



Nordic Development Fund

NDF Annual Financial Report 2022

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Foreword



Despite the compounding global issues emerging during 2022 - the energy crisis, inflation, rising debt vulnerability, security concerns and the rapidly changing climate - NDF proved its strength as a powerful Nordic tool for tangible solutions in the climate finance arena in countries which need them the most.

Our Annual Financial Report 2022 provides the financial statements, including financial highlights of the year.

NDF's Annual Financial Report 2022 is presented for the first time in accordance with the International Financial Reporting Standards (IFRS). This important milestone is a consequence of the capital increase that now ensures NDF's financial stability and its capacity to play a significant role in the climate finance arena in the foreseeable future.

Alongside our financing activities in climate change and development, we have invested systematically in continued institutional development in 2022. Key activities, such as the development of a Risk Management Framework and the full roll out of the Results Management Framework, are important building blocks for an institution fit for its purpose, and for allowing us to make the bridge from numbers to results.

With the highly concessionary financing of projects, we continue to depend on capital increases from our owners, the Nordic countries, to fund our operations. These capital increases are complemented by returns from our portfolio and treasury activities. Thanks to the latest capital increase of EUR 350 million in 2020, NDF stands on a strong foundation to deliver on Strategy 2025. Together with institutional development and future capital increases we will maintain our relevance, impact and agility and pave the way for a sustained financial situation over the coming years. NDF continues to focus on impact reporting, results management and to continuously complement, co-create and convene to maximise our global impact and our role in concessional finance. In a separate data-based Results Report, we will present what we achieved together with our partners in 2022.

The trends for global challenges show few signs of reversal. These challenges will continue to impact NDF's operating environment and the related risks, but also the relevance of our focus. We are on a good path to consolidate our role in the global climate finance architecture. Our financing will help the most vulnerable countries deal with the causes and consequences of climate change and build resilience in societies to the benefit of those who need it most.

We will continue to finance projects in the nexus of climate change adaptation, mitigation, and development, and we will stay transparent through our reports and open communication. We look forward to continuing this work with our partners.

Our values will guide us in this work as we Thrive Together and Strive for Excellence to Drive Change.

KARIN ISAKSSON
Managing Director

Board of Directors Report

Brief Overview

Based on the launch of Strategy 2025 and the capital increase concluded in 2020 as well as the continuous development of Nordic Development Fund's (hereafter NDF or Fund) institution, the year 2022 was characterised by an increased flow of new financing activities fully aligned with the NDF's Strategy.

The new financing commitments made during 2022 in the amount of approximately EUR 65 million exceeded the projected EUR 60 million. The total disbursements made in 2022 amounted to EUR 30 million. The global economic and other challenges continued to impact the NDF project portfolio, resulting in some delays in project implementation. During 2022, five projects reached completion.



NDF continued to develop its organisational structure and institutional governance and key administrative processes, creating a basis for strengthened financial, structural and human capital going forward. The conversion from the previously applied accounting principles to International Financial Reporting Standards (IFRS) for the 2022 annual financial report is also a key milestone supporting NDF's governance.

Business Development and Strategy Alignment

Business development at NDF refers to the finetuning and adjustment of NDF's offer based on the Principles and Pathways outlined in Strategy 2025. NDF's added value in its offer is the combination of aligning our financing activities with the Principles and the Pathways. Refinement of the offer is a continuous process that takes place also in the context of project identification, screening and appraisal.

In 2022, all new financing activities were assessed and aligned against the Pathways, namely to develop early stage project design and structure; to provide catalytic finance; and to advance Nordic leadership. In line with Strategy 2025, NDF continued to refine its offer by engaging in a thematic approach focusing on contributions related to biodiversity, the blue economy and Nordic leadership with the objective to be better

informed of the Nordic and global initiatives, and to better understand the areas where NDF can fill critical gaps and add value.

NDF's operational model continues to be based on co-financing and joining forces with strategic partners with whom the Fund can engage based on the Principles to Co-create, Convene and Complement. Following from this, successful implementation and delivery of Strategy 2025 depends on value-adding partnerships that can amplify the role and financing of NDF. During 2022, NDF continued to work with existing partners, but engaged also with new partners with aligned strategic interests.

During 2022, the effects of the COVID-19 pandemic on NDF's outreach, partnership building and knowledge sharing activities eased up, allowing for wider participation in in-person events, alongside with continued virtual and hybrid events. In November, NDF participated in the UN Climate Conference (COP27) in Egypt through the joint Nordic Pavillion at the conference site, hosting a number of events, including an event on the Systematic Observations Financing Facility (SOFF) jointly with the World Meteorological Organisation (WMO). In addition, NDF participated in several events organised by strategic partners, and joined partners in making announcements for investments and partnerships.

In May 2022 NDF published for the first time evidence-based data and performance information obtained through the Results Management Framework (RMF) in

the NDF Results Report 2021. The report showcased in a digital, user-friendly format the Fund's cumulative development results stemming from the active portfolio during 2021, as well as the 2025 projections, with project level case examples.

Financing Activities

At the end of 2022, NDF's climate project portfolio¹ consisted of 135 active or completed projects (2021: 128 projects) with total NDF-financing of EUR 542.1 million (2021: EUR 484.3 million). NDF's active² climate portfolio at the end of 2022 amounted to EUR 359.3 million³ (2021: EUR 319.4 million), distributed over 48 projects (2021: 48 projects).⁴ In addition, NDF has a legacy portfolio consisting of 159 credits (2021: 159 credits) to sovereign states entered into during 1989-2006⁵.

In 2022, NDF approved financing amounting to a total of EUR 64.7 million of which, EUR 30.5 million were grants and EUR 34.2 million equity investments, for the following seven new projects.

¹ NDF climate projects are projects approved as from 2009.
² The active portfolio includes all projects that have been approved by the Board of Directors and have not reached their closing date yet.
³ The climate portfolio also includes grants that cannot be seen in the total assets why the numbers are not comparable with the statement of financial position.
⁴ This number of active projects does not include sub-projects from NCF or EEP Africa.
⁵ All projects in the legacy portfolio are completed and the total outstanding amount is EUR 559.9 million.

| AFRICA | |
|---|------------------------------------|
| Country/Project | NDF investment, EUR million |
| Regional (Africa) | |
| ARCAFIM Preparatory Activities | 0.5 |
| Climate Resilient Cities: Urban and Municipal Development Fund II | 10.0 |
| Energy Entrepreneurs Growth Fund (EEGF) | 10.0 |
| Systematic Observations Financing Facility (SOFF) | 10.0 |
| Total Africa | 30.5 |
| ASIA | |
| Country/Project | NDF investment, EUR million |
| Regional (Asia, Pacific) | |
| ADB Ventures Fund 2 | 10.0 |
| Ocean Resilience and Coastal Adaptation Trust Fund | 8.5 |
| Total Asia | 18.5 |
| MULTIPLE REGIONS | |
| Country/Project | NDF investment, EUR million |
| Multiple regions | |
| Gigaton Empowerment Fund | 15.7 |
| Total Multiple regions | 15.7 |

The total accumulated climate project portfolio in terms of value, includes 69.7% public sector and 30.3% private sector projects. 60.2% of the activities are in partnership with multilateral development banks and 39.8% with other partners. 14.9% of the portfolio focus on mitigation, 22.9% on adaptation and 62.2% includes a combination of both mitigation and adaptation. 48 projects out of the total are active and located in 16 countries across Africa, Asia and Latin America. Africa accounts for 51% of the accumulated portfolio.

Nordic Climate Facility (NCF) and Energy and Environment Partnership for Africa (EEP Africa)

At the end of 2022, the two financing facilities managed by NDF, the Nordic Climate Facility (NCF) and the Energy and Environment Partnership for Africa (EEP

Africa), had an active portfolio of 21 and 39 projects, respectively.

NCF is a financing facility set up, fully financed and managed by NDF to finance early-stage climate projects to stimulate local business and employment opportunities in the developing world. The latest (9th) call for proposals took place in 2019 with the theme “Testing the viability of innovative climate solutions”. In 2021, it was concluded that no further calls for proposals will be made under NCF and NCF’s focus will be on ensuring successful implementation and completion of the existing portfolio.

EEP Africa is a multi-donor trust fund hosted and managed by NDF, with Austria, Denmark, Finland, Iceland, NDF and Switzerland as donors. EEP Africa

provides grants and repayable grants in 15 countries in Southern and East Africa. During 2022, the EEP Africa activities focused on launching collaboration with new implementation support partners, SNV Netherlands Development Organisation and Open Capital, as well as developing and revising the format for future calls for proposals. The latest call for proposals, focused on productive use of energy and circular economy solutions, took place in 2020. In 2022 Denmark and Iceland joined EEP Africa as new donors with contributions of approximately EUR 6.7 million and EUR 1.4 million, respectively. Two existing donors, Austria and Finland, renewed their contributions to the EEP Africa contributions of approximately EUR 3.0 million and EUR 4.0 million, respectively.

Institutional Issues

Policies and regulations

During 2022, several parts of the legal framework of NDF were under review and development.⁶ This is both as a result of the institutional project commitments stemming from the 2020 capital increase as well as from general updating needs.

- The revised *Rules of Procedure* for the Control Committee were adopted by the Control Committee in February 2022.
- The *People Policy* was adopted by the Board in December 2022. The objective of the policy is to drive good results through good people management to attract, recruit, develop and retain the best calibre people and competencies

to match the needs of the Fund. During 2022, a number of workstreams leading up to the policy were undertaken, including staff consultations in the form of, for example, surveys and workshops, as well as engagement of external human resource expertise. The *People Policy* builds on the development of *Culture and Values for NDF*, also finalised during 2022, which led to developing of three values shared by the entire NDF: Thrive Together, Strive for Excellence, and Drive Change.

- The *Risk Management Policy* was adopted by the Board in December 2022, which set out the principles of the risk management procedures applied. The policy establishes NDF’s overall approach to the implementation of systematic risk management, defines the key roles and responsibilities, and guides the development of other elements forming NDF’s risk management framework. During 2022, a review of NDF’s existing legal framework and processes as relevant for risk management, as well as several risk assessment workshops and consultations engaging NDF staff members and management, were conducted. The policy will be supported by *Risk Management Guidelines* and the framework taken into use in 2023.

Furthermore, the revision of the *Access to Information Policy* was initiated with an extensive benchmarking exercise, the result of which were compiled into a concept

⁶ In accordance with the *Rules on the Issuance of Legal Framework Documents*, containing rules on the hierarchy of as well as the powers and procedures related to the approval of legal framework documents at NDF, policies and regulations are approved by the by the Board of Directors, whereas rules and guidelines are approved by the Managing Director.

note and presented for the Board's consideration and preliminary input in September 2022. The concept note will guide the revision of the Access to Information Policy during 2023. As a general position, the Board expressed in its deliberations in September that in the long-run more documents should be made public.

Guidelines, standards and processes

The following guidelines were approved in 2022 by the Managing Director:

- In November 2022, the Communications Approach for 2023-2025 was approved. The document provides a framework for the Fund's strategic approach to communications, supporting the implementation of Strategy 2025, but it also acts as a practical guide in implementing all communication activities.
- In December 2022, the Evaluation Guidelines were approved. The Guidelines support NDF's continued results-based management and learning agenda and encompass all project-level evaluations as well as thematic evaluations and/or assessments related to NDF's operations.

Following an evaluation of the feasibility and impact of adopting IFRS, and approval by the Board in June 2021 to transit to IFRS, these 2022 annual financial statements have been prepared in accordance with IFRS. The Expected Credit Loss Implementation Framework, approved by the Managing Director in November 2022, sets out the main principles applied by NDF for calculating and reporting its impairments based on expected credit losses (ECL) in accordance with the IFRS.

During 2022, NDF continued the roll out and application of RMF. All NDF-financed projects apply the RMF, which enables the projects to report on agreed indicators. The data collection on RMF indicators and other project-related information is done in the Project Management Information System (PMIS), a comprehensive project monitoring and reporting database, which was, during 2022, further developed and updated. NDF also continued to work on streamlining the portfolio project cycle, with focus on the Project Management Phase. The overall improvement of the portfolio monitoring processes, initiated during 2022, will be continued in 2023.

Meetings of and with the Governing Bodies

Nordic Council of Ministers

The Nordic Council of Ministers (i.e. the five Ministers of Nordic Cooperation) approved the 2021 annual financial statements on 28 June 2022.

Furthermore, in 2022, NDF continued its dialogue with the Secretariat of the Nordic Council of Ministers in issues relating to climate change and development, in particular in the context of preparations for joint activities in COP27, and a broader dialogue on possibilities for an increased collaboration particularly, in communications.

Board of Directors

In 2022, the Board of Directors had four ordinary meetings. In addition to these meetings, the Board held

three extraordinary meetings and some Board decisions were, as is customary, taken in written procedure. In connection to one of the meetings a workshop on governance was held.

The Chair of the Board of Directors for the period from 1 January to 30 April 2022 was Pekka Hirvonen (Finland), with Davíð Stefánsson (Iceland) as Deputy Chair. As of 1 May 2022, Davíð Stefánsson took over the Chair, with Anne Sofie Bjelland (Norway) as Deputy Chair. As of 1 September, Benedikt Höskuldsson was appointed member (Iceland), succeeding Davíð Stefánsson and taking over the Chair.

In addition, the following changes took place in the Board membership in 2022. As of 19 May, Johanna Pietikäinen was appointed alternate (Finland), succeeding Saija Vuola. As of 24 August, Henrik Bergquist was appointed member (Sweden), succeeding Anders Nyström; Susann Nilsson left their position as alternate (Sweden) and the appointment of a successor is pending. As of 28 August, Anders Ørtnemark was appointed member (Denmark), succeeding Morten Houmann Blomqvist. As of 1 September, Erla Hlín Hjálmarsdóttir was appointed alternate (Iceland), succeeding Ólafur Sigurðsson. As of 29 September, Anna Merrifield was appointed member (Finland), succeeding Pekka Hirvonen.

A list of NDF Board members and their alternates and the Board Secretary can be found on page 9.

Control Committee

The Control Committee ensures that NDF's operations are conducted in accordance with its Statutes. The Committee is furthermore responsible for overseeing the financial audit of the Fund. The financial audit of

NDF is carried out by authorised public accountant firm Ernst & Young, appointed by the Control Committee.

The 2021 annual accounts and the annual auditor's report were approved by the Control Committee on 17 February 2022. At the same meeting, the Control Committee prolonged Ernst & Young's assignment as external auditors and adopted revised Rules of Procedures.

The Control Committee's autumn meeting was held on 22 September 2022. A list of the Chair, members and Secretary of the Committee can be found on page 9.

Administration

As of 31 December 2022, NDF had 27 staff members.⁷ Out of the full-time employees, four were engaged in NCF and EEP Africa. A list of the employees can be found on page 9.

NDF's current organisational structure became effective on 1 January 2021. NDF's organisation consists of four departments: Business Development & Outreach (BDO), Legal and Administrative Support (LAS), Portfolio Origination and Management (POM) and Quality Assurance and Reporting (QAR). During 2022, recruitments were made for the full-time position of a Communications Officer (BDO), and for the part-time positions of an Officer, Portfolio Analysis (QAR) and a Legal Trainee (LAS).

⁷ Of the 27 staff members, 25 have full-time positions and two have part-time positions. Two staff members were on leave as of 31.12.2022.



based on service agreements between NDF and NIB, subject to review from time to time.⁸ During 2022, a thorough mapping exercise of all areas and elements of the services from NIB, including a breakdown of the related pricing structures, was conducted jointly by NDF and the Nordic Environment Finance Corporation (NEFCO) and the outcome was discussed with NIB. The review process resulted in the conclusion of a new service agreement between NIB and NDF in December 2022.

Financial Review

Instruments

NDF operates with several types of financing instruments. Depending on the project type, NDF contributes with grants, loans and equity. These instruments can be used stand-alone or blended, as relevant.

Disbursements and results

During 2022, total disbursements to climate projects amounted to EUR 29.8 million (2021: EUR 30.6 million), of which EUR 18.6 million as grant financing (2021: EUR 26.9 million), EUR 1.1 million as recoverable grant financing (2021: EUR 2.9 million), EUR 8.7 million was made as equity contribution (2021: EUR 1.8 million), and EUR 1.5 million as financing to climate loans (2021: EUR 1.8 million). The total sum also includes disbursements to sub-projects under NCF. At the end of the year, accumulated disbursements to climate change projects since 2009 amounted to EUR 396.4 million.

The net profit/loss for the year totalled EUR -32.7 million in comparison with EUR -10.8 million the previous year. The negative result also reflects NDF's mandate to provide highly concessionary financing with grants constituting 50 % of the portfolio over the five-year period of Strategy 2025.

Accounting currency

Since 2001, NDF's financial accounts are kept in EUR. Capital increases adopted before year 2000 and related capital contributions in Special Drawing Rights (SDR) are translated to EUR at the payment date.

As a result of operating for many years with SDR as the prevailing currency, NDF has outstanding credits in SDR and fluctuations in the SDR/EUR exchange rate lead to variations in financial results, positive or negative, from one year to another.

Capital and liquidity

In 2020, NDF's member countries decided on a capital increase of EUR 350 million. According to the base case payment schedule, the countries have agreed to pay in the amount of this capital increase during 2021–2031. Despite the base case payment schedule, variations to the schedule can be accepted if agreed by the Board ensuring compliance with the liquidity policy, as countries, for example, may wish to make prepayments. NDF finances its payment and other obligations through the capital paid-in by its member countries (the five Nordic countries), cash inflows from the existing project portfolio and proceeds from its treasury operations.

During 2022, NDF received repayments of loans amounting to EUR 30.6 million (2021: EUR 28.7 million).

The liquid assets of NDF are managed by a commercial bank on behalf of NDF. Based on NDF's Liquidity and Investment Management Policy, the assets are placed in green bonds, funds and deposits, altogether yielding an average interest rate of approximately 0.9 % (2021: 0.1%). The green bonds have an average maturity of three and a half years and NDF's deposits are placed on 1 to 12-month intervals. The liquidity as per 31 December 2022 was EUR 128.2 million (2021: EUR 107.2 million) of which EUR 62.9 million was placed in green instruments (2021: EUR 50.9 million).

Financial results and allocation

NDF's total assets as of 31 December 2022 amounted to EUR 726.9 million (2021: EUR 732.7 million). This amount includes loans outstanding and equity investments to the amount of EUR 577.7 million (2021: EUR 606.1 million). Investments with credit institutions amounts of EUR 34.2 million (2021: EUR 27.8 million). Net loan losses, includes expected credit loss (ECL) on loans and reversals during 2022 totalling EUR -14.9 million (2021: EUR -3.6 million).

As of 31 December 2022, NDF's capital as set out in the Statutes consisted of SDR 515 million (2021: SDR 515 million) and EUR 680 million (2021: EUR 680 million). During 2022, EUR 26.4 million (2021: EUR 6.5 million), pertaining to the 2020 capital increase, was paid in. The accumulated retained earnings were EUR -335.4 million (2021: EUR -302.7 million).

⁸ This arrangement for administrative services is based on a decision by NDF's member countries when establishing NDF in 1988.

The Fund's income during 2022 amounted to EUR 5.2 million (2021: EUR 4.6 million). This consisted of income from credits to the public sector⁹ of EUR 4.3 million (2021: EUR 4.5 million), interest on financial investments of EUR 0.9 million (2021: EUR 0.2 million) and of EUR 0.3 million (2021: EUR 0.6 million) as dividends on equity investments. Zimbabwe continues to be in default to NDF and is placed in stage 3 in the ECL model. All of its accrued, outstanding obligations towards NDF have therefore been placed in non-accrual status, and an impairment loss of 100% has been made. NDF has placed Zambia as of 2022 in stage 2 in the ECL model due to payment delay. Following a review of the International Monetary Fund's Sovereign Arrears Policies and Perimeter, in 2022, NDF introduced a recurring stress testing mechanism, similar to the ECL for its sovereign credits portfolio. Administrative expenses were EUR 4.4 million (2021: EUR 4.0 million).

The largest single item of expenditure consists of salaries and additional salary expenses of EUR 3.8 million (2021: EUR 3.4 million).

Net profit/loss for the year, of EUR -32.7 million (2021: EUR -10.8 million), is carried forward to retained earnings. Due to IFRS transition the net profit/loss and retained earnings have been adjusted compared to the published annual financial reports 2020 and 2021. More information on the IFRS transition can be found in note 3. As NDF provides financing on concessionary terms in the form of grants, loans and equity, NDF is likely to incur net losses and thus dependant capital increases from time to time. Statement of financial position and statement of comprehensive income, changes in equity, cash flow and notes can be found on pages 10-34.

⁹ Of the credits to the public sector 159 are credits to sovereign states that have been entered into during 1989-2006 and belong to the so called legacy portfolio.

Helsinki, 14 February 2023

BENEDIKT HÖSKULDSSON
Chair of the Board

ANNE SOFIE BJELLAND
Deputy Chair of the Board

ANNA MERRIFIELD
Board Member

ANDERS ØRNEMARK
Board Member

HENRIK BERGQUIST
Board Member

KARIN ISAKSSON
Managing Director

BOARD OF DIRECTORS *)

DENMARK
Anders Ørnekmark, Chief Advisor, Ministry of Foreign Affairs
Alternate: to be nominated

FINLAND
Anna Merrifield, Director, Ministry for Foreign Affairs
Alternate: Johanna Pietikäinen, Programme Officer, Ministry for Foreign Affairs

ICELAND
Benedikt Höskuldsson, Special Envoy for Climate, Chair of the Board
Alternate: Erla Hlín Hjálmarsdóttir, Director, Ministry for Foreign Affairs

NORWAY
Anne Sofie Bjelland, Senior Adviser, Ministry of Foreign Affairs, Deputy Chair of the Board
Alternate: to be nominated

SWEDEN
Henrik Bergquist, Deputy Director, Ministry for Foreign Affairs
Alternate: to be nominated

Observer:
Johan Ljungberg, Chief Environmental Analyst, Nordic Investment Bank

Secretary to the Board of Directors:
Christina Stenvall-Kekkonen, General Counsel, NDF

CONTROL COMMITTEE *)

Chair
Jan-Erik Enestam, Minister, Independent Consultant

DENMARK
Sjúrður Skaale, Member of Parliament

FINLAND
Heli Järvinen, Member of Parliament

ICELAND
Vilhálmur Árnason, Member of Parliament

NORWAY
May Britt Lagesen, Member of Parliament

SWEDEN
Johan Andersson, Member of Parliament

AUDITORS APPOINTED BY THE CONTROL COMMITTEE

Ernst & Young Oy, Finland, Responsible Partner: Terhi Mäkinen, Authorised Public Accountant
Ernst & Young AB, Sweden, Responsible Partner: Mona Alfredsson, Authorised Public Accountant

Secretary to the Control Committee
Christina Stenvall-Kekkonen, General Counsel, NDF

MANAGEMENT AND STAFF *)

Karin Isaksson, Managing Director
Leena Klossner, Deputy Managing Director, Head of Business Development and Outreach
Jesper Andersen, Director, Head of Quality Assurance and Reporting
Henrik Franklin, Director, Head of Project Origination and Management
Christina Stenvall-Kekkonen, General Counsel, Head of Legal and Administration

Siv Ahlberg, Acting Manager of Nordic Climate Facility
Mira Banerjee, Communication and Outreach Manager
Sofia Chaichee, Monitoring and Evaluation Specialist
Mayra Da Silva, Research Officer
Johanna Eskelinen, Legal Trainee
Paula Fincke, Communication Officer
Amanda Hajnal, Finance and Reporting Officer
Martina Jägerhorn, Program Manager
Aage Jørgensen, Program Manager
Maggie Knorr, Program Officer, EEP Africa
Isa Kujansuu, Legal Counsel
Eveliina Laine, Portfolio Analysis Officer
Isabel Leroux, Program Manager
Jacob Lorentzen, Program Officer, Nordic Climate Facility
Aleksi Lumijärvi, Program Manager
Emeli Möller, Manager of Nordic Climate Facility (on leave)
Mari Rasilainen, Administration Officer
Juha Seppälä, Environmental and Social Safeguards Specialist
Mats Slotte, Manager, Financial Administration
Bolesław Stawicki, Program Manager
Maria Talari, Communication Officer (on leave)
Jussi Viding, Manager, EEP Africa

*) As of 31 December 2022

Statement of comprehensive income

| (Amounts in 1,000 EUR) | Note | 2022 | 2021 |
|--|---------|---------|---------|
| Interest income from lending at amortised cost | | 4 262 | 4 462 |
| Interest income from financial investments at amortised cost | | 378 | 40 |
| Interest income from financial investments at fair value | | 535 | 123 |
| Net interest income | (4) | 5 174 | 4 625 |
| Fee and commission income received | | 70 | 67 |
| Fee and commission income paid | | -137 | -113 |
| Net fee and commission income | (5) | -67 | -46 |
| Grant financing | | -18 584 | -23 999 |
| Refund of grant financing | | 6 | 7 413 |
| Net grant financing | (6) | -18 578 | -16 586 |
| Realised profit/loss on financial instruments at fair value | | 89 | -439 |
| Unrealised profit/loss on financial instruments at fair value | | -3 543 | -699 |
| Expected credit loss on financial operations at amortised cost | | -1 | |
| Net profit/loss on financial operations | | -3 455 | -1 137 |
| Foreign exchange rate differences | | 3 773 | 10 091 |
| Net operating expense | | 317 | 8 954 |
| Administrative expenses | (8) (9) | -4 409 | -4 000 |
| Depreciation | (10) | -182 | -157 |
| Total administrative expenses | | -4 591 | -4 157 |
| Total operating income | | -17 744 | -7 211 |
| Net profit/loss before loan losses | | -17 744 | -7 211 |
| Net loan losses | | -14 925 | -3 597 |
| Net profit/loss for the year | (11) | -32 669 | -10 808 |
| Other comprehensive income | | | |
| Total comprehensive income | | -32 669 | -10 808 |

Statement of financial position

| (Amounts in 1,000 EUR) | Note | 31 December 2022 | 31 December 2021 | 01 January 2021 |
|---|------|------------------|------------------|-----------------|
| ASSETS | | | | |
| Cash and cash equivalents | | 25 493 | 20 817 | 13 229 |
| Long-term placements with credit institutions | | 34 244 | 27 822 | 30 077 |
| Bond and fund investments | (13) | 68 513 | 58 526 | 50 901 |
| Loans outstanding | (14) | 533 926 | 575 034 | 596 149 |
| Equity investments | (15) | 43 749 | 31 085 | 29 773 |
| Derivative instruments | | | 28 | 316 |
| Other assets | (16) | 18 984 | 17 748 | 14 661 |
| Accrued interest and fee | | 1 439 | 1 088 | 1 271 |
| Tangible and intangible assets | (17) | 524 | 570 | 712 |
| Total assets | | 726 872 | 732 717 | 737 089 |
| LIABILITIES AND EQUITY | | | | |
| Liabilities | | | | |
| Other liabilities | | 2 906 | 2 491 | 2 595 |
| Total liabilities | | 2 906 | 2 491 | 2 595 |
| Equity | | | | |
| Paid-in capital | (18) | 1 059 335 | 1 032 925 | 1 026 385 |
| Retained earnings | | -302 700 | -291 892 | -254 731 |
| Net profit / loss | | -32 669 | -10 808 | -37 161 |
| Total equity | | 723 967 | 730 226 | 734 494 |
| Total liabilities and equity | | 726 872 | 732 717 | 737 089 |

Changes in equity

| CHANGES IN EQUITY (amounts in EUR 1,000) | Paid-in fund capital | Retained earnings | Profit/loss for the year | Total |
|---|----------------------|-------------------|--------------------------|----------------|
| Equity as of 31 December 2020 | 1 026 385 | -238 496 | -37 161 | 750 728 |
| IFRS transition adjustments | | -16 235 | | -16 235 |
| Equity as of 1 January 2021 | 1 026 385 | -254 731 | -37 161 | 734 494 |
| Transfers between equity items | | -37 161 | 37 161 | |
| Profit/loss for the year | | | -10 669 | -10 669 |
| Paid-in fund capital | 6 540 | | | 6 540 |
| IFRS transition adjustments | | -139 | | -139 |
| Equity as of 31 December 2021 | 1 032 925 | -292 031 | -10 669 | 730 226 |
| Transfers between equity items | | -10 669 | 10 669 | |
| Profit/loss for the year | | | -32 669 | -32 669 |
| Paid-in fund capital | 26 410 | | | 26 410 |
| Equity as of 31 December 2022 | 1 059 335 | -302 700 | -32 669 | 723 967 |

Cash flow statement

| (Amounts in 1,000 EUR) | 1.1 - 31.12.2022 | 1.1 - 31.12.2021 |
|--|------------------|------------------|
| Cash flow from operating activities: | | |
| Net profit/loss for the year | -32 669 | -10 808 |
| Adjustments | | |
| Depreciation of tangible and intangible assets | 182 | 157 |
| Foreign exchange differences | -3 773 | -10 091 |
| Fair value of derivative instruments | 28 | 288 |
| Fair value of other financial investments | 7 236 | 975 |
| Fair value of equity investment | -3 720 | -564 |
| ECL on financial placements | 1 | |
| Adjustment of equity investments | | 1 200 |
| Change in accrued interest and fees (assets) | -351 | 183 |
| Adjustments to foreign exchange differences | 2 160 | 3 609 |
| Change in other liabilities | -53 | 123 |
| Net loan losses | 14 925 | 3 597 |
| Other adjustments to the net profit/loss for the year | 3 | 3 |
| Adjustments, total | 16 637 | -520 |
| Lending | | |
| Disbursed loans | -1 469 | -1 825 |
| Repayments of loans | 30 606 | 28 656 |
| Lending adjustments | -1 013 | |
| Lending, total | 28 124 | 26 831 |
| Cash flow from operating activities | 12 092 | 15 503 |
| Cash flow from investing activities: | | |
| Change in investments with a maturity longer than 3 months | -6 423 | 2 255 |
| Change in bond and fund investments | -17 223 | -8 599 |
| Change in equity investments | -8 944 | -1 948 |
| Change in other assets | -1 236 | -6 164 |
| Cash flow from investing activities | -33 826 | -14 456 |
| Cash flow from financing activities: | | |
| Paid-in fund capital | 26 410 | 6 540 |
| Cash flow from financing activities | 26 410 | 6 540 |
| Change in cash and cash equivalents | 4 676 | 7 588 |
| Opening balance for cash and cash equivalents | 20 817 | 13 229 |
| Closing balance for cash and cash equivalents | 25 493 | 20 817 |
| Additional information to the statement of cash flows | | |
| Interest income received | 4 893 | 4 874 |
| Interest expense paid | - | - |

The cash flow statement has been prepared using the indirect method and cash flow items cannot be directly concluded from statement of financial position and statement of comprehensive income.

Note 1: Accounting policies

1.1 Reporting entity

History of NDF

Cooperation among the Nordic countries comprises a wide range of activities, including economic policy, development of industrial technology, communications and the harmonisation of legal systems.

The most important formal basis for Nordic cooperation is the Helsinki Agreement of 1962. This agreement sets out the aims of Nordic cooperation and contains provisions for the Nordic Council and, as subsequently amended, for the Nordic Council of Ministers.

The Nordic Council is a forum for consultation and discussion on issues of common interests at a parliamentary level. The Nordic Council of Ministers is empowered to make decisions on matters of cooperation that are binding to the governments of the Nordic countries.

On 19 May 1988, the Nordic Council of Ministers decided to establish the Nordic Development Fund ("NDF" or the "Fund") for financing projects of Nordic interest in developing countries on concessional terms. The establishing agreement of NDF was signed by the five Nordic countries namely Denmark, Finland, Iceland, Norway and Sweden on 3 November 1988 and entered into force on 30 January 1989. The Fund's operations commenced on 1 February 1989.

In November 1997, the Nordic Council of Ministers decided that the legal framework of NDF should be revised to reflect the Fund's status as an international institution. This led to a new Agreement on the Nordic Development Fund, which was signed on 9 November 1998 (the 1998 Agreement), replacing the agreement of 1988.

Purpose

The statutory purpose of NDF, which has remained unchanged since establishment of the Fund, is to promote economic and social development in developing countries through participation in financing, on concessional terms, of projects of interest to the Nordic countries. As the Nordic countries' joint international development financing organisation, NDF focuses, as reflected in the Strategy approved by the Board of Directors in April 2020, on the nexus between climate change and development in lower-income countries and countries in fragile situations. NDF engages in both the public and the private sector, and uses financial instruments flexibly, alone or in various combinations, to match the needs of the project.

Legal Status

NDF is governed by the provisions of the 1998 Agreement and the pertaining statutes (the "Statutes") as amended from time to time. In addition, there is a Host Country Agreement between NDF and the Government of Finland ("Host Country Agreement"), which was signed on 15 October 2013 and entered into force on 11 May 2014.

NDF has the legal status of an international legal person, with full legal capacity and is vested with some privileges and immunities typical for an intergovernmental financial organisation, such as exemption from credit policy measures and payment restrictions, protection from search and seizure of its property and assets, inviolability of its premises, and broad tax exemptions.

The Statutes provide that the principal office, i.e., the headquarters of the Fund shall be located at the principal office, i.e., the headquarters of the Nordic Investment Bank (NIB). The address of the headquarters is Fabianinkatu 34, Helsinki, Finland,

1.2 Basis of accounting

NDF's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

NDF publishes its first financial statements prepared under IFRS standards for the year ended 31 December 2022 with comparative information for the year ended 31 December 2021. The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on 31 December 2022.

In these financial statements the Fund applies IFRS 1 First-time Adoption of International Financial Reporting Standards with the date of transition 1 January 2021

and applies each IFRS standard that is effective as at 31 December 2022 in its opening balance sheet and all periods presented in the financial statements. The Fund has previously applied the methods of valuation and recognition principles at its choice and was not following any generally accepted accounting standard ("GAAP") in its financial statements. More information on the Fund's IFRS transition is provided in Note 3.

1.3 New accounting standards adopted in 2022

As NDF started to apply the IFRS standards 1.1.2022, no new IFRS standards during 2022 were adopted.

1.4 New Accounting Standards for financial year beginning on or after 1 January 2023

There are no IFRS standards or interpretations that are not yet effective that would be expected to have a material impact on NDF.

1.5 Functional and presentation currency

The Fund's functional and presentation currency is euro, and the financial statements are presented in EUR 1,000, unless otherwise indicated. All figures in the financial statements have been rounded and consequently the sum of individual figures may deviate from the presented sum figure. Furthermore, all percentages are subject to possible rounding differences.

1.6 Significant accounting judgements and estimates

As part of the process of preparing the financial statements in conformity with IFRS, NDF's management is required to make certain judgements, estimates and assumptions that may affect NDF's profits, its financial position and other information presented in the Annual Report. These estimates are based on available information and the judgements made by NDF's management. Actual outcomes may deviate from the assessments made, and such deviations may at times be significant.

NDF uses market value reports regarding financial instruments obtained from counterparty/commercial banks.

Significant judgement and estimates are applied to loan impairment testing including a model for expected credit loss (ECL) in accordance with IFRS 9. The estimates are highly dependent on factors such as political and financial instability. The uncertainties related to these estimates are reflected mainly in the statement of financial position.

1.7 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 the euro are converted on a daily basis to the euro, in accordance with the euro rate prevailing on that day.

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

The Fund uses the exchange rates acquired from a leading market data provider based on rates prevailing at 13:00 GMT at 31 December except for Special Drawing Rates (SDR) which is based on the International Monetary Fund (IMF) published rate as disclosed in Note 24.

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 expired.

1.9. Basis for classification and measurement

The Fund classifies its financial assets into two categories: those measured at amortised cost, and those measured at fair value through profit or loss. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

An investment is classified at "amortised cost" (AC) only if both of the following criteria are met: the objective of the Fund's business model is to hold the assets in order to collect the contractual cash flows, and the contractual

terms of the financial assets must give rise on specified dates to cash flows that are only payments of principal and interest on the principal amount outstanding.

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 (FVPL).

In addition to these main classification categories, possible investments in associate undertakings are treated according to the equity method.

The following table summarises the accounting treatment of the Fund's financial assets.

| Investments for liquidity purposes | NDF's purpose | SPPI-test passed | Measurement category |
|---|---------------------------|-------------------------|-----------------------------|
| Cash and cash equivalents | To be held until maturity | Yes pass | AC |
| Long-term placements with credit institutions | To be held until maturity | Yes pass | AC |
| Bond and fund investments | Possibility to be traded | Partly pass | FVTPL |
| Operative investments | | | |
| Loans outstanding | To be held until maturity | Yes pass | AC |
| Equity investments | Possibility to be traded | No | FVTPL |
| Investments in associate undertaking | Possibility to be traded | No | Equity method |

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 Fund'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 assets must give rise on specified dates to cash flows that are only payments of principal and interest on the principal amount outstanding.

Determination of amortised cost

The financial instrument is acquired at fair value. Subsequently the amortised cost is the amount at which

the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset (i.e., its amortised cost before any impairment allowance). The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

When the Fund revises the estimates of future cash flows, the carrying amount of the respective financial asset is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3') according to ECL, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e., net of the expected credit loss provision).

Commitment fees of loans are accrued on the balance sheet and included in the initial measurement of the financial asset when the loan is withdrawn. If the commitment expires unused, the commitment fee is recognised as revenue on expiry.

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 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. Currently NDF has no financial assets measured at FVOCI.

Determination of fair value

The fair value of financial instruments, including derivative instruments that are traded in a liquid market, is the bid or offered closing price on the balance sheet date.

The Fund measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market prices (unadjusted) in an active market for identical instruments.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Valuation techniques using significant unobservable inputs.

Investments for liquidity purpose

1.10 Cash and cash equivalents

Cash and Cash Equivalents comprise monetary assets and investments with original maturities of three months or less, calculated from the date the acquisition and investments were made with insignificant risk of change in fair value.

Cash and Cash Equivalents in the cash flow statement refers to the net amount of monetary assets, investments and liabilities with original maturities of three months or less, calculated from the time the transaction was entered. During the periods presented, cash and cash equivalents in the balance sheet correspond to the cash and cash equivalents in the cash flow statement.

1.11. Long-term placements with credit institutions

NDF invests monetary assets with a commercial bank at current market interest rates. These placements are held at amortised cost.

1.12. Bond and fund investments

These investments consist of money market funds and green bonds. Investments in money market funds and bonds are carried at fair value, with changes in FV reported in profit or loss under net profit on financial operations. Bonds are classified in level 1 in the fair value hierarchy. Investments in money market funds are classified in level 2 in the fair value hierarchy.

Investments for operative purposes

1.13. Loans outstanding

The NDF loans are primarily directed towards low-income countries.

The loans are initially recognised at cost at settlement date and subsequently held at amortised cost. Loans are assessed for impairment applying the expected credit loss model.

These loans have a considerable concessionary element as they have none or very low interest rates and very long maturities.

1.14. Impairment of loans

The Fund uses ECL to estimate the provision for potential impairments. The Fund recognises a loss allowance for ECL on financial assets measured at amortised cost, or at fair value through comprehensive income, and for loan commitments. NDF has no financial assets currently held at fair value through comprehensive income. The ECL comprises of a three-stage model based on changes in credit quality since initial recognition. Impairments are reported based on either twelve month or lifetime expected credit losses, depending on the stage impairment of the financial asset. The stage allocation also determines if interest income for the financial asset is reported on the gross carrying amount as for Stage 1 and 2 assets or net of impairment allowance for Stage 3 assets. Financial assets may move between ECL stages depending on whether the credit quality improves or deteriorates.

Stage 1 - includes financial assets that have not had a significant deterioration in credit quality since initial recognition or have a low risk at the reporting date.

Stage 2 - includes financial assets that have had a significant deterioration in credit quality since initial recognition, but for which there is no objective evidence of impairment.

Stage 1 and 2 assets are categorised as performing assets and the model calculations are updated at each reporting date.

Stage 3 - includes assets that have been categorised as non-performing by the Fund, which are classified in stage 3. The non-performing assets, assessment is done on an individual basis, as opposed to generic calculation rules for the Stage 1 and 2 assets. A default occurs regarding a borrower when either or both of the following have taken place:

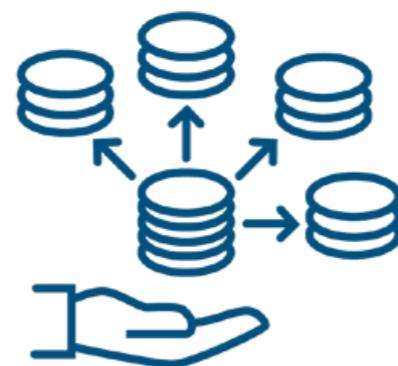
- (a) NDF considers that the borrower is unlikely to pay its credit obligations in full.
- (b) The credit rating of the borrower is Default (D)

The Fund reviews its non-performing loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the financial statements. In particular, the judgement of the management is required in estimating the amount and timing of future cash flows when determining the level of ECL. Such estimates are based on assumptions about several factors, and actual results may differ, resulting in future changes to the impairment.

Further details regarding the ECL model, related inputs and governance can be found in Note 12.

1.15. Equity investments

As part of its strategy, NDF may make investments in equity and other participating interests to promote its mandate. The Fund's participation is also intended to promote efficient use of resources, playing a catalytic role in attracting other investors and lenders and mobilising the flow of resources to financially viable projects. The Fund does not seek a controlling interest in the companies and funds in which it invests. However, it may have influence in the investees through Board of Directors or Advisory Committee representation. If the Fund has significant influence, these investments are treated according to the equity method.



Investments in equity securities (except those accounted for under equity method) are reported at FV, with changes in FV reported in profit or loss under net profit on financial operations. The investments are currently classified in level 3 in the fair value hierarchy. If the fair value of an equity investment is based on available market price or market data, the classification would be level 1 or level 2 in the fair value hierarchy. Further information on the fair value measurement and valuation techniques applied is given in Note 19.

1.16. Derivative instruments

NDF has entered into foreign exchange derivative instruments in order to limit exchange change fluctuations between SDR and EUR in foreign exchange differences.

The derivative instruments are measured at fair value at the end of the year and the change in fair value is recognised in net profit on financial operations within statement of comprehensive income. The derivatives are included in level 2 of the fair value hierarchy.

1.17. Grant financing

Disbursements to climate projects in the form of grants, are recorded as a cost under "Grant financing for climate projects" in the statement of comprehensive income. Upon completion of a project or cancellation of a grant, any refund is accounted for as a reduction of the total costs for the year under "Refund of grant financing." Repayable grants are also considered as grant financing although there is a mechanism of receiving back the grant at the end of the project or lifetime of the fund. Repayable grant disbursements are recorded under "Other assets" in the statement of financial position.

1.18 Tangible and Intangible assets

Tangible assets are recognised at historical cost, less accumulated depreciation based on their assessed useful life and impairment losses. The depreciation is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives, usually three to five years.

Intangible assets mainly consist of investments in software and software licenses and also right to use assets arising from leasing arrangements. Separately acquired software licences are carried at historical cost less accumulated amortisation and impairment losses and are amortised over the assessed useful life of the assets, which is estimated to be between three and five years. The amortisations are made on a straight-line basis.

Leasing agreements

The Fund applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Fund recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The lease liability and right-of-use asset have equal value at contract commencement date. Short-term leases and leases of low-value assets are recognised on a straight-line basis over the lease term.

Right-of-use assets

The Fund 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 19.

Lease liabilities

At the commencement date of the lease, the Fund recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

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

The Fund's tangible and intangible 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.

1.20. NDF's capital

NDF's total subscribed capital as at 31 December 2022 is SDR 515 000 thousand (2021: SDR 515 000 thousand) and EUR 680 000 thousand (2021: 680 000 thousand), equivalent to EUR 1 371 405 thousand (2021: EUR 1 371 405 thousand).

The carrying value of the paid-in capital is EUR 1 059 335 thousand (2021: EUR 1 032 925 thousand).

Subscribed capital increases by member countries are contingent assets, which are recognised when paid-in.

1.21. Income from operations

The Fund's long-term lending to sovereign states is interest-free, but a fixed rate service charge per annum is collected on outstanding amounts. A fixed commitment charge per annum is collected on any undisbursed balance commencing 12-18 months after the loan agreement has been signed. Income from other loans is presented within interest income from lending in the statement of comprehensive income.

Income from equity investments is normally related to the return received by the shareholders of the company and is recognised within net profit on financial operations.

Non-utilisation fees are presented within Net fee and commission income.

Possible management fees that are received from borrowers are accrued to net interest income.

1.22. General administrative expenses and host country reimbursement

NDF purchases administrative services from NIB. Costs of these services are shown under note 9. On the basis of the Host Country Agreement, NDF receives a host country reimbursement from the Finnish government

equal to the tax levied on the salaries of the Fund's employees.

1.23. Employee benefits

Employee pensions and insurance

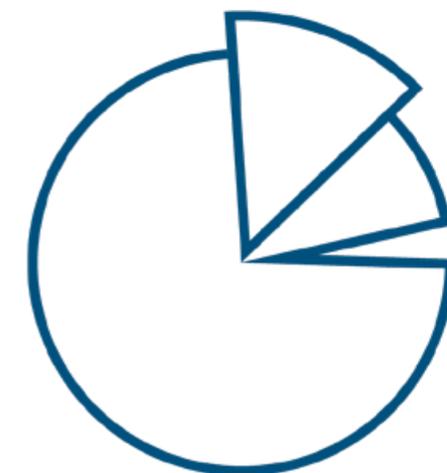
The Fund is responsible for arranging pension security for its employees. In accordance with the Host Country Agreement between the Fund and the Finnish Government and as part of the Fund's pension arrangements, the Fund has decided to apply the Finnish state pension system. Contributions to this pension 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 8). The Fund's pension liability is completely covered.

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

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

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided.



1.24 Cash flow statement

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

Note 2: Risk management

NDF has established a Risk Management Policy (Policy) which was approved in December 2022 and will be implemented in 2023 onwards. The Policy forms the core of and defines NDF's Risks Management Framework, as well as establishes NDF's overall approach to the implementation of systematic risk management, defining the related key roles and responsibilities, and guiding the further implementation of the elements under the Framework.

Risk governance

The risk governance is described in NDF's Risk Management Policy. The Board of Directors has the responsibility to assure itself of the effectiveness of NDF's risk management. The primary responsibility for risk management rests with NDF Management, i.e., the Managing Director and the Heads of Departments collectively. NDF Management shall review risks on regular basis and takes decisions with regard to risk management, both on risk category and organisational level. NDF Management shall be responsible for the promotion of sound risk culture and the integration of risk management into any intra-departmental processes.

The Managing Director shall have the overall responsibility to ensure the implementation of risk management, including sufficient resourcing to support an effective management of risks.

Financial and other risk management

All policies, processes and procedures, by which NDF manages its financial risk continually evolve. The guiding principles by which NDF manages its risks are governed by NDF's Risk Management Policy and associated risk management guidelines, which are being developed further.

NDF's, department for Quality Assurance and Reporting has been vested the authority to manage NDF's financial assets and liabilities within defined parameters. The Risk Management Policy sets out the overall principles for managing financial risks. The authority covers NDF's entire array of activities such as debt-funding operations and investment of liquid resources, including the interest rate and currency risk management aspects of NDF's lending and equity investment instruments.

The following sections describe how the different sources of risk are managed by NDF.

Credit risk

Credit risk arises from the inability or unwillingness of counterparties to discharge their financial obligations to NDF. It is the potential for credit loss due to default of one or more borrowers. Credit risk is by far the largest source of risk for NDF arising essentially from its lending and treasury operations.

NDF manages three principal sources of credit risk: (i) sovereign credit risk in its public sector portfolio; (ii) non-sovereign credit risk in its non-sovereign portfolio; and (iii) counterparty credit risk in its portfolio of treasury investments and derivative transactions used for asset and liability management purposes. These risks are managed in accordance with the Risk Management Policy and described in more detail in the sections below.

1) Sovereign credit risk

In extending credit to sovereign entities, NDF is exposed to country risk which includes potential losses arising from a country's inability to timely service its obligations to NDF. NDF manages country credit risk through its Risk Management Policy and procedures assessing sovereign credit risk as from entry of project proposals. The risk is then continuously monitored during the term of the credit. NDF applies a default policy that imposes severe restrictions on countries that fail to honor their debt service obligations to NDF.

NDF's constituent documents, i.e., Articles 12 and 13 of the 1998 Agreement stipulate among other things that NDF may receive and be in possession of currencies of any kind and that NDF shall be exempt from payment restrictions and credit policy measures, which in any manner prevent or impede the fulfilment of its functions. These provisions

underpin NDF's so-called preferred creditor status, on the basis of which sovereign credits by NDF (or other comparable multilateral creditors) are not subject to rescheduling of national debt in the so-called Paris or London Clubs.

As follows from NDF's Statutes, Section 3 subparagraph 3, the only exception to NDF's non-participation in sovereign debt rescheduling may be coordinated international debt reliefs in which other multilateral financing institutions participate such as the Highly Indebted Poor Countries (HIPC) Initiative in the 1990s.

NDF's non-participation in debt rescheduling is also contractually agreed in agreements between NDF's sovereign borrowers and NDF.

2) Non-Sovereign credit risk

NDF is exposed to non-sovereign credit risk when it extends credits to private-sector entities such as corporates and financial institutions. NDF monitors these risks continuously on transaction level and portfolio level.

3) Counterparty credit risk in treasury operations

Counterparties in treasury operations must meet NDF's minimum credit rating requirements as set

out in the Liquidity and Investment Management Policy and Liquidity and Investment Management Guidelines. NDF may invest its liquidity with or through counterparties or issuers that have a high credit rating. NDF will follow the lowest rating principle, which implies that if the credit rating of the counterparty and/or issuer goes below A- by Standard and Poor's (S&P), A- by Fitch or A3 by Moody's, NDF would consider that counterparty/issuer as non-eligible. Up to 50% of the liquidity can be invested in funds. The weighted average of the underlying assets in the funds needs to be Baa3 or BBB- or above.

Market risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in its risk-bearing capacity, NDF's principal currency risk management objective is to promote its risk capital from translation risk due to fluctuations in foreign currency exchange rates.

As NDF will in future years have outstanding credits denominated in SDR, changes in the SDR-EUR rate may lead to the Statement of comprehensive income showing substantial foreign exchange differences since these currency positions are not 100% hedged against changes in foreign exchange rates. However, in accordance with the Hedging Policy, measures have been taken to reduce the effects from the foreign exchange differences by hedging 50% of the credits denominated in SDR.

The derivative instruments are valued at fair value at the end of the year and the change in fair value is recognised in the Statement of comprehensive income.

NDF utilises both forward and deposition contracts for liquidity management purposes. NDF has forward and deposition contracts with a commercial bank.

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. Liquidity risk arises when there is a maturity mismatch between assets and liabilities. To mitigate the funding liquidity risk, NDF requires a 20% liquidity buffer, which can be used to meet unexpected payment obligations while continuing ordinary project and administrative operations in the event that normal inflow of funds temporarily would cease. NDF does not make a distinction on how the liquidity and the liquidity buffer are invested, as all investments fall under the Liquidity Investment and Management Policy.

The market liquidity risk is mitigated by having all of the liquidity invested in high-quality financial assets defined below. These assets are under stressed market conditions and associated with low risk for decreased market value. Liquidity is also kept on bank accounts in order to avoid liquidating investments each time disbursement requests arrive.

4) Compliance risk

As defined in NDF's Integrity Due Diligence Policy, compliance risk means risk of integrity and other reputational risks due to non-compliance by a contractual party of NDF with any applicable laws and regulations, policies, rules and international

standards. Integrity risk, which is a subcategory of compliance risk as defined in the same policy relates to risk due to corruption, fraud, money laundering, terrorist financing, tax avoidance or evasion, lack of transparency and undue political influence.

As set out in its Policy on Anticorruption and Integrity, NDF adheres to the principles and definitions commonly applied by International Financial Institutions (IFIs), in particular the IFI Uniform Framework for Preventing and Combating Fraud and Corruption and is committed to participating in the joint efforts of IFIs to combat fraud and corruption.

For NDF it is key that it engages with reputable partners so that its financing and other activities achieve the expected results and impact, its resources are used effectively, and its development and climate objectives are met. The efforts on mitigating the risk of engaging with parties and projects that are, or potentially could be, associated with corruption, fraud, money laundering or the financing of terrorism are put in practice through Integrity Due Diligence (IDD).

The integrity of NDF's own activities and of its staff is governed through the Codes of Conduct, which set the values and ethical standards expected from the Board of Directors and the Managing Director and from the staff respectively. The Codes covers topics such as conflicts of interests, gifts, hospitality, trading limitations and perquisite positions.

Note 3: Transition to IFRS

The structure of the statement of comprehensive income, statement of financial position, changes in equity and cash flow statement in accordance with IAS 1 in accordance with IFRS 1.

Changes resulting from classification changes regarding assets and liabilities are recorded in retained earnings for items belonging to previous statements of comprehensive income.

More details regarding the transitions can be found in relevant notes.

| (Amounts in 1,000 EUR) | 31 Dec 2020 as per annual report | Reclassification | Remeasurement | 1 Jan 2021 as per IFRS | Explanation |
|---|-------------------------------------|------------------|----------------|---------------------------|----------------|
| ASSETS | | | | | |
| Cash and cash equivalents | 13 229 | | | 13 229 | |
| Other long-term financial placements | 30 080 | -30 080 | | | 1) |
| Long-term placements with credit institutions | | 30 080 | -3 | 30 077 | 1) |
| Other financial placements | 50 901 | -50 901 | | | |
| Bond and fund investments | | 50 901 | | 50 901 | |
| Credits to sovereign states | 602 329 | -602 329 | | | 1) 2) 5) |
| Other loans | 3 826 | -3 826 | | | 1) 3) |
| Climate loans | 7 798 | -7 798 | | | 1) 4) |
| Loans with equity features and equity investments | 36 545 | -36 545 | | | 6) 9) |
| Loans outstanding | | 613 953 | -17 804 | 596 149 | 1) 2) 3) 4) 5) |
| Equity investments | | 36 545 | -6 772 | 29 773 | 6) 9) |
| Other assets | 5 000 | | 9 660 | 14 661 | 5) 10) |
| Derivative instruments | 316 | | | 316 | |
| Accrued income | 1 271 | | | 1 271 | |
| Intangible assets | 699 | -699 | | | 7) |
| Tangible assets | 13 | -13 | | | 8) |
| Tangible and intangible assets | | 712 | | 712 | 7) 8) |
| Total assets | 752 007 | | -14 918 | 737 089 | |
| LIABILITIES AND EQUITY | | | | | |
| Other liabilities | 1 279 | | 1 316 | 2 595 | 1) |
| Total liabilities | 1 279 | | 1 316 | 2 595 | |
| Paid-in capital | 1 026 385 | | | 1 026 385 | |
| Retained earnings | -238 496 | | -16 235 | -254 731 | 10) 11) |
| Net profit / loss | -37 161 | | | -37 161 | |
| Total equity | 750 728 | | -16 235 | 734 494 | |
| Total liabilities and equity | 752 007 | | -14 918 | 737 089 | |

| (Amounts in 1,000 EUR) | 31 Dec 2021 as per annual report | Reclassification | Remeasurement | 1 Jan 2021 as per IFRS | Explanation |
|---|-------------------------------------|------------------|----------------|---------------------------|----------------|
| ASSETS | | | | | |
| Cash and cash equivalents | 20 817 | | | 20 817 | |
| Other long-term financial placements | 27 825 | -27 825 | | | 1) |
| Long-term placements with credit institutions | | 27 825 | -3 | 27 822 | 1) |
| Other financial placements | 58 526 | -58 526 | | | |
| Bond and fund investments | | 58 526 | | 58 526 | |
| Credits to sovereign states | 580 969 | -580 969 | | | 1) 2) 5) |
| Other loans | 3 553 | -3 553 | | | 1) 3) |
| Climate loans | 9 622 | -9 622 | | | 1) 4) |
| Loans with equity features and equity investments | 37 293 | -37 293 | | | 6) 9) |
| Loans outstanding | | 594 144 | -19 110 | 575 034 | 1) 2) 3) 4) 5) |
| Equity investments | | 37 293 | -6 208 | 31 085 | 6) 9) |
| Other assets | 7 731 | | 10 017 | 17 748 | 5) 10) |
| Derivative instruments | 28 | | | 28 | |
| Accrued income | 1 088 | | | 1 088 | |
| Intangible assets | 557 | -557 | | | 7) |
| Tangible assets | 13 | -13 | | | 8) |
| Tangible and intangible assets | | 570 | | 570 | 7) 8) |
| Total assets | 748 020 | | -15 303 | 732 717 | |
| LIABILITIES AND EQUITY | | | | | |
| Other liabilities | 1 420 | | 1 071 | 2 491 | 1) |
| Total liabilities | 1 420 | | 1 071 | 2 491 | |
| Paid-in capital | 1 032 925 | | | 1 032 925 | |
| Retained earnings | -275 657 | | -16 235 | -291 892 | 10) 11) |
| Net profit / loss | -10 669 | | -139 | -10 808 | 12) |
| Total equity | 746 600 | | -16 374 | 730 226 | |
| Total liabilities and equity | 748 020 | | -15 303 | 732 717 | |

(Amounts in 1,000 EUR)

| | 1 Jan to 31 Dec 2021 as per annual report | Reclassification | Remeasurement | Explanation | | 1 Jan to 31 Dec 2021 as per IFRS | Explanation |
|---|--|------------------|---------------|-------------|--|--|-------------|
| Income statement | | | | | Statement of comprehensive income | | |
| Income | | | | | Interest income from lending at amortised cost | 4 462 | 13) |
| Service charges from credits | 4 462 | -4 462 | | 13) | Interest income from financial investments at amortised cost | 40 | 15) |
| Income from loans with equity features | 606 | -606 | | 14) | Interest income from financial investments at fair value | 123 | 16) |
| Fee and commission income | 67 | | | | Net interest income | 4 625 | |
| Interest income/expenses from investments with credit institutions | 43 | -43 | | 15) | Fee and commission income received | 67 | |
| Interest income from other financial investments | 123 | -123 | | 16) | Fee and commission income paid | -113 | |
| Interest income from cash and balances with banks | -3 | 3 | | 15) | Net fee and commission income | -46 | |
| Real. and unreal. gains/losses other financial investments | -2 091 | 2 091 | 564 | 9) 17) | Grant financing | -23 999 | 10) |
| Total income | 3 206 | -3 139 | 564 | | Refund of grant financing | 7 413 | |
| Expenses | | | | | Net grant financing | -16 586 | |
| Grant financing for climate projects | -26 893 | | 2 893 | 10) | Realised profit/loss on financial instruments at FV | -439 | 14) 17) |
| Refund of grant financing | 7 413 | | | | Unrealised profit/loss on financial instruments at FV | -699 | 9) 17) |
| Fee and commission expenses | -93 | | | | ECL on financial operations at AC | | 9) |
| Commission expenses, derivative instruments | -20 | | | | Net profit/loss on financial operations | -1 137 | |
| General administrative expenses | -4 000 | | | | Foreign exchange rate differences | 10 091 | |
| Depreciation/amortisation on tangible and intangible assets | -157 | | | | Net operating expense | 8 954 | |
| Changes in provision for credit losses, write-down of loans and reversals | | | -3 597 | 1) | Administrative expenses | -4 000 | |
| Total expenses | -23 749 | | -704 | | Depreciation | -157 | |
| Net result for the year before foreign exchange differences and unrealised gains/losses on derivative instruments | -20 543 | | | | Total administrative expenses | -4 157 | |
| Foreign exchange differences | 10 091 | | | | Total operating income | -7 211 | |
| Unrealised gains/losses on fair value of derivative instruments | -288 | 288 | | 17) | Net profit/loss before loan losses | -7 211 | |
| Realised gains/losses on derivative instruments | 71 | -71 | | 14) | Net loan losses | -3 597 | 1) |
| Foreign exchange differences, net | 9 875 | 216 | | | Net profit/loss for the year | -10 808 | 12) |
| Net result for the year | -10 669 | | -139 | 12) | Other comprehensive income | | |
| | | | | | Total comprehensive income | -10 808 | |

Explanation:

1) ECL for long-term placement with credit institutions and loans outstanding held at amortised cost. See also 1.9. Basis for classification and measurement, 1.11. Long-term placements with credit institutions, 1.14. Impairment of loans, Note 7: Net profit/loss on financial operations, Note 12: Expected credit loss and Note 19: Fair value note, classification of financial instruments.
2) Credits to sovereign states have been reallocated to loans outstanding. See also 1.9. Basis for classification and measurement, 1.13. Loans outstanding, 1.14. Impairment of loans, Note 12: Expected credit loss and Note 19: Fair value note, classification of financial instruments.
3) Other loans have been reallocated to loans outstanding. See also 1.9. Basis for classification and measurement, 1.13. Loans outstanding, 1.14. Impairment of loans, Note 12: Expected credit loss and Note 19: Fair value note, classification of financial instruments.

4) Climate loans have been reallocated to loans outstanding. See also 1.9. Basis for classification and measurement, 1.13. Loans outstanding, 1.14. Impairment of loans, Note 12: Expected credit loss and Note 19: Fair value note, classification of financial instruments.
5) The amortisations which have not been paid by lending customers, have been reallocated to outstanding loans from other assets. This has been done as the ECL has been allocated to outstanding loans. See also Loans outstanding, 1.14. Impairment of loans and Note 12: Expected credit loss.
6) Loans with equity features can now be found under item Equity investments. See also 1.9. Basis for classification and measurement, Note 7: Net profit/loss on financial operations and Note 19: Fair value note, classification of financial instruments.
7) Intangible assets have been combined to one item Tangible and intangible assets.
8) Tangible assets have been combined to one item Tangible and intangible assets.

9) Fair value adjustment for equity investments held at fair value. See also 1.9. Basis for classification and measurement, Note 7: Net profit/loss on financial operations and Note 19: Fair value note.
10) Repayable grants have been reallocated from Grant financing for climate projects to the statement of financial position among line-item other assets. See also 1.9. Basis for classification and measurement, Note 7: Net profit/loss on financial operations and Note 19: Fair value note.
11) ECL for long-term placement with credit institutions and loans outstanding held at amortised cost and fair value adjustments referring to the transition to IFRS are now included in retained earnings in the financial position. See also 1.9. Basis for classification and measurement, 1.11. Long-term placements with credit institutions, 1.14. Impairment of loans, Note 7: Net profit/loss on financial operations, Note 12: Expected credit loss and Note 19: Fair value note.

12) Net profit/loss for the year directed to Net profit/loss in Equity.
13) Reallocated from Service charges from credits to Interest income from lending at amortised cost.
14) Reallocated from Income from loans with equity features and Realised gains/losses on derivative instruments to Realised profit/loss on financial instruments at FV.
15) Reallocated from Interest income/expenses from investments with credit institutions and Interest income from cash and balances with banks to Interest income from financial investments at amortised cost.
16) Reallocated from Interest income from other financial investments to Interest income from financial investments at fair value.
17) Reallocated from Real. and unreal. gains/losses other financial investments and Unrealised gains/losses on fair value of derivative instruments to Realised profit/loss on financial instruments at FV and Unrealised profit/loss on financial instruments at FV.

Note 4: Interest income and expense

The table shows the interest income and expenses recorded during the year:

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|---|-------------------|-------------------|
| Interest income held at amortised cost | | |
| Lending | 4 262 | 4 462 |
| Investments with credit institutions | 325 | 43 |
| Cash and balances with banks | 53 | -3 |
| Total, interest income held at amortised cost | 4 639 | 4 502 |
| Interest income held at fair value | | |
| Financial investments | 535 | 123 |
| Total, interest income held at fair value | 535 | 123 |
| Net interest income | 5 174 | 4 625 |

Note 5: Fee and commission income and expenses

Fee and commission income from lending activities:

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|---------------------|-------------------|-------------------|
| Non-utilisation fee | 70 | 67 |
| Total | 70 | 67 |

Fee and commission expenses:

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|---|-------------------|-------------------|
| Fee and commission expenses | -126 | -93 |
| Commission expenses, derivative instruments | -11 | -20 |
| Total | -137 | -113 |

Note 6: Net grant financing

The geographic distribution of grant financing is as follows:

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|----------------------------|-------------------|-------------------|
| Africa | -16 457 | -14 495 |
| Asia | -811 | -8 495 |
| Multiple regions | -1 025 | -337 |
| Latin America | -291 | -673 |
| Total disbursements | -18 584 | -24 000 |

During the year EUR 6 thousand (2021: EUR 7 413 thousand) has been refunded on joint financed grant projects with multilateral development banks.

Note 7: Net profit/loss on financial operations

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|--|-------------------|-------------------|
| Financial instruments measured at fair value, realised gains/losses | 89 | -439 |
| Financial instruments measured at fair value, unrealised gains/losses | -3 543 | -699 |
| Financial instruments measured at amortised cost, realised gains/losses | | |
| Expected credit loss on financial investments measured at amortised cost | -1 | |
| Net profit/loss on financial operations | -3 455 | -1 137 |

Note 8: Net personnel expenses, compensation and benefits

On the basis of the Host Country Agreement, NDF receives a host country reimbursement from the Finnish government equal to the tax levied on the salaries of the Fund's employees.

| Net personnel expenses (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|---|-------------------|-------------------|
| Salaries and other remuneration | -2 560 | -1 975 |
| Social security and employee insurances | -260 | -222 |
| Pensions | -963 | -871 |
| Board of Directors and Control Committee remuneration | -23 | -21 |
| Other personnel expenses | -76 | -471 |
| Gross personnel expenses | -3 883 | -3 560 |
| Host country reimbursement according to agreement with Finnish Government | 855 | 752 |
| Net personnel expenses | -3 028 | -2 808 |

| Employees | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|--|-------------------|-------------------|
| Number of employees at 31 December | 27 | 28 |
| Average age of employees | 46 | 45 |
| Average period (years) of employment | 9 | 7 |
| Distribution by gender as of 31 December | | |
| Female | 18 | 18 |
| Male | 9 | 10 |

Pension Benefits

NDF is responsible for arranging the pension security for its employees. The Finnish public sector pension system (JuEL Pension) forms the basis for the pension benefits. The JuEL Pension is calculated based on the employee's annual taxable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2022 was 17.69% (2021: 17.25%) of

the pensionable income. The employee's pension contribution was either 7.15% or 8.65%, depending on the employee's age. NDF 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 Fund 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 also accounted for as a defined contribution plan.

The employer's pension contribution regarding the Managing Director amounted to EUR 134.827 (2021: EUR 128,567) of which EUR 38.664 (2021: EUR 36,915) comprised of supplementary pension premiums. Regarding the Deputy Managing Director the amount is EUR 63.813 (2021: EUR 61.043) of which EUR 12.235 (2021: EUR 12.841) comprised supplementary pension premiums and for Other Members of Management the total amount is EUR 207.886 (2021: EUR 160.412) of which EUR 43,116 (2021: EUR 33,744) comprised of supplementary pension premiums. The Board of Directors and Control Committee members are not eligible for NDF pension arrangements.

Insurances

NDF 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 temporarily interrupt the insurance coverage. 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

NDF has also arranged occupational health care for its staff through a private medical centre in Finland. The Fund's medical insurance covers in addition to a broad extent use of other health care service providers if needed and 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 are not under the coverage of the health care benefit.

Additional benefits for expatriate personnel

Professional staff (including the Managing Director) who move to Finland for the sole purpose of taking up employment at the Fund are entitled to certain expatriate benefits, such as an expatriate allowance and a spouse/ family allowance. In addition, NDF assists the expatriate in finding accommodation, usually by renting a house or a flat in its own name. The staff member reimburses NDF 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.

Compensation for Board of Directors, Control Committee and Management

Compensation for the Board of Directors and the Control Committee is set by the Nordic Council of Ministers. The compensation consists of fixed annual remuneration and an attendee allowance. 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 established 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 five years. The existing contract can also be prolonged. The current Managing Director's contract has a four-year term, which commenced on 19 August 2019.

Compensation for the Managing Director is paid in the form of a fixed monthly salary and usual salary-based benefits.

Compensation for the Chairman of the Board of Directors, the Board, the Control Committee, the Managing Director, the Deputy Managing Director and the other members of Management appears in the table below:

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|---|-------------------|-------------------|
| Chairman of the Board of Directors | 5 | 5 |
| Other members of the Board of Directors | 17 | 12 |
| Control Committee | 2 | 2 |
| Managing Director | 387 | 376 |
| Deputy Managing Director | 203 | 198 |
| Other members of Management | 693 | 532 |

Taxation and host country reimbursement

According to an agreement between the Fund's member countries, taxation of staff salaries and taxable benefits, the Managing Director's salary and the compensation for Board of Directors and Control Committee members, 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 Fund, the amount of tax withheld in advance on the salaries of NDF's staff and the final tax on salaries collected shall be repaid to the Fund. The host country reimbursement, which the Fund received in 2022, amounted to EUR 854,602 (2021: EUR 751,922). The payment reduces the Fund's administrative expenses.

Note 9: Other administrative expenses

NDF purchases administrative services from NIB.

| Other administrative expenses (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|---|-------------------|-------------------|
| Office premises costs | -68 | -29 |
| Other general administrative expenses | -837 | -479 |
| Cost coverage, NIB | -475 | -685 |
| Total | -1 380 | -1 193 |

Note 10: Depreciation (Tangible and intangible assets)

| (EUR 1,000) | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|-----------------------------|-------------------|-------------------|
| Intangible assets (Note 17) | -182 | -157 |
| Tangible assets (Note 17) | | |
| Total | -182 | -157 |

Note 11: Net loan losses

| In EUR 1,000 | 1.1. - 31.12.2022 | 1.1. - 31.12.2021 |
|--|-------------------|-------------------|
| Change in expected credit loss on performing loans | -14 925 | -3 190 |
| Change in expected credit loss on non-performing loans | | -407 |
| Decrease of provision to cover realised losses | | |
| Realised loan losses | | |
| Net loan losses | -14 925 | -3 597 |

Note 12: Expected credit loss

Introduction and governance

The Fund calculates and reports its impairments based on expected credit losses (ECL). The ECL Framework is based on the requirements of the International Financial Reporting Standard (IFRS 9 Financial Instruments). Additionally, the guidance of the Basel Committee on Banking Supervision and Global Public Policy Committee are followed, where applicable. The ECL Framework is governed by the Funds's Risk Management Policy and has been approved by the Managing Director. The Credit Committee (CC) reviews and recommends the impairment allowances and ECL model based calculation results, which are approved by the Managing Director.

The ECL calculation is performed at the level of individual financial assets and the main components comprise Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD). The model is forward-looking; current and future macroeconomic conditions are incorporated into the model through the customers credit rating.

Each transaction in the Fund's portfolio has an internal PD rating associated with it. This rating is essentially a long-term, best estimate rating resulting in a neutral estimate without explicit buffers of conservatism. For ECL purposes, the PD is estimated based on a regression model of macroeconomic variables to observed default data. PD term structures are derived for each rating grade reflecting the macro-financial scenarios.

Probability of Default (PD) is estimated using the country rating of NDF's portfolio using S&P Global's rating (and if not available, Moody's or Fitch's).

Loss Given Default (LGD) is the magnitude of the likely loss if there is a default. The Fund applies a conservative approach and applies a 100% LGD-rate for all borrowers in the ECL model.

Exposure at Default (EAD) represents the expected exposure in the event of a default and is measured from the nominal contractual cashflows and commitments. The loan impairment accounting policy is described in note 1: Accounting policies (1.14 Impairment of loans), and the results of the ECL are described below.

| Expected credit loss (EUR 1,000) | Stage1 | Stage2 | Stage3 | Total |
|---|-------------------|-------------------|-----------------|---------------|
| Before ECL 31.12.2020 | | | 8 090 | 8 090 |
| Transition to IFRS | 1 306 | 14 066 | 8 090 | 23 463 |
| Expected credit loss 1/1/2021 | 1 306 | 14 066 | 16 180 | 31 553 |
| Transfer to stage 1 | | | | |
| Transfer to stage 2 | -35 | 35 | | 0 |
| Transfer to stage 3 | | | | |
| Loan disbursements and other new assets | 12 | 236 | | 249 |
| Amortisations and repayments | -845 | -908 | | -1 754 |
| Impact of remeasurement on existing assets and FX differences | 1 047 | 3 648 | 814 | 5 509 |
| Net changes in comprehensive income statement | 179 | 3 011 | 814 | 4 004 |
| Balance at 31/12/2021 | 1 485 | 17 077 | 16 994 | 35 557 |
| Transfer to stage 1 | | | | |
| Transfer to stage 2 | -107 | 107 | | 0 |
| Transfer to stage 3 | | | | |
| Loan disbursements and other new assets | 7 | 423 | | 430 |
| Amortisations and repayments | -965 | -1 328 | | -2 293 |
| Impact of remeasurement on existing assets and FX differences | 1 175 | 15 614 | 202 | 16 990 |
| Net changes in comprehensive income statement | 111 | 14 815 | 202 | 15 127 |
| Balance at 31/12/2022 | 1 596 | 31 893 | 17 196 | 50 684 |
| Expected credit loss | 31.12.2022 | 31.12.2021 | 1.1.2021 | |
| Loans outstanding and other lending related receivables | 49 281 | 34 484 | 30 234 | |
| Loan commitments | 1 400 | 1 071 | 1 316 | |
| Financial placements | 3 | 3 | 3 | |
| Total | 50 684 | 35 557 | 31 553 | |

| Assets subject to expected credit loss | Stage 1 | Stage 2 | Stage 3 | Total |
|---|-------------------|-------------------|-----------------|----------------|
| Exposure at 1/1/2021 | 535 241 | 94 258 | 16 180 | 645 679 |
| Transfer to stage 1 | | | | 0 |
| Transfer to stage 2 | -21 194 | 21 194 | | |
| Transfer to stage 3 | | | | |
| Loan disbursements and other new assets | 27 718 | 1 478 | | 29 196 |
| Amortisations and repayments | -54 538 | -6 159 | | -60 697 |
| Foreign exchange adjustments and other changes | 10 519 | 1 664 | 814 | 12 996 |
| Exposure at 31/12/2021 | 497 746 | 112 434 | 16 994 | 627 175 |
| Transfer to stage 1 | | | | 0 |
| Transfer to stage 2 | -33 243 | 33 243 | | |
| Transfer to stage 3 | | | | 0 |
| Loan disbursements and other new assets | 33 947 | 1 322 | | 35 270 |
| Amortisations and repayments | -53 466 | -6 212 | | -59 678 |
| Foreign exchange adjustments and other changes | -5 181 | 838 | 202 | -4 142 |
| Exposure at 31/12/2022 | 439 803 | 141 626 | 17 196 | 598 625 |
| Assets subject to expected credit loss | 31.12.2022 | 31.12.2021 | 1.1.2021 | |
| Loans outstanding and other lending related receivables | 187 947 | 151 371 | 131 891 | |
| Loan commitments | 3 904 | 5 074 | 7 230 | |
| Financial placements | 28 801 | 27 397 | 29 826 | |
| Total | 220 653 | 183 842 | 168 947 | |

Note 13: Bond and fund investments

| EUR (1,000) | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|--|---------------|---------------|---------------|
| Green bonds | 62 878 | 50 851 | 43 205 |
| Yield fund | 5 636 | 7 674 | 7 697 |
| Total , Bond and fund investments | 68 513 | 58 525 | 50 902 |

The green bonds are issued by financial institutions and state backed companies. Investments in yield funds are highly liquid and managed by a Nordic commercial bank.

Note 14: Loans outstanding

Loans outstanding consist of loans disbursed. Most part of the loans have been granted during 1989-2005 (collectively referred to as legacy portfolio) and a smaller part of more recent climate loans starting 2016.

| Loans outstanding: (EUR 1,000) | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|-----------------------------------|------------|------------|----------|
| Bangladesh | 26 760 | 27 769 | 28 421 |
| Benin | 15 510 | 15 868 | 16 025 |
| Bolivia | 21 495 | 22 625 | 23 138 |
| Botswana | 2 273 | 2 532 | 2 791 |
| Burkina Faso | 8 674 | 8 878 | 9 082 |
| Cambodia | 7 595 | 7 780 | 7 966 |
| Cape Verde | 1 232 | 1 319 | 1 352 |
| China | 2 458 | 2 680 | 2 902 |
| Colombia | 786 | 834 | 849 |
| Dominican Republic | 4 770 | 5 100 | 5 222 |
| East African Development Bank | 3 279 | 3 553 | 3 826 |
| Ethiopia | 20 013 | 20 864 | 21 170 |
| Ghana | 38 079 | 39 889 | 41 699 |
| Honduras | 25 351 | 26 319 | 26 852 |
| Indonesia | 6 329 | 6 977 | 7 625 |
| Jamaica | 3 514 | 3 762 | 3 857 |
| Kenya | 21 814 | 22 333 | 22 852 |
| Kyrgyz Republic | 2 931 | 3 133 | 3 335 |
| Lao PDR | 46 950 | 47 664 | 47 781 |
| Malawi | 14 938 | 15 970 | 17 002 |
| Maldives | 5 455 | 5 898 | 6 340 |
| Mauritius | 1 137 | 1 299 | 1 462 |
| Mongolia | 18 388 | 19 426 | 19 840 |
| Mozambique | 45 235 | 47 520 | 48 936 |
| Namibia | 946 | 986 | 1 104 |
| Nepal | 13 615 | 14 638 | 15 585 |
| Nicaragua | 32 301 | 34 162 | 35 973 |
| Pakistan | 5 090 | 5 605 | 6 120 |
| Philippines | 8 185 | 8 552 | 8 582 |
| Rwanda | 10 600 | 10 850 | 11 100 |

| | | | |
|---|----------------|----------------|----------------|
| Senegal | 36 290 | 38 031 | 38 482 |
| Sri Lanka | 14 384 | 15 303 | 16 222 |
| Tanzania | 16 246 | 17 153 | 17 834 |
| Tunisia | 3 001 | 3 246 | 3 491 |
| Uganda | 39 379 | 41 701 | 43 769 |
| Vietnam | 19 707 | 20 592 | 21 270 |
| Zambia | 18 726 | 19 353 | 19 981 |
| Zimbabwe | 7 366 | 7 959 | 8 225 |
| Loans outstanding | 570 801 | 598 124 | 618 066 |
| Move of unreceived amortisations to loans | 12 407 | 11 394 | 8 317 |
| ECL stage 1,2 and 3 | -49 281 | -34 484 | -30 234 |
| Total | 533 926 | 575 034 | 596 149 |

As of 31 December 2022, two borrowers were more than 180 days overdue with payments (2021:1 borrower).

Note 15: Equity investments

Equity investments are distributed as follows:

| EUR (1,000) | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|--|---------------|---------------|---------------|
| African Guarantee Fund (AGF) | 13 034 | 12 990 | 11 534 |
| BUILD Impact Fund | 3 547 | | |
| Climate Resilience and Adaptation Finance and Technology Transfer Facility (CRAFT) | 4 903 | 2 498 | 1 525 |
| Energy Entrepreneurs Growth Fund (EEGF) | 262 | | |
| Emerging Market Climate Action Fund (EMCAF) | 319 | | |
| Facility for Energy Inclusion Off-Grid Energy Access Fund (FEI OGEF) | 4 812 | 2 863 | 2 059 |
| Serengeti Energy (formerly known as rAREH) | 16 872 | 12 734 | 14 655 |
| Total , equity investments | 43 750 | 31 085 | 29 773 |

Note 16: Other assets

Other assets are held at amortized costs except World Bank receivables and repayable grants which are measured at fair value.

| In EUR 1,000 | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|------------------------|---------------|---------------|---------------|
| World Bank receivables | 391 | 391 | 391 |
| Other receivables | 579 | 463 | 269 |
| Repayable grants | 18 013 | 16 893 | 14 000 |
| Total | 18 984 | 17 748 | 14 661 |

Note 17: Tangible and intangible

| (EUR 1,000) | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|---|------------------|------------------|------------------|
| Intangible assets | | | |
| Acquisition value at beginning of year | 1 022 | 1 006 | 982 |
| Acquisition during the year | 136 | 15 | 24 |
| Acquisition value at end of year | 1 157 | 1 022 | 1 006 |
| Accumulated amortisation at beginning of year | 464 | 307 | 158 |
| Amortisation according to plan for the year | 182 | 157 | 149 |
| Accumulated amortisation at end of year | 646 | 464 | 307 |
| Net book value | 511 | 557 | 699 |
| Tangible assets | Office equipment | Office equipment | Office equipment |
| Acquisition value at beginning of year | 107 | 107 | 107 |
| Acquisition during the year | | | |
| Acquisition value at end of year | 107 | 107 | 107 |
| Accumulated depreciation at beginning of year | 94 | 94 | 94 |
| Depreciation according to plan for the year | | | |
| Accumulated depreciation at end of year | 94 | 94 | 94 |
| Net book value | 13 | 13 | 13 |
| Intangible and tangible assets total | 524 | 570 | 712 |

The right-of-use asset relating to lease agreements for office premises in Helsinki is included in the Intangible assets table above. The amount at the end of 2022 is EUR 511 thousand (2021: EUR 557 thousand).

Note 18: Equity

NDF's capital subscribed to during 1989-2000 amounted to SDR 515 000 thousand and EUR 330 000 thousand. In 2020, the Nordic Council of Ministers passed a resolution to increase the capital of NDF by EUR 350 000 thousand.

After the 2020 capital increase, the subscribed capital of NDF amounted to SDR 515 000 thousand and EUR 680 000 thousand, equivalent to EUR 1 371 405 thousand.

On 31 December 2022, SDR 515 000 thousand - the equivalent of EUR 691 405 thousand- and EUR 341 520 thousand, totalling EUR 1 032 925 thousand has been paid in by the member countries.

Subscribed capital on 31 December 2022

| (EUR 1,000) | SDR | % | EUR | % |
|--------------------------------|----------------|--------------|----------------|--------------|
| Denmark | 115 067 | 22 % | 158 800 | 23 % |
| Finland | 96 726 | 19 % | 116 840 | 17 % |
| Iceland | 5 453 | 1 % | 8 550 | 1 % |
| Norway | 101 591 | 20 % | 171 550 | 25 % |
| Sweden | 196 163 | 38 % | 224 260 | 33 % |
| Subscribed fund capital | 515 000 | 100 % | 680 000 | 100 % |

Subscribed capital on 31 December 2021

| (EUR 1,000) | SDR | % | EUR | % |
|--------------------------------|----------------|--------------|----------------|--------------|
| Denmark | 115 067 | 22 % | 158 800 | 23 % |
| Finland | 96 726 | 19 % | 116 840 | 17 % |
| Iceland | 5 453 | 1 % | 8 550 | 1 % |
| Norway | 101 591 | 20 % | 171 550 | 25 % |
| Sweden | 196 163 | 38 % | 224 260 | 33 % |
| Subscribed fund capital | 515 000 | 100 % | 680 000 | 100 % |

Subscribed capital on 1 January 2021

| (EUR 1,000) | SDR | % | EUR | % |
|--------------------------------|----------------|--------------|----------------|--------------|
| Denmark | 115 067 | 22 % | 158 800 | 23 % |
| Finland | 96 726 | 19 % | 116 840 | 17 % |
| Iceland | 5 453 | 1 % | 8 550 | 1 % |
| Norway | 101 591 | 20 % | 171 550 | 25 % |
| Sweden | 196 163 | 38 % | 224 260 | 33 % |
| Subscribed fund capital | 515 000 | 100 % | 680 000 | 100 % |

Paid in subscribed capital of NDF on 31 December 2022

| (EUR 1,000) | in SDR | into EUR | in EUR | Total | % |
|-----------------------------|----------------|----------------|----------------|------------------|--------------|
| Denmark | 115 067 | 153 858 | 95 580 | 249 438 | 24 % |
| Finland | 96 726 | 130 592 | 63 720 | 194 312 | 18 % |
| Iceland | 5 453 | 7 303 | 3 750 | 11 053 | 1 % |
| Norway | 101 591 | 136 354 | 83 980 | 220 334 | 21 % |
| Sweden | 196 163 | 263 299 | 120 900 | 384 199 | 36 % |
| Paid-in Fund capital | 515 000 | 691 405 | 367 930 | 1 059 335 | 100 % |

Paid in subscribed capital of NDF on 31 December 2021

| (EUR 1,000) | in SDR | into EUR | in EUR | Total | % |
|------------------------|----------------|----------------|----------------|------------------|--------------|
| Denmark | 115 067 | 153 858 | 89 040 | 242 898 | 24 % |
| Finland | 96 726 | 130 592 | 63 720 | 194 312 | 19 % |
| Iceland | 5 453 | 7 303 | 3 300 | 10 603 | 1 % |
| Norway | 101 591 | 136 354 | 74 250 | 210 604 | 20 % |
| Sweden | 196 163 | 263 299 | 111 210 | 374 509 | 36 % |
| Paid-in capital | 515 000 | 691 405 | 341 520 | 1 032 925 | 100 % |

Paid in subscribed capital of NDF on 1 January 2021

| (EUR 1,000) | in SDR | into EUR | in EUR | Total | % |
|------------------------|----------------|----------------|----------------|------------------|--------------|
| Denmark | 115 067 | 153 858 | 82 500 | 236 358 | 23 % |
| Finland | 96 726 | 130 592 | 63 720 | 194 312 | 19 % |
| Iceland | 5 453 | 7 303 | 3 300 | 10 603 | 1 % |
| Norway | 101 591 | 136 354 | 74 250 | 210 604 | 21 % |
| Sweden | 196 163 | 263 299 | 111 210 | 374 509 | 36 % |
| Paid-in capital | 515 000 | 691 405 | 334 980 | 1 026 385 | 100 % |

Note 19: Fair value note

CLASSIFICATION OF FINANCIAL INSTRUMENTS

| In EUR 1,000 | Amortised cost (AC) | Fair value through profit and loss (FVTPL) | Total |
|---|---------------------|--|----------------|
| Financial assets | | | |
| Cash and cash equivalents | 25 493 | | 25 493 |
| Long-term placements with credit institutions | 34 244 | | 34 244 |
| Bond and fund investments | | 68 513 | 68 513 |
| Loans outstanding | 533 926 | | 533 926 |
| Equity investments | | 43 749 | 43 749 |
| Derivative instruments | | | |
| Other assets | 579 | 18 405 | 18 984 |
| Total 31 December 2022 | 594 242 | 130 668 | 724 910 |
| Financial liabilities | | | |
| | 2 906 | | 2 906 |
| Total 31 December 2022 | 2 906 | | 2 906 |

CLASSIFICATION OF FINANCIAL INSTRUMENTS

| In EUR 1,000 | Amortised cost (AC) | Fair value through profit and loss (FVTPL) | Total |
|---|---------------------|--|----------------|
| Financial assets | | | |
| Cash and cash equivalents | 20 817 | | 20 817 |
| Long-term placements with credit institutions | 27 822 | | 27 822 |
| Bond and fund investments | | 58 526 | 58 526 |
| Loans outstanding | 575 034 | | 575 034 |
| Equity investments | | 31 085 | 31 085 |
| Derivative instruments | | 28 | 28 |
| Other assets | 463 | 17 285 | 17 748 |
| Total 31 December 2021 | 624 136 | 106 924 | 731 059 |
| Financial liabilities | | | |
| | 2 491 | | 2 491 |
| Total 31 December 2021 | 2 491 | | 2 491 |

CLASSIFICATION OF FINANCIAL INSTRUMENTS

| In EUR 1,000 | Amortised cost (AC) | Fair value through profit and loss (FVTPL) | Total |
|---|---------------------|--|----------------|
| Financial assets | | | |
| Cash and cash equivalents | 13 229 | | 13 229 |
| Long-term placements with credit institutions | 30 077 | | 30 077 |
| Bond and fund investments | | 50 901 | 50 901 |
| Loans outstanding | 596 149 | | 596 149 |
| Equity investments | | 29 773 | 29 773 |
| Derivative instruments | | 316 | 316 |
| Other assets | 14 661 | 14 391 | 14 661 |
| Total 1 January 2021 | 639 724 | 95 382 | 735 106 |
| Financial liabilities | | | |
| | 2 595 | | 2 595 |
| Total 1 January 2021 | 2 595 | | 2 595 |

FAIR VALUE OF FINANCIAL INSTRUMENTS

| In EUR 1,000 | 31.12.2022 | | 31.12.2021 | | 1.1.2021 | |
|---|-----------------|----------------|-----------------|----------------|-----------------|----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | | | |
| Cash and cash equivalents | 25 493 | 25 493 | 20 817 | 20 817 | 13 229 | 13 229 |
| Long-term placements with credit institutions | 34 244 | 34 244 | 27 822 | 27 822 | 30 077 | 30 077 |
| Bond and fund investments | 68 513 | 68 513 | 58 526 | 58 526 | 50 901 | 50 901 |
| Loans outstanding | 533 926 | 533 926 | 575 034 | 575 034 | 596 149 | 596 149 |
| Equity investments | 43 749 | 43 749 | 31 085 | 31 085 | 29 773 | 29 773 |
| Derivative instruments | | | 28 | 28 | 316 | 316 |
| Other assets | 18 984 | 18 984 | 17 748 | 17 748 | 14 661 | 14 661 |
| Total | 724 910 | 724 910 | 731 059 | 731 059 | 735 106 | 735 106 |
| Financial liabilities | | | | | | |
| | 2 906 | 2 906 | 2 491 | 2 491 | 2 595 | 2 595 |
| Total | 2 906 | 2 906 | 2 491 | 2 491 | 2 595 | 2 595 |

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.

The loans outstanding, carrying amount and fair value, are the same due to the special nature of the borrowers and the lending terms. The loans have a maturity of up to 38 years and have low interest rate (0,75% service charge). As NDF enjoys preferred creditor status, and the borrowers mostly represent low-income countries, NDF is of the view that the best estimate for the fair value is the amortised cost value.

There are several factors affecting the valuation of assets in level 3, the most important being the performance of the underlying assets which is impacted by among other things exchange rate fluctuations, the political climate, natural disasters.

LEVEL OF FAIR VALUE MEASUREMENT FOR FINANCIAL INSTRUMENTS AT THE END OF THE YEAR

| In EUR 1,000 | 31.12.2022 | | | 31.12.2021 | | | 1.1.2021 | | |
|---|---------------|----------------|---------------|---------------|----------------|---------------|---------------|----------------|---------------|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 25 493 | | | 20 817 | | | 13 229 | | |
| Long-term placements with credit institutions | | 34 244 | | | 27 822 | | | 30 077 | |
| Bond and fund investments | | 68 513 | | | 58 526 | | | 50 901 | |
| Loans outstanding | | 533 926 | | | 575 034 | | | 596 149 | |
| Equity investments | | | 43 749 | | | 31 085 | | | 29 773 |
| Derivative instruments | | | | | 28 | | | 316 | |
| Other assets | | 579 | 18 405 | | 463 | 17 285 | | 269 | 14 391 |
| Total | 25 493 | 637 263 | 62 154 | 20 817 | 661 872 | 48 370 | 13 229 | 677 713 | 44 164 |
| Financial liabilities | | | | | | | | | |
| | | 2 906 | | | 2 491 | | | 2 595 | |
| Total | | 2 906 | | | 2 491 | | | 2 595 | |

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.

CHANGES IN FAIR VALUES CATEGORISED IN LEVEL 3

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

| In EUR 1,000 | Equity investments | Other assets | Level 3, total |
|------------------------------|--------------------|---------------|----------------|
| 1 January 2021 | 29 773 | 14 391 | 44 164 |
| Investments during the year | 1 948 | 2 893 | 4 841 |
| Divestments during the year | | | |
| Capital reduction | -1 200 | | -1 200 |
| Change in value* | 564 | | 564 |
| Reassignment from/to level 3 | | | |
| 31 December 2021 | 31 085 | 17 285 | 48 370 |
| Investments during the year | 8 944 | 1 120 | 10 064 |
| Divestments during the year | | | |
| Capital reduction | | | |
| Change in value* | 3 720 | | 720 |
| Reassignment from/to level 3 | | | |
| 31 December 2022 | 43 750 | 18 405 | 62 155 |

* this line corresponds to the effect on profit and loss

Note 20: Maturity table

The table below sets out a maturity analysis for financial assets and liabilities containing principal and interest flows. For loans outstanding, undiscounted cash flows are presented until contractual final maturity.

| 31.12.2022 | | | | | | | | | |
|---|-----------------|------------------------|------------------------------|---|---|---|--|---------------|---------------|
| (EUR 1,000) | Carrying amount | Contractual cash flows | Up to and including 3 months | Over 3 months and up to and including 12 months | Over 1 year and up to and including 5 years | Over 5 years and up to and including 10 years | Over 10 years and up to and including 20 years | Over 20 years | Undefined |
| Assets | | | | | | | | | |
| Cash and cash equivalents | 25 493 | 25 493 | 25 493 | | | | | | |
| Long-term placements with credit institutions | 34 244 | 34 942 | 14 443 | 19 358 | | | | | 1 141 |
| Bond and fund investments | 68 513 | 78 626 | 108 | 2 904 | 58 685 | 11 294 | | | 5 636 |
| Loans outstanding | 533 926 | | 6 365 | 29 500 | 192 244 | 178 349 | 196 099 | 6 035 | |
| Equity investments | 43 749 | | | | | | | | 43 749 |
| Derivative instruments | | | | | | | | | |
| Other assets | 18 984 | | | | | | | | 18 984 |
| Assets total | 724 910 | 139 123 | 46 408 | 51 762 | 250 929 | 189 643 | 196 099 | 6 035 | 69 510 |
| Other liabilities | | | | | | | | | |
| Other liabilities total | 2 906 | | | | | | | | 2 906 |
| Loans agreed but not yet disbursed | 14 909 | | | | | | | | 14 909 |
| Loans agreed but not yet disbursed total | 14 909 | | | | | | | | 14 909 |

31.12.2021

| (EUR 1,000) | Carrying amount | Contractual cash flows | Up to and including 3 months | Over 3 months and up to and including 12 months | Over 1 year and up to and including 5 years | Over 5 years and up to and including 10 years | Over 10 years and up to and including 20 years | Over 20 years | Undefined |
|---|-----------------|------------------------|------------------------------|---|---|---|--|---------------|---------------|
| Assets | | | | | | | | | |
| Cash and cash equivalents | 20 817 | 20 817 | 20 817 | | | | | | |
| Long-term placements with credit institutions | 27 822 | 27 850 | 7 071 | 20 326 | | | | | 453 |
| Bond and fund investments | 58 526 | 58 869 | 1 108 | 2 713 | 42 172 | 5 202 | | | 7 674 |
| Loans outstanding | 575 034 | 632 470 | 6 307 | 28 046 | 185 496 | 180 334 | 218 630 | 13 657 | |
| Equity investments | 31 085 | | | | | | | | 31 085 |
| Derivative instruments | 28 | | | 28 | | | | | |
| Other assets | 17 748 | | | | | | | | 17 748 |
| Assets total | 731 059 | 740 003 | 35 302 | 51 113 | 227 667 | 185 536 | 218 630 | 13 657 | 56 961 |
| Other liabilities | 2 491 | | | | | | | | 2 491 |
| Other liabilities total | 2 491 | | | | | | | | 2 491 |
| Loans agreed but not yet disbursed | 16 378 | | | | | | | | 16 378 |
| Loans agreed but not yet disbursed total | 16 378 | | | | | | | | 16 378 |

1.1.2021

| (EUR 1,000) | Carrying amount | Contractual cash flows | Up to and including 3 months | Over 3 months and up to and including 12 months | Over 1 year and up to and including 5 years | Over 5 years and up to and including 10 years | Over 10 years and up to and including 20 years | Over 20 years | Undefined |
|---|-----------------|------------------------|------------------------------|---|---|---|--|---------------|---------------|
| Assets | | | | | | | | | |
| Cash and cash equivalents | 13 229 | 13 229 | 13 229 | | | | | | |
| Long-term placements with credit institutions | 30 077 | 30 283 | 11 056 | 18 771 | | | | | 456 |
| Bond and fund investments | 50 901 | 50 472 | 98 | 3 190 | 30 953 | 8 535 | | | 7 697 |
| Loans outstanding | 596 149 | 656 230 | 5 856 | 26 797 | 179 427 | 182 334 | 238 610 | 23 206 | |
| Equity investments | 29 773 | | | | | | | | 29 773 |
| Derivative instruments | 316 | | | | 316 | | | | |
| Other assets | 14 661 | | | | | | | | 14 661 |
| Assets total | 735 106 | 750 214 | 30 239 | 48 757 | 210 695 | 190 868 | 238 610 | 23 206 | 52 587 |
| Other liabilities | 2 595 | | | | | | | | 2 595 |
| Other liabilities total | 2 595 | | | | | | | | 2 595 |
| Loans agreed but not yet disbursed | 18 202 | | | | | | | | 18 202 |
| Loans agreed but not yet disbursed total | 18 202 | | | | | | | | 18 202 |

Note 21: Currency risk

NDF's operations are mostly in euro, Special Drawing Right and US dollars. The table below shows the net assets and liabilities in the major currencies.

Net currency position as of 31 December 2022

| In EUR 1,000 | EUR | USD | SDR | Other | Total |
|---------------------------------------|-----------------|---------------|----------------|-------|-----------------|
| Assets | | | | | |
| Cash and cash equivalents | 18 269 | 7 224 | | | 25 493 |
| Placements with credit institutions | 6 136 | 28 108 | | | 34 244 |
| Other financial placements | 68 513 | | | | 68 513 |
| Loans outstanding | 408 395 | | 125 532 | | 533 926 |
| Equity investments | 43 749 | | | | 43 749 |
| Derivatives | | | | | 0 |
| Other assets | 18 961 | | 24 | | 18 984 |
| Accrued interest and fees receivables | 967 | 288 | 184 | | 1 439 |
| Tangible and intangible assets | 524 | | | | 524 |
| Total assets | 565 514 | 35 619 | 125 739 | | 726 872 |
| Liabilities and equity | | | | | |
| Other liabilities | -2 831 | -74 | | | -2 906 |
| Equity | -723 967 | | | | -723 967 |
| Total liabilities and equity | -726 798 | -74 | | | -726 872 |
| Total assets and liabilities | -161 284 | 35 545 | 125 739 | | 0 |

Net currency position as of 31 December 2021

| In EUR 1,000 | EUR | USD | SDR | Other | Total |
|---------------------------------------|-----------------|---------------|----------------|-----------|-----------------|
| Assets | | | | | |
| Cash and cash equivalents | 11 342 | 9 474 | | | 20 817 |
| Placements with credit institutions | 450 | 27 371 | | | 27 822 |
| Other financial placements | 58 526 | | | | 58 526 |
| Loans outstanding | 443 113 | | 131 921 | | 575 034 |
| Equity investments | 31 085 | | | | 31 085 |
| Derivatives | 28 | | | | 28 |
| Other assets | 17 746 | | 2 | | 17 748 |
| Accrued interest and fees receivables | 881 | 13 | 193 | | 1 088 |
| Tangible and intangible assets | 570 | | | | 570 |
| Total assets | 563 741 | 36 859 | 132 117 | | 732 717 |
| Liabilities and equity | | | | | |
| Other liabilities | -2 448 | -42 | | -2 | -2 491 |
| Equity | -730 226 | | | | -730 226 |
| Total liabilities and equity | -732 673 | -42 | | -2 | -732 717 |
| Total assets and liabilities | -168 933 | 36 817 | 132 117 | -2 | 0 |

Net currency position as of 1 January 2021

| In EUR 1,000 | EUR | USD | SDR | Other | Total |
|---------------------------------------|-----------------|---------------|----------------|-----------|-----------------|
| Assets | | | | | |
| Cash and cash equivalents | 7 781 | 5 448 | | | 13 229 |
| Placements with credit institutions | 453 | 29 624 | | | 30 077 |
| Other financial placements | 50 901 | | | | 50 901 |
| Loans outstanding | 463 052 | | 133 097 | | 596 149 |
| Equity investments | 29 773 | | | | 29 773 |
| Derivatives | 316 | | | | 316 |
| Other assets | 14 609 | | 52 | | 14 661 |
| Accrued interest and fees receivables | 902 | 174 | 195 | | 1 271 |
| Tangible and intangible assets | 712 | | | | 712 |
| Total assets | 568 500 | 35 246 | 133 343 | | 737 089 |
| Liabilities and equity | | | | | |
| Other liabilities | -2 593 | -1 | | -2 | -2 595 |
| Equity | -734 494 | | | | -734 494 |
| Total liabilities and equity | -737 086 | -1 | | -2 | -737 089 |
| Total assets and liabilities | -168 587 | 35 245 | 133 343 | -2 | 0 |

Note 22: Collaterals and commitment note

NDF has received adequate collateral, in the form of government bonds, that covers the derivative instruments' market value. The derivative instruments are measured at fair value level 2. Valuation techniques are based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

| In EUR 1,000 | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|---|----------------|----------------|----------------|
| Loans agreed but not yet disbursed | 14 910 | 16 378 | 18 202 |
| Grants agreed but not yet disbursed | 72 460 | 60 242 | 77 565 |
| Other financing agreed but not yet disbursed | 76 650 | 52 255 | 10 632 |
| Gross collateral with respect to derivatives exposure | | | |
| Collateral received ^{1 2} | | 739 | 783 |
| Collateral given | | | |
| Total | 164 020 | 129 613 | 107 183 |

¹ Fair value. ² Only securities, no cash

NDF as lessee

At 31 December, the future minimum lease payments under non-cancellable leases were as follows;

| In EUR 1,000 | 31.12.2022 | 31.12.2021 | 1.1.2021 |
|-------------------------------------|------------|------------|------------|
| Within one year | 228 | 164 | 158 |
| Later than one but not two years | 228 | 164 | 158 |
| Later than two but not three years | 114 | 164 | 158 |
| Later than three but not four years | | 82 | 158 |
| Later than four but not five years | | | 79 |
| Total | 571 | 572 | 709 |

Note 23: Related party disclosures

According to the constituent documents of NDF, the Fund's principal office shall be located at the principal office of NIB. Furthermore, the Statutes of NDF set out that that the Fund's Control Committee members appointed by the Nordic Council shall be the same persons as appointed by the Council to the Control Committee of NIB. In addition, the Statutes of NDF set out that the powers vested in the Board of Directors may to the extent appropriate be delegated to the Fund's Managing Director and/or to NIB.

NDF acquires services at cost from NIB and rents the office premises through NIB. The outstanding balance of claims and debts between NDF and NIB are presented in the table below. No interest is charged during the year (2021: EUR 0). See also note 9.

| (EUR 1,000) | NDF's outstanding debt to NIB | NDF's outstanding claim on NIB | NDF's outstanding claim on NIB |
|-------------|-------------------------------|--------------------------------|--------------------------------|
| 2022 | 2 | | |
| 2021 | 2 | 4 | 4 |

Note 24: Currency exchange rates

The Fund's capital and credits to sovereign states are partially denominated in Special Drawing Rights (SDR). The SDR is neither a currency nor a claim on the International Monetary Fund (IMF), but it is a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies. Monetary assets and liabilities denominated in SDR are recognised in the accounts at the rates issued by IMF.

| | | EUR-rate on 31.12.2022 | EUR-rate on 31.12.2021 | EUR-rate on 1.1.2021 |
|-----|-------------------------|---------------------------|---------------------------|-------------------------|
| DKK | Danish krone | 7,43643 | 7,43631 | 7,44088 |
| ISK | Icelandic króna | 151,4919 | 147,6015 | 156,0581 |
| NOK | Norwegian krone | 10,51846 | 9,98652 | 10,47062 |
| SEK | Swedish krona | 11,11912 | 10,25463 | 10,02819 |
| USD | US dollar | 1,06733 | 1,13257 | 1,22706 |
| SDR | Special Drawing Right * | 0,79862 | 0,8081 | 0,84875 |

* Daily valuations also for SDR. No exceptions.

NDF uses exchange rates acquired from a leading market data provider based on rates prevailing at 13:00 GMT at 31 December except for Special drawing right (SDR) which is based on the International Monetary Fund (IMF) last published rate of the year.

Note 25: Subsequent events

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

Annex 1

Auditor's report

To the Control Committee of Nordic Development Fund

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

We are independent of the Fund 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 of Directors, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors.

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

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

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements.

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

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

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles described in the notes to the financial statements, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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 Nordic Development Fund for the year 2022 in accordance with the Terms of the Engagement.

In our opinion the administration of the Board of Directors and the Managing Director, in all material aspects, complied with the Statutes of the Fund.

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 Fund 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 Fund shall be vested in the Board, which may delegate these powers to the Managing Director or the Nordic Investment Bank or both to the extent considered appropriate based on Section 7 of the Statutes.

The Managing Director is responsible for the conduct of the ordinary operations of the Fund and shall follow the guidelines and instructions given by the Board.

Auditor's Responsibilities

Our objective concerning the audit of whether the Board of Director's and the Managing Director's administration have complied with the Statutes of the Fund, 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 Fund.

As part of an audit in accordance with International Standard 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 Fund's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

Helsinki, 23 February 2023

Ernest & Young Oy
Authorized Public
Accountant Firm

TERHI MÄKINEN
Authorized Public Accountant

MONA ALFREDSSON
Authorized Public Accountant

Annex 2

Statement by the Control Committee

Statement by the Control Committee of the Nordic Development Fund on the audit of the administration and accounts of the Fund

To the Nordic Council of Ministers

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

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

Following the audit performed, we note that:

- the Fund's operations during the financial year have been conducted in accordance with the Statutes, and that
- the financial statements, which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, are prepared in all material respects in accordance with the accounting principles described in the notes to the financial statements. The financial statements show a loss of EUR 32 669 059.16.

We recommend to the Nordic Council of Ministers that:

- the result for year 2022 will be treated as proposed by the Board of Directors,
- the statement of comprehensive income and the statement of financial position will be adopted, and
- the Board of Directors and Managing Director will be discharged from liability for the administration of the Fund's operations during the accounting period examined by us.

Helsinki 23 February 2023

JAN-ERIK ENESTAM

Chairman

JOHAN ANDERSSON

VILHJÁLMUR ÁRNASON

WILLE RYDMAN

SJÚRÐUR SKAALE

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