

Policy on Integrity Due Diligence

Adopted by the Board of Directors of NEFCO on 23 September 2026
with entry into force on 1 October 2026.

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RESPONSIBLE DEPARTMENT

Ethics and Compliance

DOCUMENT VERSION HISTORY AND REVIEW DATES

Document Name	Adopted by	Adopted on	Entry into force as of	Information Classification
Policy on Integrity Due Diligence	Board of Directors	23. 9.2026	1.10.2026	Public
Policy on Integrity Due Diligence	Board of Directors	12.12.2019	1.1.2020	Public

This Policy shall be reviewed at least every three (3) years.

Policy on Integrity Due Diligence

1. INTRODUCTION AND PURPOSE

- 1.1 NEFCO is an international financial institution founded in 1990 by the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. NEFCO's purpose is to promote investments of Nordic environmental interest, with a focus on Eastern Europe.
- 1.2 NEFCO is committed to ensuring that its funds are used solely for their intended purposes and in accordance with high standards of integrity, transparency and accountability, as reflected in NEFCO's Legal Framework and relevant international standards. To identify and assess integrity risks, safeguard its reputation, and support informed decision-making, NEFCO conducts Integrity Due Diligence (IDD) reviews of all potential and existing Counterparties. These reviews involve gathering and assessing relevant information to identify Integrity Risks and to determine appropriate mitigating measures where necessary.
- 1.3 As an international financial institution, NEFCO applies rules and principles relating to know-your-customer requirements, anti-money laundering, countering terrorist financing, and tax transparency consistent with established international standards and recommendations issued by recognized international actors such as the Financial Action Task Force (FATF) and the Global Forum. However, an IDD review may also include other areas as deemed relevant for the specific project or NEFCO activity, and, accordingly, the aspects to be reviewed as set out in this Policy are non-exhaustive. This Policy on Integrity Due Diligence (the Policy) sets out the main principles to be applied in NEFCO's IDD process. More detailed rules and guidelines on integrity due diligence are issued for NEFCO's internal use for the purpose of implementing this Policy.

2. DEFINITIONS

For the purposes of this Policy, the following terms and abbreviations shall have the meanings set out below:

"AML" means Anti-Money Laundering.

"AML/CFT Prohibited Jurisdiction" means a jurisdiction that has been identified by FATF as a high-risk jurisdiction subject to a call for action due to serious strategic deficiencies in its AML/CFT regime, and which has failed to make sufficient progress in addressing those deficiencies.

"Beneficial Owner" means any natural person who:

- (i) owns directly ten percent (10%) or more of the shares or other units in a Counterparty;
- (ii) exercises directly ten percent (10%) or more of the votes in a Counterparty;
- (iii) owns indirectly ten percent (10%) or more of the shares, other units or votes in a Counterparty;

(iv) directly or indirectly exercises control in any legal entity set out in paragraph (i), (ii) or (iii); or

(v) otherwise exercises factual control of the Counterparty.

“CFT” means Countering Financing of Terrorism.

“Counterparty” means any natural person or legal entity that receives or seeks from, or transfers to NEFCO any form of financing, support, or services including:

(i) borrowers, grant-recipients and other direct beneficiaries of NEFCO funds;

(ii) guarantors;

(iii) A company which is considered for an equity investment, as well as any buyer of shares NEFCO is holding;

(iv) consultants, service providers and contractors; or

(v) donors, contributors and investors in NEFCO managed trust fund

The definition includes Counterparties in existing NEFCO Activities as well as in considered or proposed NEFCO Activities.

“Cross-Border Link” exists when i) a Counterparty, ii) a Beneficial Owner, or iii) any other party which is of relevance for the NEFCO Activity is incorporated in another jurisdiction than where the NEFCO Activity will take place.

“Enhanced Due Diligence” or “EDD” means a process where additional information regarding the relevant risk indicator(s) is collected, as set out in Section 6.

“Ethics and Compliance” means the Ethics and Compliance Department at NEFCO.

“FATF” means the Financial Action Task Force, an inter-governmental body established in 1989 by the G7 countries to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing, and related threats. All Nordic countries are FATF members.

“Financial Institution” means any natural or legal person who conducts as a business one or more of the following activities or operations for or on behalf of a customer:

- a) Acceptance of deposits and other repayable funds from the public;
- b) Lending;
- c) Financial leasing;
- d) Money or value transfer services;
- e) Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money);
- f) Financial guarantees and commitments;
- g) Trading in: (i) money market instruments (checks, bills, certificates of deposit, derivatives etc.); (ii) foreign exchange; (iii) exchange, interest rate and index instruments; (iv) transferable securities; or (v) commodity futures;
- h) Participation in securities issues and the provision of financial services related to such issues;
- i) Individual and collective portfolio management;
- j) Safekeeping and administration of cash or liquid securities on behalf of other persons;

- k) Other investing, administering or managing funds or money on behalf of other persons;
- l) Underwriting and placement of life insurance and other investment related insurance; or
- m) Money and currency changing.

“Financing of Terrorism” means the provision or collection of funds, by any means, directly or indirectly, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out terrorist activities.

“Global Forum” means the Global Forum on Transparency and Exchange of Information for Tax Purposes which is a multilateral framework for work on transparency and exchange of information for tax purposes and a key international body working on the implementation of the international standards on tax transparency. All Nordic countries are member of the Global Forum.

“IDD” means integrity due diligence.

“Integrity Risk” means the risk of loss, harm, or adverse impact arising from engaging with individuals, entities, activities, or structures that are associated with misconduct or unethical behaviour, including Prohibited Practices, sanctions exposure, lack of transparency, or other activities that may undermine legal compliance, ethical standards, or the reputation of the organisation.

“Money Laundering” means

- a) the conversion or transfer of property, knowing that such property is derived from criminal activity, to conceal and disguise the illicit origin of the property, or assisting any person who is involved in the commission of such activity to evade the legal consequences of this action;
- b) the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of to property, knowing such property is derived from criminal activity;
- c) the acquisition, possession or use of property knowing, at the time of receipt, that such property was derived from criminal activity; or
- d) participation or assistance in any of the activities above.

“NEFCO Activity” means any activity which is financed, administered or supported by NEFCO, or proposed to be financed, administered or supported by NEFCO, specifically including, but not limited to procurement and any projects financed by NEFCO.

“Politically Exposed Persons” (PEPs) means any natural person who is or has been entrusted with a prominent public function and any immediate family members, or persons known to be close associates with such person. The definition includes but is not limited to senior officials of central and local government, members of parliament, senior executives of state-owned enterprises and international organizations, judicial or military officials and high-ranking political party officials.

“Prohibited Practices” means abuse, coercion, collusion, corruption, fraud, obstruction, money laundering and financing of terrorism as defined in NEFCO’s Policy on Anticorruption and Compliance.

“Project Manager” means, for the purpose of this Policy, the NEFCO staff member managing a NEFCO Activity.

“Relevant Entity” means any entity or individual who executes, implements, or substantially contributes or participates in a NEFCO Activity, but who is not a direct Counterparty.

“Sanctions List” means any and all sanctions lists maintained by the United Nations, the European Union, the United States of America, United Kingdom, the international financial institutions and any such other sanction lists NEFCO may from time to time deem relevant and appropriate for any NEFCO Activity.

“Senior Management” means the chief executive officer, president or secretary general, chief financial officer, treasurer, chief operating officer, chief risk officer, general counsel and chief information officer, or any equivalent according to the Counterparty’s organizational structure.

“Senior Official” means any individual who has a material role in a Counterparty’s decision-making process in relation to a NEFCO Activity, including the highest ranking public officials (whether appointed or elected) and heads of the relevant departments.

“Shell Company” means an entity that has no physical presence in the country in which it is incorporated and/or licensed. Physical presence means meaningful mind and management located within a country. The existence simply of a local agent or low-level staff does not constitute physical presence.

“Tax-prohibited Jurisdiction” means a jurisdiction that a) the Global Forum has identified as (i) having failed the Phase 1 Global Forum peer review, or (ii) having received a non-compliant rating in the Phase 2 Global Forum peer review or b) the Council of the European Union has included in its *“EU list of non-cooperative jurisdictions for tax purposes”*.

3. RISK-BASED APPROACH

- 3.1 NEFCO shall apply appropriate measures to identify, assess, understand and document Integrity Risks before a NEFCO Activity is presented for consideration and approval and, as required for monitoring purposes, during the effective period of the NEFCO Activity. The scope and depth of the IDD shall be proportionate to the level of Integrity Risk identified or assumed in respect of a Counterparty or operation and shall be broadened or deepened in cases of elevated risk. Factors such as type of Counterparty, type of financing and/or transaction and activity considered with the Counterparty, as well as country of operation of the Counterparty and of the NEFCO Activity shall be taken into consideration when making the initial assessment of Integrity Risk.
- 3.2 NEFCO shall take appropriate measures, reflecting the level and type of Integrity Risks identified, to ensure that these are managed, monitored and appropriately mitigated during the effective period of the NEFCO Activity.
- 3.3 The frequency and scope of monitoring of ongoing NEFCO Activities shall correspond to the level of Integrity Risk identified.

4. INTEGRITY DUE DILIGENCE (IDD)

4.1 General

- i) An IDD review shall be conducted in respect of each Counterparty in accordance with the risk-based approach and the provisions in this Section 4, as well as with further rules and guidelines established by the Managing Director. The IDD review should also cover Relevant Entities as appropriate and as set out in the internal rules and guidelines.
- ii) The IDD review shall be conducted before a NEFCO Activity is finally approved and shall be updated in accordance with the established rules and guidelines.

4.2 General integrity review

Every IDD review shall include a general integrity review in accordance with recognized know-your-customer (KYC) principles, comprising the following areas:

- i) Beneficial ownership and control

The Counterparty, Beneficial Owner(s) and Relevant Entities shall be identified and the identities verified.

- ii) Business rationale

Reasonable measures shall be taken to assess the purpose and economic rationale of the Counterparty, to establish that NEFCO is engaging in a legitimate business relationship with a bona fide Counterparty, in order to avoid involvement in structures established for the purpose of Money Laundering, Financing of Terrorism, or tax evasion.

iii) Sanctions

Sanctions Lists imposing sanctions against individuals and entities involved in amongst other things fraud, corruption, terrorism, human rights violations, money laundering, terrorist financing, tax evasion, crimes against world peace, political and economic stability shall be reviewed to identify if a Counterparty, Beneficial Owner, or any member of the board of directors or Senior Management or Senior Official of the Counterparty is included on a Sanctions List.

Additional measures to identify sanctions risks shall be taken as appropriate, based on the risk-based approach.

iv) Criminal charges

All reasonable measures shall be taken to identify any criminal charges or convictions as well as ongoing investigations for serious wrongdoings, including but not limited to Prohibited Practices, offences related to labor laws, taxation or social security contributions, professional misconduct, human rights violations or conduct related to a criminal organization by the Counterparty, a Beneficial Owner, or any Relevant Entities

v) Politically Exposed Persons (PEPs)

All reasonable measures shall be taken to identify any Politically Exposed Persons linked to the Counterparty or the NEFCO Activity.

4.3 Legal and corporate structure

The corporate structure of a Counterparty and other entities relevant in the NEFCO Activity shall be reviewed to establish the ownership and control framework and to identify any integrity risks inherent in the structure, including opaque or layered arrangements, the presence of shell companies, connections to high-risk jurisdictions, and other risks associated with complex corporate structures. Specifically, the following areas shall be reviewed:

i) Cross-Border Links

Cross-Border corporate structures can be used for Money Laundering, tax evasion, tax fraud, aggressive tax planning or other harmful practices. The IDD review shall identify Cross-Border Links and, where such exist, whether (a) there is a legitimate business rationale for such Cross-Border Links, (b) there are indications of profit shifting using such Cross-Border Links, or (c) the cross-border corporate structure includes entities in jurisdictions identified by international bodies, such as EU, FATF and Global Forum, as presenting heightened risk in relation to tax evasion or AML/CFT.

ii) Shell Companies

Shell Companies can be legal, but their use presents heightened integrity risk if they facilitate tax avoidance, tax evasion or Money Laundering. Reasonable efforts shall be made to identify any Shell Companies linked to the NEFCO Activity and to assess whether such entities have a legitimate business rationale.

4.4 Regulations and controls

Depending on the type and nature of the NEFCO Activity, relevant regulatory aspects shall be assessed as well as the internal policies and controls of the Counterparty.

i) AML/CFT

If the Counterparty is a Financial Institution, the following aspects shall be assessed:

- (a) the jurisdiction of incorporation of the Counterparty, whether is a regulated Financial Institution and whether is it publicly listed;
- (b) the Counterparty's regulatory and/or compliance history, including any indications of weak controls or deficiencies implementation of AML/CFT systems, and
- (c) the Counterparty's responsiveness to AML/CFT related questions.

The assessment shall take into account relevant recommendations issued by FATF and other specialized international bodies.

ii) Policies and safeguards

Depending on the type and nature of the NEFCO Activity and the identified or assumed risks, the Counterparty's safeguards, policies and procedures in other areas of fiduciary standards, ethics, integrity and accountability may be reviewed and assessed as part of the IDD.

The IDD review shall also include any additional areas considered relevant in light of the risk-based approach, the specific NEFCO Activity, and other relevant factors.

5. RISK CLASSIFICATIONS

5.1 Following the review described in Section 4, the Integrity Risk will be rated as High, Increased, Moderate or Low. The examples of risk indicators set out below are non-exhaustive and the final Integrity Risk rating shall be based on a comprehensive risk assessment taking into consideration both exonerative and aggravating factors.

i) High Integrity Risk

As a general rule, NEFCO shall not move forward with activities which have been classified as High Integrity Risk, as it indicates risk that generally falls outside NEFCO's risk tolerance. The non-exhaustive list of risk indicators below indicates a High Integrity Risk:

- a) Unidentifiable Beneficial Owners;
- b) The Counterparty or a Beneficial Owner is included on a Sanctions List;
- c) The Counterparty has been convicted for serious wrongdoings during the past five years;
- d) The Counterparty is a Financial Institution incorporated in an AML/CFT Prohibited Jurisdiction.

ii) Increased Integrity Risk

Where a Counterparty has been assigned an Increased Integrity Risk, an Enhanced Due Diligence (EDD) shall be carried out based on identified risk indicators included in the IDD review and mitigating measures shall be proposed. The non-exhaustive list of risk indicators below indicates an Increased Integrity Risk:

- a) Several past or ongoing investigations against the Counterparty or a Beneficial Owner for serious wrongdoings;
- b) Unduly complex ownership structure without reasonable business rationale;
- c) Credible or substantiated allegations of significant unexplained wealth related to a Beneficial Owner, Senior Official or Senior Management;
- d) AML/CFT risks relating to e.g. jurisdictional risks or weak internal controls or regulations.

iii) Moderate Integrity Risk

If the risk indicators identified do not pose an immediate, concrete elevated risk for NEFCO, the risk rating may be set as Moderate. Examples of such risks include:

- a) a Cross-border link to a Jurisdiction with heightened risk where a business rationale to such

- jurisdiction has been provided;
- b) Adverse media reports;
- c) PEPs no longer holding a public position.

iv) Low Integrity Risk

If no risk indicators are identified or risk indicators pose no or low risk to NEFCO, no further action or measures are required, apart from regular monitoring in accordance with this Policy and relevant internal rules.

6. ENHANCED DUE DILIGENCE (EDD), ASSESSING AND MITIGATING RISKS

- 6.1 Enhanced Due Diligence (EDD) shall be carried out if certain risk indicators have been identified.
- 6.2 During EDD, additional information regarding the relevant risk indicator(s) shall be collected by e.g. requesting information directly from the Counterparty, from independent sources and/or through an external service provider with relevant expertise.
- 6.3 Where an Integrity Risk rating is proposed to be Increased, NEFCO shall identify and assess appropriate mitigating measures. Such measures shall be developed and implemented in collaboration between different functions in NEFCO.

7. INFORMING DECISION-MAKING BODIES

- 7.1 The final Integrity Risk rating shall be included in the documentation presented to NEFCO's decision-making bodies, both internal and the Board of Directors. The information provided to the decision-making body shall include a description of the risk and any mitigating factors present and measures implemented.
- 7.2 Ethics and Compliance has the right to freely express and disclose its findings to NEFCO's decision-making bodies.

8. MONITORING AND UPDATES

- 8.1 The IDD Review shall be updated on a regular basis, including as needed due to changes and events in relation to the Counterparty, and the Integrity Risk adjusted as needed. The frequency of monitoring and updates as well as steps to take in case of increased Integrity Risk shall be established in internal rules and shall be determined in accordance with the risk-based approach.

9. ROLES AND RESPONSIBILITIES

For the purposes of this Policy,

- i) The Board of Directors shall ensure governance and oversight of NEFCO operations in accordance with its Statutes, including NEFCO's policies and rules on compliance and integrity.
- ii) The Managing Director shall ensure that this Policy is implemented in accordance with Section 10 below.
- iii) The Chief Ethics and Compliance Officer shall provide advice to management, and the Board of Directors on Integrity Risks, advise on and monitor the implementation of this Policy, as well as recommend and advise on development of relevant internal procedures and practices related to this Policy. The Chief

Ethics and Compliance Officer shall also review IDD review reports containing certain risk indicators, as set out in established rules and guidelines.

- iv) The Integrity Analysts shall advise staff and consultants of the application of this Policy and the rules and guidelines, determine the scope of the IDD review, conduct the IDD review and propose the risk rating together with the Project Manager.
- v) Staff and, to the extent relevant, consultants shall comply with this Policy and any related rules and guidelines in their day-to-day work. Staff shall as needed consult with Ethics and Compliance to ensure compliance with this Policy in all NEFCO Activities.

10. IMPLEMENTATION OF THE POLICY

10.1 This Policy shall be operationalized by the Managing Director by:

- i) approving rules and guidelines providing further instructions and practical guidance related to identifying and managing Integrity Risks;
- ii) ensuring that sufficient resources, including technical resources, will be made available for the tasks and activities required under this Policy.

10.2 Records related to IDD reviews shall be handled in accordance with NEFCO's Legal Framework and specifically the rules on archiving, retention and handling of personal data.