finnfund

Financial statements 2020

Content

Board of Director's report 2020

Mission and strategy extending to 2025

Finnfund (Finnish Fund for Industrial Cooperation Ltd.) is a development financier and impact investor whose mission is to build a more sustainable world by investing in responsible, profitable businesses in developing countries. Finnfund is a development finance company in which the State of Finland has a majority holding, and its investments also involve Finnish interests.

Finnfund works with private companies operating in developing countries, providing equity risk financing, long-term investment loans, mezzanine financing, as well as specialist expertise related to investments in developing countries. We require every project to be profitable, responsible in terms of the environment and society, and measurable in terms of development impact in the target country.

In line with its strategy, Finnfund's vision is to be a valued partner and impact pioneer in European development financing.

Finnfund focuses on sectors of importance to sustainable development, such as renewable and lower-emission energy generation, sustainable forestry, sustainable agriculture and the financial sector. The company may also finance other sectors.

The company's strategy emphasises the following:

- Achieving the development targets of projects and analysing and communicating their impact.
- Expanding business volumes and allocating resources to responsible, impactful and profitable projects.
- Acquiring additional financing and convincing private investors of the opportunities of joint investment.
- Developing our methods and showing appreciation for the work of our personnel and stakeholders.

All of Finnfund's operations are guided by four principles: impact, responsibility, profitability and professionalism.

Finnfund made extensive progress in achieving the objectives of its strategy in 2020 regardless of the COVID-19 pandemic. To broaden our financing base, we established Finland's first impact fund for professional institutional investors, OP Finnfund Global Impact Fund I, together with OP Group. The fund received commitments to the amount of EUR 135 million from investors, with Finnfund providing a commitment equal to half of the fund's capital. The fund has started operations and has already financed its first Finnfund-prepared project.

The Finnish State increased Finnfund's share capital in two tranches in 2020 by a total of approximately EUR 60 million. As planned for 2020, we withdrew EUR 130 million of the EUR 210 million loan granted by the Finnish State. The remainder of the loan will be withdrawn in 2021. The loan has been earmarked for projects related to combating climate change and improving the position of women and girls through two virtual funds. After 2020, both virtual funds are almost entirely reserved for these purposes based on their investment decisions.

We established Finland's first global emerging markets impact fund, OP Finnfund Global Impact Fund I for institutional investors.

Finnfund's strategy 2018–2025

Vision 2025

Valued partner and frontrunner in impact among European development finance institutions

Breakthroughs

Triple development impact
- Profitable and sustainable growth
- In project selection, emphasis on development impact, risk assessment and Finnish expertise
- Special focus on fragile states

Ensure sustainability
- Recognize and respond to sustainability challenges
- Show impact and responsibility
- Share our work, successes and challenges openly, honestly and proactively

Diversify funding base
- Convince owner of the need for additional funding
- Mobilise private funds to manage
- Successfully combine different financing instruments

Develop business culture
- Strengthen expertise and develop leadership
- Create an inspiring, stimulating and responsive working environment
- Bring processes, tools and working methods to frontrunner level

Strategy

Becoming frontrunner in impact

- Focus on delivering, analysing and communicating development impact of projects
- Double operational volume from 2018 level and be reliable partner in responsible, impactful and profitable investments
- Mobilise additional funding and convince private investors of our capacity to manage funds
- Improve policies and procedures while respecting the work of our colleagues and stakeholders

Principles

Impact, sustainability, profitability and professionalism

Mission

To build a better world by financing responsible companies that operate in developing countries

Funding and investments

The COVID-19 pandemic and especially the resulting travel restrictions hindered project preparations in 2020. Thus, due diligence work, which is essential for project preparation, had to be carried out virtually after the beginning of the year. This also slowed down the process of moving new projects forward.

The project preparation targets for 2020 (EUR 250 million and 28 projects) were achieved in terms of units, but not in volume. A total of 31 new projects totalling EUR 206 million were prepared fully in 2020. The projects were prepared with existing resources, and no new financing managers were recruited in 2020.

As in the preceding year, the majority of Finnfund's new financing decisions were allocated to projects with excellent development impact in terms of reducing poverty, combating climate change and improving the position of women and girls.

The 31 new financing decisions made in 2020 (29 decisions in 2019), with a monetary value of EUR 206 million (EUR 237 million), targeted different income levels shown in the table below.

Of the financing decisions, 14 (17) involved investment loans, accounting for about 58 per cent (53 per cent) of the monetary value of the decisions.

Fifteen (9) of the projects that were approved were equity investments or mezzanine financing. When calculated in euros, they accounted for 32 per cent (28 per cent) of all approved projects. Two new fund investment decisions were made.

Africa was weighted in the new financing decisions according to plan and in line with the objective set by the owner. Approximately 58 per cent of the decisions, 54 per cent in monetary value, were allocated to Africa. Roughly a third of the decisions, in terms of both numbers and monetary value, were allocated to Asia. Only around 10 per cent of decisions were allocated to other continents.

Disbursements for investments totalled EUR 149 million (EUR 125 million).

Of the disbursements during the 2020 financial year, EUR 78 million (EUR 53 million) is considered official development assistance (ODA) by the Finnish State.

The amount of undisbursed commitments at the end of 2020 totalled EUR 226.8 million (EUR 177 million). In addition, EUR 151.4 million (EUR 162 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Income level	Number of decisions	%	EUR million	%
Least developed countries	13	42	78	38
Low-income countries	0	0	0	0
Lower-middle-income countries	17	55	124	60
Upper-middle-income countries	1	3	4	2
TOTAL	31	100	206	100

Development and priorities

Due to the COVID-19 pandemic that broke out at the beginning of the year, 2020 was in many ways an exceptional and difficult year. The pandemic forced the entire organisation to switch to remote work in mid-March 2020. At the same time, extensive restrictions were imposed on travel, making travel to Finnfund's destination countries, or anywhere else, impossible. Since that time, working in the familiar office environment and holding face-to-face meetings and events has been possible only to a very limited extent.

All meetings, seminars and other events have been held via teleconferencing since March 2020. This has created entirely new challenges for the organisation's culture and leadership, forcing the organisation to quickly adapt to a new way of working.

Finnfund has been developing its technology infrastructure and remote work tools for years, however, and this enabled a rapid transition to working from home and minimised the disruption caused by the COVID-19 pandemic.

All employees were provided with a lot of training and low-threshold support for the use of remote work tools and ICT systems to maintain performance during the protracted period of remote work, as the pandemic continued much longer than anticipated in the first half of the year. Our staff has also received increased support for coping and well-being, e.g. from our occupational health care provider. Coaching was arranged for supervisors to support leadership in these exceptional circumstances.

The execution of Finnfund's strategy continued to feature strongly in all areas of the company's operations in 2020. The company's operations have been managed in line with the four areas defined in the strategy as breakthroughs (triple development impact, ensure sustainability, diversify funding base and develop business culture).

The Ministry for Foreign Affairs directed Finnfund to carry out an interim assessment of the functionality of its tax policy in 2020. The assessment was presented to the company's administrative bodies and the Ministry for Foreign Affairs and will be published on Finnfund's website in early 2021. The main areas of development and monitoring identified in the assessment were the continuous development and maintenance of sufficiently broad-based competencies in the highly demanding business and regulatory environment of international taxation. The assessment was carried out internally by Finnfund.

Finnfund continued to enhance its IT infrastructure and system environment in 2020 in accordance with the guidelines set for their development. Special attention was paid to information security and cybersecurity, as well as the availability of services, as the COVID-19 pandemic and, consequently, working from home will continue at least for the first half of 2021. The deployment of the new financing system planned for the second half of 2020 has been postponed to 2021, mainly due to the scope and complexity of the project. In 2020, Finnfund adopted a new HR system that assembles the personal data of the company's own personnel into a centralised, secure system environment, while improving the availability and usability of the data for senior management, supervisors and employees alike.

Finnfund published its updated corporate sustainability policy in March 2020, replacing the earlier environmental and social policy. The new policy covers the various aspects of corporate responsibility and sustainability and their implementation within the investment process and Finnfund's own operations more extensively, linking them to the international corporate responsibility and sustainabiity frameworks. The organisation's practical work was heavily affected by the COVID-19 pandemic that spread to Finland in the spring, which prevented travel to project sites. Finnfund drew up guidelines for working on projects during the coronavirus emergency, and they were implemented consistently both in-house and in customer-facing work.

In the autumn, we started preparing a climate and energy policy to complement Finnfund's corporate sustainability policy. The policy defines Finnfund's climate targets and the forms of energy we finance and will be published in the spring of 2021. Finnfund also started development of a climate risk and climate change adaptation assessment tool in the autumn of

2020. Use of the tool is slated to begin in 2021.

In April, Finnfund published a report on its compliance with the nine Operating Principles for Impact Management.

Finnfund continued its impact assessments related to the projects and sectors it finances, but progress was hindered by the COVID-19 pandemic. A study of the Lake Turkana project's impact on the reduction of poverty in the project area was published in the spring. A study of the usefulness of collaboration between small-scale farmers and the project companies was begun in the spring and continued into 2021. Stakeholder Voices pilot projects were initiated in 2020 with two service providers (60decibels and WorkAhead) that make use of the technology. The pilot projects aim to create new agile ways of gathering information directly from employees, affiliated entities, supply chains and customers, and to deepen our understanding of our business's impact on the lives of stakeholders.

We organised three discussion events with NGOs and other parties within the impact network established in the previous autumn. The themes included impact measurement, such as performance-based climate financing, adaptation to climate change and success factors for small farmers and businesses.

The monitoring and reporting of both development impact and environmental and social impact was developed further. For the second time, we collected the data on the development impact of Finnfund's project portfolio directly from the project companies over the internet.

The 'Economic Development, Job Creation and Livelihoods' evaluation commissioned by the Ministry for Foreign Affairs' evaluation unit also touched on Finnfund. Finnfund provided information and gave interviews for the evaluation in 2020. Certain project companies were also interviewed for the evaluation. The evaluation report was published in January 2021 and was very favourable to Finnfund.

The COVID-19 pandemic, remote work and travel restrictions also posed their own challenges for the company's internal and external communications. Management invested heavily in clear internal communications on coronavirus guidelines, which was appreciated by Finnfund's personnel according to our internal surveys.

Digital channels played an even greater role than usual in our external communications. As a result of determined work, Finnfund's digital communications took a new leap forward, which was reflected as increased content production and, on the other hand, as a sharp growth in followers of the company's social media channels. We communicated with all key stakeholders, with a particular focus on visibility in our target markets.

In 2018, Africa's largest wind farm Lake Turkana Wind Power was connected to the national grid. Finnfund has been a shareholder in the company ever since the construction began in 2013.

The Finnpartnership programme

The past year was challenging for Finnpartnership as well due to the COVID-19 pandemic and global travel restrictions. New electronic service and communications channels were quickly set up and welcomed by the programme's customers and stakeholders, and the annual targets set for Finnpartnership before the coronavirus outbreak were achieved well on average.

A total of 79 (94) business partnership grant applications were received in 2020. The decrease in received applications was due to the pandemic's impact on companies' willingness to invest and general uncertainty about the future. From 1 November 2019 to 31 October 2020, a total of 89 applications were received for processing, and 53 (70) were accepted. Grants were issued in a total amount of EUR 4.3 million (EUR 4.2 million). Business partnership grants were paid out to 63 (91) projects in a total amount of EUR 2.2 million (EUR 2.7 million).

Finnpartnership managed to arrange two Doing Business with Finland (DBF) seminars, one in Suriname and one in Guyana, before the outbreak of the pandemic. The remaining scheduled DBF seminars had to be cancelled because of the COVID-19 pandemic, and Matchmaking efforts were focused on the creation and use of digital tools to replace the seminars. Finnpartnership organised three SDG Booster workshops with its partners, connecting Finnish businesses with companies operating in East Africa, Vietnam and Thailand. A total of 236 people participated in the SDG Booster workshops. In addition, Finnpartnership organised a number of bilateral digital meetings between Finnish enterprises and companies operating in developing countries.

A total of 272 (425) companies were either registered on the public database or proposed to Finnish companies via the Matchmaking service in 2020. In 2020, a total of 393 (261) new business partnership connections were opened between Finnish companies and companies based in developing countries.

Finnfund will continue to manage Finnpartnership on the basis of its contract, which runs until the end of 2021.

A total of 393 new business partnership connections were opened between Finnish companies and companies in developing countries.

Finnpartnership

Risk management

The Finnfund Board of Directors confirms the company's risk management principles and instruments. The company's management is responsible for the practical implementation of risk management on the basis of the guidelines confirmed by the Board of Directors. The company's asset and risk management guidelines are assessed annually. No major changes were made to the management principles in 2020.

The objective of asset and risk management is to mitigate the negative effects of market risks, primarily changes in interest and exchange rates, on Finnfund's earnings and to ensure sufficient liquidity.

The company is exposed to greater risks than those present in typical financial institution operations. The management of funding and liquidity risks includes risk identification, hedging, and reporting to the company's administrative bodies.

The risk classification system developed by Finnfund, which has been in use since 2005, is a key instrument in the assessment and monitoring of project risks. A risk assessment is conducted on all projects in the Finnfund investment portfolio at least once a year, and more often if necessary, that is, if it is estimated that the risk level has changed. If the risk classification deteriorates, the project's balance sheet value will be impaired and, conversely, if the risk classification improves, previous impairments will be reversed. The developments of projects identified as high-risk are monitored closely and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

From 2012 to 2015, Finnfund had access to a special risk financing instrument worth a total of EUR 50 million. In September 2018, the Finnish State decided to bring back the special risk financing instrument at a total value of EUR 75 million. In 2020, the Finnish State further increased the value of the instrument to EUR 150 million. The instrument is valid until the end of 2024 for the purpose of distributing investment risks between the Finnish State and Finnfund. The instrument covers a previous loss compensation commitment worth EUR 75 million, so the amount of the contingency increased by EUR 75 million during the year.

Special risk financing is provided on the basis of a loss compensation commitment, whereby the State undertakes to compensate Finnfund for a maximum of 60 per cent of credit losses and investment losses on projects covered by special risk financing during the validity of the commitment. No new projects covered by special risk financing can be accepted after 31 December 2024. Projects that are approved for coverage by the special risk financing scheme while it is valid are covered by the Finnish State's risk-sharing arrangement until the projects are repaid, Finnfund exits the project or until the risk level has decreased to a level for which Finnfund can be liable on its own balance sheet. To be eligible for special risk financing, projects are required to have an extremely high developmental impact in low-income or lower-middle-income countries and carry risks that are otherwise considered too high for the project to qualify for Finnfund financing.

At the end of 2020, projects worth a total of EUR 180.4 million were covered by special risk financing. The Finnish State is liable for 49 per cent of the related risks, amounting to EUR 88.2 million. The loss compensation commitment covers a maximum of EUR 7.5 million in compensations per year.

The only compensation claim thus far was submitted to the State in 2019, concerning one customer's dollar-denominated loan. The amount claimed in ERR compensation was EUR 2,183,162.07. A corresponding amount will be deducted from the ERR limit of EUR 150 million. After the compensation, the credit limit will be EUR 147,816,837.93.

The objective with regard to interest and currency risks is to identify and hedge against potential risks. Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans when the interest basis of the investment loans deviates from that of Finnfund's own funding.

Solvent Nordic banks comprise the contracting parties of Finnfund's derivatives contracts.

The general rule for share capital and fund investments, applied on a case-by-case basis, is to cover currency positions that are certain or at least likely and that can be hedged at a reasonable cost in relation to the benefits gained.

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities with Nordic banks, and a commercial paper programme totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2020.

At the end of 2020, the value of the commercial papers issued through the programme amounted to EUR 0.

The refinancing risk associated with borrowing is managed by trying to maintain a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term financing. At the end of the year under review, the average time to maturity of interest-bearing debt was 2.3 years if the convertible bond granted by the State is not included in calculations, and 15.4 years if the State loan is included.

The company's cash position was very strong at the end of 2020. This was due to the additional capitalisation of EUR 50 million by the Finnish State at the end of the year and the schedule for the withdrawal of the convertible bond, according to which the company had to withdraw at least EUR 130 million of the loan last year. Cash reserves will be invested according to the company's asset and risk management guidelines until a sufficient amount of disbursements accumulate for the investment portfolio to resolve the excess liquidity.

The company maintains continuous procedures for identifying, managing and preventing cybersecurity risks. Key personnel risks are managed by maintaining replacement and succession plans for key members of personnel.

Finnfund's investee Burapha is an agroforestry and wood processing company operating in the greater Vientiane area in Laos.

Net profit and balance sheet

In 2020, Finnfund made a loss of approximately EUR 26.3 million (profit of EUR 0.7 million). The result was exceptionally weak, mainly due to large write-downs due to the COVID-19 pandemic.

The operating income is shown in the table below.

Summary

Net financial income remained high at EUR 22.2 million (EUR 23.7 million).

Financial income decreased by 12 per cent to EUR 31.4 million (EUR 35.7 million). Financial expenses, on the other hand, decreased by more than 23 per cent to EUR 9.2 million (EUR 12.0 million).

Interest income rose relative to the previous year, driving growth and representing 88 per cent of income, or EUR 27.7 million (EUR 27.0 million). Dividends and fund income only amounted to EUR 2.1 million in 2020 and fell significantly short of the 2019 level (EUR 5.4 million).

Operating expenses EUR 13.5 million, remained under control and remained below the previous year's level (EUR 14.1 million) and the budgeted amount (EUR 16.1 million).

Net profit before value adjustment items, sales and taxes remained at a good level at EUR 10.0 million (EUR 11.2 million).

Income

Dividend income amounted to EUR 0.6 million (EUR 0.5 million).

Interest income was EUR 27.7 million (EUR 27.0 million).

Other income from long-term investments amounted to EUR 1.5 million (EUR 4.8 million), consisting of gains from fund investments. Capital gains from investments were recognised as income to the amount of EUR 6.6 million (EUR 1.4 million).

Other financial income excluding foreign exchange gains, at EUR 1.6 million (EUR 2.1 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 38.0 million (EUR 37.1 million).

Other operating income amounted to EUR 1.3 million (EUR 1.5 million), and this comprised fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Operating income (EUR thousand)	2020	2019	Change (EUR)	Change %
Financial income	31,382	35,711	-4,329	-12
Financial expenses	-9,227	-12,037	2,810	-23
Net financial income	**22,154**	**23,674**	**-1,520**	**-6**
Other operating income	1,343	1,527	-184	-12
Administrative expenses, depreciation and other expenses	-13,507	-14,051	544	-4
Profit before value adjustments, sales and taxes	**9,990**	**11,150**	**-1,160**	**-10**
Value adjustments and sales	-36,299	-10,433	-25,866	248
Income taxes	-2	-17	15	-88
NET PROFIT	-26,311	700	-27,011	-3,859

Impairment losses

Newly recognised individual impairment losses amounted to EUR 45.9 million (EUR 16.1 million), representing about 7.5 per cent (2.9 per cent) of the balance sheet value of investment assets at the end of the year under review. Approximately 74.7 per cent of the write-downs were allocated to share capital investments, with the single largest project accounting for half of this amount. Fund investments accounted for 21.5 per cent of write-downs, and 3.8 per cent were allocated to debt investments.

Reversals of previously recognised individual impairment losses amounted to EUR 4.8 million (EUR 11.7 million) in 2020.

The net effect of impairments, capital gains and sale losses on financial performance was approximately EUR 36.3 million negative (EUR 10.4 million negative).

Expenses

Interest expenses decreased significantly from the previous year's figure to EUR 5.7 million (EUR 8.7 million). Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 3.1 million (EUR 3.3 million), including management fees of EUR 2.6 million (EUR 2.8 million) associated with fund investments.

The exchange rate differential due to currency trading and hedging was EUR 0.5 million negative (EUR 1.2 million positive).

Investment and sale losses were recognised to the amount of EUR 1.7 million (EUR 7.5 million).

Operating expenses totalled EUR 13.5 million (EUR 14.1 million). Expenses were reduced, for example, by the total end of travel after the first quarter.

The taxes recognised on the profit and loss account, totalling EUR 2,000 (EUR 17,000), consist of both sales gains taxes and stamp taxes paid to the target countries and taxes on remuneration for work and on dividends.

Balance sheet

The balance sheet total stood at EUR 721 million (EUR 616 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 608 million (EUR 557 million) at the end of the year under review.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) EUR 352.9 million (EUR 330.5 million) or 58.1 per cent (59.4 per cent); equity investments EUR 173.3 million (EUR 146.7 million) or 28.5 per cent (26.3 per cent); and fund investments EUR 81.3 million (EUR 79.5 million) or 13.4 per cent (14.3 per cent).

Liquid assets stood at EUR 90.8 million (EUR 45.0 million) at the end of the year under review. The liquid assets are invested in domestic bank deposits and money market instruments in accordance with the asset and risk management guidelines.

At the end of the financial year, the company's equity (share capital and unrestricted equity) totalled EUR 301 million (EUR 267 million) or 42 per cent of the balance sheet total (43 per cent).

The company executed two share issues in 2020. Under the first share issue, a maximum of 62,961 new shares were offered to existing shareholders in proportion to their existing holdings at the issue price of EUR 170 per share. The subscription period was from 21 April 2020 to 31 May 2020. As a result of the share issue, the share capital was increased by EUR 9,999,910, corresponding to the proportion subscribed by the Finnish State. Pursuant to the issue decision, 58,823 new shares were issued. Finnvera Plc and the Confederation of Finnish Industries EK did not subscribe to any of the new shares they were offered.

Under the second share issue, a maximum of 310,587 new shares were offered to existing shareholders in proportion to their existing holdings at the issue price of EUR 170 per share. The subscription period was from 1 to 17 December 2020. As a result of the share issue, the share capital was increased by EUR 49,999,890, corresponding to the proportion subscribed by the Finnish State. Pursuant to the issue decision, 294,117 new shares were issued. Finnvera Plc and the Confederation of Finnish Industries EK did not subscribe to any of the new shares they were offered.

At the end of the first share issue and the year under review, the company's registered share capital stood at EUR 206,988,770, divided between 1,217,581 shares, with the Finnish State holding 1,153,011 shares (94.7 per cent), Finnvera Plc holding 63,349 shares (5.2 per cent), and the Confederation of Finnish

Industries EK holding the remaining 1,221 shares (0.1 per cent).

The company's shares have no nominal value. The equivalent value of a share in bookkeeping is EUR 170. The company has one share class. A minimum of 51 per cent of the company shares must be under the direct ownership and control of the State of Finland at all times. The company does not distribute its funds in dividends or in payments from its unrestricted equity fund; nor does it acquire or redeem its own shares.

The company has two long-term convertible bonds from the Finnish State.

At the end of 2016, Finnfund signed an agreement with State Treasury on a subordinated convertible bond of a total of EUR 130 million. The loan period is 40 years, of which the first 10 years are instalment-free. The interest on the loan is 0.5% per cent annum for the first five years. After this period, the State is entitled to adjust the interest rate if it so desires. The State is also entitled to convert the loan either entirely or partly as Finnfund's share capital.

The State may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt equity entitles it to one share. The State can subscribe to at most 764,705 of the company's shares. The subscription price corresponds to the accountable par of a share, and it is recorded in the company's invested unrestricted equity fund.

At the end of 2019, Finnfund signed an agreement with State Treasury on a conditional subordinated convertible bond of a total of EUR 210 million. The loan period is 40 years, of which the first 10 years are instalment-free. The interest on the loan is 0.5% per cent annum for the first five years. After this period, the State is entitled to adjust the interest rate if it so desires.

The State may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt equity entitles it to one share. The State can subscribe to at most 1,235,294 of the company's shares. The subscription price corresponds to the accountable par of a share, and it is recorded in the company's invested unrestricted equity fund.

In derogation from the foregoing, the loan agreed in 2019 will be automatically converted in full into share capital in the company if the company's equity ratio falls to 10 per cent.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 410 million (EUR 289 million) and short-term interest-bearing debt at EUR 4 million (EUR 53 million), totalling EUR 414 million (EUR 342 million).

Long-term interest-bearing debt includes the EUR 100 million bond issued in summer 2017, the long-term convertible bond of EUR 130 million granted by the State and withdrawn in 2017 and 2018, and the amount (EUR 130 million) withdrawn in 2020 from the convertible bond granted by the State in 2019. A total of EUR 80 million of the loan remains to be withdrawn. Otherwise, the long-term interest-bearing debt is in US dollars, used to refinance Finnfund investment loans denominated in US dollars.

Long-term debt as a percentage of all financing liabilities totalled approximately 99 per cent (85 per cent) at the end of the year under review.

The company had no guarantee commitments at the end of 2020 (EUR 0.0 million).

Key figures	2020	2019	2018
Financial income (EUR million)	73.3	46.6	50.6
Net profit (EUR million)	-26.3	0.7	2.1
Return on equity, %	-8.7	0.3	0.8
Equity ratio, %	41.7	43.4	46.4

Formulae

$$\text{Return on equity} = \frac{\text{Net profit}}{\text{Equity}} \times 100\%$$

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Balance sheet total} - \text{advances received}} \times 100\%$$

Administration and personnel

In 2020, the Supervisory Board convened six times, the Board of Directors convened 13 times, the Board of Directors' audit committee convened seven times, and the HR committee convened three times.

The Annual General Meeting, held on 21 April 2020, addressed an amendment to Article 3 of the Articles of Association, the statutory matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors concerning an increase of the company's share capital.

The following were elected at the Annual General Meeting as **members of the Supervisory Board** for the period 2020–2023: Emma Kari, Juha Ruippo, Kristiina Salonen, Marko Kilpi and Juha-Erkki Mäntyniemi.

Members of the Board of Directors elected at the Annual General Meeting:

Robert Wihtol, Chair
Kristiina Kuvaja-Xanthopoulos, Vice Chair
Nicholas Anderson
Jussi Haarasilta
Anu Hämäläinen
Hanna Loikkanen
Pirita Mikkanen
Antero Toivainen

Kristiina Kuvaja-Xanthopoulos resigned from the Board of Directors on 12 November 2020. Helena Airaksinen was elected as her replacement on 1 December 2020 by a unanimous decision of the shareholders. Pirita Mikkanen was elected Vice Chair of the Board of Directors as of 1 December 2020.

The members of the Board of Directors do not have deputy members.

The Board of Directors has an audit committee, with the following members since 24 April 2020:

Jussi Haarasilta, Chair
Anu Hämäläinen
Pirita Mikkanen

The Board of Directors has an HR committee, with the following members since 24 April 2020:

Robert Wihtol, Chair
Kristiina Kuvaja-Xanthopoulos
Hanna Loikkanen

After Kristiina Kuvaja-Xanthopoulous resigned from the Board of Directors on 12 November 2020, Helena Airaksinen was elected as her replacement on the HR committee on 15 December 2020.

The company's auditor is Deloitte Oy, with Anu Servo (Authorised Public Accountant and Chartered Public Finance Auditor), as the principal auditor.

The company CEO is Jaakko Kangasniemi (PhD, Agricultural Economics).

During the year under review, the company employed an average of 84 employees (77 employees in 2019). At year-end, the number of employees in contractual employment was 84 (81), of whom 82 (77) were full-time. Of the employees, 51 were women and 33 were men.

The total amount of salaries and bonuses paid to employees in 2018–2020 is shown in the table below.

The final accounts include a provision of 1,052,402.29 for incentive bonuses earned in 2020, amounting to 14.25 per cent of payroll expenses (12.70 per cent). In 2020, the amount of incentives was partly based on the achievement of common targets and partly based on individual performance.

The Board of Directors decides on the incentive system and its key criteria annually. The company's remuneration follows the remuneration guidelines applying to state-owned companies.

The total salaries and bonuses paid to personnel in 2018–2020 were as follows:

	2020	2019	2018
Average number of personnel	84	77	75
Total salaries and bonuses (EUR thousand)	7,387	6,981	6,865

Outlook and strategic direction for 2021

In 2021, Finnfund will continue to implement its strategy for 2018–2025. In line with the strategy, Finnfund will double its volumes and triple its development impact by 2025. Regardless of the COVID-19 pandemic, we remain on the growth path envisioned in our strategy, meaning that new financing decisions worth approximately EUR 200 million will be made for around 22 projects in 2021.

Our project preparation policy will continue to favour projects that are expected to have very positive development impacts, including those that are known to be laborious. The focal themes are combating climate change, improving the position of women and girls, and Africa. Finnfund's focal sectors are renewable energy, the financial institutions, sustainable agriculture, and sustainable forestry. In 2021, we will examine the suitability of the telecom sector as a new focal sector.

From the perspective of expanding our financing base and mobilising private capital, our focus areas for 2021 include the project preparation of OP Finnfund Global Impact Fund I's investments, using the European Commission's pillar assessment in investment risk allocation, and preparing a sustainability framework for issuing a sustainable bond in 2022, when Finnfund's current bond matures.

Finnfund's finances and liquidity are strong, thanks to the Finnish State's additional capitalisations and convertible loan withdrawals made in 2020. In 2021, Finnfund must withdraw the remaining EUR 80 million of the EUR 210 million convertible bond granted in 2019.

Internationality will also be a strong theme in 2021. English has been Finnfund's working language from the beginning of the year so that the company can recruit non-Finnish speakers as well. We will also look at opening a local office in Nairobi, Kenya.

The earnings prospects for 2021 are reasonable. We expect successful exits from equity investments and a steady revenue stream from our growing loan book. Changes in the valuation of the Finnfund's investment assets during the financial year and whether we are able to make profitable exits from projects are decisive factors for the company's financial performance. These factors are difficult to predict in development financing even in normal circumstances, and even more so now that the COVID-19 pandemic continues to ravage the globe. We nevertheless expect a positive result in 2021.

Proposal of the Board of Directors for the distribution of profit

The company recorded a loss of EUR 26,311,165.58 in 2020. The Management Board proposes that the loss be transferred to the retained earnings account for previous financial years.

Profit and loss account
EUR 1,000

	Note	1 Jan. - 31 Dec. 2020	1 Jan. - 31 Dec. 2019
Other operating income	1	1,343	1,527
Staff expenses	2		
Wages and salaries	3	-7,387	-6,981
Social security expenses			
Pension expenses		-1,180	-1,207
Other social security expenses		-120	-627
Social security expenses		-1,300	-1,835
Staff expenses		-8,687	-8,816
Depreciation according to plan	4	-277	-202
Other operating expenses	5, 6	-4,544	-5,033
OPERATING LOSS		**-12,164**	**-12,523**
Financial income			
Income from participating interests		6,668	3,171
Income from other investments		2,044	3,735
Other interest and financial income		64,594	39,682
Financial income total		73,306	46,588
Reduction in value of investments		-41,159	-4,358
Financial expenses			
Interest and other financial expenses		-4,292	-28,989
Financial income and expenses	7	-14,145	13,241
PROFIT / LOSS BEFORE TAXES		**-26,309**	**718**
Income taxes	8	-2	-17
PROFIT / LOSS FOR THE FINANCIAL YEAR		**-26,311**	**700**

Balance sheet
EUR 1,000

	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		751	534
Machinery and equipment		333	441
Total		1,085	976
Investments	10		
Participating interests		81,625	54,223
Receivables from participating interest	11	5,617	21,768
Other shares and similar rights of ownership		173,090	172,009
Other receivables	11	347,326	308,719
Total		607,659	556,719
NON-CURRENT ASSETS		**608,743**	**557,694**
CURRENT ASSETS			
Debtors			
Long-term	12		
Other long-term debtors		10,089	2,304
Short-term			
Amounts owned by participating interest undertakings	13	211	77
Other receivables	14	6,420	3,338
Prepayments and accrued income	15	5,122	7,296
Total		11,753	10,710
Debtors total		21,842	13,014
Financial securities	16		
Marketable securities		34,794	11,779
Cash in hand and at banks		56,041	33,178
CURRENT ASSETS		**112,678**	**57,972**
ASSETS		**721,421**	**615,666**

	Note	31 Dec. 2020	31 Dec. 2019
LIABILITIES			
EQUITY	17		
Share capital		256,989	196,989
Retained earnings		70,376	69,675
Profit / loss for the financial year		-26,311	700
EQUITY		**301,053**	**267,364**
CREDITORS			
Long-term	18, 19		
Private placement		99,907	99,844
Convertible loans		260,000	130,000
Loans from credit institutions		50,018	59,344
Other long-term creditors		1,449	700
Total		411,374	289,888
Short-term	20		
Loans from credit institutions		4,310	53,493
Advances received		4	9
Trade creditors		285	319
Other creditors		286	252
Accruals and deferred income	21	4,108	4,341
Total		8,995	58,414
CREDITORS		**420,368**	**348,302**
LIABILITIES		**721,421**	**615,666**

Cash flow statement
EUR 1,000

	2020	2019
CASH FLOW FROM OPERATIONS		
Payments received from operations	47,365	61,370
Disbursements to operations	-140,495	-127,106
Dividends received	218	53
Interest received	20,161	20,854
Interest paid	-5,942	-8,944
Payments received on other operating income	4,534	9,023
Payments of operating expenses	-16,203	-16,173
CASH FLOW FROM OPERATIONS (A)	**-90,362**	**-60,445**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-386	-1,133
CASH FLOW FROM INVESTMENTS (B)	**-386**	**-1,133**
CASH FLOW FROM FINANCING		
Short-term loans drawn	0	43,998
Short-term loans repaid	-43,998	-20,000
Long-term loans drawn	130,000	35,358
Long-term loans repaid	-9,391	-9,423
New share issue	60,000	10,000
CASH FLOW FROM FINANCING (C)	**136,611**	**59,933**
CHANGE IN LIQUID ASSETS (A+B+C) increase (+) decrease (-)	**45,863**	**-1,645**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**44,177**	**45,822**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**90,040**	**44,177**
NONMONETARY CHANGES IN LIQUID ASSETS	**796**	**780**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**90,836**	**44,957**

Accounting policy

Portfolio

Equities and fund investments as well as loan receivables are valued at the lower of the acquisition cost or fair value in the financial statements. The value of investment is based on risk classification and other factors affecting the value. The value of the investments is monitored continuously.

The Islamic form of financing Murabaha has been treated according to the same principles as other loan receivables in both the balance sheet and the income statement. The value of loan receivables at the exchange rate on the balance sheet date is EUR 3,092,657.48. Income of EUR 392,991.88 has been entered in the income statement. The procedure is based on our request to the Accounting Board (KILA) for an opinion and the statement received from the board on 22 April 2020.
The principle of Islamic finance is to tie capital and income to commodity transactions. In 2020, the sales transactions referred to in the Islamic financing agreement were EUR 3,388,998.03 and the purchase transactions EUR 3,388,998.03. Income from the purchase transaction was EUR 392,991.88 in 2020.

Some of capital loans are in practice equity investments. Income from these investments is paid only when the company's financial situations allows. Interest from such capital loans is recorded in accounting only when paid. Also a part of interest income from loans that are written off is recorded only when paid.

In the profit and loss statement write-offs and their cancellations have been included in the item of Reduction in value of investments.

The fair value of investments reported by the fund manager has been compared with Finnfund's balance sheet value of the investment. When necessary, payments to investments made after the report have been added to the fair value reported by the fund manager, in order to ensure its comparability with the value of Finnfund's investment. The balance sheet value of investments may not exceed 100% of the valuation by the fund manager.

Special risk finance

Special risk finance is the term used to describe the class of projects in which Finnfund has been indemnified, by a decision of the Finnish government on 20 September 2012 and in force until 31 December 2015 or decided on 20 September 2018 and in force until 31 December 2023, against investment losses or write-offs. Projects that were indemnified before the deadline remain within this class afterwards. The indemnified investments and loans were separately approved by the Board of Directors.

Projects with the company's risk classification of C, CC or CCC are eligible for special risk finance. The corresponding level of losses indemnified by the government will be 40%, 50% and 60%. The investment risk is carried partly by Finnfund and partly by the government. Government's share of the risk is a percentage of the disbursed investments deducted by repayments. Yearly write-offs and their cancellations of the projects included in the special risk finance class are made using the same principles as for other investments.

The deferred value of claims on the government for its share of net losses from special risk finance projects is stated separately in the company's accounts. Separate application must be presented to the government for payment of the indemnity, which cannot exceed EUR 7.5 million annually.

Other investments in current assets

Securities have been valued at lower of the acquisition cost or estimated market value.

Derivatives

Derivatives are presented in the financial statements in accordance with the fair value principle according to the IFRS standards. The IFRS treatment of derivatives is based on chapter 5, section 2 of the Finnish Accounting Act (1336/1997) and a statement issued by the Accounting Board in December 2016 (KILA 1963/2016). Forward exchange agreements, interest rate swaps and currency and interest rate swaps were initially recorded at fair value on the date of agreement and valued to their fair value in the financial statement. In the valuation to fair value, valuation reports issued by banks have been used to perform a recalculation using accepted valuation methodologies. Positive and negative changes to fair value have been recorded as financial income and expenses in the profit and loss account. In the balance sheet, derivatives are listed under other receivables and other creditors. Although its derivatives are acquired for the purpose of hedging, Finnfund does not practice hedge accounting under IFRS.

Items denominated in foreign currencies

Receivables and payables denominated in foreign currencies have been translated to EUR using the exchange rates at the end of the accounting period.

Intangible and tangible assets

Intangible and tangible assets are entered on the balance sheet at their aquisition cost less depreciation. The depreciation plan for the premises has been prepared according to the rental period. The costs related to the renovation of the premises, machinery and furniture have been capitalised on other long-term expenses and machinery and equipment on the balance sheet. In addition to the previous year, a financial IT system project was launched in 2020 which costs have been capitalized on the balance sheet under other long-term expenses with a five-year depreciation plan. The purpose of the new financial IT system is to replace the existing system for the operational management of investments.

Planned depreciations:

Other capitalised as long-term expenses: premises	7 years
Other long-term expenses: IT system	5 years
Machinery and equipment	5 years

Pensions

Pensions for the company's employees have been arranged in an external pension insurance company. Pension expenditure is booked in the year of accrual.

The managing director's pension liability is covered partly by an existing group pension insurance and partly by an annual reserve in the company's balance sheet. The annual payment is 26.51% of the managing director's gross annual earnings.

Notes to the profit and loss account
EUR 1,000

	2020	2019
1 Other operating income		
Operating income from participating interests	0	5
Remunerations	763	779
Other operating income	580	743
	1,343	**1,527**
2 Average number of staff employed		
Employees	84	77
3 Wages and salaries		
Managing Director and his alternate	421	420
The Board of Directors and the Supervisory Board	144	124
The Board of Directors		
Chair's monthly emoluments	1,100 €	
Vice chair's monthly emoluments	700 €	
Board members' monthly emoluments	600 €	
Emolument per meeting of Board of Directors and Audit Committee	300 €	
Supervisory Board		
Chair's emolument per meeting	800 €	
Vice chair's emolument per meeting	600 €	
Board member's emolument per meeting	500 €	

Managing Director has the right to retire at the age of 63.
Retirement age is based on the contract renewed in 2012.

	2020	2019
4 Depreciation		
Other capitalised long-term expenses	166	92
Machinery and equipment	111	110
	277	**202**
5 Other operating charges		
Voluntary staff expenses	448	736
Office	745	751
ICT	710	777
Travel and negotiation expenses	335	1,181
Entertainment and PR expenses Including support in 2018 and a partial refund in 2019 of community projects in Honduras	120	44

External services	1,880	1,335
Other expenses	306	208
	4,544	**5,033**
6 Auditor's remunerations		
Audit fee	20	15
Assignments	2	6
Tax services	0	3
Other services	0	46
	22	**71**
7 Financial income and expenses		
Financial income		
Income from participating interests		
Dividends	0	335
Income from funds	73	1,312
Profit from sales of assets	6,595	1,378
From others	0	145
Income from participating interests	6,668	3,171
Income from other investments		
Dividends	569	213
From funds	1,475	3,522
Income from other investments	2,044	3,735
Other interest and financial income		
Interest income	20,922	23,047
Interest income from participating interests	6,754	3,938
Financial income	1,567	1,979
Financial income from participating interests	21	10
Exchange rate gain	35,330	10,708
Other interest and financial income	**64,594**	**39,682**
Financial income total	**73,306**	**46,588**
Permanent write-offs of investments and their reversals		
Equity and funds	-44,184	-9,757
Loans and other receivables	-1,742	-6,318
Reversal of write-offs on shares and fund investments	4,657	1,452
Reversal of write-offs on loans	110	10,265
Write-offs of investments and their reversals	**-41,159**	**-4,358**

Interest and other financial expenses		
Interest expenses to others	-5,682	-8,747
Other financial expenses	-3,088	-3,290
Loss from investments, funds and sales of assets including loss compensation from the State	-1,735	-7,453
Exchange rate loss	-35,786	-9,499
Interest and other financial expenses total	**46,292**	**-28,989**
Financial income and expenses total	**-14,145**	**13,241**
The item Financing income and expenses includes loss of exchange (net)	**-456**	**1,210**
7 Income from financing operations by income level		
(**does not include income from EU territory, liquidity and funding**)		
Least developed countries (LDC)	33,878	16,368
Other low-income countries (LIC)	966	3,849
Lower-middle-income countries (LMIC)	28,903	18,128
Upper-middle-income countries (UMIC)	8,305	6,492
Russia	67	104
	72,118	**44,940**
8 Income taxes		
Withholding taxes on emoluments	0	1
Withholding taxes on dividends	1	16
Stamp duty	1	0
	2	**17**

Notes to the balance sheet

EUR 1,000

9 Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
Acquisition cost 1 Jan. 2020	1,765	2,627	4,392
Increases	383	3	386
Acquisition cost 31 Dec. 2020	2,147	2,630	4,777
Accumulated depreciations 1 Jan. 2020	-1,230	-2,185	-3,416
Depreciation of the accounting period	-166	-111	-277
Accumulated depreciations 31 Dec. 2020	-1,396	-2,296	-3,692
Book value 31 Dec. 2020	**751**	**333**	**1,085**
Book value 31 Dec. 2019	534	441	976
10 Investments / Shares and funds	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2020	73,891	188,903	262,794
Increases	48,823	25,422	74,245
Transfer between items	9,424	-9,424	0
Decreases	0	-6,234	-6,234
Acquisition cost 31 Dec. 2020	132,137	198,667	330,804
Individual write-offs accumulated as of 1 Jan. 2020	-19,668	-16,894	-36,562
Reversal of write-offs	770	3,887	4,657
Write-offs during the financial year	-31,614	-12,570	-44,184
Individual write-offs accumulated as of 31 Dec. 2020	-50,512	-25,577	-76,089
Book value 31 Dec. 2020	**81,625**	**173,090**	**254,715**
10 Investments / Loans	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2020	23,003	330,545	353,549
Increases	401	114,255	114,655
Capitalised interest	0	1,840	1,840
Decreases	-16,525	-75,213	-91,738
Acquisition cost 31 Dec. 2020	6,879	371,427	378,306

Individual write-offs accumulated as of 1 Jan. 2020	-1,235	-21,826	-23,062
Reversal of write-offs	0	110	110
Write-offs during the financial year	-26	-2,384	-2,410
Individual write-offs accumulated as of 31 Dec. 2020	-1,262	-24,100	-25,362
Book value 31 Dec. 2020	**5,617**	**347,326**	**352,943**

	2020	2019
11 Subordinated receivables		
Capital loans to participating interests	5,617	21,768
Capital loans to others	70,056	54,232
	75,674	**76,000**
12 Other long-term receivables		
Acquisition cost 1 January	1,339	1,339
Deductions	-1,339	0
Acquisition cost 31 December	0	1,339
Impairment losses	0	-670
Book value 31 December	0	669
Derivative receivables	10,089	1,635
	10,089	**2,304**
13 Receivables from participating interests		
Legal expenses	160	26
Other	51	51
	211	**77**
14 Other receivables		
Loss compensation from the State according to the special risk financing commitment	2,183	2,183
Derivative receivables	4,204	1,057
Other	33	97
	6,420	**3,338**
15 Prepayments and accrued income		
Interests	4,409	6,364
Other	713	932
	5,122	**7,296**
16 Marketable securities		
Fair value	34,820	11,780
Book value	34,794	11,779
DIFFERENCE	**25**	**1**

17 Shareholders' equity		
The purpose of the company is not to generate a profit for the shareholders. The company does not pay dividends or distribute its unrestricted equity fund nor does it redeem its own shares.		
Restricted equity		
Share capital 1 Jan.	196,989	186,989
Increase of share capital	60,000	10,000
Share capital as of 31 Dec.	256,989	196,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	70,376	70,245
Adjustments to interest and fund entries made in the previous year	0	-570
Retained earnings 31 Dec.	70,376	69,675
Profit/loss for the financial year	-26,311	700
Total unrestricted equity	44,064	70,376
Total equity	**301,053**	**267,364**
17 Share capital		
Number of shares	1,511,698	1,158,758
Nominal value, EUR	170,00	170,00
18 Loans with maturity more than 5 years		
Loans from credit institutions	15,212	21,364
Loans from government	260,000	130,000
	275,212	**151,364**
19 Private placements		
Private placement 2017/2022 Bullet Fixed 0.625%	100,000	100,000
20 Other short-term debt		
Loans from financial institutions	4,310	53,493
Derivative liabilities	5	9
Accounts payable	285	319
Other	285	251
	4,886	**54,073**
21 Accruals and prepaid income		
Deferral of personnel expensed	3,501	3,487
Interest	540	790
Taxes	53	60
Other	14	4
	4,108	**4,341**

Other supplementary information
EUR 1,000

Other contingent liabilities

The company terminated the leases of its previous premises and lease payment obligation expired on 31 March 2019. The company entered into a non-fiexed-term contract for its new premises. The lease period and the tenure begun on 1 March 2019 and may be terminated for the first time on 31 May 2025 with a 12 month notice period. Monthly rent excluding VAT is EUR 49,341.00, from 1 March 2020 EUR 49,977.61, from 1 March 2021 EUR 50,465.28. The obligation to pay rent begun on 1 June 2019.

	2020	2019
Payable in the next financial period	605	598
Payable later	2,675	3,249
Other commitments		
The company is a shareholder in a company whose exit involves the following liability: the company has acquired a debt from a third party. The second part of the debt price corresponds to 17.24% of the currently expected exit amount from the investment.		
Undisbursed commitments		
Contractual commitments	226,800	177,000
Special risk finance (**cumulative**)		
Decisions of the Board of Directors	180,351	112,920
Government's indemnity	88,220	56,065
Government's indemnity, %	49%	50%
Disbursements	83,479	58,263

Derivative contracts EUR 1,000

Fair values of derivatives in financial assets and liabilities

	2020			2019		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	4,204		4,204	1,051		1,051
Interest rate swaps		0	0	6	207	213
Currency and interest rate swaps		10,089	10,089		1,429	1,429
Total	4,204	10,089	**14,293**	1,057	1,635	**2,693**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements				9		9
Interest rate swaps	5	1,038	1,044		348	348
Currency and interest rate swaps						
Total	5	1,038	**1,044**	9	348	**357**

Fair value hierarchy of derivatives

Level 1) Fair values are based on the quoted (unadjusted) prices of identical assets or liabilities in active markets that the entity has access at the measurement date.

Level 2) Fair values are based on inputs obtained from active markets other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly. Fair values are determined based on these inputs using generally used valuation models for derivatives.

Level 3) Fair values are determined by means other than observable inputs on the asset or liability.

	2020				2019			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		4,204		4,204		1,051		1,051
Interest rate swaps		0		0		213		213
Currency and interest rate swaps		10,089		10,089		1,429		1,429
Total	0	14,293	0	**14,293**	0	2,693	0	**2,693**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements						9		9
Interest rate swaps		1,044		1,044		348		348
Currency and interest rate swaps				0				0
Total	0	1,044	0	**1,044**	0	357	0	**357**

Asset and risk management

The objective of asset and risk management is to mitigate the negative effects of market risks, i.e. changes in interest and exchange rates, on Finnfund's earnings, and to ensure sufficient liquidity. The leading principles of asset and risk management are described in the asset and risk management guideline approved by the Board of Directors. Their implementation is the responsibility of the Chief Financial Officer.

Interest and exchange rate risks

Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans, when the interest basis of the investment loans deviates from that of Finnfund's own funding.

Sensitivity analysis

The sensitivity analysis of the value of derivatives instruments presumes a change of +/- 1% in Euribor and Libor interest rates. Change of the EUR/USD exchange rate is presumed at +/- 10% (USD weakens/strengthens 10%). The impact of the changes on Finnfund's financial result is described below.

Sensitivity analysis, derivatives

Effect on result, EUR 1,000	2020	2019
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	-669 / 669	-807 / 807
Change of +/- 10% in EUR-USD exchange rate	9,295 / -9,295	10,167 / -10,167

Credit risk

Solvent Nordic banks comprise the contracting parties of Finnfund's derivatives contracts.

Liquidity risk

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities in Nordic banks, and a commercial paper programme set up in 2010 totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2020.

Undiscounted cash flow resulting from derivatives

	2020			2019		
Receivables	Under 1 year	1–5 years	Total	Under 1 year	1–5 years	Total
Forward exchange agreements	137,264		137,264	94,323		94,323
Interest rate swaps	104	275	379	629	1,322	1,951
Currency and interest rate swaps	625	100,625	101,250	625	101,250	101,875
Total	**137,994**	**100,900**	**238,894**	**95,577**	**102,572**	**198,149**
Liabilities	Under 1 year	1–5 years	Total	Under 1 year	1–5 years	Total
Forward exchange agreements	133,578		133,578	94,001		94,001
Interest rate swaps	419	1,101	1,520	662	1,379	2,042
Currency and interest rate swaps	1,063	91,392	92,455	2,829	103,484	106,313
Total	**135,059**	**92,493**	**227,552**	**97,492**	**104,863**	**202,355**

Receivables, liabilities and transactions with related parties

There has been no related party transactions which come under the disclosure obligation during the financial year.

Exchange rate

31 December 2020 EUR/USD 1.2271

Signatures of Board of Directors' report and financial statements

Helsinki, 30 March 2021

Robert Wihtol
Chairman

Helena Airaksinen
Member of the Board

Nicholas Andersson
Member of the Board

Jussi Haarasilta
Member of the Board

Anu Hämäläinen
Member of the Board

Hanna-Leena Loikkanen
Member of the Board

Pirita Mikkanen
Member of the Board

Antero Toivainen
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 31 March 2021

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

Auditor's report (Translation of the Finnish Original)

To the Annual General Meeting of The Finnish Fund for Industrial Cooperation (Finnfund)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Finnish Fund for Industrial Cooperation (business identity code 0356880-6) for the year ended 31 December, 2020. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

In our opinion, the financial statements give a true and fair view of the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other 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 opinion.

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 of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible 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 company's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

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

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.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information 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. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 31, 2021

Deloitte Oy
Audit Firm

Anu Servo
KHT (APA), JHT (CPFA)

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and the Auditors' Report for 2020. The Supervisory Board reports to the Annual General Meeting of Shareholders that the report of the Board of Directors and the accounts give no cause for comment neither does the proposal of the Board of Directors on how to deal with the distributable funds for the year.

Helsinki, 1 April 2021

Emma Kari

Eva Biaudet	Jarkko Eloranta
Veronika Honkasalo	Marko Kilpi
Juha-Erkki Mäntyniemi	Jouni Ovaska
Sakari Puisto	Juha Ruippo
Kristiina Salonen	Saara-Sofia Sirén
Erkki Tuomioja	Petri Vuorio