



POLICY ON INTEGRITY DUE DILIGENCE

*Adopted by the Board of Directors of the Nordic Environment Finance Corporation
on 12 December 2019 with entry into force as of 1 January 2020.*

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Policy on Integrity Due Diligence

1. Introduction and purpose

- 1.1 NEFCO was established by the Nordic countries to promote investments having a Nordic environmental interest. This is achieved by facilitating investments related to green growth and climate mitigation and adaptation globally.
- 1.2 NEFCO is committed to ensure that its funds are used only for the intended purposes and in line with the highest ethical standards. The Policy on Anticorruption and Compliance adopted by NEFCO's Board of Directors on 12 December 2019 with effect of 1 January 2020 establishes NEFCO's zero tolerance of fraud, corruption, and other types of wrongdoing, and provides the basis for NEFCO's work on integrity and anticorruption.
- 1.3 Non-compliance by NEFCO or its Counterparties with applicable policies, rules and standards of conduct constitutes a financial, legal and reputational risk for NEFCO. Part of NEFCO's efforts to mitigate and minimize the risk in this area is to conduct an Integrity Due Diligence (IDD) review of potential and existing Counterparties by gathering and assessing information and identifying risks related to such Counterparties.
- 1.4 As an international financial institution, NEFCO applies relevant 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 FATF and the Global Forum. However, an IDD may include also other areas as deemed relevant for the specific project or 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 are to be issued in due course 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 which in relation to money laundering and terrorist financing has been categorized by FATF as high-risk due to strategic deficiencies and where high-level commitment to develop AML/CFT measures is lacking.¹

"Beneficial Owner" means any natural person or legal entity controlling or owning, directly or indirectly, ten percent (10%) or more in a Counterparty, and/or such natural person(s) on whose behalf a transaction is being conducted and those persons who exercise ultimate effective control over a legal person or arrangement connected to a NEFCO Activity.

¹ FATF issues a public statement which identifies countries or jurisdictions with such serious strategic deficiencies that the FATF calls on its members and non-members to apply counter-measures.

“CFT” means Countering Financing of Terrorism.

“Compliance Risk” means financial, legal, or reputational risk for NEFCO due to non-compliance by a Counterparty with any applicable policies, rules and international standards.

“Counterparty” means any natural person or legal entity that receives or seeks from, or transfers to NEFCO any form of financing or support, or otherwise executes, implements, contributes or substantially participates in a NEFCO Activity. 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.

“EDD” means enhanced due diligence.

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

“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.

“IDD” means integrity due diligence.

“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.

“OCCO” means Office of the Chief Compliance Officer.

“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 the NEFCO staff member managing a NEFCO Activity.

“Sanctions List” means any and all sanctions lists maintained by the United Nations, the European Union, the United States of America, 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 relevant entity’s organizational structure.

“Shell Company” refers to 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 Compliance 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 risk identified or assumed in respect of a Counterparty or operation and shall be broadened or deepened in cases of increased 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 risk.
- 3.2 NEFCO shall take appropriate measures, reflecting the level and type of risks identified, to ensure that risks 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 risk identified.

4. Integrity due diligence

4.1 General

- i) An IDD shall be conducted in respect of each Counterparty by the relevant Project Manager in accordance with the Risk-based approach and the provisions in this Article 4, as well as with further guidelines and procedures established by the Managing Director. The Project Manager may consult as needed with OCCO during the IDD process.
- ii) The IDD shall be conducted before the NEFCO Activity is presented for approval in accordance with relevant procedures.

4.2 General integrity review

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

- i) Beneficial ownership, Business rationale

The Counterparty and the Beneficial Owner(s) shall be identified and the identity verified through reliable and independent sources. In addition, 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.

ii) 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 of the Counterparty is included on a Sanctions List.

iii) 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 member of the board of directors or Senior Management of the Counterparty or a Beneficial Owner.

iv) Politically Exposed Persons (PEPs)

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

4.3 Legal and corporate structure

The corporate structure of a Counterparty and other entities relevant in the NEFCO Activity shall be assessed to establish if they have a legitimate purpose or use. As part of the assessment, 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. Cross-Border Links shall identify Cross-Border Links and, where such exist, whether (a) there is 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 which have been identified by specialized international agencies, such as FATF and Global Forum, as presenting a heightened risk in relation to tax or AML/CFT.

ii) Shell Companies

Shell Companies can be legal, but may be used for tax avoidance, tax evasion or Money Laundering. Reasonable efforts shall be used to identify any Shell Companies linked to the NEFCO Activity and assess if such Shell Companies 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, it shall be assessed whether (a) the Counterparty is a regulated Financial Institution as well as its jurisdiction of incorporation, (b) the Counterparty's regulatory and/or compliance history including any incidents of

weak controls or poor implementation of AML/CFT systems, and (c) the Counterparty's response to AML/CFT related questions. Recommendations from FATF shall be taken into consideration in the assessment.

ii) Policies and safeguards

Depending on the type and nature of the NEFCO Activity, 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.

5. Risk classifications

Following the review described in Article 4, the Compliance Risk will be rated as high, medium or low. The rating will determine the steps to be taken as set out below.

i) High Compliance Risk

As a general rule, NEFCO shall not move forward with activities which have been classified as High Compliance Risk, as it indicates risk that generally falls outside NEFCO's risk tolerance. Any of the risk indicators set out below indicates a High Compliance Risk:

- a) Unidentifiable Beneficial Owners;
- b) Beneficial Owners with significant unexplained wealth;
- c) The Counterparty or a Beneficial Owner is included on a Sanctions List for the type of activity considered;
- d) The Counterparty has repeatedly been subject to criminal investigations, charges or convictions for serious wrongdoings;
- e) The Counterparty has a Cross-border Link to a Tax Prohibited Jurisdiction; or
- f) The Counterparty is a Financial Institution incorporated in an AML/CFT Prohibited Jurisdiction.

ii) Medium Compliance Risk

In the case a Counterparty is rated as Medium Compliance Risk, an Enhanced Due Diligence (EDD) shall be conducted in accordance with Article 6 below. A number of circumstances and risk indicators may result in a Medium Compliance Risk rating, including the non-exhaustive list of risk indicators below:

- a) Past or ongoing investigations for serious wrongdoings;
- b) The presence of Politically Exposed Persons;
- c) Unduly complex ownership structure;
- d) A member of the board of directors or Senior Management is included on a Sanctions List; or
- e) AML/CFT risks relating to e.g. jurisdictional risks or weak internal controls or regulations.

iii) Low Compliance 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 In case the initial review in accordance with Article 4 indicates a Medium Compliance Risk, an EDD shall be carried out. The EDD shall be conducted by the Project Manager in consultation with OCCO.
- 6.2 During an 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 After the EDD is completed, the Compliance Risk shall be re-assessed by the Project Manager in consultation with OCCO, taking into consideration any mitigating and aggravating factors, and a final risk rating shall be established.
- 6.4 In accordance with Article 5, if the final risk rating is set at High, NEFCO shall normally not move forward with the proposed NEFCO Activity in its existing form. If the final risk rating is Low, no further action is required. If the Compliance Risk remains as Medium, mitigating actions or measures addressing the identified risk may be required from the Counterparty. Such action or measures may include, among other things:
 - a) Removal of an individual(s) from any decision-making process related to the NEFCO Activity;
 - b) Additional AML/CFT controls to be put in place by the Counterparty;
 - c) Internal policies of the Counterparty revised or put in place;
 - d) Additional reporting or audit requirements.

7. Informing decision-making bodies

- 7.1 The final Compliance 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 OCCO has the right to freely express and disclose its findings to NEFCO's decision-making body/bodies.

8. 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, and NEFCO's policies and rules on compliance and integrity.
- ii) The Managing Director shall ensure that this Policy is implemented in accordance with Article 10 below.
- iii) Staff and, to the extent relevant, consultants shall comply with this Policy and any related rules and guidelines in their day-to-day work. Project Managers shall conduct the IDD and EDD.
- iv) OCCO shall provide advice to the Project Managers, management, and the Board of Directors on Compliance Risk and on specific IDD and EDD matters. OCCO shall also advise on and monitor the implementation of this Policy, and recommend and advise on development of relevant internal procedures and practices related to this Policy.

9. Monitoring

- 9.1 Compliance Risk shall be monitored on a regular basis. The frequency of monitoring as well as steps to take in case of increased Compliance Risk shall be established in internal rules and shall be determined in accordance with the Risk-based Approach.
- 9.2 OCCO shall from time to time conduct quality checks on the IDD's performed. The findings shall be included in OCCO's report to the Board of Directors and the supervising body of NEFCO, the Control Committee.

10. Implementation of the Policy

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

- i) rules and guidelines issued to provide practical guidance and instructions to assist in determining and assessing the levels and types of risks;
- ii) ensuring that training is provided to the NEFCO staff to strengthen knowledge and awareness relating to Compliance Risk and relevant obligations, requirements, rules and procedures; and
- iii) 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 and EDD shall be stored for no less than two (2) years after the end of the effective period of the relevant NEFCO Activity, which for financing activities means two (2) years after full repayment of the NEFCO financing (if applicable). The records shall be managed in accordance with NEFCO's policies and rules relating to record retention and, as relevant, in accordance with NEFCO's rules on data protection.

10.3 This Policy shall become effective on 1 January 2020. The Policy shall be reviewed on a regular basis, as a minimum every five (5) years.