NEFCO

The Nordic Green Bank

Financial Report 2021

March 2022

Table of Contents

1. Report of the Board of Directors 2021

In March 2021, the Board approved a new five-year strategy for NEFCO. The strategy was successfully announced at the *Ready to Risk for Green* event hosted by NEFCO.

The new strategy signals NEFCO's purpose to accelerate the green transition by financing the scale-up of Nordic green solutions globally.

NEFCO will work broadly within the objectives of the EU Taxonomy. It will finance projects with significant green benefits and can take greater financial risks than traditional financial institutions.

The strategy sets ambitious targets to significantly increase green financing for Nordic small and medium-sized companies, maintain NEFCO's position in Eastern Europe as a key instrument for the Nordic governments and actively seek opportunities in fund management assignments for new green business solutions in other parts of the world that are of significant interest to the Nordic governments.

During 2021, NEFCO started the work of implementing the new strategy and improving its internal capacity, including the recruitment of additional human resources and the improvement of internal procedures and systems. Management has set ambitious targets to develop its internal culture and values to make NEFCO an attractive place to work and a diverse, inclusive and dynamic community united by a commitment to the green transition.

In 2021, approval was given to 78 new projects and additional financing for five previously approved projects throughout the operations for a total value of EUR 69 million. Within the Investment Fund, 16 new investments totalling EUR 32 million were approved under the Investment Fund, NEFCO's paid-in capital. At the end of the year, the Investment Fund had a total of 80 active projects with EUR 121 million in commitments in outstanding loans and investments excluding value adjustments, EUR 83 million in contracted but undisbursed funding commitments and EUR 30 million in allocated funding for eight approved projects still under negotiation. Disbursements are subject to certain delays, and thus a larger proportion of NEFCO's funds is allocated than shown in the Statement of Financial Position.

From an environmental perspective, climate-related investments and projects continue to dominate. As part of the new strategy, there was a noticeable increase in private sector activities, with greater emphasis on the internationalisation of Nordic environmental and climate solutions. Energy-efficiency measures in the public sector remain a notable category. Private sector projects include those in the areas of resource efficiency and circular economy, as well as environmental measures in a number of other sectors. Renewable energy remains the largest single area in the private sector portfolio.

Through its trust fund activities, NEFCO administers a number of trust fund assignments for its owners and other private and public donors and investors. NEFCO is also authorised as an Accredited Entity to the Green Climate Fund and as an Implementing Agency for a number of projects by major international funds, such as the Eastern Europe Energy Efficiency and Environmental Partnership (E5P) and the Northern Dimension Environmental Partnership (NDEP). The trust fund management activities are detailed below.

During the year, NEFCO signed three new trust fund assignment contracts. The new contracts relate to the German development bank KfW's contribution to the Swedish-initiated *Beyond the Grid Fund for Africa* (BGFA) programme, which aims to stimulate rural electrification in Africa; contributions from Denmark, the *Danida Sustainable Infrastructure Finance* (DSIF), to municipal sector projects in Ukraine; and Sida's (Sweden) contribution to the *Modern Cooking Facility for Africa*, which aims to support the development and upscaling of clean and sustainable cooking solutions in Africa.

The organisation's financial and environmental performance are in line with expectations. Interest on lending increased by 9% compared to 2020.

EVALUATION OF THE ENVIRONMENTAL IMPACTS OF THE PROJECTS

In line with the new strategy, NEFCO uses the framework of the EU Taxonomy for Sustainable Investments as its primary classification system for identifying investment projects. A preliminary assessment of the eligibility and/or alignment of active projects with the taxonomy has been carried out. The mapping includes projects that have received loan and/or equity financing from the Investment Fund and the Nordic Environmental Development Fund. In this preliminary mapping, we have not yet assessed the projects against the principle of *Do No Significant Harm (DNSH)*.

In accordance with the procedure that has been gradually developed by NEFCO, every project is evaluated in terms of its environmental impact. The expected environmental impact is analysed before a funding decision is taken, and NEFCO monitors the actual impact of a project once it is completed. On average, projects administered under both the Investment Fund and the Environmental Development Fund (funds are detailed below) show on average positive environmental impacts that exceed expected outcomes. More details of the environmental impact are presented in the annex Annual Environmental & Sustainability Report 2021.

The *Annual Environmental & Sustainability Report 2021* also presents how NEFCO's financing activities have contributed to the objectives of the EU Taxonomy, environmental drivers and the UN Sustainable Development Goals.

THE INVESTMENT FUND

The Investment Fund is NEFCO's capital of EUR 113.4 million paid in by its owners and accumulated profits from investments; in total, NEFCO's capital amounts to EUR 172.6 million. NEFCO can make environment-related investments on market terms through loans or equity. The investments were initially limited to Eastern Europe, but in 2019 its financial operations were expanded globally. Only the Investment Fund is reported on in the annual accounts, while other fund management assignments are reported separately. The administrative fees paid to NEFCO for fund management assignments are reported in the Statement of Comprehensive Income under Trust Funds Income.

During the year, approval was given for 16 new investments as well as additional funding for two previously approved projects. The Board also approved the extension and renewal of the *SME Green Recovery Frame* programme, a loan programme for small and medium-sized Nordic companies to support international growth and green recovery investments in response to the economic impacts of the coronavirus pandemic. Of the new investments, three are for municipal infrastructure in Eastern Europe, in cooperation with and with contributions from Denmark, Sweden and the Northern Dimension Environmental Partnership (NDEP); the other 13 projects are in the private sector in cooperation with companies from all of the Nordic countries.

During the year, 16 projects were contracted: 12 in the private sector and three in the municipal sector in Ukraine. Additionally, loan investments in two projects were converted into equity investments during the year. NEFCO also signed a loan agreement for a municipal project in Ukraine before the end of the year, but this has yet to be signed by the second party.

Five projects administered under the Investment Fund were completed in 2021. One project was completed through the planned sale of share capital, one through the planned repayment of loans and one in relation to the planned winding up of the *NEFCO Carbon Fund*. In addition, two projects were ended through the early repayment of loans, one of which also included the repayment of an equity investment. As of 2021, NEFCO has completed 102 projects since starting operations in 1990, with its involvement totalling EUR 165 million. During the year, six previously approved projects were cancelled that were no longer deemed to have the potential to be realised as planned.

There are 80 approved active projects still remaining, of which 70 are contracted. Four of these investments are in so-called funds classified as equity investments; in five projects NEFCO provides share capital and both loan and share capital in a further two. NEFCO is involved in the remaining 59 active projects as a loan provider. The financial performance of the contracted projects is mainly satisfactory.

Despite the deteriorating financial situations of projects due to the COVID-19 pandemic, NEFCO and its project companies have been able to manage difficulties such that no defaults have occurred.

New investments are spread across a wide range of sectors, but the emphasis continues to be on measures to promote renewable energy and energy efficiency. The year also saw the approval of two projects for the modernisation of municipal water and wastewater systems, including energy-efficiency measures, and a project in the field of municipal district heating based on biofuels. In addition, a number of projects were approved that included investments in innovative and sustainable solutions and clean technologies, including recycling and resource recovery.

FUND MANAGEMENT ASSIGNMENTS

According to its statutes, NEFCO may manage external funds in accordance with specific guidelines. Fund activities shall be in line with NEFCO's overall objective of promoting environmental projects. The fund management tasks are divided 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), whose activities are financed by annual budget funds from the Nordic Council of Ministers. Nopef aims to promote the green transition towards a climate-neutral and sustainable society by financing feasibility studies for the internationalisation of Nordic environmental and climate solutions.

In 2021, an additional EUR 1.1 million was allocated to the fund. All of Nopef's operational goals for the year were achieved, with funding granted to 37 new projects worth EUR 1.3 million. All approved projects support the Nordic Council of Ministers' action plans for the promotion of the Nordic Vision 2030 and coincide with the vision goals for sustainable buildings, green transport, circular economy and sustainable maritime economy, among others.

During the year, an evaluation of Nopef's activities was carried out on behalf of the Nordic Council of Ministers. The evaluation showed that the fund's activities create clear added value for its target group, i.e. Nordic small and medium-sized companies, and that Nopef complements other national programmes. The analysis also recommends that Nopef's activities be continued with greater focus on the benefits of projects to the Nordics. The collaboration between NEFCO's Investment Fund and Nopef continued during the year, mainly through the transfer of projects to NEFCO's Green Recovery Financing Programme.

2) *Green transistion - Eastern Europe*

NORDIC ENVIRONMENTAL DEVELOPMENT FUND

Since 1996, NEFCO has managed the Nordic Environmental Development Fund (NMF) on behalf of its member countries. The purpose of NMF is to achieve positive environmental impacts by strengthening the profitability of urgent environmental projects, enabling greater risk-taking in financing activities, accelerating project implementations or attracting additional environmental investment. The support will complement and contribute to the catalytic effect of the NEFCO Investment Fund, amongst others. These investments are smaller than those from the Investment Fund but do not need to be made on market terms. The flexibility of NMF also allows for participation in the identification and management of environmental toxins as well as for the areas of the Baltic Sea and Arctic and Barents regions that are suffering serious environmental impacts.

NMF is administered by NEFCO, and the NEFCO Board decides on allocations under NMF. The Nordic Investment Bank (NIB) participates in project evaluations. The revolving loan programmes established with funds from NMF are managed under a separate fund, NMF Credits. Separate annual accounts are produced for NMF and NMF Credits.

NMF is currently financed by annual grants from the Nordic Council of Ministers determined on an individual yearly basis. At the end of 2021, the total allocation for NMF amounted to EUR 50.3 million, of which EUR 39.2 million was allocated to NMF Credits.

A total of 20 new projects and one additional investment in a previously approved project for a total of EUR 13.3 million were approved under NMF and NMF Credits in 2021. Of these 20 projects, 14 come under the loan programme for energy-efficiency projects and five project investments were granted under the new loan programme for Ukrainian municipalities - Ukraine Municipal Lending Facility - with the aim of implementing energy-saving measures for street lighting and in social projects such as schools, day-care centres and hospitals. The programme is the halfway stage in regular commercial financing for Ukrainian municipalities.

BARENTS HOT SPOTS FACILITY

NEFCO has managed the Barents Hot Spots Facility (BHSF) since 2004. The main aim of the fund is to promote relevant actions and investments for the environmental 'hot spots' identified by the Barents Council in Northwest Russia. BHSF funds are mainly allocated to expert and feasibility studies and similar supporting measures. BHSF is funded by the Nordic countries and the Nordic Environmental Development Fund (NMF). In 2021, the fund was expanded by a contribution of NOK 1 million from Norway. A total of EUR 8.1 million has been allocated to the fund over the years.

In 2021, NEFCO has been working closely with the Finnish chairmanship of the Barents Council Working Group on Environment and its subgroups, especially the SHE (the Hot Spots subgroup). BHSF is the main source of funding for the SHE work programme and its various support activities. During the year, BHSF funded, among other things, a series of seminars/webinars related to the introduction of BAT (best available techniques) and the new procedure for granting environmental permits in Russia. NEFCO works closely with the thematic expert groups in different areas that increasingly coordinate these and many other BHSF-funded activities. In 2021, a total of EUR 1.5 million in additional funding was approved for two previously agreed projects. In total, 75 projects have received funding totalling EUR 7.8 million; of these, 58 projects have been completed.

NEFCO's activities in the Barents are closely linked to the Arctic priorities, and BHSF supports project preparation activities for possible funding from the Northern Dimension Environmental Partnership (NDEP).

Together with the Nordic Council of Ministers, BHSF also provides funding under the PECC (Programme for Environment and Climate Co-operation) cooperation programme, which is managed by NEFCO. Due to the coronavirus crisis, the programme has been delayed.

ARCTIC COUNCIL PROJECT SUPPORT INSTRUMENT

NEFCO has administered the Arctic Council Project Support Instrument (PSI) since 2014. The PSI is intended for project development, preparation and demonstration projects prioritised by the Arctic Council Working and Expert Groups. Most project initiatives to date have come from the Arctic Contaminants Action Program (ACAP) Working Group, but the Conservation of Arctic Flora and Fauna (CAFF) Working Group has also received PSI funding, and project proposals are currently being prepared by other working groups. The contributors are Finland, Iceland, Norway, Russia, the Sami Parliament, Sweden and the USA. In 2021, the fund was expanded through contributions from Finland, Norway and Sweden totalling EUR 1.3 million. A total of EUR 15.5 million has been allocated to the fund over the years.

In 2021, four projects were approved for a total value of EUR 1.4 million. In total, 25 projects have received funding with a total value of EUR 12.7 million; of these, 13 projects have been completed.

During the year, the Arctic Council decided to extend the fund's pilot phase to the end of 2023, while a working group within SAO was tasked with discussing ways to improve project funding through the Arctic cooperation.

OTHER MANAGEMENT ASSIGNMENTS

In addition to the funds and management assignments mentioned specifically, NEFCO manages the Finland Ukraine Trust Fund for energy efficiency, renewable energy and alternative energy sources in Ukraine; the Sweden Ukraine District Heating Fund for demonstration projects to show the development of modern and energy-efficient district heating with an emphasis on renewable fuels in Ukraine; the Swedish DemoUkrainaDH 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 improvements in Ukraine; two funds under the EU's Neighbourhood Investment Platform for upgrading the infrastructure of the Ukrainian water and wastewater treatment system and implementing energy-efficiency measures in small and merged municipalities in Ukraine; and the Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU), a pan-Nordic fund to finance the renovation and construction of municipal buildings in vulnerable areas of Ukraine. NEFCO also manages the fund that supports the implementation of the Baltic Sea Action Plan (BSAP); the Danish fund to support energy-efficiency improvements and the development of sustainable energy in Georgia; four separate funds on behalf of Sida (Sweden); the fund for the identification, preparation, implementation and monitoring of environmental projects in Ukraine; the fund for the identification, preparation, implementation and monitoring of environmental projects in Northwest Russia; the fund for financing environmental projects in Russia; and the fund for the identification, preparation, implementation and monitoring of projects expected to result in a better environment and reduced climate impact for the countries in the eastern partnership. In addition, NEFCO manages Norwegian funds for water management in Kenozero National Park in Russia and for co-financing with the Barents Hot Spots Facility for the identification, development and monitoring of projects. Swedish funds are earmarked for projects that reduce short-lived climate forcers (SLCF) emissions and for demonstration projects into the disposal of ozone-depleting substances through the voluntary carbon credit market. In addition, Finland and Sweden have committed funds to support environmental projects in Central and Eastern Europe.

NEFCO also has ongoing funding assignments from NDEP, for one project, and E5P, for six separate projects and initiatives.

3) *Green transition - Special Funds - Management assignments for the initiatives and opportunities of the Nordic governments*

BEYOND THE GRID FUND FOR AFRICA

The *Beyond the Grid Fund for Africa* (BGFA) was established in 2019 based on a Swedish results-based financing initiative to encourage private energy companies to supply clean, high-quality and affordable energy through stand-alone solutions to people living in rural areas and not connected to the national electricity network. The fund also aims to mobilise significant financing for new private investments in renewable energy in the challenging markets of sub-Saharan Africa.

In 2021, the fund was increased with a contribution of EUR 7.5 million from Germany and an additional DKK 80 million (EUR 10.8 million) from Denmark, bringing its total capital to EUR 107.6 million. Power Africa, through USAID, is participating in the BGFA programme with an in-kind contribution worth approximately EUR 4 million.

In 2021, NEFCO's Investment Committee approved twelve projects worth EUR 22.4 million from the first round of applications organised in autumn 2020. The approved projects relate to the financing of solar home systems and micro-/mini-grids in Burkina Faso, Liberia and Zambia. Further calls for proposals were opened for Mozambique (BGFA2) and Uganda (BGFA3) during the year.

During the COP26 climate conference in November 2021, Sweden announced that it intends to invest an additional SEK 200 million in the fund for a new programme in the Democratic Republic of Congo.

MODERN COOKING FACILITY FOR AFRICA

To complement BGFA, NEFCO and Sweden established a new fund in November 2021 to support the development and upscaling of clean and sustainable cooking solutions in Africa. Sweden supports the fund with SEK 275 million (EUR 27.8 million). The Modern Cooking Facility for Africa (MCFA) fund will stimulate access to clean and affordable energy solutions and develop new markets for the clean cooking sector in the Democratic Republic of Congo, Kenya, Mozambique, Tanzania and Zambia through results-based financing for private sector actors. The goal of MCFA is to develop the fund into a multi-donor programme. The new MCFA programme plans to launch its first call for proposals in 2022.

NEFCO'S CLIMATE FUND ACTIVITIES

NEFCO's climate fund activities began in 2003, and over the years it has administered three separate climate funds for both private and public donors with a total value of about EUR 300 million: the Baltic Sea Region Testing Ground Facility (TGF), the NEFCO Carbon Fund (NeCF) and the NEFCO Norwegian Carbon Procurement Facility (NorCaP). Through these climate funds, NEFCO has built up a significant network and gained practical experience and expertise in climate financing, mainly in developing countries, including the least developed countries (LDCs).

For both the NEFCO Carbon Fund (NeCF) and NEFCO Norwegian Carbon Procurement Facility (NorCaP), 2021 was the final year of operations. By the end of the year, NEFCO's three climate funds had delivered a total of 31.6 million certified emission reductions (CERs), which have been distributed to investors.

Under NEFCO's management and based on the Nordic climate cooperation, a new Nordic initiative, the Nordic Initiative for Cooperative Approaches (NICA), was established in 2018 to work on issues related to the Paris Agreement and in particular Article 6. The initiative aims to provide concrete support to the development of the regulatory framework for international cooperative approaches and the promotion of pilot projects for the implementation of Article 6. In June 2021, NEFCO took over the chairmanship of NICA. The COP 26 conference, held six years after the negotiation of the Paris Agreement, resulted in an agreement on a global emissions market mechanism that essentially finalised the so-called Paris Rulebook. During the year, NICA has continued its work towards a pilot transaction under the Paris Agreement by developing a concept for programme-based commitments in the energy and transport sectors, and during COP26 in Glasgow, NICA participated in several events.

NEFCO has been an accredited implementing entity of the Green Climate Fund (GCF) since 2018. GCF is the world's largest climate fund, and the accreditation means that NEFCO is entitled to apply for funding for projects that meet its criteria. In 2021, NEFCO continued the implementation of the USD 9.9 million mini-grids project in Haiti. The project received funding approval from GCF in March 2020. In addition, preparations began for a new renewable energy programme in Moldova.

At the end of the year, the total contracted amount for trust fund assignments was EUR 361.4 million. All external fund assignments administered by NEFCO are accounted for separately.

STAFF

At the end of 2021, there were 46 people working directly for NEFCO, of whom five were employed by the Representative Office in Kyiv, Ukraine. In addition, NEFCO has ten full-time advisors connected to its operations and several additional consultants engaged in individual projects.

RESULTS

The annual accounts show a surplus of EUR 2,949,455.75. In accordance with established practice, the Board proposes that the surplus be returned to operations as retained earnings.

Helsinki, 16 February 2022

Ismo Tiainen
Chair

Agnethe Dahl
Vice Chair

Erik Kiesow

Danfríður Skarphéðinsdóttir

Carsten Møberg Larsen

Trond Moe
Director

2. Statement of comprehensive income 1 January - 31 December

(Amounts in EUR)

Income	Note	2021	2020
Interest income from financial assets held at amortised cost		6,762,873	6,236,609
Interest income from financial assets held at fair value		144,438	272,692
Total interest income		6,907,311	6,509,301
Interest expense		-861,783	-832,035
Net interest income*	(3)	**6,045,528**	**5,677,266**
Net result of financial operations	(4)	1,091,223	2,802,481
Lending fee income	(5)	837,837	631,994
Trust fund income	(6)	3,826,496	2,697,297
Total income		**11,801,085**	**11,809,038**
Operating expenses			
Administrative expenses	(7), (8), (9)	6,996,962	6,101,843
Depreciation and write-down in value of tangible and intangible assets	(13)	274,080	270,127
Foreign exchange gains and losses		2,874	244,520
Impairment of loans / reversals	(12)	1,577,714	1,624,456
Total operating expenses		**8,851,629**	**8,240,946**
Result for the year		**2,949,456**	**3,568,093**
Total comprehensive income		**2,949,456**	**3,568,093**

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

3. Statement of financial position

(Amounts in EUR)	Note	31/12/2021	31/12/2020
ASSETS			
Cash and cash equivalents	(16), (17)	65,700,902	42,490,155
Placements with credit institutions	(16), (17)	1,989,816	23,960,217
Investment assets	(10)	15,320,136	9,422,605
Other placements	(11)	-	14,923
Loans outstanding	(12)	95,155,672	99,626,856
Other receivables		286,160	633,820
Accrued interest and fees receivable		4,923,408	3,638,112
Intangible assets	(13)	926,729	1,205,210
Tangible assets	(13)	35,637	-
Total assets		**184,338,459**	**180,991,899**
LIABILITIES AND EQUITY			
Liabilities			
Long-term debt	(14)	7,342,946	7,249,619
Other liabilities		2,303,527	2,661,703
Accrued interest payable		2,134,549	1,472,595
Total liabilities		11,781,022	11,383,917
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		27,144,244	23,576,152
Result for the year		2,949,456	3,568,093
Total equity		172,557,437	169,607,981
Total liabilities and equity		**184,338,459**	**180,991,899**

4. 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 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**
Equity at 1 January 2021	**113,406,560**	**24,557,177**	**4,500,000**	**23,576,152**	**3,568,093**	**169,607,981**
Appropriation to retained earnings				3,568,093	-3,568,093	-
Total comprehensive income					2,949,456	2,949,456
Equity at 31 December 2021	**113,406,560**	**24,557,177**	**4,500,000**	**27,144,244**	**2,949,456**	**172,557,437**

5. Cash flow statement 1 January - 31 December

(Amounts in EUR 1,000)	**2021**	**2020**
Cash flows from operating activities		
Result for the year	2,949	3,568
Adjustment for non-cash items		
Depreciation and write-down in value of tangible and intangible assets	274	270
Value adjustments, investment assets	374	-3,075
Value adjustments, other placements	-125	-
Capital adjustments, other placements	-	3
Impairments, lending	1,429	1,624
Capitalisations, lending	-295	-693
Adjustments, lending	-1,025	188
Write off, lending	140	-
Exchange rate adjustments	-11	224
Change in accrued interests, assets	-1,285	-1,446
Change in accrued interests, liabilities	662	595
Other adjustments to the year's result	5	7
Lending		
Disbursements	-19,445	-22,941
Repayments	14,693	8,225
Prepayments	8,985	1,022
Change in investment assets		
Investments	-9,074	-3,596
Divestments	2,802	590
Change in other liabilities	-395	211
Cash flows from operating activities	**659**	**-15,225**
Cash flows from investing activities		
Change in placements with credit institutions		
Acquisitions	-30	-22,068
Disposals	22,000	56,000
Change in other placements		
Divestments	140	-
Change in other receivables	348	135
Net cash flows from investing activities	**22,458**	**34,067**
Cash flows from financing activities		
Change in long-term debt		
Drawdowns	1,000	-
Repayments	-907	-721
Net cash flows from financing activities	**93**	**-721**
Change in cash and cash equivalents	**23,211**	**18,121**
Opening balance for cash and cash equivalents	**42,490**	**24,369**
Closing balance for cash and cash equivalents	**65,701**	**42,490**
Additional information to the statement of cash flows		
Interest income received	5,622	5,064
Interest expense paid	-200	-237

6. 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. In accordance with the Agreement and Statutes, NEFCO's purpose is to promote investments of Nordic environmental interest with a focus on Eastern Europe.

In its strategy for 2021-2025 NEFCO has defined as its primary purpose to accelerate the green transition by:

- financing environmentally sustainable small and medium-sized projects using Nordic solutions and technologies that have the potential to be scaled up on global markets and have a substantial positive environmental impact, and support globally set common targets and contributions, and
- continuing its original regional mandate for Eastern Europe, with particular focus on the completion of existing projects, and refocusing its efforts on small-scale projects in neighbouring regions in close cooperation with the Nordic governments.

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 2021

NEFCO has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. Other amendments and interpretations apply for the first time in 2021, 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 2022

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 judgements that may have an effect on the reported result, financial position and other disclosures. This impacts Expected Credit Loss and disclosed fair values of financial instruments (Notes 10-12, 16). 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. These are highly liquid and held for the purpose of meeting short-term cash commitments.

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 liquidity, which is primarily in euros, with credit institutions, preferably large Nordic banks. Carrying amount is deemed appropriate for fair value.

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 2021 (Note 10).

1.13 Other placements

NEFCO's other placements include placement in the Nordic Environmental Development Fund. NEFCO's other placements are carried at fair value, because the investment return does not pass the solely payment of principal and interest (SPPI) test. 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 2021 (Notes 11 and 16).

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 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 of credit impairment 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. As no actual losses have occurred by end of 2021, this provision was reversed in 2021. See 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. NEFCO defines significant increase in credit risk as a change of credit rating of the country where the project is located. Loans where the administration has identified increase in project-based credit risk are placed in this stage. ECL is calculated on a lifetime basis and interest revenue is calculated on a gross basis.

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

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 financial instruments and also includes interest expenses on borrowing (Note 3). Net interest income is calculated based on the contractual terms and regarding financial instruments carried at amortised cost the effective interest rate (EIR) method is used.

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 Trust fund income

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

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 or government owned entities. 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.

1.25 Administrative expenses

NEFCO purchases administrative services from a related party, the Nordic Investment Bank (NIB). The cost of these services is shown in Note 9.

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. The Finnish Ministry of Finance determines the basis for the contributions and establishes the actual percentage of the contributions in co-operation with the local government pension institution KEVA. 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 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 regulations for reporting and monitoring the risks associated with its operations, including regulations for possible future borrowing based on lending portfolio risk level. In accordance with the said regulations, 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. The geographical mandate is global but keeping Eastern Europe in focus. The authorised capital is used to finance NEFCO's investments. In addition, NEFCO has a reserve for investment/credit losses comprising approximately 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 99.8% 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 2021, the guarantee facility has been used to a total of EUR 0.0 million to cover the foreign exchange losses following the rouble's fall in value in 2014. Following a gain in the value in 2016, 2019 and 2021, 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, 2019 and 2021. 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 67.7 million (2020: EUR 66.5 million) is primarily placed in large Nordic banks. A 0.5% fall in the annual interest rate would result in a reduction in earnings of around EUR 0.3 million (2020: EUR 0.3 million) or equal increase in earnings. 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 15.3 million (2020: EUR 9.4 million). The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses. Equity investments account for 13.5% of the authorised capital (see Note 16).

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 95.2 million (2020: EUR 99.6 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.

	2021			2020		
Lending (amounts in 1,000 EUR)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Very high risk	-	-	-	-	-	-
High risk	-	13,353	-	35,222	11,662	-
Medium risk	31,047	5,555	-	12,840	564	-
Low risk	49,744	3,160	-	43,498	3,065	-
Na.	480	470	-	-	-	-
Total lending at amortised cost	**81,271**	**22,538**	**-**	**91,561**	**15,291**	**-**

The main risk consists of lending to counterparties backed by lien or other security in property, which accounts for 37.5% 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 59.7% 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 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)	**2021**	**2020**
Interest income, placements with credit institutions	-315	-267
Interest income, lending	7,078	6,503
Interest income from financial assets held at amortised cost	6,763	6,237
Interest income from financial assets held at fair value	144	273
Interest income total	6,907	6,509
Interest expense	-862	-832
Net interest income	6,046	5,677

4 Net result of financial operations

Financial operations (Amounts in EUR 1,000)	**2021**	**2020**
Investment assets, realised gains and losses	153	231
Other placements, realised gains and losses	-53	-
Other realised gains and losses	15	30
Total realised gains and losses	115	261
Investment assets, unrealised gains and losses	962	2,692
Other placements, unrealised gains and losses	125	-
Total unrealised gains and losses	1,087	2,692
Borrowing costs	-123	-125
Costs from other financial assets	8	-25
Income from other financial assets	4	-
Total costs and income from borrowing and other financial assets	-111	-151
Net result of financial operations	1,091	2,802

5 Lending fee income

Lending fee income (Amounts in EUR 1,000)	**2021**	**2020**
Commitment fees	337	320
Lending fee income	500	312
Total lending fee income	838	632

6 Trust fund income

Trust fund income (Amounts in EUR 1,000)	**2021**	**2020**
Trust fund management fees	3,815	2,697
Service fees	11	-
Total trust fund income	3,826	2,697

As at 31 December 2021 the Corporation administered 37 trust funds (2020: 39) with aggregate pledged contributions amounting to EUR 361 million (2020: EUR 428 million).

The Corporation acts as manager and administrator of the trust funds for which it receives management and cost recovery fees. In 2021 the trust fund management fees amounted to EUR 3,815 thousand (2020: EUR 2,697 thousand) as follows: Beyond the Grid Fund for Africa: EUR 1,132 thousand (2020: EUR 153 thousand), NMF: EUR 862 thousand (2020: EUR 893 thousand), Modern Cooking Facility for Africa: 462 thousand (2020: EUR 0), Nopef: EUR 300 thousand (2020: EUR 450 thousand), NorCaP: EUR 193 thousand (2020: EUR 430 thousand) and other trust funds: EUR 867 thousand (2020: EUR 626 thousand).

NEFCO has invested in NMF, 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 travel and accommodation expenses and a daily allowance 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)	**2021**	**2020**
Chairman of the Board	4	4
Other Directors and Alternates	16	15
Managing Director	460	399
Control Committee	2	2

Distribution by gender as at 31 Dec	**2021**	**2020**
Board of Directors	10	9
Female	5	5
Male	5	4
Control Committee	6	6
Female	-	-
Male	6	6
Management Committee including the Managing Director	7	7
Female	2	3
Male	5	4

NEFCO has issued a guarantee regarding one staff loan up to EUR 200 thousand for one member of the Management Committee. This guarantee covers also interest and any fees regarding this loan. The outstanding amount was EUR 159 thousand at 31.12.2021. There were no other advances, credits granted or other debt arrangements between the Corporation and the members of the Control Committee, the Board, the Managing Director or the Management Committee members, nor other commitments entered into by the Corporation on their behalf by way of guarantee of any kind.

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 2021 was 17.25% (2020: 16.70%) 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 148 thousand (2020: EUR 141 thousand), of which EUR 42 thousand (2020: EUR 40 thousand) related to supplementary pension premiums. The corresponding figure for the Management Committee members was EUR 240 thousand (2020: EUR 261 thousand) of which EUR 50 thousand (2020: EUR 55 thousand) related to supplementary pension premiums. The Board of Directors and the Control Committee members are not eligible for NEFCO 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 use of other health care service providers if needed and it covers 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 countries, taxation of staff and Management Committee members salaries and taxable benefits and the Managing Director's remuneration, 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)	**2021**	**2020**
Staff costs	4,234	3,690
Pension premiums in accordance with the Finnish public sector pension system	992	838
Other pension premiums	291	247
Office premises expenses	133	181
Other administrative expenses	2,552	2,287
Total administrative expenses *)	8,202	7,243
Host country reimbursement according to agreement with the Finnish government	-1,205	-1,141
Net administrative expenses	6,997	6,102

*) The Corporation's administrative expenses include the administrative expenses for administered trust funds, such as Beyond the Grid Fund for Africa, NMF, Modern Cooking Facility for Africa and NorCaP.

Employees	**2021**	**2020**
Number of employees as at 31 December	41	34
Average number of employees	35	30
Average age of employees	45	47
Average period (years) of employment	9	9
Distribution by gender as at 31 December		
Female	26	21
Male	15	13

The number of employees in the table above includes all contracted employees. Permanent employees and those with fixed term contracts of four years or more amounted to 38 (2020: 33). Employees on substitute contracts, fixed term contracts less than four years and temporary contracts amounted to 3 (2020: 1).

In 2021, auditors' fees amounted to EUR 42 thousand (2020: EUR 42 thousand), including audit fees related to trust funds under administration by NEFCO.

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 2021, NEFCO has agreed on undrawn borrowing totalling at EUR 54.0 million (2020: 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	Interest paid to NIB	Rents paid to NIB	Service fee paid to NIB	Amounts owed by NEFCO to NIB	Amounts owed by NIB to NEFCO
2021	123	1	274	1,057	1,005	7
2020	125	-	272	950	22	-

10 Investment assets

The Corporation's portfolio comprised the following holdings as at 31 December 2021:

Holding	Country/region of operation	% of total capital of the investment company
BaltCap Infrastructure Fund	Baltics	2.9
BaltCap Private Equity Fund III	Baltics	3.3
Bank Lviv PJSCJSCB	Ukraine	13.9
Blue Circle SIA	Latvia	19.5
Carbon Recycling International	China	3.3
FlyCap Mezzanine Fund II	Baltics	4.7
GreenStream Network Ltd	China	23.7
Halychyna-Zahid LLC	Ukraine	5.6
Rindibel JCJSC	Belarus	38.6
Taaleri SolarWind II Fund	Eastern Europe	6.9
Valoe Oyj	Lithuania	6.3
Korkia Oy (convertible bond)	Chile	Na.

Voting rights correspond to percentage of total capital of the investment company.

The acquisition cost of the investment assets was EUR 16.8 million (2020: EUR 10.5 million) while the fair value was EUR 15.3 million (2020: EUR 9.4 million).

At 31 December 2021, the agreed but not disbursed capital commitments for investment assets totalled EUR 7.0 million (2020: EUR 9.8 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)	**2021**	**2020**
NEFCO Carbon Fund	-	15
NMF	0	0
Total other placements	**0**	**15**

Nefco Carbon Fund was closed in 2021 and unused paid-in capital returned to the investors.

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 and the fair value is assessed therefore to be EUR 0. 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 2021, the Corporation had 56 loans outstanding amounting to EUR 95.2 million (before impairments, EUR 103.8 million; in 2020 totalling at 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 8.7 million (2020: EUR 7.2 million).

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)	**2021**	**2020**
Realised credit losses	-149	-
Expected Credit Losses, net	-1,429	-1,624
Total impairment of loans/reversals	**-1,578**	**-1,624**

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 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**
Transfer to Stage 1	4,200	-4,200	-	-
Transfer to Stage 2	-12,720	12,720	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-19,072	-3,721	-	-22,794
Disbursements and capitalisations	19,524	216	-	19,739
Remeasurements and FX changes	-2,520	2,532	-	12
Exposure at 31 December 2021	**80,971**	**22,838**	**-**	**103,809**

Total ECL at 31 December 2021 amounted to EUR 8.7 million (2020: EUR 7.2 million) and is disclosed in loans outstanding. ECLs on other assets were considered not material. At 31 December 2021, three loans were moved to stage 2 amounting to EUR 12.7 million (2020: 8.0 million) and 10 additional loans were disbursed directly to stage 2 due to collective impairment (EUR 3.5 million). ECL provision for Stage 2 loans totalled at EUR 7.6 million (2019: EUR 5.5 million). ECL provision has also been calculated for loan commitments (2021 and 2020: EUR 0.0 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 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 2020	**1,714**	**5,511**	**-**	**7,225**
Transfer to Stage 1	990	-990	-	-
Transfer to Stage 2	-154	154	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-250	-623	-	-873
Disbursements and capitalisations	53	0	-	53
Remeasurements and FX changes	-1,314	3,562	-	2,249
ECL at 31 December 2021	**1,039**	**7,614**	**-**	**8,654**

Non-performing loans at 31 December 2021 amounted to EUR 0 (2020: EUR 0).

Of the loans, 46 are floating-rate loans. Such loans account for 73.2% of the total loan portfolio. Seven loans accounting for 15.0% of the total loan portfolio have fixed interest rates. In addition, two loans have fixed and floating mechanisms in different tranches, accounting for 11.8% 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 repayments or interest adjustment date.

Loans outstanding (Amounts in EUR 1,000)	**2021**	**2020**
Up to and including 3 months	22,118	19,013
3–6 months	30,451	33,852
6–12 months	15,992	9,828
1–5 years	31,764	38,945
over 5 years	3,484	5,215
Total loans outstanding	**103,809**	**106,852**
Expected Credit Loss	-8,654	-7,225
Exposure at 31 December	**95,156**	**99,627**

The maturities of the loans extended by the Corporation vary from below one to 12 years.

Lending by country of borrower at 31 December:

Country (Amounts in EUR 1,000)	**2021**	**2020**
Belarus	3,856	4,871
Denmark*	5,411	2,164
Finland*	8,702	8,438
Georgia	2,209	2,088
Germany*	6,578	6,578
Iceland*	1,327	3,028
Latvia	850	1,414
Norway*	675	129
Russia	247	2,962
Sweden*	3,212	2,727
Ukraine	70,743	72,451
Total loans outstanding	**103,809**	**106,852**
Expected Credit Loss	-8,654	-7,225
Exposure at 31 December	**95,156**	**99,627**

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

Lending by currency:

		2021		**2020**
Currency (Amounts in EUR 1,000)	Amount	Share %	Amount	Share %
EUR	103,563	99.8	106,689	99.9
RUB	247	0.2	163	0.1
Total loans outstanding	**103,809**	**100.0**	**106,852**	**100.0**
Expected Credit Loss	-8,654		-7,225	
Exposure at 31 December	**95,156**		**99,627**	

Loans outstanding by type of security at 31 December:

		2021		**2020**
Security (Amounts in EUR 1,000)	Amount	Share %	Amount	Share %
Loans guaranteed by member countries	12,379	11.9	11,557	10.8
Loans to or guaranteed by other countries	2,409	2.3	2,088	2.0
Loans to or guaranteed by banks	13,583	13.1	17,417	16.3
Loans backed by security in property	42,489	40.9	50,133	46.9
Loans with negative pledge clause and other covenants	21,128	20.4	15,902	14.9
Loans guaranteed by parent companies and other guarantees	5,133	4.9	3,034	2.8
Loans without formal security	6,689	6.4	6,701	6.3
Total loans outstanding	**103,809**	**100.0**	**106,852**	**100.0**
Expected Credit Loss	-8,654		-7,225	
Exposure at 31 December	**95,156**		**99,627**	

At 31 December 2021, the loans agreed, but not yet disbursed, totalled EUR 76.0 million (2020: EUR 68.9 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 2021 is EUR 1.0 million (2020: EUR 1,2 million). There were no new leases during 2021.

Right of use assets (Amounts in EUR 1,000)	**2021**	**2020**
As at 1 January	1,205	1,498
Depreciation expense	-266	-270
Remeasurement (change in lease payment)	-12	-23
As at 31 December	927	1,205

Lease liabilities (Amounts in EUR 1,000)	**2021**	**2020**
As at 1 January	-1,227	-1,514
Interest expense	-5	-7
Rental payments	272	271
Remeasurement (change in lease payment)	12	23
As at 31 December	-948	-1,227

Tangible assets (Amounts in EUR 1,000)	2021	2020
Acquisition value 1.1	133	133
Acquisition during the year	43	-
Acquisition value 31.12	177	133
Accumulated depreciation 1.1	133	133
Depreciation according to plan for the year	8	-
Accumulated depreciation 31.12	141	133
Net book value	36	0

14 Liabilities

At 31 December 2021, NEFCO had EUR 7.3 million outstanding of liabilities (2020: EUR 7.2 million). Majority of the amount had directly been lent on to NEFCO's borrowers and there is no risk of default by NEFCO towards lenders, as NEFCO is obliged to repay only after NEFCO's borrower repays. EUR 1 million of the amount is not on-lent. Borrowing is denominated in euros at either fixed interest or tied to 6-month Euribor.

At 31 December 2021, NEFCO has agreed on undrawn borrowing totalling at EUR 54.0 million (2020: EUR 55 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 table below shows the classification of financial instruments held at amortised cost or mandatory classification of financial instruments held at fair value at the end of the year.

Classification of financial instruments (Amounts in EUR 1,000)	2021 Amortised cost	Fair value through profit and loss	Total	2020 Amortised cost	Fair value through profit and loss	Total
Financial Assets						
Cash and cash equivalents	65,701	-	65,701	42,490	-	42,490
Placements with credit institutions	1,990	-	1,990	23,960	-	23,960
Investment assets	-	15,320	15,320	-	9,423	9,423
Other placements	-	-	-	-	15	15
Loans outstanding	95,156	-	95,156	99,627	-	99,627
Total	**162,846**	**15,320**	**178,167**	**166,077**	**9,438**	**175,515**
Financial Liabilities						
Long-term debt	7,343	-	7,343	7,250	-	7,250
Total	**7,343**	**-**	**7,343**	**7,250**	**-**	**7,250**

The following table provides an analysis of the fair value of financial instruments according to the fair value hierarchy at the end of the year. In calculating fair value of loans outstanding for 31.12.2021, €STR rate has been used (-0.59%).

Fair value of financial instruments (Amounts in EUR 1,000)	2021 Carrying amount	Fair Value	2020 Carrying amount	Fair Value
Financial Assets				
Cash and cash equivalents	65,701	65,701	42,490	42,490
Placements with credit institutions	1,990	1,990	23,960	23,960
Investment assets	15,320	15,320	9,423	9,423
Other placements	-	-	15	15
Loans outstanding	95,156	95,468	99,627	99,627
Total	**178,167**	**178,478**	**175,515**	**175,515**
Financial Liabilities				
Long-term debt	7,343	7,397	7,250	7,250
Total	**7,343**	**7,397**	**7,250**	**7,250**

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)	2021 Level 1	Level 2	Level 3	2020 Level 1	Level 2	Level 3
Financial Assets						
Cash and cash equivalents	65,701	-	-	42,490	-	-
Placements with credit institutions	-	1,990	-	-	23,960	-
Investment assets	1,690	5,364	8,266	1,481	2,388	5,553
Other placements	-	-	-	-	-	15
Loans outstanding	-	95,468	-	-	-	99,627
Total	**67,391**	**102,822**	**8,266**	**43,972**	**26,348**	**105,195**
Financial Liabilities						
Long-term debt	-	7,397	-	-	7,250	-
Total	**-**	**7,397**	**-**	**-**	**7,250**	**-**

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 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)	Loans outstanding	Investment assets	Other placements	Level 3, total
31 December 2019	**87,279**	**3,341**	**17**	**90,634**
Investments during the year	22,634	-	-	22,634
Divestments during the year	-8,451	-506	-3	-8,960
Change in value *	-1,832	2,871	-	1,039
Reassignment from/to Level 3	-	-153	-	-153
31 December 2020	**99,627**	**5,553**	**15**	**105,195**
Investments during the year	-	5,944	-	5,944
Divestments during the year	-	-3,341	-15	-3,355
Change in value *	-	110	-	110
Reassignment from/to Level 3	-99,627	-	-	-99,627
31 December 2021	**-**	**8,266**	**0**	**8,266**

*) 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 these 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 5.9 million (2020: EUR 3.9 million) to the financial result whereas a loss of 37% would have a negative impact of EUR 3.1 million (2020: EUR 2.1 million).

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.

2021 (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	ECL	Undefined
Cash and cash equivalents	65,701	65,701	-	-	-	-	-	-
Placements with credit institutions	1,990	1,990	-	-	-	-	-	-
Investment assets	15,320	2,830	-	-	1,072	8,442	-	2,976
Other placements	-	-	-	-	-	-	-	-
Loans outstanding	95,156	5,385	4,799	13,974	65,987	13,737	-8,654	-
Assets, total	**178,167**	**75,906**	**4,799**	**13,974**	**67,059**	**22,180**	**-8,654**	**2,976**
Liabilities, total	**7,343**	**1,491**	**-**	**526**	**4,235**	**1,091**	**-**	**-**
Net during the period	**170,824**	**74,415**	**4,799**	**13,448**	**62,823**	**21,089**	**-8,654**	**2,976**
Loans agreed but not yet disbursed	75,956	-	-	-	-	-	"-0"	75,956
Investment assets agreed but not yet disbursed	6,976	-	-	-	-	-	-	6,976
Borrowing agreed but not yet drawn	54,000	-	-	-	-	-	-	54,000

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	ECL	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	-	-	-	-	-	"-0"	68,939
Investment assets agreed but not yet disbursed	9,803	-	-	-	-	-	-	9,803
Borrowing agreed but not yet drawn	55,000	-	-	-	-	-	-	55,000

At 31 December 2021, EUR 2.0 million (2020: EUR 2.0 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 31.12.21	EUR rate 31.12.20
DKK	Danish krone	7.43631	7.44088
GBP	British pound	0.84007	0.89809
NOK	Norwegian krone	9.98652	10.47062
RUB	Russian rouble	85.3551	91.4603
SEK	Swedish krona	10.25463	10.02819
UAH	Ukrainian hryvnia	30.92084	34.73455
USD	US dollar	1.13257	1.22706

19 Post balance sheet events

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

EY
Building a better working world

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 2021, 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 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of the 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 & Sustainability Report 2021, 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 & Sustainability Report 2021.

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 & Sustainability Report 2021 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 the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 obtained,

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 2021 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, 17 February 2022

Ernst & Young Oy Authorized Public Accountant Firm	Ernst & Young AB Authorized Public Accountant Firm
Terhi Mäkinen Authorized Public Accountant	Mona Alfredsson Authorized Public Accountant

8. 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 2021, 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 17 February 2022, at which time we also received the Auditors' Report submitted on 17 February 2022 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 2021 provide a true and fair view of the financial position as at 31 December 2021, as well as on the result of the operations and cash flows during year 2021. In accordance with the statement of comprehensive income the profit for 2021 amounts to EUR 2 949 456.

We recommend to the Nordic Council of Ministers that:

— the result for year 2021 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 17 February 2022

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

NEFCO

The Nordic Green Bank

Fabianinkatu 34, P.O. Box 241, FI-00171
Helsinki, Finland

Tel : +358 10 618 003
www.nefco.int
info@nefco.int

Nefco NefcoNordic nefco_nordic NEFCONordic NefcoNordic

#NordicGreenBank
#ready2risk4green