

Nefco Annual Report 2023

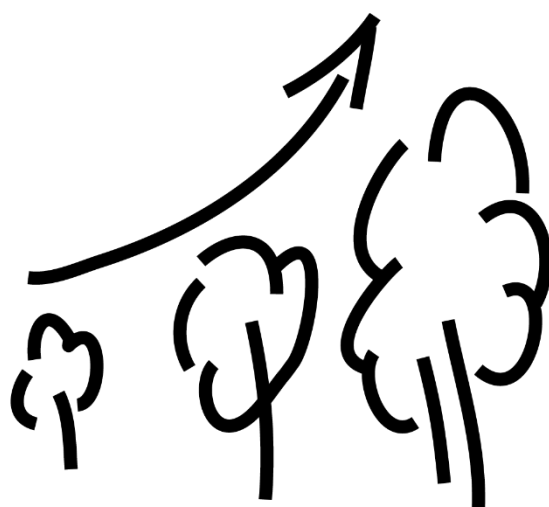


Nefco Annual Report 2023

- I. Report of the Board
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Auditor's Report

Statement by Control Committee



Report of the Board 2023

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1. Summary

Nefco is an international financial institution (IFI) founded in 1990 by the five Nordic countries, Denmark, Finland, Iceland, Norway and Sweden. Nefco's task is to accelerate the green transition by financing the initial scale-up of Nordic green solutions globally. Nefco's investments encompass a wide scope, from renewable energy and circular economy to pollution prevention and protection of biodiversity.

As the Nordic Green Bank, Nefco can take greater financial risks than traditional financial institutions – if and when there is a green upside. By providing debt financing when commercial banks cannot accept the risk, Nefco fills a critical financing gap and helps companies grow faster than they otherwise would. One of its key objectives is to make green projects and companies bankable (likely to be profitable and able to attract further financing), mobilising other investors and private sector financiers.

Therefore, Nefco 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 support their growth and contribution to the green transition. Nefco is also seeking to maintain its position in Eastern Europe, helping to accelerate the green transition in the region, with particular focus on supporting Ukraine to “build back greener and better” (as used by the EU). In addition, in its Special Funds unit Nefco seeks 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.

The results of Nefco's operations for the 2023 financial year were positive, and cash inflows were higher than expected. Nefco received significant earnings from interest and substantial reversals from Eastern Europe (mainly Ukraine), with previously impaired outstanding loans repaid and prepaid.

Increased lending to Nordic small and medium-sized enterprises (SMEs) has contributed to higher earnings from interest compared to 2022. The Board approved ten new SME investments in 2023 with a total value of EUR 27.8 million.

Mitigating biodiversity loss and promoting nature-based solutions is a top priority for the Nordic countries. During 2023, Nefco's Biodiversity Pilot Programme for Nordic SMEs continued to receive positive response from participating companies.

In Eastern Europe, the main focus has been on the Green Recovery Programme for Ukraine. The multi-donor programme had attracted EUR 290 million in trust funds from the European Union and the Nordic governments by the end of 2023, and 40 recovery projects are currently ongoing.

At the end of 2023, Nefco had a total of 324 active projects in its portfolio. Of these, 83 were investments made from its own capital and 241 were trust fund projects.

The Nordic region shares a common ambition to be a global frontrunner in the green transition and sustainability and to increase the competitiveness of Nordic businesses, promote action on biodiversity and contribute to the Sustainable Development Goals (SDGs). Nordic cooperation is essential, not only for the region itself but also Europe and the rest of the world. As a green financier filling a critical financing gap, Nefco's role in accelerating the green transition is more important than ever.

2. Environmental, social and governance summary

Climate change mitigation and adaptation, pollution reduction and biodiversity are the cornerstones of Nefco's financing.

Since 2022, Nefco has actively applied the EU Taxonomy for sustainable activities for evaluating investments in accordance with Eligibility, Substantial Contribution criteria (SC), Do No Significant Harm criteria (DNSH) and Minimum Social Safeguards criteria (MSS). According to an assessment of Nefco's investments as of 2022, and using the objectives defined before November 2023 (Climate Change Mitigation and Adaptation), 71% are EU Taxonomy eligible (detailed information in Impact report chapter 3.2 EU taxonomy eligibility and alignment).

New investments and trust fund projects are diversified across a wide range of sectors, but the emphasis continues to be on solutions in the energy, construction and real estate, water supply and waste management, and manufacturing and transport sectors, with climate change mitigation as the main driver. There has also been an increase in investments for solutions related to sustainable use and protection of water and marine resources, as well as pollution prevention and control.

More information about environmental, social and governance -related topics, including a Taxonomy-related portfolio analysis, the status of the Biodiversity Pilot Programme and overall results and impact, can be found in *Other information: Annual Impact Report 2023*.

3. Financial summary

Nefco can invest its capital, which form the base of the Investment Fund (*see Nefco's own investments*), in green economic activities on market terms through loan and equity-type financing. Investments were initially limited to private and public projects in Eastern Europe, but since 2019, Nefco has been financing investments by Nordic SMEs globally. The Nefco Board approves investments based on the recommendations of Nefco's Investment Committee.

Nefco also manages several trust funds (*see Nefco's Trust Fund management*) for various donors and acts as an implementing agency for several multinational partnerships. These initiatives provide grants, conditional or soft loans or results-based grant financing to support feasibility studies and green pilot projects, green recovery projects in Ukraine, clean energy businesses in Africa, projects aimed at improving the state of the Baltic Sea, and capacity building. Proposals for projects to be financed through trust funds are made by the Trust Fund Investment Committee, often preceded or followed by a specific donor decision based on Nefco's recommendations.

Each trust fund is a separate entity with its own financial report, which is provided separately to the respective trust fund owners. Nefco's financial report includes only the trust fund management fee it receives from the various trust funds; it does not include details on trust funds' capital and financial operations.

To provide a comprehensive overview of all of Nefco's operations, this section summarises all financing activities, including those related to Nefco's own investments and trust funds managed by Nefco.

Figure 2: Nefco's own capital and Trust Funds

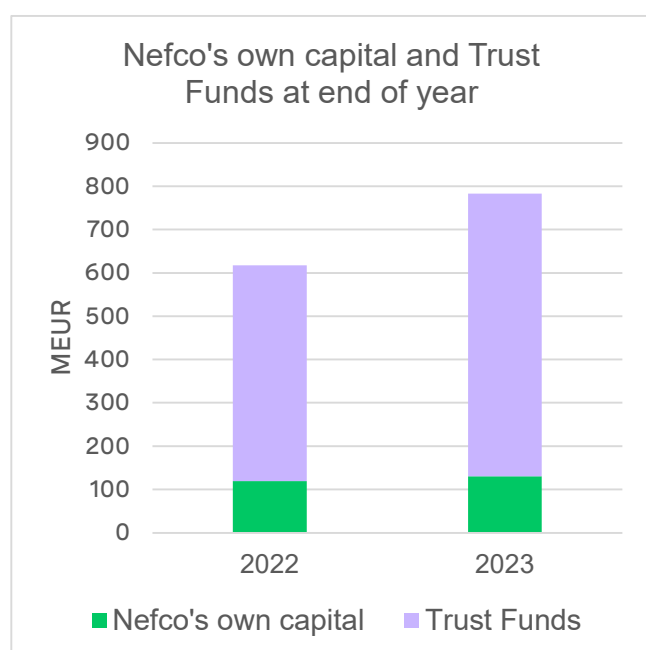


Figure 1: Funds committed to the active portfolio of the business units



3.1. Nefco's own investments

Nefco invests its own capital on market terms in the form of loans or equity investments. The paid-in capital reached its full amount of EUR 113.4 million in 2007. At the beginning of 2023, Nefco's own capital amounted to EUR 119.3 million and at the end of the year EUR 130.0 million, mainly due to repayments of Ukrainian investments written down during the previous year. The result for the 2023 financial year was EUR 10.8 million (2022: EUR -53.3 million), whereof net interest income totalled EUR 10.9 million (2022: EUR 6.8 million).

Investment portfolio and disbursed funds

At the end of 2023, Nefco had 83 active investments, with a total of EUR 205.2 million in committed (agreed amount, may be partly or fully disbursed) funds (2022: EUR 214.8 million, 78 projects) in the portfolios of Nordic SMEs and Eastern Europe.

During 2023, the Board approved ten new investments, all with Nordic SMEs, for EUR 27.9 million (2022: 14 investments for EUR 46.8 million). In addition, the administration approved six fast-track loans totalling EUR 2.7 million (2022: eight fast-track loans for EUR 3.6 million).

In 2023, eight investments were agreed (contracted) with Nordic SMEs, totalling EUR 20.8 million (2022: twelve investments and EUR 37.1 million) in committed funds. In addition, four fast-track loans were agreed with a value of EUR 1.8 million (2022: seven fast-track projects for EUR 3.1 million). The decline in the number of new projects is due to deteriorating market conditions, mainly as a result of rising interest rates making it more difficult for clients to raise new capital, and changes to Nefco's criteria for fast-track loans.

Disbursements to projects totalled EUR 31.3 million, whereof EUR 5.7 million was to public sector projects in Eastern Europe and EUR 25.6 million to Nordic SMEs. Of the latter, EUR 2.3 million was provided to fast-track projects (2022: in total EUR 28.2 million was disbursed). As of the end of 2023, EUR 25.5 million in investments had been agreed but not disbursed.

At the end of 2023, six investments were under negotiation with Nordic SMEs, totalling EUR 14.5 million (2022: 5 projects for EUR 15.1 million). Two of these were fast-track loans for EUR 0.9 million.

During 2023, six investments were fully repaid (2022: six).

Figure 3: Agreed investments per year and business

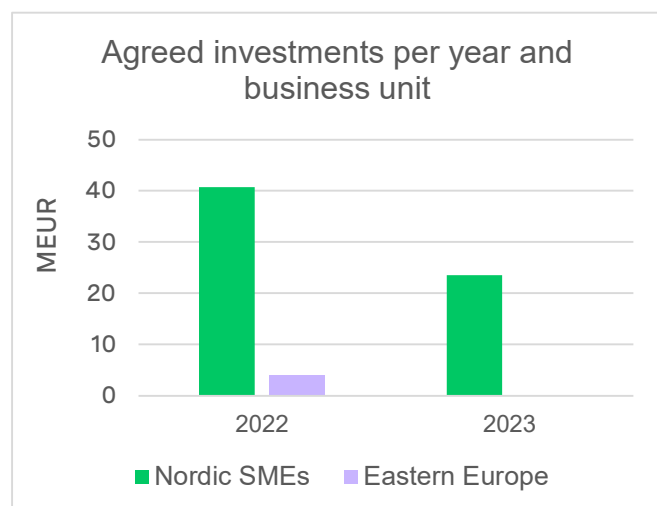
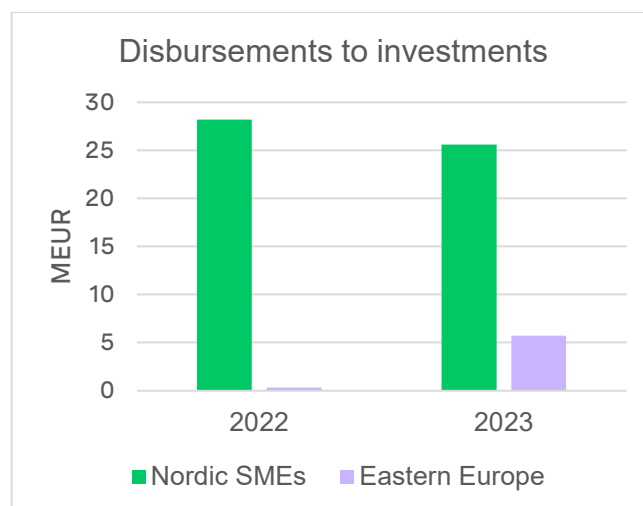


Figure 4: Disbursements made per business unit



Financial leverage

Nefco's own capital of EUR 113.4 million was originally paid in by its owners between 1990 and 2007. Through accumulated profits, Nefco has been able to invest EUR 375.5 million since then, i.e. 3.3 times its authorised capital. Based on a preliminary assessment, the leveraging ratio of Nefco financing is estimated to be 2.0-4.0, meaning that for each euro of Nefco financing, two to four euros of additional financing have been mobilised for the project or company being financed.

Due to the war in Ukraine and outstanding loans in the country, Nefco had to make significant provisions to accommodate potential losses in 2022. However, during 2023 the majority of Ukrainian clients managed to continue debt service, and some clients even prepaid their loans. Loss provisions are reversed as repayments are received.

There is high demand for financing from small and medium-sized companies that want to expand internationally. Therefore, Nefco has initiated discussions with its owners about a possible capital increase. Increased capital would provide opportunities for Nefco to attract additional financial capacity from capital markets.

Risk management

As a provider of high-risk loans to green Nordic SMEs, Nefco expects some loans to be defaulted and not repaid. This is mitigated by appropriate financial analysis to categorise loans by the probability of default.

In 2023, higher interest rates and inflation had a clear negative impact on businesses and particularly SMEs. Several Nefco clients experienced financial difficulties and struggled to service loans in due time, requiring Nefco to make impairments accordingly in the form of provisions for possible losses. Some of the loans are secured and it is likely that some funds will be recovered.

The Nefco model of providing high-risk loans to Nordic SMEs needs to withstand difficult times. Risk management is an essential part of Nefco's financing activities and Nefco seeks to continuously increase its capacity in the field, for instance with an updated Risk Framework and a new Risk Policy, Risk Management Regulations and improved analytical methods and risk ratings, which are now in progress, as well as strengthened capacity through new recruitments.

More information about risks and risk management can be found in the *Financial Report 2023*.

3.2. Nefco's Trust Fund management

Nefco manages funds on behalf of others, mainly Nordic governments and the European Union. These funds are established in trust, and Nefco manages the funds as assigned by the trust fund owners. In most cases, the funds are dispersed as various types of grants, but they can also be provided in the form of concessionary loans or results-based grant financing.

During the year, there were eight new fund assignments and contributions:

- Green Recovery for Ukraine; three separate assignments for recovery actions in Mykolaiv totalling DKK 161.2 million (approx. EUR 21.6 million) from Denmark
- Green Recovery for Ukraine; EUR 5 million from Finland
- Green Recovery for Ukraine; two actions for IDP Housing totalling EUR 100 million from the EU
- Energy efficiency for Kyiv; EUR 1 million from the Eastern Europe Energy Efficiency and Environmental Partnership (E5P)
- Modern Cooking Facility for Africa; NOK 200 million (approx. EUR 17.8 million) from Norway

At the end of 2023, the value of Nefco's trust fund assignments totalled EUR 653 million (2022: EUR 498.3 million). Of this, EUR 440 million (2022: EUR 261 million) had been allocated to concluded, agreed and ongoing projects. At the end of the year, there were 241 trust fund projects with a total of EUR 206.8 million in committed funds.

During 2023, EUR 46.5 million was disbursed to trust fund projects (2022: EUR 16.3 million).

Note that in addition to concrete projects, trust fund projects can include assignments such as for technical assistance, consultancy and project preparation, which are often part of a larger investment or project.

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

Nordic Environmental Development Fund (NMF)

The Nordic Environmental Development Fund (Nordiska Miljöutvecklingsfonden, NMF) was created in 1996. NMF is a trust fund administered by Nefco, and the Nefco Board decides on allocations for funds under NMF. The Nordic Investment Bank (NIB) participates in project evaluations. NMF is currently financed by the Nordic Council of Ministers on a yearly basis.

The aim of NMF is to provide grant 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.

In 2023, NMF funds were primarily used for activities to support Nefco's Green Recovery Programme for Ukraine and the Biodiversity Pilot Programme for Nordic SMEs. Both programmes were launched in 2022 and implementation is ongoing. More information about these activities is available under *Business overview* in this report.

NMF Credits was established in 2010 to separate existing and future soft credit facilities from grant-funded activities in NMF. In 2023, NMF Credits were used for Energy Saving Credits (ESC), meaning small scale soft loans (loan terms not based on market practice) to municipalities in Eastern Europe.

Separate annual accounts are prepared for funds in NMF and NMF Credits. At the end of 2023, the total remaining funds in NMF amounted to EUR 15.4 million (2022: EUR 13.7 million), and EUR 12.8 million (2022: EUR 9.8 million) for NMF Credits.

4. Business overview

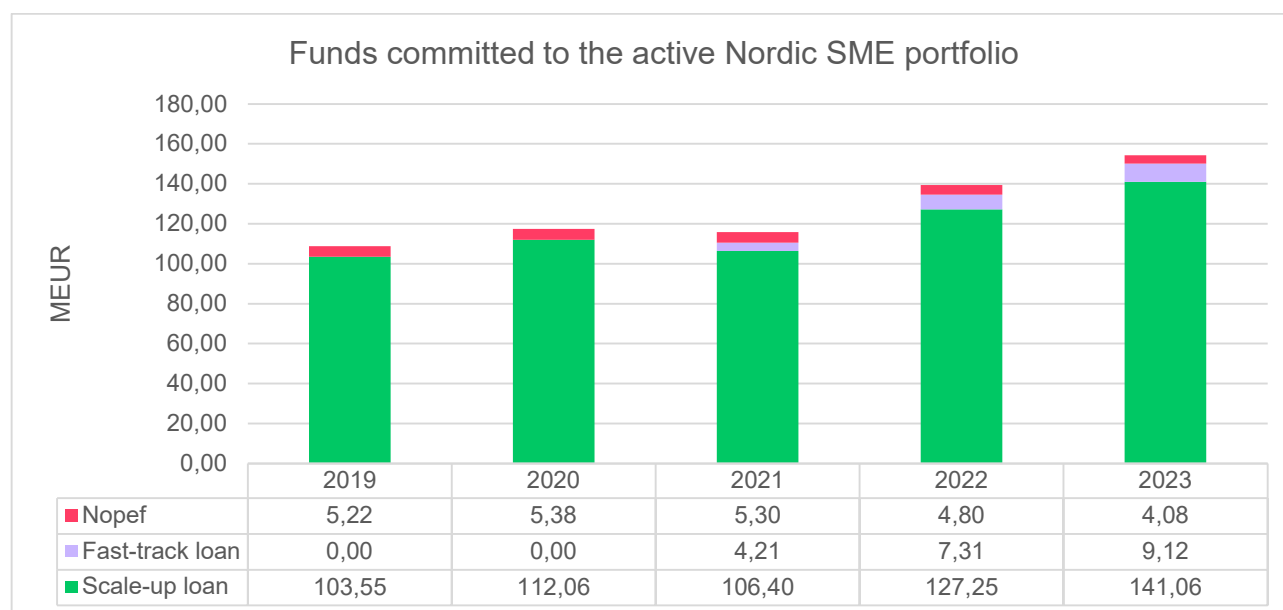
4.1. Green transition Nordic SMEs

Nefco finances the international scale-up of Nordic green technologies or solutions with the potential to have a global impact. Nefco can take greater financial risk than commercial banks, bridging the gap between equity and traditional bank financing – the so-called ‘missing middle’.

One of Nefco’s strategic goals is to increase the number of Nordic SME projects in its portfolio, helping them to grow and be more competitive, which will contribute to the green transition. During 2023, Nefco increased its out-reach activity in all Nordic countries with a focus on strengthening networks and organisational collaboration in key sectors. Despite a good flow of investment proposals overall, a slowdown in the latter half of the year, compared with 2022, reflected a much more challenging investment climate and increased scrutiny of the viability of proposed investments.

The country diversification of investment proposals has been good, and efforts are in place to further increase the project volume from Sweden and Norway in particular.

Figure 5 3: Funds committed to the active portfolio of Nordic SME investments and projects



4.1.1. Investments

Scale-up investments and fast-track loans

Nefco provides risk financing such as subordinated loans and equity-type financing through its own capital to enable SMEs’ scale-up investments and facilitate their business growth. Although their technologies or solutions are commercially and technologically proven, small and medium-sized companies often present a higher financial risk profile than is acceptable for traditional commercial bank financing. Therefore, they face challenges financing their growth and expansion to new markets.

Another type of Nefco investment is the fast-track loan instrument. Fast-track loans with fixed terms and conditions are aimed at activities to support international growth, including business development and sales.

At the end of 2023, Nefco’s Nordic SME portfolio comprised 70 investments (including the private sector in Eastern Europe) with a value of EUR 150.2 million.

4.1.2. Trust fund activities

Nopef financial support

Nopef (the Nordic Project Fund) is a trust fund financed by the Nordic Council of Ministers and managed by Nefco since 2014. Nordic SMEs can receive financial support through Nopef for feasibility studies into establishments, demonstration projects and pilot installations of green technologies and solutions on international markets. Nopef also contributes to the goals of the Nordic Vision and to increasing employment, knowledge sharing and development of sustainable business models.

Nopef's project activity has remained high with 56 approved projects, including eight grants provided as part of a cooperation project with Nordic Innovation. During 2023, 44 financing agreements were signed with a total value of EUR 1.5 million (2022: 35 projects, EUR 1.3 million), significantly exceeding the target of 35 approvals. During the year, 39 projects were completed, resulting in a successful international market entry by a Nordic company (2022: 23 projects). At the end of 2023, Nopef's active portfolio comprised 111 projects with EUR 4.1 million in funding committed (2022: 140 projects, EUR 4.8 million).

The synergies between Nopef and Nefco's investment activities were further strengthened during the year. During 2023, Nefco admitted four projects into its investment pipeline from companies that had previously conducted a feasibility study with support from Nopef.

Biodiversity Pilot Programme

Nefco launched the Biodiversity Pilot Programme for Nordic SMEs in August 2022. The programme is financed through the trust fund NMF.

Six companies are participating in the programme, which is testing and developing concrete biodiversity solutions created in collaboration with the pilot companies. The objective is to help small and medium-sized companies learn about biodiversity-related risks and opportunities for their business and to test scalable nature-positive solutions to address them. During the programme, the companies have participated in several workshops, established their own biodiversity management plans for their business operations and taken concrete implementation actions. The two-year programme will end in spring 2024 and has already provided benefits for the participant companies from a business perspective; feedback from the programme has been very positive.

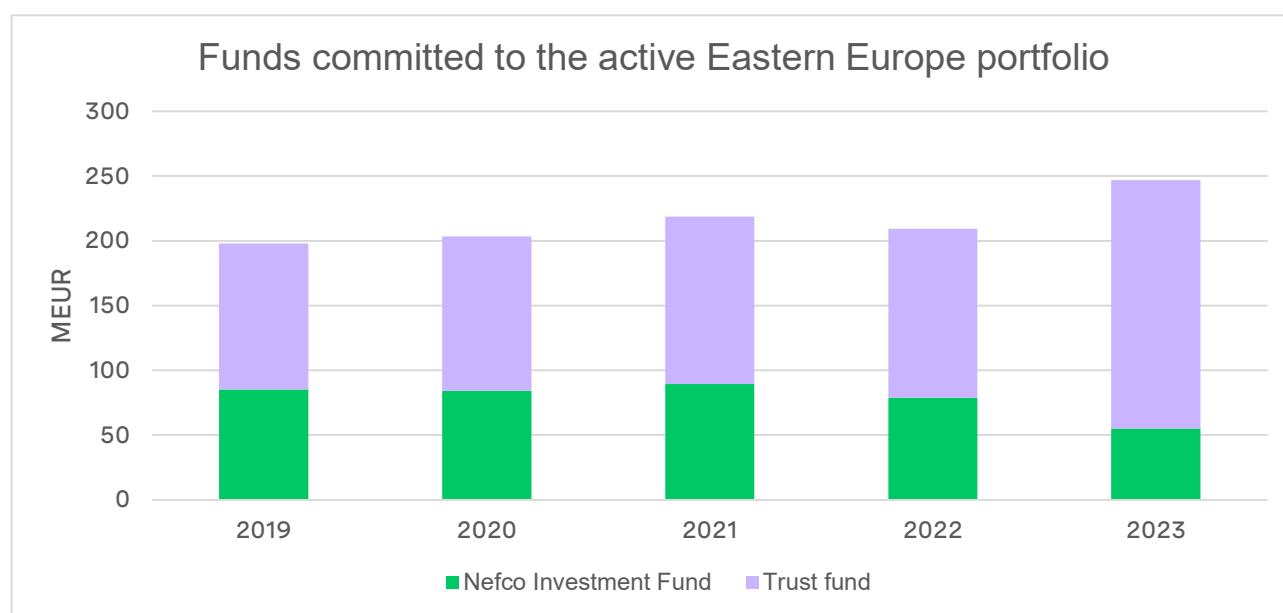
More information about the Biodiversity Pilot Programme can be found in *Other information: Annual Impact Report 2023*.

4.2. Green transition in Eastern Europe

Nefco has a long history of financing environmental and climate-related projects that positively impact people and communities in Eastern Europe. Nefco has been providing both investment loans from its own capital and grants through trust funds for green projects in the region.

For years, Ukraine has been the most important country of operation for Nefco in the Eastern European region. Due to Russia's war, lending to projects in Ukraine has been suspended. However, Nefco continues to be highly active on the ground, providing grant funds from Nordic governments and the EU through the Green Recovery Programme for Ukraine.

Figure 6 4: Funds committed to the active portfolio of investments and projects in Eastern Europe



4.2.1. Investments

Ukraine

Despite the ongoing war, many clients have resumed/continued interest and debt repayments. Repayments and prepayments during the year amounted to nearly EUR 7.6 million.

Georgia

In Georgia, Nefco is unable to lend directly to municipalities, but an initial investment project was successfully implemented through a loan provision to the state. A second loan for a new energy-efficiency project was agreed in May 2022 related to schools in mountainous regions. Design work has been carried out and an invitation to tender is being prepared for potential contractors. A small initial disbursement was made during 2023.

4.2.2. Trust fund activities

Ukraine

The main focus in Eastern Europe relates to Nefco's Green Recovery Programme for Ukraine. The programme offers grant funding from various governmental contributors/donors and has rapidly taken off. There are currently 40 projects being implemented under the scope of the programme, which was launched in 2022, and several new projects are in the pipeline.

The objective of the programme is to partner with Ukrainian municipalities to address the direct and indirect consequences of the war and help communities build back greener and better. Currently, the programme covers short-

term repair and restoration of critical infrastructure and public service buildings, rebuilding of utilities and facilities serving internally displaced persons (IDPs), and capacity building for Local Green Recovery Plans. The ultimate goal is to strengthen resilience, promote sustainable development and help further integration of Ukraine and Europe.

Nefco received considerable interest from its donor community and managed to raise EUR 290 million by the end of 2023. The EU, Denmark, Finland, Norway and Sweden were the programme's initial contributors, through either repurposed initiatives or new funds. At the end of 2023, the contribution of funds was as follows:

- Denmark: EUR 42 million
- Finland: EUR 5 million
- Norway: EUR 12 million
- Sweden: EUR 13 million
- EU: EUR 207 million for several actions under the EU's *Neighbourhood Investment Platform (NIP)*, *IDP Housing and Critical Infrastructure*
- Other: EUR 11 million

An important part of the Green Recovery Programme for Ukraine is capacity building. This includes support for municipal partners to develop Local Green Recovery Plans to guide sustainable recovery activities. Nefco has contracted a consultant to work with three cities as part of a pilot project. Plans have been developed to match local realities and institutional capacity that will strengthen local ownership, maximise utility and feed into further planning work. The pilot project is being funded through the NMF and is scheduled for completion in November 2024.

Before Russia's full-scale invasion, Nefco also provided soft loans in the form of Energy Savings Credits to Ukrainian municipalities for the implementation of energy-efficiency measures related to public buildings and street lighting. Over 80 projects have been implemented over the years, with only three loans currently outstanding in Kremenchuk, Brovary and Chortkiv. These projects have also been completed and all loans are being served according to the loan agreements.

Moldova

In Moldova, Nefco continues to successfully operate within the Energy Saving Credits (ESC) Programme. In total, two projects for the modernisation of street lighting have been completed in full. Five projects, aimed at increasing energy efficiency in public buildings, are currently under implementation. Four of these projects are being co-financed with grants from Eastern Europe Energy Efficiency & Environment Partnership (E5P), constituting the first joint programmes between Nefco and E5P in Moldova, and relate to energy-efficiency improvements in healthcare institutions in four districts of Moldova. Sweden, through Sida's trust fund at Nefco, is financing project implementation support under the programme.

Five new ESC projects are being developed by local consultants (financed by Sweden), which are intended to form a second joint programme between Nefco and E5P, this time targeting the education sector in local communities. In September 2023, the Parliament of Moldova adopted a law on exempting goods and service procured with Nefco ESC loans from taxes and duties.

Belarus and Russia

Measures to wind down both Investment Fund and trust fund activities in Russia and Belarus have continued. Nefco has fully impaired all related loans, while taking steps to repatriate funds where possible given applicable sanctions.

Nefco has been the fund manager for the Arctic Council Project Support Instrument (PSI) since 2014. On 27 December 2023, the Senior Arctic officials approved the extension of a 'frozen PSI' until the end of 2025, with Nefco continuing as the Fund Manager until further notice.

The Barents Hot Spots Facility (BHSF), managed by Nefco since 2004, was closed in 2023 as a result of Russia's war on Ukraine. BHSF was funded by the Nordic countries and the Nordic Environmental Development Fund (NMF).

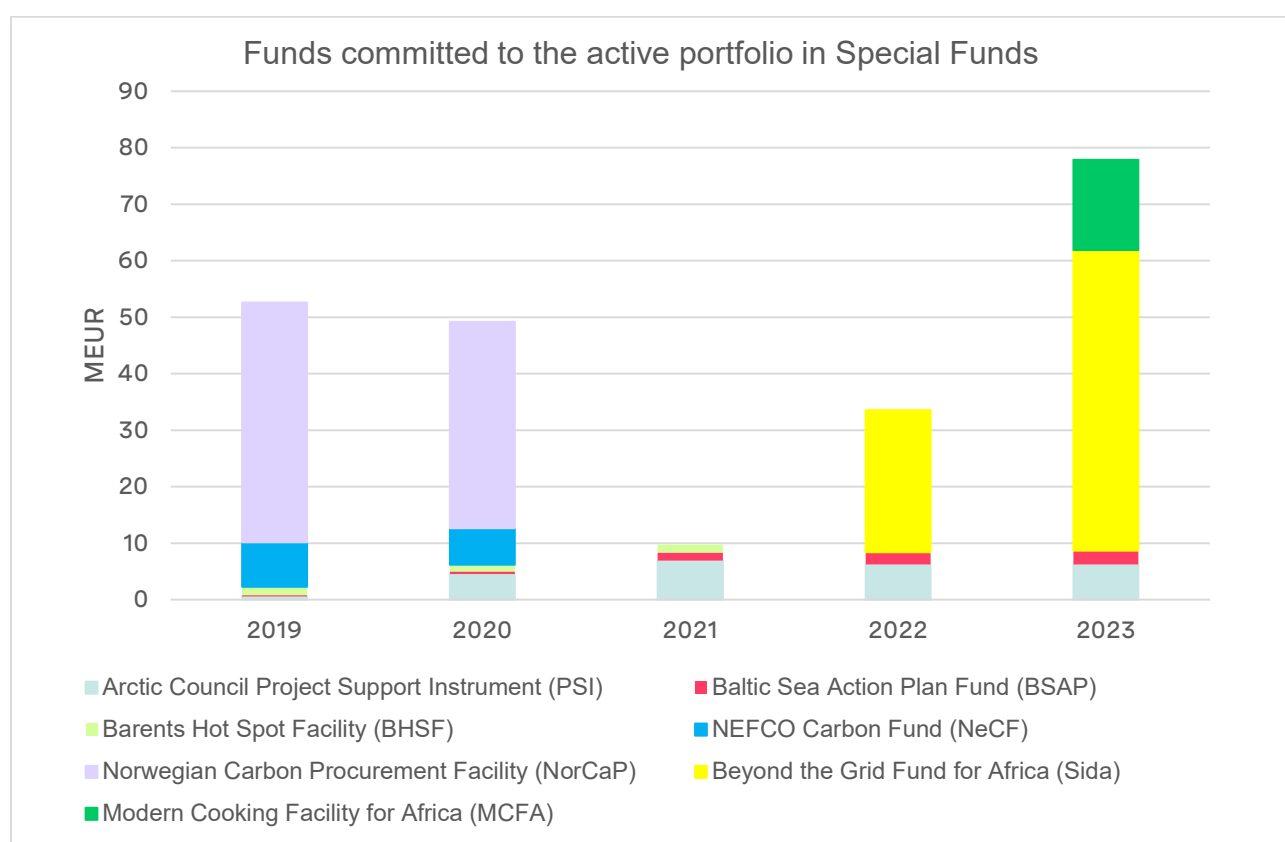
4.3. Special Funds

The Special Funds unit works 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), the Modern Cooking Facility for Africa (MCFA) and the Baltic Sea Action Plan (BSAP) Fund.

Some development activities continue under the Nordic Initiative for Cooperative Actions (NICA), which promotes carbon market mechanisms under Article 6 of the Paris Agreement, including workshops held in Helsinki and Reykjavik. However, COP28 in Dubai failed to reach a meaningful consensus on global carbon market modalities under Article 6.4.

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.

Figure 75: Funds committed to the active portfolio of projects in Special Funds



Beyond the Grid Fund for Africa

About 600 million people in Sub-Saharan Africa currently live without access to electricity. The Beyond the Grid Fund for Africa (BGFA) aims to reduce the power 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 a EUR 126 million flagship facility offering results-based financing for off-grid energy sector companies in six African countries. The programme is financed by Denmark, Germany, Norway and Sweden, and administered by Nefco.

During 2023, 12 new portfolio companies were contracted in four Sub-Saharan countries, growing the total portfolio to 25 projects, with total committed capital of EUR 54.8 million. During the year, the origination phase was concluded for Burkina Faso, Liberia and Zambia. A second Call for Proposals was launched in Uganda and the Call for

Proposals in Mozambique was re-launched. The BGFA surpassed an important milestone in 2023, reaching over 1 million rural Africans and having disbursed over EUR 10.9 million in total financing to date to private sector companies (2022: EUR 8.1 million).

Modern Cooking Facility for Africa

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

The Modern Cooking Facility for Africa (MCFA) is now capitalised at EUR 61.5 million and is the largest results-based financing instrument focused on higher-tier cooking solutions. Norway announced its NOK 200 million contribution in November at the COP28 conference. MCFA is administered by Nefco and funded by Sweden, Norway and the European Union with regard to the Zambia country programme.

Nine projects selected through the first Call for Proposals were contracted in 2023, covering all the MCFA1 countries of operation, namely the Democratic Republic of the Congo, Kenya, Mozambique, Tanzania, Zambia and Zimbabwe, with a total contracted value of EUR 16 million. A number of further projects were undergoing due diligence reviews at the end of the year. Over EUR 3.7 million was disbursed to clean cooking companies in 2023, entirely in the form of catalytic grants.

A second funding round was launched in November 2023. Following an early evaluation of MCFA1, the new call features a number of new innovations including a catalytic funding window, the inclusion of LPG and a new country of operation, Malawi.

Baltic Sea Action Plan Fund

Eutrophication presents the greatest environmental risk to 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. The Baltic Sea Action Plan Fund (BSAP Fund) was set up in 2010 to help advance the implementation of the plan. The key purpose of the BSAP Fund is to facilitate and accelerate the preparation of bankable projects from both public and private entities. The fund is financed by Finland and Sweden and administered by Nefco and the Nordic Investment Bank (NIB).

In April 2023, ten new projects were approved by the BSAP Fund's Steering Committee, all of which have since been contracted. During 2023, seven projects were finalised and completed, with the total portfolio consisting of 22 ongoing projects with EUR 2.5 million in committed funds (2022: 19 projects, EUR 2 million).

In 2023, Sweden provided a further contribution of EUR 386,022 (SEK 4,500,000) to the fund. With funding from Sweden and Finland totalling EUR 15 million, the BSAP Fund has been able to support the completion of 51 projects, providing a total of EUR 10.6 million. In 2024, the BSAP Fund will continue to support its ongoing projects with a focus on intensifying awareness and implementing measures to ensure the continued success of the fund.

5. Other trust fund assignments

In addition to the trust fund assignments mentioned above, Nefco administered the following funds during 2023:

- *Finland-Ukraine Trust Fund (FUTF)* for energy efficiency, renewable energy and alternative energy sources in Ukraine; closed in 2023
- *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
- *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
- *Danida Sustainable Infrastructure Finance Programme (DSIF)* for non-commercial sustainable infrastructure projects in Ukraine and other selected Eastern European partnership countries
- A range of small funds for technical assistance used in connection with investments in the Eastern European region
- *Nordic Initiative for Cooperative Approaches* jointly developed by Finland, Norway, Sweden and Nefco in 2018, which seeks to operationalise international carbon market activities under Article 6 of the Paris Agreement
- Management of the *Green Climate Fund (GCF)* mini-grid project in Haiti

Nefco also acted as an implementing agency for the Northern Dimension Environmental Partnership (NDEP), which was closed in 2023, and the Eastern Europe Energy Efficiency & Environment Partnership (E5P).

6. Staff

Nefco applies its own Legal Framework with regard to the employment of staff, which largely follows the Legal Framework developed by the Nordic Investment Bank (NIB), an international financial institution with which it shares a number of common owners. The Nefco Board has authorised the Managing Director of Nefco to decide on revisions, additions and minor adjustments to the Legal Framework for the Staff of Nefco, while amendments of major significance to personnel shall be decided by the Nefco Board.

The Staff Regulations, which include the fundamental terms and conditions of staff employment, were updated to improve clarity and readability for Nefco's staff and published on Nefco's webpage after their entry into force on 1 December 2023.

At the end of 2023, Nefco had 55 full-time and two part-time employees based at its headquarters in Helsinki. An additional six staff members 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 *Other information: Annual Impact Report 2023*.

7. Board meetings

In 2023, the Board convened five ordinary meetings and three extra meetings. Three of the ordinary meetings were held on-site and the other meetings were arranged online. Additionally, the Board made one decision by written procedure. Special workshops focusing on strategy development were arranged on two occasions, in conjunction with the March and September meetings.

8. Result

The annual accounts show a profit of EUR 10,777,465.15. The Nefco Board proposes that the majority of the profit is used to replenish the 'Reserve for investment/credit losses' (up to EUR 10,000,000.00) and the rest (EUR 777,465.15) is returned to operations as retained earnings.

Helsinki, 27 February 2024

Danfríður Skarphéðinsdóttir, Iceland, Chair

Carsten Møberg Larsen, Denmark

Saija Vuola, Finland

Agnethe Dahl, Norway

Erik Kiesow, Sweden

Trond Moe, Managing Director

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1. Who we are

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 global environmental and climate targets and take concrete actions to accelerate the green transition.

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 Nefco 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 to which our financing can provide additionality, meaning that the project may otherwise not have been realised.

To fulfil our mission, we work in three business areas:

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

We are guided by Nordic priorities, the EU Green Deal, the Paris Climate Agreement and the Kunming-Montreal Biodiversity Framework. 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 the potential to be scaled up on global markets. In other words, we only offer financing to activities that generate direct or indirect environmental benefits.

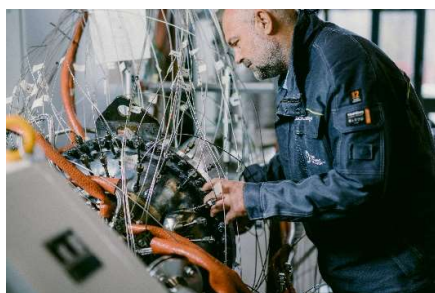


Photo 1: Coolbrook



Photo 2: City of Kivertsi

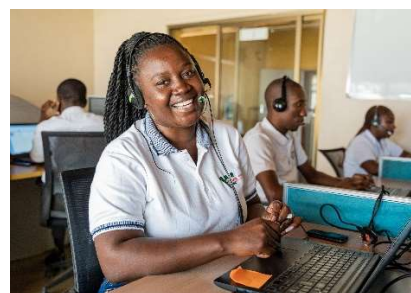


Photo 3: Jason Mulikita for Beyond the Grid Fund for Africa

2. Our approach to impact

2.1. 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 and retained earnings, which form the base for the Investment Fund. These projects are normally economic activities that lead to concrete environmental or climate benefits, e.g., by saving energy and reducing emissions, pollution, harmful discharges or (hazardous) waste. They also provide economic and social benefits such as business growth, increased competitiveness and job creation.

2.2. Trust fund support for green projects

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

In the municipal sector in Eastern Europe, market-based or subsidised loan financing is blended with financial support from a trust fund. The Nefco Green Recovery Programme for Ukraine currently provides solely grant financing from trust funds. Some of the trust funds are dedicated to incentivising the development of sustainable businesses and solutions in new markets, like the results-based programmes for clean energy and modern cooking solutions in Africa. In addition to environmental benefits, these projects also have a strong focus on social impacts such as job creation, gender equality and improved comfort and safety for citizens of affected communities.

Trust funds are also used for feasibility studies and technical assistance as well as capacity building. While these projects rarely lead to immediate environmental impacts, they help facilitate project implementation in the near future.

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

2.3. How we assess our financing activities

Across our 30-year journey as a green financier, we have developed stringent procedures for environmental and social assessments, project management and monitoring, and financial and integrity due diligence. The green impacts of a project are assessed in broad terms, using our deep understanding of the environmental and sustainability aspects, including societal and gender aspects. As our financing activities seek to demonstrate the scale-up potential of green solutions in new markets, we also consider the potential of the solutions to be replicated. Moreover, to attract new private investments in line with the Paris Agreement, we strive to make projects bankable and help project owners with capacity building to mobilise additional funding.

All these elements are integrated into the investment process. While trust fund activities may have different environmental priorities and goals, in principle, we use the same methodology for these projects whenever applicable. We also aim to ensure that our clients work strategically and formally to anchor sustainability in their business plans and daily operations.

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.

See our website [How we assess impact | Nefco](#) for more information.

What kind of green projects does Nefco finance?

- ✓ Company expansions into new markets with a green solution; Nefco also supports these companies in becoming greener overall while growing their business
- ✓ Municipalities' transition to green in Eastern Europe
- ✓ Incentivising clean off-grid energy business in low-income countries

2.4. 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.

2.5. About this report

Portfolio overview, including investments and trust fund projects, environmental drivers¹ and an EU Taxonomy assessment of the investment portfolio.

Results from financing activities, including investments and trust fund projects, also for each business area, and the extent to which ongoing investments are meeting set expectations.

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

Nefco's own carbon footprint, including scope 1, 2 and 3 emissions from Nefco's own operations based on the operational control approach².

Information on governance and staff, including diversity, values and culture, governance, ethics and compliance, accounting principles and fund assignments.

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

- Agreed – contracted, financing agreement signed by all parties; funds disbursed and project under implementation; or implemented and reporting results.
- Active – investments and projects agreed and under implementation at the time indicated.
- Ended – loan repaid and reporting ended.
- Funds committed – total financing amount agreed for an investment and project.
- Funds disbursed – funds that have been paid out since the initiation of an investment or project.

A list of all projects financed by and/or through Nefco, including investments and trust fund projects, and their status can be found on Nefco's website [Financed projects | Nefco](#)

Bottom-up approach for concrete results

We focus on financing with a 'bottom-up' approach, processing a large number of projects proposed 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 project on an annual basis during implementation and after completion until the loan has been repaid or until the exit phase.

¹ The environmental drivers Nefco refers to are derived from the EU Taxonomy objectives. Projects can contribute to several environmental drivers at once, however in this report Nefco focus on and display what we consider to be the main environmental driver of the projects.

² As defined in the Greenhouse Gas Protocol, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>.

3. Portfolio overview

At the end of 2023 Nefco and its managed trust funds had a total of 324 active projects in its portfolio, of which 83 are Nefco investments and 241 are Trust Fund projects. During the year, 70 investments and projects ended, and 105 new ones were agreed.

A majority of the active portfolio is related to climate change mitigation. Energy (efficiency in buildings, renewable energy, etc.), construction and real estate, water supply and waste management, manufacturing, transport, and information and communication are the biggest sectors. The sectors we use in this report are the ones referred to in the EU Taxonomy.

Figure 1: Environmental driver in the active project portfolio at the end of 2023 based on percentage of committed funds

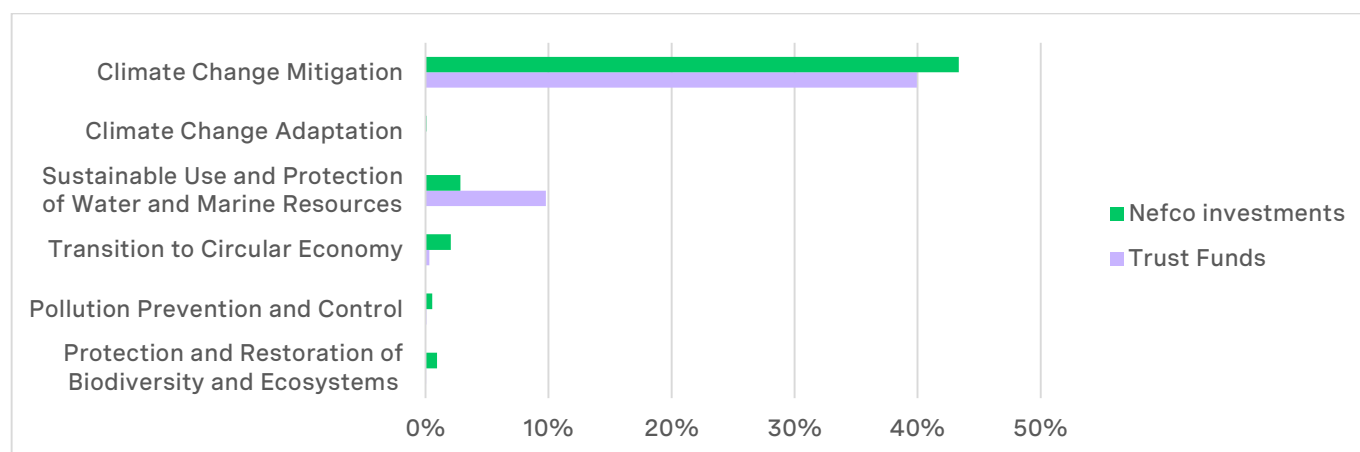
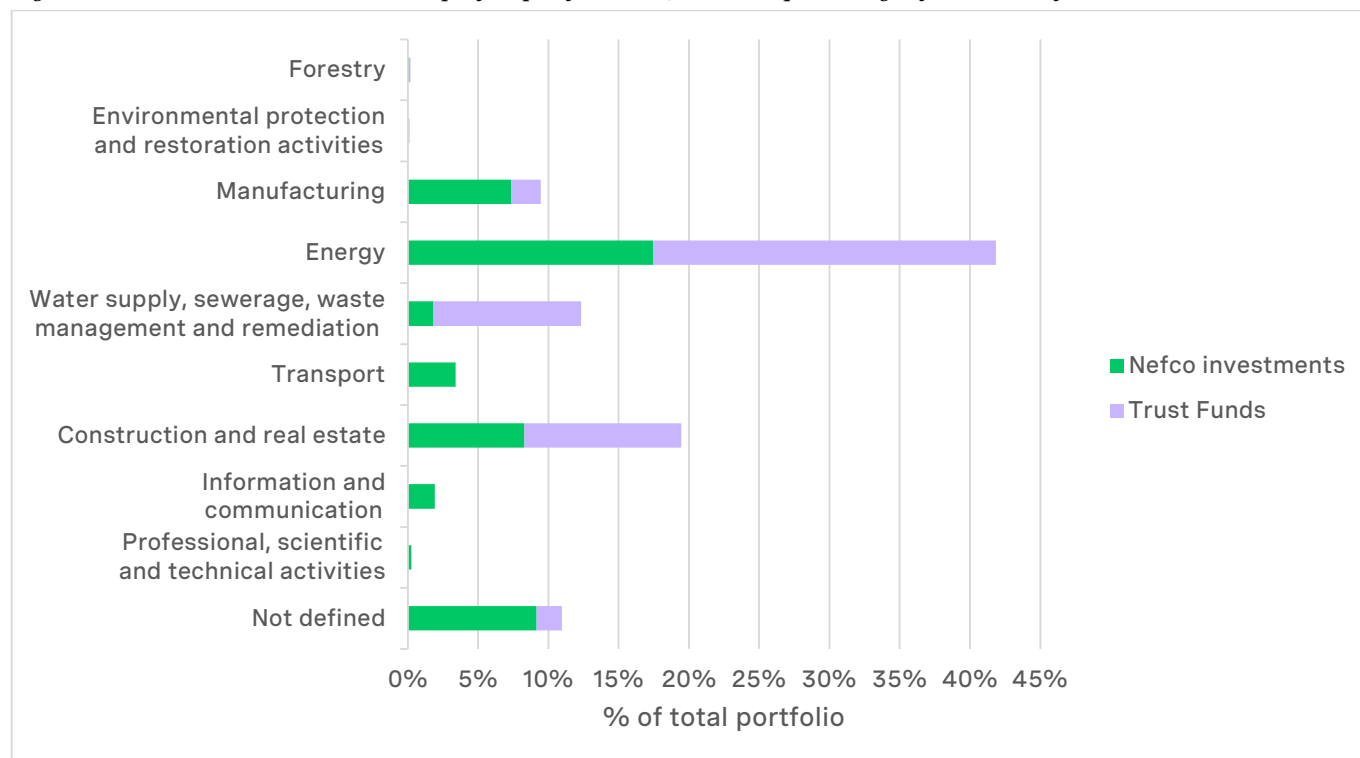


Figure 2: Sectors within the total active project portfolio 2023 based on percentage of committed funds



Investments - projects financed with Nefco's capital..

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

3.1. Investment portfolio

Nefco's paid-in equity of EUR 113.4 million was originally contributed by its owners between 1990 and 2007. Through accumulated profits, Nefco has to date been able to invest EUR 375.5 million, i.e. 3.3 times its authorised capital.

At the end of 2023 Nefco had a total of 83 active investments. Investments related to the transition to circular economy has increased over the past years, although the majority is still related to climate change mitigation.

Figure 3: Trend of committed funds per environmental driver within Nefco's investments 2019-2023

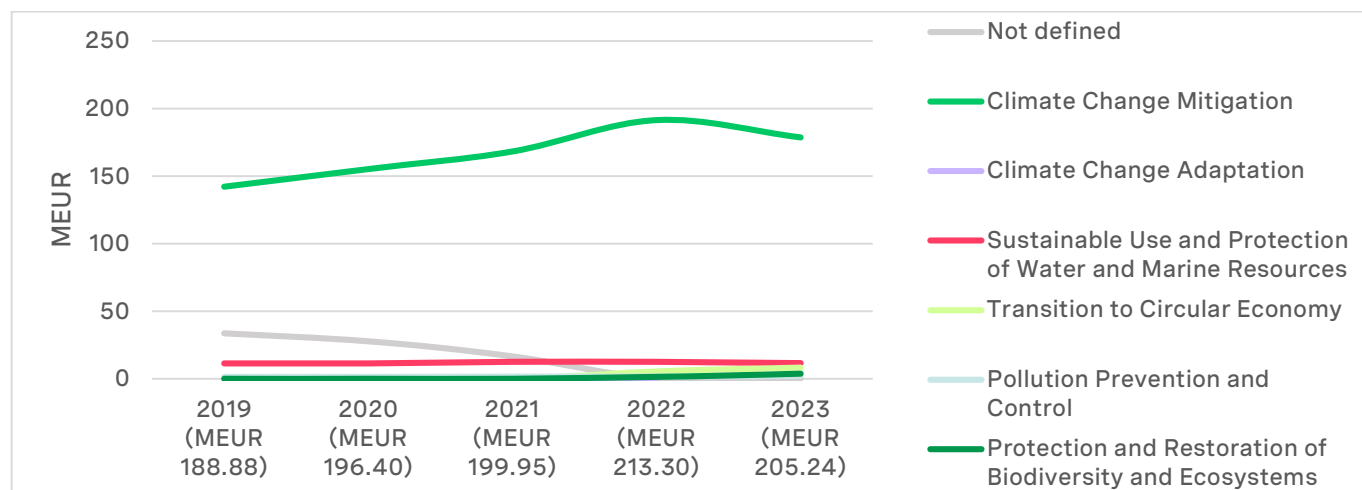
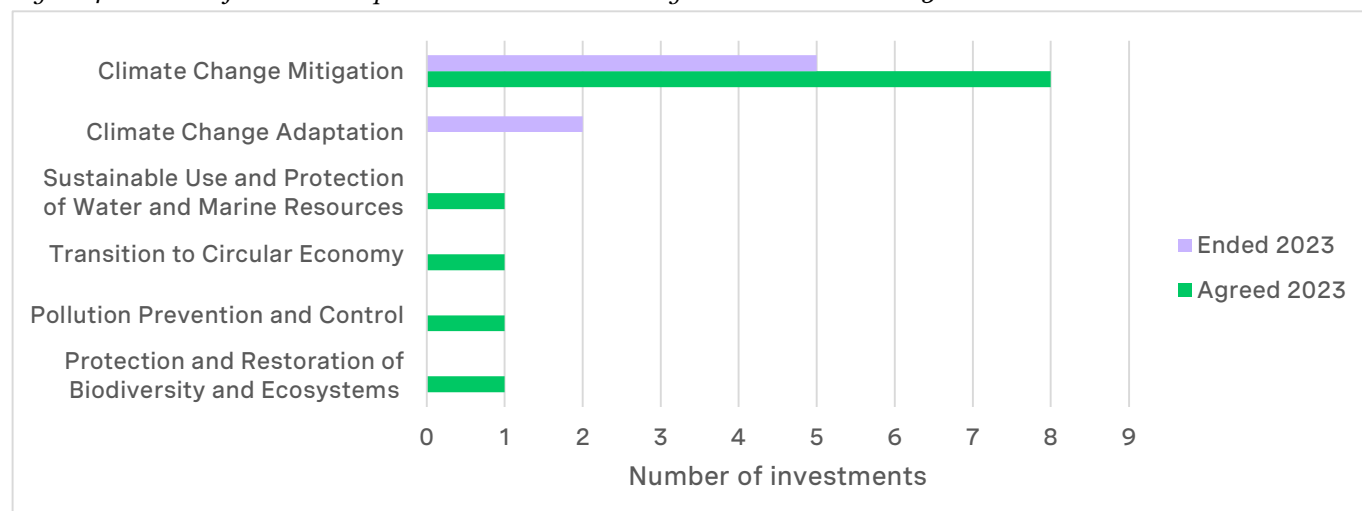


Table 1: Active investments 2023 per environmental driver

Environmental driver	Number of investments	Committed funds [MEUR]	% of total project portfolio	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	66	178.66	43%	157.57	88%
Climate Change Adaptation	1	0.30	0%	0.30	100%
Sustainable Use and Protection of Water and Marine Resources	7	11.71	3%	11.71	100%
Transition to Circular Economy	3	8.50	2%	7.50	88%
Pollution Prevention and Control	3	2.25	1%	2.25	100%
Protection and Restoration of Biodiversity and Ecosystems	3	3.82	1%	2.07	54%
Total	83	205.24	50%	181.39	88%

Figure 4: Number of investments per environmental driver agreed and ended in 2023



3.2. EU Taxonomy eligibility and alignment

The EU Taxonomy for sustainable activities is a common classification method for determining the contribution of an economic activity to environmental objectives based on scientific 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.

For investments agreed in 2022 and beyond, Nefco has actively used a full EU Taxonomy alignment analysis on a best-effort basis for its investments, 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 companies to take appropriate action to achieve closer alignment with the MSS criteria.

Furthermore, the full analysis has not been applied retroactively for investments agreed before 2022. The active portfolio of investments agreed before 2022 has been analysed solely based on EU Taxonomy eligibility and alignment with SC.

'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.

Assessment of the investment portfolio as of 2023

In this report, we assess our active investments with respect to whether they are eligible and/or aligned with the Taxonomy. The assessment has been carried out for loan and equity investments.

We utilise the following categorisation for investments:

Considered aligned: The investment is considered to be eligible and compliant with all applicable criteria (SC, DNSH, MSS).

Eligible and considered compliant with SC: The investment is considered to be eligible and compliant with the SC.

Eligible: The investment is EU Taxonomy eligible but is not considered to be compliant with all the applicable criteria (SC, DNSH and MSS).

Not Eligible: The investment is not EU Taxonomy eligible under the current Taxonomy.³

As of 2022, investments financed with Nefco's own capital 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 implementing and delegated acts for Regulation (EU) 2020/852.
- aligned with the Taxonomy, i.e.- fulfils the above and the Substantial Contribution Criteria (SC), the 'Do No Significant Harm' (DNSH) principle and complies with Minimum Social Safeguards (MSS).

³ 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' were first defined in the Taxonomy (Delegated regulation (EU) 2023/2486) on 23 November 2023. No retroactive alignment assessment has been performed for projects related to these objectives and they are thus considered not eligible for the time being.

Assessment of investments agreed in 2022 and beyond

Within our investments agreed 2022 and beyond, 73% of the investments are considered eligible or eligible and compliant with SC under the EU Taxonomy, see *Table 2*. Within the eligible investments, 41% are considered compliant with the respective SCs, see *Table 3*. Of those not complying with the SC, we can identify a commonality that roughly 46% of them do not comply due to the lack of a life-cycle greenhouse gas emissions calculation.

Furthermore, we can identify that the most difficult criteria for our SME clients to comply with are the DNSH criteria for Climate Change Adaptation and the MSS, with only 7% and 4% compliance within the eligible investments respectively. The above are all common challenges for SMEs in aligning with the EU Taxonomy, a conclusion that was also supported by the European Commission Study on SME Taxonomy alignment disclosure in which Nefco took part during the year of 2023, of which the results have not yet been published.

Figure 5: Alignment of investments agreed in 2022 and beyond

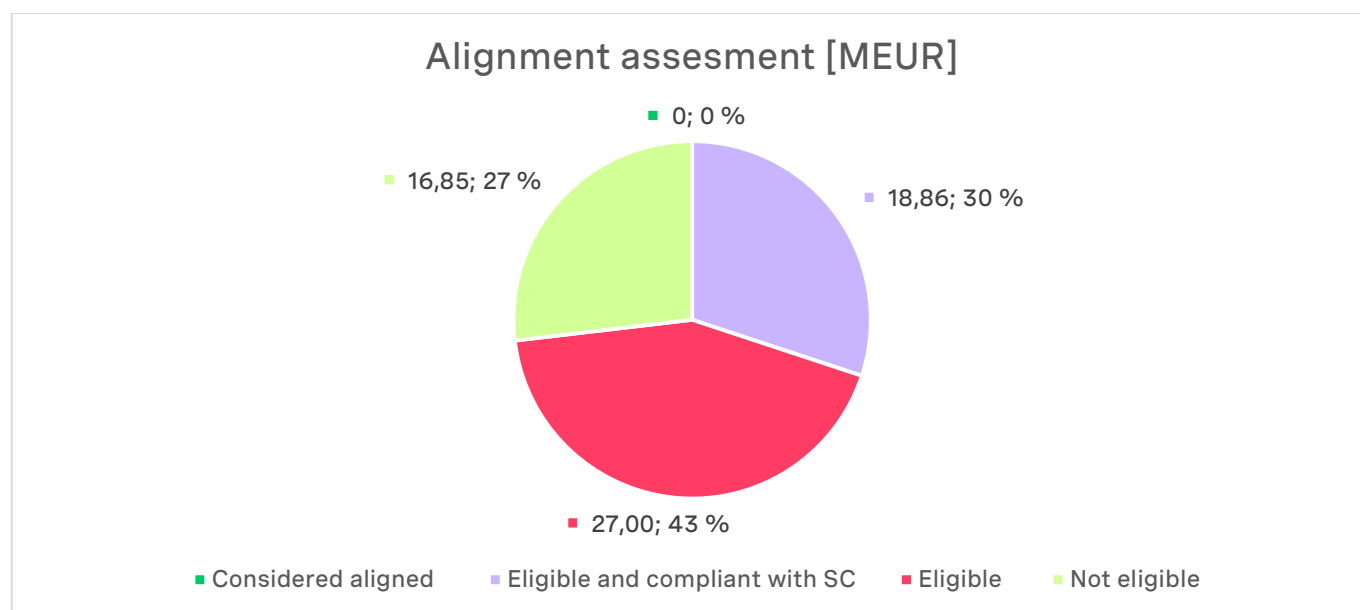


Table 2: Alignment of investments agreed in 2022 and beyond

Alignment	Number of investments	Number of investments [%]	Committed funds [MEUR]	Committed funds [%]
Considered aligned	0	0%	0.00	0%
Eligible and considered compliant with SC	12	39%	18.86	30%
Eligible	10	32%	27.00	43%
Not eligible	9	29%	16.85	27%
Total	31	100%	62.71	100%

Table 3: Alignment assessment of investments agreed in 2022 and beyond

Environmental driver Sector Activity	Number of investments	Committed funds [mEUR]	Committed funds [%]	Compliant with SC [%]	Compliant with DNSH [%]						Compliant with MSS [%]
					CCM	CCA	WTR	CE	PPC	BIO	
Eligible											
Climate Change Mitigation	22	45.86	73%	41%		7%	70%	71%	66%	77%	4%
Forestry	1	0.50	1%	0%		0%	0%	100%	0%	0%	0%
1.1. Afforestation	1	0.50	1%	0%		0%	0%	100%	0%	0%	0%
Manufacturing	7	17.75	28%	20%		0%	39%	56%	37%	59%	0%
3.2. Manufacture of equipment for the production and use of hydrogen	1	3.00	5%	0%		0%	0%	100%	0%	100%	0%
3.3 Manufacture of low carbon technologies for transport	1	3.00	5%	100%		100%	100%	100%	100%	100%	0%
3.4. Manufacture of batteries	1	0.50	1%	100%		0%	100%	100%	0%	100%	0%
3.6. Manufacture of other low carbon technologies	1	4.00	6%	0%		0%	0%	0%	0%	100%	0%
3.17. Manufacture of plastics in primary form	1	3.50	6%	0%		0%	100%	100%	100%	0%	0%
Energy	4	7.31	12%	11%		0%	100%	100%	100%	100%	0%
4.11. Storage of thermal energy	1	0.41	1%	100%		0%	100%	100%	100%	100%	0%
4.18. Cogeneration of heat/cool and power from geothermal energy	1	6.00	10%	0%		0%	100%	100%	100%	100%	0%
4.21. Production of heat/cool from solar thermal heating	1	0.40	1%	100%		0%	100%	100%	100%	100%	0%
4.22. Production of heat/cool from geothermal energy	1	0.50	1%	0%		0%	100%	100%	100%	100%	0%
Water supply, sewerage, waste management and remediation	1	0.50	1%	100%		0%	100%	100%	100%	100%	0%
5.9. Material recovery from non-hazardous waste	1	0.50	1%	100%		0%	100%	100%	100%	100%	0%
Transport	6	11.70	19%	79%		0%	79%	70%	70%	79%	0%
6.4. Operation of personal mobility devices, cycle logistics	2	7.60	12%	100%		0%	100%	100%	100%	100%	0%
6.5. Transport by motorbikes, passenger cars and light commercial vehicles	1	1.00	2%	100%		0%	100%	0%	0%	100%	0%
6.7. Inland passenger water transport	1	0.10	0%	100%		0%	100%	100%	100%	100%	0%
6.12. Retrofitting of sea and coastal freight and passenger water transport	1	2.50	4%	0%		0%	0%	0%	0%	0%	0%
6.15. Infrastructure enabling low-carbon road transport and public transport	1	0.50	1%	100%		0%	100%	100%	100%	100%	0%
Construction and real estate	1	3.90	6%	100%		0%	0%	0%	0%	0%	0%
7.2. Renovation of existing buildings	1	3.90	6%	100%		0%	0%	0%	0%	0%	0%
Information and communication	3	7.00	11%	0%		0%	100%	71%	100%	100%	0%
8.2. Data-driven solutions for GHG emissions reductions	3	7.00	11%	0%		0%	100%	71%	100%	100%	29%
Professional, scientific and technical activities	1	0.95	2%	100%		0%	100%	100%	100%	100%	0%
9.1. Close to market research, development and innovation	1	0.95	2%	100%		0%	100%	100%	100%	100%	0%
Total Eligible	22	45.86	73%	41%		7%	70%	71%	66%	77%	4%
Not Eligible											
Climate Change Mitigation	2	3.75	6%								
Manufacturing	2	3.75	6%								
Sustainable Use and Protection of Water and Marine Resources	1	0.50	1%								
Other	1	0.50	1%								
Transition to Circular Economy	3	8.50	14%								
Other	3	8.50	14%								
Pollution Prevention and Control	1	0.50	1%								
Manufacturing	1	0.50	1%								
Protection and Restoration of Biodiversity and Ecosystems	2	3.60	6%								
Transport	1	2.30	4%								
Other	1	1.30	2%								
Total Not Eligible	9	16.85	27%								

* **Abbreviations used in Table 3:** Climate Change Mitigation (CCM), Climate Change Adaptation (CCA), Sustainable Use and Protection of Water and Marine Resources (WTR), Transition to Circular Economy (CE), Pollution Prevention and Control (PPC), Protection and Restoration of Biodiversity and Ecosystems (BIO)

Assessment of investments agreed before 2022

Within our investments agreed before 2022, 77% of the investments are considered eligible or eligible and compliant with SC under the EU Taxonomy, see Table 4. Within the eligible investments, 78% are considered compliant with the respective SCs, see Table 5. It is worth noting that the active investment portfolio agreed before 2022 have been analysed solely for EU Taxonomy eligibility and compliance with SC.

Figure 6: Eligibility of investments agreed before 2022

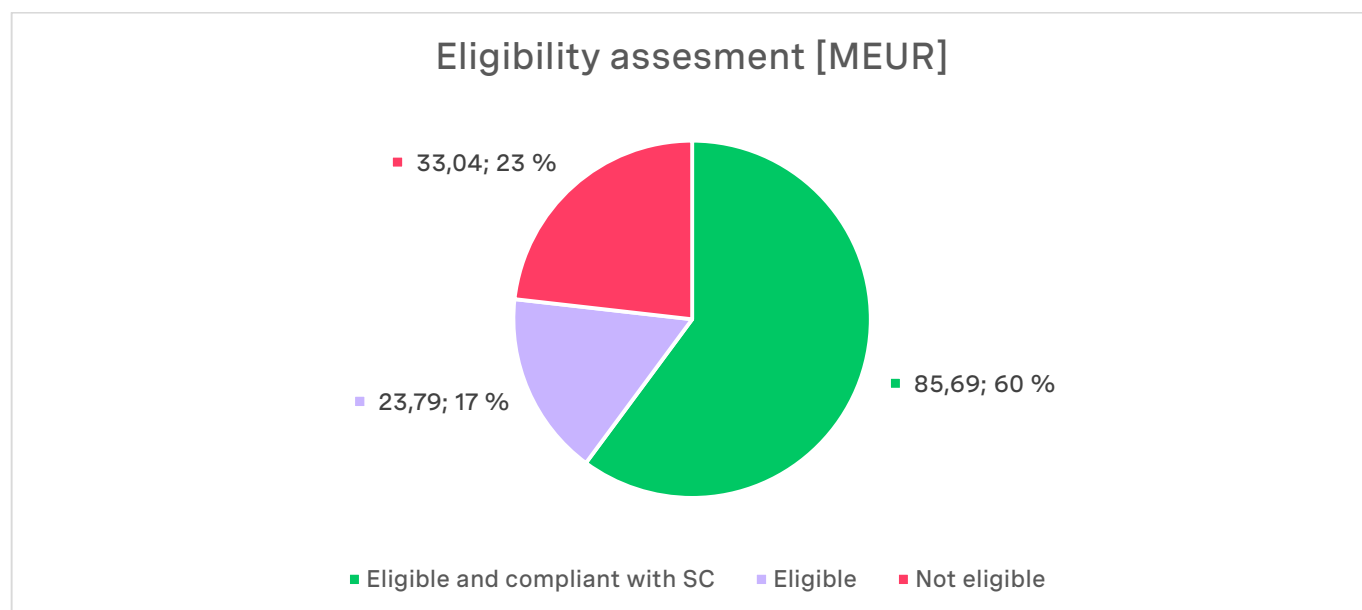


Table 4: Eligibility of investments agreed before 2022

Eligibility	Number of investments	Number of investments [%]	Committed funds [MEUR]	Committed funds [%]
Eligible and considered compliant with SC	20	38%	85.69	60%
Eligible	13	25%	23.79	17%
Not eligible	19	37%	33.04	23%
Total	52	100%	142.53	100%

Table 5: Eligibility assessment of investments agreed before 2022

Environmental driver Sector Activity	Number of investments	Committed funds [mEUR]	Committed funds [%]	Compliant with SC [%]
Eligible				
Climate Change Mitigation	33	109.49	77%	78%
Manufacturing	3	7.90	6%	36%
3.1. Manufacture of renewable energy technologies	1	2.81	2%	100%
3.6. Manufacture of other low carbon technologies	2	5.09	4%	0%
Energy	18	64.05	45%	83%
4.1. Electricity generation using solar photovoltaic technology	11	35.05	25%	100%
4.15. District heating/cooling distribution	1	1.00	1%	0%
4.20. Cogeneration of heat/cool and power from bioenergy	1	3.00	2%	0%
4.24. Production of heat/cool from bioenergy	1	5.00	4%	0%
4.3. Electricity generation from wind power	4	20.00	14%	90%
Water supply, sewerage, waste management and remediation	4	6.80	5%	74%
5.1. Construction, extension and operation of water collection, treatment and supply systems	2	0.98	1%	0%
5.2. Renewal of water collection, treatment and supply systems	1	0.82	1%	0%
5.6. Anaerobic digestion of sewage sludge	1	5.00	4%	100%
Construction and real estate	7	30.34	21%	82%
7.2. Renovation of existing buildings	5	22.51	16%	76%
7.3. Installation, maintenance and repair of energy efficiency equipment	2	7.83	5%	100%
Information and communication	1	0.40	0%	0%
8.2. Data-driven solutions for GHG emissions reductions	1	0.40	0%	0%
Total Eligible	33	109.49	77%	78%
Not Eligible				
Climate Change Mitigation	9	19.56	14%	
Manufacturing	1	3.50	2%	
Energy	1	0.69	0%	
Information and communication	1	0.50	0%	
Other	6	14.87	10%	
Climate Change Adaptation	1	0.30	0%	
Manufacturing	1	0.30	0%	
Sustainable Use and Protection of Water and Marine Resources	6	11.21	8%	
Manufacturing	1	0.30	0%	
Other	5	10.91	8%	
Pollution Prevention and Control	2	1.75	1%	
Water supply, sewerage, waste management and remediation	1	0.25	0%	
Other	1	1.50	1%	
Protection and Restoration of Biodiversity and Ecosystems	1	0.22	0%	
Other	1	0.22	0%	
Total Not Eligible	19	33.04	23%	

3.3. Trust fund project portfolio

At the end of 2023 Nefco had a total of 241 active trust fund projects. In Figure 7 we can identify that projects related to climate change mitigation and sustainable use and protection of water and marine resources are on a rising trend. Furthermore, the number of projects related to the transition to circular economy have increased since 2021 from 7 projects to 26 in 2023.

Figure 7: Trend of committed funds per environmental driver within the trust funds 2019-2023

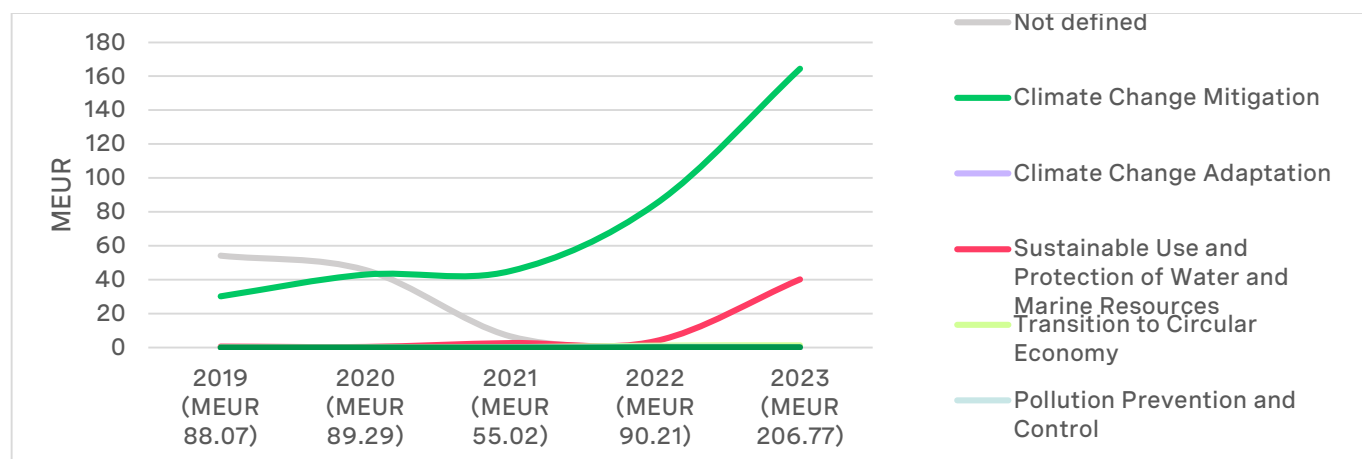
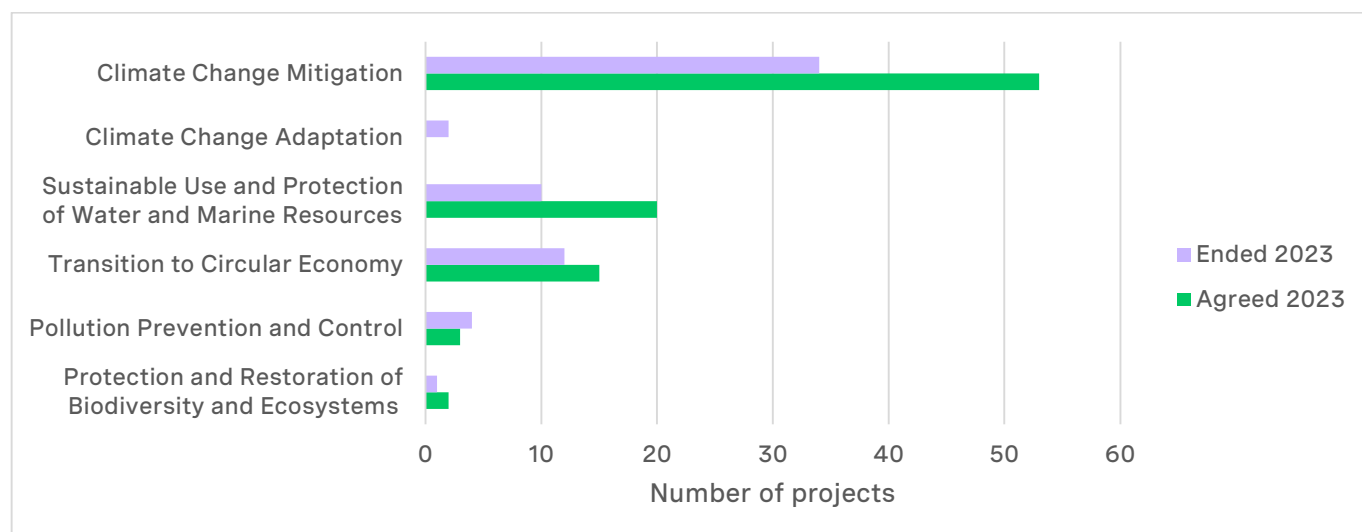


Table 6: Active trust fund projects 2023

Environmental driver	Number of projects	Committed funds [MEUR]	% of total project portfolio	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	158	164.57	40%	51.85	32%
Climate Change Adaptation	3	0.11	0%	0.02	18%
Sustainable Use and Protection of Water and Marine Resources	43	40.26	10%	2.31	6%
Transition to Circular Economy	26	1.33	0%	0.11	8%
Pollution Prevention and Control	8	0.28	0%	0.00	0%
Protection and Restoration of Biodiversity and Ecosystems	3	0.23	0%	0.02	9%
Total	241	206.77	50%	54.31	26%

Figure 8: Number of projects per environmental driver agreed and ended in 2023



4. Project activity impact

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

4.1. Environmental impact

The environmental impacts of Nefco's portfolio are based on data from 2022. The corresponding figures for 2023 are not yet available due to reporting and verification schedules. See *Accounting principles*. Nefco's aggregated impact is pro-rated to Nefco's share of financing, i.e.- total agreed financing divided by total project financing (Nefco's share of the impact).

Table 7: Reported environmental impact 2022

Environmental impact	Nefco investments	Trust Funds	Total	Nefco's share of the impact [%]
Reduced or avoided CO ₂ emissions [ktCO ₂]	282.34	8.65	290.99	15%
Energy savings [GWh]	0.00	18.68	18.68	46%
Heat	0.00	16.02	16.02	42%
Electricity	0.00	2.66	2.66	65%
Renewable energy generated [GWh]	657.47	0.00	657.47	9%
Heat	400.19	0.00	400.19	4%
Electricity	257.28	0.00	257.81	17%

Renewable energy

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

In total, projects in the renewable energy sector financed by Nefco have contributed to the installation of 1,054 MW of renewable electricity capacity and 71 MW of renewable heat capacity. During 2022 the projects have generated 400 GWh of renewable heat and 258 GWh of renewable electricity. It is worth noting that seven out of the nine projects generating renewable electricity, representing the majority of the installed capacity, are situated in Ukraine and are to a varying degree affected by the ongoing war with Russia.

Collectively, 658 GWh of renewable energy generation corresponds to roughly 64% of Sweden's total solar power production in 2020.⁴

Energy savings

Increasing energy-efficiency is an effective way to reduce greenhouse gas emissions and mitigate climate change.

In terms of energy-efficiency measures, projects financed by Nefco directly reduced the heat consumption by 18.7 GWh and the electricity consumption by 2.7 GWh. Collectively, 18.7 GWh equates to the annual energy need of approximately 847 single-family houses in Finland⁵. On average, energy efficiency projects financed by Nefco in Eastern Europe achieved heat and electricity savings of 33% and 49% respectively.

It should be noted that Russia's war on Ukraine has had negative effects on projects in Ukraine. Many projects are on hold or proceeding with delays, and the majority of clients have not been able to report results from 2022.

⁴ Swedish Energy Agency, <https://www.energimyndigheten.se/en/facts-and-figures/statistics/>

⁵ Statistics Finland, https://www.stat.fi/til/asas/2020/01/asas_2020_01_2021-10-14_kat_001_en.html#:~:text=3%20million%20dwellings,about%2031%2C000%20dwellings%20per%20year.

⁶ https://www.stat.fi/til/asen/2020/asen_2020_2021-12-16_tie_001_en.html

Reduced or avoided CO₂ emissions

Reducing greenhouse gas emissions is the greatest global climate challenge, as addressed by the Conference of the Parties (COP) under UNFCCC, 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 CO₂ emissions. Collectively, active projects contributed to the reduction or avoidance of roughly 0.29 million tonnes of CO₂, of which Nefco's share was 15%. This corresponds to about 240,500 roundtrips from Reykjavik to Tokyo by plane.

Nutrient discharge reductions

Eutrophication is the greatest environmental threat to the Baltic Sea, and the main reason Nefco was established back in 1990. 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 no nutrient discharge reductions reported for 2022. However, there are currently 16 active projects in the wastewater treatment sector being realised in Ukraine. These are focused on the renovation of deteriorated equipment and energy efficiency improvements and will help to reduce nutrient discharges. In addition, there are 22 ongoing projects within the Baltic Sea Action Plan Fund. Once implemented, we can report on the results of these projects.

4.2. Social impact

Human rights

During 2023, Nefco cooperated with its new Nordic SME clients to promote human rights through their investments. Human rights related actions were agreed on and included in the Environmental And Social Action Plans (ESAP) of five of the 12 investments agreed in 2023. The actions included the development of a publicly available policy commitment on human rights, the inclusion of human rights considerations in codes of conduct for business partners, and the introduction of due diligence processes for clients' business operations and supply chains, and an internal and external anonymous grievance mechanism.

End-beneficiaries

For some programmes, the number of end-beneficiaries, i.e. people, who benefit from the projects we finance, is used as a performance indicator.

Access to clean and affordable energy in Sub-Saharan Africa - the Beyond the Grid Fund for Africa (BGFA) programme aims to establish up to 1.7 million energy connections by 2028, benefiting more than 8.6 million people in Burkina Faso, the Democratic Republic of the Congo, Liberia, Mozambique, Uganda and Zambia. By the end of 2022, a total of 38,519 energy service subscriptions had been provided through the BGFA programme, benefiting 200,400 people.

Improved comfort, health and safety in Eastern European municipalities - by the end of 2022, municipal energy-efficiency projects implemented in Eastern Europe had benefited 10,122 children, teachers and other citizens, with further projects under implementation estimated to benefit an additional 45,890. Implemented street lighting projects had benefited 1,028,790 citizens and projects under implementation were estimated to benefit an additional 133,000. District heating projects under ongoing implementation were estimated to benefit 220,000 citizens.

4.3. Contribution to global and Nordic goals










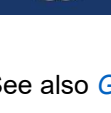
Agenda 2030 and its Sustainable Development Goals, adopted by all UN Member States in 2015, provide an action plan to achieve a better and more sustainable future for all. The goals address global challenges, including those related to the climate, environmental degradation, inequality and prosperity.

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 currently edging closer to achieving 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, together with our owners, partners and clients, we do our best to contribute to global and Nordic goals within the framework of our mandate. In the past year, our financing activities have contributed to the following goals in particular:

Table 8: Contribution to UN Sustainable Development Goals in the total active project portfolio by the end of 2023

	SDG	Number of projects	Number of projects [%]
	5.1	34	5%
	6.3	34	5%
	7.1	34	5%
	7.2	29	4%
	7.3	74	11%
	7.b	3	0%
	9.3	214	32%
	9.a	3	0%
	11.6	12	2%
	12.5	12	2%
	13.2	176	26%
	14.1	29	5%
	15.a	1	0%
	15.5	9	1%
	17.3	1	0%

See also [Global frameworks we follow | Nefco](#)

4.4. Potential adverse Impact

When assessing projects, Nefco aims to identify and mitigate any potential adverse impacts. Below follows a few examples from our current portfolio.

Supply chain human rights risks

In general, potential supply chain adverse impacts have been identified in for example renewable energy projects. When appropriate, mitigating actions have been included in Environmental and Social Action Plans, such as the development of a supply chain human rights policy and human rights due diligence process.

Management of debris in Ukraine

In Ukrainian projects under the Green Recovery for Ukraine programme unsustainable management of debris, for instance debris containing asbestos, have been identified as a potential adverse impact.

Masses of debris piling up amidst urban landscapes of Ukraine are the manifests of the Russian invaders' brutalities. According to estimates of the Kyiv School of Economics⁷, 61 million square meters or 6% of the total housing stock in Ukraine has been damaged or destroyed as a result of the invasion. Sustainable management of this debris, while providing a challenge is of essence. As a response, Nefco has launched a pilot project regarding the demolition of a few buildings and management of the debris, including sorting of recyclables and crushing of concrete into aggregate for reuse as raw material, to serve as a demonstration of sustainable management of construction demolition waste (CDW) in the Ukrainian context.

Tackling e-waste challenges

A concern within the Beyond the Grid Fund for Africa (BGFA) operational landscape is the absence of a systematic approach for the recycling or repurposing of non-functional solar systems – batteries in particular. Recognising the situation, BGFA has undertaken a proactive stance to address the challenge.

To assist Energy Service Provision companies in the responsible management of e-waste, BGFA provides technical assistance in establishing provisional e-waste handling systems. The primary approach involves safe e-waste storage as more advanced systems are developed. Also, the country-based Off-Grid Task Forces play an important role in creating an enabling environment for e-waste collection and processing systems.

In addition to mitigating adverse effects, the expansion of the off-grid energy sector in partner countries also cultivates employment opportunities in repair and resale activities. This contributes to the economic growth of the region, even though this facet is still in its early stages of development.

⁷ [ENG_FINAL_Damages_Report_.docx \(kse.ua\)](#)

5. Progress of 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. projects that were active or ended in 2023. Projects that achieve $\pm 15\%$ of their expected impact are defined as performing 'as expected'. The fund amounts used in this section refer solely to investments from Nefco's own capital.

The reported impact data for 2022 indicates that most projects were performing below expectation at the time of reporting. This is partially explained by 9 projects with a total of committed Nefco financing of EUR 24.50 million, i.e. 69% of the committed financing of projects performing below expectation, are situated in Ukraine and affected by the ongoing war. Furthermore, 5 projects amounting to EUR 4.75 million, i.e. 13% of the projects performing below expectation were agreed in 2021-2022 and are still in the early stages of their implementation and therefore their full impact has not necessarily materialised yet.

Figure 9: Progress of portfolio, investments and projects reporting data for 2022

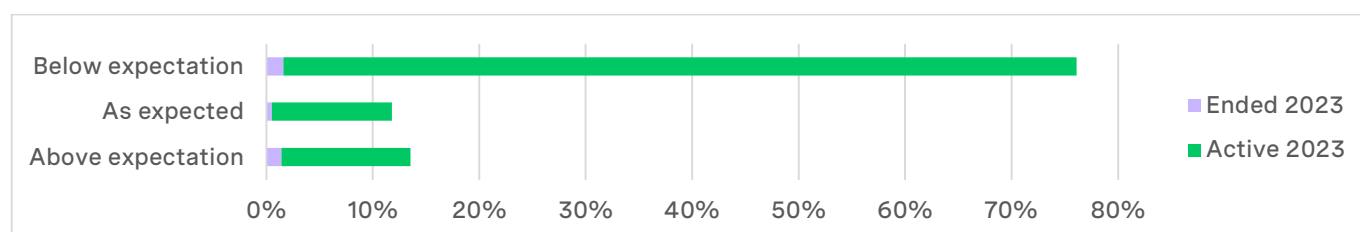


Table 9: Progress of portfolio, investments and projects reporting data for 2022

	Nefco investments [MEUR]		Trust Fund [MEUR]		Grand Total [%]
	Active 2023	Ended 2023	Active 2023	Ended 2023	
Below expectation	34.51	0.00	0.50	0.75	75%
As expected	5.30	0.00	0.00	0.24	12%
Above expectation	5.40	0.00	0.30	0.66	13%
Total	45.21	0.00	0.80	1.65	100%

5.1. 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 on global markets. Projects having a significant potential for replication on global markets is what we refer to as having high scalability. Our financing also supports the testing of green innovations in new markets. This is what we refer to as having high demonstration value.

Projects with a high demonstration value and high scalability have the potential to provide environmental benefits 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.

Figure 10: Demonstration value of investments and projects in the total active project portfolio in 2023 based on percentage of committed funds

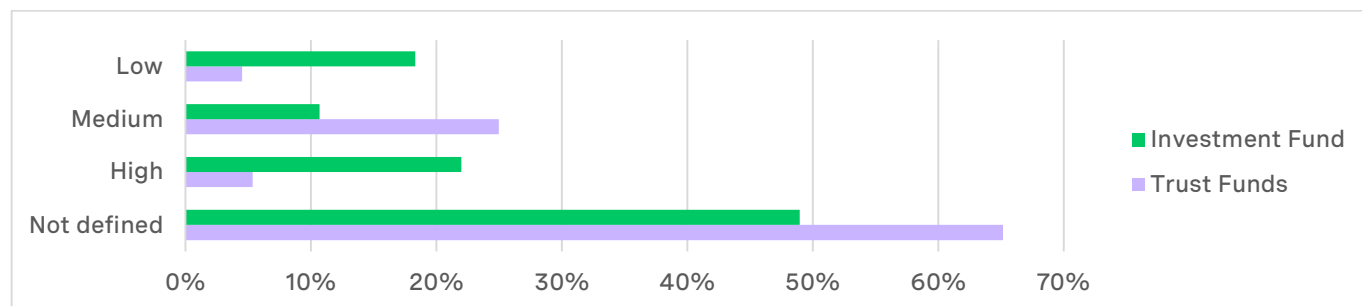


Table 10: Demonstration value of investments and projects in the total active project portfolio 2023

Demonstration value	Nefco investments		Trust Funds		Grand Total
	Committed funds [MEUR]	Committed funds [%]	Committed funds [MEUR]	Committed funds [%]	
Low	37.62	18%	9.32	5%	11%
Medium	21.97	11%	51.65	25%	18%
High	45.14	22%	11.09	5%	14%
Not defined ⁸	100.50	49%	134.71	65%	57%
Total	205.24	100%	206.77	100%	100%

Figure 11: Scalability of investments and projects in the total active project portfolio in 2023 based on percentage of committed funds

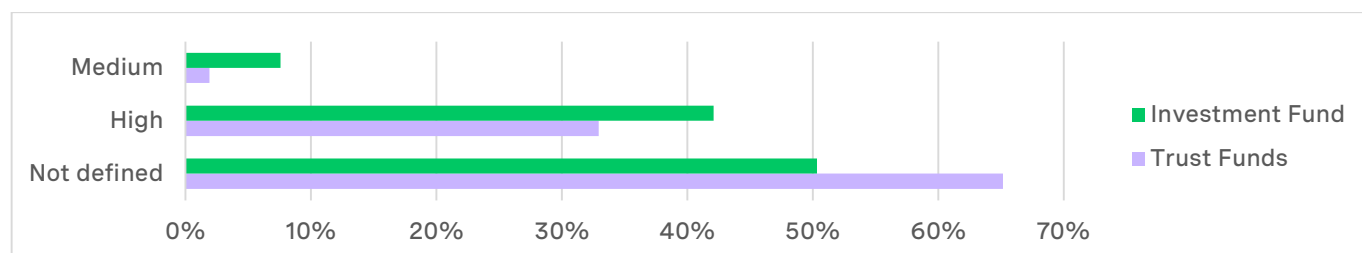


Table 11: Scalability of investments and projects in the total active project portfolio 2023

Scalability	Nefco investments		Trust Funds		Grand Total
	Committed funds [MEUR]	Committed funds [%]	Committed funds [MEUR]	Committed funds [%]	
Medium	15.53	8%	3.96	2%	5%
High	86.39	42%	68.10	33%	37%
Not defined ⁹	103.32	50%	134.71	65%	58%
Total	205.24	100%	206.77	100%	100%

⁸ The indicator "demonstration value" has not been used consistently in Nefco's portfolio prior to the year 2021.

⁹ The indicator "scalability" has not been used consistently in Nefco's portfolio prior to the year 2021.

5.2. Providing high additionality

As an international finance institution, Nefco's role is to bridge the 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 typically accepted by commercial banks and financiers. In many cases, the projects we finance would otherwise never be implemented. 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. Based on a preliminary assessment, we estimate that Nefco financing has a leveraging ratio of 2.0-4.0, meaning that for each euro of Nefco financing, two to four euros of additional financing are mobilised for the project or company being financed.

What do we mean by additionality?

- ✓ Filling the financing gap for projects with scale-up potential that are too financially risky for commercial banks. Without Nefco financing, many of these projects would never be implemented.

6. Business units

6.1. Green transition for Nordic SMEs



Photo 4: Coolbrook – full story: [Nefco finances Coolbrook to accelerate decarbonisation of heavy industries | Nefco](#)

Small and medium-sized companies (SMEs) play a significant role in the economy and green transition. Although their technologies or solutions are commercially and technologically proven, SMEs often have a higher financial risk profile than is acceptable for traditional commercial banks. Financing that fills the gap – the so-called ‘missing middle’ – is needed to support these companies in their initial growth phase and to attract other investors and private sector financing.

One of Nefco’s strategic goals is to increase the number of Nordic SME projects in its portfolio, thus contributing to the growth, competitiveness and green transition of these companies, particularly in sectors in which the Nordics demonstrate key competencies and innovation, as well as facilitating the creation of new jobs in both the Nordic and project countries.

SMEs may lack the resources to manage and meet the requirements of evolving sustainability regulations. Through our environmental and sustainability criteria and reporting requirements, we also help these companies become greener in all their operations.

There is increasing demand for financing and the total project portfolio, including Nefco’s own investment and managed trust funds is growing. At the end of the year, the Nordic SME portfolio comprised 70 active investments (including 11 in Ukraine) and 111 Nopef projects. In total this amounts to 181 projects in the Nordic SME portfolio at the end of 2023. Allocated investments and funds amounted to EUR 154.26 million, representing 37.4% of the total active project portfolio.

The Nordic SME business unit offers three different financing instruments:

- ✓ Nopef: Small feasibility study grants, financed by the Nopef trust fund
- ✓ Fast track: Standardised Nefco loans up to EUR 500,000 per project.
- ✓ Scale-up: Nefco financing up to EUR 5 million per project.

Figure 12: Environmental drivers of the Nordic SME portfolio in 2023 based on percentage of committed funds.

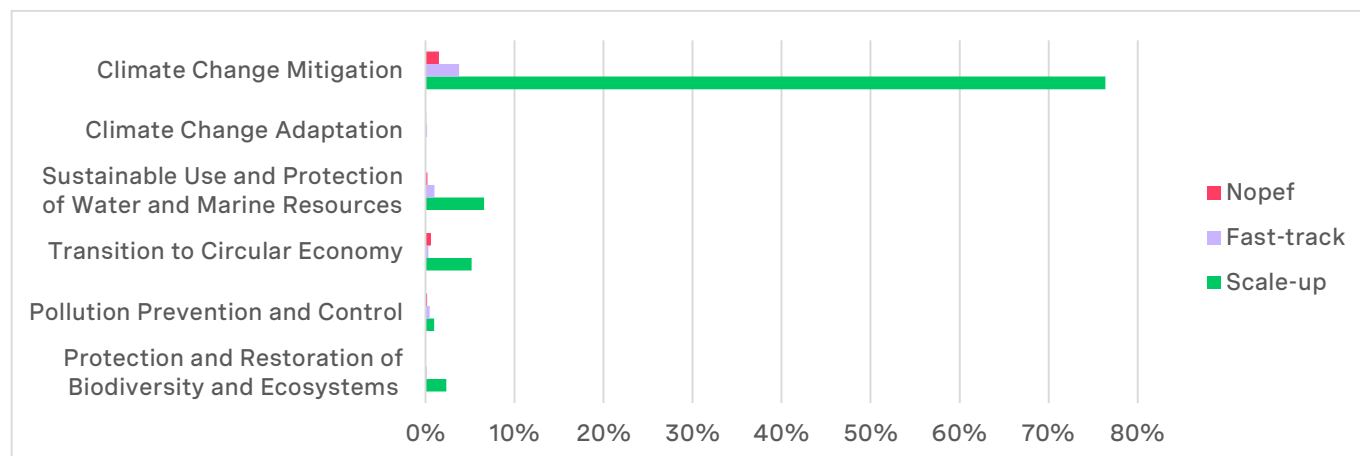
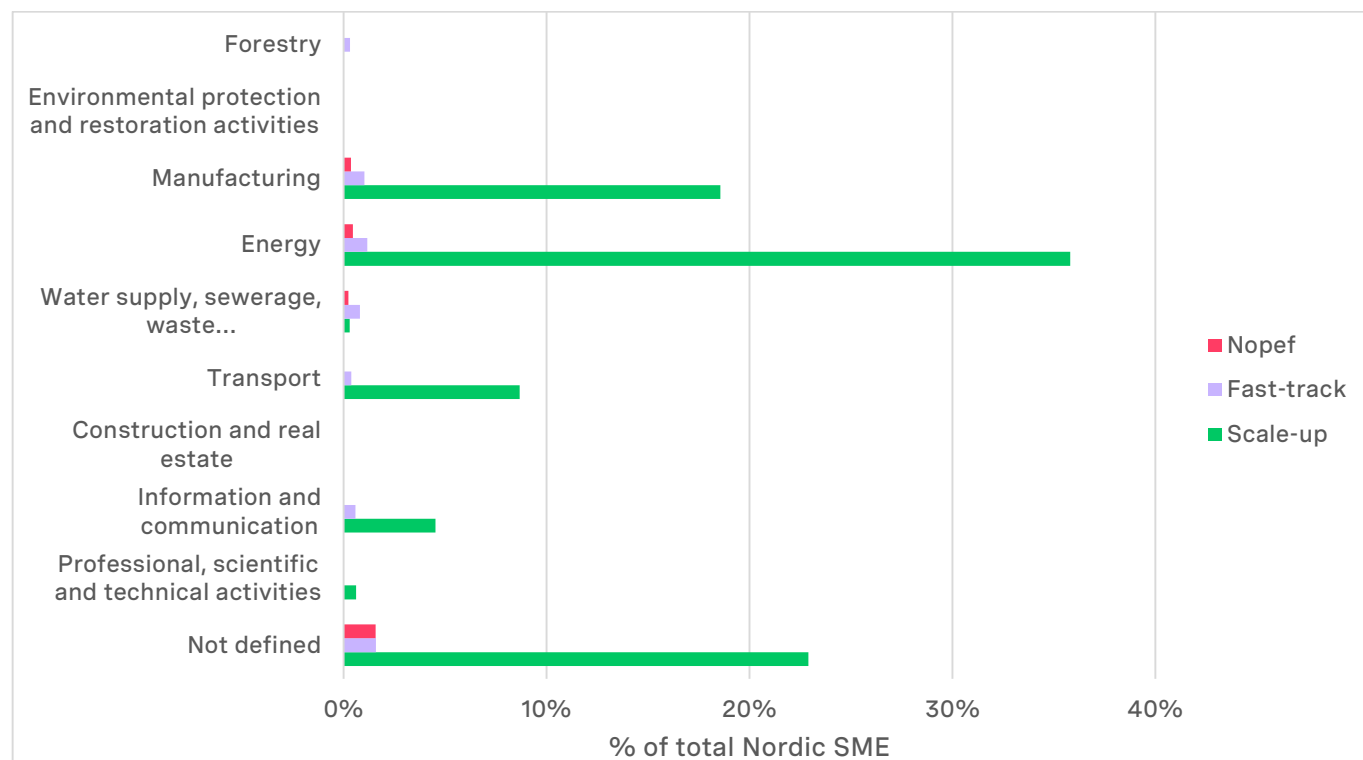


Table 12: Active Nordic SME investments and projects 2023

Environmental driver	Number of investments and projects	Committed funds [MEUR]	% of total project portfolio	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	115	125.93	30.6%	107.38	85%
Climate Change Adaptation	4	0.41	0.1%	0.32	78%
Sustainable Use and Protection of Water and Marine Resources	18	12.05	2.9%	11.78	98%
Transition to Circular Economy	28	9.46	2.3%	7.61	80%
Pollution Prevention and Control	11	2.53	0.6%	2.25	89%
Protection and Restoration of Biodiversity and Ecosystems	5	3.88	0.9%	2.09	54%
Total	181	154.26	37.4%	131.43	85%

Figure 13: Sectors represented in the Nordic SME portfolio in 2023 based on percentage of committed funds



Scale-up investments

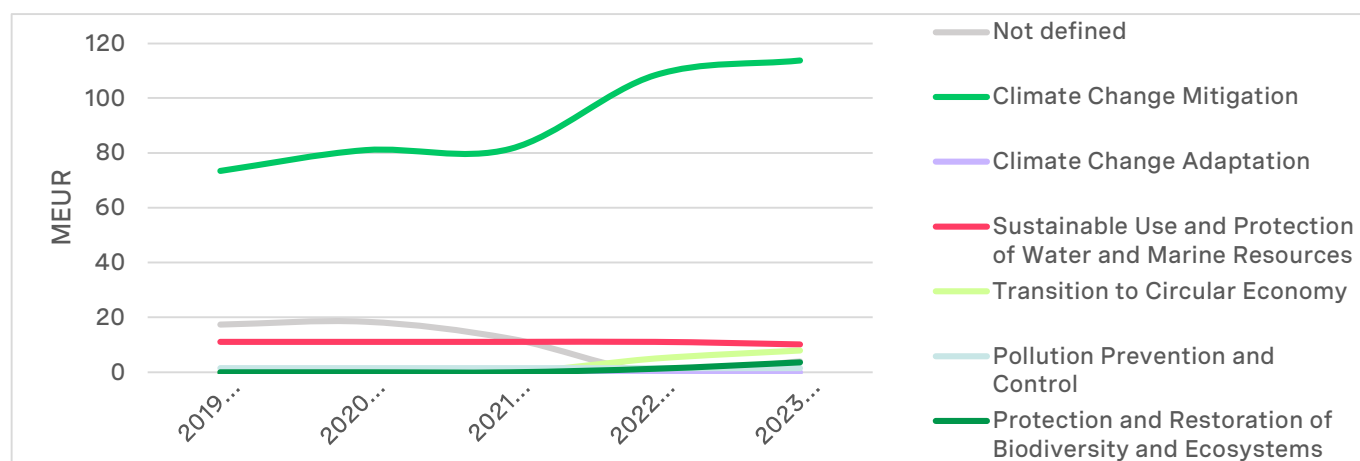
To facilitate investments in green solutions and technologies with global scaling potential we provide loans and equity-type financing for Nordic SMEs' investments from our own capital.

At the end of 2023, Nefco's portfolio included 48 active investments to support the scale-up of Nordic SMEs (44 in 2022). Eight new investments were contracted during the year (12 in 2022). Investments are spread across a wide range of sectors, but the emphasis continues to be primarily on solutions related to climate change mitigation. The most common sectors are energy, manufacturing, transport and others not defined in the EU Taxonomy.

Table 13: Active scale-up investments 2023

Environmental driver	Number of investments	Committed funds [MEUR]	% of total Nordic SME	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	40	117.80	76%	101.39	86%
Climate Change Adaptation	0	0.00	0%	0.00	0%
Sustainable Use and Protection of Water and Marine Resources	3	10.16	7%	10.16	100%
Transition to Circular Economy	2	8.00	5%	7.00	88%
Pollution Prevention and Control	1	1.50	1%	1.50	100%
Protection and Restoration of Biodiversity and Ecosystems	2	3.60	2%	1.85	51%
Total	48	141.06	91%	121.90	86%

Figure 14: Trend of active scale-up investments per environmental driver 2019-2023



Fast-track loans

Many Nordic SMEs have faced challenges such as supply chain issues, effects of Russia's war in Ukraine and deteriorating market conditions for raising risk capital. Nefco's fast-track loans can be used for investments and business activities that drive international growth.

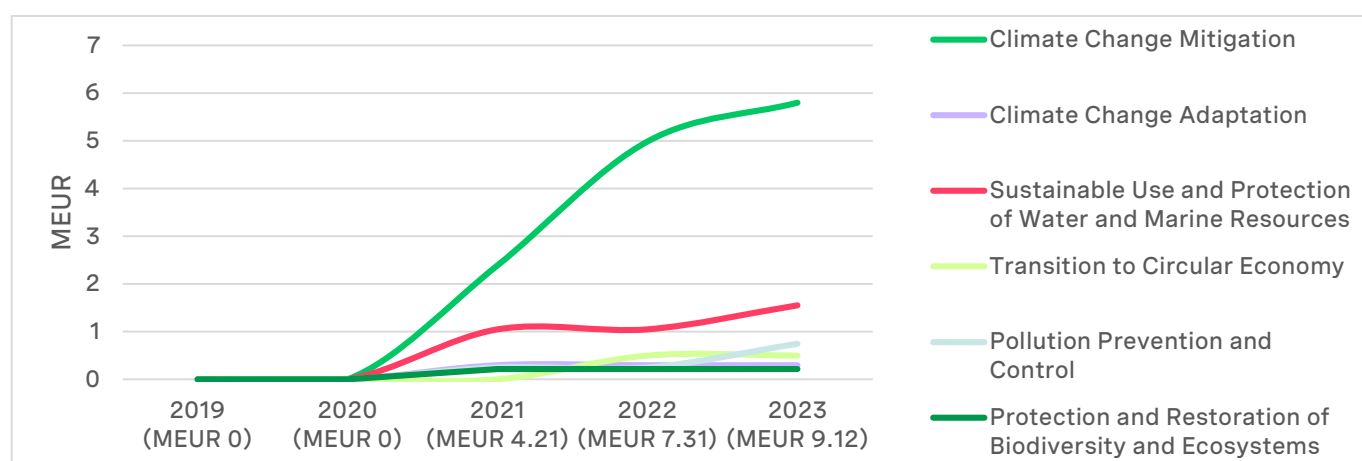
At the end of 2023, Nefco's portfolio included 22 active fast-track loans (18 in 2022). Four new investments were contracted under the programme during the year (seven in 2022).

The environmental benefits generated under the fast-track 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 support of the green transition. Investments are spread across a wide range of sectors, but the emphasis continues to be primarily on solutions related to climate change mitigation. The most common sectors are energy, manufacturing, sewerage and waste management, and others not defined in the EU Taxonomy.

Table 14: Active fast-track loans 2023

Environmental driver	Number of investments	Committed funds [MEUR]	% of total Nordic SME	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	13	5.80	3.8%	5.80	100%
Climate Change Adaptation	1	0.30	0.2%	0.30	100%
Sustainable Use and Protection of Water and Marine Resources	4	1.55	1.0%	1.55	100%
Transition to Circular Economy	1	0.50	0.3%	0.50	100%
Pollution Prevention and Control	2	0.75	0.5%	0.75	100%
Protection and Restoration of Biodiversity and Ecosystems	1	0.22	0.1%	0.22	100%
Total	22	9.12	5.9%	9.12	100%

Figure 15: Trend of active fast-track loans per environmental driver 2019-2023



Case: Environmentally friendly solution for ballast water treatment



Photo 5: Bawat

Up to 10 billion tonnes of ballast water are discharged by the shipping industry into the world's seas, lakes, and rivers each year. This discharge poses a serious environmental and economic threat as ballast water can contain invasive species and microorganisms. Invasive species disrupt marine ecosystems and reduce local biodiversity, with harmful effects on the environment, public health, and society.

Bawat, a Nordic company founded in 2011, provides an environmentally friendly solution for ballast water treatment. Bawat's system uses heat to pasteurise ballast water, making it a simple, cost-efficient, flexible, and sustainable solution that requires no harmful chemicals, UV lights, or filters. Unlike other solutions, Bawat's ballast water management system functions equally well in seawater, brackish water, and fresh water and is suited for both onboard solutions for ships and mobile (i.e. land-based) or containerised installations.

A loan agreement with Nefco is enabling Bawat to expand its global sales network, increase awareness of its brand and technology and develop its capacity for technical support and delivery. Specific investments will also be made to expedite the rollout of Ballast-as-a-Service.

Full story: [Bawat reaches financing agreement with Nefco | Nefco](#)

Support for entry to new markets through Nopef

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

Nopef's objective is to contribute to the green transition by supporting the internationalisation of Nordic environmental and climate solutions. Nopef provides conditional loans for feasibility studies into international establishments, demonstration projects and pilot installations of green technologies and solutions on international markets. Nopef also contributes to the goals of the Nordic Vision and to increased employment, knowledge sharing and development of sustainable business models.

At the end of 2023, Nefco's portfolio included 111 Nopef projects (140 in 2022). During the year, 44 new Nopef agreements (35 in 2022) were signed and 39 projects resulted in successful internationalisation (23 in 2022). Projects are spread across a wide range of sectors, but the emphasis continues to be primarily on solutions related to climate change mitigation. The most common sectors are energy, manufacturing and water supply, sewerage, waste management and remediation.

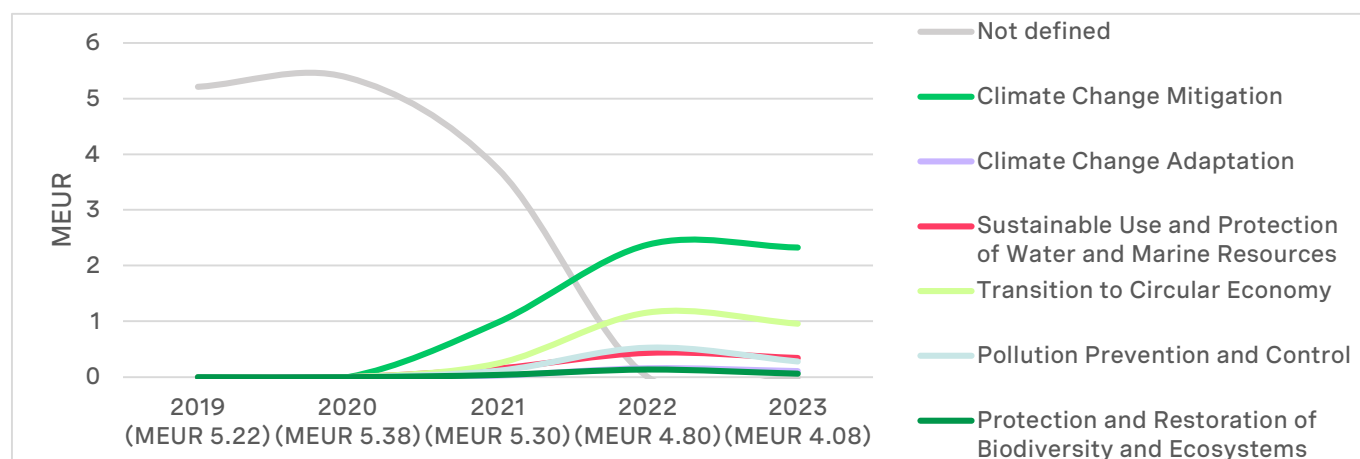
Nefco carried out its annual impact assessment of previously funded projects in autumn. The study indicates that each successfully completed project has on average contributed to the creation of 10 new jobs during the preceding three-year period, including two new jobs created within the Nordic region. On average, realised projects attract EUR 1.4 million in new investments. Given these outcomes, projects financed by Nopef in 2023 can be expected to contribute over 250 new jobs and over EUR 70 million in green investments in the coming years.

The synergies between Nopef and Nefco's investment activities are also important. During 2023, Nefco admitted four projects into its investment pipeline from companies that have previously conducted a feasibility study with support from Nopef.

Table 15: Active Nopef projects 2023

Environmental driver	Number of projects	Committed funds [MEUR]	% of total Nordic SME	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	62	2.33	1.5%	0.19	8%
Climate Change Adaptation	3	0.11	0.1%	0.02	18%
Sustainable Use and Protection of Water and Marine Resources	11	0.34	0.2%	0.07	20%
Transition to Circular Economy	25	0.96	0.6%	0.11	11%
Pollution Prevention and Control	8	0.28	0.2%	0.00	0%
Protection and Restoration of Biodiversity and Ecosystems	2	0.06	0.0%	0.02	33%
Total	111	4.08	2.6%	0.40	10%

Figure 16: Figure 18: Trend of active Nopef projects per environmental driver 2019-2023



Case: Circular economy solution based on biowaste brings triple benefit for agriculture



Photo 6: Manna Insect

Growing crops to feed animals, subsequently consumed by humans, is inefficient. A circular solution, utilising biowaste to feed larvae for animal feed, offers a more resource-efficient alternative. Research indicates that insect proteins can be 2-5 times more sustainable than comparable traditional agricultural products.

Nopef co-funded a feasibility study for the Finnish company Manna Insect to expand its circular agricultural solution to Kenya. Manna Insect's solution enables local insect production while processing biowaste and providing improved animal feed, along with a fertiliser byproduct.

The insect protein primarily replaces soy protein, which can be more environmentally harmful because of the water, land and fuel needed for its growth and transportation. Additionally, Manna Insect uses biowaste as feed in a circular solution. Local production also reduces reliance on fossil fuels for transport. A software system tracks the breeding and growing processes, allowing machine learning to optimise the environment.

Manna Insect's customers were eager to witness the concept in action. A potential partner in Kenya recognised its potential benefits for local farmers and proposed a pilot project. With financing from Nopef, Manna Insect assessed, prepared, and implemented its container-based insect production unit in Kenya. The feasibility study confirmed the solution's effectiveness in Kenya's hot climate, mirroring its success in Finland.

Full story: [*Circular economy solution based on biowaste brings triple benefit for agriculture*](#)

Nature does not wait – Nefco's Biodiversity Pilot Programme

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. Nearly one million species are at risk of extinction from human activities, and 75% of earth's land surface has been significantly altered by human actions (IPBES, Global Assessment Report 2019).

Combating climate change is impossible without nature

Over half of the world's GDP is moderately or highly dependent on nature and its services (World Economic Forum, Nature Risk Rising 2020). 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.

Nefco acknowledges that combating climate change is not possible without nature. Terrestrial and marine ecosystems play an important role in regulating the climate. They currently absorb roughly half of all man-made carbon emissions. In addition to technological solutions, such as those in Nefco's portfolio, nature-based solutions will be needed to combat climate change whilst protecting biodiversity.

Drivers of biodiversity loss

According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), the five main drivers of biodiversity loss are:

- ✓ Changes in land-use and sea-use
- ✓ Direct exploitation of organisms
- ✓ Climate change
- ✓ Pollution of soil, water and air
- ✓ Spread of invasive alien species

How Nefco aligns with the Global Biodiversity Framework

The United Nations (UN) Biodiversity Conference in Montréal (COP15) in late 2022 agreed to stop biodiversity loss by 2030. Financiers play an essential role in incentivising, mitigating and preventing the major drivers of biodiversity loss. They can accelerate or slow down drivers based on their financing decisions and portfolios.

One of the requirements for financial institutions, according to the Global Biodiversity Framework, is to reduce negative impacts on biodiversity, and Nefco has therefore established 'no go' areas in its [Environmental and Sustainability Policy](#). The Policy for instance aims to protect primary and old-growth forests and high conservation value areas, and Nefco therefore refuses to finance any commercial activities in these areas.

The Framework's Target 15 can additionally steer banks to establish strong biodiversity criteria for their portfolios. This further enables banks to effectively manage nature-related risks and reduce financial losses due to negative nature impacts on their portfolio.

We see that biodiversity loss has the potential to affect our investment portfolio and geographical regions of activity. It is important for Nefco to consider long-term risks related to biodiversity and natural capital. The portfolio screening was performed in 2023 as described in the [Nefco Biodiversity Roadmap](#). 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.



Photo 7: Katariina Vartiainen, Senior Manager, Environment and Sustainability, Nefco and Marina von Weissenberg, Senior Ministerial Adviser, Ministry of the Environment, Finland

land, photo: Nefco

Biodiversity Pilot Programme – creating added business value

In 2022 Nefco launched its *Biodiversity Pilot Programme* – a unique and tailor-made programme for Nordic small and medium-sized companies (SMEs). The programme aims to create a demonstration effect and inspire companies and project owners to think in terms of nature-positive measures.

Nefco hosted several workshops in 2023 for participating companies including BaltCap, Klappir, Meriaura Energy, Norsepower, Pure Waste Textiles and Sulapac Ltd. In the late 2023, the programme participants reached an important milestone when they all finalised their biodiversity management plans.

Figure 17: The following chart illustrates the programme actions.



The initial programme results show evident systematic changes in the pilot companies' operations and practices. The integration of biodiversity considerations into business operations has not only enhanced awareness of biodiversity but also created various biodiversity initiatives and accelerated concrete action. Through a collaborative effort, the programme has fostered business advantages such as new product offerings, support for sales and customer reach and the adoption of group-wide sustainability strategies.

The programme will continue in 2024 with the compilation and dissemination of the final results and lessons learnt. During the rest of the programme, Nefco will continue to work with its pilot companies and share best practices to further promote the integration of biodiversity considerations across industries.

Figure 18: By the end of 2023, the pilot programme participants achieved the following:

KLAPPİR	<ul style="list-style-type: none"> Inclusions of Biodiversity data based on European sustainability reporting standard (ESRS/CSRD) Customer outreach & testing phase
BALTCAP	<ul style="list-style-type: none"> Assigning a biodiversity champion and plan to focus more on the sustainability Biodiversity KPIs / thresholds set for guiding the future investments
PUREWASTE	<ul style="list-style-type: none"> Use of project results and species list to prioritize efforts and set targets Two initiatives: water conservation / rainwater harvesting and native plantation and wildlife habitat creation
NORSEPOWER	<ul style="list-style-type: none"> Supplier focus on biodiversity action Biodiversity management plan approved by management
SULAPAC	<ul style="list-style-type: none"> Biodiversity action plan with short- and long-term targets Identification of the high impact areas: action & next steps
MERIAURA ENERGY	<ul style="list-style-type: none"> Biodiversity checklist created: sales – system design – project execution – decommissioning Biodiversity management as part of operations

6.2. Green transition in Eastern Europe



Photo 8: City of Kivertsi – full story: [An energy efficiency project offers students of Susk lyceum a safer, greener future | Nefco](#)

Nefco's main focus in Eastern Europe now relates to its Green Recovery Programme for Ukraine. The objective of the programme is to partner with Ukrainian municipalities to address both direct and indirect consequences of the war and help them build back greener and better. Currently, the programme provides support for short-term repairs and restoration of critical infrastructure and public service buildings, rebuilding of utilities and facilities serving internally displaced persons (IDPs), and capacity building for Local Green Recovery Plans. The ultimate goals are to strengthen resilience, and promote sustainable development and further integration of Ukraine with Europe.

The focus area is energy efficiency improvements in the public sector. According to the International Energy Agency (IEA) the operation of buildings accounts for 30% of global final energy consumption and 26% of global energy-related emissions¹⁰. Energy savings is one of the most effective ways to reduce greenhouse gas emissions and mitigate climate change.

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, specifically in Georgia, Moldova and Ukraine.

At the end of 2023, the portfolio of the Eastern Europe business unit consisted of 83 projects, of which the majority contribute to the climate change mitigation objective (85 in 2022). Of these, 13 were Nefco loans and 70 were trust fund projects. Most projects are in Ukraine, and five energy-efficiency projects in Moldova and two in Georgia.

Committed funds amount to a total of EUR 173.72 million, representing 42.2% of the total active project portfolio, including Nefco's own investments and managed trust funds.

It is important to note that the Russian war on Ukraine has had negative effect on projects in Ukraine that was on-going before the full-scale war, and many of these projects are on hold or proceeding with delays.

¹⁰ 8% being direct emissions in buildings and 18% indirect emissions from the production of electricity and heat used in buildings; Tracking Clean Energy Progress 2023 – IEA

Figure 19: Environmental driver of investments and projects in Eastern Europe 2023 based on percentage of committed funds

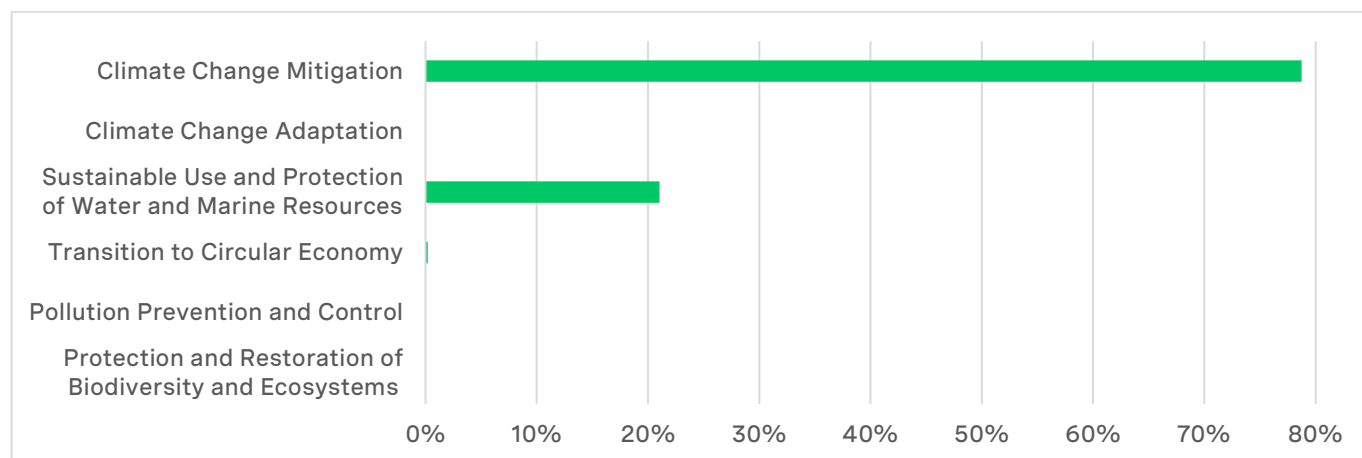


Table 16: Active Eastern Europe investments and projects 2023

Environmental driver	Number of investments and projects	Committed funds [MEUR]	% of total project portfolio	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	73	136.82	33.2%	84.60	62%
Climate Change Adaptation	0	0.00	0.0%	0.00	0.0%
Sustainable Use and Protection of Water and Marine Resources	9	36.53	8.9%	1.15	3.1%
Transition to Circular Economy	1	0.37	0.1%	0.00	0.0%
Pollution Prevention and Control	0	0.00	0.0%	0.00	0.0%
Protection and Restoration of Biodiversity and Ecosystems	0	0.00	0.0%	0.00	0.0%
Total	83	173.72	42.2%	85.75	49.4%

Figure 20: Sectors in Eastern Europe 2023 based on percentage of committed funds

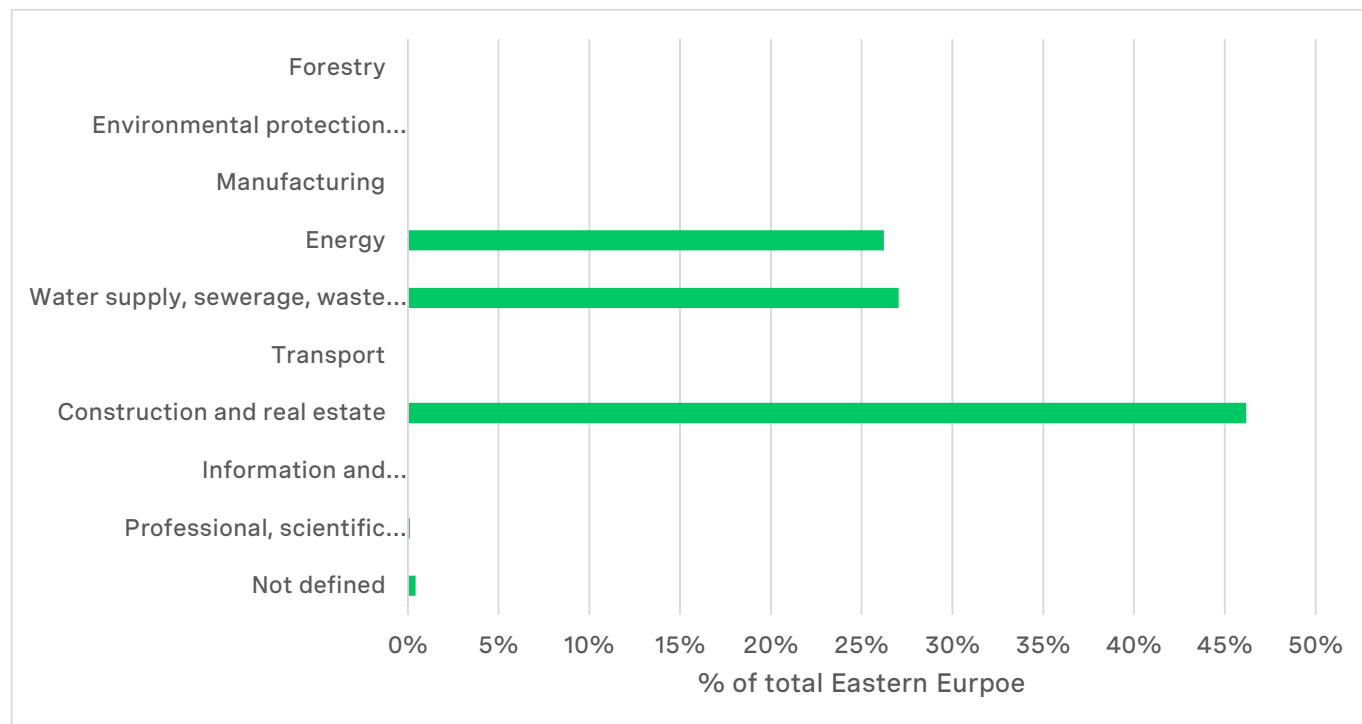
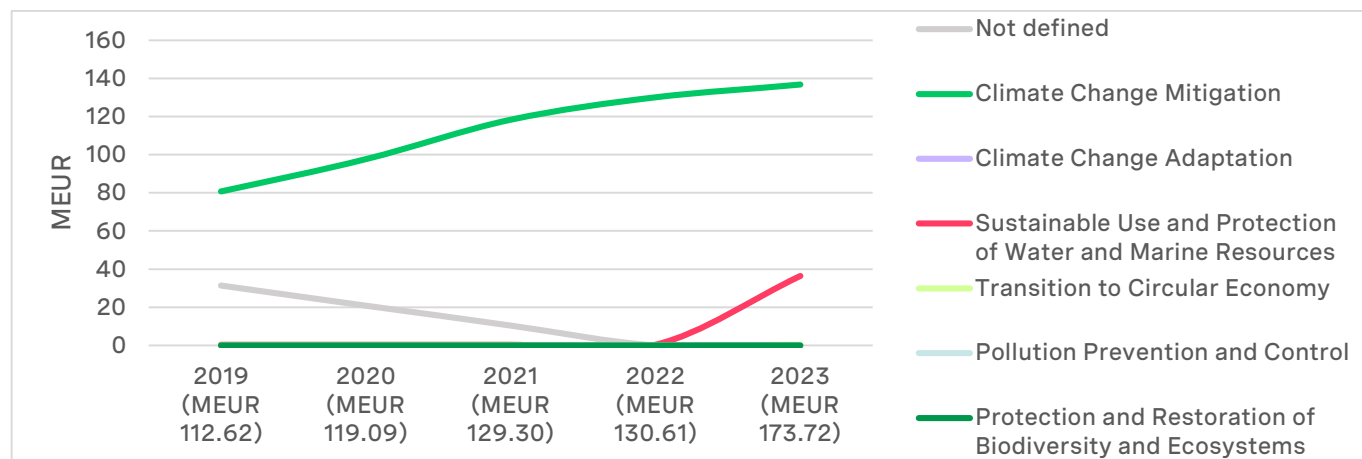


Figure 21: Trend of active Eastern Europe investment and projects per environmental driver 2019-2023



Case: Thermal modernisation of social facilities in Chernivtsi



Photo 9: School in Chernivtsi, by Nefco

Chernivtsi, a city in the southwest of Ukraine with a population of some 260,000, has faced a challenge of excessive costs to maintain and provide utility services for its public buildings. Most of these buildings in question were constructed from the 1950s to the 1980s. Energy audits highlighted significant energy overconsumption, with decades of neglect having resulted in substantial heat loss. These issues mean that indoor temperatures can drop as low as 15–17°C, this, coupled with drafts and poor air quality, creates uncomfortable conditions for occupants.

With grant support from E5P, a loan from Nefco and technical assistance from Sweden, the city of Chernivtsi implemented much-needed energy efficiency measures in 16 schools, 15 daycare centres, and 2 healthcare institutions. From 2018 to 2022, the buildings underwent capital renovation, including thermal modernisation of the buildings' envelopes and replacement of heating systems, with an additional grant provided to one more facility, with renovations due to be completed in September 2024.

The project has already brought about significant economic and environmental results. The efficiency improvements have reduced energy usage, resulting in primary energy savings of 39%. It is estimated that these changes will save the municipal budget EUR 1.73 million annually. The project has already benefited approximately 17,800 children and staff and 23,000 potential patients, who now experience a comfortable indoor temperature range of 19–22°C, improved air quality and better lighting.

Full story: [*Thermal modernisation of Chernivtsi facilities | Nefco*](#)

Green Recovery Programme for Ukraine

Severe damage to critical infrastructure and the environment caused by Russia's war on Ukraine is putting enormous pressure on people, society, businesses and nature. While extensive reconstruction is needed, this also presents an opportunity to build back better and more sustainably towards a carbon-neutral and nature-positive future for Ukraine.

The programme offers grant funding from various governmental contributors/donors and has rapidly taken off. Within the scope of the programme, which was launched in 2022, there are currently 40 projects under implementation, with work actively ongoing in various areas, and several new ones in the pipeline.

Projects related to the construction or renovation of existing buildings for internally displaced persons (IDPs) will provide sustainable, energy efficient housing. The housing shall also be adapted to be suitable for disabled persons and persons from other vulnerable groups. The new buildings shall be at least 10% more energy efficient than required by local legislation, i.e., energy class C or better. The renovated buildings shall aim to achieve a 30% improvement in energy efficiency compared to their former state. The renovations cover housing for IDPs and public buildings such as schools and hospitals, ensuring that sufficient public services are available to the inhabitants of the local communities. In all construction projects, green components shall be considered for installation, such as heat pumps or solar energy systems. The projects are expected to lead to increased energy efficiency and a reduction in CO2 emissions.

Projects related to the repair of critical infrastructure such as district heating, water and wastewater systems aim to ensure availability of efficient, basic utility services for the inhabitants. The estimated environmental impacts include improved energy efficiency, i.e., decreased electricity and heat consumption, thus reducing natural gas consumption and CO2 emissions. Furthermore, the repair of water and wastewater networks is estimated to reduce freshwater leakage and wastewater pollution, including nutrient pollution.

Capacity building for Local Green Recovery Plans

An important part of the Green Recovery in Ukraine programme is capacity building. This includes support for municipal partners to develop Local Green Recovery Plans to guide recovery activities in a sustainable direction over a longer period. Three municipalities are participating in a pilot to develop such plans.

These plans should match local realities and institutional capacities, strengthen local ownership and maximise utility. The work is expected to feed into the municipalities' development of a compulsory 'municipal recovery roadmap' in relation to environmental issues as well as compulsory energy plans and is scheduled for completion in November 2024.

Projects funded through the **Nefco Green Recovery Programme for Ukraine** are completed in an efficient and timely manner.



Concrete action on the ground

Spring 2022

Discussions start with donors.

July 2022

The programme is launched.

September 2023

The first urgent housing project for IDPs in Lutsk is 100% completed.

Case: “I now have everything I need for a comfortable stay”

Nefco collaborates directly with Ukrainian communities towards a long-term green recovery. A project implemented by Nefco, ‘EU Support to Urgent Housing Needs for Internally Displaced People in Ukraine’ aims to boost the capacity of municipalities to provide housing and basic services to internally displaced people by renovating existing infrastructure.

One example is a university laboratory building in Lutsk that has been refurbished into an energy efficient dormitory for students, lecturers, and their families who have fled other parts of Ukraine due to the war.

Prior to its renovation, the former laboratory building did not retain heat well. Moreover, it lacked automated weather and hourly heat control systems, used outdated lighting, and relied solely on traditional energy sources, leading to significant energy costs.

An EU grant of EUR 1.66 million, managed by Nefco, facilitated the implementation of several energy efficiency measures. Apart from the installation of essential utilities, the roof was replaced, the windows were upgraded, and the facade was insulated. The dormitory was also retrofitted with living rooms, kitchens, bathrooms, and common areas, providing residents with improved living conditions.

Full story: [A university laboratory building in Lutsk is now an energy efficient dormitory for students and professors displaced by the war | Nefco](#)

Photo 10: "I now have everything I need for a comfortable stay," says Serhii, a first-year master's degree student displaced from Donetsk to Lutsk.



6.3. Special funds

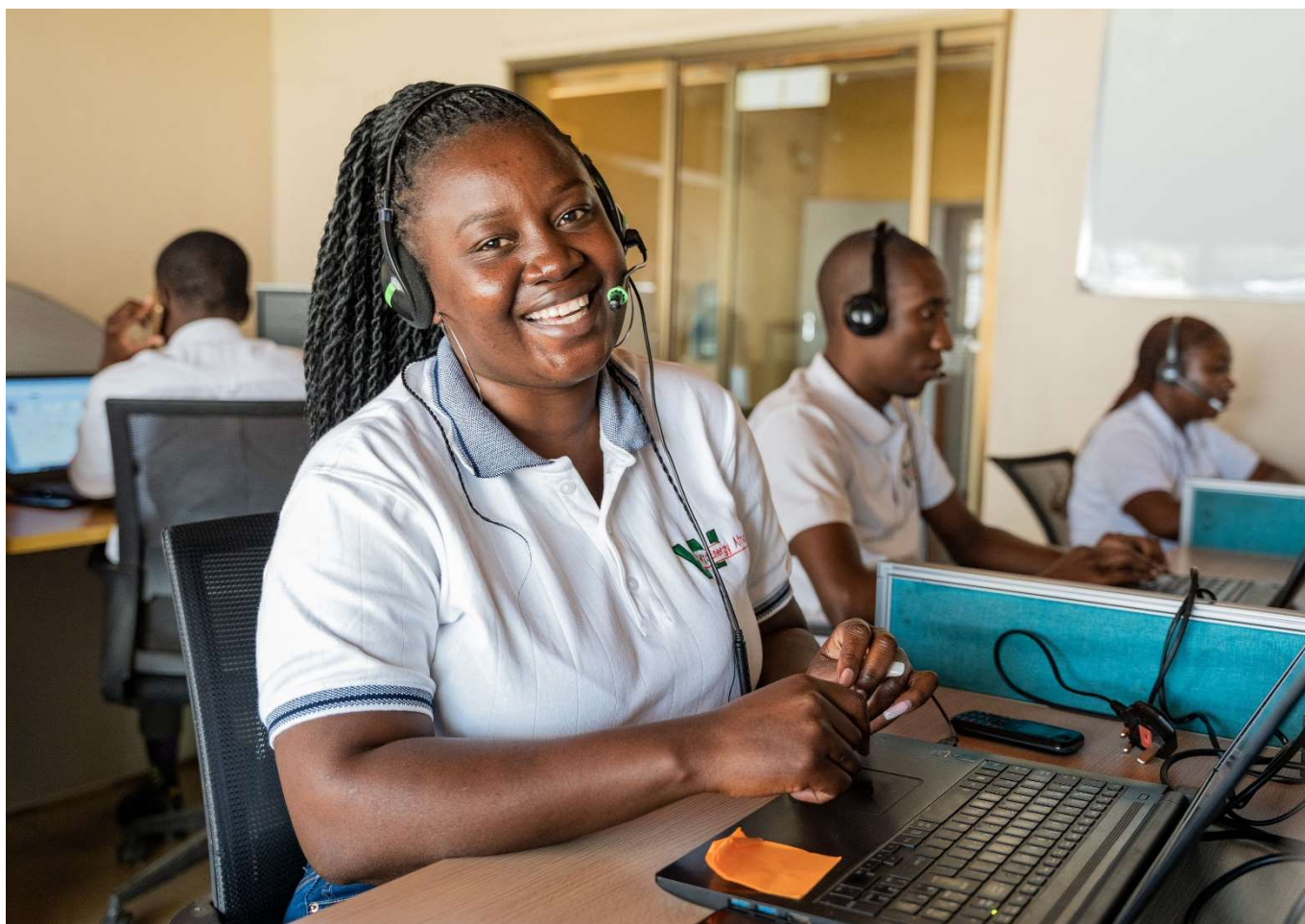


Photo 11: Jason Mulikita for *Beyond the Grid Fund for Africa*

Our Special Funds area has specific mandates and involves environmental and climate-related trust fund assignments from governments and agencies in the Nordics and beyond. 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 the context of meaningful mitigation actions in line with the Paris Agreement.

At the end of 2023, Special Funds active portfolio included 60 projects (32 in 2022) and committed funds amounted to a total of EUR 84.03 million (EUR 19.1 million in 2022), representing 20.4% of Nefco's total active portfolio.

Figure 22: Environmental driver of projects in Special funds 2023 based on percentage of committed funds

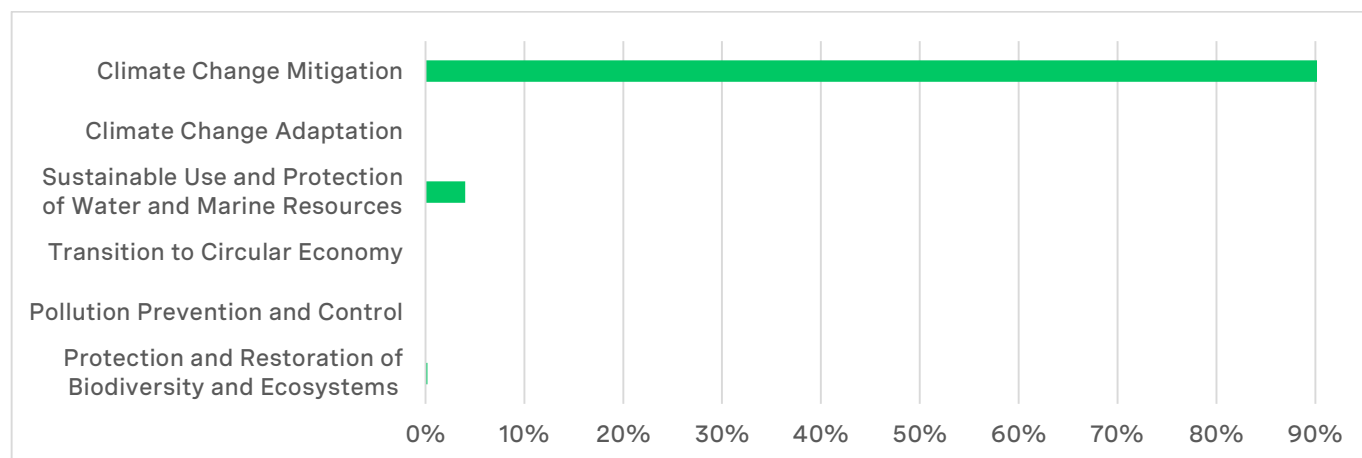


Table 17: Active Special Funds projects 2023

Environmental driver	Number of projects	Committed funds [MEUR]	% of total project portfolio	Funds disbursed [MEUR]	Funds disbursed [%]
Climate Change Mitigation	36	80.48	19.5%	17.44	22%
Climate Change Adaptation	0	0.00	0.0%	0.00	0.0%
Sustainable Use and Protection of Water and Marine Resources	23	3.39	0.8%	1.09	32.2%
Transition to Circular Economy	0	0.00	0.0%	0.00	0.0%
Pollution Prevention and Control	0	0.00	0.0%	0.00	0.0%
Protection and Restoration of Biodiversity and Ecosystems	1	0.17	0.0%	0.00	0.0%
Total	60	84.03	20.4%	18.53	22.0%

Figure 23: Sectors in Special Funds 2023 based on percentage of committed funds

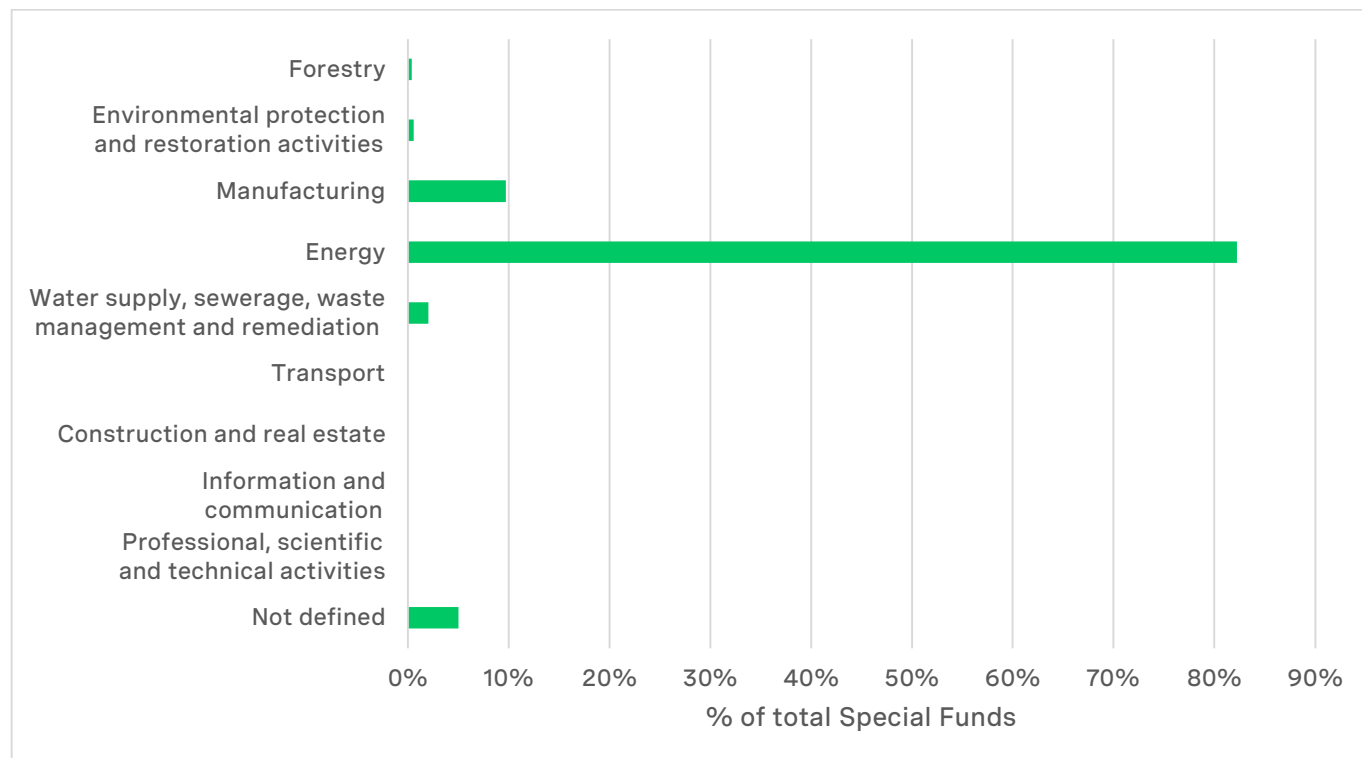
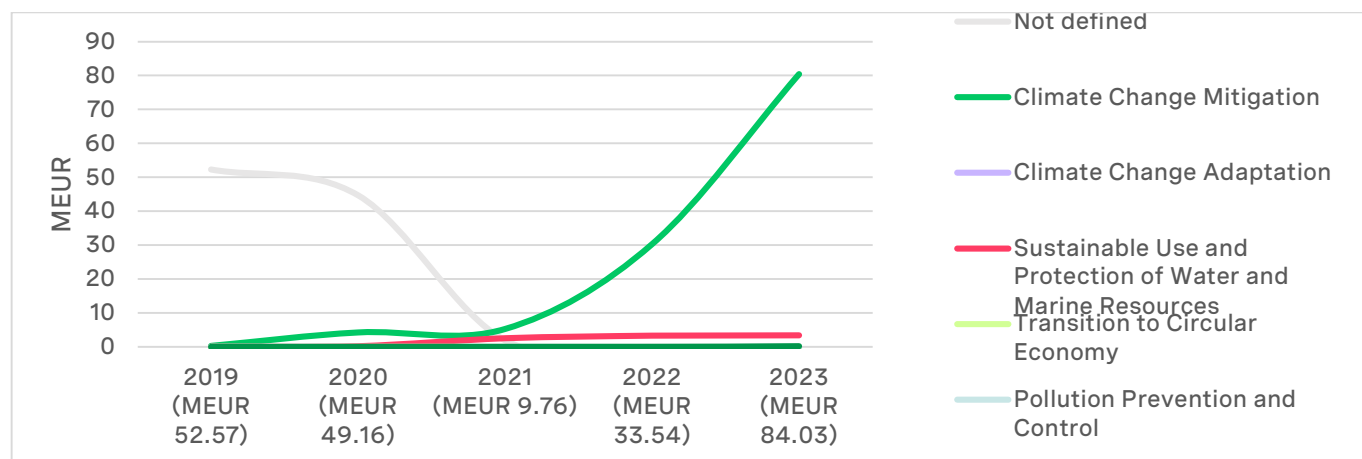


Figure 24: Trend of active Special Fund projects per environmental driver 2019-2023



Beyond the Grid Fund for Africa (BGFA)

Today, about 600 million people in Sub-Saharan Africa live without access to electricity. For most of them, connection to the grid is unlikely to happen for decades, or longer. The multi-donor 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, which forms part of the 'Power Africa' initiative launched by former US President Barack Obama, contributes to Sustainable Development Goal 7 and supports the aims of the Paris Climate Agreement. The BGFA programme aims to establish up to 1.7 million energy connections by 2028, benefiting more than 8.6 million people in Burkina Faso, the Democratic Republic of the Congo, Liberia, Mozambique, Uganda and Zambia.

During 2023, 12 additional companies were contracted in four Sub-Saharan countries, growing the total portfolio to 25 projects. The projects signed in 2023 are expected to establish 776,000 new energy service subscriptions by the end of 2027, with the potential to provide clean energy access for 3.8 million people in rural areas of Burkina Faso, the Democratic Republic of the Congo, Uganda and Zambia.

In 2023, a second Call for Proposals was launched in Uganda and the Call for Proposals in Mozambique was re-launched.

In 2022, NIRAS International Consulting was engaged to facilitate the institutional capacity development of BGFA in partner countries and implement Monitoring, Verification & Reporting (MRV) activities. During the same year, Off-Grid Task Force activities continued in Zambia, following a model developed under BGFA's predecessor programme, Beyond the Grid Fund for Zambia (BGFZ). This task force facilitates multi-stakeholder coordination, bringing together national government representatives, finance institutions, the private sector, and donor agencies. Subsequently, in 2023, Off-Grid Task Force was established in Liberia and Uganda while development work continued in Burkina Faso, the Democratic Republic of the Congo and Mozambique.

Initial projects have already generated 38,519 energy service subscriptions, benefiting 200,400 people by the end of 2022¹¹. Avoided GHG emissions totalled 4.5 tonnes CO₂.

¹¹ Data from 2023 not yet verified.

Case: Off-grid solar lighting in the Democratic Republic of the Congo



Photo 12: Altech

The first BGFA-contracted company in the Democratic Republic of the Congo (DRC) aims to support the expansion and scale-up of clean off-grid solar lighting solutions, e-motorcycle rentals, and charging stations. Alternative Energy Technologies Group (Altech) is a Congolese-founded and managed company established in 2013 by two innovative entrepreneurs who grew up in a refugee camp in Tanzania during the late 1990s, after fleeing the Congolese civil war.

To help support themselves financially, the co-founders and co-CEOs Washikala Malango and longwa Mashangao started buying small numbers of solar lanterns in Tanzania and importing them to the Democratic Republic of the Congo to sell. They made a number of similar journeys, increasing the number of solar lanterns they brought back each time. Today, the company is operating in 23 of 26 provinces in the DRC, selling solar home systems and lighting solutions mainly to households through their 4,000 engaged sales agents.

With BGFA funding, Altech will further scale up its presence in the country as well as increasing its fleet of rental e-motorcycles and expanding its network of charging stations for e-motorcycles. E-motorcycles are largely used as taxis in the DRC and are available for rent to drivers for a cost of eight euros per day. The company's aim is to establish up to 60,000 new energy service subscriptions and provide 1,000 rental e-motorcycles by the middle of 2027. The scale-up of e-motorcycles will support the creation of 1,000 new job opportunities in the country.

In addition to supplying affordable solar products, through their PAYGO model, and providing a rental service for e-motorcycles, Altech is planning to design and set up recycling infrastructure for off-grid solar products in the DRC. The planned project is expected to provide more than 300,000 people with access to electricity in remote areas in the DRC.

Full story: [*The Beyond the Grid Fund for Africa signs first agreement in the Democratic Republic of the Congo - BGFA*](#)

Modern Cooking Facility for Africa (MCFA)

Over 900 million people in Sub-Saharan Africa 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 up to four million Africans with access to clean cooking solutions, mitigating climate change, 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 environmental and gender impacts, avoids deforestation and biodiversity loss and decreases the time women spend on cooking and collecting wood fuel.

The facility is currently funded by Sweden, and Norway, as well as the European Union as regards the Zambia country programme. MCFA works in seven African countries. Nine projects selected through the first Call for Proposals were contracted in 2023 in the Democratic Republic of the Congo, Kenya, Mozambique, Tanzania, Zambia and Zimbabwe. A second funding round was launched at the end of November 2023.

Case: Women-owned company promoting modern clean cooking in Zimbabwe

The first agreement signed by the Modern Cooking Facility for Africa (MCFA) in 2023 was with a women-owned and led company in Zimbabwe selling biogas digesters to support the scale-up of clean and modern cooking solutions in rural and peri-urban areas of the country, potentially benefitting thousands of Zimbabweans. Lanforce Energy is offering biodigesters for households, farmers, entrepreneurs and institutions.

With the results-based financing provided from MCFA, the company aims to scale up its business activities by selling approximately 2,400 new biodigesters, providing over 6,000 clean cooking services, as some of the biodigesters can cater for multiple stoves, allowing several households to share one biodigester, for example. The new activities are expected to benefit up to 28,000 Zimbabweans in rural and peri-urban areas of the country.

Biodigesters contribute to reducing organic waste, from cultivation and cooking, and lowering greenhouse gas emissions, providing clean energy in the form of biogas for cooking and other productive-use appliances, such as lighting, heating and refrigeration. The biogas produced from biodigesters mainly reduces the use of firewood, which decreases pollution, improves indoor air quality and decreases deforestation.

Full story: [Modern Cooking Facility for Africa signs its first agreement with a clean cooking service provider - Modern Cooking Facility for Africa](#)



Photo 13: Lanforce Energy

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. There is growing interest in carbon market cooperation under Article 6 of the Paris Agreement including linkages with voluntary carbon markets. The Nordic countries have played a pioneering role in supporting ambitious climate action and promoting carbon pricing around the world.

During 2023, Nefco arranged workshops in Reykjavik (August) and Helsinki (October). At COP28 in Dubai, Nefco participated in a discussion that explored the potential of Article 6 and carbon finance, along with evidence of progress on the ground to support the energy transition.



Photo 14: Figure 28: Guðlaugur Þór Þórðarson, Minister for the Environment, Energy and Climate of Iceland and Ash Sharma, Nefco

Green Climate Fund

Nefco has been accredited by the Green Climate Fund (GCF) since 2018. In cooperation with EarthSpark International (ESI), Nefco has worked on the development of a project for solar microgrids in Haiti. The Funded Activity Agreement for the Haiti project between GCF and Nefco entered into force on 12 September 2023. The first disbursement to the project is anticipated for the first half of 2024.

Baltic Sea Action Plan Fund (BSAP Fund)

Eutrophication is still one of the greatest environmental threats to 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 the Fund has been co-managed by Nefco and the Nordic Investment Bank.

BSAP Fund grants have helped to speed up the implementation of related projects, which, in turn, have generated environmental benefits for the Baltic Sea. The BSAP Fund provides significant financial leverage, as grants have covered some 14% of realised project costs (including investments) and thus 1 euro has generated 7 euros of additional investments.

At the end of 2023, the BSAP Fund had 22 ongoing projects (19 in 2022). Seven projects were finalised during the year. In total, the BSAP Fund has supported the completion of 51 projects

The latest BSAP Fund Call for Proposals closed in February 2023, receiving significant interest from potential candidates and countries. As a result, ten new projects were approved. These newly agreed projects mainly focus on forestry, sea-based activities, biodiversity, nutrient discharge and hazardous substances.

Case: Surveying shipwrecks to reduce hazardous substances in the Baltic Sea



Photo 15: Shutterstock

The Baltic Sea floor in Estonia contains more than 400 shipwrecks, which pose a potential threat to the health of the Baltic Sea, as they could contain fuel, ghost nets, explosives, and other dangerous substances. In Estonia, most coastal areas are in shallow waters, which increases the risk of pollution to marine ecosystems. Immediate actions were thus needed to prevent environmental issues in the area.

The Estonian Police and Border Guard Board received a grant from the Baltic Sea Action Plan Fund in 2022 to study up to ten wrecks that present a high risk of environmental pollution. The ongoing project will provide an overview of the shipwrecks in the Estonian Baltic Sea waters, including assessment of the estimated quantity of oil on board, potential leakages and discharge from the vessel, and suggestions for suitable off-loading methods.

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

Full story: [Surveying shipwrecks to reduce hazardous substances in the Baltic Sea](#)

7. Nefco's own 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.

During the heating season 2022/2023 we participated in the Energy Savings week down a degree campaign by lowering our office indoor temperature by 1°C, resulting in savings of 0.24 tonnes of CO₂, of which half is attributed to heating related emissions of 2023.

In 2023 we changed our accounting regarding electricity related emissions, we now regard our certified Nordic wind power as emission free, thus resulting in zero electricity related emission in 2023. The method of accounting for emissions related to employees' commutes has also been revised during the year; rather than assuming equal distribution between modes of travel, we now base our calculations on the results of an employee-wide survey. We believe that this method of accounting is more accurate, and the survey will be conducted regularly going forwards. Business travel has continued to increase after the pandemic years of 2020-2021, whilst still remaining at lower levels than before the pandemic thanks to the introduction of new ways of working. After moving to our new renovated office spaces in 2022 the emissions from purchased goods and services has decreased to a similar level as before.

Greenhouse gas accounting allows us to systematically track our emissions. In 2023, our carbon footprint was 239.8 tonnes of CO₂, a 53.5% decrease compared to the previous year. In 2022, 2021 and 2020, our carbon footprint was 515.4, 132.6 and 70.6 tonnes of CO₂ respectively.

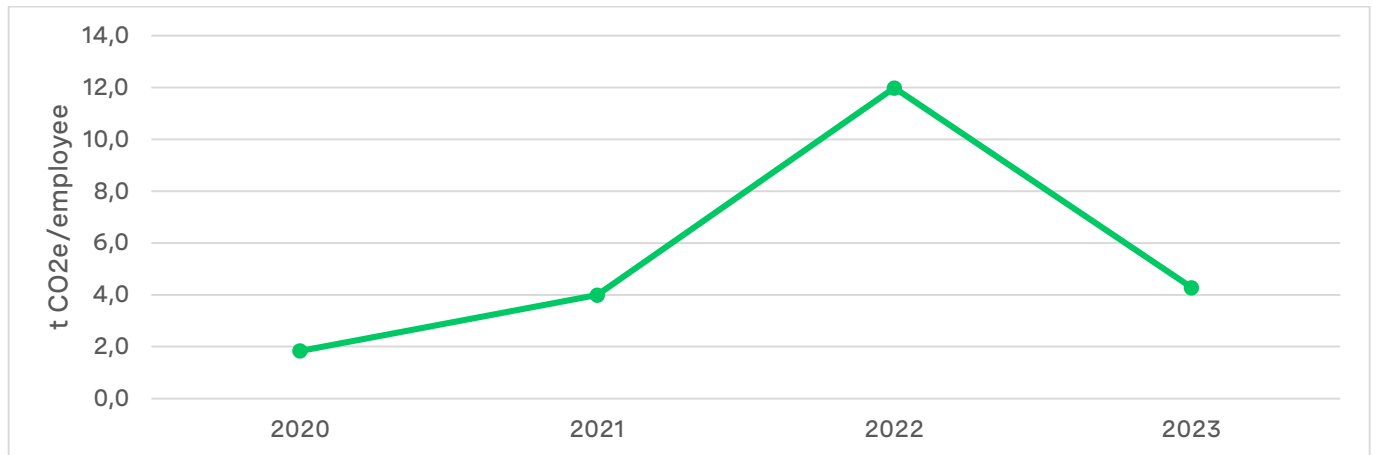
Table 18: Nefco's internal carbon footprint per scope and category 2020-2023

Emissions by source	2020	2021	2022	2023	Change on previous year [%]
Scope 1					
Fuels	0	0	0	0	±0%
Refrigerant leaks	0	0	0	0	±0%
Scope 1 total emissions	0	0	0	0	±0%
Scope 2					
Electricity ¹²	10.9	10.6	0	0	±0%
Heat	15.5	15.8	11.6	10.1	-13.30%
Cooling	0	0	0	0	±0%
Scope 2 total emissions	26.4	26.4	11.6	10.1	-13.30%
Scope 3					
Category 1: Purchased goods and services	14.6	61.8	347.3	41.2	-88.20%
Category 5: Waste generated in operations	0.5	0.5	0.8	0.8	12.80%
Category 6: Business travel	20.5	34	148.6	180.2	21.30%
Category 7: Employee commuting	8	8.4	4.7	3.3	-30.10%
Category 8: Upstream leased assets	0.6	1.4	2.5	4.2	69.30%
Scope 3 total emissions	44.2	106.1	503.7	229.8	-54.40%
Grand Total	70.6	132.6	515.4	239.8	-53.50%

¹² The year 2022 we reported 0.4 tonnes CO₂ emissions. However, since we regard Nordic wind power as emission free, we consider it relevant to change this figure retroactively to 0 tonnes CO₂.

The greenhouse emissions per permanent fulltime employee have decreased significantly since last year, from 12 to 4.3 tonnes CO₂ per employee, see Figure 27. We are closing in on the levels of 2020-2021, although the level of business travel during those years were very low as a result of the pandemic. We are achieving this by continuously working with and improving how we take sustainability into account in our operations, while also growing our work force in the Helsinki office from 28-55 permanent fulltime employees since 2020 until now.

Figure 26: Nefco's internal carbon footprint per permanent full-time employee in the Helsinki office in 2020-2023



For more information on Nefco's efforts to reduce its own footprint, go to [Internal operations reporting | Nefco](#)

8. Governance and staff

8.1. Diversity of management and staff

Nefco staff comprises both direct employees and long-term consultants, altogether 67 people (55 employees in Helsinki, six in Kyiv and six full-time advisors (consultants)), of 13 different nationalities at the end of 2023. The ages of the staff range from 23 to 66 years, and the average age was 43 years at the end of 2023.

Nefco's headquarters is located in Helsinki, Finland, and we also operate a Representative Office in Kyiv, Ukraine. During 2023, Nefco was also represented by long-term consultants in Norway, Sweden and Ukraine.

8.2. 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 to make 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 healthy work-life balance. Nefco's training and education programmes are an important aspect of our operations. As an international expert organisation, Nefco values its employees' dedication to continuously develop their skills.

Nefco conducted two employee surveys during 2023. Our Employee Net Promoter Score (eNPS), which measures employee satisfaction was 55 when measured in June and 38 in October.



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

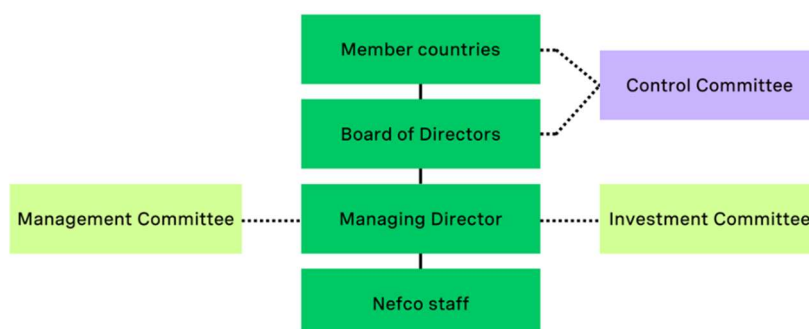
We are committed to add value to anything and everything we do for our cause. By doing our own work as well as we can, we help others do the same.

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

8.3. 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.

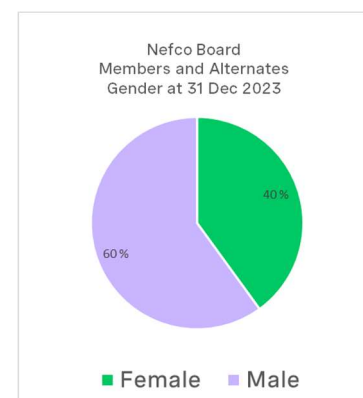
All our financing activities are assessed by a dedicated project team, including financial, legal and integrity experts. Independent teams perform various assessments, including an environmental assessment and review of social and governance aspects, a financial analysis and an integrity due diligence 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.



8.4. Board of Directors

The Board of Directors makes policy decisions concerning Nefco's operations 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 chair and a deputy chair from among the members for a period of one year. The chairmanship and deputy positions rotate among the owner countries.



Members and alternates of the Board in 2023:

Finland

- Saija Vuola, Ministerial Adviser, Ministry of the Environment
- 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

Iceland, Chair from March 2023

- 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 until end of February 2023

- Agnethe Dahl, Chair of the Board as of 1 March 2022, Deputy Director General, Ministry of Climate and Environment
- Alternates: Andreas Gahr Brunsvig, Adviser, Ministry of Climate and Environment (from 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,
- Alternates: Daniel Johansson Århem, Deputy Director, Ministry for Foreign Affairs, Sweden (from 25 May 2023)
- Henrik Norberg, Deputy Director, Ministry for Foreign Affairs (until 24 May 2023)

8.5. 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.

8.6. 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 2023:

- Chairman Jan-Erik Enestam, Minister, Independent Consultant
- Sjúrdur Skaale, Member of Parliament, Denmark
- Noora Fagerström, Member of Parliament, Finland
- Vilhjálmur Árnason, Member of Parliament, Iceland
- May Britt Lagesen, Member of Parliament, Norway
- Johan Andersson, Member of Parliament, Sweden

8.7. 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.

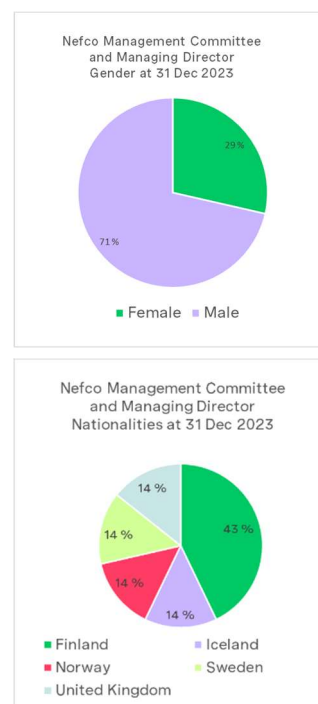
- Managing Director since 2019: Trond Moe, Norway

8.8. 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 2023:

- 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, General Counsel, Head of Legal and Project Administration
- Josefin Hoviniemi, Vice President, Communications



8.9. 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 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 2023* report.

9. 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 against the International Financial Institutions (IFIs) harmonised approach to project-level greenhouse gas (GHG) accounting¹³. 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 are 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 \(nefcoint\)](#)

¹³More information: [IFIs - Harmonization of Standards for GHG accounting | UNFCCC](#)

10. Fund assignments during 2023

Fund	Purpose	Contribution from
Nefco's own capital		
	Loan and equity-type financing for Nordic SME investments and fast-track loans	Nefco's own paid-in capital provided by the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) and retained earnings
Nefco as fund manager		
Nordic SMEs and Eastern Europe		
Nordic Environmental Development Fund (NMF and NMF Credits) <ul style="list-style-type: none"> Energy Savings Credits (ESC) 	<p>Soft loans and grants for technical assistance to public projects in Eastern Europe.</p> <p>During 2023, NMF funds have also been used for the Nefco Green Recovery of Ukraine Programme and the Biodiversity Pilot Programme for Nordic SMEs.</p>	Initially funded by all Nordic countries and Nefco, and currently by the Nordic Council of Ministers (NCM).
Nordic SMEs		
Nordic Project Fund (Nopef)	Conditional loans/grants for feasibility studies for the internationalisation of Nordic SMEs outside the EU	Nordic Council of Ministers (NCM)
Eastern Europe		
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 improving Ukrainian district heating systems	Sweden

Fund	Purpose	Contribution from
Finland Ukraine Trust Fund (FUTF) <i>Closed in 2023</i>	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
Sida funds for Technical Assistance & Guarantee	Supporting investments in the Eastern European region.	Sweden
Arctic Council Project Support Instrument (PSI) <i>Frozen</i>	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) <i>Closed in 2023</i>	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), including contributions from all Nordic countries, the Nordic Council of Ministers and Nefco
Special Funds		
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 and 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 and the EU

Fund	Purpose	Contribution from
Nordic Initiative for Cooperative Approaches (NICA)	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, the Nordic Council of Ministers, and Nefco
Nefco accredited as implementing agency		
Eastern Europe		
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, the 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 Persons (IDP)	Grants to support the green recovery of Ukraine.	The EU
Global		
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 [How we finance - Learn more about the Nordic Green Bank | Nefco](#)

Financial Report 2023

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STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 31 DECEMBER

(Amounts in EUR 1,000)

<i>Income</i>	Note	2023	2022
Interest income calculated using the effective interest method		11,526	7,428
Other interest income		476	261
Total interest income		12,002	7,689
Interest expense		-1,144	-913
Net interest income*	(3)	10,858	6,775
Net result of financial operations	(4)	-761	-4,493
Lending fee income	(5)	464	337
Trust fund income	(6)	4,395	3,120
Total income		14,955	5,739
<i>Operating expenses</i>			
Administrative expenses	(7), (8), (9)	-9,674	-8,106
Depreciation tangible and intangible assets	(13)	-534	-391
Foreign exchange gains and losses		-41	11
Impairment of loans / reversals	(12)	6,071	-50,558
Total operating expenses		-4,178	-59,044
Result for the year		10,777	-53,305
Total comprehensive income		10,777	-53,305

STATEMENT OF FINANCIAL POSITION

(Amounts in EUR 1,000)	Note	31/12/2023	31/12/2022
ASSETS			
Cash and cash equivalents	(16), (17)	26,716	30,857
Placements with credit institutions	(16), (17)	29,388	25,242
Investment assets	(10)	17,938	13,427
Other placements	(11)	0	0
Loans outstanding	(12)	66,784	55,931
Other receivables		822	1,143
Accrued interest and fees receivable		5,521	3,763
Intangible assets	(13)	2,106	2,376
Tangible assets	(13)	574	673
Total assets		149,848	133,412
LIABILITIES AND EQUITY			
<i>Liabilities</i>			
Long-term debt	(14)	9,949	6,826
Other liabilities		6,026	4,425
Accrued interest payable		3,844	2,909
Total liabilities		19,818	14,159
<i>Equity</i>			
Paid-in capital	(15)	113,407	113,407
Reserve for investment/credit losses		-	24,557
Retained earnings		5,846	34,594
Result for the year		10,777	-53,305
Total equity		130,030	119,252
Total liabilities and equity		149,848	133,412

CHANGES IN EQUITY

(Amounts in EUR 1,000)	Paid-in capital	Reserve for investment/credit losses	Operational fund	Retained earnings	Total comprehensive income	Total
Equity at 1 January 2022	113,407	24,557	4,500	27,144	2,949	172,557
Appropriation to the retained earnings				2,949	-2,949	-
Appropriation from the Operational fund			-4,500	4,500		-
Total comprehensive income					-53,305	-53,305
Equity at 31 December 2022	113,407	24,557	-	34,594	-53,305	119,252
Equity at 1 January 2023	113,407	24,557	-	34,594	-53,305	119,252
Appropriation to the retained earnings				-53,305	53,305	-
Appropriation from the reserve for investment/credit losses		-24,557	-	24,557		-
Total comprehensive income					10,777	10,777
Equity at 31 December 2023	113,407	-	-	5,846	10,777	130,030

CASH FLOW STATEMENT 1 JANUARY - 31 DECEMBER

(Amounts in EUR 1,000)	2023	2022
Cash flows from operating activities		
Result for the year	10,777	-53,305
Adjustment for non-cash items		
Depreciation tangible and intangible assets	534	391
Value adjustments, investment assets	1,051	4,437
Impairments, lending	-6,678	50,579
Capitalizations, lending	-752	-581
Adjustments, lending	-870	-618
Exchange rate adjustments	-	-71
Change in accrued interests, assets	-2,094	-2,437
Change in accrued interests, liabilities	935	774
Other adjustments to the year's result	12	10
Lending		
Disbursements	-28,172	-26,807
Repayments	19,198	20,703
Prepayments	11,011	3,144
Investment assets		
Investments	-6,328	-3,290
Divestments	766	747
Change in other receivables	-3,932	-4,384
Change in other liabilities	1,424	-366
Cash flows from operating activities	-3,117	-11,075
Cash flows from investing activities		
Change in placements with credit institutions		
Acquisitions	-28,146	-23,252
Disposals	24,000	-
Net cash flows from investing activities	-4,146	-23,252
Cash flows from financing activities		
Change in long-term debt		
Drawdowns	4,000	-
Repayments	-878	-517
Net cash flows from financing activities	3,122	-517
Change in cash and cash equivalents	-4,140	-34,844
Opening balance for cash and cash equivalents	30,857	65,701
Closing balance for cash and cash equivalents	26,716	30,857
Additional information to the statement of cash flows		
Interest income received	10,244	8,849
Interest expense paid	-208	-139

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 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 2023

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 2024

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. Impairment of loans and loan receivables is included in the "Impairment of loans/reversals" in the Statement of Comprehensive income. Impairment of accrued interest is included in the "Interest income, lending" and an impairment of non-utilization fees is included in the "Lending fee income" in the Statement of Comprehensive income.

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. A control process is applied to ensure that the fair value of the financial asset is determined on a reasonable basis. Net change in fair value is included in "Net result of financial operations" in the Statement of Comprehensive income.

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. Investments quoted on an active market are measured at the balance sheet date (or latest available) quoted price.

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. This category includes assets which value is determined by for example external resources or stipulations in exit agreements.

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. All valuations are based on assumptions and judgements that management considers reasonable based on prevailing circumstances. The actual outcome may differ from the estimates.

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 2-3 as of 31 December 2023 (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 2023 (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. Loans outstanding includes also convertible loans, which are carried at fair value since they do not pass the SPPI test. 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, to whom 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, the situation remains difficult 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 negative change from the initial 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. As country risk ratings are quite stable, any change in rating is considered significant.

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 made a drawdown under 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).

The Corporation has accumulated a general risk reserve for investment/credit losses from its profits to cover the risk of losses on loans outstanding and investment assets. This reserve was fully used to cover for the unrealised losses caused by Russia's invasion of Ukraine in 2022. NEFCO may accumulate funds to the general credit risk fund for investment/credit losses when deemed appropriate.

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 local 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 the pension 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 six 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 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 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. NEFCO has a reserve for investment/credit losses but was forced to utilise it to cover unrealised losses in 2022. The reserve could be replenished from future profits. 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. The guarantee facility from Nordic Environmental Development Fund for the rouble-denominated loans was closed in 2023 as NEFCO's lending in rouble ended.

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 (2022: EUR 56.1 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 (2022: 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 17.9 million (2022: EUR 13.4 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses and was utilised at the start of 2023 to cover for unrealised losses due to Russian invasion on Ukraine. Equity investments account for 15.8% 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 NEFCO is an 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 and most clients have been able to continue repayments despite of the situation. All concentration risks are monitored on quarterly basis in the risk report presented to the Board of Directors. See note 12 for lending country specification.

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 66.8 million (2022: EUR 55.9 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses and was utilised at the start of 2023 to cover for unrealised losses due to Russian invasion on Ukraine.

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.

Lending, net book value ¹ (amounts in 1,000 EUR)	2023				2022			
	Stage 1	Stage 2	Stage 3	Loans at FV	Stage 1	Stage 2	Stage 3	Loans at FV
Very high risk	-	-	-	-	2,100	2,281	-	-
High risk	16,515	2,578	547	-	13,880	8,159	-	7,174
Medium risk	15,464	2,485	-	5,537	3,270	988	-	-
Low risk	3,668	16,471	-	-	2,062	11,613	-	-
Na.	-	5,085	-	-	-	5,872	-	-
Total lending	35,646	26,619	547	5,537	21,312	28,912	-	7,174

The main risk consists of lending to counterparties backed by lien or other security in property, which accounts for 40.2% 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.

¹ Expected credit loss lump sum (EUR 1.0 million, 2022: EUR 1.1 million) and activated front-end fee (EUR 0.5 million, 2022: EUR 0.4 million) have not been considered while calculating these amounts.

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 by continuous monitoring of cash flow, liquidity, and available capital for new investments. The corporation also continuously monitors risk in its lending and investment activities.

3 Net interest income

Interest income (Amounts in EUR 1,000)	2023	2022
Interest income, placements with credit institutions	817	-130
Interest income, lending	10,709	7,558
Interest income calculated using the effective interest method	11,526	7,428
Other interest income	476	261
Interest income total	12,002	7,689
Interest expense	-1,144	-913
Net interest income	10,858	6,775

4 Net result of financial operations

Financial operations (Amounts in EUR 1,000)	2023	2022
Investment assets, realised gains and losses	214	-
Other realised gains and losses	138	17
Total realised gains and losses	352	17
Investment assets, unrealised gains and losses	-1,051	-4,437
Total unrealised gains and losses	-1,051	-4,437
Borrowing costs	-63	-73
Total costs borrowing	-63	-73
Net result of financial operations	-761	-4,493

5 Lending fee income

Lending fee income (Amounts in EUR 1,000)	2023	2022
Commitment fees	232	213
Lending fee income	232	124
Total lending fee income	464	337

6 Trust fund income

Trust fund income (Amounts in EUR 1,000)	2023	2022
Trust fund management fees	4,390	3,109
Service fees	4	10
Total trust fund income	4,395	3,120

As at 31 December 2023 the Corporation administered 32 trust funds (2022: 33) with aggregate pledged contributions amounting to EUR 653 million (2022: EUR 498 million).

The Corporation acts as manager and administrator of the trust funds for which it receives management and cost recovery fees. In 2023 the trust fund management fees amounted to EUR 4,390 thousand (2022: EUR 3,109 thousand) as follows: Beyond the Grid Fund for Africa: EUR 994 thousand (2022: EUR 920 thousand), NMF: EUR 771 thousand (2022: EUR 890 thousand), Modern Cooking Facility for Africa: 657 thousand (2022: 26 thousand), Nopef: EUR 390 thousand (2022: EUR 370 thousand), Green Recovery UA Norway: 232 thousand (2022: EUR 57 thousand) and other trust funds: EUR 1,346 thousand (2022: EUR 847 thousand).

NEFCO has invested in NMF, see Note 11.

7 Compensations and benefits

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

Compensation for the Board of Directors and the Control Committee is set by the Nordic Council of Ministers. The members of the Board of Directors are entitled to a fixed annual remuneration. The members of the Board of Directors and the Control Committee are also entitled to reimbursement of travel and accommodation expenses and a daily allowance in accordance with the Corporation's travel policy.

The Board of Directors decides on the appointment and remuneration of the Managing Director. According to the Statutes, the Managing Director is appointed on a fixed-term contract of up to six years. The existing contract can also be prolonged. The current Managing Director's contract commenced on 1 June 2019 for a six-year period.

Compensation for the Managing Director is paid in the form of a fixed monthly salary and customary taxable benefits and allowances.

Compensation for the Chairman of the Board of Directors, the Board, the Control Committee as well as the taxable income of the Managing Director and the other members of the Management Committee was as follows:

Compensation/taxable income (Amounts in EUR 1,000)	2023	2022
Chairman of the Board of Directors	4	4
Other members of the Board of Directors	17	17
Control Committee	2	2
Managing Director	497	473
Other members of the Management Committee	1,129	1,045

Distribution by gender as at 31 Dec	2023	2022
Board of Directors	10	10
Female	5	4
Male	5	6
Control Committee	6	6

Female	2	2
Male	4	4
Management Committee including the Managing Director	7	7
Female	2	2
Male	5	5

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 120 thousand at 31.12.2023 (2022: EUR 146 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 2023 was 17.64% (2022: 17.66%) 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, including the Managing Director. 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 accounted for as a defined contribution plan.

The employer's pension contribution regarding the Managing Director amounted to EUR 162 thousand (2022: EUR 154 thousand), of which EUR 46 thousand (2022: EUR 44 thousand) related to supplementary pension premiums. The corresponding figure for the other members of the Management Committee was EUR 348 thousand (2022: EUR 324 thousand) of which EUR 72 thousand (2022: EUR 67 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 salary, 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 on the salaries of the Corporation's staff and the final tax on salaries collected shall be reimbursed to the Corporation.

8 Administrative expenses

Administrative expenses (Amounts in EUR 1,000)	2023	2022
Staff costs	5,744	5,202
Pension premiums in accordance with the Finnish public sector pension system	1,370	1,231
Other pension premiums	336	316
Office premises expenses	341	178
Other administrative expenses	3,230	2,352
Other administrative income	-1	-
Total administrative expenses²	11,021	9,279
Host country reimbursement according to agreement with the Finnish government ³	-1,347	-1,173
Net administrative expenses	9,674	8,106
Employees	2023	2022
Number of employees as at 31 December	60	53
Average age of employees	44	44
Average period (years) of employment	6	8
Distribution by gender as at 31 December		
Female	39	34
Male	21	19

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 49 (2022: 43). Employees on substitute contracts, fixed term contracts less than four years and temporary contracts amounted to 11 (2022: 10).

In 2023, auditors' fees amounted to EUR 48 thousand (2022: EUR 39 thousand), including audit fees related to trust funds under administration by NEFCO.

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

² 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.

³ In 2022 the refund is based on salaries in 2020 and in 2023 the refund is based on salaries in 2021.

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 2023, NEFCO has agreed on undrawn borrowing totalling at EUR 32.0 million (2022: EUR 29.0 million). NEFCO's key employees are also considered related parties. Information regarding key employees is presented in Note 7.

(Amounts in EUR 1,000)	Interest and fees paid to NIB	Rents paid to NIB	Service fee paid to NIB	Amounts owed by NEFCO to NIB	Amounts owed by NIB to NEFCO
2023	227	451	1,199	4,995	-
2022	83	396	862	1,056	-

10 Investment assets

The Corporation's portfolio comprised the following holdings as at 31 December 2023:

Holding	Country/region of operation	% of total capital of the investment company
Usaldusfond BaltCap Infrastructure Fund	Baltics	2.9
BaltCap Private Equity Fund III usaldusfond	Baltics	3.3
Bank Lviv JSCJSB	Ukraine	13.9
Baseload Capital Holding AB	Sweden	2.1
CRI hf.	China	2.4
FlyCap Mezzanine Fund II AIF KS	Baltics	4.7
Greenstream Network Ltd	China	23.7
Halychyna-Zahid LLC	Ukraine	5.6
RindiBel JCJSC	Belarus	38.6
Taaleri SolarWind II SCSp	Eastern Europe	6.9
Valoe Oyj	Lithuania	4.5
Korkia Oy (convertible bond)	Chile	Na.

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

At 31 December 2023, the acquisition cost of the investment assets was EUR 24.8 million (2022: EUR 19.3 million) while the fair value was EUR 17.9 million (2022: EUR 13.4 million).

At 31 December 2023, the agreed but not disbursed capital commitments for investment assets totalled EUR 1.2 million (2022: EUR 4.0 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 2023, NEFCO had 69 loans outstanding amounting to EUR 108.2 million. Below is a specification of loans outstanding by classification:

Loans outstanding (amounts in EUR 1,000)	2023	2022
Loans outstanding at amortised cost	102,650	101,273
Loans outstanding at fair value	5,537	7,174
Total loans outstanding	108,187	108,446

Expected Credit Losses

At 31 December 2023, loans outstanding at amortised cost has been impaired for Expected Credit Losses (ECL) to 61.2 million (in 2022 EUR 55.9 million). The following tables show net lending after deductions for ECL of EUR 40.8 million (2022: EUR 52.1 million). ECL for commitments amounted at EUR 0.4 million (2022: EUR 0 million) and is booked as other liabilities.

Loans outstanding classified in stages according to ECL method.

Loans outstanding (Amounts in EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Exposure at 31 December 2021	80,971	22,838	-	103,809
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	-	-	-	-
Exposure at 31 December 2022	28,486	68,381	11,579	108,446
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	182	-182	-
Transfer to Stage 3	-1,250	-320	1,570	-
Repayments	-4,789	-18,183	-2,046	-25,018
Disbursements and capitalisations	18,735	8,189	2,000	28,924
Remeasurements and FX changes	-5,536	-1,512	-2,655	-9,703
Exposure at 31 December 2023	35,646	56,737	10,267	102,650

The below table shows what net effect the impairments on loans, loan receivables, accrued interest and non-utilisation fees had on the result in each year.

Impairment of loans/reversals in the statement of comprehensive income (Amounts in EUR 1,000)	2023	2022
Realised credit losses	-304	21
Impairment on lending	6,394	-50,890
Expected Credit Losses (ECL), net	-355	311
Total impairment of loans/reversals	5,735	-50,558

At 31 December 2023, one loan was moved to Stage 2 amounting to EUR 0.2 million (2022: 58.7 million) and two loans to Stage 3 amounting to EUR 1.6 million (2022: EUR 14.9 million). ECL provision for Stage 2 loans totalled at EUR 31.1 million (2022: EUR 40.5 million) and for Stage 3 loans totalled at EUR 9.7 million (2022: EUR 11.6 million).

Impairments according to ECL stages and individually or collectively impaired.

Expected Credit Loss (ECL) (Amounts in EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL at 31 December 2021	1,039	7,614	-	8,654
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
ECL at 31 December 2022	27	40,502	11,579	52,108
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	182	-182	-
Transfer to Stage 3	-	-19	19	-
Repayments	-14	-11,736	-51	-11,801
Disbursements and capitalisations	0	287	0	287
Remeasurements and FX changes	0	1,893	-1,645	247
ECL at 31 December 2023	13	31,108	9,720	40,841

Specifications of Loans outstanding

Of the loans, 60 are floating-rate loans. Such loans account for 81.7% of the total loan portfolio. Seven loans accounting for 12.6% of the total loan portfolio have fixed interest rates. In addition, two loans have fixed and floating mechanisms in different tranches, accounting for 5.7% 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.

Loans outstanding (Amounts in EUR 1,000)	2023	2022
Up to and including 3 months	55,101	47,950
3–6 months	33,875	38,922
6–12 months	1,581	-
1–5 years	13,485	10,472
over 5 years	4,146	11,102
Total loans outstanding	108,187	108,446
Expected Credit Loss	-40,841	-52,108
Activated front-end fees	-562	-407
Exposure at 31 December	66,784	55,931

The maturities of the loans extended by the Corporation vary from below one to 10 years.

All of NEFCO's lending is denominated in euros.

Lending by country of borrower at 31 December:

Country (Amounts in EUR 1,000)	2023	2022
Belarus	696	2,432
Denmark*	15,705	14,128
Finland*	23,298	13,304
Georgia	1,918	1,963
Iceland*	5,581	3,546
Latvia	-	850
Norway*	375	525
Sweden*	11,159	10,444
Ukraine	49,456	61,255
Total loans outstanding	108,187	108,446

Expected Credit Loss	-40,841	-52,108
Activated front-end fees	-562	-407
Exposure at 31 December	66,784	55,931

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

Loans outstanding by type of security at 31 December:

Security (Amounts in EUR 1,000)	2023		2022	
	Amount	Share %	Amount	Share %
Loans guaranteed by member countries	10,812	10.0	9,357	8.6
Loans to or guaranteed by other countries	2,108	1.9	2,163	2.0
Loans to or guaranteed by banks	10,417	9.6	12,250	11.3
Loans backed by security in property	43,544	40.2	46,535	42.9
Loans with negative pledge clause and other covenants	29,752	27.5	26,626	24.6
Loans guaranteed by parent companies and other guarantees	8,012	7.4	5,242	4.8
Loans without formal security	3,543	3.3	6,272	5.8
Total loans outstanding	108,187	100.0	108,446	100.0
Expected Credit Loss	-40,841		-52,108	
Activated front-end fees	-562		-407	
Exposure at 31 December	66,784		55,931	

Non-performing loans at 31 December 2023 amounted to EUR 14.6 million before impairments (2022: EUR 6.1 million). These loans have been impaired in full except for proportion of a loan that is backed by security in property.

The Corporation defines “forbearance” as a concession granted to a counterparty for reasons of financial difficulties, meaning the modification of the terms and conditions of the contract or its refinancing. 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 2023, the loans agreed, but not yet disbursed, totalled EUR 24.3 million (2022: EUR 50.9 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 (availability 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 2023 is EUR 2.1 million (2022: EUR 2.4 million). New office space was taken into use during 2022.

Right of use assets (Amounts in EUR 1,000)	2023	2022
As at 1 January	2,376	927
Depreciation expense	-394	-351
Remeasurement (change in lease payment)	124	1,800
As at 31 December	2,106	2,376
Lease liabilities (Amounts in EUR 1,000)	2023	2022
As at 1 January	-2,415	-948
Interest expense	-12	-10
Rental payments	376	343

Remeasurement (change in lease payment)	-124	-1,800
As at 31 December	-2,174	-2,415
Tangible assets (Amounts in EUR 1,000)	2023	2022
Acquisition value 1.1	854	177
Acquisition during the year	41	677
Acquisition value 31.12	895	854
Accumulated depreciation 1.1	181	141
Depreciation according to plan for the year	140	40
Accumulated depreciation 31.12	321	181
Net book value	574	673

14 Liabilities

At 31 December 2023, NEFCO had EUR 9.9 million outstanding of liabilities (2022: EUR 6.8 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 4.9 million of the amount is not on-lent (2022: EUR 1.0 million). Borrowing is denominated in euros at either fixed interest or tied to 6-month Euribor.

At 31 December 2023, NEFCO has agreed on undrawn borrowing totalling at EUR 32.0 million (2022: EUR 29.0 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:

Paid-in capital (Amounts in EUR 1,000)		Share %
Denmark	21,561	19.0
Finland	22,265	19.6
Iceland	1,320	1.2
Norway	24,192	21.3
Sweden	44,070	38.9
Total authorised capital	113,407	100.0

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.

Classification of financial instruments (Amounts in EUR 1,000)	Amortised cost	2023 Fair value through profit and loss	Total	Amortised cost	2022 Fair value through profit and loss	Total
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Financial Assets						
Cash and cash equivalents	26,716	-	26,716	30,857	-	30,857
Placements with credit institutions	29,388	-	29,388	25,242	-	25,242
Investment assets	-	17,938	17,938	-	13,427	13,427
Other placements	-	0	0	-	0	0
Loans outstanding	61,247	5,537	66,784	48,758	7,174	55,931
Other receivables	822	-	822	1,143	-	1,143
Accrued interest income	5,459	62	5,521	3,744	19	3,763
Total	123,632	23,536	147,168	109,744	20,620	130,363
Financial Liabilities						
Long-term debt	9,949	-	9,949	6,826	-	6,826
Other liabilities	6,026	-	6,026	4,425	-	4,425
Accrued interest expense	3,844	-	3,844	2,909	-	2,909
Total	19,818	-	19,818	14,159	-	14,159

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 31.12.2023, €STR rate has been used (3.9%; 2022: 1.89%).

Fair value of financial instruments (Amounts in EUR 1,000)	2023		2022	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial Assets				
Cash and cash equivalents	26,716	26,716	30,857	30,857
Placements with credit institutions	29,388	29,388	25,242	25,242
Investment assets	17,938	17,938	13,427	13,427
Other placements	0	0	0	0
Loans outstanding	66,784	65,631	55,931	54,982
Other receivables	822	822	1,143	1,143
Accrued interest income	5,521	5,521	3,763	3,763
Total	147,168	146,015	130,363	129,414
Financial Liabilities				
Long-term debt	9,949	9,796	6,826	6,711
Other liabilities	6,026	6,026	4,425	4,425
Accrued interest expense	3,844	3,844	2,909	2,909
Total	19,818	19,665	14,159	14,044

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)	2023			2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets						
Cash and cash equivalents	26,716	-	-	30,857	-	-
Placements with credit institutions	-	29,388	-	-	25,242	-
Investment assets	-	9,694	8,244	735	8,614	4,078
Other placements	-	-	0	-	-	0
Loans outstanding	-	65,631	-	-	54,982	-
Other receivables	-	822	-	-	1,143	-
Accrued interest income	-	5,521	-	-	3,763	-
Total	26,716	111,055	8,244	31,592	93,744	4,078
Financial Liabilities						
Long-term debt	-	9,796	-	-	6,711	-

Other liabilities	-	6,026	-	-	4,425	-
Accrued interest expense	-	3,844	-	-	2,909	-
Total	-	19,665	-	-	14,044	-

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)	2023	2022
Opening balance	4,078	8,266
Investments during the year	3,000	-
Divestments during the year	-	-
Reassignment from/to level 3	3,008	-36
Change in value ⁴	-1,842	-4,152
Closing balance	8,244	4,078

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 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. 10% increase (or decrease) in the value of the existing portfolio would add (deduct) EUR 0.8 million (2022: EUR 0.4 million) to the financial result.

⁴ This line corresponds to the effect on profit and loss.

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.

2023 (Amounts in EUR 1,000)	Carrying amount	Contractual 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	Undefined
Financial Assets								
Cash and cash equivalents	26,716	26,716	26,716	-	-	-	-	-
Placements with credit institutions	29,388	30,187	6,164	8,254	12,381	-	-	3,388
Investment assets	17,938	19,115	-	70	-	6,350	9,694	3,000
Other placements	0	0	-	-	-	-	-	0
Loans outstanding	66,784	121,452	16,829	6,494	9,581	75,784	12,763	-
Other receivables	822	8,602	8,602	-	-	-	-	-
Total	141,648	206,072	58,311	14,818	21,963	82,135	22,457	6,388
Financial Liabilities								
Long-term debt	9,949	13,877	6,699	-	764	4,109	2,304	-
Other liabilities	6,026	5,870	1,935	405	670	1,799	429	634
Total	15,974	19,747	8,634	405	1,434	5,908	2,733	634
Net during the period	125,673	186,325	49,677	14,413	20,529	76,227	19,725	5,754
Loans agreed but not yet disbursed	24,287	24,287	-	-	-	-	-	24,287
Investment assets agreed but not yet disbursed	1,228	1,228	-	-	-	-	-	1,228
Borrowing agreed but not yet drawn	32,000	32,000	-	-	-	-	-	32,000

2022 (Amounts in EUR 1,000)	Carrying amount	Contractual 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	Undefined
Financial Assets								
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	-	-	-	-	-
Total	126,600	196,410	51,640	13,872	19,604	82,410	25,642	3,242
Financial Liabilities								
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	-
Total	11,251	14,811	6,834	172	1,020	5,629	1,156	-
Net during the period	115,349	181,600	44,806	13,700	18,584	76,781	24,485	3,242
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

At 31 December 2023, EUR 3.4 million (2022: EUR 3.2 million) was pledged as collateral for the staff loans and is shown above as placements with credit institutions with undefined maturity.

18 Exchange rates

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

		EUR rate 31.12.23	EUR rate 31.12.22
BYN	Belarussian rouble	3.65325	2.6684
DKK	Danish krone	7.45324	7.43643
GBP	British pound	0.86892	0.88738
ISK	Icelandic krona	150.5169	151.4919
NOK	Norwegian krone	11.23847	10.51846
RUB	Russian rouble	99.2999	77.9073
SEK	Swedish krona	11.08845	11.11912
UAH	Ukrainian hryvnia	41.95395	39.41148
USD	US dollar	1.10536	1.06733

19 Post balance sheet events

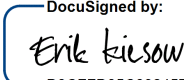
There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements.

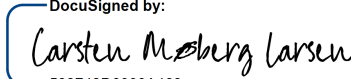
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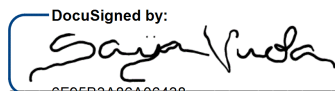
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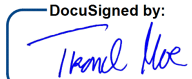
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Auditor's report

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 2023, 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 material accounting policy information.

In our opinion the financial statements present fairly, in all material respects, the Nordic Environment Finance Corporation's financial position as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 2023 and the Annual Impact Report 2023, but does not include the financial statements and our auditor's report thereon. We have obtained the Report of the Board 2023 and the Annual Impact Report 2023.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion regarding this 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.

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 IFRS Accounting Standards, 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 2023 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, delegate these 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, 27 February 2024

Ernst & Young Oy
Authorized Public
Accountant Firm

Terhi Mäkinen
Authorized Public
Accountant

Ernst & Young AB
Authorized Public
Accountant Firm

Mona Alfredsson
Authorized Public
Accountant

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"By my signature I confirm all dates and content in this document."

TERHI JOHANNA MÄKINEN

Authorized Public Accountant

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Mona Alfredsson

Authorized Public Accountant

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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 2023, 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 27 February 2024, at which time we also received the Auditors' Report submitted on 27 February 2024 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 2023, 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 profit of EUR 10,777,465.15.

We recommend to the Nordic Council of Ministers that:

- the result for year 2023 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 the Managing Director will be discharged from liability for the administration of the Corporation's operations during the accounting period examined by us.

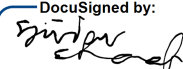
Helsinki, 27 February 2024

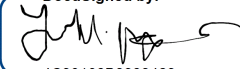
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The Nordic Green Bank

Published: 2024

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