Nordic Environment Finance Corporation

Annual Report 2020

Photo: A.Parshakov from Kenozero Park, Russia

Contents

Founded in 1990 by the five Nordic countries, NEFCO provides risk capital for the initial scale-up of green solution. It is the sole financial institution in the region to provide only green financing. We serve the interests of our owners, Denmark, Finland, Iceland, Norway and Sweden, and work with concrete actions to accelerate the green transition. We are ready to take a financial risk in small and medium-sized projects, if there is a green upside. Our involvement makes projects bankable and helps to mobilise other investors.
We believe that every small step makes a difference for the better.
The real risk is not going green.

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Report by the Board 2020

The year 2020 was characterised by thorough strategic work over the course of the entire year. This strategic work included revision of NEFCO's environmental perspective, with numerous results, including NEFCO deciding to follow the EU's new taxonomy for the classification of sustainable investments.

NEFCO's objective was updated to accelerate the green transition, with three focus areas:

1) Green transition - Nordic small and medium-sized companies,
2) Green transition - Eastern Europe, and
3) Green transition - Administration assignments for Nordic authorities' initiatives.

The plan is for the new strategy to be launched at NEFCO's 30th anniversary event in March 2021.

The ongoing Coronavirus pandemic has not noticeably impacted NEFCO's business activities, and the majority of projects have been relatively unaffected. However, because several small companies in the Nordic countries have been negatively impacted due to economic consequences of the Coronavirus pandemic, in 2020 NEFCO introduced a green recovery program for Nordic small and medium-sized companies which supports international growth projects.

During the pandemic, NEFCO has sought to follow authority recommendations, and has introduced remote working and new procedures for ensuring both staff well-being and continuation of business activities. All NEFCO's board meetings for the year were held online. NEFCO's employees, who have coped remarkably well during the pandemic, have arranged several online sessions to maintain communication and hold meetings.

In 2020, a total of 127 projects were approved within the entire business, to a value of EUR 79 million. Within the Investment Fund, NEFCO's opening capital, a total of 17 new investments were approved, to a total of EUR 55 million. At the end of the year, the Investment Fund had a total of 86 active projects where commitments amounted to EUR 117 million in outstanding loans and investments excluding value adjustments, EUR 79 million in agreed but unpaid commitments, plus EUR 59 million allocated to projects approved by the Board but still in negotiation. Payments are made following a delay; therefore, a larger proportion of NEFCO's funds are allocated than is shown in NEFCO's Report on financial position.

From an environmental perspective, it continues to be climate-related investments and projects that are dominant. As in recent years, public sector energy efficiency measures are the largest individual category. In the private sector, business primarily increased in the areas concerning resource efficiency and circular economy, but also within areas concerning environmental improvement measures in agriculture, forestry and fisheries. Renewable energy continues to be the largest individual area within the private sector portfolio.
Over the year, NEFCO has entered into agreements for three new fund assignments. These new fund assignments are Danida's (Denmark) contribution to the Sweden-initiated programme *Beyond the Grid Fund for Africa* (BGFA), the aim of which is to stimulate the electrification of rural communities in Africa, contributions from the Green Climate Fund for a project concerning small-scale renewable electricity production in Haiti, and the EU's programme *Ukraine Energy Efficiency* (NIP II) for energy efficiency in small and amalgamated municipalities, supporting decentralisation and regional reform in Ukraine.

Through its administration activities, NEFCO administers a number of fund assignments for their owners and for other private and public fund providers and investors. NEFCO is also an Accredited Entity in the Green Climate Fund, and an Implementing Agency for a number of projects in large international funds, including the Eastern Europe Energy Efficiency and Environment Partnership (E5P) and the Northern Dimension Environmental Partnership (NDEP). The administration activities are shown in more detail below.

Both the financial and environmental results of the business activities exceeded expectations. Interest income on lending increased by 33% compared to 2019, which is primarily due to continued increased lending over the year.

EVALUATION OF PROJECT ENVIRONMENTAL EFFECTS

In accordance with the procedure subsequently developed within NEFCO, each project is evaluated according to its environmental effects. The expected environmental effects are analysed prior to a decision on participation in financing is made, and once the project is complete, NEFCO follows up on the actual effects. Both projects under the Investment Fund and under the Environmental Development Fund (the funds are presented in more detail below) show, on average, good environmental effects that exceed expected levels. The annual environmental report is attached.

INVESTMENT FUND

The Investment Fund is comprised of NEFCO's opening capital. A total of EUR 113.4 million was initially paid in by the owners and, due to accumulated profit, NEFCO's capital amounts to EUR 169.6 million. NEFCO can invest in environmental investments in market terms in the form of lending or equity in Nordic projects that can grow on international markets, initially only in Eastern Europe, but since 2018 also globally. The Investment Fund is reported in the annual accounts in its entirety. Income from fund assignments is reported under the item Other income.

Over the year, 17 new investments were approved, one of which being a loan programme supporting NEFCO's borrowers in financial difficulty due to the Coronavirus pandemic. At present, three borrowers have been granted loans under the programme. The Board also approved two 'framework allocations'; cooperation with Sida (Sweden) to develop modern and energy-efficient district heating in Ukraine, and a loan program for small and medium-sized Nordic companies as a support to international growth and investments in green recovery due to economic consequences of the Coronavirus pandemic. Within the cooperation with the EU's programme for infrastructure projects - *Neighbourhood Investment Platform (NIP)* approved three projects concerning the modernisation of communal water and waste management, including energy efficiency measures; co-financing from E5P approved an energy-efficiency project for public buildings in Georgia; cooperation with NDEP approved a waste water management project, a project was approved within the Nordic energy efficiency cooperation concerning the upgrade of public buildings and street lighting, and in cooperation with Danida (Denmark), a project was approved within communal district heating production in Ukraine. Over the year, six projects in the private sector were approved, concerning investments in innovative solutions and new green technology, also with emphasis on renewable energy. Of these new investments, 14 are located in Eastern Europe, while three are located globally. In addition, the Board has approved nine 'indications of interest', i.e. a first initial approval of a project for further processing.

Within the Investment Fund in 2020, NEFCO could complete three projects, all within communal wastewater management in Russia. Over the year, eight previously approved projects were shelved, as they were no longer considered to have the conditions to be realised according to plan. Negotiations or investigations are still ongoing in 22 of the approved projects.

Of the active projects from previous years, eleven have NEFCO's investment in share capital or equivalent. Two of these additionally have loans from NEFCO. In 53 active projects the commitment is only in the form of a loan. Development in the agreed projects is primarily satisfactory.

In terms of profit/loss, based on the relevant project company's annual accounts for 2019, a total of 20 companies reported a profit, three indicated zero profit/loss, eleven showed a loss, 21 are in the position of operational business activities not having yet begun, while nine have communal or state borrowers.

ADMINISTRATION ASSIGNMENTS

Under the statutes, NEFCO can administer external funds in accordance with the specific relevant guidelines. Fund management shall be ensured in line with NEFCO's overall aim of promoting environmental projects. Fund assignments are distributed according to NEFCO's three new focus areas:

1) Green transition - Nordic small and medium-sized companies

NORDIC PROJECT FUND

Since 2014, NEFCO has administered the Nordic Project Fund (Nopef), with business activities financed through annual budget funds from the Nordic Council of Ministers. Nopef's objective is to promote the green transition to a climate neutral and sustainable society by financing feasibility studies and preparatory activities which contribute to the internationalisation of Nordic environmental and climate solutions on global markets. Nopef's business activities will contribute to a Nordic advantage, to promote objectives in the Nordic Vision, and to increased employment in the project countries and Nordic countries.

In 2020, the fund awarded EUR 2.1 million. All of Nopef's business objectives for the year were achieved by a good margin, and due to the Coronavirus pandemic, demand for Nopef's financing support increased significantly over the year. Over the year, Nopef granted financing to a total of 70 new projects at a value of EUR 2.4 million. At the beginning of the year, Nopef launched financing for projects regarding demonstration and piloting of Nordic environmental and climate solutions, which resulted in 13 approved projects. Over the year 33 projects were realised (of a target of 30) through a completed international business establishment or implemented investment, which is equivalent to a degree of realisation of 60% (target 50%).

Nopef's annual project evaluation was implemented in autumn 2020 with the aim of evaluating the effects from projects financed by the fund. The result showed that each project realised over a three-year period created, on average, eleven new jobs at the client companies, of which two were created in Nordic countries. According to these results, projects approved by Nopef in 2020 can be expected to create an estimated 378 work opportunities, of which 62 jobs are in Nordic countries. Project cooperation between NEFCO's Investment Fund and Nopef was further developed over the year, including in respect of NEFCO's new programme for green recovery financing for Nordic SMEs, which resulted in major interest and a number of applications for the new loan programme.

2) Green transition - Eastern Europe

NORDIC ENVIRONMENTAL DEVELOPMENT FUND

Since 1996, on behalf of member states, NEFCO has administered the Nordic Environmental Development Fund (NMF). The aim of NMF is to achieve positive environmental effects through strengthening the profitability conditions for suitable environmental projects, enabling greater risk-taking in financing, expediting project implementation or obtaining additional environmental investments. The support constitutes a complement and contributes to a catalytic effect for NEFCO's Investment Fund, amongst others. In terms of size, the investments are smaller than the Investment Fund's investments, but do not have to be smaller in market terms. The flexibility of NMF also enables the assistance of identifying and taking care of environmentally toxic substances, as well as measures within the seriously environmentally affected areas of the Baltic Sea, the Barents area and the Arctic region.

NMF is administered by NEFCO and NEFCO's Board decides on the awards distributed under NMF. The Nordic Investment Bank (NIB) participates in the project evaluation. The revolving loan programmes prepared using funds from the NMF are handled under a separate fund, NMF Credits. Separate annual accounts are provided for NMF and NMF Credits funds.

NMF is currently financed through annual contributions from the Nordic Council of Ministers in accordance with what is separately agreed for each year. At the end of 2020, NMF's combined funds amounted to EUR 49.2 million, of which EUR 10.7 million is allocated to NMF Credits.

A total of seven new projects were approved under NMF and NMF Credits in 2020, along with new additional investments in two previously approved projects. Six projects were approved within the framework of the loan programme for the energy efficiency project, while the seventh project was a new loan programme for the energy efficiency project in Ukrainian municipalities. The loan programme is a further development of the Energy Saving Credits programme and is aimed at Ukrainian municipalities implementing energy-saving measures in social projects, such as schools, nurseries and hospitals as well as street lighting, and will comprise a stepping stone towards standard commercial financing for Ukrainian municipalities.

BARENTS HOT SPOTS FACILITY

Since 2004, NEFCO has administered the Barents Hot Spots Facility (BHSF). The main aim of the fund is to promote relevant measures and investments for the 'hotspots' identified by the Barents Euro-Arctic Council in north-western Russia. BHSF funds are primarily distributed to expert and feasibility studies and similar support measures.

In 2020 NEFCO had close collaboration with the Finnish presidency of the Barents Euro-Arctic Council's environmental working group and its subgroups, particularly SHE (Subgroup on Hot Spots Exclusion). BHSF is the primary financing source for SHE's work programme and its various support activities. Over the year, BHSF financing included a number of seminars/webinars linked to the introduction of BAT (Best Available Technology) and the new procedure for granting environmental permits in Russia - including for the first time in the mining and metallurgy sector (Kovdorskij GOK on the Kola Peninsula). NEFCO closely cooperates with the thematic expert groups which are increasingly coordinating these and many other initiatives using financing from BHSF.

NEFCO's activities in the Barents are closely linked to the Arctic priorities, and BHSF supports project preparation measures for potential financing from the Northern Dimension Environmental Partnership (NDEP) with a focus on waste management and soot emission with a particular impact on the Arctic region. A pilot and demonstration project concerning small-scale waste management in remote locations was successfully implemented in Kenozero national park in the Archangel region.

At the meeting of environmental ministers in Luleå in February 2020, four new hotspots from the list: Koryazhma paper mill; dioxin contaminants caused by the pulp industry in the Arkhangel region, sewage treatment in Karelia; as well as the Mondis paper pulp mill (concerning waste water) in the Komi Republic. The end of December saw the closure of the nickel smelting plant in the town of Nikel, Murmansk region (hotspot M1).

Together with the Nordic Council of Ministers, BHSF also provides contributions within the Programme for Environment and Climate Co-operation (PECC), which is administered by NEFCO. A new call for proposals, PECC 2, was launched in spring 2020, but due to the Corona crisis, only one of the selected projects had got under way before the end of the year.

ARCTIC COUNCIL PROJECT SUPPORT INSTRUMENT

Since 2014, NEFCO has administered the project preparation facility, the Arctic Council Project Support Instrument (PSI). PSI is designed for project development, preparation and demonstration projects prioritised by the Arctic Council Working and Expert Groups. The majority of project initiatives have thus far come from the Arctic Contaminants Action Program working group (ACAP), but also the working group for Conservation of Arctic Flora and Fauna (CAFF), have received PSI financing and project proposals have also been prepared within other working groups. The fund providers are Finland, Iceland, Norway, Russia, the Sami Parliament, Sweden and the USA. In 2020, a total of four projects were approved at a combined value of EUR 1.95 million. A total of 21 projects have received financing from the fund to a value of EUR 11.3 million, of which thirteen projects are complete.

In 2018, the Arctic Council decided to extend the fund's pilot phase until the end of 2021.

Additionally NEFCO also administers the Nordic Programme for Environment and Climate Cooperation (PECC 2), the Finnish Fund for Energy Efficiency, Renewable Energy and Alternative Energy Sources in Ukraine, the Swedish fund for demonstration projects to show the development of modern and energy-efficient district heating focussing on renewable fuels in Ukraine, the Swedish fund for demonstration projects for environmentally sustainable and energy-efficient district heating projects in Ukraine, the Norwegian fund for demonstration projects to promote energy efficiency in Ukraine, two funds under the EU's Neighbourhood Investment Platform; for the upgrade of the Ukrainian infrastructure for the water and waste water purification system, along with the Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine fund (NIU) with the aim of financing the renovation and construction of communal buildings in vulnerable areas of Ukraine.

NEFCO also administers the Baltic Sea Action Plan (BSAP) fund, the Danish fund for supporting energy efficiency and sustainable energy development in Georgia, as well as four separate funds on behalf of Sida (Sweden); the fund for identifying, preparing, implementing and monitoring environmental projects in Ukraine, the fund for identifying, preparing, implementing and monitoring environmental projects in north-western Russia, the fund for financing environmental projects in Russia and the fund for identifying, preparing, implementing and monitoring projects expected to result in a better environment and reduced climate impact in countries in the eastern partnership. NEFCO also administers Norwegian funds for water management in Kenozero national park in Russia, and conducts co-financing with the Barents Hot Spots Facility for identification. Swedish funds are intended for projects which reduce SLCF emissions and for demonstration projects for the destruction of ozone-depleting substances through the market for voluntary carbon credits. In addition, Finland and Sweden have allocated finds for the support of environmental projects in Central and Eastern Europe.

Furthermore, NEFCO has ongoing assignments with funds from NDEP for one project and funds from E5P for seven separate projects and initiatives.

3) Green transition - Administration assignments for Nordic authorities' initiatives and opportunities

BEYOND THE GRID FUND FOR AFRICA

In 2019, NEFCO established the Beyond the Grid Fund for Africa (BGFA) with the aim of gradually extending the fund to a financing programme with several investors. BGFA is based on results-based financing to spur on private energy companies to use independent facilities for supplying clean, high-quality and cost-effective energy to people living in rural areas which are not part of the national electricity network. The objectives of the fund also include the mobilisation of significant financing of new private investments in renewable energy on the challenging markets in African countries south of the Sahara.

Sida (Sweden's government agency for development cooperation) is the first and largest fund provider in BGFA. In June 2020, Power Africa undertook, through USAID, to participate in the BGFA programme with an in-kind contribution to the value of EUR 4.5 million. At the end of 2020, Denmark contributed to BGFA with a total of EUR 5 million. Germany is about to contribute to the fund with a contribution of EUR 7.5 million. This means that, in 2020, the capital for the BGFA programme has climbed from around EUR 48 million to around EUR 78 million.

In mid-September 2020, the first invitation to submit project proposals was arranged (BGFA 1). A total of EUR 30 million can be granted to stimulate private energy companies to offer solar panels for electricity production in the home (solar home systems), and independent small facilities for electricity production (micro/mini grids) in Burkina Faso, Liberia and Zambia. BGFA 1 is still ongoing, but has already shown a huge demand for results-based financing in order to meet the key needs of access to energy in Africa (SDG 7 - Sustainable energy for all), particularly during the Coronavirus pandemic.

NEFCO'S CARBON FUND ACTIVITIES

NEFCO's climate fund activities began in 2003 and over the years, NEFCO has administered climate funds of a combined value of around EUR 300 million, for both private and public fund providers. The climate funds have allowed NEFCO to construct a significant network and gain practical experience and knowledge of climate financing in primarily developing countries, including the least developed countries (LDCs).

Based on experiences within the climate field, in 2018 NEFCO became the first Nordic institution, accredited implementing entity in the Green Climate Fund - GCF. The fund is the world's largest climate fund, and accreditation means that NEFCO is entitled to apply for financing for projects which meet its criteria. In 2020 NEFCO entered into an agreement with the fund for implementation of a project concerning small-scale electricity production in Haiti.

Under the management of NEFCO, and based on the Nordic climate work, a new Nordic initiative, the Nordic Initiative for Cooperative Approaches (NICA) was established in 2018 to work with issues surrounding the Paris Agreement, in particular Article 6. The initiative aims to concretely support the development of regulations for the international forms of cooperation, as well as the promotion of pilot projects for the realisation of Article 6. A consultancy assignment was finalised in 2020 for identifying host states suitable for testing and potential pilot activities, and a more in-depth study to investigate the opportunities for a pilot project in Uganda has begun. Furthermore, over the year NEFCO's Board has approved for NEFCO to continue supporting expanded NICA activities to investigate mobilisation of additional funding sources to test trading in accordance with the Paris Agreement.

At the end of 2020, NEFCO administers a portfolio of 16 active climate projects within various sectors in seven countries. These projects represent the NEFCO Carbon Fund (NeCF) and the NEFCO Norwegian Carbon Procurement Facility (NorCaP). The funds are described in more detail below. At the end of 2020, NEFCO's carbon funds had provided a combined total of 29.5 million emission rights issued to investors. The final operating year for these funds is 2021 and they will both be completed during the year.

NEFCO Carbon Fund **(NeCF)** - NEFCO has administered this global climate fund since 2008. The aim of NeCF is to purchase emission rights from environmental projects which meet the Kyoto Protocol's requirements for joint implementation or the Clean Development Mechanism (CDM). NECF's remaining capital at the end of 2020 amounted to EUR 42 million. At the same time, NeCF had eight active purchasing agreements for emission reductions in Indonesia, Mozambique and Vietnam. Over the year, the fund was able to provide 0.25 million emission rights distributed to the fund's investors.

NEFCO Norwegian Carbon Procurement Facility **(NorCaP)** - The fund was established using Norwegian funds in 2013 and its primary aim is to procure emission rights within the Kyoto Protocol's second commitment period (2013-2020) from UN-approved projects where there is a risk that the project ceases due to the low market prices for credits. At the end of 2015, NorCaP reached its goal of 30 million contracted credits. At the end of 2020, NorCaP had eight active purchase agreements for emission reductions in Brazil, Mexico and South Africa. In 2020 the fund provided 2.5 million emission rights to Norway.

The combined agreed amount for administration assignments amounts to EUR 428.5 million. All external fund assignments administered by NEFCO are shown in separate accounting records.

STAFFING

At the end of 2020, a total of 37 people worked directly for NEFCO, of which five people are employed at the Representative office in Kiev, Ukraine. In addition, NEFCO has ten full-time advisers linked to the business activities, plus a further number of consultants involved in individual projects.

RESULTS

The financial statements show a profit of EUR 3,568,092.53. In accordance with previous practice, the Board recommends that the profit be returned to business activities as profit brought forward.

Helsinki, 10 February 2021

Carsten Møberg Larsen, Chairman
Ismo Tiainen, Vice Chairman
Agnethe Dahl
Jessica Andersson
Danfríður Skarphéðinsdóttir
Trond Moe, Managing Director

This is a translation from the original Report from the Board of Directors in Swedish. In the unlikely event of a disagreement in interpretation, meaning or otherwise, the original Swedish version shall prevail.

02
Environment & Sustainability Report 2020

INTRODUCTION

This report summarises the environmental and sustainability results achieved by NEFCO's financing activities. In addition to its own capital from its Investment Fund (IF), NEFCO manages several trust funds on behalf of various donors and investors to support environmental and climate-related projects.

This report looks into NEFCO's focus areas until 2020 (Green Growth, Climate, Arctic & Barents and the Baltic Sea).

NEFCO's environmental reporting covers activities financed through its Investment Fund (IF) and the following trust funds:

- the Nordic Environmental Development Fund (NMF), including NMF Credits such as Energy Savings Credit (ESC) and the Cleaner Production Facility, which includes the district heating programme DemoUkraina
- the Nordic Energy Efficiency and Humanitarian Support Initiative (NIU)
- the Carbon Funds

This report also provides an overview of the project status for:

- the Nordic Project Fund (Nopef)
- the Arctic Council Project Support Instrument (PSI)
- the Barents Hot Spots Facility (BHSF)
- the Nordic-Russian Programme for Environment and Climate Co-operation (PECC)
- the Baltic Sea Action Plan Fund (BSAP Fund)

The annual figures are based on realised results reported by project owners.

During the year, NEFCO has worked on new strategic priorities for the upcoming five-year period. As a result, it has defined new focus areas. These changes are not reflected in this Environment and Sustainability report but will be included next year.

NEFCO is also developing its environment and sustainability reporting framework in 2021, which will gradually be brought into use.

MAIN RESULTS

- On average, the energy-efficiency projects financed by NEFCO in Eastern Europe generated 50% savings in electricity consumption and 38% in heat energy consumption compared with the pre-project situation, which resulted in CO_2 reductions of 63%.
- The private sector portfolio saw increased activities in the resource efficiency and circular economy sector, as well as the agriculture, forestry and fishery sectors. Renewable energy was still the largest single sector within the portfolio.
- Four Hot Spots were removed from the list in the Barents region.
- Three Arctic-related projects were completed.
- Emissions reductions of 2.73 million tonnes CO_2 were achieved through Carbon Fund project activities.
- Emissions reductions of 1.23 million tonnes CO_2 were achieved through other projects, of which NEFCO's share was 11%.*
- The removal of 293 tonnes of phosphorus (Ptot) and 1,225 tonnes of nitrogen (Ntot) was achieved through projects financed by Nefco.*'

**In 2019; results for 2020 not yet available*

NEFCO'S ENVIRONMENTAL PURPOSE

Focus on projects with high demonstration value impact

NEFCO's financing is targeted at small and medium-sized private and public projects (SMPs) that demonstrate new technologies or solutions with the potential to be replicated (referred to as demonstration value by NEFCO). Many of the numerous SMPs financed by NEFCO are at the forefront of technological innovation and aimed at testing the application of Nordic green solutions with scale-up potential in local, non-Nordic contexts. The ultimate goal of NEFCO's activities is to accelerate the green transition.

NEFCO's role in the internationalisation of green companies in their growth phases not only benefits the environment and climate but also creates new jobs in both the Nordic and project countries. The majority of private sector projects financed by NEFCO relate to renewable energy, resource efficiency and circular economy.

Projects with a high demonstration value have the potential for environmental impacts worth many times NEFCO's initial investment. However, the value of these impacts is not calculated, as they are not guaranteed and often only realised far into the future.

Providing high additionality

NEFCO seeks out projects in which its financing will lead to a significantly higher probability of achieving the environmental targets and reducing the time for the implementation than is required or offered by the market; in some cases, these projects may never be implemented without NEFCO financing. This is referred to as additionality by NEFCO.

By connecting relevant project owners and various financiers, NEFCO helps its stakeholders reach their environmental and sustainability goals. NEFCO's higher risk tolerance for financing small projects and growth-phase companies means that it sometimes supplements financing offered by larger IFIs and other financiers in emerging and developing markets. In addition, NEFCO facilitates hands-on environmental advice and capacity building to enable smaller clients and beneficiaries to improve at mobilising additional finance. NEFCO's image as a financier, or co-financier, lends projects a high environmental status.

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS

NEFCO's financing activities contribute to the Nordic Vision 2030, the global Agenda 2030 and the universal Sustainable Development Goals (SDGs). The majority of NEFCO's activities focus on the six SDGs listed below but can also contribute to the remaining 11.

Goal 6: Ensure availability and sustainable management of water and sanitation for all

In 2020, NEFCO completed three wastewater treatment plant (WWTP) projects in the Baltic Sea catchment area. Phosphorus discharges from WWTPs were reduced by 293 tonnes and Nitrogen by 1,225 tonnes.

The Baltic Sea Action Plan Fund completed one project, had five under implementation and received 34 new project applications in 2020.

A new programme for the modernisation of wastewater treatment, partly funded by the EU, took off in Ukraine during the year ended.

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all

NEFCO-financed renewable energy (solar and wind) projects in Ukraine produced 170 Gwh/a (in 2019).

The first funding round for the results-based initiative Beyond the Grid Fund for Africa started with a Call for Proposals in September 2020. The goal of the programme is to generate up to 700,000 sustainable off-grid energy subscriptions, bringing clean and affordable energy to more than 3.5 million people in Sub-Saharan Africa.

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

In 2020, 33 Nopef projects were completed and 70 new ones agreed. The completed projects will lead to some 370 new jobs annually.

Launched in 2020, the Green Recovery financing programme aims to help Nordic SMEs grow on global markets despite the economic turndown.

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable

Energy-efficiency measures in ESC and NIU programmes resulted in heat energy savings of 53% or 23 GWh/a in public buildings, such as kindergartens and schools, in 21 Ukrainian cities.* (NEFCO's share of these reductions is 65%.)

Street light modernisation projects increase safety for citizens and have been proven to decrease electricity consumption by 50-70%.*

District heating modernisation in six Ukrainian cities reduced energy consumption by 30% or 107 GWh/a.* (NEFCO's share of reductions is 50%.)

The total reduction in heat energy consumption resulting from NEFCO projects was 172 GWh/a.* (NEFCO's share of reductions is 42%.)

Goal 13. Take urgent action to combat climate change and its impacts

On average, NEFCO-financed projects have led to a 63% reduction of CO_2 emissions. These come mainly from electricity and heat energy savings compared with the pre-project situation.

Investment projects led to a reduction of 1,230,330 t/CO_2, of which NEFCO's share is 11%.*

The Carbon Funds NeCF and NorCaP generated certified emission reductions (CERs) equivalent to 2,730,282 t/CO_2 in 2020.

*The figures show reported results from 2019; results for 2020 are not yet available. The 2020 figures are expected to be on a similar level.

GREEN GROWTH

Investment Fund (IF) and Nordic Environmental Development Fund (NMF)

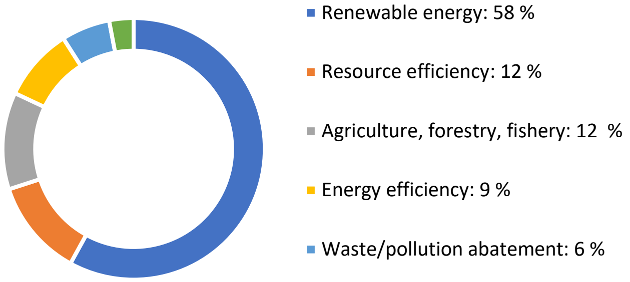
To accelerate the green transition within the private sector globally, NEFCO provides risk capital from its own Investment Fund. Dedicated instruments such as the Cleaner Production Facility, part of the NMF Credits, provide financing for specific segments and geographical areas. As the majority of the active projects currently relate to combatting the climate crisis, all IF and NMF Credits project results are presented in section *5 Climate* in this report.

Nordic Project Fund (Nopef)

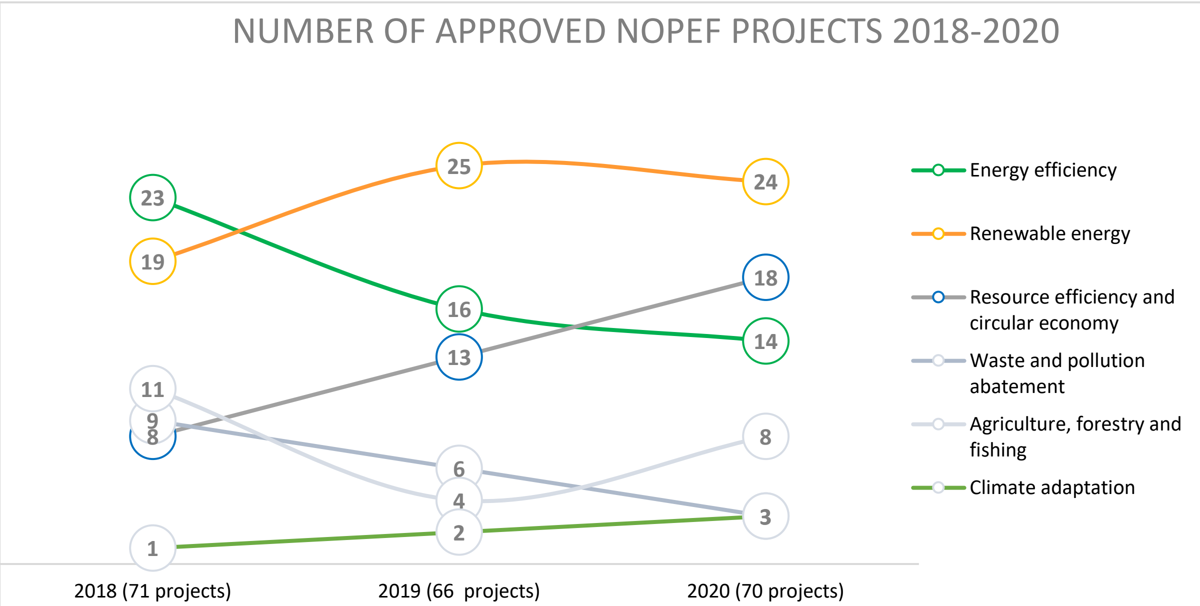
The Nordic Project Fund (Nopef) provides support to Nordic small and medium-sized enterprises (SMEs) for feasibility studies for establishments, demonstration projects and pilot installations of green solutions on international markets. The aim is to promote the internationalisation of Nordic green solutions with scale-up potential on global markets. Nopef is financed by the Nordic Council of Ministers and has been managed by NEFCO since 2014.

All of the agreed project targets for 2020 were exceeded. During the year, 33 projects were completed (target was 30) with business establishments and investments realised in the target countries. Of these projects, 19 (58%) relate to the implementation of renewable energy solutions and technologies, following increased activity in this sector during the last few years. The remaining 14 projects represent Nordic green solutions related to resource efficiency (12%), agriculture, forestry and fishery (12%), energy efficiency (9%), waste/pollution abatement (6%) and climate change adaptation (3%).

Realised Nopef projects 2020 per environmental sector



In 2020, Nopef approved financing for 70 new projects (target was 65 projects). The new funding opportunity launched at the beginning of the year for demonstration and pilot projects garnered significant interest and resulted in 13 approved projects during the year. Overall activity showed a continued inflow of projects with renewable energy representing the largest sector with 24 approved projects. The number of projects within the resource efficiency and circular economy sector also continued to increase, with 18 approved projects for the year.



Nopef's annual project survey was completed in autumn 2020, with the aim of assessing the impacts of completed projects financed by Nopef. The survey indicates that each realised project has created an average of 11 jobs over a three-year period, including an average of two new jobs in the Nordic countries. Average project-related investments amount to EUR 1.1 million per project. Given these outcomes and the expected success rate of the projects, Nopef-funded projects can be expected to contribute to some 378 jobs, of which around 62 will be in the Nordic region, and EUR 48 million in green investments in 2020.

CLIMATE

Investment Fund (IF), Nordic Environmental Development Fund (NMF) and Nordic Energy-Efficiency and Humanitarian Support Initiative (NIU)

The majority of NEFCO's investment activities are related to renewable energy and energy-efficiency measures. Moreover, most projects co-financed by NEFCO in the industrial sector include energy-efficiency measures with tangible emissions reductions. Public energy-efficiency projects usually generate both climate-related benefits and positive economic returns for municipalities.

In 2019, climate-related investments directly contributed to a reduction of 1.23 million tonnes of CO_2 emissions, of which NEFCO's share was 11%, or 135,000 tonnes. In terms of energy-efficiency measures, NEFCO-financed projects directly reduced energy consumption by 172 gigawatt-hours. The corresponding figures for 2020 are not yet available.

Energy Savings Credits (ESC)

The Energy Saving Credits (ESC) loan programme offers small-scale financing to municipalities in the Republic of Moldova, Russia and Ukraine. Energy-saving measures include wall insulation, replacement of doors and windows, reconstruction of ventilation systems and upgrading heating systems in a number of schools and day-care centres.

Some cities modernise their street lighting systems with NEFCO financing. These projects focus on replacing outdated and inefficient fixtures with energy-efficient light emitting diode lamps (LED). This leads not only to energy and cost savings but also increased safety for citizens.

Cleaner Production Facility (CPF)

The NEFCO Cleaner Production Facility is a loan programme intended to promote the reduction of industrial pollution through efficient resource and energy utilisation.

Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU)

The purpose of the NIU fund is to finance upgrades to municipal infrastructure in areas that have been badly affected by the armed conflict in Eastern and Southern Ukraine.

In 2020, eleven (11) NMF (ESC and CPF) were completed. Table 1 shows the environmental results from 2019. The environmental results from 2020 are not yet available.

On average, the energy-efficiency projects financed by NEFCO in Eastern Europe generated savings of 50% in electricity consumption and 38% in heat energy consumption compared with the pre-project situation, which resulted in CO_2 reductions of 63%.

Table 1. CO_2 emission reductions in NEFCO's portfolio

IF, ESC, CPF, NIU	2018 Total	2019		2019 Total
		Active projects	Ended projects	
CO2 indirect, t/a				
Sum of Reduction	175,352		159,411	159,411
Sum of NEFCO's share of reduction	7,312		6,647	6,647
				4%
CO2, t/a				
Sum of Reduction	1,261,271	275,180	955,120	1,230,330
Sum of NEFCO's share of reduction	154,694	56,553	78,416	134,996
				11%

Carbon Funds

At present, NEFCO manages two funds for the purchasing of carbon credits (Certified Emission Reductions) through Clean Development Mechanism (CDM) projects, based on the Kyoto Protocol compliance scheme. The projects fall within sectorial areas based on UNFCCC's categories, with waste handling and disposal representing the single largest sector; see graphics below.

NEFCO Carbon Fund (NeCF)

The investors in NeCF were originally the Danish Energy Agency, Ørsted (formerly DONG Energy, DK), Eesti Energia (EE), Electrabel (BE), EPV Energy (FI), the Finnish Ministry of Foreign Affairs, Industrialiseringsfonden for Udviklingslandene (IFU, DK), Kymppivoima (FI), the Norwegian Ministry of Climate and Environment, Vapo (FI) and NEFCO.

The NeCF portfolio consists of eight (8) ongoing projects.

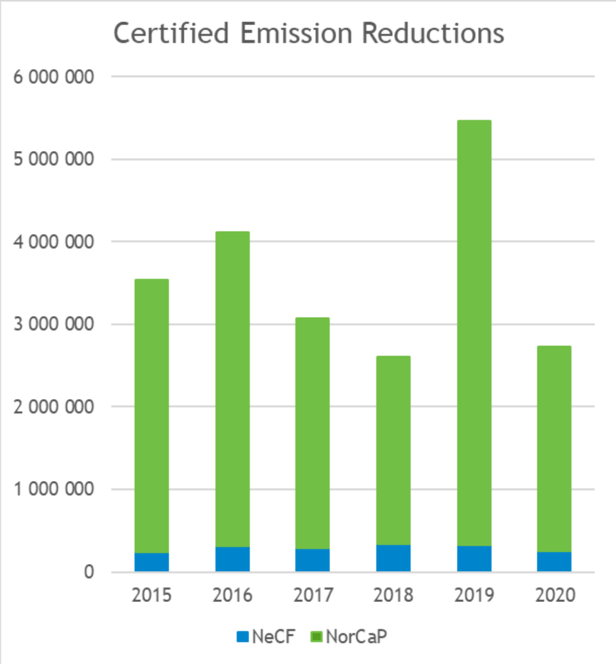
NEFCO Norwegian Carbon Procurement Facility (NorCaP)

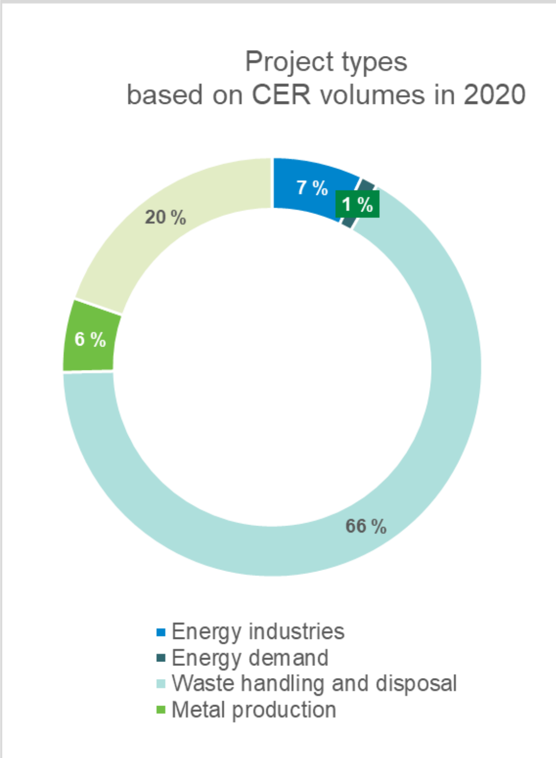
The Norwegian Ministry of Climate and Environment is the only investor in NorCaP. The NorCaP portfolio encompasses eight (8) ongoing projects.

During 2020, Certified Emission Reductions (CERs) were delivered as follows:

- 246,081 into the NeCF account, and
- 2,484,201 into the NorCaP account.

One CER equals one tonne of CO_2. The total number of CERs corresponded to **2,730,282 t/CO_2** in 2020.





ARCTIC AND BARENTS

The Arctic Council Project Support Instrument (PSI)

The Arctic Council Project Support Instrument (PSI) focuses on actions to tackle pollution in the Arctic. The instrument is a voluntary, non-exclusive mechanism for financing specific priority projects that have been approved by the Arctic Council Working Groups. PSI funding is available to projects by all of the Arctic Council's working groups. Since 2014, the PSI Committee (PCOM) has approved funding for 27 Arctic Council projects in the fields of combating climate change, hazardous waste management and enhancing biodiversity.

In 2020, four projects were completed. Ten projects are under implementation or contracting.

Table 2. Completed Arctic projects in 2020

Project	PSI Location	PSI sector	PSI project type
Arctic Migratory Bird Initiative - Microplastics	Circumpolar	Biodiversity	
Mercury Risk Evaluation	Circumpolar		
AFFF Phaseout in the Arctic	Circumpolar	Waste	Technical Assistance
Associated Petroleum Gas Flaring - Phase 2	Russia	Climate	Technical Assistance

The Arctic Migratory Bird and Microplastics project is closely aligned with the current Icelandic presidency of the Arctic Council. The project delivered a well-written and widely appreciated report that provides a good basis for further activities in the field.

The first phase of the Mercury Risk Evaluation project also resulted in a good report that offers the basis for a second phase; it is currently under consideration for PSI funding.

The second phase of the Flaring project was finalised with a presentation at a webinar on Black Carbon and Methane from the Oil and Gas Sector, in which it was reported that measures taken that include technology promoted by the project reduce carbon dioxide emissions by hundreds of thousands of tonnes.

The webinar, arranged by ACAP in cooperation with NEFCO, reached not only all the major Russian oil and gas companies but also a wider global audience in the sector, creating the possibility that the experience gained will be used in other locations, potentially reducing GHG emissions by millions of tonnes.

The gas reinjection technology implemented in the project, in line with the recommendations, represents best industry practice in the Arctic, ensuring a higher volume of APG utilisation, reductions of black carbon and methane emissions, and the profitability of implementing companies.

PSI-funded projects in general are expected to contribute to climate mitigation and adaptation activities that will eventually lead to reductions of black carbon, CO_2 emissions, persistent toxic substances and non-methane volatile organic compounds as well as improved biodiversity.

Barents Hot Spots Facility (BHSF)

NEFCO has managed the Barents Hot Spots Facility (BHSF) since 2004. Its main aim is to promote relevant actions and investments at environmental ‘hot spots’ identified in Northwest Russia in collaboration with the relevant Russian authorities and project owners. BHSF funds are allocated primarily to expert and feasibility studies and for technical assistance. The facility also co-finances the Climate, Environment and ‘Hot Spots’ Adviser at the International Barents Secretariat in Kirkenes.

NEFCO has worked very closely with the Finnish Chair of the Barents Working Group on Environment (WGE) and its subgroups, in particular the Subgroup on Hot Spot Exclusion (SHE). BHSF is the primary source of funding for the SHE Work Programme and its defined ‘Support Activities’. In 2020, among other things, BHSF funded seminars and webinars on the theme of the introduction of Best Available Techniques (BAT) and the new environmental permit-granting procedure in Russia. One such webinar targeted, for the first time, the mining and metallurgy sector (related to Kovdorsky GOK in the Murmansk region). NEFCO has supported and cooperated closely with the newly established task forces that coordinate these efforts in various sectors, as well as outreach and communications linked to the hot spots.

NEFCO’s activities in the Barents context are closely linked to the Arctic priorities, and BHSF supports project preparatory measures for possible funding from NDEP with a focus on solid and hazardous waste management and soot emissions with particular impact on the Arctic. A pilot and demonstration project on small-scale waste management in remote locations was successfully carried out in the Kenozero National Park in the Archangelsk region.

The biannual meeting of the Barents Ministers of Environment took place in Luleå in February 2020. The Swedish Chairmanship ended with the removal of four Hot Spots from the List: the Koryazhma branch of Ilim Group JSC, pulp and paper enterprises as sources of dioxin pollution in the Arkhangelsk region, Sewage treatment in Karelia, and the Mondi Pulp and Paper Mill – wastewater discharge in the Republic of Komi. In late December, the nickel smelter in the town of Nikel in the Murmansk region was closed down, which may contribute to the removal of the corresponding hot spot (M1).

The Barents Environmental Hot Spot List from 2003 consists of 42 hot spots, representing various sectors, such as pulp and paper, mining and metallurgy, heat and power, and water and wastewater, along with other polluted sites. To date, 12 full hot spots and 3 partial ones have been eliminated, while the work on environmental progress at other sites continues (27 full hot spots and 3 partial ones remain on the list).

Together with the Nordic Council of Ministers, BHSF also provides grants within the Programme for Environment and Climate Co-operation (PECC), which is managed by NEFCO. A new call for proposals, PECC-2, was launched in early 2020, but due to the Covid-19 situation only one PECC project became operational in 2020, although several more are due to be started in early 2021.

Picture: Kenozero Park in Northwest Russia, photo by A.Parshakov and I. Shpilenok

THE BALTIC SEA

Investment Fund (IF) and Nordic Environmental Development Fund (NMF)

On average, wastewater treatment projects financed by NEFCO reduced phosphorus (Ptot) discharges by some 65% and nitrogen (Ntot) discharges by some 72% compared with the pre-project situation.

Phosphorus (P) discharges from wastewater treatment plants were reduced by 293 tonnes, which is equal to the discharge from untreated wastewater of approx. 400,000 people. NEFCO's pro rata share of the reduction is 35 tonnes P/year, equal to the wastewater from approx. 48,000 people.

The corresponding figure for nitrogen (N) was 1,225 tonnes N/year, of which NEFCO's share was 143 tonnes N/year.

The figures reported are from 2019 as the results from 2020 are not yet available. As several wastewater treatment projects were completed and paid back before 2019, the environmental results show significantly lower figures compared with 2018.

In 2020, three projects related to nutrient reductions were completed; see Table 4.

Table 3. Reductions in IF and NMF Credits

	2018 Total	2019		2019 Total
		Active projects	Ended projects	
Ntot, t/a				
Sum of Reduction	4,498	452	773	1,225
Sum of NEFCO's share of reduction	890	57	86	143
				12%
Ptot, t/a				
Sum of Reduction	941	82	211	293
Sum of NEFCO's share of reduction	178	11	23	35
				12%

Table 4. Completed wastewater treatment projects in 2020

Project	Project number	Country	Type	Comments
NDEP - Petrozavodsk Water and Wastewater	NEFCO 01/09	Russia	Wastewater	The project was expected to produce reduced P discharges of between 50-75 t/a and N about 314 t/a. In 2019 the WWTP reduced about 75 t P/a and 452t N /a.
NDEP - Saint Petersburg Vodokanal	NEFCO 03/06	Russia	Wastewater	The project consisted of shutting down seven small and adding phosphorous precipitation to four WWTPs. The expected removal is 48 t P/a and 150 t N/a. The WWTPs exceeded in reaching these targets.
Sosnovy Bor Wastewater	NEFCO 02/08	Russia	Wastewater	Ptot removal was 7,2 t/a, 32 % of the target of 22,3 t/a. Due to difficult financial position, Vodokanal did not purchase flocculant neede to reduce Ptot amount in treated wastewater by chemical precipitation.

Baltic Sea Action Plan Fund (BSAP Fund)

The BSAP Fund, financed by the governments of Sweden and Finland, provides grants for technical assistance to projects that support the implementation of the HELCOM Baltic Sea Action Plan (BSAP). The mandate of the fund is to contribute to the realisation of BSAP by providing co-financial support for project development and implementation, e.g. in the agricultural, wastewater or hazardous waste sectors. A key purpose of the fund is to facilitate and speed up the preparation of bankable projects in the Baltic Sea catchment area.

In total, 38 projects have been realised or discontinued during the 2010 to December 2020 period. In 2020, one project was completed and five were under implementation.

A marketing campaign targeting new project applications to the BSAP Fund was realised during September-October 2020. A total of 34 project applications were received from Sweden, Finland, Estonia, Latvia, Lithuania, Russia, Poland and Denmark. Decisions on fund allocations to these projects will be taken in early 2021.

Table 5. Completed BSAP projects in 2020

Project	Project number	Country	Type	Environmental impact
Paikre	NEFCO 01/17	Estonia	Renewable energy and nutrient recycling	Developing concept of sustainable circular processing and reuse of sewage sludge and bio-wastes

POLICY WORK

EU taxonomy classification

In accordance with its revised strategy, which was developed during the year, Nefco started to use the EU taxonomy classification in project environmental reviews in 2020. The reviews also included 'do no significant harm' (DNSH) analyses.

Initial training on the EU Taxonomy was arranged for staff in 2020 in collaboration with the Finnish Ministry of Finance. More training will follow in 2021.

NEFCO Environmental Handbook updates

NEFCO's Environmental Unit has updated the Environmental Handbook series with a sector-specific section for Biomass. In addition, an internal training seminar on this sector has been arranged.

MFI environmental and social experts' meeting

NEFCO's environmental unit participated in a meeting hosted by the Multilateral Financial Institutions Working Group on Environment and Social Standards to promote its attempts to harmonise the environmental methodology applied at international financial institutions.

Collaboration with HELCOM

NEFCO received HELCOM Observer status in 2019. NEFCO participated in HELCOM's Heads of Delegation meeting in March 2020, where it presented the results of the external evaluation of the BSAP Fund. During 2020, HELCOM continued to revise and renew the Baltic Sea Action Plan (BSAP), a process that is expected to be finalised by the end of 2021. Parallel to this, the governments of Sweden and Finland, as the current donors to the NEFCO-managed BSAP Fund, are exploring possibilities to renew and expand the current BSAP Fund. Sweden and Finland initiated discussions in relation to this at the HELCOM Heads of Delegation meeting in June 2020.

ANNEX 1

Accounting principles

NEFCO has requested annual environmental status reports for every project and from every client since it was established in 1990. The environmental and sustainability indicators of NEFCO-financed projects enable comparison and follow-up of the actual impact of each project. Environmental and resource-efficiency indicators are selected to allow the evaluation of the situation prior to the implementation of each project. The selected indicators are followed up in the annual environmental reporting process.

Environmental benefits can be achieved directly, as a consequence of investments, and indirectly, by supporting companies that manufacture environment-related products or services. Direct environmental impacts are reported by projects. The indirect environmental impacts are typically calculated based on reporting by project companies, e.g. production of equipment that decreases emissions.

Harmonised approaches in project impact accounting

International Financial Institutions (IFIs) have been working together to agree on a harmonised approach to project-level greenhouse gas (GHG) accounting[1]. The rationale for this work is to harmonise GHG accounting in project appraisals. The aim is to establish minimum requirements for appraisals, which can be exceeded with additional considerations and reporting.

Environmental benefits achieved through completed projects (Investment Fund and NMF Credit), or those in which NEFCO's involvement has ceased, are calculated as total emission reductions. The assessment of the environmental performance of projects is calculated using realised annual reductions and expected annual reductions based on the project baseline prior to implementation. The assessment is normally expressed as a mass unit (e.g. kg, tonnes) on an annual basis. For the purposes of comparison, the data are shown as reductions or savings per annum.

In order to avoid double accounting with co-financiers, the emissions reductions are also given prorated to NEFCO's share of the financing.

The harmonised approach encourages reporting of long-term project impacts. Reports on the estimated results of a project aim to provide users with a basis for understanding the impact of the project over its economic lifetime. NEFCO's environmental database also accounts for projects in which its involvement has ceased. In its environmental monitoring, NEFCO applies an annual linear depreciation rate of 5% on all actual reductions as of the beginning of the year of the final repayment. This method was first applied in 2011.

It is good to note that this methodology is limited to measuring the environmental effects of NEFCO's projects, since it ignores additionality, which is highly important in financing decisions. The purpose of NEFCO's investment in a project is to reduce its overall environmental impact, not just its own share. This is the main rationale for NEFCO's project reporting.

[1] International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting November 2015

Financial statements 2020

03
Statement of comprehensive income 1 January - 31 December

(Amounts in EUR)

Income	Note	2020	2019
Interest income from financial assets held at amortised cost		6,236,609	4,774,460
Interest income from financial assets held at fair value		272,692	-
Total interest income		6,509,301	4,774,460
Interest expense		-832,035	-795,616
Net interest income*	(3)	**5,677,266**	**3,978,843**
Net result of financial operations	(4)	2,802,481	2,472,125
Lending fee income	(5)	631,994	970,213
Other income	(6)	2,697,297	2,968,963
Total income		**11,809,038**	**10,390,144**
Operating expenses			
Administrative expenses	(7), (8), (9)	6,101,843	6,146,847
Depreciation and write-down in value of right-of-use assets	(13)	270,127	276,019
Foreign exchange gains and losses		244,520	-44,489
Impairment of loans / reversals	(12)	1,624,456	2,613,634
Total operating expenses		**8,240,946**	**8,992,011**
Result for the year		**3,568,093**	**1,398,134**
Total comprehensive income		**3,568,093**	**1,398,134**

*) Interest income on loans at amortized cost is calculated based on the effective interest rate (EIR) method.

04
Statement of financial position

(Amounts in EUR)	**Note**	31/12/2020	31/12/2019
ASSETS			
Cash and cash equivalents	(16), (17)	42,490,155	24,369,259
Placements with credit institutions	(16), (17)	23,960,217	57,891,953
Total, cash and cash equivalents and placements with credit institutions		66,450,373	82,261,212
Investment assets	(10)	9,422,605	3,340,689
Other placements	(11)	14,923	17,442
Loans outstanding	(12)	99,626,856	87,276,021
Other receivables		633,820	768,754
Accrued interest income		3,638,112	2,192,325
Right-of-use assets	(13)	1,205,210	1,498,363
Total assets		**180,991,899**	**177,354,807**
LIABILITIES AND EQUITY			
Liabilities			
Long-term debt	(14)	7,249,619	7,970,142
Other liabilities		2,661,703	2,467,142
Accrued interest expense		1,472,595	877,635
Total liabilities		11,383,917	11,314,919
Equity			
Paid-in capital	(15)	113,406,560	113,406,560
Reserve for investment/credit losses		24,557,177	24,557,177
Operational fund		4,500,000	4,500,000
Retained earnings		23,576,152	22,178,018
Result for the year		3,568,093	1,398,134
Total equity		169,607,981	166,039,889
Total liabilities and equity		**180,991,899**	**177,354,807**

05
Changes in equity

(Amounts in EUR)	Paid-in capital	Reserve for investment/ credit losses	Operational fund	Retained earnings	Total comprehensive income	Total
Equity at 1 January 2019	**113,406,560**	**24,557,177**	**4,500,000**	**13,626,568**	**8,551,450**	**164,641,755**
Appropriation to retained earnings				8,551,450	-8,551,450	-
Total comprehensive income					1,398,134	1,398,134
Equity at 31 December 2019	**113,406,560**	**24,557,177**	**4,500,000**	**22,178,018**	**1,398,134**	**166,039,889**
Equity at 1 January 2020	**113,406,560**	**24,557,177**	**4,500,000**	**22,178,018**	**1,398,134**	**166,039,889**
Appropriation to retained earnings				1,398,134	-1,398,134	-
Total comprehensive income					3,568,093	3,568,093
Equity at 31 December 2020	**113,406,560**	**24,557,177**	**4,500,000**	**23,576,152**	**3,568,093**	**169,607,981**

06
Cash flow statement 1 January - 31 December

(Amounts in EUR 1,000)	**2020**	**2019**
Cash flows from operating activities		
Result for the year	3,568	1,398
Adjustment for non-cash items		
Depreciation and write-down in value of tangible and intangible assets	270	276
Value adjustments, investment assets	-3,075	-2,365
Value adjustments, other placements	-	-140
Capital adjustments, other placements	3	3
Impairments, lending	1,624	2,614
Capitalisations, lending	-693	-349
Adjustments, lending	188	-
Exchange rate adjustments	224	-177
Change in accrued interests, assets	-1,446	-1,125
Change in accrued interests, liabilities	595	524
Other adjustments to the year's result	7	8
Lending		
Disbursements	-22,941	-39,686
Repayments	8,225	7,956
Prepayments	1,022	242
Change in investment assets	-3,007	3,102
Change in other liabilities	211	-258
Cash flows from operating activities	**-15,225**	**-27,976**
Cash flows from investing activities		
Change in placements with credit institutions		
Acquisitions	-22,068	-58,360
Disposals	56,000	68,000
Change in other placements	-	3,500
Change in other receivables	135	809
Net cash flows from investing activities	**34,067**	**13,949**
Cash flows from financing activities		
Change in long-term debt		
Repayments	-721	-550
Net cash flows from financing activities	**-721**	**-550**
Change in cash and cash equivalents	**18,121**	**-14,577**
Opening balance for cash and cash equivalents	**24,369**	**38,946**
Closing balance for cash and cash equivalents	**42,490**	**24,369**
Additional information to the statement of cash flows		
Interest income received	**5,064**	**3,650**
Interest expense paid	**-237**	**-272**

07
Notes to the financial statements

1. ACCOUNTING POLICIES

1.1 Reporting entity

The operations of the Nordic Environment Finance Corporation (hereinafter the Corporation or NEFCO) are governed by the Agreement between the governments of Denmark, Finland, Iceland, Norway and Sweden and the related Statutes. NEFCO's purpose is to promote investments of Nordic environmental interest with a focus on Eastern Europe. The Corporation also manages trust funds on behalf of various principals.

NEFCO is an international financial institution. In the member countries, the Corporation is an international legal person with full legal capacity, exempt from payment restrictions and credit policy measures. In addition, the NEFCO Agreement contains immunity provisions exempting the Corporation from all taxation.

NEFCO's principal office is located in the Nordic Investment Bank's premises at Fabianinkatu 34, Helsinki, Finland. In addition, NEFCO's representative office rents office premises in Kyiv, Ukraine.

1.2 Basis of accounting

The Corporation's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The accounts of the Corporation are kept in euro.

1.3 Accounting standards adopted in 2020

NEFCO has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective other than IBOR reform Phase 2. Other amendments and interpretations apply for the first time in 2020, but do not have an impact on NEFCO's financial statements.

1.4 New Accounting standards for financial years beginning on or after 1 January 2021

There are no IFRS standards or interpretations that are not yet effective that would be expected to have a material impact on NEFCO's financial statements.

1.5 Functional and presentation currency

The Corporation's financial statements' functional and presentation currency is euro.

1.6 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are recognised in the accounts at the exchange rate prevailing on the closing date. Non-monetary assets and liabilities are recognised in the accounts at the euro rate prevailing on the transaction date. Income and expenses recognised in currencies other than euro are converted on a daily basis to euro, in accordance with the euro exchange rate prevailing on that day.

Realised and unrealised exchange rate gains and losses are recognised in the statement of comprehensive income.
The Corporation uses the official euro exchange rates published by ICE Data Services. See Note 18.

1.7 Significant accounting judgments and estimates

When preparing the financial statements, management is required to make estimates that have an effect on the reported result, financial position and other disclosures. These assessments of impairment of loans, fair value of loans and the fair value of the investments are based on the information available to management (Notes 10-12). Actual outcomes may deviate from the assessments made and these deviations may be significant in relation to financial statements.

1.8 Recognition and derecognition of financial instruments

Financial instruments are recognised in the statement of financial position on a settlement date basis. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

1.9 Basis for classification and measurement

The Corporation classifies its financial assets into the following categories: those measured at amortised cost and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

Financial assets at amortised cost

An investment is classified at “amortised cost” only if both of the following criteria are met: the objective of the Corporation’s business model is to hold the assets 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.

Financial assets at fair value

If either of the two criteria above is not met, the asset cannot be classified in the amortised cost category and must be classified at fair value through profit and loss (FVTPL) or at fair value through other comprehensive income (FVOCI). FVOCI is used to classify assets held for payments of principal, interest and to sell. All other financial assets are classified as FVTPL.

Determination of fair value

Measurement of financial assets at fair value is carried out according to the following hierarchy based on fair value:

Level 1 - Market prices quoted on an active market for identical assets.

Level 2 - Valuation model based on either directly (i.e. prices) or indirectly (i.e. derived from prices) observable data. This category includes assets valued using quoted market prices in an active marketplace for similar assets; quoted prices for identical or similar assets in a less active marketplace or another valuation method, in which all significant data can be determined either directly or indirectly in the marketplace.

Level 3 - Valuation model based on other than directly observable data. This category includes all assets where the valuation method includes inputs, which are not based on observable data, and the unobservable inputs have a significant effect on the valuation. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets.

1.10 Cash and cash equivalents

Cash and cash equivalents comprise monetary assets and placements with original maturities of three months or less, calculated from the date the acquisition and placements were made.

Cash and cash equivalents in the cash flow statement refers to the net amount of monetary assets, placements and liabilities with original maturities of three months or less, calculated from the time the transaction was entered into.

1.11 Placements with credit institutions

NEFCO invests its short-term liquidity, which is primarily in euros, with credit institutions, preferably Nordic banks. Due to the short maturities of these placements, the difference between their fair value and carrying amount including accrued interest is not significant.

Placements with credit institutions are recognised at cost on the settlement date. If the business model for managing the placements and their contractual cash flow characteristics fulfil the criteria for financial assets at amortised costs, these placements are carried at amortised cost in the annual financial statements.

1.12 Investment assets

NEFCO's investment assets include participating interests in a number of companies. NEFCO is regarded as an investor in companies with the aim of generating positive environmental impacts in accordance with the Corporation's mandate and Statutes. The primary objective is to achieve environmental benefits, not to maximise profits. However, the Statutes require that the companies in which NEFCO invests are financially profitable in order to ensure that the Corporation's authorised capital remains intact.

The Corporation's management has decided to report all investments in other companies at fair value through the statement of comprehensive income. Even though NEFCO in some instances might have over 20%, but always less than 50%, ownership NEFCO does not have significant influence due to that the majority (or other) shareholder assumes responsibility for the business operations. Typically, new investment involves an exit agreement with the majority investor (or project developer) setting out the conditions for NEFCO's withdrawal from the company.

The Corporation regularly assesses its investment assets using its own valuation model. However, the assessed fair value is greatly affected by the market conditions in the individual countries and other circumstances beyond NEFCO's control.

NEFCO's investment assets fall under Levels 1-3 as of 31 December 2020 (Note 10).

1.13 Other placements

NEFCO's other placements include placements in the NEFCO Carbon Fund and the Nordic Environmental Development Fund. NEFCO's other placements are carried at fair value. Changes in fair value are recognised in the statement of comprehensive income.

The Corporation regularly assesses its other placements using its own valuation model. However, the assessed fair value is greatly affected by the market conditions and other circumstances beyond NEFCO's control. If fair value cannot be reliably determined, the assets are carried at cost.

All of NEFCO's other placements fall under Level 3 as of 31 December 2020 (Note 11).

1.14 Loans outstanding

The Corporation's lending transactions are recognised in the statement of financial position on the transfer of funds to the borrower. Loans are initially recognised at fair value and transaction cost. Loans outstanding are carried at amortised cost after deductions for any impairment losses. See Note 12.

1.15 Impairment of loans

Valuations and impairments are part of NEFCO's risk management process. The final decision lies with the Board, where the Managing Director makes a proposal based on the decision by Investment Committee. The Investment Committee assesses each project regularly and the risk report and portfolio analysis form a basis for the assessment. In 2020, covid-19 pandemic caused global uncertainty and NEFCO decided to make an additional provision to its lending portfolio to mitigate the risk of potential future credit losses. (Note 12)

Expected Credit Losses

Credit losses are estimated based on Expected Credit Loss (ECL) model. IFRS 9 introduced a stage model, where credit risk is divided into three stages:

Stage 1 - financial assets where no significant increase in credit risk has been identified since initial recognition are placed in this stage. ECL is calculated on a 12-month basis and interest revenue is calculated on a gross basis.

Stage 2 - financial assets where a significant increase in credit risk has been identified (but no objective evidence) since initial recognition are placed in this stage. ECL is calculated on a lifetime basis and interest revenue is calculated on a gross basis. No objective evidence means, for example, that the project country rating has worsened and therefore the project is assigned in this stage.

Stage 3 - financial assets are credit impaired. ECL is calculated on a lifetime basis and interest income is calculated on a net basis. All non-performing loans (unpaid after 90 days from due date) are assigned in this stage.

NEFCO's model is based on the changes in project country's rating and guarantees by NEFCO's owner countries are taken into account.

1.16 Intangible assets

Intangible assets mainly consist of investments in software, software licences and right-of-use assets arising from leasing arrangements. Acquisitions that generate economic benefits exceeding costs beyond one year are recognised as intangible assets. The investments are carried at historical cost and are amortised over the assessed useful life of the assets, which is estimated to be between three and five years, except for the leasing depreciations. The amortisations are made on a straight-line basis (Note 13).

1.17 Leasing agreements

Following the adoption of IFRS 16 effective from 1 January 2019, the Corporation applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Corporation recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The initial lease asset equals the lease liability in most cases.

Right-of-use assets

The Corporation recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented as part of intangible assets in Note 13.

Lease liabilities

At the commencement date of the lease, the Corporation recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease liabilities are shown under "other liabilities" in the Statement of Financial Position.

1.18 Tangible assets

Tangible assets in the statement of financial position include office equipment and other tangible assets owned by the Corporation. The assets are recognised at historical cost, less any accumulated depreciation based on their assessed useful life. The depreciation period for office equipment and other tangible assets is determined by assessing the individual item. The depreciation period is usually three to five years. The depreciations are calculated on a straight-line basis (Note 13).

1.19 Write-downs and impairment of intangible and tangible assets

NEFCO's assets are reviewed annually for impairment. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets (Note 13).

1.20 Liabilities

Since 2017, NEFCO has on-lent funds from Nordic partners to projects in Ukraine and these loans are presented in both Loans outstanding and Liabilities. Liabilities are measured at amortised cost. So far, NEFCO does not have risk of default towards these lenders due to contractual terms (Note 14).

1.21 Equity

NEFCO's paid-in capital reached its full amount of EUR 113.4 million in 2007.

In addition, the Corporation accumulated until 2009 a reserve for investment/credit losses to cover the risk of losses on loans outstanding and investment assets. This reserve can be used to cover investment or credit losses arising during the course of the Corporation's operations.

NEFCO's equity includes a provision for an Operational Fund to secure resources for the Corporation's development and for preparation of investment projects (Note 15).

1.22 Net interest income

NEFCO's net interest income includes accrued interest on loans, debt securities and placements. Net interest income also includes interest expenses on borrowing (Note 3). Interest income on loans at amortised cost is calculated based on the effective interest rate (EIR) method.

1.23 Lending fee income

Fees collected when signing loan agreements are recognised as income at the time of the payment or disbursement, which means that they are recognised as income when the costs are incurred. Also other fees may be charged from borrowers and recognised as income at payment.

Prepayment fees may be charged when a prepayment is made and recognised as income at the time of the payment.

Commitment fees are charged on loans that are agreed, but not yet disbursed and are accrued in the statement of comprehensive income over the commitment period (Note 5).

1.24 Other income

Other income consists mainly of trust fund management fees. The performance obligations are earned over time (Note 6).

1.25 Administrative expenses

NEFCO purchases administrative services from a related party, the Nordic Investment Bank (NIB). The cost of these services is shown under 'Other administrative expenses' (Note 8).

The Corporation receives a host country reimbursement from the Finnish Government equal to the tax withheld from the salaries earned by its employees. The host country reimbursement is reported as a deduction from administrative expenses (Note 8).

1.26 Employee benefits

Defined contribution plans

The Corporation is responsible for arranging pension security for its employees. In accordance with the Host Country Agreement between the Corporation and the Finnish Government and as part of the Corporation's pension arrangements, the Corporation has decided to apply the Public sector pension system (JuEL Pension). Contributions to this pension system, which are paid into the Finnish State Pension Fund, are calculated as a percentage of salaries. KEVA, Finland's largest pension provider, confirms the basis for the pension contribution determined by the Finnish Ministry of Finance. This pension is based on a defined contribution plan. See Note 7.

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

The Corporation has a Representative Office in Kyiv, Ukraine, with five employees whose contracts are based on the local terms of employment and health and safety regulations as defined under Ukrainian law.

1.27 Trust funds

Trust funds are established in accordance with Section 3 of the Statutes of the Corporation and are administered under the terms governing each such trust fund. These trust funds may be investing funds or providing grant funds. Trust funds are primarily focused on project preparation, implementation and advisory and may be bilateral or multilateral in nature. Trust fund donors are countries and private investors. The resources provided to NEFCO through the contribution agreements are held separately from the Corporation's ordinary capital resources and are subject to external audit. Liquidity of trust funds is managed in accordance with NEFCO's Risk Policy. Management fees from trust funds are either periodised or paid as one-off fee, based on each trust fund agreement. Costs are either carried by NEFCO or by the trust fund.

1.28 Cash flow statement

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

Cash and cash equivalents in the cash flow statement refers to the net amount of monetary assets, placements and liabilities with original maturities of three months or less, calculated from the time the transaction was entered into.

2. MANAGEMENT OF FINANCIAL RISKS BY NEFCO

NEFCO has adopted a risk management policy that provides guidelines for reporting and monitoring the risks associated with its operations, including guidelines for possible future borrowing based on lending portfolio risk level. In accordance with the said guidelines, the risk management process includes an evaluation of the portfolio four times per year accompanied by country risk reports. The goal is to provide an objective on-going assessment of the portfolio risk.

The purpose of NEFCO's operations is to provide risk capital and loans to finance investments that are of environmental interest to the Nordic countries. In 2017 the geographical mandate was broadened beyond Eastern Europe while the focus remains in this area. The authorised capital is used to finance NEFCO's investments. In addition, NEFCO has a reserve for investment/credit losses comprising approximately 21.7% (2019: 21.7%) of the authorised capital. The main financial risks – credit risk, foreign exchange rate risk, interest rate risk, price risk, liquidity risk and operational risk – are carefully managed and risk management procedures are closely integrated into NEFCO's business routines.

2.1 Market risk

Foreign exchange rate risk

Outstanding loans are denominated in euros and roubles. Euro-denominated lending accounts for 99.9% of all outstanding loans.

A guarantee facility for the rouble-denominated loans has been available from the Nordic Environmental Development Fund (NMF) starting from 2012. As of 31 December 2020, the guarantee facility has been used to a total of EUR 0.1 million to cover the foreign exchange losses following the rouble's fall in value in 2014. Following a gain in the value in 2016 and 2019, repayments were made to replenish the guarantee. The utilised guarantee facility reduced NEFCO's foreign exchange losses in 2014 and foreign exchange gains in 2016 and 2019. No changes were made into the frame in 2020. The foreign exchange rate risk in respect of other activities is insignificant.

Interest rate risk

Interest rate risk refers to the effect of market rate fluctuations on the Corporation's interest-bearing assets and related interest income. The distribution of loans outstanding according to the length of the interest rate fixing period is indicated in Note 12.

The liquidity reserve of approximately EUR 66.5 million (2019: EUR 82.3 million) is primarily placed in bank deposits with maturity up to one year. As the maturity dates are spread across the year, the interest rate risk is distributed in such a way that any change in interest rate levels resulting from a decrease in market interest rates is not immediately fully reflected in the financial result.

A 0.5% fall in the annual interest rate would result in a reduction in earnings of around EUR 0.3 million (2019: EUR 0.4 million). Conversely, an increase in interest rates would have a positive impact on financial performance.

Price risk

The price risk associated with NEFCO's equity investments is subjected to thorough examination before presentation to NEFCO's Board for an investment decision. The maximum price risk exposure at the balance sheet date consists of the investment assets totalling EUR 9.4 million as at 31 December 2020 (2019: EUR 3.3 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses. Equity investments account for 8.3% of the authorised capital.

An indirect price risk may occur in the investment in NEFCO Carbon Fund (NeCF). NEFCO is involved in projects that delivered the last emission reductions in 2013. NEFCO donated these emission reductions in 2014 to the member countries and as at 31 December 2020 NEFCO had no emission reductions.

Concentration risk

Concentration risk associated with NEFCO's investments arises from investments being concentrated to, for example, a single counterparty, sector or country. Counterparty may also be a project sponsor (rather than individual customer). As environmental investor, there may be situations when a single sector is concentrated, and these are followed up on a case-by-case basis. NEFCO's investment in Ukraine is relatively large, but within the limits of the Risk Policy. The exposure is mitigated by owner country guarantees and part of it is directly on-lent, when the risk of default is carried by the primary lender. All concentration risks are monitored on quarterly basis in the risk report presented to the Board of Directors.

2.2 Credit risk

The credit risk associated with NEFCO's lending is subjected to thorough examination before presentation to NEFCO's Board for a lending decision. The maximum credit risk exposure at the balance sheet date consists of the amounts outstanding for loans totalling EUR 99.6 million as at 31 December 2020 (2019: EUR 87.3 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses.

Credit risk constitutes NEFCO's main financial risk. It involves the risk that the Corporation's borrowers or other counterparties fail to fulfil their contractual undertakings and that the collateral provided as security does not cover the Corporation's claims. In accordance with NEFCO's mandate, all of the Corporation's lending can be classified as high risk. Below table shows credit risk exposure by internal rating.

	2020	2019
Very high risk	-	-
High risk	46,884,592	30,712,776
Medium risk	13,404,131	35,126,213
Low risk	46,563,163	27,037,606
Total lending	**106,851,886**	**92,876,595**

The main risk consists of lending to counterparties backed by lien or other security in property, which accounts for 44.2% of the authorised capital. A thorough distribution of collaterals is provided in Note 12.

2.3 Liquidity risk

The effective management of liquidity risk ensures that NEFCO can meet all its payment obligations as they mature. The cash, cash equivalents and placements with credit institutions (accounting for 58.6% of the authorised capital) consist mostly of euro-denominated deposits with Nordic banks placed for a period of one year or less. The deposits mature at regular intervals, guaranteeing access to funds when necessary.

2.4 Operational risk

Operational risk is the risk of financial loss or loss of reputation through shortcomings or failings relating to internal processes, human errors, data systems and external events. Legal risk is also considered an operational risk. NEFCO's management of operational risk is governed by internal instructions and focuses on proactive measures designed to ensure business continuity as well as the accuracy and appropriateness of internal and external information.

2.5 Internal Audit

The main responsibility of Internal Audit is to evaluate NEFCO's in-house controls, risk management and governance processes. Internal Audit reports on a regular basis to NEFCO's Board of Directors and Control Committee. The annual internal audit activity plan is approved by the Board of Directors.

2.6 Capital management

NEFCO is not governed by any national or supranational regulations. The Corporation maintains an adequate capital base to cover the risks inherent in its lending and investment activities.

3. NET INTEREST INCOME

Interest income (Amounts in EUR 1,000)	**2020**	**2019**
Interest income, placements with credit institutions	-267	-278
Interest income, lending	6,503	5,053
Interest income from financial assets held at amortised cost	6,237	4,774
Interest income from financial assets held at fair value	273	-
Interest income total	6,509	4,774
Interest expense	-832	-796
Net interest income	5,677	3,979

4. NET RESULT OF FINANCIAL OPERATIONS

Financial operations (Amounts in EUR 1,000)	**2020**	**2019**
Investment assets, realised gains and losses	231	102
Other realised gains and losses	30	3
Total realised gains and losses	261	105
Investment assets, unrealised gains and losses	2,692	2,365
Other placements, unrealised gains and losses	-	140
Total unrealised gains and losses	2,692	2,505
Borrowing costs	-125	-137
Costs from other financial assets	-25	-
Total costs from borrowing and other financial assets	-151	-137
Net result of financial operations	2,802	2,472

5. LENDING FEE INCOME

Lending fee income (Amounts in EUR 1,000)	**2020**	**2019**
Commitment fees	320	371
Lending fee income	312	599
Total lending fee income	632	970

6. OTHER INCOME

Other income (Amounts in EUR 1,000)	**2020**	**2019**
Trust fund management fees	2,697	2,957
Service fees	-	12
Total other income	2,697	2,969

As at 31 December 2020 the Corporation administered 39 trust funds (2019: 38) with aggregate pledged contributions amounting to EUR 428 million (2019: EUR 401 million).

The Corporation acts as manager and administrator of the trust funds for which it receives management and cost recovery fees. In 2020 the trust fund management fees amounted to EUR 2,697 thousand (2019: EUR 2,957 thousand) as follows: NorCaP: EUR 430 thousand (2019: EUR 600 thousand), NMF: EUR 893 thousand (2019: EUR 882 thousand), Nopef: EUR 450 thousand (2019: EUR 529 thousand), Beyond the Grid Fund Africa: EUR 153 thousand (2019: EUR 279 thousand), NeCF: EUR 145 thousand (2019: EUR 173 thousand) and other trust funds: EUR 626 thousand (2019: EUR 494 thousand).

NEFCO has invested in NMF and NeCF, see Note 11.

7. COMPENSATIONS AND BENEFITS

Compensation paid to the Board of Directors, Control Committee and Managing Director

The compensation paid to the Board of Directors and the Control Committee is determined by the Nordic Council of Ministers. Members of the Board of Directors and Control Committee are also entitled to reimbursement of their travel cost and accommodation, and per diem in accordance with the Corporation's travel regulations. The compensation paid to the Managing Director of the Corporation as determined annually by the Board of Directors consists of a basic salary and regular taxable benefits.

The Managing Director's pension benefits are based on the terms of the Finnish Public Sector Pensions Act and certain supplements.

The remuneration of the Board of Directors, Control Committee and Managing Director was as follows:

Compensation/taxable income (Amounts in EUR 1,000)	**2020**	**2019**
Chairman of the Board	4	4
Other Directors and Alternates	15	17
Managing Director	399	541*)
Control Committee	2	2

*The figures include the cost for the former Managing Director for the period January-May 2019 and the cost for the current Managing Director for the period June-December 2019.

Pension benefits

NEFCO is responsible for arranging the pension security for its employees. The Finnish public sector pension system (JuEL Pension) forms the basis for the pension benefits. The JuEL Pension is calculated based on the employee's annual taxable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2020 was 16.70% (2019: 17.23%) of the pensionable income. The employee's pension contribution was either 7.15% or 8.65%, depending on the employee's age. NEFCO pays this contribution for its permanent staff, and it is taxed as a benefit for the employee. The pension is accounted for as a defined contribution plan. In addition to the JuEL Pension, the Corporation has taken out a supplementary group pension insurance policy for its entire permanently employed staff. 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 141 thousand (2019: EUR 174 thousand), of which EUR 40 thousand related to supplementary pension premiums. The figures include the cost for the former Managing Director for the period January-May 2019 and the cost for the current Managing Director for the period June-December 2019. The corresponding figure for the Management Committee members was EUR 261 thousand (2019: EUR 256 thousand) of which EUR 55 thousand related to supplementary pension premiums. The Board of Directors and the Control Committee members are not eligible for NIB pension arrangements.

Insurances

NEFCO has taken out several (both statutory and voluntary) insurance policies for its staff: unemployment insurance, group accident insurance, group life insurance, medical insurance and disability insurance. All personal insurance policies are valid for the total duration of employment (if not otherwise stated for the separate insurance alternatives). Longer periods of absence from work may interrupt the insurance coverage temporarily. Some of the insurances are available only to staff with a longer fixed term contract and permanently employed staff. The Board of Directors and Control Committee members are not under the coverage of the above-mentioned insurances.

Health care

NEFCO has also arranged occupational health care for its staff through a private medical centre in Finland. The Bank'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 members are not under the coverage of the health care benefit.

Additional expatriate benefits

Professional staff (including Management Committee members) who move to Finland for the sole purpose of taking up employment with the Corporation are entitled to certain expatriate benefits, such as an expatriate allowance and a spouse/ family allowance. In addition, NEFCO assists the expatriate in finding accommodation, usually by renting a house or a flat in its own name. The staff member reimburses the Corporation for a part of the rent, which is equal to at least the taxable value of the accommodation benefit established annually by the Finnish National Board of Taxes.

Taxation and Host Country Reimbursement

According to an agreement between the Corporation's member states, taxation of staff salaries and taxable benefits, the Managing Director's remuneration and the compensation for Control Committee and Board of Directors 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 Corporation, the amount of tax withheld in advance on the salaries of the Corporation's staff and the final tax on salaries collected shall be reimbursed to the Corporation.

8. ADMINISTRATIVE EXPENSES

Administrative expenses (Amounts in EUR 1,000)	**2020**	**2019**
Staff costs	3,690	3,625
Pension premiums in accordance with the Finnish public sector pensions system	838	839
Other pension premiums	247	247
Office premises expenses	181	157
Other administrative expenses	2,287	2,382
Total administrative expenses*	7,243	7,249
Host country reimbursement under agreement with the Finnish government	-1,141	-1,102
Net administrative expenses	6,102	6,147

*) The Corporation's administrative expenses include the administrative expenses for administered trust funds, such as NorCaP, NMF, Nopef and NeCF.

In 2020, auditors' fees amounted to EUR 42 thousand (2019: EUR 37 thousand).

In 2020, the average number of employees was 30 (2019: 28).

9. RELATED PARTY DISCLOSURES

The Statutes of NEFCO require it to have the same Control Committee as NIB which is responsible for the audit of both NIB and NEFCO. The powers vested in NEFCO's Board of Directors may, to the extent considered appropriate, be delegated to the Managing Director of NEFCO. NEFCO is required to have its principal office located in the principal office of NIB.

NEFCO acquires services from and enters into transactions with NIB. The table below shows the outstanding balance of NEFCO's receivables from and amounts owed to NIB. At 31 December 2020, NEFCO has agreed on undrawn borrowing totalling at EUR 55.0 million (2019: EUR 55.0 million). NEFCO's key employees are also considered related parties. Information regarding key employees is presented in Note 7.

(Amounts in EUR 1,000)	Borrowing fees paid to NIB	Amounts owed by NEFCO to NIB	Amounts owed by NIB to NEFCO	Rents paid to NIB
2020	125	22	-	272
2019	124	1	62	270

10. INVESTMENT ASSETS

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

Holding	**Country/ region of operation**	**% of total capital of the investment company**
BaltCap Infrastructure Fund	Baltics	2.9
BaltCap Private Equity Fund III	Baltics	3.9
Blue Circle SIA	Latvia	19.5
Eskaro Ukraine AB	Ukraine	20.0
FlyCap Mezzanine Fund II	Baltics	4.7
GreenStream Network Ltd	China	23.7
Halychyna-Zahid LLC	Ukraine	5.6
Korkia Oy (convertible bond)	Chile	Na.
Rindibel JCJSC	Belarus	38.6
Taaleri SolarWind II Fund	Eastern Europe	8.5
Valoe Oyj	Lithuania	9.1

The acquisition cost of the investment assets was EUR 10.5 million (2019: EUR 7.5 million) while the fair value was EUR 9.4 million (2019: EUR 3.3 million).

At 31 December 2020, the agreed but not disbursed capital commitments for investment assets totalled EUR 9.8 million (2019: EUR 7.1 million).

11. OTHER PLACEMENTS

The following table provides an overview of other placements measured at fair value as at 31 December:

Other placements (Amounts in EUR 1,000)	**2020**	**2019**
NEFCO Carbon Fund	15	17
NMF	0	0
Total other placements	**15**	**17**

NEFCO's share of NeCF's committed capital is 3.5% (2019: 3.5%). NEFCO acts as the Fund Manager for NeCF.

NEFCO Carbon Fund

NEFCO has invested EUR 5.0 million in the NEFCO Carbon Fund (NeCF) and withdrew EUR 3.5 million in 2019. A total of EUR 0.1 million of the investment is earmarked as Technical Assistance Provision. NEFCO has obtained emission reductions for a total of EUR 1.0 million. The management fee for NEFCO's investments is paid out of interest income or through a reduction in capital. In the valuation of the investment in NeCF, due consideration is also given to the indirect price risk. The investment in NeCF falls in the Level 3 category in the fair value hierarchy. The change in fair value is due to the valuation of the investment in NeCF and the emission reductions received by NEFCO.

Nordic Environmental Development Fund

During 2011–2013, NEFCO invested a total of EUR 5.4 million in the Nordic Environmental Development Fund (NMF). As investments in the NMF are not financially profitable, this amount has been written down in its entirety upon payment. While the investment in NMF does not yield any financial profit, it contributes to NEFCO's investment activities. The investment in NMF falls in the Level 3 category in the fair value hierarchy.

12. LOANS OUTSTANDING

At 31 December 2020, the Corporation had 48 loans outstanding amounting to EUR 99.6 million (before impairments, EUR 106.9 million).

The following tables show net lending after deductions for Expected Credit Losses totalling at EUR 7.2 million (2019: EUR 5.6 million).

In the absence of a relevant market interest rate reflecting the loan terms, it has not been possible to calculate the fair value reliably for disclosure in the Notes. However, NEFCO is of the opinion that fair value is not lower than book value.

The below table shows what net effect the impairments had on the result in each year.

Impairment of loans/reversals in the statement of comprehensive income (Amounts in EUR 1,000)	**2020**	**2019**
Realised credit losses	-	-
Expected Credit Losses, net	-1,624	-2,614
Total impairment of loans/reversals	**-1,624**	**-2,614**

Loans outstanding classified in stages according to Expected Credit Loss method.

Loans outstanding (Amounts in EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Exposure at 31 December 2018	**57,615**	**3,248**	**-**	**60,863**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-5,267	5,267	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-7,010	-1,188	-	-8,198
Disbursements and capitalisations	38,868	1,349	-	40,035
Remeasurements and FX changes	177	-	-	177
Exposure at 31 December 2019	**84,200**	**8,676**	**-**	**92,877**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-7,999	7,999	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-7,294	-1,157	-	-8,451
Disbursements and capitalisations	21,969	665	-	22,634
Remeasurements and FX changes	685	-892	-	-208
Exposure at 31 December 2020	**91,561**	**15,291**	**-**	**106,852**

Total ECL at 31 December 2020 amounted to EUR 7.2 million (2019: EUR 5.6 million) and is disclosed in loans outstanding. ECLs on other assets were considered not material. At 31 December 2020, four new loans were moved to stage 2 amounting to EUR 8.0 million (2019: 2.3 million), totalling ECL provision for Stage 2 loans at EUR 5.5 million (2019: EUR 4.0 million).

Impairments according to Expected Credit Loss stages and individually impaired.

Expected Credit Loss (Amounts in EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
ECL at 31 December 2018	**1,363**	**1,624**	**-**	**2,987**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-124	124	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-51	-5	-	-56
Disbursements and capitalisations	20	36	-	56
Remeasurements and FX changes	435	2,179	-	2,614
ECL at 31 December 2019	**1,643**	**3,957**	**-**	**5,601**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-142	142	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-120	-20	-	-140
Disbursements and capitalisations	33	30	-	63
Remeasurements and FX changes	299	1,402	-	1,701
ECL at 31 December 2019	**1,714**	**5,511**	**-**	**7,225**

Non-performing loans at 31 December 2020 amounted to EUR 0 (2019: EUR 0).

Of the loans, 39 are floating-rate loans. Such loans account for 70.3% of the total loan portfolio. Seven loans accounting for 17.3% of the total loan portfolio have fixed interest rates. In addition, two loans have fixed and floating mechanisms in different tranches, accounting for 12.5% of the total loan portfolio.

Interest rate risk describes how movements in market interest rates affect the value of NEFCO's interest-bearing assets and liabilities, as well as interest income and expenses. The table below shows the interest rate profile for loans outstanding. Loans outstanding are broken down by maturity or interest adjustment date.

Loans outstanding (Amounts in EUR 1,000)	**2020**	**2019**
Up to and including 3 months	36,421	21,003
3–6 months	42,904	40,179
6–12 months	749	1,240
1–5 years	9,500	11,960
over 5 years	17,277	18,494
Total loans outstanding	**106,852**	**92,877**
Expected Credit Loss	-7,225	-5,601
Exposure at 31 December	**99,627**	**87,276**

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

Lending by country at 31 December:

Country (Amounts in EUR 1,000)	**2020**	**2019**
Belarus	4,871	5,386
Denmark*	2,164	2,760
Finland*	8,438	6,000
Georgia	2,088	723
Germany*	6,578	6,578
Iceland*	3,028	1,500
Latvia	1,414	1,469
Norway*	129	100
Russia	2,962	4,328
Sweden*	2,727	3,000
Ukraine	72,451	61,033
Total loans outstanding	**106,852**	**92,877**
Expected Credit Loss	-7,225	-5,601
Exposure at 31 December	**99,627**	**87,276**

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

Lending by currency:

		2020		**2019**
Currency (Amounts in EUR 1,000)	Amount	Share %	Amount	Share %
EUR	106,689	99.9	91,636	98.7
RUB	163	0.1	1,240	1.4
Total loans outstanding	**106,852**	**100.0**	**92,877**	**100.0**
Expected Credit Loss	-7,225		-5,601	
Exposure at 31 December	**99,627**		**87,276**	

Loans outstanding by type of security at 31 December:

		2020		**2019**
Security (Amounts in EUR 1,000)	Amount	Share %	Amount	Share %
Loans guaranteed by member countries	11,557	10.8	8,173	8.8
Loans to or guaranteed by other countries	2,088	2.0	1,737	1.9
Loans to or guaranteed by banks	17,417	16.3	12,795	13.8
Loans backed by security in property	50,133	46.9	46,614	50.2
Loans with negative pledge clause and other covenants	15,902	14.9	11,565	12.5
Loans guaranteed by parent companies and other guarantees	3,034	2.8	4,279	4.6
Loans without formal security	6,701	6.3	7,713	8.3
Total loans outstanding	**106,852**	**100.0**	**92,877**	**100.0**
Expected Credit Loss	-7,225		-5,601	
Exposure at 31 December	**99,627**		**87,276**	

At 31 December 2020, the loans agreed, but not yet disbursed, totalled EUR 68.9 million (2019: EUR 66.6 million). In principle, all borrowers could request disbursement within three months but NEFCO does not disburse loans until the specified conditions precedent for disbursement are met (this period for current portfolio extends up to 3 years). NEFCO has the capacity to make all disbursements.

13. INTANGIBLE AND TANGIBLE ASSETS

Intangible assets comprise of the right-of-use assets relating to lease agreements for the office premises in Helsinki. The amount at the end of 2020 is EUR 1.2 million (2019: EUR 1,5 million). There were no new leases during 2020.

Right of use assets (Amounts in EUR 1,000)	**2020**	**2019**
As of 1 January	1,498	1,817
Depreciation expense	-270	-276
Remeasurement (change in lease payment)	-23	-43
As of 31 December	1,205	1,498

Lease liabilities (Amounts in EUR 1,000)	**2020**	**2019**
As of 1 January	-1,514	-1,817
Interest expense	-7	-8
Rental payments	271	269
Remeasurement (change in lease payment)	23	43
As of 31 December	-1,227	-1,514

There were no tangible assets in 2020 (2019: EUR 0).

14. LIABILITIES

At 31 December 2020, NEFCO had EUR 7.2 million outstanding of liabilities (2019: EUR 8.0 million), all of which had directly been lent on to NEFCO's borrowers. There is no risk of default by NEFCO towards lenders, as NEFCO is obliged to repay only after NEFCO's borrower repays. Borrowing is denominated in euros at either fixed interest or tied to 6-month Euribor.

At 31 December 2020, NEFCO has agreed on undrawn borrowing totalling at EUR 55.0 million (2019: EUR 57.7 million).

15. PAID-IN CAPITAL

NEFCO's paid-in capital reached its full amount of EUR 113.4 million in 2007. The breakdown of the paid-in capital by member country is as follows:

Paid-in capital (Amounts in EUR 1,000)		Share %
Denmark	21,561	19.0
Finland	22,265	19.6
Iceland	1,320	1.2
Norway	24,195	21.3
Sweden	44,070	38.9
Total authorised capital	113,407	100.0

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides an analysis of the fair value of financial instruments at the end of the year according to the fair value hierarchy. Carrying amount is used as an approximation of fair value.

Fair value of financial instruments (Amounts in EUR 1,000)	Carrying amount	**2020** Fair Value	Difference	Carrying amount	**2019** Fair Value	Difference
Financial Assets						
Cash and cash equivalents	42,490	42,490	-	24,369	24,369	-
Placements with credit institutions	23,960	23,960	-	57,892	57,892	-
Cash and cash equivalents and placements with credit institutions, total	**66,450**	**66,450**	**-**	**82,261**	**82,261**	**-**
Investment assets	9,423	9,423	-	3,341	3,341	-
Other placements	15	15	-	17	17	-
Loans outstanding	99,627	99,627	-	87,276	87,276	-
Total	**175,515**	**175,515**	**-**	**172,895**	**172,895**	**-**
Financial Liabilities						
Long-term amounts owed to credit institutions at amortised cost	7,250	7,250	-	7,970	7,970	-
Total	**7,250**	**7,250**	**-**	**7,970**	**7,970**	**-**

The following table provides an analysis of the fair value of financial instruments at the end of the year broken down by the applicable Level in the fair value hierarchy.

Level of fair value of financial instruments (Amounts in EUR 1,000)	Level 1	**2020** Level 2	Level 3	Level 1	**2019** Level 2	Level 3
Financial Assets						
Cash and cash equivalents	42,490	-	-	24,369	-	-
Placements with credit institutions	-	23,960	-	-	57,892	-
Cash and cash equivalents and placements with credit institutions, total	**42,490**	**23,960**	**-**	**24,369**	**57,892**	**-**
Investment assets	1,481	2,388	5,553	-	-	3,341
Other placements	-	-	15	-	-	17
Loans outstanding	-	-	99,627	-	-	87,276
Total	**43,972**	**26,348**	**105,195**	**24,369**	**57,892**	**90,634**
Financial Liabilities						
Long-term amounts owed to credit institutions at amortised cost	-	7,250	-	-	7,970	-
Total	**-**	**7,250**	**-**	**-**	**7,970**	**-**

Level 1 refers to market prices quoted in an active marketplace.
Level 2 refers to observable data other than Level 1 market prices.
Level 3 refers to information based on other than directly observable data.

The table below shows the classification of financial instruments held at amortised cost or at fair value at the end of the year.

Classification of financial instruments (Amounts in EUR 1,000)	**2020** Amortised cost	Fair value through profit and loss	Total	**2019** Amortised cost	Fair value through profit and loss	Total
Financial Assets						
Cash and cash equivalents	42,490	-	42,490	24,369	-	24,369
Placements with credit institutions	23,960	-	23,960	57,892	-	57,892
Cash and cash equivalents and placements with credit institutions, total	**66,450**	**-**	**66,450**	**82,261**	**-**	**82,261**
Investment assets	-	9,423	9,423	-	3,341	3,341
Other placements	-	15	15	-	17	17
Loans outstanding	99,627	-	99,627	87,276	-	87,276
Total	**166,077**	**9,438**	**175,515**	**169,537**	**3,358**	**172,895**
Financial Liabilities						
Long-term amounts owed to credit institutions	7,250	-	7,250	7,970	-	7,970
Total	**7,250**	**-**	**7,250**	**7,970**	**-**	**7,970**

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

Changes in fair values categorised at level 3 (Amounts in EUR 1,000)	Investment assets	Other placements	Level 3, total
31 December 2018	**4,078**	**3,380**	**7,459**
Investments during the year	447	-	447
Divestments during the year	-523	-3,500	-4,023
Change in value *	-661	137	-524
Reassignment from Level 2	-	-	-
31 December 2019	**3,341**	**17**	**3,358**
Investments during the year	-	-	-
Divestments during the year	-506	-3	-509
Change in value *	2,871	-	2,871
Reassignment from Level 2	-153	-	-153
31 December 2020	**5,553**	**15**	**5,568**

*) This line corresponds to the effect on profit and loss

Sensitivity analysis

In the assessment of NEFCO's Level 3 assets, due consideration must be given to the inherent nature of the investments and the form of NEFCO's involvement. The investments – normally made in recently established entities – are assessed at fair value. NEFCO pursues an exit strategy requiring that the invested capital is recovered in its entirety at a reasonable interest. Exit agreements are made in respect of all investments. At a later stage, the companies are evaluated in terms of their financial performance in accordance with the exit agreement when exit is impending.

A sensitivity analysis is difficult to carry out because normally there is no active market for the shares. Potentially highest or lowest value is established by the historical return on the portfolio. The average historical rate of return on completed projects is around 71% and losses have been posted for around 37% of the investments. A

71% increase in the value of the existing portfolio would add EUR 3.9 million to the financial result whereas a loss of 37% would have a negative impact of EUR 2.1 million.

The table below illustrates how the result of the sensitivity analysis of Level 3 investment assets would influence the result for the year.

			2020			2019
Level 3 Investment assets (Amounts in EUR 1,000)	Fair value	Positive impact	Negative impact	Fair value	Positive impact	Negative impact
Investment assets categorised at Level 3	5,568	3,944	-2,068	3,341	2,367	-1,241

17. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The following table provides an analysis of the maturity of financial assets and liabilities at the end of the year.

2020 (Amounts in EUR 1,000)	Carrying amount	Up to and incl. 3 months	Over 3 months and up to and incl. 6 months	Over 6 months and up to and incl. 1 year	Over 1 year and up to and incl. 5 years	Over 5 years	Undefined
Cash and cash equivalents	42,490	42,490	-	-	-	-	-
Placements with credit institutions	23,960	11,960	9,000	3,000	-	-	-
Investment assets	9,423	4,481	1,481	-	1,000	2,460	-
Other placements	15	-	-	-	15	-	-
Loans outstanding	99,627	3,039	4,437	7,407	67,095	24,873	-7,225
Assets, total	**175,515**	**61,971**	**14,918**	**10,407**	**68,110**	**27,333**	**-7,225**
Liabilities, total	**7,250**	**834**	**-**	**446**	**3,771**	**2,199**	**-**
Net during the period	**168,265**	**61,137**	**14,918**	**9,962**	**64,339**	**25,134**	**-7,225**
Loans agreed but not yet disbursed	68,939	-	-	-	-	-	68,939
Investment assets agreed but not yet disbursed	9,803	-	-	-	-	-	9,803

2019 (Amounts in EUR 1,000)	Carrying amount	Up to and incl. 3 months	Over 3 months and up to and incl. 6 months	Over 6 months and up to and incl. 1 year	Over 1 year and up to and incl. 5 years	Over 5 years	Undefined
Cash and cash equivalents	24,369	24,369	-	-	-	-	-
Placements with credit institutions	57,892	15,892	14,000	28,000	-	-	-
Investment assets	3,341	1,445	671	-	-	1,225	-
Other placements	17	-	-	-	17	-	-
Loans outstanding	92,877	1,603	3,172	5,628	55,781	26,692	-5,601
Assets, total	**178,496**	**43,309**	**17,843**	**33,628**	**55,799**	**27,917**	**-5,601**
Liabilities, total	**7,970**	**543**	**-**	**475**	**4,195**	**2,757**	**-**
Net during the period	**170,526**	**42,766**	**17,843**	**33,153**	**51,604**	**25,160**	**-5,601**
Loans agreed but not yet disbursed	66,559	-	-	-	-	-	66,559
Investment assets agreed but not yet disbursed	7,099	-	-	-	-	-	7,099

At 31 December 2020, EUR 2.0 million (2019: EUR 1.9 million) was pledged as collateral for the staff loans and is shown above as placements with credit institutions.

18. EXCHANGE RATES

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

		EUR rate 31.12.20	EUR rate 31.12.19
DKK	Danish krone	7.44088	7.47168
GBP	British pound	0.89809	0.85118
NOK	Norwegian krone	10.47062	9.86548
RUB	Russian rouble	91.4603	69.9658
SEK	Swedish krona	10.02819	10.4486
UAH	Ukrainian hryvnia	34.73455	26.60265
USD	US dollar	1.22706	1.12319

19. POST BALANCE SHEET EVENTS

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

08
Auditor´s report

TO THE CONTROL COMMITTEE OF THE NORDIC ENVIRONMENT FINANCE CORPORATION

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nordic Environment Finance Corporation (the Corporation NEFCO) which comprise the statement of financial position as at 31 December 2020, 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 Environment Finance Corporation's financial position as at 31 December 2020 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 Financial Statements section of our report.

We are independent of the Corporation in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information than the annual accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and the Annual Environmental Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors and the Annual Environmental Report.

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 and in the Annual Environmental Report 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 International Financial Reporting Standards (IFRSs), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Corporation's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibility for the Audit of 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 ISA's 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 ISA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

► Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

► Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

► Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

► Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtain whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

► Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER REQUIREMENTS

Opinion

In addition to our audit of the financial statements, we have also audited the administration of the Board of Directors and the Managing Director of the Nordic Environment Finance Corporationfor the year 2020 in accordance with the Terms of the Engagement. In our opinion the administration of the Board of Directors and the President, in all material aspects, complied with the Statutes of the Corporation.

Basis for opinion

We conducted the audit in accordance with generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Corporation in accordance with professional ethics for accountants and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

All the powers of the Corporation shall be vested in the Board, which may, to the extent considered appropriate to the Managing Director and/or to the Nordic Investment Bank based on Section 7 of the Statutes.

The Managing Director is responsible for the conduct of the operations of the Corporation and shall follow the guidelines and instructions issued by the Board of Directors.

Auditor's responsibility

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 Corporation, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect has acted in contravention of the Statutes.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect actions or omissions that can give rise to liability to the Corporation.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Corporation's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

Helsinki, 11 February 2021

Terhi Mäkinen
Authorized Public Accountant

Mona Alfredsson
Authorized Public Accountant

09
Statement by the Control Committee

STATEMENT BY THE CONTROL COMMITTEE OF THE NORDIC ENVIRONMENT FINANCE CORPORATION ON THE AUDIT OF THE ADMINISTRATION AND ACCOUNTS OF THE CORPORATION

To the Nordic Council of Ministers

In accordance with section 9 of the Statutes of the Nordic Environment Finance Corporation, we have been appointed to ensure that the operations of the Corporation are conducted in accordance with the Statutes and to bear responsibility for the audit of the Corporation. Having completed our assignment for the year 2020, we hereby submit the following report.

The Control Committee met during the financial year as well as after the Corporation's financial statements had been prepared, whereupon the necessary control and examination measures were performed. The Corporation's Annual Report was examined at a meeting in Helsinki on 11 February 2021, at which time we also received the Auditors' Report submitted on 11 February 2021 by the authorised public accountants appointed by the Control Committee.

Following the audit performed, we note that:

● the Corporation's operations during the financial year have been conducted in accordance with the Statutes, and that

● the financial statements as at 31 December 2020 provide a true and fair view of the financial position as at 31 December 2020, as well as on the result of the operations and cash flows during year 2020. In accordance with the statement of comprehensive income the profit for 2020 amounts to EUR 3 568 093.

We recommend to the Nordic Council of Ministers that:

● the result for year 2020 will be treated as proposed by the Board of Directors,

● statement of comprehensive income and 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 Corporation's operations during the accounting period examined by us.

Helsinki 11 February 2021

Jan-Erik Enestam, Chairman
Johan Andersson
Vilhjálmur Árnason
Wille Rydman
Sjúrður Skaale
Michael Tetzschner

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