NEFCO

The Nordic Green Bank

Risk Management Policy

Adopted by the Board of Directors of the Nordic Environment Finance Corporation on 12 December 2024 with entry into force as of 13 December 2024.

NEFCO

Table of Contents

1. Introduction 2

2. Scope 2

3. Risk Governance 2

3.1.1. Risk Culture 3

3.1.2. Risk Appetite 4

3.1.3. Risk Management Architecture 4

4. Risk Categories 6

4.1.1. Credit Risk 6

4.1.2. Equity risk 6

4.1.3. Financial Market Risk 6

4.1.4. Liquidity Risk 7

4.1.5. Operational Risk 7

4.1.6. Compliance Risk 7

Responsible Function / Department

Finance Department

Document version history and review dates

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Risk Management Policy	Board	12.12.2024	13.12.2024	Public
Risk Policy	Board	4.3.2010	4.3.2010	Internal

This Policy shall be reviewed at least every 3 years.

1. Introduction

NEFCO's **Risk Management Framework ("RMF")** has been established to create a robust and healthy risk management governance as well as risk management policies and procedures to keep risks below the levels that have been determined in the Risk Appetite Statement ("RAS"). An RMF is a structured approach used to identify, assess, manage, and monitor risks. It helps ensure that risks are understood and managed effectively to protect assets and achieve NEFCO's objectives.

The key components of an RMF are as follows:

- **Risk Governance:** Establishing policies, procedures, and roles to ensure effective risk management. This includes defining responsibilities and ensuring accountability,
- **Risk Identification**: Identifying potential risks that could affect the organization. This includes categorizing risks such as operational, financial, strategic, and compliance risks,
- **Risk Assessment:** Evaluating the likelihood and impact of identified risks. This helps prioritize which risks need more immediate attention,
- **Risk Mitigation:** Developing strategies to manage and mitigate risks. This can include avoiding, transferring, accepting, or reducing risks,
- **Risk Monitoring:** Continuously monitoring risks and the effectiveness of mitigation strategies. This ensures that new risks are identified and managed promptly.

2. Scope

The scope of this Policy covers both financial and non-financial risks but financial risk is limited to NEFCO's own equity at risk, i.e. the financial risks related to external funds managed under trust funds is out of scope. This policy is one of the documents comprising the RMF.

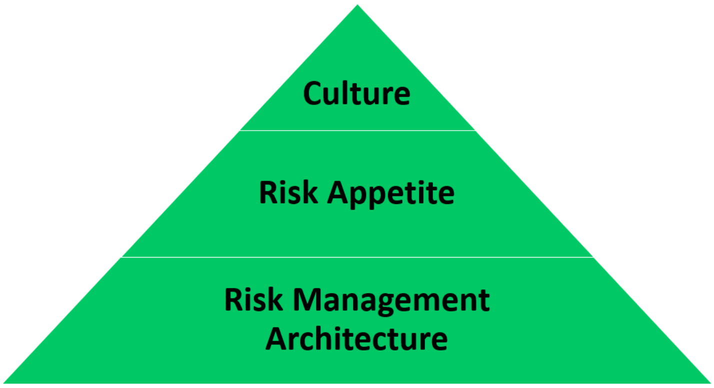
3. Risk Governance

To manage NEFCO's risk effectively, the Board of Directors ("Board") and Management:

- Build and reinforce NEFCO's risk culture,
- Articulate and monitor compliance with NEFCO's risk appetite,
- Establish the risk management architecture with three lines of defence to identify, measure, monitor and control risks.

The Board is responsible for overseeing the design and implementation of NEFCO's risk management governance.

Management is responsible for developing and maintaining the framework, which enable the effective identification, measurement, monitoring, and control of risk consistent with the Risk Appetite Statement. The key risk policies, regulations, rules, and guidelines are set out in section 3.1.3.1 below. For the purposes of this document Management is defined as consisting of the Managing Director and Heads of each department.



The **first line-of-defence** comprises the frontline business functions where risks are taken in conducting their activities.

The **second line-of-defence** comprises functions which provide independent risk monitoring and control activities.

Internal Audit is the **third line-of-defence** which is an independent assurance function with reporting lines to the Board and Control Committee.

3.1.1. Risk Culture

Risk culture is the shared values, attitudes, behaviours and understanding about risk shared within NEFCO. It shapes how risks are perceived, communicated, and managed, influencing decision-making and behaviour at all levels of the organization.

To promote a sound risk culture NEFCO strives to:

- Ensure that the Board and Management are committed to nurturing a risk-aware culture. Their support and involvement are crucial for setting the tone at the top.
- Promote open and transparent communication about risks to encourage employees to speak up about potential risks.
- Provide regular training and education on risk management principles and practices. This helps all staff to understand the importance of risk management and their role in it.
- Clearly define and communicate the roles and responsibilities related to risk management so that everyone knows their part in identifying, assessing, and managing risks.

- Embed risk considerations into all decision-making processes to ensure that risks are evaluated and managed proactively.
- Nurture a culture of accountability where employees take responsibility for managing risks.
- Regularly review and improve risk management practices and learn from past experiences and adapt to new risks and challenges.

3.1.2. **Risk Appetite**

NEFCO has established a Risk Appetite Statement ("RAS") with the aim of aligning NEFCO's risk-taking with the requirements set out in the Statutes and the strategy. The risk appetite is determined on an aggregate level and describes the types of risk that NEFCO is willing to assume or seeks to avoid in achieving its objectives considering capital, liquidity, compliance, and operational requirements.

NEFCO uses Key Risk Indicators to measure its risk profile which are defined and classified in the RAS.

Given NEFCO's purpose, risk-taking is primarily in its core activity of investments in loans and equity funded by its own equity. NEFCO endeavours to be responsive to the financing needs of its customers and the objectives of its owners thereby maintaining its relevance and value add. Because of the mandate, NEFCO's investments in loans and equity would be considered high risk by other financial institutions.

NEFCO's risk appetite in its treasury operations supports investment activities, maintaining a strong liquidity position and facilitating funding opportunities. NEFCO applies a conservative risk approach to these activities with stricter creditworthiness criteria for treasury counterparties compared to investment counterparties.

3.1.3. **Risk Management Architecture**

The risk management architecture comprises NEFCO's policies, processes, organisational structure, and control/assurance systems which identify, assess, mitigate, and monitor risks.

3.1.3.1. Key Risk Documents

The key risk documents are set out in the table below;

Document:	**Approved by:**
Risk Management Policy	Board of Directors
Risk Appetite Statement	Board of Directors
Environment and Sustainability Policy	Board of Directors
Policy on Anticorruption and Compliance	Board of Directors

Policy on Integrity Due Diligence	Board of Directors
Procurement Policy and Procedures	Board of Directors
Information Security Policy	Managing Director
Risk Management Rules	Management Director
Credit Enhancement Guidelines	Management Director
Expected Loss Framework	Management Director
Non-performing Exposure Framework	Management Director
Operational Risk Guidelines	Management Director

3.1.3.2. Processes

Processes are the procedures and practices in place to facilitate NEFCO in ensuring the risk objectives are met. A well-designed risk assessment process helps the organisation in identifying risks at an early stage to mitigate the risks before they have a negative impact on the organisation. A completed risk assessment is crucial in NEFCO's strategy planning and risk management activities.

The following are the key processes:

- Recognise and understand existing risks and risks that may arise from new activities or external factors,
- Assess and measure risk,
- Monitor risk levels and report against the RAS,
- Control the risk via policies, regulations, rules, and guidelines.

More detailed descriptions of the processes are documented in operational guidelines, rules, and frameworks some of which are included in the table above.

3.1.3.3. Three lines-of-defence model

NEFCO follows the three lines-of-defence model where the risk responsibilities are divided between three levels which are independent of each other.

The **first line-of-defence** comprises the frontline business functions where risks are taken in conducting their activities. They are responsible for managing the risks they incur and for the decisions taken in this regard. They are required to comply with all relevant internal policies, regulations, rules and processes.

The **second line-of-defence** comprises functions which provide independent risk monitoring and control activities. They conduct independent evaluations and reports to Management and the Board on NEFCO's risk profile. The second line works closely with the first line in risk matters and participates in decision-making with the objective that risk factors are considered.

Internal Audit is the **third line-of-defence** which is an independent assurance function with reporting lines to the Board and the Control Committee. Internal Audit is responsible for providing assurance on the effectiveness of NEFCO's risk management framework. Internal Audit coordinates its activities with the External Auditors to ensure that the combined audit resources are used effectively and provide sufficient coverage.

4. Risk Categories

NEFCO has identified a set of risk categories that cover both financial and non-financial risks which are managed to maintain financial stability and avoid activities that could threaten its reputation.

4.1.1. **Credit Risk**

Credit risk is defined as the risk of loss resulting from the failure of NEFCO's borrower or other counterparty to fulfil their contractual obligations and that the collateral provided does not cover the loss. Most of the credit risk arises in the lending activities however NEFCO is also exposed to credit risk in its treasury activities where credit risk derives from financial assets used for investing in NEFCO's liquidity. The nature of NEFCO's mandate implies that the appetite for credit risk is high compared to other financial institutions. NEFCO is subject to concentration risk due to its regional focus and mandate however the aim is to avoid excessive concentrations. The appetite for credit risk in the liquidity assets is low. Further details on credit risk management, Expected Credit Losses and Non-performing exposures can be found in the documents set out in section 3.1.3.1.

4.1.2. **Equity risk**

Equity-type risks result from NEFCO's investments that in effect expose it to the risk of the performance of the investee's business.

4.1.3. **Financial Market Risk**

Financial Market Risk is the risk of valuation loss or reduction in expected earnings arising from adverse fluctuations in exchange rates, interest rates, or credit spreads. NEFCO has low financial market risk as the investment and funding activities are predominately denominated in euro and are mainly floating rate instruments. The financial market risk on placements with financial institutions is also low due to short duration of investments in money market and fixed income funds and the limited exposure in bonds.

4.1.4. Liquidity Risk

Liquidity is the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they fall due. The liquidity risk can be categorised in ***funding liquidity risk*** which occurs when payment obligations cannot be fulfilled because of an inability to obtain new funding, and ***market liquidity risk***, which occurs when NEFCO is unable to transform assets in the liquidity buffer into cash without significant losses. Further information on liquidity risk management can be found in the documents listed in section 3.1.3.1.

4.1.5. Operational Risk

Operational Risk is the risk of direct or indirect losses or damaged reputation due to risk events attributable to technology, people, processes, or physical environments and/or external events. Details of NEFCO's Operational Risk Management and Control are defined and explained in the Operational Risk Guidelines.

4.1.6. Compliance Risk

Compliance risk is the financial, legal, or reputational risk for NEFCO due to non-compliance with any applicable legislation, policies, rules, and standards. Compliance Risk encompasses:

- **i)** **External Compliance Breaches**: Non-compliance by counterparties, such as beneficiaries and contractors, with integrity related legislation, rules, and standards, including engagement in Prohibited Practices and non-compliance with AML/CFT regulations[1].
- **ii)** **Internal Compliance Breaches**: Internal non-compliance with NEFCO's Legal Framework and internal controls.

[1] Prohibited Practices and Anti-Money Laundering/Countering Financing of Terrorism as defined in NEFCO's Policy on Integrity Due Diligence.