally, the project has contributed to the implementation of Georgia's national goals to combat climate change and demonstrated the applicability of new building codes in various types of buildings with different functions and usages and how these new codes work in different climate zones.

A new project was started in 2022 to support energy-efficiency modernisations and renovations in 15 public schools in mountainous regions in Georgia. It will build on the lessons learned from the first project and be expanded into more challenging settings in less-developed parts of the country, benefiting vulnerable social groups within the population. Alongside the positive environmental impacts and energy-efficiency improvements, the new project will support the development of other UN Sustainable Development Goals, especially education, health and gender equality.

*In addition to Nefco loan financing, the first project was grant financed by the Eastern Europe Energy Efficiency and Environment Partnership (E5P), and Denmark.*

*Photo: Nefco*

*Full story: [Energy-efficiency modernisations in public buildings improve learning environments and support the energy transition in Georgia | Nefco](#)*



## 7.2.4. Project activities related to the Arctic and Barents on hold

Due to Russia's invasion of Ukraine in February 2022, Nefco stopped financing activities in Russia and Belarus. Therefore, there is no environmental and sustainability impact to report from these programmes.

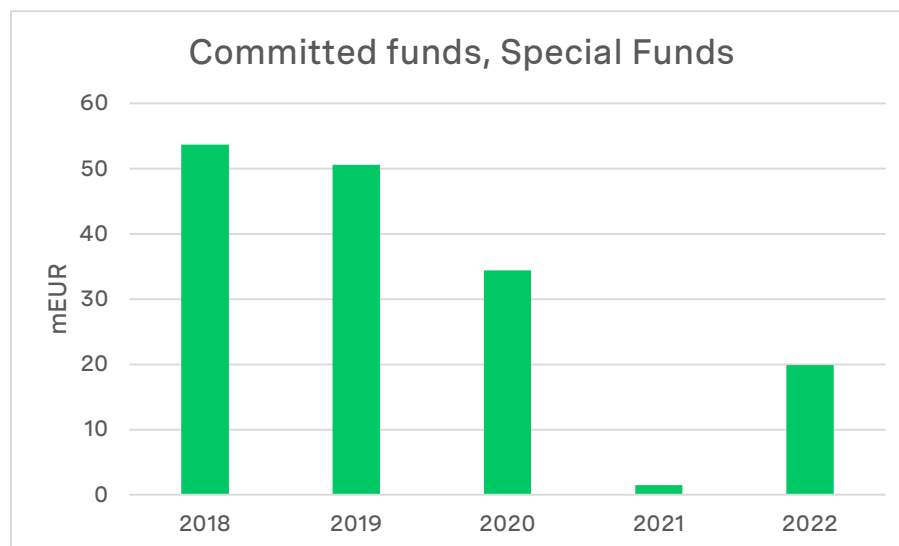
## 7.3. Special funds

Our Special Funds area involves environmental and climate fund assignments from governments and agencies in the Nordics and beyond and has specific mandates. These can be results-based financing or grant programmes that do not include investments from Nefco's own capital.

The programmes aim to mobilise significant financing for new private investments in energy access, clean cooking and water protection in line with the Paris Agreement, in the context of meaningful mitigation actions.

The active portfolio at the end of 2022 in Special Funds consisted of 32 projects, the committed funds amounted to a total of EUR 19.9 million, which is 6.9% of Nefco's total active portfolio.

Figure 12: Trend of committed funds in Special Funds 2018-2022



### 7.3.1. First projects started within the Beyond the Grid Fund for Africa

Today, over 600 million people in Sub-Saharan Africa live without access to electricity. For most of these people, connection to the grid is not likely to happen for decades, or longer. The Beyond the Grid Fund for Africa (BGFA) aims to reduce this gap by stimulating and accelerating new business models to incentivise the private sector to offer affordable and clean energy access at scale to people living in rural and peri-urban areas.

BGFA forms part of the 'Power Africa' initiative launched by former President Barack Obama, contributes to the Sustainable Development Goal 7 and supports the aims of the Paris Climate Agreement. The planned period of implementation is six years. The BGFA programme aims to establish up to 1.45 million energy connections by 2028, benefiting more than 6.5 million people in Burkina Faso, the Democratic Republic of the Congo, Liberia, Mozambique, Uganda and Zambia.

The multi-donor BGFA is now a EUR 126 million flagship facility with results-based financing for off-grid energy sector companies. Norway joined the donor community consisting of Sweden, Denmark, Germany and Power Africa/USAID in autumn 2022.

During 2022, the first 13 projects were contracted with a total value of EUR 17.8 million. These projects aim to generate 0.95 million energy service subscriptions, serving 4.8 million people in Sub-Saharan Africa.

BGFA is also progressing with the monitoring, reporting and verification programme, and the first payment requests by the project owners based on milestones reached have been processed through this route. The first projects have already generated 38,519 energy service subscriptions, benefiting 200,395 people by the end of 2022.

In Uganda, a two-year skills development subprogramme has been initiated.

### 7.3.2. Modern Cooking Facility for Africa

Almost 900 million people in Sub-Saharan African countries lack access to modern and clean cooking solutions, making it the only region in the world where access to clean cooking solutions has not kept pace with population growth.

The goal of the Modern Cooking Facility for Africa (MCFA), launched in 2022, is to provide over 3 million Africans with access to clean cooking solutions, improving overall health and increasing economic growth. The MCFA will do this by financially incentivising Cooking Service Providers to offer affordable, high quality and energy-efficient clean cooking services, thereby accelerating the creation of a long-term sustainable market. Clean cooking also has significant climate impacts, avoids deforestation and biodiversity loss.

The facility is currently funded by Sweden and the EU delegation in Zambia. MCFA works in six African countries. It is currently capitalised at EUR 45 million with the EU delegation in Zambia contributing a further EUR 12.5 million at the end of 2022. The first Call for Proposals closed in June 2022 and it has received significant interest in the Democratic Republic of the Congo, Kenya, Mozambique, Tanzania, Zambia and Zimbabwe. The funding round is expected to be finalised during 2023.

### 7.3.3. Baltic Sea Action Plan Fund

Eutrophication is the greatest environmental challenge of the Baltic Sea, addressed by both HELCOM and the Nordic Vision 2030. The goal of the Baltic Sea Action Plan by HELCOM is to restore the ecological status of the Baltic marine environment. Since the establishment of the Baltic Sea Action Plan Fund in 2010, financed by Finland and Sweden and managed by Nefco and the Nordic Investment Bank, a total of 54 projects have been financed to facilitate and speed up the implementation of the plan.

At the end of 2022, the BSAP Fund had 19 ongoing projects with a total allocation of EUR 2 million. Nine new projects were approved and five finalised during 2022. A new funding round is ongoing with new project proposals expected to be received during the first quarter of 2023.

The newly agreed projects mainly focus on wastewater treatment, sea-bed activities and restoration of wetlands, hazardous substances, and recycling of nutrients.

## Case: Baltic Sea Action Plan Fund - *Tullstorpsån Ekonomisk Förening*:

### Controlled drainage helps reduce nutrient losses in the Baltic Sea

Eutrophication is one of the main threats to the Baltic Sea. Controlled drainage can serve as an effective mitigation action, increasing the recycling of nutrients from agriculture. It also reduces nutrient losses and soil runoff, which can help to diminish the leakage of nutrients into seas, rivers and lakes from agriculture. However, further research is still needed.

The Tullstorp stream, located in the southern plains of Sweden, has been highly impacted by nutrient leakage from agriculture ending up in the Baltic Sea. With grants from the Baltic Sea Action Plan Fund the Swedish organisation Tullstorpsån Ekonomisk Förening is testing how to improve the retention of nutrients in fields. In 2021 the organisation received an initial grant to perform a pre-study on controlled drainage.

Initial results showed that in total some 600 kg of phosphorus and 9,000 kg of nitrogen would be prevented from entering the Baltic Sea during the lifetime of the drainage system, estimated to be 50 years.

In 2022, the organisation received a second grant to continue the project with the construction of two full-scale drainage systems to demonstrate the potential of controlled drainage as a mitigation action to help tackle the ongoing effects of climate change.

*The programme can finance both commercial and non-commercial projects that support the implementation of the Baltic Sea Action Plan by HELCOM.*

*Photo: Tullstorpsån Ekonomisk Förening*

*Full story: [Controlled drainage helps reduce nutrient losses in the Baltic Sea | Nefco](#)*



## 7.3.4. Paris Agreement Article 6 – exploring new carbon market mechanisms

The Nordic Initiative for Cooperative Approaches (NICA), jointly developed by Finland, Norway, Sweden and Nefco in 2018, seeks to operationalise international carbon market activities under Article 6 of the Paris Agreement. The NICA programme aims to build capacity among Nordic private and public sector actors and their global peers for collaboration that is compatible with the Paris Agreement framework.

During 2022, Nefco has arranged workshops in Reykjavik (September) and Helsinki (October). At COP27 in Egypt in December, Nefco arranged a discussion on how Article 6 implementation can actually raise ambition and support sustainable development together with the Swedish Energy Agency, UNEP Copenhagen Climate Centre and Wuppertal Institute. There is growing interest in carbon market cooperation under Article 6 of the Paris Agreement and the Nordic countries have played a pioneering role in supporting ambitious climate action and promoting carbon pricing around the world.



## 8. Contribution to common global and Nordic environmental and climate goals

Agenda 2030 and its Sustainable Development Goals, adopted by all UN Member States in 2015, provide an action plan to achieve a better and more sustainable future for all. The goals address the global challenges we face, including those related to climate, environmental degradation, inequality and prosperity.




The Nordic Vision 2030, adopted by the Nordic prime ministers in 2019, aims to make the Nordic Region the most sustainable and integrated region in the world by 2030. The green transition remains the greatest challenge in the Nordic Region, while it is edging closer to reaching targets in areas such as social sustainability and competitiveness. As a Nordic institution guided by Nordic priorities, Nefco prioritises sectors and activities in which it can add most value to the Nordic Vision.

At Nefco, we do our best, together with our owners, partners and clients, to contribute to the common global and Nordic goals within the framework of our mandate. Our financing activities have in the past year(s) contributed, in particular, to the following goals:



Note: for projects contributing to more than one SDG, the value has been evenly divided between these SDGs.

	<p><b>UN SDG Target 6.3</b></p> <p>By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.</p>
<p><b>Nefco's indicator</b></p> <ul style="list-style-type: none"> <li>- Number of active projects</li> <li>- Project value and share of active portfolio</li> <li>- Amount of treated wastewater [m<sup>3</sup>/a]</li> <li>- Reduced nitrogen discharge [t/a]</li> <li>- Reduced phosphorous discharge [t/a]</li> </ul>	<p><b>Contribution in year ended</b></p> <p>23* active projects  11 investment projects, 12 trust fund projects  Total value: EUR 6.8 million, corresponding to 2% of Nefco's active portfolio 2022  Results not yet reported.  Accumulated reduction: Over 11,700 tonnes phosphorus and 56,200 tonnes nitrogen discharge, of which Nefco's share has been about 2,332 and 11,359 tonnes respectively.**</p>
<p>*Some of these also contribute to SDG 14  **Total amount attributed to both SDG 6 and SDG 14</p>	
	<p><b>UN SDG Target 7.1</b></p> <p>By 2030, ensure universal access to affordable, reliable and modern energy services.</p>
<p><b>Nefco's indicator</b></p> <ul style="list-style-type: none"> <li>- Number of active projects</li> <li>- Project value and corresponding share of active portfolio</li> <li>- Number of beneficiaries or people with access to electricity.</li> </ul>	<p><b>Contribution in year ended</b></p> <p>13 active trust fund projects (BGFA)  Total value: EUR 4.5 million, corresponding to 2% of Nefco's active portfolio 2022  200,395 beneficiaries with access to electricity thanks to the first BGFA projects started in 2022</p>

<p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p> 	<p><b>UN SDG Target 7.2</b></p>	<p>By 2030, increase substantially the share of renewable energy in the global energy mix.</p>
	<p><b>Nefco's indicator</b></p>	<p><b>Contribution in year ended</b></p>
	<p>Number of active projects Project value and corresponding share of active portfolio Added RE capacity (Heat &amp; Electricity) Added RE generation (Heat &amp; Electricity)</p>	<p>26 active projects 23 investment projects 3 trust fund projects Total value: EUR 28.3 million, corresponding to 10% of Nefco's active portfolio 2022 Contributed to the installation of 1051.6 MW renewable electricity capacity and 71.4 MW of renewable heat capacity of which Nefco's share was 12% and 4% respectively Contributed to the generation of 258.8 GWh renewable electricity and 501.6 GWh of renewable heat of which Nefco's share was 19% and 4% respectively</p>
<p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p> 	<p><b>UN SDG Target 7.3</b></p>	<p>By 2030, double the global rate of improvement in energy efficiency.</p>
	<p><b>Nefco's indicator</b></p>	<p><b>Contribution in year ended</b></p>
	<p>Number of active projects Project value and corresponding share of active portfolio Saved heat [MWh/a] Saved electricity [MWh/a]</p>	<p>81 active projects 18 investment projects 63 trust fund projects Total value: EUR 57.7 million, corresponding to 20% of Nefco's active portfolio 2022 209.8 GWh heat savings of which Nefco's share was 52% 30.6 GWh electricity savings of which Nefco's share was 63%</p>
<p><b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p><b>UN SDG Target 9.3</b></p>	<p>Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>
	<p><b>Nefco's indicator</b></p>	<p><b>Contribution in year ended</b></p>
	<p>Number of SMEs receiving financing (active projects) Project value and corresponding share of active portfolio</p>	<p>62 active investments in SMEs 13 BGFA projects Total value: EUR 55.3 million, corresponding to 19% of Nefco's active portfolio 2022</p>



## UN SDG Target 13.2

Integrate climate change measures into national policies, strategies and planning.

## Nordic vision 2030 Indicator 1.1.1

Reduce greenhouse gas emissions.

### Nefco's indicator

Number of active projects  
Project value and corresponding  
share of active portfolio  
Avoided CO<sub>2</sub>

### Contribution in year ended

148 active projects  
62 investment projects  
86 trust fund projects  
Total value: EUR 113.7 million, corresponding to 39% of Nefco's active portfolio 2022  
Directly reduced 0.34 million tonnes CO<sub>2</sub>, of which Nefco's share was 23%.  
Accumulated reductions:  
approx. 9.5 million tonnes CO<sub>2</sub>



## UN SDG Target 14.1

By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

## Nordic vision 2030 Indicator 1.5.2

Eutrophication of the Baltic Sea

### Nefco's indicator

Number of active projects  
Project value and corresponding  
share of active portfolio  
Reduced nitrogen discharge [t/a]  
Reduced phosphorous discharge [t/a]

### Contribution in year ended

19\* active projects (BSAP)  
EUR 1.8 million, corresponding to 1% of Nefco's active portfolio 2022  
Not reporting yet.  
Accumulated reductions:  
Over 11,700 tonnes phosphorus and 56,200 tonnes nitrogen discharge, of which Nefco's share has been about 2332 and 11359 tonnes respectively.\*\*

\*Some of these also contribute to SDG6

\*\*Total amount attributed to both SDG 6 and SDG 14



## 9. Organisation

### 9.1. Internal carbon footprint

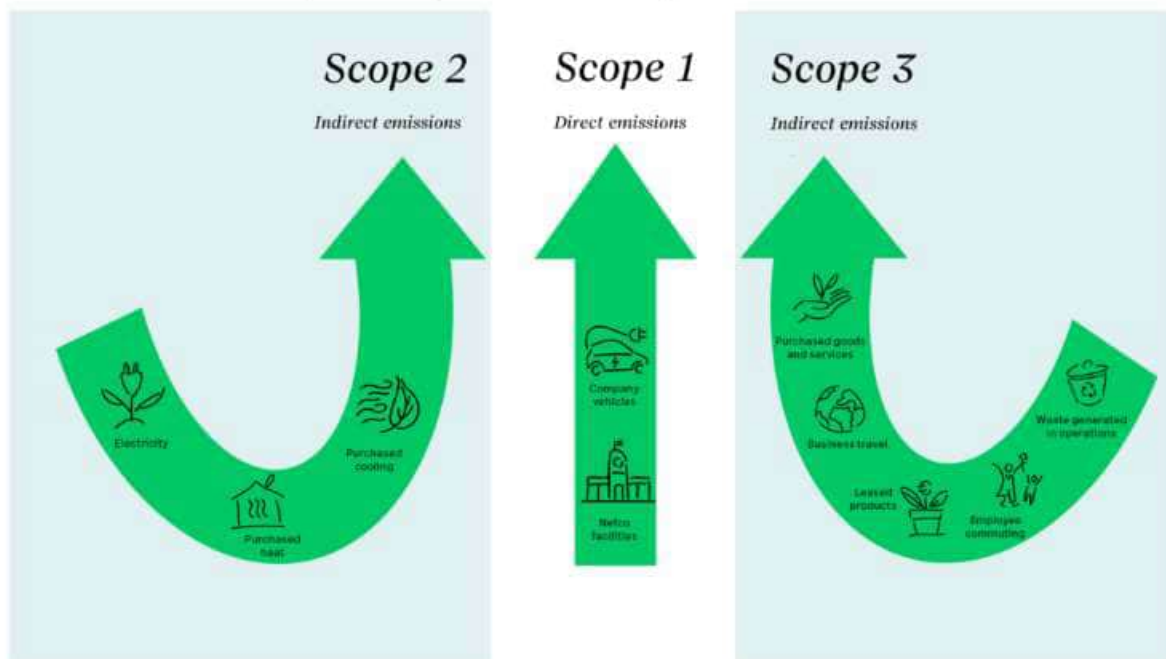
In line with our objective to have a positive impact on the climate and environment, we believe it is important to measure, monitor, report and manage our own footprint. Our internal carbon footprint calculation is comprehensive and follows the Greenhouse Gas Protocol's Corporate Accounting and Reporting standard as well as the complementary Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

Due to Russia's invasion of Ukraine, our previous office in Saint Petersburg is no longer in operation, and the office in Kyiv has not been used. Therefore, these have not been included in our carbon footprint for the year 2022. The calculation comprises Nefco's headquarters in Helsinki and includes both direct and indirect greenhouse gas emissions in our value chain. Mobility, energy use, waste, cleaning services and IT procurements are included in the calculations. Nefco's financing activities are excluded from the internal footprint results.

Nefco currently has no emissions sources included under Scope 1 as we have no company vehicles and do not generate our own energy. Scope 2 includes purchased electricity, heat and cooling.

Scope 3 includes upstream emissions from purchased goods and services, waste generated, business travel, employee commuting, and upstream-leased assets, all of which are accounted for in our calculations.

#### Nefco's carbon footprint scope and boundary definition



#### 9.1.1. Results and discussion

During 2022, our headquarters in Helsinki moved to new renovated office spaces and as such the procurement of the interior increased compared to previous years. After pandemic-related restrictions in 2020 and 2021, travel has also increased in 2022, although still being at lower levels than before the pandemic thanks to new ways of working. Furthermore, we changed our electricity supply to certified Nordic wind power, thereby reducing our Scope 2 emissions.

The calculation allows us to systematically track our emissions. In 2022, our carbon footprint was 515.7 tonnes of CO<sub>2</sub>, which is a 288.9% increase compared to previous year. In 2021 and 2020, our carbon footprint was 132.6 and 70.6 tonnes of CO<sub>2</sub> respectively.

Table 3: Nefco's internal carbon footprint per scope and category 2020-2022

Emissions by source	2020	2021	2022	Change on previous year %
<b>Scope 1</b>				
<b>Fuels</b>	0.0	0.0	0.0	±0%
<b>Refrigerant leaks</b>	0.0	0.0	0.0	±0%
<b>Scope 1 total emissions</b>	0.0	0.0	0.0	±0%
<b>Scope 2</b>				
<b>Electricity</b>	10.9	10.6	0.4*	-96.5%
<b>Heat</b>	15.5	15.8	11.6	-26.5%
<b>Cooling</b>	0.0	0.0	0.0	±0%
<b>Scope 2 total emissions</b>	26.4	26.4	12.0	-54.7%
<b>Scope 3</b>				
<b>Category 1: Purchased goods and services</b>	14.6	61.8	347.3	+461.7%
<b>Category 5: Waste generated in operations</b>	0.5	0.5	0.8	+49.8%
<b>Category 6: Business travel</b>	20.5	34.0	148.6	+336.5%
<b>Category 7: Employee commuting</b>	8.0	8.4	4.7	-44.6%
<b>Category 8: Upstream leased assets</b>	0.6	1.4	2.5	+82.5%
<b>Scope 3 total emissions</b>	44.2	106.1	503.7	+374.6%
<b>Total</b>	<b>70.6</b>	<b>132.6</b>	<b>515.7</b>	<b>+288.9%</b>

\*Even though Nefco have certified Nordic wind power, i.e. renewable energy, we do not assume the emissions to be 0 kgCO<sub>2</sub>/kWh. Instead, we apply an emission factor of 0.01 kgCO<sub>2</sub>/kWh<sup>4</sup>.

## 9.2. WWF Green Office label

Nefco headquarters in Helsinki were awarded the WWF Green Office label in autumn 2022 following renovation and a move to new facilities in the same building. The office space was specially designed to meet the WWF Green Office criteria.

WWF Green Office is an environmental management system that helps companies and organisations reduce the environmental impact of their operations and become more sustainable. Based on an evaluation and audit of environmental management systems, the WWF Green Office label serves as a reliable means of verifying that a company is working continuously to improve its sustainability practices.

WWF Green Office is part of our continuous environmental and sustainability work. During 2022, this work resulted in an update to our Environmental and Sustainability Policy and related guidelines, which define our commitments, principles and obligations for our financing activities. As a pioneer in green financing, we only finance projects that generate positive environmental and/or climate-related impacts.



<sup>4</sup> Finnish Wind Power Association, <https://tuulivoimayhdistys.fi/en/wind-power-in-finland-2/wind-power-in-finland/environmental-impacts-of-wind-power>

*“In our Helsinki headquarters, electricity is generated with renewable energy, and we have paid attention to the energy-efficiency of the lighting and air conditioning. Nefco has also joined the nationwide energy saving campaign ‘Down a degree’. These are all important steps towards reducing our internal carbon footprint and using natural resources sustainably.”*

**Joakim Adolfsson**, Environmental and Sustainability Analyst, Nefco

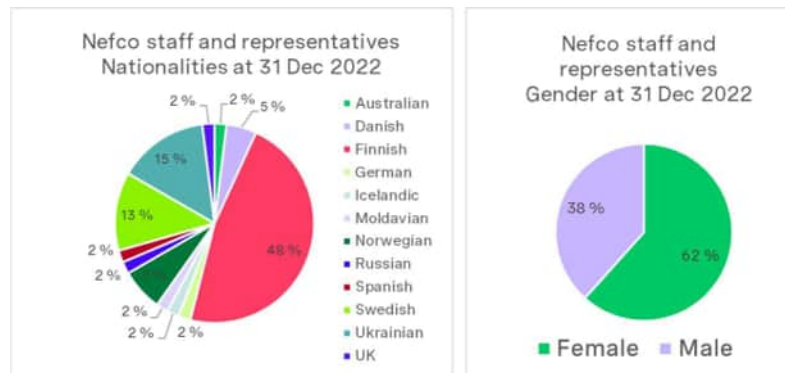


Photo 3: Jussi Ratilainen

## 9.3. Diversity of management and staff

Nefco staff comprises both direct employees and long-term consultants, altogether 62 people (53 employees in Helsinki, three in Kyiv and six long-term consultants), from 12 different nationalities at the end of 2022. The age of the staff ranges from 22 to 65 years, and the average age was 44 years at the end of 2022.

Our headquarters are located in Helsinki, Finland, and Nefco has a Representative Office in Kyiv, Ukraine. During 2022, Nefco was also represented by long-term consultants in Norway, Sweden, Russia and Ukraine.



## 9.4. Employee experience, values and culture

To accelerate the green transition and achieve our purpose we need a committed team. Our culture is based on shared beliefs and behaviours that guide us towards better decisions. Our purpose is to accelerate the green transition and we encourage others do the same. Our dream is for all financing to be green. Our core values are Thrive Together, Grow for Good and Ever Improve.

Nefco aims to provide a sustainable working environment that encourages personal and skills development, and a good work-life balance. Nefco's training and education programmes are an important aspect of our operations. As an international expert organisation, Nefco values employees' dedication to continuously develop their skills. In 2022, we had training related to various aspects including insider information, Nordic financing landscape, self-leadership and presentation skills. In addition, sustainability matters were highlighted in various sessions related to biodiversity and carbon markets.

Nefco performed two employee surveys during 2022. The Employee Net Promoter Score (eNPS) measuring employee satisfaction was 40 when measured in May and 55 when measured in December 2022 (benchmark was 6.8).



## VALUES FOR ALL OF US

### THRIVE TOGETHER

We embrace our diversity and show trust, respect and appreciation towards our colleagues. We foster a no blame culture and have fun together.

By being inclusive we invite ideas, innovation, trust and friendship.

### GROW FOR GOOD

We inspire each other to grow as humans and as professionals. We encourage improvement and learning, and learning from mistakes.

By sharing information and knowledge we boost each other along the way.

### EVER IMPROVING

We are committed to add value to anything and everything we do for our cause. By doing our own work as well as we can, we help others do the same.

By simplifying our structures and processes we speed up the way we work.

## 10. Governance

As an international financial institution (IFI), Nefco applies good governance principles and practices in all its operations, promoting transparency and accountability. We are committed to ensuring that the funds we manage are used for their intended purposes and taking all reasonable steps to ensure that resources entrusted to us are managed with the highest level of integrity.

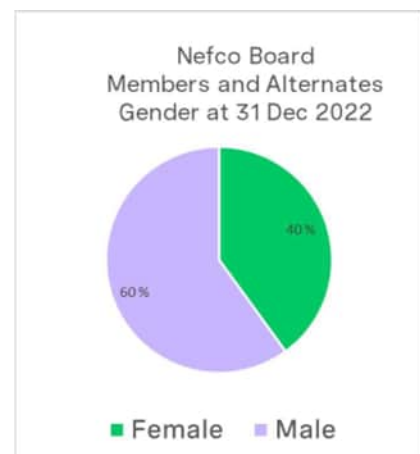


All our financing activities are assessed by a dedicated project team, including financial, legal and integrity experts. Independent teams perform various assessments, including an environmental assessment and review of social and governance aspects, a financial analysis and an integrity due diligence review. We apply a risk-based assessment to evaluate the potential negative environmental and social risks of a project, depending on its nature and scale. All projects are assessed for their compliance with international and/or national legislation, regulations and standards.

### 10.1. Board of Directors

The Board of Directors makes policy decisions concerning the operations of Nefco and approves the financing of projects proposed by Nefco's Managing Director. The Board of Directors also approves the annual budget and is responsible for Nefco's financial statements. The Board of Directors may delegate responsibilities to the Managing Director where appropriate.

The Board of Directors consists of five members, each of whom has one alternate. The members and their alternates are appointed by Nefco's owner countries for a maximum term of six years at a time. The Board appoints a chairman and a deputy chairman from among the members for a period of one year. The chairmanship and deputy chairmanship rotate among the owner countries.



## Members and alternates of the Board in 2022:

### Finland, Chair until end of February 2022

- Ismo Tiainen, Chair of the Board until 28 February, (member until 29 May 2022), Director General, Ministry of the Environment
- Saija Vuola, Ministerial Adviser, Ministry of the Environment (as of 30 May 2022)
- Alternate: Mikko Kivikoski, Deputy Director General, Ambassador, Ministry for Foreign Affairs

### Denmark

- Carsten Møberg Larsen, Senior Policy Adviser, Danish Environmental Protection Agency
- Alternate: Jakob Anker Tvede, Chief Advisor, Ministry of Foreign Affairs (as of 10 March 2022)
- Sara Jakobsen Takatomi, Ministry of Foreign Affairs (until 31 January 2022)

### Iceland

- Danfríður Skarphéðinsdóttir, Senior Adviser, Ministry for the Environment and Natural Resources
- Alternate: Helga Barðadóttir, Head of Division, Deputy Director, Department of Climate Action, Ministry for the Environment and Natural Resources

### Norway, Chair from March 2022

- Agnethe Dahl, Chair of the Board as of 1 March 2022, Deputy Director General, Ministry of Climate and Environment
- Alternate: Andreas Gahr Brunsvig, Adviser, Ministry of Climate and Environment (as of 15 September 2022)
- Birthe Ivars, Department Director, Ministry of Climate and Environment (until 15 August 2022)

### Sweden

- Erik Kiesow, Senior Adviser, Ministry of the Environment,
- Alternate: Henrik Norberg, Deputy Director, Ministry for Foreign Affairs

## 10.2. Observers

A representative of the Nordic Investment Bank and of the Secretariat of the Nordic Council of Ministers may participate in the board meetings as observers without the right to vote.

## 10.3. Control Committee

The Control Committee is Nefco's supervisory body. It ensures that Nefco's operations are conducted in accordance with the Statutes of Nefco. The Control Committee is responsible for auditing Nefco and submits its annual audit report to the Nordic Council of Ministers.

The Nordic Council appoints five Nordic parliamentarians to the Committee. The Chairman of the Committee is appointed by the Nordic Council of Ministers. The Control Committee appoints two professional external auditors for the purpose of assisting the Committee in carrying out its work and responsibilities. One of the professional auditors is appointed from Nefco's host country (Finland) and the other from another owner country.

### Control Committee members at the end of 2022:

- Chairman: Jan-Erik Enestam, Minister, Independent Consultant
- Denmark: Sjúrdur Skaale, Member of Parliament
- Finland: Heli Järvinen, Member of Parliament

- Iceland: Vilhjálmur Árnason, Member of Parliament
- Norway: May Britt Lagesen, Member of Parliament
- Sweden: Johan Andersson, Member of Parliament

## 10.4. Managing Director

The Managing Director is appointed by the Board of Directors for a term of up to six years at a time. The Managing Director is responsible for the conduct of Nefco's current operations and must follow the guidelines and instructions given by the Board of Directors. The Managing Director is assisted in their work by the Management Committee and different Investment Committees.

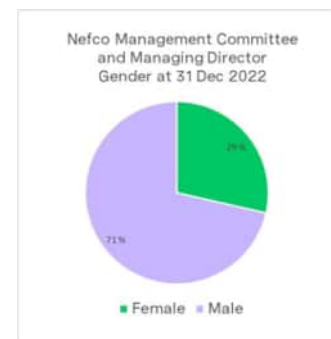
- Managing Director since 2019: Trond Moe, Norway

## 10.5. Management Committee

The Management Committee is an advisory body to the Managing Director. The Vice Presidents and the Managing Director form the Management Committee.

### Members of the Management Committee in 2022:

- Trond Moe, Managing Director
- Mikael Reims, Vice President, Origination
- Thor Thorsteinsson, Vice President, Green Transition Nordic SMEs
- Ulf Bojö, Vice President, Green Transition Eastern Europe
- Ash Sharma, Vice President, Green Transition Special Funds
- Tita Anttila, Vice President, Legal and Project Administration, Chief Counsel
- Josefin Hoviniemi, Vice President, Communications



## 10.6. Ethics and compliance

To efficiently manage risks related to compliance and integrity, Nefco has an Ethics and Compliance function that leads work on integrity, ethics and accountability. This function supports staff and management in identifying and managing integrity risks as well as leading the development and implementation of policies, rules and procedures related to ethics and integrity.

The Ethics and Compliance function is independent of the operational departments. The Chief Ethics and Compliance Officer reports to the Managing Director but has free access to the Chair of the Board of Directors and the Chair of the Control Committee.

Further details are available in the separate *Ethics & Compliance 2022* report.



## 11. Policy work

### 11.1. Updated Nefco Environmental and Sustainability Policy and Guidelines

The updated Environmental and Sustainability Policy was approved by Nefco's Board of Directors in March 2022. The revised Environmental and Sustainability Guidelines were adopted by the Managing Director in May 2022.

### 11.2. Collaboration with HELCOM

As a HELCOM Observer, Nefco has followed the work of HELCOM, and in particular updates to the Baltic Sea Action Plan (BSAP), through participating in workshops and meetings.

## 12. Accounting principles

Nefco has requested annual environmental status reports for every financed project and from every client since it was established in 1990. Nefco evaluates the impacts of its financed projects in alignment with the International Financial Institutions (IFIs) harmonised approach to project-level greenhouse gas (GHG) accounting<sup>5</sup>. Nefco's aggregated impact is pro-rated to Nefco's share of financing, i.e. agreed loan amount divided by the total project cost.

The environmental and sustainability indicators of Nefco-financed projects enable comparison and follow-up of the actual impact of each project. Environmental and sustainability indicators are selected to enable the evaluation of a given context prior (project baseline) to Nefco financing. Nefco finances projects in various stages of implementation and therefore the project baseline impact reflects the information available to Nefco at the time of the agreed loan. If data is presented to Nefco based on an estimated range, the conservative end of the range is chosen for the project baseline impact calculations. The selected indicators are followed up in the annual environmental reporting process.

See more information related to the assessment of environmental impact and Nefco's impact indicators, both project-specific and core indicators, in our Environmental and Sustainability Guidelines in Chapter 3.2. Sustainability assessment and 3.3. Sustainability monitoring. [Environmental-and-Sustainability-Guidelines-20220502.pdf \(nefco.int\)](#)

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<sup>5</sup>More information: [IFIs - Harmonization of Standards for GHG accounting | UNFCCC](#)

### 13. Fund assignments during 2022

Fund	Purpose	Contribution from
<b>Nefco's own equity</b>		
Nefco Investment Fund	Loan and equity-type financing for Nordic SMEs and municipal projects in Eastern Europe Green Recovery loan financing for Nordic SMEs	Nefco's own paid-in capital provided by the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) and accumulated profits
<b>Nefco as fund manager</b>		
<b>Nordic SMEs and Eastern Europe</b>		
Nordic Environmental Development Fund (NMF and NMF Credits) <ul style="list-style-type: none"> <li>Ukraine Municipal Lending Facility (ULF)</li> <li>Energy Savings Credits (ESC)</li> <li>Cleaner Production Facility (CPF)</li> </ul>	Soft loans and grants for technical assistance to public projects in Eastern Europe related to energy efficiency or cleaner industrial processes.  The Nefco Board decided to transfer funds allocated for the CPF and ULF to NMF, to be used as grants in the Green Recovery of Ukraine programme and for biodiversity-related activities.	Initially funded by all Nordic countries and Nefco, and currently by the Nordic Council of Ministers (NCM).
<b>Nordic SMEs</b>		
Nordic Project Fund (Nopef)	Conditional loans/grants for feasibility studies for the internationalisation of Nordic SMEs outside the EU	Nordic Council of Ministers (NCM)
<b>Eastern Europe</b>		
The Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU)	Grant financing for the refurbishment and reconstruction of municipal buildings in vulnerable areas of Eastern and Southern Ukraine	Finland, Norway, Sweden and the Nordic Environmental Development Fund (NMF, see above)
Norway-Ukraine Energy Efficiency Initiative (NUEE)	Grant financing for the refurbishment and reconstruction of municipal buildings in vulnerable areas of Eastern and Southern Ukraine	Norway
Sweden Ukraine District Heating Fund (SUDH)	Grant financing to complement Nefco loans for sustainable projects aimed at modernising and having a significant positive impact on Ukrainian district heating systems	Sweden
Finland Ukraine Trust Fund (FUTF)	Grant financing for cooperation between Ukrainian and Finnish actors in the fields of energy efficiency, renewable energy and alternative energy sources for power and heat generation and in district heating networks	Finland
Danida Sustainable Infrastructure Finance Programme (DSIF)	Grant financing for non-commercial sustainable infrastructure projects in Ukraine and other selected Eastern European Partnership countries to complement Nefco loans.	Denmark
Danida-Georgia Fund	Grant funding for project consultancy through a bilateral programme, 'Support to Energy Efficiency and Sustainable Energy in Georgia', to complement Nefco loans	Denmark
Sida funds for Technical Assistance & Guarantee	Supporting investments in the Eastern European region.	Sweden
Arctic Council Project Support Instrument (PSI)	Grants for pollution mitigation and biodiversity-related projects approved by the Arctic Council working groups.	Finland, Iceland, Norway, Russia, the Sami Parliament of Norway, Sweden, the USA and Nefco
Barents Hot Spots Facility (BHSF)	Grant financing for technical assistance to address 'hot spots' and other similar issues in the Russian Barents regions.	Finland, Iceland, Norway, Sweden and the Nordic Environmental Development Fund (NMF), which include contributions from all



Fund	Purpose	Contribution from
		Nordic countries, the Nordic Council of Ministers and Nefco
Programme for Environment and Climate Co-operation (PECC)	Grant financing for co-operation projects between non-commercial partners in the Nordics and Northwest Russia to mutually benefit the environment and climate at regional and local levels.	Nordic Council of Ministers (NCM) and the BHSF
<b>Special Funds</b>		
Baltic Sea Action Plan Fund (BSAP Fund)	Grant financing for technical assistance and demonstration projects that support the implementation of the HELCOM Baltic Sea Action Plan (BSAP)	Finland, Sweden
Beyond the Grid Fund for Africa (BGFA)	Results-based financing to incentivise clean off-grid energy in Sub-Saharan Africa	Sweden, Denmark, Germany, Norway and in-kind contribution from Power Africa/USAID
Modern Cooking Facility for Africa (MCFA)	Results-based financing for modern clean cooking solutions in Sub-Saharan Africa	Sweden, the EU
Nordic Initiative for Cooperative Approaches (NICA)	Grant financing to demonstrate how international partnerships can scale up and accelerate ambitious climate action related to carbon market collaboration under Article 6 of the Paris Agreement.	Finland, Norway, Sweden and the Nordic Council of Ministers
<b>Nefco accredited as implementing agency</b>		
<b>Eastern Europe</b>		
E5P - Eastern Europe Energy Efficiency & Environment Partnership	Grants used as an incentive for municipal clients to take loans provided by implementing agencies such as Nefco	The EU, Denmark, Estonia, Finland, Germany, Iceland, Ireland, Latvia, Lithuania, Norway, Poland, Slovak Republic, Sweden, Switzerland, Ukraine and the USA.
EU NIP - Neighbourhood Investment Platform	Grants to complement other financing for capital-intensive infrastructure projects in EU partner countries. Repurposed for green recovery activities in Ukraine.	The EU
EU Repair of Critical Municipal Infrastructure	Grants to support the green recovery of Ukraine.	The EU
EU Housing for Internally Displaced People (IDP)	Grants to support the green recovery of Ukraine.	The EU
Northern Dimension Environmental Partnership (NDEP)	Grants to complement loans by IFIs such as Nefco to improve the ecology of the Northern Dimension Area, from north-west Russia in the east to Iceland in the west.	The EU, Belarus, Belgium, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom
<b>Global</b>		
Green Climate Fund (GCF)	For providing and mobilising finance directly to private sector SMEs, smaller cities and municipalities for the implementation of climate projects in line with Nationally Determined Contributions and specific local needs and opportunities, focus on Eastern Europe. GCF project development for solar microgrids currently ongoing in Haiti.	Parties to the United Nations Framework Convention on Climate Change (UNFCCC)

More information on <https://www.nefco.int/fund-mobilisation/>

# NEFCO

# NEFCO

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# Financial Report 2022

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# STATEMENT OF COMPREHENSIVE INCOME

## 1 JANUARY - 31 DECEMBER

(Amounts in EUR 1,000)

<i>Income</i>	Note	2022	2021
Interest income from financial assets held at amortised cost		7,428	6,763
Interest income from financial assets held at fair value		261	144
<b>Total interest income</b>		<b>7,689</b>	<b>6,907</b>
Interest expense		-913	-862
<b>Net interest income*</b>	(3)	<b>6,775</b>	<b>6,046</b>
Net result of financial operations	(4)	-4,493	1,091
Lending fee income	(5)	337	838
Trust fund income	(6)	3,120	3,826
<b>Total income</b>		<b>5,739</b>	<b>11,801</b>
<i>Operating expenses</i>			
Administrative expenses	(7), (8), (9)	-8,106	-6,997
Depreciation and write-down tangible and intangible assets	(13)	-391	-274
Foreign exchange gains and losses		11	-3
Impairment of loans / reversals	(12)	-50,558	-1,578
<b>Total operating expenses</b>		<b>-59,044</b>	<b>-8,852</b>
<b>Result for the year</b>		<b>-53,305</b>	<b>2,949</b>
<b>Total comprehensive income</b>		<b>-53,305</b>	<b>2,949</b>

\*) Interest income on loans at amortized cost is calculated based on the effective interest rate (EIR) method.

# STATEMENT OF FINANCIAL POSITION

(Amounts in EUR 1,000)	Note	31/12/2022	31/12/2021
<b>ASSETS</b>			
Cash and cash equivalents	(16), (17)	30,857	65,701
Placements with credit institutions	(16), (17)	25,242	1,990
Investment assets	(10)	13,427	15,320
Other placements	(11)	0	0
Loans outstanding	(12)	55,931	95,156
Other receivables		1,143	286
Accrued interest and fees receivable		3,763	4,923
Intangible assets	(13)	2,376	927
Tangible assets	(13)	673	36
<b>Total assets</b>		<b>133,412</b>	<b>184,338</b>
<b>LIABILITIES AND EQUITY</b>			
<i>Liabilities</i>			
Long-term debt	(14)	6,826	7,343
Other liabilities		4,425	2,304
Accrued interest payable		2,909	2,135
<b>Total liabilities</b>		<b>14,159</b>	<b>11,781</b>
<i>Equity</i>			
Paid-in capital	(15)	113,407	113,407
Reserve for investment/credit losses		24,557	24,557
Operational fund		-	4,500
Retained earnings		34,594	27,144
Result for the year		-53,305	2,949
<b>Total equity</b>		<b>119,252</b>	<b>172,557</b>
<b>Total liabilities and equity</b>		<b>133,412</b>	<b>184,338</b>

# CHANGES IN EQUITY

(Amounts in EUR 1,000)	Paid-in capital	Reserve for investment/credit losses	Operational fund	Retained earnings	Total comprehensive income	Total
<b>Equity at 1 January 2021</b>	<b>113,407</b>	<b>24,557</b>	<b>4,500</b>	<b>23,576</b>	<b>3,568</b>	<b>169,608</b>
Appropriation to retained earnings				3,568	-3,568	-
Total comprehensive income					2,949	2,949
<b>Equity at 31 December 2021</b>	<b>113,407</b>	<b>24,557</b>	<b>4,500</b>	<b>27,144</b>	<b>2,949</b>	<b>172,557</b>
<b>Equity at 1 January 2022</b>	<b>113,407</b>	<b>24,557</b>	<b>4,500</b>	<b>27,144</b>	<b>2,949</b>	<b>172,557</b>
Appropriation to retained earnings				2,949	-2,949	-
Appropriation from the Operational fund			-4,500	4,500		-
Total comprehensive income					-53,305	-53,305
<b>Equity at 31 December 2022</b>	<b>113,407</b>	<b>24,557</b>	<b>-</b>	<b>34,594</b>	<b>-53,305</b>	<b>119,252</b>



# CASH FLOW STATEMENT 1 JANUARY - 31 DECEMBER

(Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities</b>		
Result for the year	-53,305	2,949
<b>Adjustment for non-cash items</b>		
Depreciation and write-down tangible and intangible assets	391	274
Value adjustments, investment assets	4,437	374
Value adjustments, other placements	-	-125
Impairments, lending	50,579	1,429
Capitalizations, lending	-581	-295
Adjustments, lending	-618	-1,025
Write off, lending	-	140
Exchange rate adjustments	-71	-11
Change in accrued interests, assets	-2,437	-1,285
Change in accrued interests, liabilities	774	662
Other adjustments to the year's result	10	5
<b>Lending</b>		
Disbursements	-26,807	-19,445
Repayments	20,703	14,693
Prepayments	3,144	8,985
Change in investment assets		
Investments	-3,290	-9,074
Divestments	747	2,802
Change in other liabilities	-366	-395
<b>Cash flows from operating activities</b>	<b>-6,691</b>	<b>659</b>
<b>Cash flows from investing activities</b>		
Change in placements with credit institutions		
Acquisitions	-23,252	-30
Disposals	-	22,000
Change in other placements		
Divestments	-	140
Change in other receivables	-4,384	348
<b>Net cash flows from investing activities</b>	<b>-27,636</b>	<b>22,458</b>
<b>Cash flows from financing activities</b>		
Change in long-term debt		
Drawdowns	-	1,000
Repayments	-517	-907
<b>Net cash flows from financing activities</b>	<b>-517</b>	<b>93</b>
<b>Change in cash and cash equivalents</b>	<b>-34,844</b>	<b>23,211</b>
<b>Opening balance for cash and cash equivalents</b>	<b>65,701</b>	<b>42,490</b>
<b>Closing balance for cash and cash equivalents</b>	<b>30,857</b>	<b>65,701</b>
<b>Additional information to the statement of cash flows</b>		
Interest income received	8,849	5,622
Interest expense paid	-139	-200

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies

### 1.1 Reporting entity

The operations of the Nordic Environment Finance Corporation (hereinafter the Corporation or NEFCO) are governed by the Agreement between the governments of Denmark, Finland, Iceland, Norway and Sweden and the related Statutes. In accordance with the Agreement and the Statutes, NEFCO's purpose is to promote investments of Nordic environmental interest with a focus on Eastern Europe.

In its strategy for 2021-2025 NEFCO has defined as its primary purpose to accelerate the green transition by:

- financing environmentally sustainable small and medium-sized projects using Nordic solutions and technologies that have the potential to be scaled up on global markets and have a substantial positive environmental impact, and support globally set common targets and contributions, and
- continuing its original regional mandate for Eastern Europe, with particular focus on the completion of existing projects, and refocusing its efforts on small-scale projects in neighbouring regions in close cooperation with the Nordic governments.

NEFCO is an international financial institution. In the member countries, the Corporation is an international legal person with full legal capacity, exempt from payment restrictions and credit policy measures. In addition, the NEFCO Agreement contains immunity provisions exempting the Corporation from taxation in the Nordic countries.

NEFCO's principal office is located in the Nordic Investment Bank's (NIB) premises at Fabianinkatu 34, Helsinki, Finland. In addition, NEFCO's representative office rents office premises in Kyiv, Ukraine.

### 1.2 Basis of accounting

NEFCO's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The accounts of the Corporation are kept in euro.

### 1.3 Accounting standards adopted in 2022

NEFCO did not adopt any new standards, interpretations or amendments that have been issued but are not yet effective.

### 1.4 New Accounting standards for financial years beginning on or after 1 January 2023

There are no IFRS standards or interpretations that are not yet effective that would be expected to have a material impact on NEFCO's financial statements.

## 1.5 Functional and presentation currency

The Corporation's financial statements' functional and presentation currency is euro.

## 1.6 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are recognised in the accounts at the exchange rate prevailing on the closing date. Non-monetary assets and liabilities are recognised in the accounts at the euro rate prevailing on the transaction date. Income and expenses recognised in currencies other than euro are converted on a daily basis to euro, in accordance with the euro exchange rate prevailing on that day.

Realised and unrealised exchange rate gains and losses are recognised in the statement of comprehensive income.

The Corporation uses the official euro exchange rates published by ICE Data Services. See Note 18.

## 1.7 Significant accounting judgments and estimates

When preparing the financial statements, management is required to make judgements that may have an effect on the reported result, financial position and other disclosures. This impacts Expected Credit Loss and disclosed fair values of financial instruments (Notes 10-12, 16). Actual outcomes may deviate from the assessments made and these deviations may be significant in relation to financial statements.

## 1.8 Recognition and derecognition of financial instruments

Financial instruments are recognised in the statement of financial position on a settlement date basis. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

## 1.9 Basis for classification and measurement

The Corporation classifies its financial assets and liabilities into the following categories: those measured at amortised cost and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the liabilities as well as the business model adopted for their management.

### Financial assets and liabilities at amortised cost

An investment or liability is classified at "amortised cost" only if both of the following criteria are met: the objective of the Corporation's business model is to hold the assets and liabilities in order to collect or pay the contractual cash flows, and the contractual terms of the financial instrument must give rise on specified dates to cash flows that are only payments of principal and interest on the principal amount outstanding.

### Financial assets at fair value

If either of the two criteria above is not met, the asset cannot be classified in the amortised cost category and must be classified at fair value through profit and loss (FVTPL) or at fair value through other comprehensive income (FVOCI). FVOCI is used to classify assets held for payments of principal, interest and to sell. All other financial assets are classified as FVTPL.

## Determination of fair value

Measurement of financial assets at fair value is carried out according to the following hierarchy based on fair value:

Level 1 - Market prices quoted on an active market for identical assets.

Level 2 - Valuation model based on either directly (i.e., prices) or indirectly (i.e. derived from prices) observable data. This category includes assets valued using quoted market prices in an active marketplace for similar assets; quoted prices for identical or similar assets in a less active marketplace or another valuation method, in which all significant data can be determined either directly or indirectly in the marketplace.

Level 3 - Valuation model based on other than directly observable data. This category includes all assets where the valuation method includes inputs, which are not based on observable data, and the unobservable inputs have a significant effect on the valuation. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets.

## 1.10 Cash and cash equivalents

Cash and cash equivalents comprise monetary assets and placements with original maturities of three months or less, calculated from the date the acquisition and placements were made. These are highly liquid and held for the purpose of meeting short-term cash commitments.

Cash and cash equivalents in the cash flow statement refers to the net amount of monetary assets and placements with original maturities of three months or less, calculated from the time the transaction was entered into.

## 1.11 Placements with credit institutions

NEFCO invests its liquidity, which is primarily in euros, with credit institutions, preferably large Nordic banks. Carrying amount is deemed appropriate for fair value.

## 1.12 Investment assets

NEFCO's investment assets include participating interests in a number of companies. NEFCO is regarded as an investor in companies with the aim of generating positive environmental impacts in accordance with the Corporation's mandate and Statutes. The primary objective is to achieve environmental benefits, not to maximise profits. However, the Statutes require that the projects in which NEFCO invests are financially profitable to ensure that the Corporation's authorised capital remains intact.

The Corporation's management has decided to report all investments in other companies at fair value through the profit and loss (FVTPL). Even though NEFCO in some instances might have over 20%, but always less than 50%, ownership NEFCO does not have significant influence due to that the majority (or other) shareholder assumes responsibility for the business operations. Typically, new investment involves an exit agreement with the majority investor (or project developer) setting out the conditions for NEFCO's withdrawal from the company.

The Corporation regularly assesses its investment assets using its own valuation model. However, the assessed fair value is greatly affected by the market conditions in the individual countries and other circumstances beyond NEFCO's control.

NEFCO's investment assets fall under Levels 1-3 as of 31 December 2022 (Note 10).

## 1.13 Other placements

NEFCO's other placements include placement in the Nordic Environmental Development Fund. NEFCO's other placements are carried at fair value through profit and loss (FVTPL) because the investment return does not pass the solely payment of principal and interest (SPPI) test.

The Corporation regularly assesses its other placements using its own valuation model. However, the assessed fair value is greatly affected by the market conditions and other circumstances beyond NEFCO's control. If fair value cannot be reliably determined, the assets are carried at cost. NEFCO's other placements fall under Level 3 as of 31 December 2022 (Notes 11 and 16).

## 1.14 Loans outstanding

The Corporation's lending transactions are recognised in the statement of financial position on the transfer of funds to the borrower. Loans outstanding are carried at amortised cost applying effective interest rate (EIR) method and after deductions for any impairment losses. See Note 12.

## 1.15 Impairment of loans

Valuations and impairments are part of NEFCO's risk management process. The final decision lies with the Board, where the Managing Director makes a proposal of credit impairment based on the decision by Investment Committee. The Investment Committee assesses each project regularly and the risk report and portfolio analysis form a basis for the assessment. In 2022, Russia's invasion of Ukraine caused NEFCO to make impairments to a large part of its portfolio. All amounts in Ukraine, Russia and Belarus, other than those guaranteed by owner countries or directly on-lent, were impaired in full. Even though several customers have been able to service their loans and reschedulings have been made, the situation remains unclear and may change rapidly and unexpectedly due to Russia's continuous attacks. See Note 12.

### Expected Credit Losses

Credit losses are estimated based on Expected Credit Loss (ECL) model. IFRS 9 introduced a stage model, where credit risk is divided into three stages:

Stage 1 - financial assets, where no significant increase in credit risk has been identified since initial recognition, are placed in this stage. ECL is calculated on a 12-month basis and interest revenue is calculated on a gross basis.

Stage 2 - financial assets, where a significant increase in credit risk has been identified (but no objective evidence) since initial recognition, are placed in this stage. NEFCO defines significant increase in credit risk as a change of credit rating of the country where the project is located. Loans where the administration has identified increase in project-based credit risk are placed in this stage. ECL is calculated on a lifetime basis and interest revenue is calculated on a gross basis.

Stage 3 - financial assets are credit impaired. ECL is calculated on a lifetime basis and interest income is calculated on a net basis. All non-performing loans (unpaid after 90 days from due date) are assigned in this stage.

NEFCO's model is based on the changes in project country's rating and guarantees by NEFCO's owner countries are considered.

## 1.16 Intangible assets

Intangible assets mainly consist of investments in software, software licences and right-of-use assets arising from leasing arrangements. Acquisitions that generate economic benefits exceeding costs beyond one year are recognised as intangible assets. The investments are carried at historical cost and are amortised over the assessed useful life of the assets, which is estimated to be between three and five years. The right of use assets' depreciations are amortised over the tenor of the lease agreement. The amortisations are made on a straight-line basis (Note 13).

## 1.17 Leasing agreements

The Corporation applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Corporation recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The initial lease asset equals the lease liability in most cases.

### Right-of-use assets

The Corporation recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented as part of intangible assets in Note 13.

### Lease liabilities

At the commencement date of the lease, the Corporation recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease liabilities are shown under "other liabilities" in the Statement of Financial Position.

## 1.18 Tangible assets

Tangible assets in the statement of financial position include office equipment and other tangible assets owned by the Corporation. The assets are recognised at historical cost, less any accumulated depreciation based on their assessed useful life. The depreciation period for office equipment and other tangible assets is determined by assessing the individual item. The depreciation period is usually three to five years. The depreciations are calculated on a straight-line basis (Note 13).

## 1.19 Write-downs and impairment of intangible and tangible assets

NEFCO's assets are reviewed annually for impairment. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets (Note 13).

## 1.20 Liabilities

Since 2017, NEFCO has on-lent funds from Nordic partners to projects in Ukraine and these loans are presented in both Loans outstanding and Liabilities. Liabilities are measured at amortised cost. NEFCO does not have risk of

default towards these lenders due to contractual terms. NEFCO has drawn from a loan agreement with a related party, the Nordic Investment Bank (Note 14).

## **1.21 Equity**

NEFCO's paid-in capital reached its full amount of EUR 113.4 million in 2007 (Note 15).

In addition, the Corporation accumulated until 2009 a reserve for investment/credit losses to cover the risk of losses on loans outstanding and investment assets. This reserve can be used to cover investment or credit losses arising during the Corporation's operations.

NEFCO's equity has included a provision for an Operational Fund to secure resources for the Corporation's development and for preparation of investment projects. As the Operational Fund is no longer needed due to the Corporation's operations' growth, the Board decided to close the Operational Fund during 2022 and the funds were transferred to Retained earnings.

## **1.22 Net interest income**

NEFCO's net interest income includes accrued interest on financial instruments less interest expenses on borrowing (Note 3). Net interest income is calculated based on the contractual terms and regarding financial instruments carried at amortised cost the effective interest rate (EIR) method is used.

## **1.23 Lending fee income**

Fees collected when signing loan agreements are recognised as income on accrual basis over the maturity of the loan. Also, other fees may be charged from borrowers and recognised as income at payment or accrual basis.

Prepayment fees may be charged when a prepayment is made and recognised as income at the time of the payment. These fees are recognised as income at payment.

Commitment fees are charged on loans that are agreed, but not yet disbursed and are accrued in the statement of comprehensive income over the commitment period (Note 5).

## **1.24 Trust fund income**

Trust fund income consists mainly of trust fund management fees. The performance obligations are earned over time (Note 6).

Trust funds are established in accordance with Section 3 of the Statutes of the Corporation and are administered under the terms governing each such trust fund. These trust funds may be investing funds or providing grant funds. Trust funds are primarily focused on project preparation, implementation and advisory and may be bilateral or multilateral in nature. Trust fund donors are countries or government owned entities. The resources provided to NEFCO through the contribution agreements are held separately from the Corporation's ordinary capital resources and are subject to external audit. Liquidity of trust funds is managed in accordance with NEFCO's Risk Policy. Management fees from trust funds are either periodised or paid as one-off fee, based on each trust fund agreement terms or anticipated agreement term. Costs are either carried by NEFCO or by the trust fund.



## 1.25 Administrative expenses

NEFCO purchases administrative services from a related party, the Nordic Investment Bank (NIB). The cost of these services is shown in Note 9.

The Corporation receives a host country reimbursement from the Finnish Government equal to the tax withheld from the salaries earned by its employees. The host country reimbursement is reported as a deduction from administrative expenses (Note 8).

## 1.26 Employee benefits

### Defined contribution plans

The Corporation is responsible for arranging pension security for its employees. In accordance with the Host Country Agreement between the Corporation and the Finnish Government and as part of the Corporation's pension arrangements, the Corporation has decided to apply the Finnish State pension system. Contributions to this pension system, which are paid into the Finnish State Pension Fund, are calculated as a percentage of salaries. The Finnish Ministry of Finance determines the basis for the contributions and establishes the actual percentage of the contributions in co-operation with the national government pension institution KEVA. See Note 7.

NEFCO also provides its permanent employees with a supplementary pension insurance scheme arranged by a private pension insurance company. This is a group pension insurance based on a defined contribution plan.

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as administrative expenses in profit or loss.

The Corporation has a Representative Office in Kyiv, Ukraine, with three employees whose contracts are based on the local terms of employment and health and safety regulations as defined under Ukrainian law.

## 1.27 Cash flow statement

The cash flow statement has been prepared using the indirect method whereby operating profit is adjusted for effects of non-cash transactions such as depreciation and loan losses. The cash flows are classified by operating, investing, and financing activities. Cash flow items cannot be directly determined from the statement of financial position.

Cash and cash equivalents in the cash flow statement refer to the net amount of monetary assets and placements with original maturities of three months or less, calculated from the time the transaction was entered into.

# 2 Management of financial risks by NEFCO

NEFCO has adopted a risk management policy that provides regulations for reporting and monitoring the risks associated with its operations, including regulations for possible future borrowing based on lending portfolio risk level. In accordance with the said regulations, the risk management process includes reporting of the portfolio four times per year, accompanied by country risk reports, to the Board of Directors. The goal is to provide an on-going assessment of the portfolio risk.

The purpose of NEFCO's operations is to provide risk capital and loans to finance investments that are of environmental interest to the Nordic countries. The geographical mandate is global but keeping Eastern Europe in

focus. The authorised capital is used to finance NEFCO's investments. In addition, NEFCO has a reserve for investment/credit losses comprising approximately 21.7% of the authorised capital. The main financial risks – credit risk, foreign exchange rate risk, interest rate risk, price risk, liquidity risk and operational risk – are carefully managed and risk management procedures are closely integrated into NEFCO's business routines.

## **2.1 Market risk**

### **Foreign exchange rate risk**

Outstanding loans are denominated in euros. Euro-denominated lending accounts for 100% of all outstanding loans.

A guarantee facility for the rouble-denominated loans has been available from the Nordic Environmental Development Fund (NMF) starting from 2012. As of 31 December 2022, the guarantee facility has been used to a total of EUR 47 thousand to cover the foreign exchange losses following the rouble's fall in value in 2014. Following a gain in the value in 2016, 2019 and 2021, repayments were made to replenish the guarantee. The utilised guarantee facility reduced NEFCO's foreign exchange losses in 2014 and foreign exchange gains in 2016, 2019 and 2021. In 2022 NEFCO decided to stop all further lending in Russia and therefore the guarantee coverage amount was reduced to EUR 0.3 million to cover possible exchange losses. The guarantee does not cover for other credit losses.

The foreign exchange rate risk in respect of other activities is insignificant.

### **Interest rate risk**

Interest rate risk refers to the effect of market rate fluctuations on the Corporation's interest-bearing assets and related interest income. The distribution of loans outstanding according to the length of the interest rate fixing period is indicated in Note 12.

The liquidity reserve of approximately EUR 56.1 million (2021: EUR 67.7 million) is primarily placed in large Nordic banks. A 0.5% fall in the annual interest rate would result in a reduction in earnings of around EUR 0.3 million (2021: EUR 0.3 million). Conversely, an increase in interest rates would have a positive impact on financial performance.

### **Price risk**

The price risk associated with NEFCO's equity investments is subjected to thorough examination before presentation to NEFCO's Board for an investment decision. The maximum price risk exposure at the balance sheet date consists of the investment assets totalling EUR 13.4 million (2021: EUR 15.3 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses. Equity investments account for 11.8% of the authorised capital (see Note 16).

### **Concentration risk**

Concentration risk associated with NEFCO's investments arises from investments being concentrated to, for example, a single counterparty, sector or country. Counterparty may also be a project sponsor (rather than individual customer). As environmental investor, there may be situations when a single sector is concentrated, and these are followed up on a case-by-case basis. NEFCO's exposure in Ukraine is relatively large, but within the limits of the Risk Policy. The exposure is mitigated by owner country guarantees and part of it is directly on-lent, where the risk of default is carried by the primary lender. Considerable impairments were made on the Ukrainian portfolio after Russia's invasion in 2022. All concentration risks are monitored on quarterly basis in the risk report presented to the Board of Directors.

## 2.2 Credit risk

The credit risk associated with NEFCO's lending is subjected to thorough examination before presentation to NEFCO's Board for a lending decision. The maximum credit risk exposure at the balance sheet date consists of the amounts outstanding for loans totalling EUR 55.9 million (2021: EUR 95.2 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses.

Credit risk constitutes NEFCO's main financial risk. It involves the risk that the Corporation's borrowers or other counterparties fail to fulfil their contractual undertakings and that the collateral provided as security does not cover the Corporation's claims. In accordance with NEFCO's mandate, all the Corporation's lending can be classified as high risk. The table below shows credit risk exposure by internal rating.

<b>Lending</b> (amounts in 1,000 EUR)	<b>2022</b>			<b>2021</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Very high risk	2,100	2,281	-	-	-	-
High risk	21,054	8,159	-	-	11,662	-
Medium risk	3,270	988	-	31,047	564	-
Low risk	2,062	11,613	-	49,744	3,065	-
Na.	-	5,872	-	480	-	-
<b>Total lending at amortised cost</b>	<b>28,486</b>	<b>28,912</b>	<b>-</b>	<b>81,271</b>	<b>15,291</b>	<b>-</b>

The main risk consists of lending to counterparties backed by lien or other security in property, which accounts for 41.0% of the authorised capital. A thorough distribution of collaterals is provided in Note 12.

## 2.3 Liquidity risk

The effective management of liquidity risk ensures that NEFCO can meet all its payment obligations as they mature. The cash, cash equivalents and placements with credit institutions (accounting for 49.5% of the authorised capital) consist mostly of euro-denominated deposits with Nordic banks placed for a period of one year or less. The deposits mature at regular intervals, guaranteeing access to funds when necessary.

## 2.4 Operational risk

Operational risk is the risk of financial loss or loss of reputation through shortcomings or failings relating to internal processes, human errors, data systems and external events. Legal risk is also considered an operational risk. NEFCO's management of operational risk is governed by internal instructions and focuses on proactive measures designed to ensure business continuity as well as the accuracy and appropriateness of internal and external information.

## 2.5 Internal Audit

The main responsibility of Internal Audit is to evaluate NEFCO's controls, risk management and governance processes. Internal Audit reports on a regular basis to NEFCO's Board of Directors and Control Committee. The annual internal audit activity plan is approved by the Board of Directors.

## 2.6 Capital management

NEFCO is not governed by any national or supranational regulations. The Corporation maintains an adequate capital base to cover the risks inherent in its lending and investment activities.

## 3 Net interest income

<b>Interest income</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Interest income, placements with credit institutions	-130	-315
Interest income, lending	7,558	7,078
<b>Interest income from financial assets held at amortised cost</b>	<b>7,428</b>	<b>6,763</b>
Interest income from financial assets held at fair value	261	144
<b>Interest income total</b>	<b>7,689</b>	<b>6,907</b>
Interest expense	-913	-862
<b>Net interest income</b>	<b>6,775</b>	<b>6,046</b>

## 4 Net result of financial operations

<b>Financial operations</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Investment assets, realised gains and losses	-	153
Other placements, realised gains and losses	-	-53
Other realised gains and losses	17	15
<b>Total realised gains and losses</b>	<b>17</b>	<b>115</b>
Investment assets, unrealised gains and losses	-4,437	962
Other placements, unrealised gains and losses	-	125
<b>Total unrealised gains and losses</b>	<b>-4,437</b>	<b>1,087</b>
Borrowing costs	-73	-123
Costs from other financial assets	-	8
Income from other financial assets	-	4
<b>Total costs and income from borrowing and other financial assets</b>	<b>-73</b>	<b>-111</b>
<b>Net result of financial operations</b>	<b>-4,493</b>	<b>1,091</b>

## 5 Lending fee income

<b>Lending fee income</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Commitment fees	213	337
Lending fee income	124	500
<b>Total lending fee income</b>	<b>337</b>	<b>838</b>

## 6 Trust fund income

<b>Trust fund income</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Trust fund management fees	3,109	3,815
Service fees	10	11
<b>Total trust fund income</b>	<b>3,120</b>	<b>3,826</b>

As at 31 December 2022 the Corporation administered 33 trust funds (2021: 37) with aggregate pledged contributions amounting to EUR 498 million (2021: EUR 361 million).

The Corporation acts as manager and administrator of the trust funds for which it receives management and cost recovery fees. In 2022 the trust fund management fees amounted to EUR 3,109 thousand (2021: EUR 3,815 thousand) as follows: Beyond the Grid Fund for Africa: EUR 920 thousand (2021: EUR 1,132 thousand), NMF: EUR 890 thousand (2021: EUR 862 thousand), Modern Cooking Facility for Africa: 26 thousand (2021: 462 thousand), Nopef: EUR 370 thousand (2021: EUR 300 thousand), NorCaP: EUR 0 (2021: EUR 193 thousand) and other trust funds: EUR 904 thousand (2021: EUR 867 thousand).

NEFCO has invested in NMF, see Note 11.

## 7 Compensations and benefits

### Compensation for the Board of Directors, Control Committee and Managing Director

The compensation paid to the Board of Directors and the Control Committee is determined by the Nordic Council of Ministers. Members of the Board of Directors and Control Committee are also entitled to reimbursement of travel and accommodation expenses and a daily allowance in accordance with the Corporation's travel regulations. The compensation paid to the Managing Director of the Corporation as determined annually by the Board of Directors consists of a basic salary and regular taxable benefits.

The Managing Director's pension benefits are based on the terms of the Finnish Public Sector Pensions Act and certain supplements.

The remuneration of the Board of Directors, Control Committee and Managing Director was as follows:

<b>Compensation/taxable income</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Chairman of the Board	4	4
Other Directors and Alternates	17	16
Managing Director	473	460
Control Committee	2	2

<b>Distribution by gender as at 31 Dec</b>	<b>2022</b>	<b>2021</b>
Board of Directors	10	10
Female	4	5
Male	6	5
Control Committee	6	6
Female	2	-
Male	4	6
Management Committee including the Managing Director	7	7
Female	2	2

NEFCO has issued a guarantee regarding one staff loan up to EUR 200 thousand for one member of the Management Committee. This guarantee covers also interest and any fees regarding this loan. The outstanding amount was EUR 146 thousand at 31.12.2022 (2021: EUR 159 thousand). There were no other advances, credits granted or any debt arrangements between the Corporation and the members of the Control Committee, the Board, the Managing Director or the Management Committee members, nor other commitments entered into by the Corporation on their behalf by way of guarantee of any kind.

### **Pension benefits**

NEFCO is responsible for arranging the pension security for its employees. The Finnish public sector pension system (JuEL Pension) forms the basis for the pension benefits. The JuEL Pension is calculated based on the employee's annual taxable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2022 was 17.66% (2021: 17.25%) of the pensionable income. The employee's pension contribution was either 7.15% or 8.65%, depending on the employee's age. NEFCO pays this contribution for its permanent staff, and it is taxed as a benefit for the employee. The pension is accounted for as a defined contribution plan. In addition to the JuEL Pension, the Corporation has taken out a supplementary group pension insurance policy for its entire permanently employed staff. The insurance premium, 6.5%, is calculated based on the employee's taxable income and paid until the age of individual retirement under the JuEL Pension, with an upper age limit of 65 years. The supplementary pension is also accounted for as a defined contribution plan. The employer's pension contribution regarding the Managing Director amounted to EUR 154 thousand (2021: EUR 148 thousand), of which EUR 44 thousand (2021: EUR 42 thousand) related to supplementary pension premiums. The corresponding figure for the Management Committee members was EUR 324 thousand (2021: EUR 240 thousand) of which EUR 67 thousand (2021: EUR 50 thousand) related to supplementary pension premiums. The Board of Directors and the Control Committee members are not eligible for NEFCO pension arrangements.

### **Insurances**

NEFCO has taken out several (both statutory and voluntary) insurance policies for its staff: unemployment insurance, group accident insurance, group life insurance, medical insurance and disability insurance. All personal insurance policies are valid for the total duration of employment (if not otherwise stated for the separate insurance alternatives). Longer periods of absence from work may interrupt the insurance coverage temporarily. Some of the insurances are available only to staff with a longer fixed term contract and permanently employed staff. The Board of Directors and Control Committee members are not under the coverage of the above-mentioned insurances.

### **Health care**

NEFCO has also arranged occupational health care for its staff through a private medical centre in Finland. NEFCO's medical insurance covers in addition use of other health care service providers if needed and it covers public sector health care services for more severe or complex medical treatment needs. The occupational health care benefit includes both preventive health care and wellbeing actions for staff and medical care. The Board of Directors and Control Committee members are not under the coverage of the health care benefit.

### **Additional expatriate benefits**

Professional staff (including Management Committee members) who move to Finland for the sole purpose of taking up employment with the Corporation are entitled to certain expatriate benefits, such as an expatriate allowance and a spouse/family allowance. In addition, NEFCO assists the expatriate in finding accommodation, usually by renting a house or a flat in its own name. The staff member reimburses the Corporation for a part of the rent, which is equal to at least the taxable value of the accommodation benefit established annually by the Finnish National Board of Taxes.

## Taxation and Host Country Reimbursement

According to an agreement between the Corporation's member countries, taxation of staff and Management Committee members salaries and taxable benefits and the Managing Director's remuneration, shall be taxed in the host country Finland in accordance with applicable Finnish taxation legislation.

According to the Host Country Agreement between the government of the Republic of Finland and the Corporation, the amount of tax withheld in advance on the salaries of the Corporation's staff and the final tax on salaries collected shall be reimbursed to the Corporation.

## 8 Administrative expenses

<b>Administrative expenses</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Staff costs	5,202	4,234
Pension premiums in accordance with the Finnish public sector pension system	1,231	992
Other pension premiums	316	291
Office premises expenses	178	133
Other administrative expenses	2,352	2,552
<b>Total administrative expenses <sup>1</sup></b>	<b>9,279</b>	<b>8,202</b>
Host country reimbursement according to agreement with the Finnish government <sup>2</sup>	-1,173	-1,205
<b>Net administrative expenses</b>	<b>8,106</b>	<b>6,997</b>

<b>Employees</b>	<b>2022</b>	<b>2021</b>
Number of employees as at 31 December	53	41
Average age of employees	44	45
Average period (years) of employment	8	9
Distribution by gender as at 31 December		
Female	34	26
Male	19	15

The number of employees in the table above includes all contracted employees. Permanent employees with contracts until further notice or fixed term contracts for at least 4 years amounted to 43 (2021: 38). Employees on substitute contracts, fixed term contracts less than four years and temporary contracts amounted to 10 (2021: 3).

In 2022, auditors' fees amounted to EUR 39 thousand (2021: EUR 42 thousand), including audit fees related to trust funds under administration by NEFCO.

<sup>1</sup> The Corporation's administrative expenses include the administrative expenses for administered trust funds, such as Beyond the Grid Fund for Africa, NMF and Modern Cooking Facility for Africa.

<sup>2</sup> In 2021 the refund is based on salaries in 2019 and in 2022 the refund is based on salaries in 2020.



## 9 Related party disclosures

The Statutes of NEFCO require it to have the same Nordic Control Committee members with NIB. Control Committee is responsible for the audit of NEFCO. The powers vested in NEFCO's Board of Directors may, to the extent considered appropriate, be delegated to the Managing Director of NEFCO. NEFCO is required to have its principal office located in the principal office of NIB.

NEFCO acquires services from and enters into transactions with NIB. The table below shows the outstanding balance of NEFCO's receivables from and amounts owed to NIB. At 31 December 2022, NEFCO has agreed on undrawn borrowing totalling at EUR 29.0 million (2021: EUR 54.0 million). NEFCO's key employees are also considered related parties. Information regarding key employees is presented in Note 7.

(Amounts in EUR 1,000)	Borrowing fees paid to NIB	Interest paid to NIB	Rents paid to NIB	Service fee paid to NIB	Amounts owed by NEFCO to NIB	Amounts owed by NIB to NEFCO
2022	73	10	396	862	1,056	-
2021	123	1	274	1,057	1,005	7

## 10 Investment assets

The Corporation's portfolio comprised the following holdings as at 31 December 2022:

Holding	Country/region of operation	% of total capital of the investment company
BaltCap Infrastructure Fund	Baltics	2.9
BaltCap Private Equity Fund III	Baltics	3.3
Bank Lviv PJSCJSCB	Ukraine	13.9
Blue Circle SIA	Latvia	19.5
Carbon Recycling International	China	3.3
FlyCap Mezzanine Fund II	Baltics	4.7
GreenStream Network Ltd	China	23.7
Halychyna-Zahid LLC	Ukraine	5.6
Rindibel JCJSC	Belarus	38.6
Taaleri SolarWind II Fund	Eastern Europe	6.9
Valoe Oyj	Lithuania	5.9
Korkia Oy (convertible bond)	Chile	Na.

Voting rights correspond to percentage of total capital of the investment company.

The acquisition cost of the investment assets was EUR 19.3 million (2021: EUR 16.8 million) while the fair value was EUR 13.4 million (2021: EUR 15.3 million).

At 31 December 2022, the agreed but not disbursed capital commitments for investment assets totalled EUR 4.0 million (2021: EUR 7.0 million).

## 11 Other placements

During 2011–2013, NEFCO invested a total of EUR 5.3 million in the Nordic Environmental Development Fund (NMF). Investment in the NMF is not financially profitable and the fair value is assessed therefore to be EUR 0. While the investment in NMF does not yield any financial profit, it contributes to NEFCO's investment activities. The investment in NMF falls in the Level 3 category in the fair value hierarchy.

## 12 Loans outstanding

At 31 December 2022, NEFCO had 67 loans outstanding amounting to EUR 108.4 million, which has been impaired for Expected Credit Losses (ECL) to 55.9 million (in 2021 EUR 103.8 million, which was impaired for ECL to EUR 95.2 million).

The following tables show net lending after deductions for ECL of EUR 52.1 million (2021: EUR 8.7 million).

The below table shows what net effect the impairments had on the result in each year.

<b>Impairment of loans/reversals in the statement of comprehensive income</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Realised credit losses	-21	-149
Expected Credit Losses (ECL), net	-50,579	-1,429
<b>Total impairment of loans/reversals</b>	<b>-50,558</b>	<b>-1,578</b>

Loans outstanding classified in stages according to ECL method.

<b>Loans outstanding</b> (Amounts in EUR 1,000)	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Exposure at 31 December 2020</b>	<b>91,561</b>	<b>15,291</b>	<b>-</b>	<b>106,852</b>
Transfer to Stage 1	4,200	-4,200	-	-
Transfer to Stage 2	-12,720	12,720	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-19,072	-3,721	-	-22,794
Disbursements and capitalisations	19,524	216	-	19,739
Remeasurements and FX changes	-2,520	2,532	-	12
<b>Exposure at 31 December 2021</b>	<b>80,971</b>	<b>22,838</b>	<b>-</b>	<b>103,809</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-58,735	58,735	-	-
Transfer to Stage 3	-6,668	-8,208	14,876	-
Repayments	-10,205	-9,232	-3,313	-22,751
Disbursements and capitalisations	23,123	4,248	17	27,388
Remeasurements and FX changes	-	-	-	-
<b>Exposure at 31 December 2022</b>	<b>28,486</b>	<b>68,381</b>	<b>11,579</b>	<b>108,446</b>

Total ECL at 31 December 2022 amounted to EUR 52.1 million (2021: EUR 8.7 million) and is disclosed in loans outstanding. ECLs on other assets were considered not material.

The Corporation defines “forbearance” as a concession granted to a counterparty for reasons of financial difficulties, i.e., a concession that would not otherwise be considered by the lender. Forbearance recognition is not limited to measures that give rise to a loss for the lender. Modification of the terms and conditions of the contract may include, for example, reduction of the interest rate, principal or accrued interest, or rescheduling of the payment dates of

principal and/or interest and has an actual effect on the future cash flows. Loan forbearance is granted on a selective basis and purposefully to avoid counterparty default in favour of the Corporation's collection opportunities.

At 31 December 2022, loans were moved to Stage 2 amounting to EUR 58.7 million (2021: 12.7 million) and to Stage 3 amounting to EUR 14.9 million (2021: EUR 0 million). ECL provision for Stage 2 loans totalled at EUR 40.5 million (2021: EUR 7.6 million) and for Stage 3 loans totalled at EUR 11.6 million (2021: EUR 0 million). ECL provision has also been calculated for loan commitments (2022 and 2021: EUR 0.0 million).

Impairments according to ECL stages and individually or collectively impaired.

<b>Expected Credit Loss (ECL) (Amounts in EUR 1,000)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>ECL at 31 December 2020</b>	<b>1,714</b>	<b>5,511</b>	<b>-</b>	<b>7,225</b>
Transfer to Stage 1	990	-990	-	-
Transfer to Stage 2	-154	154	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-250	-623	-	-873
Disbursements and capitalisations	53	0	-	53
Remeasurements and FX changes	-1,314	3,562	-	2,249
<b>ECL at 31 December 2021</b>	<b>1,039</b>	<b>7,614</b>	<b>-</b>	<b>8,654</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-731	731	-	-
Transfer to Stage 3	-123	-2,181	2,304	-
Repayments	-158	-118	-54	-330
Disbursements and capitalisations	0	115	0	115
Remeasurements and FX changes	0	34,340	9,329	43,669
<b>ECL at 31 December 2022</b>	<b>27</b>	<b>40,502</b>	<b>11,579</b>	<b>52,108</b>

Non-performing loans at 31 December 2022 amounted to EUR 6 million before impairments (2021: EUR 0). These loans have been impaired in full.

Of the loans, 58 are floating-rate loans. Such loans account for 77.1% of the total loan portfolio. Six loans accounting for 13.5% of the total loan portfolio have fixed interest rates. In addition, three loans have fixed and floating mechanisms in different tranches, accounting for 9.4% of the total loan portfolio.

Interest rate risk describes how movements in market interest rates affect the value of NEFCO's interest-bearing assets and liabilities, as well as interest income and expenses. The table below shows the interest rate profile for loans outstanding. Loans outstanding are broken down by repayments or interest adjustment date.

<b>Loans outstanding (Amounts in EUR 1,000)</b>	<b>2022</b>	<b>2021</b>
Up to and including 3 months	47,950	22,118
3–6 months	38,922	30,451
6–12 months	-	15,992
1–5 years	10,472	31,764
over 5 years	11,102	3,484
<b>Total loans outstanding</b>	<b>108,446</b>	<b>103,809</b>
Expected Credit Loss	-52,108	-8,654
Fee Accrual	-407	-
<b>Exposure at 31 December</b>	<b>55,931</b>	<b>95,156</b>

The maturities of the loans extended by the Corporation vary from below one to 11 years.

Lending by country of borrower at 31 December:

<b>Country</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Belarus	2,432	3,856
Denmark*	14,128	5,411
Finland*	13,304	8,702
Georgia	1,963	2,209
Germany*	-	6,578
Iceland*	3,546	1,327
Latvia	850	850
Norway*	525	675
Russia	-	247
Sweden*	10,444	3,212
Ukraine	61,255	70,743
<b>Total loans outstanding</b>	<b>108,446</b>	<b>103,809</b>
Expected Credit Loss	-52,108	-8,654
Fee Accrual	-407	-
<b>Exposure at 31 December</b>	<b>55,931</b>	<b>95,156</b>

\* Majority of loans to countries marked with asterisk are channelled by borrowers to the borrower's countries of operation.

Lending by currency:

<b>Currency</b> (Amounts in EUR 1,000)	<b>2022</b>		<b>2021</b>	
	<b>Amount</b>	<b>Share %</b>	<b>Amount</b>	<b>Share %</b>
EUR	108,446	100.0	103,563	99.8
RUB	-	-	247	0.2
<b>Total loans outstanding</b>	<b>108,446</b>	<b>100.0</b>	<b>103,809</b>	<b>100.0</b>
Expected Credit Loss	-52,108		-8,654	
Fee Accrual	-407		-	
<b>Exposure at 31 December</b>	<b>55,931</b>		<b>95,156</b>	

Loans outstanding by type of security at 31 December:

<b>Security</b> (Amounts in EUR 1,000)	<b>2022</b>		<b>2021</b>	
	<b>Amount</b>	<b>Share %</b>	<b>Amount</b>	<b>Share %</b>
Loans guaranteed by member countries	9,357	8.6	12,379	11.9
Loans to or guaranteed by other countries	2,163	2.0	2,409	2.3
Loans to or guaranteed by banks	12,250	11.3	13,583	13.1
Loans backed by security in property	46,535	42.9	42,489	40.9
Loans with negative pledge clause and other covenants	26,626	24.6	21,128	20.4
Loans guaranteed by parent companies and other guarantees	5,242	4.8	5,133	4.9
Loans without formal security	6,272	5.8	6,689	6.4
<b>Total loans outstanding</b>	<b>108,446</b>	<b>100.0</b>	<b>103,809</b>	<b>100.0</b>
Expected Credit Loss	-52,108		-8,654	
Fee Accrual	-407		-	
<b>Exposure at 31 December</b>	<b>55,931</b>		<b>95,156</b>	

At 31 December 2022, the loans agreed, but not yet disbursed, totalled EUR 50.9 million (2021: EUR 76.0 million). In principle, all borrowers could request disbursement within three months but NEFCO does not disburse loans until the specified conditions precedent for disbursement are met (this period for current portfolio extends up to 2 years). NEFCO has the capacity to make all disbursements.

## 13 Intangible and tangible assets

Intangible assets comprise of the right-of-use assets relating to lease agreements for the office premises in Helsinki. The amount at the end of 2022 is EUR 2.4 million (2021: EUR 1.0 million). New office space was taken into use during 2022.

<b>Right of use assets</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
As at 1 January	927	1,205
Depreciation expense	-351	-266
Remeasurement (change in lease payment)	1,800	-12
<b>As at 31 December</b>	<b>2,376</b>	<b>927</b>

<b>Lease liabilities</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
As at 1 January	-948	-1,227
Interest expense	-10	-5
Rental payments	343	272
Remeasurement (change in lease payment)	-1,800	12
<b>As at 31 December</b>	<b>-2,415</b>	<b>-948</b>

<b>Tangible assets</b> (Amounts in EUR 1,000)	<b>2022</b>	<b>2021</b>
Acquisition value 1.1	177	133
Acquisition during the year	677	43
Acquisition value 31.12	854	177
Accumulated depreciation 1.1	141	133
Depreciation according to plan for the year	40	8
Accumulated depreciation 31.12	181	141
<b>Net book value</b>	<b>673</b>	<b>36</b>

## 14 Liabilities

At 31 December 2022, NEFCO had EUR 6.8 million outstanding of liabilities (2021: EUR 7.3 million). Majority of the amount had directly been lent on to NEFCO's borrowers and there is no risk of default by NEFCO towards lenders, as NEFCO is obliged to repay only after NEFCO's borrower repays. EUR 1.0 million of the amount is not on-lent (2021: EUR 1.0 million). Borrowing is denominated in euros at either fixed interest or tied to 6-month Euribor.

At 31 December 2022, NEFCO has agreed on undrawn borrowing totalling at EUR 29.0 million (2021: EUR 54 million).

## 15 Paid-in capital

NEFCO's paid-in capital reached its full amount of EUR 113.4 million in 2007. The breakdown of the paid-in capital by member country is as follows:

<b>Paid-in capital</b> (Amounts in EUR 1,000)		Share %
Denmark	21,561	19.0
Finland	22,265	19.6
Iceland	1,320	1.2
Norway	24,195	21.3
Sweden	44,070	38.9
<b>Total authorised capital</b>	<b>113,407</b>	<b>100.0</b>

## 16 Fair value of financial instruments

The table below shows the classification of financial instruments held at amortised cost or mandatory classification of financial instruments held at fair value at the end of the year.

<b>Classification of financial instruments</b> (Amounts in EUR 1,000)	<b>Amortised cost</b>	<b>2022 Fair value through profit and loss</b>	<b>Total</b>	<b>Amortised cost</b>	<b>2021 Fair value through profit and loss</b>	<b>Total</b>
<b>Financial Assets</b>						
Cash and cash equivalents	30,857	-	30,857	65,701	-	65,701
Placements with credit institutions	25,242	-	25,242	1,990	-	1,990
Investment assets	-	13,427	13,427	-	15,320	15,320
Other placements	-	0	0	-	0	0
Loans outstanding	55,931	-	55,931	95,156	-	95,156
Other receivables	1,143	-	1,143	286	-	286
Accrued interest income	3,763	-	3,763	4,923	-	4,923
<b>Total</b>	<b>116,936</b>	<b>13,427</b>	<b>130,363</b>	<b>168,056</b>	<b>15,320</b>	<b>183,376</b>
<b>Financial Liabilities</b>						
Long-term debt	6,826	-	6,826	7,343	-	7,343
Other liabilities	4,425	-	4,425	2,304	-	2,304
Accrued interest expense	2,909	-	2,909	2,135	-	2,135
<b>Total</b>	<b>14,159</b>	<b>-</b>	<b>14,159</b>	<b>11,781</b>	<b>-</b>	<b>11,781</b>

The following table provides an analysis of the fair value of financial instruments according to the fair value hierarchy at the end of the year. In calculating fair value of loans outstanding for 31.12.2022, €STR rate has been used (1.89%; 2021: -0.59%).

<b>Fair value of financial instruments</b> (Amounts in EUR 1,000)	<b>Carrying amount</b>	<b>2022 Fair Value</b>	<b>Carrying amount</b>	<b>2021 Fair Value</b>
<b>Financial Assets</b>				
Cash and cash equivalents	30,857	30,857	65,701	65,701
Placements with credit institutions	25,242	25,242	1,990	1,990
Investment assets	13,427	13,427	15,320	15,320
Other placements	0	0	0	0
Loans outstanding	55,931	54,982	95,156	95,468
Other receivables	1,143	1,143	286	286
Accrued interest income	3,763	3,763	4,923	4,923
<b>Total</b>	<b>130,363</b>	<b>129,414</b>	<b>183,376</b>	<b>183,688</b>
<b>Financial Liabilities</b>				
Long-term debt	6,826	6,711	7,343	7,397

Other liabilities	4,425	4,425	2,304	2,304
Accrued interest expense	2,909	2,909	2,135	2,135
<b>Total</b>	<b>14,159</b>	<b>14,044</b>	<b>11,781</b>	<b>11,835</b>

The following table provides an analysis of the fair value of financial instruments at the end of the year broken down by the applicable Level in the fair value hierarchy.

Level of fair value of financial instruments (Amounts in EUR 1,000)	2022			2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial Assets</b>						
Cash and cash equivalents	30,857	-	-	65,701	-	-
Placements with credit institutions	-	25,242	-	-	1,990	-
Investment assets	735	8,614	4,078	1,690	5,364	8,266
Other placements	-	-	0	-	-	0
Loans outstanding	-	54,982	-	-	95,468	-
Other receivables	-	1,143	-	-	286	-
Accrued interest income	-	3,763	-	-	4,923	-
<b>Total</b>	<b>31,592</b>	<b>93,744</b>	<b>4,078</b>	<b>67,391</b>	<b>108,031</b>	<b>8,266</b>
<b>Financial Liabilities</b>						
Long-term debt	-	6,711	-	-	7,397	-
Other liabilities	-	4,425	-	-	2,304	-
Accrued interest expense	-	2,909	-	-	2,135	-
<b>Total</b>	<b>-</b>	<b>14,044</b>	<b>-</b>	<b>-</b>	<b>11,835</b>	<b>-</b>

Level 1 refers to market prices quoted in an active marketplace.

Level 2 refers to observable data other than Level 1 market prices.

Level 3 refers to information based on other than directly observable data.

The following table provides an analysis of the changes in the fair value of Level 3 investment assets and other placements.

Changes in fair values categorised at level 3 (Amounts in EUR 1,000)	Loans outstanding	Investment assets	Other placements	Level 3, total
<b>31 December 2020</b>	<b>99,627</b>	<b>5,553</b>	<b>15</b>	<b>105,195</b>
Investments during the year	-	5,944	-	5,944
Divestments during the year	-	-3,341	-15	-3,355
Change in value <sup>3</sup>	-	110	-	110
Reassignment from/to Level 3	-99,627	-	-	-99,627
<b>31 December 2021</b>	<b>-</b>	<b>8,266</b>	<b>0</b>	<b>8,266</b>
Investments during the year	-	-	-	-
Divestments during the year	-	-	-	-
Change in value	-	-4,152	-	-4,152
Reassignment from/to Level 3	-	-36	-	-36
<b>31 December 2022</b>	<b>-</b>	<b>4,078</b>	<b>0</b>	<b>4,078</b>

## Sensitivity analysis

In the assessment of NEFCO's Level 3 assets, due consideration must be given to the inherent nature of the investments and the form of NEFCO's involvement. The investments – normally made in recently established entities – are assessed at fair value. NEFCO pursues an exit strategy requiring that the invested capital is recovered in its entirety at a reasonable interest. Typically, new investment involves an exit agreement with the majority investor (or

<sup>3</sup> This line corresponds to the effect on profit and loss



project developer) setting out the conditions for NEFCO's withdrawal from the company. At a later stage, the companies are evaluated in terms of their financial performance in accordance with the exit agreement when exit is impending.

A sensitivity analysis is difficult to carry out because normally there is no active market for these shares. Potentially highest or lowest value is established by the historical return on the portfolio. The average historical rate of return on completed projects is around 71% and losses have been posted for around 37% of the investments. A 71% increase in the value of the existing portfolio would add EUR 2.9 million (2021: EUR 5.9 million) to the financial result whereas a loss of 37% would have a negative impact of EUR 1.5 million (2021: EUR 3.1 million).

## **17 Maturity profile of financial assets and liabilities**

The following table provides an analysis of the maturity of financial assets and liabilities at the end of the year.

<b>2022</b> (Amounts in EUR 1,000)	<b>Carrying amount</b>	<b>Contract ual cash flow</b>	<b>Up to and incl. 3 months</b>	<b>Over 3 months and up to and incl. 6 months</b>	<b>Over 6 months and up to and incl. 1 year</b>	<b>Over 1 year and up to and incl. 5 years</b>	<b>Over 5 years</b>	<b>Undefined</b>
<b>Financial Assets</b>								
Cash and cash equivalents	30,857	30,857	30,857	-	-	-	-	-
Placements with credit institutions	25,242	25,504	3,005	8,047	11,209	-	-	3,242
Investment assets	13,427	13,497	699	70	-	1,036	11,692	-
Other placements	0	0	-	-	-	-	-	0
Loans outstanding	55,931	121,882	12,409	5,755	8,395	81,374	13,950	-
Other receivables	1,143	4,670	4,670	-	-	-	-	-
<b>Total</b>	<b>126,600</b>	<b>196,410</b>	<b>51,640</b>	<b>13,872</b>	<b>19,604</b>	<b>82,410</b>	<b>25,642</b>	<b>2,835</b>
<b>Financial Liabilities</b>								
Long-term debt	6,826	10,588	5,125	-	676	4,287	500	-
Other liabilities	4,425	4,223	1,709	172	344	1,342	656	-
<b>Total</b>	<b>11,251</b>	<b>14,811</b>	<b>6,834</b>	<b>172</b>	<b>1,020</b>	<b>5,629</b>	<b>1,156</b>	<b>-</b>
<b>Net during the period</b>	<b>115,349</b>	<b>181,600</b>	<b>44,806</b>	<b>13,700</b>	<b>18,584</b>	<b>76,781</b>	<b>24,485</b>	<b>2,835</b>
Loans agreed but not yet disbursed	50,937	50,937	-	-	-	-	-	50,937
Investment assets agreed but not yet disbursed	4,039	4,039	-	-	-	-	-	4,039
Borrowing agreed but not yet drawn	29,000	29,000	-	-	-	-	-	29,000

2021 (Amounts in EUR 1,000)	Carrying amount	Contract ual cash flow	Up to and incl. 3 months	Over 3 months and up to and incl. 6 months	Over 6 months and up to and incl. 1 year	Over 1 year and up to and incl. 5 years	Over 5 years	Undefin ed
<b>Financial Assets</b>								
Cash and cash equivalents	65,701	65,701	65,701	-	-	-	-	-
Placements with credit institutions	1,990	1,990	-	-	-	-	-	1,990
Investment assets	15,320	15,320	2,830	-	-	1,072	8,442	2,976
Other placements	0	0	-	-	-	-	-	0
Loans outstanding	95,156	114,528	10,202	6,335	14,790	69,120	14,081	-
Other receivables	286	286	286	-	-	-	-	-
<b>Total</b>	<b>178,453</b>	<b>197,825</b>	<b>79,019</b>	<b>6,335</b>	<b>14,790</b>	<b>70,193</b>	<b>22,523</b>	<b>4,965</b>
<b>Financial Liabilities</b>								
Long-term debt	7,343	10,634	3,780	-	690	5,028	1,137	-
Other liabilities	2,304	2,309	1,107	140	281	781	-	-
<b>Total</b>	<b>9,646</b>	<b>12,942</b>	<b>4,886</b>	<b>140</b>	<b>971</b>	<b>5,809</b>	<b>1,137</b>	<b>-</b>
<b>Net during the period</b>	<b>168,806</b>	<b>184,882</b>	<b>74,133</b>	<b>6,194</b>	<b>13,819</b>	<b>64,384</b>	<b>21,387</b>	<b>4,965</b>
Loans agreed but not yet disbursed	75,956	75,956	-	-	-	-	-	75,956
Investment assets agreed but not yet disbursed	6,976	6,976	-	-	-	-	-	6,976
Borrowing agreed but not yet drawn	54,000	54,000	-	-	-	-	-	54,000

At 31 December 2022, EUR 3.2 million (2021: EUR 2.0 million) was pledged as collateral for the staff loans and is shown above as placements with credit institutions.

## 18 Exchange rates

The following exchange rates were used to convert monetary assets and liabilities from foreign currency into domestic currency:

		EUR rate 31.12.22	EUR rate 31.12.21
BYN	Belarussian rouble	2.6684	Na.
DKK	Danish krone	7.43643	7.43631
GBP	British pound	0.88738	0.84007
NOK	Norwegian krone	10.51846	9.98652
RUB	Russian rouble	77.9073	85.3551
SEK	Swedish krona	11.11912	10.25463
UAH	Ukrainian hryvnia	39.41148	30.92084
USD	US dollar	1.06733	1.13257

## 19 Post balance sheet events

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements.

## SIGNATURES

## ALLEKIRJOITUKSET

## UNDERSKRIFTER

## SIGNATURER

## UNDERSKRIFTER

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Saija Vuola - saija.vuola@gov.fi - 46.30.132.244

94ea31e7-e51b-44c2-a6cc-02a3ee9ab8c4 - 2023-02-22 16:41:03 UTC +02:00

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2c0588b7-6656-426a-bc6a-4ea29de2b9e1 - 2023-02-22 17:52:27 UTC +02:00

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cea7b3fe-5c76-4139-98cc-14918242b2f4 - 2023-02-22 20:23:34 UTC +02:00

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custodial

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huoltaja/edunvalvoja

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autoritet til å signere

representant

foresatte/verge

myndighed til at underskrive

repræsentant

frihedsberøvende

# Auditor's report

To the Control Committee of the Nordic Environment Finance Corporation

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Nordic Environment Finance Corporation (the Corporation) which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements present fairly, in all material respects, the Nordic Environment Finance Corporation's financial position as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Corporation in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Information than the Annual Accounts*

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the Report of the Board and the Annual Impact Report 2022, but does not include the financial statements and our auditor's report thereon. We have obtained the Report of the Board and the Annual Impact Report 2022.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In our opinion, the information in the Report of the Board and in the Annual Impact Report 2022 is consistent with the information in the financial statements.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Corporation's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained,



whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other requirements

### *Opinion*

In addition to our audit of the financial statements, we have also audited the administration of the Board of Directors and the Managing Director of the Nordic Environment Finance Corporation for the year 2022 in accordance with the Terms of the Engagement. In our opinion the administration of the Board of Directors and the Managing Director, in all material aspects, complied with the Statutes of the Corporation.

### *Basis for Opinion*

We conducted the audit in accordance with generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the Corporation in accordance with professional ethics for accountants and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### *Responsibilities of the Board of Directors and the Managing Director*

All the powers of the Corporation shall be vested in the Board, which may, to the extent considered appropriate to the Managing Director and/or to the Nordic Investment Bank based on Section 7 of the Statutes.

The Managing Director is responsible for the conduct of the operations of the Corporation and shall follow the guidelines and instructions issued by the Board of Directors.

### *Auditor's Responsibilities*

Our objective concerning the audit of whether the Board of Directors and the Managing Director's administration have complied with the Statutes of the Corporation, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect has acted in contravention of the Statutes.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect actions or omissions that can give rise to liability to the Corporation.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Corporation's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

Helsinki, 23 February 2023

Ernst & Young Oy  
Authorized Public  
Accountant Firm



Terhi Mäkinen  
Authorized Public  
Accountant

Ernst & Young AB  
Authorized Public  
Accountant Firm



Mona Alfredsson  
Authorized Public  
Accountant



# Statement by the Control Committee of the Nordic Environment Finance Corporation on the audit of the administration and accounts of the Corporation

To the Nordic Council of Ministers

In accordance with section 9 of the Statutes of the Nordic Environment Finance Corporation, we have been appointed to ensure that the operations of the Corporation are conducted in accordance with the Statutes and to bear responsibility for the audit of the Corporation. Having completed our assignment for the year 2022, we hereby submit the following report.

The Control Committee met during the financial year as well as after the Corporation's financial statements had been prepared, whereupon the necessary control and examination measures were performed. The Corporation's Annual Report was examined at a meeting in Helsinki on 23 February 2023, at which time we also received the Auditors' Report submitted on 23 February 2023 by the authorised public accountants appointed by the Control Committee.

Following the audit performed, we note that:

— the Corporation's operations during the financial year have been conducted in accordance with the Statutes, and that

— the financial statements, which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, are prepared in all material respects in accordance with the accounting principles described in the notes to the financial statements. The financial statements show a loss of EUR 53,305,027.98.

We recommend to the Nordic Council of Ministers that:

— the result for year 2022 will be treated as proposed by the Board of Directors,

— the statement of comprehensive income and the statement of financial position will be adopted, and

— the Board of Directors and Managing Director will be discharged from liability for the administration of the Corporation's operations during the accounting period examined by us.

Helsinki 23 February 2023

Jan-Erik Enestam  
Chairman

Johan Andersson

Vilhjálmur Árnason

Heli Järvinen

Sjúrður Skaale

May Britt Lagesen

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