

**LIMITED LIABILITY COMPANY  
VIDES INVESTĪCIJU FONDS  
(ENVIRONMENTAL INVESTMENT FUND)**

*Annual Report for the year 2020  
prepared in accordance with International Financial  
Reporting Standards as adopted by EU and  
Independent Auditors' Report*

*Riga, 2021*

*\* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the*

# ENVIRONMENTAL INVESTMENT FUND

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## ENVIRONMENTAL INVESTMENT FUND

### ANCILLARY INFORMATION

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Title	Vides investīciju fonds (Environmental Investment Fund)
Legal status	Limited liability company
Registration number, place and date	40003339615, Riga, 28 April 1997
Legal and postal address	Eksporta street 5, Riga, LV-1010, Latvia
Board Members of the company	Egils Zariņš
Shareholder	Ministry of Environmental Protection and Regional Development – 100%
Period of reporting	1 January 2020 – 31 December 2020
Prior period of reporting	1 January 2019 – 31 December 2019
Independent auditors and their address	Deloitte Audits Latvia SIA License No. 43 Grēdu iela 4a Rīga, LV-1019 Latvia  Inguna Staša Sworn auditor Certificate Nr. 145

# ENVIRONMENTAL INVESTMENT FUND

## MANAGEMENT REPORT

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The past year for Vides investīciju fonds (hereinafter – Fund or Environmental Investment Fund) was important with development of two main fields of activities – supervision of tender and implementation of projects co-financed by Emission Allowances Finance Instrument and management of cross-border cooperation projects.

Supervision of implementation of projects co-financed by the Emission Allowances Finance Instrument and ESCO project financing will be the main Fund's activity also in the 2021. In 2020 the Fund continued supervision of Climate change financing instrument projects post-implementation monitoring and approved prolonging of the post-implementation monitoring periods for more than 40 projects.

The Fund has accumulated extensive experience and capacity on environmental projects implementation supervision and post-implementation monitoring as well as on development of financing mechanisms for environmental projects implementation. The Fund is involved in implementation of seventeen cross-border cooperation projects. Topics covered by these projects are related to promotion of energy efficiency and use of renewable energy resources.

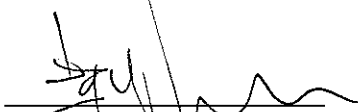
The Fund closed the year 2020 with a planned loss of 51 997 euro and assets exceeding 6.6 million euro. Losses were planned in the Fund's operational strategy, which foresees to stop lending activity. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests to transfer the loss for the reporting year 2020 to “Retained earnings”.

It is already the seventieth year since the quality management system in accordance with the ISO 9001 standard was introduced in the Fund. On 15<sup>th</sup> December, 2020 the supervision audit took place and no non-compliance instances were identified, proving that the system is running successfully. The results of this audit indicate that the quality management system implemented in the Fund works successfully. Compliance with the established procedures ensures that the Fund is not materially affected by such risks as market price risk, credit risk, liquidity risk and cash flow risk (see Note 19).

The Fund has assessed the possible consequences of restrictions as a result of the spread of COVID-19 virus. In the opinion of the Fund's Board, the impact of COVID-19 virus on the Fund's operations is not material and the relevant information is provided in the notes to the annual report.

We are confident that year 2021 will be significant for the Fund and our clients with new opportunities for implementation of environmental projects.



Egils Zarīns  
Chairperson of the Board

Riga,  
5 November 2021

## ENVIRONMENTAL INVESTMENT FUND

### REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

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As at the date of signing of the financial statements:

#### **Representative of State capital shareholder**

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Edvīns Balševics	Representative of State capital shareholder	4 June, 2019

#### **The Board**

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Egils Zariņš	Chairperson of the Board	1 March, 2015

## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

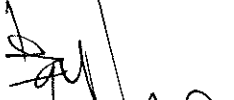
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The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.

The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 10 to 26 for the years ended 31 December 2020 and 2019. The management also confirms that applicable International Financial Reporting Standards as adopted by EU have been followed and that the financial statements have been prepared on a going concern basis.

The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities. They are also responsible for operating the Fund in compliance with legislation of the Republic of Latvia.

On behalf of the management,

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Egils Zarins  
Chairperson of the Board

Riga,  
5 November 2021

## Independent Auditors' Report

To the shareholder of SIA "Vides investīciju fonds"

### *Our Opinion on the Financial Statements*

We have audited the accompanying financial statements of SIA "Vides investīciju fonds" ("the Company") set out on pages 10 to 27 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December, 2020,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of SIA "Vides investīciju fonds" as at 31 December 2020, and of its financial performance and its cash flows for the year then ended with International Financial Reporting Standards as adopted by the European Union (IFRS).

### *Basis for Opinion*

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

### *Reporting on Other Information*

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on page 4 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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.

## Independent Auditors' Report (continued)

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, 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.

### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines 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, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### *Auditor's Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.



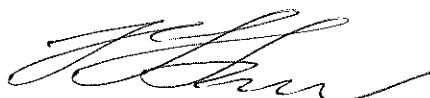
## Independent Auditors' Report (continued)

- 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 management'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 in a manner that achieves a 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.



Inguna Staša  
Board member  
Certified auditor  
Certificate No. 145

Riga, Latvia  
5 November 2021

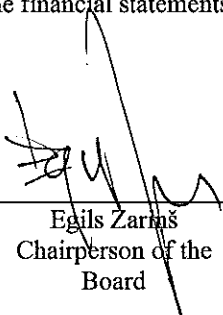
ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEARS 2020 AND 2019

	Note	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
<i>Operating income</i>			
Interest income	3	6 965	13 130
<b>Net interest income</b>		<b>6 965</b>	<b>13 130</b>
<i>Other income</i>			
Other income, net	4	306 306	272 722
<b>TOTAL OPERATING INCOME</b>		<b>313 271</b>	<b>285 852</b>
<i>Operating expense</i>			
Administrative expense	5	(361 128)	(367 540)
Depreciation	12	(4 140)	(2 906)
<b>TOTAL OPERATING EXPENSE</b>		<b>(365 268)</b>	<b>(370 446)</b>
<b>GROSS LOSS BEFORE TAXES</b>		<b>(51 997)</b>	<b>(84 594)</b>
Deferred corporate income tax	17	-	-
<b>LOSS FOR THE YEAR</b>		<b>(51 997)</b>	<b>(84 594)</b>
<b>Other items of comprehensive income</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(51 997)</b>	<b>(84 594)</b>

The accompanying notes on pages 14 to 27 are an integral part of the financial statements.

The financial statements were approved by the Board on 5 November 2021 and signed by:

  
Egils Zarms  
Chairperson of the  
Board

  
Gints Kārklis  
Chief Accountant

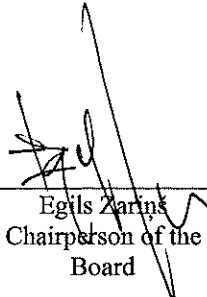
**ENVIRONMENTAL INVESTMENT FUND**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2020 AND 2019**

	Note	31.12.2020. euro	31.12.2019. euro
<b>ASSETS</b>			
<i><b>CURRENT ASSETS</b></i>			
Cash and cash equivalents	7	4 483 760	3 936 631
Other current assets	8	12 186	12 251
Loans to customers	9	280 401	362 087
Accrued income	10	7 892	27 999
<b>TOTAL</b>		<b>4 784 239</b>	<b>4 338 968</b>
<i><b>NON-CURRENT ASSETS</b></i>			
Property, plant and equipment	12	10 478	11 996
Rights of use assets	13	64 344	83 460
Loans to customers	9	1 784 402	2 063 287
<b>TOTAL</b>		<b>1 859 224</b>	<b>2 158 743</b>
<b>TOTAL ASSETS</b>		<b>6 643 463</b>	<b>6 497 711</b>
<b>LIABILITIES AND EQUITY</b>			
<i><b>LONG TERM LIABILITIES</b></i>			
Lease liabilities	13	45 882	64 998
<b>TOTAL</b>		<b>45 882</b>	<b>64 998</b>
<i><b>CURRENT LIABILITIES</b></i>			
Lease liabilities	13	18 462	18 462
Other loans	14	32 356	32 356
Deferred income	15	339 599	123 678
Accrued liabilities		29 786	23 200
Taxes		12	-
Other liabilities		387	-
Accounts payable to suppliers and contractors		6 556	12 597
<b>TOTAL</b>		<b>427 158</b>	<b>210 293</b>
<i><b>SHAREHOLDER'S EQUITY</b></i>			
Share capital	16	6 299 332	6 299 332
Retained earnings		(128 909)	(76 912)
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>6 170 423</b>	<b>6 222 420</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6 643 463</b>	<b>6 497 711</b>

*The accompanying notes on pages 14 to 27 are an integral part of the financial statements.*

The financial statements were approved by the Board on 5 November 2021 and signed by:

  
 Egils Zarins  
 Chairperson of the  
 Board

  
 Gints Kārklīšs  
 Chief Accountant

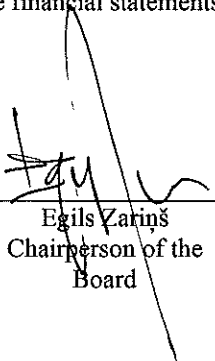
# ENVIRONMENTAL INVESTMENT FUND

## STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2020 AND 2019

	Share capital euro	Retained earnings euro	Total euro
As at 31 December 2018	6 299 332	7 682	6 307 014
Loss for the year	-	(84 594)	(84 594)
As at 31 December 2019	6 299 332	(76 912)	6 222 420
Loss for the year	-	(51 997)	(51 997)
As at 31 December 2020	6 299 332	(128 909)	6 170 423

*The accompanying notes on pages 14 to 27 are an integral part of the financial statements.*

The financial statements were approved by the Board on 5 November 2021 and signed by:



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Egils Zariņš  
Chairperson of the  
Board



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Gints Kārklīš  
Chief Accountant

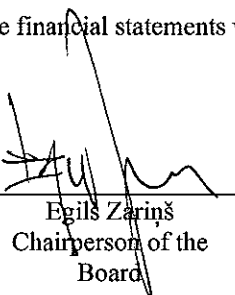
# ENVIRONMENTAL INVESTMENT FUND

## CASH FLOW STATEMENT FOR THE YEARS 2020 AND 2019

	Note	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
<i>Cash flows from operating activities</i>			
Loss for the year before taxes		(51 997)	(84 594)
Depreciation of Property, plant and equipment	12	4 140	2 906
Interest income	3	(6 965)	(13 130)
Net cash flow before changes in current items		(54 822)	(94 818)
<i>Cash flows from current items</i>			
Decrease in other current assets		20 173	284
Increase in accounts payable		216 864	1 469
Cash flow from operating activities		182 215	(93 065)
Corporate income tax payments	17	-	-
Net cash flow from operating activities		182 215	(93 065)
<i>Cash flows used in investing activities</i>			
Purchases of Property, plant and equipment	12	(2 622)	(10 572)
Loan repayments received		359 692	449 832
Interest payments received		7 844	15 510
Net cash flow used in investing activities		364 914	454 770
<i>Cash flows used in financing activities</i>			
Dividends		-	-
Net cash flow used in financing activities		-	-
Increase in cash and cash equivalents		547 129	361 705
Cash and cash equivalents at the beginning of the year		3 936 631	3 574 926
Cash and cash equivalents at the end of the year	7	4 483 760	3 936 631

The accompanying notes on pages 14 to 27 are an integral part of the financial statements.

The financial statements were approved by the Board on 5 November 2021 and signed by:

  
Egils Zariņš  
Chairperson of the  
Board

  
Gints Kārklīņš  
Chief Accountant

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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### 1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environment established the Fund based on an Order of the Cabinet of Ministers of the Republic of Latvia. The Fund is a limited liability company, which is governed by its own Charter and by the legislation of the Republic of Latvia. The Fund has been established to pool domestic funding with foreign funding to finance environmentally friendly projects by lending financial resources to public and private sector projects.

The activities of the Fund are:

- the participation in projects which yield a significant environmental benefit;
- the development and design of environmental projects;
- the monitoring implementation and operation of the projects;
- the popularization of environmental activities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Interpretations issued by the International Financial Reporting Issues Committee as adopted by the EU.

The financial statements cover the period 1 January 2019 through 31 December 2019. The financial statements were prepared according to the initial cost principle. The monetary unit used in the financial statements are the official currency of the European Union – the Euro. The financial statements have been prepared in accordance with below mentioned accounting and evaluation principles. These principles were also used in the previous reporting year, unless stated otherwise.

#### **Basis of preparation**

##### *Standards and Interpretations effective in the current period*

Except for the changes below, the Fund has consistently applied the accounting policies to all periods presented in these financial statements.

The Fund has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with date of initial application of 1 January 2020.

##### *New standards and interpretations*

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 "Leases" – Covid-19 Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Fund's financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS 2020 AND 2019

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorization of these financial statements, the following new standard, amendments to the existing standard and interpretation issued by IASB and adopted by the EU are not yet effective:

- Amendments to IFRS 4 Insurance Contracts “Extension of the Temporary Exemption from Applying IFRS 9” adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” – Interest Rate Benchmark Reform – Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

The Fund has elected not to adopt new standard, amendments to existing standard and interpretation in advance of their effective dates. The Fund anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Fund in the period of initial application.

**New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 31 December 2019 (the effective dates stated below is for IFRS as issued by IASB):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 “Insurance Contracts” including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 “Property, Plant and Equipment” – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 “Business Combinations” – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2018 – 2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

The Fund anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of The Fund in the period of initial application.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### *Reporting Currency*

The financial statements are presented in the euro (EUR) unless otherwise stated.

##### *Foreign currency*

The accompanying financial statements are presented in the Euro currency (hereinafter – EUR or euro), which is the Fund's functional and presentation currency.

All transactions denominated in foreign currencies are translated into the EUR at the European Central Bank rate of exchange prevailing on the transaction day. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the European Central Bank rate of exchange prevailing on 31 December 2020.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies into the EUR are recognised in the statement of comprehensive income.

##### *Loans and borrowings*

Loans and borrowings are accounted at initial value determined by adding expenses related to loan disbursement or subtracting costs of receiving a borrowing. Afterwards loans and borrowings are accounted at amortized value using the effective interest rate method. Amortized value is determined taking into account loan disbursement or borrowing approval costs as well as any other discounts or premiums related to loans or borrowings. Profit or loss from amortization is disclosed in the statement of comprehensive income as interest income and expenses.

##### *Provisions for doubtful debts*

Loans classified as financial assets at amortised cost, are tested for impairment as required by IFRS 9 and credit impairment provisions are measured based on expected credit losses. Expected credit losses are measured based on the stage to which the individual asset is allocated at each reporting date. In this regard, these instruments are classified in stage 1, stage 2 or stage 3 according to their absolute or relative credit quality with respect to initial disbursement. Specifically:

- Stage 1: includes (i) newly issued or acquired credit exposures, (ii) exposures for which credit risk has not significantly deteriorated since initial recognition, (iii) exposures having low credit risk (low credit risk exemption);
- Stage 2: includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition;
- Stage 3: includes impaired credit exposures.

For exposures in stage 1, impairment is equal to the expected loss calculated over a time horizon of up to one year. For exposures in stages 2 or 3, impairment is equal to the expected loss calculated over a time horizon corresponding to the entire life of the exposure.

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses which is aimed at transferring credit exposures from Stage 1 to Stage 2 (being Stage 3 equivalent to non-performing exposures). In the Fund, the Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between probability of default (PD) as measured at the time of origination and PD as at the reporting date, both assessed according to information available to management (e.g. financial ratios, public information);
- absolute elements such as the backstops (e.g. 30 days past-due) ;
- additional internal evidence (e.g. past performance, overdues).



## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Fund takes into account qualitative and quantitative reasonable and supportable information.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information in IFRS 9 PD and LDG that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Fund's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Fund's core operations.

The Fund considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors in full (without taking into account any collateral held by the Fund).

Irrespective of the above analysis, the Fund considers that default has occurred when a financial asset is more than 90 days past due unless the Fund has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The recoverable amount of the Fund's loans and other receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

According to the management's assessment, all loans issued by the Fund as of December 31, 2020 and December 31, 2019 are classified as Stage 1 exposures that have not been materially impaired since initial recognition and exposures with a low credit risk.

The amount of provisions is determined by assessing the probability of defaults, Loss Given Default and Exposure at Default, as well as taking into account management's estimates of the development of economic scenarios.

According to management assessment, the required provisions under IFRS 9 as at 31 December 2020 and 31 December 2019 do not exceed 5,000 euro. Due to the insignificance of this amount, no provision has been recognized in these financial statements.

#### *Property, plant and equipment and depreciation*

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful life of the assets. The rates per annum are as follows:

Fixtures and fittings	10%
Computers and office equipment	20%
Miscellaneous office assets	30%–50%

Repairs and renewals are charged to the statement of comprehensive income as incurred. Property, plant and equipment that cost in excess of 71 euro are capitalised. Profits and losses arising on the disposal of property, plant and equipment are reflected in the statement of comprehensive income in the year of disposal.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with the original maturity of less than three months. Statement of cash flows is prepared in accordance with indirect method.

##### *Grants*

Grants are recognized at the moment, when the Fund has sufficient assurance that it will be able to comply with the conditions related to them and the grants will be received.

Grants are disclosed in the profit or loss in the period, when the Fund recognizes in expenses the costs, which are compensated from the received grants. Thus, government grants whose primary condition is that the Fund should purchase, construct or otherwise acquire long-term assets are recognized as deferred income in the statement of financial position and recognized in profit or loss on a systematic and rational basis over the useful lives of the related assets.

##### *Income recognition*

Income is recognized in accordance with the Fund's expectations to gain economic benefit and to the extent it is reasonably justifiable. Interest income is recognized in the period it is earned. KPFI and EKII income, income from co-financing for development cooperation projects, commissions, fees and other income/ expenses are recognized when earned/ incurred. Project sponsor perform control over project expenses.

##### *Related parties*

Related parties are defined as shareholders, employees, Board members, their close relatives and companies, in which the above persons are involved in.

##### *Use of estimates*

In the process of preparation of the financial statements based on IFRS as adopted by EU, the management has to make some judgments and assumptions, which has effect on certain items of the financial statements. Therefore, actual results may differ from those estimates.

The following are the critical judgments and key estimates concerning the future, and other key sources of estimation uncertainty which exist at the reporting date of the financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next reporting period:

- *Carrying amounts of issued loans* – The Fund's management evaluates the carrying amounts of issued loans and evaluates their recoverability, recognising allowance for doubtful loans, if necessary. The Fund's management has evaluated the issued loans and considers that it is not necessary to make significant additional allowance as of 31 December 2020.
- *Income from compensation for implementation monitoring function* – The Fund's management estimates the amount of income to be recognised based on expenses incurred. Income from compensation is not recognised if the expenses are not related to the respective projects and are not expected to be compensated.

##### *Leases*

The Fund assesses whether a contract is or contains a lease, at inception of the contract. The Fund recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Fund recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS 2020 AND 2019

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Fund remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over period of lease term and position is disclosed in separate position of the statement of the financial position.

***Taxation***

The Fund was exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations till the Fund reorganization. Starting from 21 October 2004 the Fund has to pay corporate income tax and dividends for use of the state capital. The Fund is not registered as a Value Added Taxpayer.

***Corporate income tax***

Corporate income tax assets and liabilities are measured at the amount expected to be received from or paid to the tax authorities. Starting with 2018, corporate income tax is calculated only on the portion of profit that is deducted from economic activity, or at the time of distribution.

***Fair value of financial assets and liabilities***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Fund.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use. The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for respective assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

When applicable, further information about the assumptions made in determining fair values is disclosed in the consolidated financial statements specific to that asset or liability.

The carrying value of the Funds's current financial assets and liabilities is assumed to approximate to their fair value. Fair value of the remaining financial instruments is estimated by discounting the expected future cash flows to net present values using appropriate market interest rates available at the end of the reporting period. The Fund's interest-bearing liabilities are subject to the market rates, therefore, carrying amounts are considered as the fair value thereof.

#### *Subsequent events*

Post-year-end events that provide additional information about the Fund's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

#### *Vacation reserve*

Accruals for vacation reserve are determined by multiplying average salary of an employee for the last 6 month with the number of unused vacation days. Social security tax for calculated benefit is accrued respectively.

#### 3. INTEREST INCOME

	01.01.2020. – 31.12.2020.	01.01.2019. – 31.12.2019.
	euro	euro
Interest income from loans to customers	6 965	13 130
<b>Total</b>	<b>6 965</b>	<b>13 130</b>

The interest rates for deposits in banks for the years ended 31 December 2020 and 2019 where 0%. Interest rates for loans disbursed are disclosed in Note 9.

#### 4. OTHER INCOME

	01.01.2020. – 31.12.2020.	01.01.2019. – 31.12.2019.
	euro	euro
Co-financing for development cooperation projects	133 806	116 047
Compensation for EKII implementation monitoring function	104 958	94 360
Compensation for KPFI implementation monitoring function	66 884	62 306
Other income	658	9
<b>Total</b>	<b>306 306</b>	<b>272 722</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 5. ADMINISTRATIVE EXPENSE

	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
Personnel costs:		
– salaries	187 585	173 592
– state obligatory social security payments	45 888	41 818
Board costs:		
– salaries	37 034	31 116
– state obligatory social security payments	8 223	7 496
Office rent depreciation and public utilities	32 701	43 066
Business trips	6 379	21 786
Audit fee	5 808	6 050
Office supplies and stationary	2 970	3 310
Communications	2 319	2 987
Provisions for vacation expense	6 586	4 541
Other administrative expense	25 635	31 778
<b>Total</b>	<b>361 128</b>	<b>367 540</b>

The average number of persons employed by the Fund excluding the Member of the Board during the year ended 31 December 2020 was 13 (in year that ended 31.12.2019: 13).

#### 6. PROFIT FOR THE YEAR

Pursuant to the Law On Management of The Public person shares and companies the Fund transfers 90% of net profit to the state budget as dividends.

#### 7. CASH AND CASH EQUIVALENTS

	31.12.2020. euro	31.12.2019. euro
Balances with banks		
– EUR current account	4 483 188	3 935 903
– credit card	538	694
Cash on hand	34	34
<b>Total</b>	<b>4 483 760</b>	<b>3 936 631</b>

#### 8. OTHER CURRENT ASSETS

	31.12.2020. euro	31.12.2019. euro
Tax prepayments	9 418	8 762
Security deposit for office rent	1 862	1 862
Prepaid expense	814	1 535
Other assets	92	92
<b>Total</b>	<b>12 186</b>	<b>12 251</b>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS 2020 AND 2019

9. LOANS TO CUSTOMERS

	31.12.2020. euro	31.12.2019. euro	
<i>Remaining maturity</i>			
Accrued interest income receivable within less than 1 year	1 516	2 395	
Less than one year	278 885	359 692	
Within one to five years	584 002	695 412	
Within five to ten years	671 616	706 217	
More than ten years	528 784	661 658	
<b>Total</b>	<b>2 064 803</b>	<b>2 425 374</b>	
Provisions for doubtful debts (Note 11)	-	-	
<b>Total, net</b>	<b>2 064 803</b>	<b>2 425 374</b>	
<i>Analysis by sector</i>			
Water and waste water treatment	1 996 392	2 295 706	
Environment friendly heat supply	66 895	127 273	
Accrued interest income	1 516	2 395	
<b>Total</b>	<b>2 064 803</b>	<b>2 425 374</b>	
Provisions for doubtful debts (Note 11)	-	-	
<b>Total, net</b>	<b>2 064 803</b>	<b>2 425 374</b>	
<i>Customer analysis</i>			
Municipal companies	1 866 683	2 142 761	
Municipalities	196 604	280 218	
Accrued interest income	1 516	2 395	
<b>Total</b>	<b>2 064 803</b>	<b>2 425 374</b>	
Provisions for doubtful debts (Note 11)	-	-	
<b>Total, net</b>	<b>2 064 803</b>	<b>2 425 374</b>	
<i>Currency analysis</i>			
	31.12.2020.		31.12.2019.
	Currency	euro	Currency
Euro	2 063 287	2 063 287	2 422 979
<b>Total</b>	<b>2 063 287</b>	<b>2 063 287</b>	<b>2 422 979</b>
Provisions for doubtful debts (Note 11)	-	-	-
<b>Total, net</b>	<b>2 063 287</b>	<b>2 063 287</b>	<b>2 422 979</b>
<i>Loan size analysis excluding accrued interest income</i>			
	31.12.2020.		31.12.2019.
	Number	euro	Number
Up to 10 000	6	20 853	8
10 000 – 50 000	11	270 470	14
50 000 – 250 000	12	1 235 725	13
Over 250 000	2	536 239	2
<b>Total</b>	<b>31</b>	<b>2 063 287</b>	<b>37</b>
Provisions for doubtful debts (Note 11)	-	-	-
<b>Total, net</b>	<b>31</b>	<b>2 063 287</b>	<b>37</b>

As of 31 December 2020 and 2019 there were no overdue payments. Information on collateral types is disclosed in note 19. The interest rates on loans ranged from 0.150% to 4.500%. The loans have fixed and variable interest rate. For loans with variable interest rate, interest rate for the next year is set by the Board of the Fund on the last day of previous period based on actual interest rate for State Treasury loans denominated in the national currency in the particular period that is published on State Treasury home page [www.kase.gov.lv](http://www.kase.gov.lv) and that is decreased by 0.1%.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

#### 10. ACCRUED INCOME

	31.12.2020. euro	31.12.2019. euro
Accrued income on co-financing for development cooperation projects	7 892	27 999
<b>Total</b>	<b>7 892</b>	<b>27 999</b>

#### 11. PROVISIONS FOR DOUBTFUL DEBTS

	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
At the beginning of the year	-	-
Result of IFRS 9 implementation	-	-
At the end of the year	-	-

#### 12. PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment euro	Fixtures and fittings euro	Total euro
<i>Historical cost</i>			
At 31 December 2018	30 645	32 113	62 758
Additions	10 572	-	10 572
Disposal	(4 148)	(1 995)	(6 143)
At 31 December 2019	37 069	30 118	67 187
Disposal	2 433	189	2 622
At 31 December 2020	39 502	30 307	69 809
<i>Accumulated depreciation</i>			
At 31 December 2018	30 471	27 957	58 428
Charge for the year	1 626	1 280	2 906
Disposal	(4 148)	(1 995)	(6 143)
At 31 December 2019	27 949	27 242	55 191
Charge for the year	2 844	1 296	4 140
At 31 December 2020	30 793	28 538	59 331
<i>Net book value</i>			
At 31 December 2019	9 120	2 876	11 996
At 31 December 2020	8 709	1 769	10 478

As at 31 December 2020 the fixed assets with historical cost of 43 816 euro (31 December 2019: 43 699 euro) are fully depreciated but still used by the Fund in daily operations.

#### 13. RIGHTS OF USE ASSETS AND LEASE LIABILITIES

During 2019 the Fund has entered into lease agreement for premises rent and has recognized it in accordance with IFRS 16. For interest calculation rate of 0.865% is used.

##### a) RIGHTS OF USE ASSETS

	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
Net book value at the beginning of the year	83 460	-
Initial recognition	-	96 300
Depreciation for the period (Note 5)	(19 116)	(12 840)
Net book value at the end of the year	<b>64 344</b>	<b>83 460</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 13. RIGHTS OF USE ASSETS AND LEASE LIABILITIES (CONT'D)

##### b) LEASE LIABILITIES

	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
Net book value at the beginning of the year	83 460	-
Initially recognized	-	96 300
Decrease of liability	(18 462)	(12 308)
Interest expense	(654)	(532)
Net book value at the end of the year	<u>64 344</u>	<u>83 460</u>
<i>incl. short-term</i>	18 462	18 462
<i>incl. non-current</i>	45 882	64 998

Lease liabilities as at the signing agreement 96 300

Annual lease payment:

2019	12 308
2020	18 462
2021	18 462
2022	18 462
2023	18 462
2024	6 154

The Fund does not face a significant liquidity risk with regard to its lease liabilities.

#### 14. OTHER LOANS

EU Phare Financing Agreement, number LE9704.02.03/ 0001/ MAIN, for 2 million euro was signed on 24 October 2000. The purpose of the financing is to assist the operation of Environmental Credit Scheme set up under the Phare 1997 Financing Memorandum between the Government of the Republic of Latvia and the Commission of the European Communities for the Country Operational Programme for Latvia 1997. Interest is not charged on funds disbursed under the Phare Financing Agreement. Amount transferred to Fund for realization of project based on agreement and reflected in the statement of financial position as at 31 December 2020 and 2019 amounts to 32 356 euro.

#### 15. DEFERRED INCOME

	31.12.2020. euro	31.12.2019. euro
Co-financing for development cooperation projects	272 930	67 479
Emission Allowances Finance Instrument	35 614	45 069
Climate Change Financing Instrument	31 055	11 130
Total	<u>339 599</u>	<u>123 678</u>

There are no any unfulfilled conditions and other contingencies attaching to those financing grants.

##### Climate Change Financing Instrument (KPFİ) financing

According to the Amendments to the Law "Participation of the Republic of Latvia in the flexible mechanisms of the Kyoto Protocol" that came into force on 3<sup>rd</sup> March 2010 a number of functions regarding monitoring of implementation of projects co-financed by Climate change financing instrument were delegated to the Fund. An agreement between the Fund and the Ministry of Environmental Protection and Regional Development (MEPRD) on implementation of the selective delegation functions of Climate change financing instrument is signed.

##### Emission Allowances Finance Instrument (EKİİ) financing

An agreement between the Fund and the MEPRD on implementation of delegation functions of Emission Allowances Finance Instrument and implementation of delegation functions of Climate change financing instrument is signed. Additional unaudited information on implementation of delegation functions is disclosed on pages 28 and 29.



## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 16. SHARE CAPITAL

As of 31 December 2020 and 2019 the Fund's fully paid share capital was 6 299 332 euro consisting of 6 299 332 ordinary shares.

As of 31 December 2020 and 31 December 2019 there was no earnings per share. Share capital of the Fund is fully paid. Sole shareholder of the Fund is Ministry of Environmental Protection and Regional Development.

#### 17. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

##### *Corporate income tax*

	01.01.2020. – 31.12.2020.	01.01.2019. – 31.12.2019.
	euro	euro
Corporate income tax for the year	-	-
<b>Current and deferred corporate income tax for period</b>	<u>-</u>	<u>-</u>

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which became effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to this date corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods.

The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits, which are generated within Latvian jurisdiction and are not paid out in dividends, corporate income tax from 1 January 2018 is not payable.

The current version of the amended tax legislation retains certain conditional transitional provisions where the new tax does not apply to distribution of retained earnings from previous tax regime (currently no expiry date) and unutilised tax losses may be offset against certain tax payables (5 year expiry date). The Fund, in case dividends were to be distributed, might have positive tax benefits from these transitional provisions, but as deferred tax is calculated on tax rate which applies to undistributed earnings, no deferred tax asset may be recognised until actual distribution.

The Fund has completely derecognised previously recognized deferred Income tax due to changes of legislation.

#### 18. OFF BALANCE SHEET ITEMS

*Legal claims.* As of date of these financial statements the Fund is involved in multiple legal proceedings as a defendant. Management assumes that the Fund will not incur any liabilities from the processes.

As at 31 December 2020 and 2019 the Fund did not have other off-balance sheet commitments or contingencies.

#### 19. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans, cash and short-term deposits. The other financial instruments of the Fund are accounts receivable and other debtors, accounts payable to suppliers and contractors and other creditors, which directly arise from the Fund's activities.

The main financial risks arising from the Fund's financial instruments are credit risk, market price risk, liquidity risk, interest rate risk and currency risk.

##### **Interest rate risk**

The Fund is exposed to interest rate risk. The interest rate on the loans issued by the Fund is disclosed in Note 9.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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#### 19. FINANCIAL RISK MANAGEMENT (CONT'D)

##### Credit risk

The Fund is vulnerable to credit risk relating to disbursed loans and cash and its equivalents. The policy of the Fund controls the credit risk by constantly monitoring each client individually to minimize the possibility of the bad debts. The Fund's employees review each loan application and report on decision is submitted to the Board. Loans are secured by pledge of real estate, by third party guarantee or municipal guarantees. The Fund disburses loans in accordance with the terms of the loan agreement by paying invoices based on signed contracts for supply of services or acquisition of equipment.. All procurements financed by the Fund must follow principles of the Law Public Procurement. The Fund's employees make regular site visits.

The maximum exposure to credit risk for financial instruments:

	31.12.2020.		31.12.2019.	
	Gross euro	Net euro	Gross euro	Net euro
<b>Neither past due nor impaired</b>				
Cash and cash equivalents	4 483 760	4 483 760	3 936 631	3 936 631
Loans to customers	2 064 803	2 064 803	2 425 374	2 425 374
<b>Total</b>	<b>6 548 563</b>	<b>6 548 563</b>	<b>6 362 005</b>	<b>6 362 005</b>

Received warranties / guarantee's on loans issued	31.12.2020.	31.12.2019.
	euro	euro
Municipality guarantee (borrowers are municipal companies)	1 836 208	2 094 887
Municipality budget (borrowers are municipalities)	196 604	280 218
Commercial pledge (borrowers are municipal companies)	30 475	47 874
<b>Total</b>	<b>2 063 287</b>	<b>2 422 979</b>

##### Market price risk

It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to market price fluctuations. Funds not yet disbursed to customers are held as bank deposits if possible.

##### Liquidity risk

The Fund controls liquidity risk by maintaining sufficient level of cash and its equivalents and controlling disbursement/ prepayment of loans.

##### Currency risk

It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to exchange rate fluctuations. Since the major part of transactions are made euro, foreign currency risk is not significant.

##### Operational risk

The Fund's activities also involve other types of risks that may cause unexpected losses. The cause of such risks, for example, may be human errors or fraud, information system problems and insufficient internal control and procedures. The Fund's management supervises, and the respective specialists monitor and control the above mentioned risks.

#### 20. RELATED PARTY DISCLOSURES

The Fund has entered into transactions with companies with state shareholding. The major transactions are with SIA "ML Auto", SIA "Latvijas Mobilais Telefons", VAS "Elektroniskie sakari" etc. All transactions are related to the core activities of the respective parties.

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2020 AND 2019

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### 21. SUBSEQUENT EVENTS

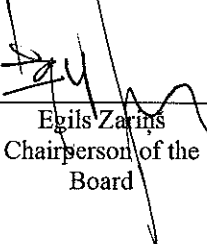
As of the last day of the reporting year until the date of signing these financial statements, there have been no events requiring adjustment of or disclosure in the financial statement or notes thereto.


### 22. GOING CONCERN

In March 2020, restrictions related to the spread of the COVID-19 virus have entered into force in the Republic of Latvia and many other countries, which significantly reduce the economic development in the country and in the world. It is not possible to forecast how the situation will develop in the future, and therefore there is uncertainty about economic development. The Fund is constantly evaluating the situation. At present, the Fund has not ceased operations and continues to monitor projects financed by the KPFI and the EKII. The Fund's management believes that the Fund will be able to overcome an emergency situation, the Fund's borrowers are utilities, loans are secured by municipal guarantees. The Fund has provided for employees possibility to work remotely and the Fund ensures that there is a distance of at least 2 meters between employees. The effect of future events on the Fund's future operations may differ from management's assessment and cannot be estimated reliably at this time.

The Fund plans to continue its activities in compliance with the requirements set out in regulatory enactments regarding the performance of precautionary measures in the supervision of projects financed by the KPFI and the EKII. Supervision of implementation of projects co-financed by the KPFI and the EKII will be the main Fund's activity also in 2021. The Fund expects to expand its services and provide financing within ESCO project.

These financial statements have been prepared in accordance with going concern principle and contain no adjustments that might be necessary shall the going concern principle be not applicable.

  
\_\_\_\_\_  
Egils Zarins  
Chairperson of the  
Board

  
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Gints Kārklīšs  
Chief Accountant

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## ENVIRONMENTAL INVESTMENT FUND

### UNAUDITED FINANCIAL INFORMATION FOR THE YEARS 2020 AND 2019

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#### Unaudited financial information

#### Climate Change Financing Instrument (KPMI) financing

The Fund provides the realization of following main tasks:

- develops guidelines for project monitoring for the KPMI funding recipients,
- provides recommendations to the MEPRD about amendment in project,
- performs risk assessments of project, prepares an annual plan for the inspections at projects implementation sites, as well as carry out inspections,
- examines and approves reports submitted by the KPMI funding recipients,
- publishes information about projects in the Fund website,
- accumulates information on projects,
- monitors information and publicity activities in project, including at the project implementation site,
- provides consultations to the KPMI funding recipients about fulfilling project agreement conditions.

	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
Personnel costs:		
– salaries	48 156	41 587
– state obligatory social security payments	11 603	10 018
Business trips	6 208	6 561
Depreciation	545	895
Office supplies and stationary	221	134
Communications	6	573
Office rent and public utilities	-	2 311
Other administrative expense	145	227
<b>Total</b>	<b>66 884</b>	<b>62 306</b>
<b>State budget assignments</b>	<b>66 884</b>	<b>62 306</b>
<b>Disclosed in income statement</b>	<b>-</b>	<b>-</b>

## ENVIRONMENTAL INVESTMENT FUND

### UNAUDITED FINANCIAL INFORMATION FOR THE YEARS 2020 AND 2019

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#### Emission Allowances Finance Instrument (EKII) financing

The Fund provides the realization of following main tasks:

- develops guidelines for project implementation and monitoring for the EKII funding recipients,
- organizes seminars for the EKII project applicants about project proposal preparation and for the EKII funding recipients about project implementation, preparation of the reports, monitoring and realization of publicity activities,
- signs project agreements,
- performs risk assessments of project, prepares an annual plan for the inspections at projects implementation sites, as well as carry out inspections,
- examines and approves reports submitted by the EKII funding recipients,
- examines payment requests, as well as gives resolution on eligibility of expenses included in payment request in conformity with the laws and regulation requirements, and terms of project agreement,
- publishes information about projects in the Fund website,
- accumulates information on projects,
- monitors information and publicity activities in project, including at the project implementation site,
- provides consultations to the EKII funding recipients about fulfilling project agreement conditions,
- together with MEPRD organizes project tenders,
- performs secretarial functions for the project proposal evaluation, providing consultative and technical support to evaluation committee,
- develops guidelines for project applicants, evaluation guidelines and evaluation committee regulations for the EKII tenders, prepares answers to project applicant questions about the EKII tender rules,
- prepares recommendations in the form of decision about approval of the projects and financing or rejection of the project.

	01.01.2020. – 31.12.2020. euro	01.01.2019. – 31.12.2019. euro
Personnel costs:		
– salaries	70 167	62 933
– state obligatory social security payments	16 929	15 160
Office rent and public utilities	14 423	10 019
Depreciation	1 486	1 059
Communications	748	874
Office supplies and stationary	395	920
Business trips	139	289
Experts (tender evaluation)	-	2 940
Other administrative expense	671	166
<b>Total</b>	<b>104 958</b>	<b>94 360</b>
<b>State budget assignments</b>	<b>104 958</b>	<b>94 360</b>
<b>Disclosed in income statement</b>	<b>-</b>	<b>-</b>