NORDIC INVESTMENT BANK

FINANCING THE FUTURE

ANNUAL REPORT

2016

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MISSION FULFILMENT

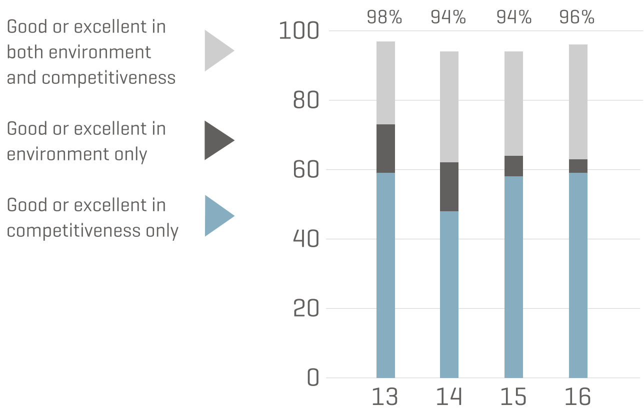
NIB's mission is to finance projects that improve competitiveness and the environment of the Nordic and Baltic countries. All projects considered eligible for financing are analysed for their potential socioeconomic and environmental impact. This is to ensure conformity with NIB's mission and sound banking principles.

In 2016, NIB signed 58 new loan agreements. Loans achieving a "good" or "excellent" mandate rating accounted for 96% of the total amount of lending, excluding investments in green bonds.

The majority of environmental loans related to projects supporting the transition to a low-carbon economy in NIB's member countries. This includes projects promoting climate change mitigation and renewable energy. Competitiveness-based loans mainly supported investments in municipal infrastructure, such as public transport and wastewater treatment projects as well as investments in research and development.

Mandate rating

% of loans agreed, excluding
Lending Green Bond purchases



ENHANCING THE ENVIRONMENT

Environmental concerns are integral to NIB's daily activities and part of the Bank's overall management systems. NIB's environmental analysts and loan officers work in close cooperation to identify and assess eligible projects.

When assessing the environmental impacts of loan projects the analyses focus on:

- improvements in resource efficiency
- development of a competitive low carbon economy
- protection of the environment and its ecosystem services
- development of clean technology

In 2016, long-term loans for projects with a "good" or "excellent" environmental mandate rating amounted to an all-time high of EUR 1,567 million, or 37% of all agreed loans.

Many of these environmental loans support the transition to a low-carbon economy by financing renewable energy projects, public transportation systems and green buildings. Public transport projects with climate change mitigation effects received a total of EUR 390 million in loans from NIB in 2016.

Loans for biomass-fired power plants and hydropower investments in Sweden, Finland and Norway amounted to EUR 378 million. Loans to green buildings accounted for EUR 229 million.

Examples of NIB's environmental loans in 2016

NIB agreed a loan to finance the design, construction, operation and maintenance of the biomass combined heat and power (CHP) plant in Värtan, Stockholm. The biofuel-fired CHP plant was inaugurated in May 2016, and is an important step in developing a sustainable energy supply for Stockholm. The plan is for district heating in the city to be entirely produced from renewable or recovered energy by 2030.

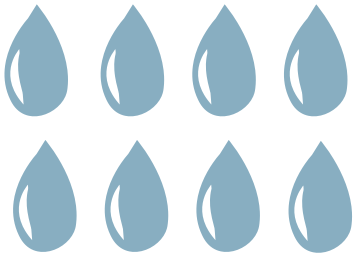
In Northern Norway, NIB signed a loan agreement with Helgeland Kraft for financing six hydropower plants with an estimated total generation capacity of 166 GWh annually. This amounts to about 16% of Helgeland Kraft's total production.

In order to increase the proportion of renewable fuels in its energy production, Helsinki's energy utility Helen signed a loan with NIB to finance the construction of a new wood pellet district heating plant for peak load production in Salmisaari. The plant will replace an already demolished heavy oil fuel plant.

The new wood pellet plant will have a fuel capacity of 100 MW and an estimated district heat output of 92 MW, or 230–280 GWh annually, enough to heat about 25,000 two-room apartments. The Salmisaari plant will become the largest of its kind in Finland.

Protection of the environment and ecosystems

Wastewater treatment



NIB financed **eight wastewater treatment projects** in Sweden and Norway for a total of **EUR 683 million.**

During 2016, NIB agreed a significant number of wastewater treatment projects, eight loans totalling EUR 683 million.

The City of Stockholm decided to double the capacity at the Henriksdal underground wastewater plant to more than 500,000 cubic metres per day and to close its facility at Bromma. This will increase the capacity of Stockholm's sewer network.

In addition, the production of biogas at Henriksdal will almost double to 35 million normal cubic meters per year. Improving the sewer network will also reduce overflows of untreated wastewater discharged into Lake Mälaren from an estimated 185,000 cubic meters annually to less than 10,000.

In addition, the use of a new membrane bioreactor (MBR) technology at Henriksdal is expected to significantly lower discharges of phosphorous and nitrogen into the Baltic Sea. The MBR will also prepare for the installation of pharmaceutical cleaning equipment.

The MBR technology will result in 40% lower discharges of phosphorus and 33% lower discharges of nitrogen into the Baltic Sea. It will also remove all micro plastics from the wastewater.

In Luleå, North Sweden, three projects were agreed upon; a second bio-waste digester and a bio-fuel upgrade, a sewage pipeline and the expansion of a drinking-water plant. The second project concerns the construction of another digester at the Uddebo wastewater treatment plant and bio-fuel production.

The bio-fuel upgrade installed at Uddebo is unique in Sweden as it uses a new membrane filtering technique with lower fugitive emissions of methane. The bio-fuel is used to fuel the municipality's vehicles, and surplus gas is used for heating the wastewater treatment plant.

In the City of Oslo, a loan from NIB will support investments in increasing the capacity of the Bekkelaget wastewater treatment plant to handle sewage and wastewater from a population equivalent to 490,000 people. This is up from the current capacity of 270,000.

The production of biogas from wastewater sludge will double. The gas will be used for heating the plant and as fuel for buses. The remaining residue will be used as fertiliser on agricultural land.

ENVIRONMENTAL PARAMETERS

NIB calculates the total net emissions of greenhouse gases for all the projects it finances. Emissions can either occur directly, e.g. via fuel combustion or production process emissions, or indirectly through purchased electricity or heat. NIB prorates the emission to its share of the financing in order to avoid double-accounting with co-financiers.

The carbon footprint information of all projects is reported to NIB's decision makers in the credit committee and Board of Directors prior to loan decisions.

The major international financial institutions agreed on a harmonised approach to project-level greenhouse gas accounting in 2012. Since then, technical working groups have developed sector-specific accounting principles for renewable energy, energy efficiency and for the transport sector. NIB is actively participating in the working groups.

The majority of the environmental loans agreed in 2016 related to projects promoting climate change mitigation in the member countries. These comprised loans to improve energy efficiency of public and commercial buildings, including one green R&D building, and public rail transport infrastructure.

Loans were also agreed for renewable energy generation projects in hydropower, biomass-fuelled heat and power plants for municipalities and as part of new pulp mills.

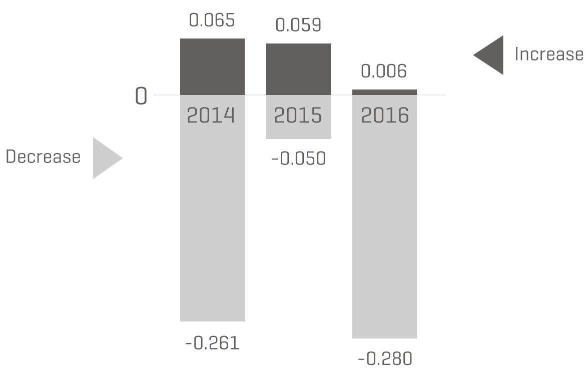
Energy projects financed by NIB in 2016 will add 1.5 TWh annually to renewable energy generation.

NIB estimates that the loans agreed in 2016 help to reduce CO_2 emissions by 280,000 tonnes annually, prorated to NIB's share of the financing.

The percentage of NIB's total lending volume allocated to climate change mitigation projects amounted to 22%. NIB also financed projects that will increase CO_2 emissions to air from fossil fuels. The added CO_2 impact resulted in an increase of 6,000 tonnes of CO_2 prorated to NIB's share of the financing.

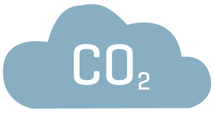
CO2* impact of NIB's financing

Millions of tonnes of CO_2 per year

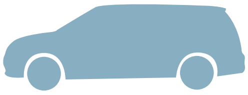


*CO_2 is CO_2 equivalent.

CO_2 reduction

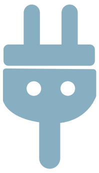


NIB loans in 2016 contributed to an annual reduction of **280,000 tonnes** of CO_2 emmissions, and to an increase of **6,000 tonnes** of CO_2 emissions.

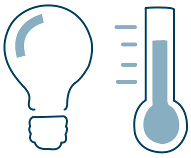


This reduction equals taking **228,000 cars** off the road.

Electricity generated



NIB loans to renewable energy projects in 2016 contributed to an annual increase of **1.5 TWh** in electricity generated.



This increase equals the energy need of **60,000 homes.**

IMPROVING COMPETITIVENESS

In 2016, NIB agreed a record amount of loans improving the competitiveness of its Nordic–Baltic member countries.

NIB uses a five-grade scale to measure the expected potential impact its financed projects have on the competitiveness of its member countries.

The ratings are based on a conceptual framework that considers both short- and long-term indicators. They measure direct effects at a project owner level, and also those impacting the region on a broader scale through potential wider and indirect effects on business clusters, sectors and the rest of the economy.

The largest share of lending was extended to municipal infrastructure, such as schools, modern healthcare facilities, water networks and wastewater systems. These investments mostly take place in fast-growing cities where urbanisation is creating new business opportunities. Demographic pressure is also placing new demands on urban infrastructure and services.

An example of this is a loan agreed with the largest and fastest-growing city in the Nordic countries, Stockholm in Sweden. Here, NIB is financing an expansion of the Henriksdal underground wastewater treatment plant and the construction of a 15-kilometre sewer tunnel.

The projects will double the capacity of the Henriksdal facility and significantly increase the efficiency of the city's wastewater system. This is deemed necessary as the city's population is increasing by about 2.5% annually.

In addition to municipal infrastructure, NIB also financed several regionally important projects in 2016. In Estonia, NIB agreed a loan with Tallinn Airport to upgrade its infrastructure. The upgrade will increase the safety and efficiency of airport operations and improve the connectivity of the region.

NIB also extended a loan from its Arctic Facility to finance Statnet's new power transmission line in Norway from Ofoten in Nordland County to Balsfjord in Troms County. The investment will significantly increase the transmission capacity required for security of supply reasons and allow for more production of renewable energy over the coming years.

NIB supports technical progress and innovation in member countries by financing R&D activities.

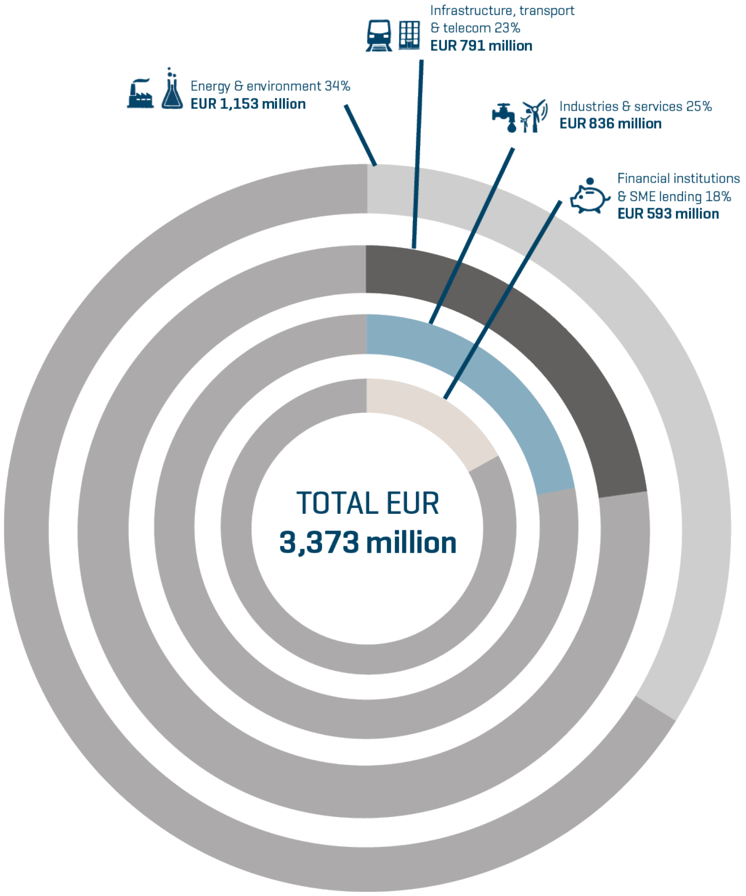
According to NIB's updated strategy of reaching out to mid-cap companies, NIB signed a loan with the Icelandic company Össur, a technology leader in bracing and support solutions, compression therapy and prosthetics products. Össur is an R&D-intensive company, and its investments create high value-added jobs and contribute to skills development in Iceland.

In 2016, NIB significantly increased lending to financial intermediaries in order to facilitate lending to smaller businesses. One of these loan programmes is a new risk-sharing loan facility launched by NIB and the Finnish non-life insurer Garantia Insurance Company Ltd. Garantia is authorised to select eligible borrowers and perform the credit analysis and risk rating in accordance with principles agreed between it and NIB.

Channelling financing through intermediaries will continue to be an important way for NIB to support the growth of smaller companies, which account for most of the jobs and value created in NIB's member countries.

Loans disbursed in 2016

(including Lending Green Bond purchases)



SUSTAINABILITY MANAGEMENT

In line with its mission to finance projects that improve the competitiveness and the environment of the Nordic–Baltic countries, NIB emphasises sustainability in all its operations.

NIB's Sustainability Policy and Guidelines cover the environmental and social aspects taken into account in every loan decision. The Bank's codes of conduct cover the corporate governance issues of NIB's operations. Transparent and ethical business practices are ensured by training staff and developing operations. The Bank also seeks to reduce its own environmental footprint.

Sustainability matters are shared between the Chief Compliance Officer, who reports directly to the CEO and has direct access to the chairpersons of the Board of Directors and the Control Committee, and the Head of the Sustainability and Mandate Unit, who can report directly to the CEO on sustainability matters.

The Office of the Chief Compliance Officer handles allegations of non-compliance with the Bank's policies and procedures, including denials of information. The Sustainability and Mandate Unit is responsible for assessing the mandate compliance of projects financed by NIB as well as their sustainability aspects.

The Head of Communication, who also reports directly to the CEO, is responsible for communicating sustainability matters.

Environmental aspects

NIB aims to improve sustainability in all of its business areas. This is done by financing projects with direct and indirect environmental benefits, and by requiring appropriate environmental safeguards to be applied. NIB may also give advice regarding clients' prospective projects to enhance their environmental and social performance.

The Bank's Sustainability and Mandate unit assesses the environmental and social impacts of all projects for consistency with the Sustainability Policy and Guidelines. If adverse environmental and social impacts cannot be avoided in a project, they must be appropriately minimised, mitigated or compensated for.

A proposed project can be rejected due to non-compliance with the policy. The Sustainability Policy also includes an exclusion list with activities not eligible for financing. After disbursement, the Bank follows the performance of borrowers' projects based on agreed reporting as well as regular contact.

The need for sustainability monitoring is assessed as part of NIB's environmental and social review.

In 2016, NIB began to conduct ex-post mandate assessment procedures to examine the implementation and long-term results of projects financed by the Bank. Read more about the evaluation process in Lending.

NIB is actively involved in the harmonisation process of sustainability issues with its international financial institution peers. Harmonisation issues could typically cover common reporting on impacts of projects, due diligence processes, etc.

NIB aims to continuously improve its environmental management system and has been a member of the WWF's Green Office programme since 2009. The Bank monitors and reports on its environmental footprint. Read more about internal environmental management in Our ecological footprint.

Social aspects

NIB emphasises good management of human resources. The Bank sees respect for workers' rights and freedom of association as basic elements of good business practice. NIB does not tolerate discrimination based on gender, race, nationality, ethnic origin, religion, disability, age or sexual orientation internally or in any of the projects it finances.

When a risk of any type of discrimination is identified in a financed project, a review by a third party expert may be performed.

Furthermore, NIB requires its clients to comply with international standards on the employment of minors. The use of forced labour is not accepted by NIB. Sound management of health and safety issues among workers and communities is essential for the productivity and efficiency of business, as is respect for their livelihoods.

The Bank shall, with due regard to available resources and other relevant circumstances, actively strive to prevent discrimination, to encourage both women and men to apply for vacant positions and to create as equal and equitable opportunities as possible for employees in regards to training and promotion.

Read more about the Bank's human resource practices in Our people.

Corporate governance

NIB pursues the highest level of integrity, transparency and accountability in all its operations and activities.

The Bank has adopted a zero-tolerance attitude towards corruption. Anti-corruption training is undertaken regularly for the Bank's staff and members of governing bodies to ensure that their respective codes of conduct are well understood and complied with. Read more about Ethics and Integrity and the Codes of Conduct.

DEFINING WHAT MATTERS

NIB develops its sustainability reporting based on the requirements set out in the GRI G4 Reporting Guidelines. The Bank aims to report on the most crucial economic, environmental and social impacts of its operations. Equal importance is given to maintaining an ongoing dialogue with our stakeholders. NIB's reporting also includes indicators from the GRI's Financial Sector Supplement.

In order to define and respond to the sustainability aspects that matter most to the Bank and its key counterparties, the methodology of the materiality process is based on three different stakeholder interactions conducted during 2015 and 2016:

Methodology: Strategy review and implementation

As an international financial institution owned by the Nordic and Baltic countries, NIB has a mission to finance projects that improve competitiveness and the environment of the Nordic–Baltic region. This mission guides our operations and is the single most important aspect in all our processes.

In 2015, NIB thoroughly reviewed its strategy. During the year-long process, the Bank's Board of Directors participated in several seminars and workshops to discuss NIB's mission, capital and stress testing, the economic landscape of the Nordic–Baltic region and NIB's purpose and relevance.

The process concluded that the Bank's mission is strong and that the present business model is to remain the foundation of NIB's operations. However, it was decided to broaden lending activities.

Based on the decisions of the Board of Directors, NIB's operations in 2016 were, in many ways, dedicated to implementing the key areas of the reviewed strategy.

The Bank increased its lending to small and medium-sized corporates and mid-caps, and launched an Arctic Financing Facility. A further aim is to increase NIB's lending activities in the Baltic countries and in non-member countries.

In 2016, NIB also started purchasing green bonds issued by companies or municipalities in its member countries to finance environmental projects.

Methodology: External stakeholder survey

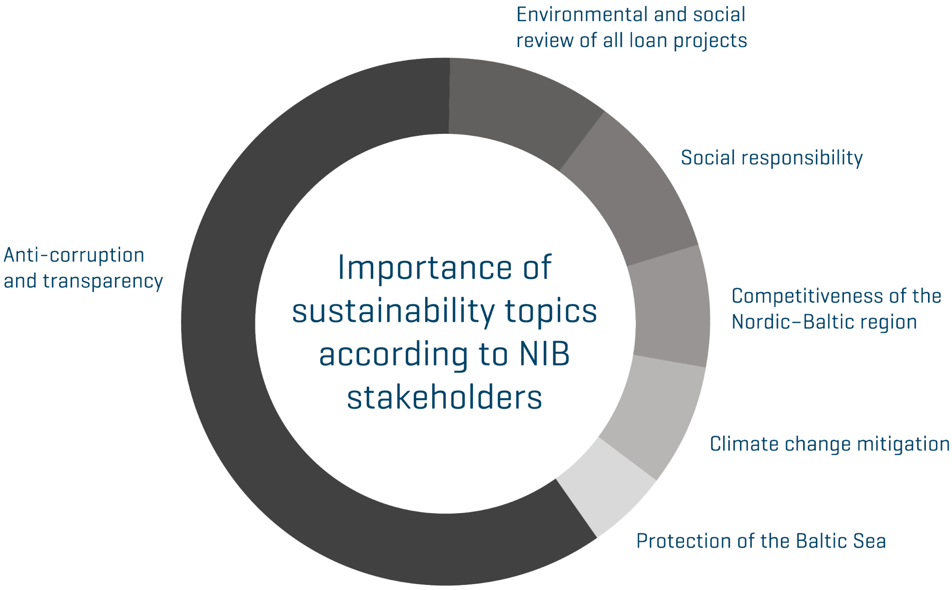
Every three years, NIB conducts a comprehensive stakeholder survey to collect feedback on the perception of the Bank and the levels of awareness among key target groups. The aim is to gather information on NIB's customer relationship strengths, reputation, its added value and the importance of different sustainability topics to our stakeholders. It also examines investors' interest in and awareness of green bonds.

The most recent survey was conducted in 2015. The chosen key counterparties included customers, investors and public authorities. The survey included a total of 123 interviews and was conducted by TNS Gallup Oy.

The 2015 survey showed that NIB is strongly perceived to demonstrate ethical business practices and transparency, which was also the highest-rated sustainability issue among all stakeholder groups in the survey.

The importance of conducting environmental and social reviews of all loan projects and success in supporting the competitiveness and environment of the Nordic and Baltic countries were considered of equal importance.

This underlines the relevance of NIB's mission. Further, customers remarked that NIB's professional lending experts were regarded as a high-level strength of the Bank.



With regards to the importance of ethical business practice, NIB's Board of Directors approved three new policies under the Compliance and Anti-Corruption Framework in February 2016 after a thorough review process.

These include the Compliance, Integrity and Anti-Corruption Policy; the Investigation and Enforcement Policy, and the Speaking-up and Whistleblowing Policy. Read more about Ethics and Integrity.

Methodology: Work engagement survey

Every two years, NIB conducts a work engagement survey to periodically collect employee feedback on issues related to the work environment, management and well-being at work.

The results of the most recent survey, which was conducted in cooperation with the Finnish Institute of Occupational Health (FIOH) in 2015, show that employees report high levels of job motivation and engagement, and identify with the Bank's purpose and values.

Further, the survey highlighted that NIB's employees have a relatively high disposition to developing new competencies and skills and aim for high levels of professionalism.

Setting up the reporting boundary for NIB

Based on the stakeholder interactions outlined above, we identified three key aspects that are of high importance for both internal and external stakeholders. These will be the main aspects we report on in 2016.

The top three aspects defined in the materiality assessment are:

- The fulfilment of our mission to finance projects that improve competitiveness and the environment of the Nordic and Baltic countries
- Anti-corruption, transparency and ethical business practice
- The development of the Bank's working culture to maintain a committed and professional staff

The relevant GRI G4 aspects were mapped as closely as possible to these material aspects, and for each GRI G4 aspect, all relevant indicators are reported on, in line with the requirements of the GRI G4 "in accordance" core option.

Further, we have identified the operations that have a direct or indirect sustainability impact in the following aspects:

Economic performance

NIB's vision is a prosperous and sustainable Nordic–Baltic region. The Bank pursues this vision by financing projects that increase productivity, which is the most direct way to strengthen economic competitiveness.

In order to do this effectively, NIB needs to be financially strong. The Bank therefore aims to earn a sufficient return from its business operations to build up reserves while providing its owners a reasonable return on capital.

Indirect economic impacts

To improve the well-being of societies, we must continuously seek new ways to improve and strengthen productivity. NIB therefore asks its customers about the extent to which their planned projects can contribute to improving the efficiency and productivity of society as a whole.

Environmental impacts

NIB categorises every loan project according to its potential environmental impacts, considering both risks and opportunities. Environmental issues are also inherent in NIB's daily activities and are therefore integrated into the Bank's overall management systems.

Labour practices

NIB's employees are the Bank's strongest assets. NIB is committed to the development and well-being of its staff and underlines the importance of dedicated employees for the performance of the organisation. Several staff-related GRI indicators are reported.

Human rights and child labour

The Bank does not tolerate any discrimination, whether it is based on gender, race, nationality, ethnic origin, religion, disability, age or sexual orientation. Further, NIB requires its clients to comply with international standards on the employment of minors.

NIB does not accept the use of forced labour. Sound management of the safety and health of workers and communities is essential for the productivity and efficiency of business, as is respect for their livelihood.

Society and local communities

NIB's mission has a positive impact on local communities and societies in its member area, as it lends to projects that improve infrastructure, develop human capital and help to protect the environment and its ecosystem.

Anti-corruption

NIB has adopted a zero-tolerance policy towards fraud and corruption. In terms of prevention, the Bank puts particular emphasis on knowing its customers and training its staff well to prevent the Bank from becoming involved with unethical borrowers and projects, or in money laundering, terrorist financing or tax evasion.

All new clients are thoroughly screened in the Bank's integrity due diligence processes.

Grievance mechanisms

In order to address different concerns regarding its operations, NIB has developed a channel for its stakeholders to comment on projects with potential significant adverse social or environmental impacts.

These projects are classified as Category A projects and are made publicly available for commenting before the Bank makes a decision on financing. The Bank's Investigation and Enforcement Policy includes the procedures for handling complaints regarding non-compliance with NIB's policies.

Product portfolio and audit aspects (Financial Sector Supplement)

NIB's main activity is lending, and with its special mission to improve the environment, it is important that the Bank assesses the environmental and social impacts of all loan applications; it therefore has corresponding procedures and policies in place.

OPERATIONS

The operating environment in 2016

- Neutral global macroeconomic environment
- Regional growth engine Sweden is slowing down, while the Finnish economy is improving
- Unprecedented global economic policy uncertainty
- Reflation: higher commodity prices, equity markets, and long-term government bond yields
- No increase in European short-term rates in 2017, but credit spreads to widen slightly
- Demand for long-term credit is soft in the corporate segment while strong in the public sector

The global and Nordic-Baltic economies are estimated to have grown at a very similar pace in 2016, at 3% and 2% respectively, as in the previous year. While the Swedish economy—the region's economic locomotive in recent years—slowed down somewhat, in Finland the economy showed signs of improvement.

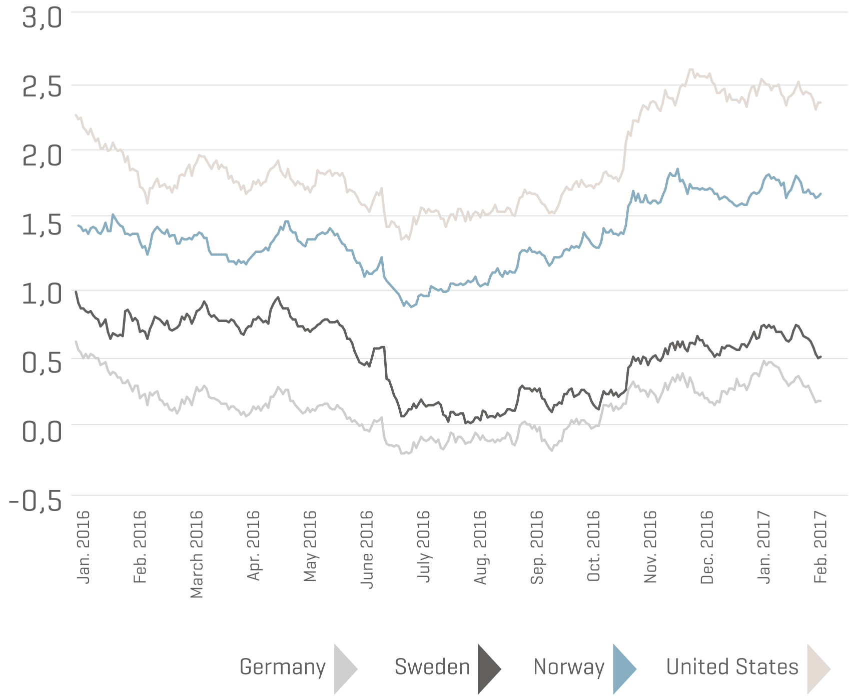
The decline in oil-related investments is still damping activity in Norway, but its drag on economic growth is fading and the already relatively low unemployment rate has been declining.

Developments in global financial markets were still dominated by the unprecedented expansive monetary policies, despite some modest tightening by the US Federal Reserve. The year also witnessed some major political surprises, most notably in the United Kingdom and the United States.

While initially sharp, market reactions were mixed and fairly short-lived; equity and commodity markets rallied on a reflation theme towards the end of the year. Long-term government bond yields climbed from historical lows, also in the Nordic-Baltic region.

Government bond yields

Benchmark 10 years
%



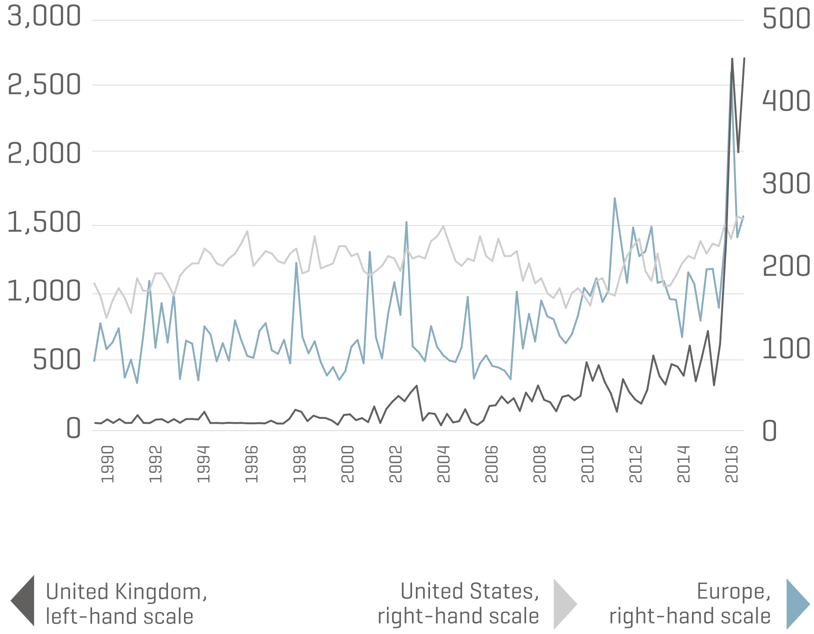
Source: Macrobond

Despite favourable financing conditions, corporate investment activity and related demand for long-term loans remained subdued. However, the demand from the public sector for loans to finance infrastructure investments remained strong.

Looking forward

Entering 2017, economic indicators pointed to a global cyclical upswing in industrial activity. In the midst of unprecedented global policy uncertainty, forecasts for economic growth globally of 3.4% and for the Nordic–Baltic region of 1.7% call for positive, but still historically sub-par, performance.

Economic policy uncertainty indices



Source: Macrobond

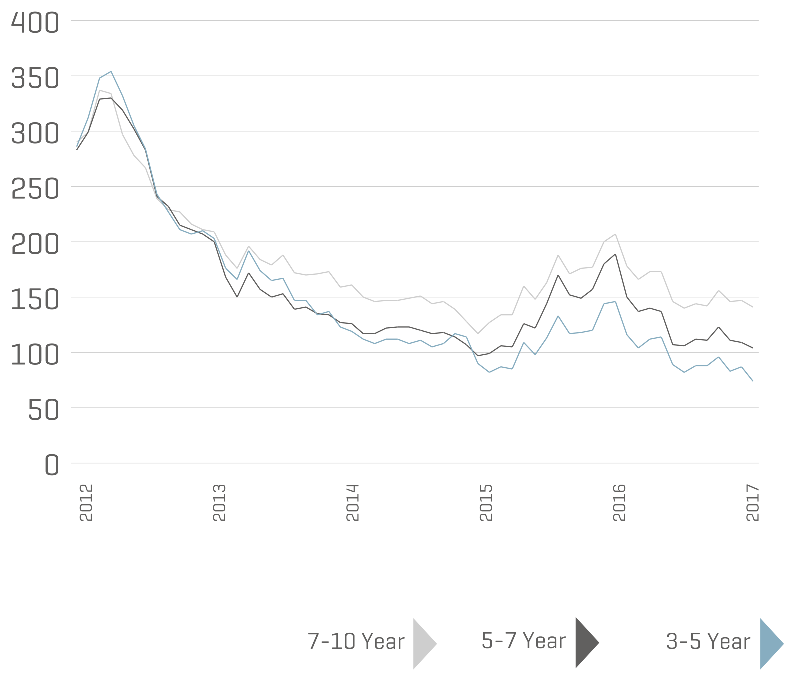
Inflation and commodity prices are forecast to rise, while short-term interest rates should increase slightly in the United States, but remain unchanged in the euro area and most of Europe.

In this context, corporate investment is also expected to remain subdued. On the other hand, infrastructure investments by local and regional governments in the Nordic–Baltic countries should continue to generate strong demand for long-term capital.

While the downward pressure exerted by monetary policy on credit spreads remains, it appears to be fading somewhat. Lining up key factors affecting the euro and regional credit spreads, after falling for most of 2016, they appear on balance more likely to increase in 2017—albeit only slightly.

Euro area corporates index

BBB-rated, asset swap spread (bps)



Source: Macrobond

LENDING

Lending operations in 2016

- All-time high reached for loans disbursed (EUR 3.4 billion), and loans agreed (EUR 4.4 billion)
- First loans under the Arctic Facility and to mid-cap borrowers
- NIB Lending launches programme to buy green bonds

In 2016, NIB's Board of Directors approved a total of EUR 4.8 billion in new loans. NIB agreed on 58 loans and invested in eight green bonds. Aggregated, this amounts to EUR 4.4 billion, of which EUR 3.4 billion was disbursed.

These volume figures represent all-time highs. More than two thirds of the new loans were made to new borrowers, supporting NIB's aim to broaden its client base.

The purpose of NIB's lending is to fulfil the Bank's mandate of improving the competitiveness and environment of the Nordic and Baltic countries. NIB assesses all potential loans internally according to their mandate contribution. Only projects that contribute sufficiently to NIB's mandate fulfilment qualify for loan approval.

The high share of lending with a "good" or "excellent" mandate rating was sustained in 2016, accounting for 96% of all loans agreed.

The total amount of loans outstanding increased to EUR 16.6 billion by 31 December 2016, from EUR 15.6 billion a year earlier.

No guarantees were outstanding at the end of the year.

In 2016, NIB Lending launched a new product for investing in green bonds issued by companies or municipalities in the member countries. The aim is to support the development of the green bond market, finance environmental investments and promote good standards. A facility of EUR 500 million was approved for this purpose.

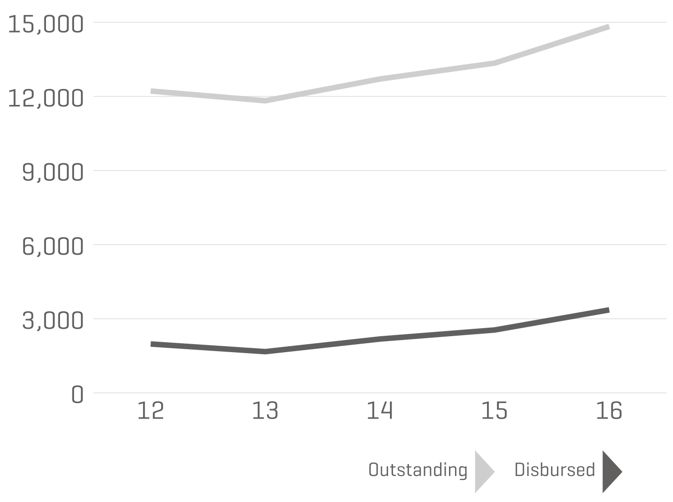
In 2016, NIB invested in eight bond transactions and held EUR 143 million in green bonds at year-end. NIB discloses its green bond purchases on its website.

During 2016, NIB began implementing the Bank's updated strategy. While the established business model of NIB still remains the core of its lending activities, new activities were initiated alongside these, targeting arctic loans, midcap borrowers and risk-sharing with financial institutions.

In 2016, NIB also started to perform ex-post mandate assessments of its financed projects.

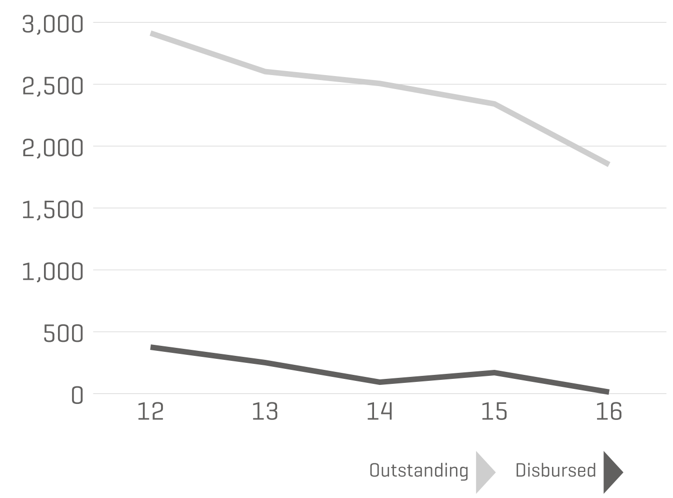
Loans in member countries

EUR m



Loans in non-member countries

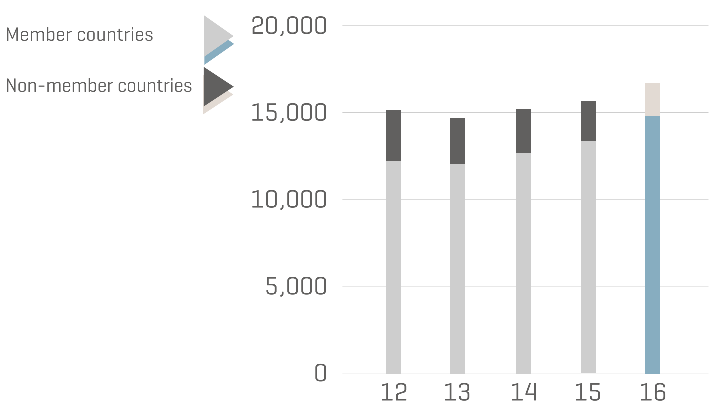
EUR m



Loans outstanding

(including Lending Green Bond purchases, excluding collective impairment)

EUR m



LENDING AREAS

Energy and environment: This business area accounted for the largest share of new lending in 2016, with 35% of the agreed loans totalling EUR 1,534 million.

A substantial part of loans in this business area was earmarked for improved wastewater treatment. Other noteworthy projects financed included investments in electricity transmission, distribution networks and smart metering systems. In addition, the Bank extended financing for electricity and heat generation projects comprising hydropower, biomass and industrial energy plants.

Infrastructure, transportation and telecom: In 2016, 27% of all loans agreed were in this business area, totalling EUR 1,198 million.

This lending area covered a wide range of investments. In transportation, the Bank participated in financing urban transport projects and airport enlargements. Another major sector was educational infrastructure, with financing provided for the modernisation and enlargement of universities and schools. NIB also participated in financing the construction of the European Spallation Source in Sweden. Within urban infrastructure, the Bank financed improved water supply facilities.

Industries and services: Agreed loans in this business area amounted to EUR 912 million, equalling 21% of all loans agreed during 2016.

More than half of the new loans in this area were provided for financing industrial research and development programmes. In addition, the new lending comprised corporate investments in production facilities and acquisitions. Further, NIB financed real estate construction involving the highest level of environmental certification. 2016 also saw the first loan being made to a midcap company, as part of the Bank’s updated strategy.

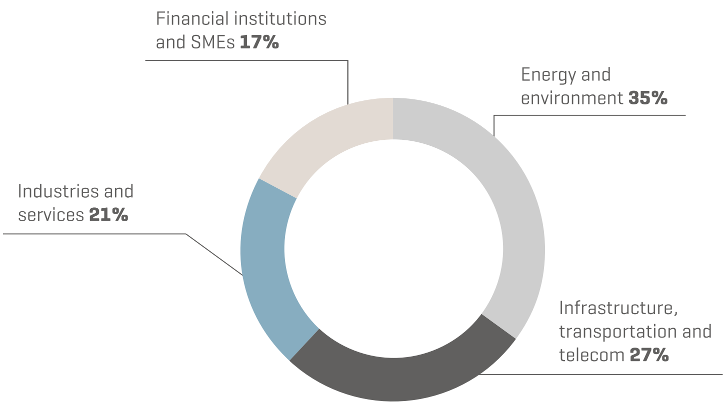
Financial institutions and SMEs: The total amount of agreed loans in this business area was EUR 720 million, which is equivalent to 17% of all loans agreed.

NIB provided financing to banks and other financial institutions, which act as financial intermediaries on-lending the funds to their clients. This enabled NIB to reach out to smaller counterparts and projects that the Bank cannot finance directly. The majority of such loans targeted small and medium-sized companies and renewable energy projects. NIB also entered into a loan agreement with Finnvera to channel financing for investments in a Brazilian pulp and paper mill implemented with participation from NIB’s member countries.

The first loan involving risk-sharing with a financial intermediary institution, a new lending product developed as part of NIB’s updated strategy, was also made in 2016.

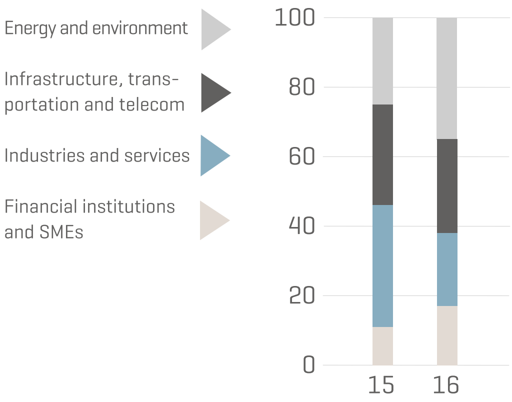
Loans agreed in 2016

(including Lending Green Bond purchases)
%, by business areas



Business area distribution

Loans agreed as a share of total loans
(including Lending Green Bond purchases)
%



OTHER ACTIVITIES

In the framework of the Northern Dimension, NIB participates in the Environmental Partnership (NDEP) as lead bank for a number of projects under implementation. The purpose of the NDEP is to support the financing of environmental projects with cross-border effects in the Baltic Sea region, the Barents region and Northwest Russia. Projects approved for the NDEP can obtain grants from the NDEP support fund, which are blended with loans.

Furthermore, NIB is engaged in the Northern Dimension Partnership on Transport and Logistics (NDPTL), which is also hosted by NIB. The purpose of this partnership is to enhance regional cooperation and support the implementation of transport infrastructure and logistics projects. Through the NDPTL Support Fund, grant assistance can be provided for project preparation.

NIB was elected as a member of the Executive Committee of the Green Bond Principles, an international group of issuers, investors and intermediaries in the green bond market. Furthermore, NIB was appointed by the European Commission as an observer to the newly formed High-Level Expert Group on sustainable finance.

LOANS AGREED 2016

BORROWER	PROJECT	SECTOR
Käppalaförbundet (Sweden)	Upgrade of the Käppala wastewater treatment facility in northern Stockholm	Energy and environment
Copenhagen Airports A/S (Denmark)	Expansion of a passenger terminal at Copenhagen Airport	Infrastructure, transportation and telecom
Stockholm County Council (Sweden)	Acquisition of 48 metro trains and a new traffic operation system for Stockholm's metro system	Infrastructure, transportation and telecom
RARIK ohf (Iceland)	Replacing overhead electrical power lines with underground cables in Iceland	Energy and environment
Sparebanken Hedmark (Norway)	Loan programme for onlending to SMEs and environmental projects in eastern Norway	Financial institutions and SMEs
Orkla ASA (Norway)	Acquisition of the NP Foods Group of Baltic confectionary brands	Industries and services
A/S Arbejdernes Landsbank (Denmark)	Loan programme for financing SMEs and environmental projects in Denmark	Financial institutions and SMEs
Kilpilahti Power Plant Ltd. (Finland)	Refurbishment of the Kilpilahti combined heat and power plant near Porvoo, Finland	Energy and environment
Electrolux AB (publ.) (Sweden)	R&D investment programme for 2016–2019	Industries and services
City of Kajaani (Finland)	Construction of a multipurpose school	Infrastructure, transportation and telecom
Helgeland Kraft AS (Norway)	Construction of six hydropower plants in Norway	Energy and environment
Södra skogsägarna ekonomisk förening (Sweden)	Expansion of a pulp mill in south-western Sweden	Industries and services
Sunnfjord Energi AS (Norway)	Installation of automatic electricity meters, construction of distribution networks and upgrade of a hydropower plant	Energy and environment
Sparebank 1 Nord-Norge (Norway)	Loan programme for onlending to SMEs and environmental projects	Financial institutions and SMEs
Novozymes A/S (Denmark)	R&D investments in 2016–2018	Industries and services
Volvofinans Bank AB (publ.) (Sweden)	Loan programme for onlending to SMEs and small mid-caps in Sweden	Financial institutions and SMEs
Municipality of Ängelholm (Sweden)	Upgrade of wastewater treatment in south-western Sweden	Energy and environment
Vasakronan AB (Sweden)	Construction of two LEED Platinum-certified office buildings in Sweden	Industries and services
Suomen Yliopistokiinteistöt Oy (Finland)	Construction of new university premises in Turku and Oulu, Finland	Infrastructure, transportation and telecom
Eidsiva Energi AS (Norway)	Roll-out of smart electricity meters in Oppland and Hedmark, Norway	Energy and environment
Tele2 AB (Sweden)	Investments in 4G mobile network in Sweden and the Netherlands	Infrastructure, transportation and telecom
City of Bergen (Norway)	Improving wastewater and possibly drinking water infrastructure in Bergen, Norway	Energy and environment
City of Stockholm (Sweden)	Expansion of a wastewater treatment plant and construction of a sewer tunnel in Stockholm, Sweden	Energy and environment
Statnett SF (Norway)	Construction of a transmission line in northern Norway	Energy and environment

LOANS AGREED 2016

BORROWER	PROJECT	SECTOR
Svenska Cellulosa Aktiebolaget SCA (Sweden)	R&D investments in personal care products in 2016–2019	Industries and services
NorgesGruppen ASA (Norway)	Construction of a semi-centralised cooling hub in southern Norway	Industries and services
Kiinteistö Oy Tripla Mall and Kiinteistö Oy Triplaparkki (Finland)	Construction of a business and residential centre in Helsinki	Infrastructure, transportation and telecom
Landsvirkjun (Iceland)	Construction of a geothermal power plant in north-eastern Iceland	Energy and environment
City of Tampere (Finland)	Municipal investments in a freshwater pumping station and two schools	Infrastructure, transportation and telecom
Ekerövatten AB (Sweden)	Improvement of water and wastewater treatment in southern Stockholm	Energy and environment
Vegfinans Rv23 Dagslett-Linnes AS (Norway)	Construction of a new road section and a tunnel in southern Norway	Infrastructure, transportation and telecom
Finnvera Oyj (Finland)	Construction of a eucalyptus pulp production line in Brazil	Financial institutions and SMEs
Volvo Car Corporation (Sweden)	R&D investments for engine development in 2016–2019	Industries and services
BKK AS (Norway)	Installation of automatic electricity meters and construction of distribution, regional and transmission networks in Norway	Energy and environment
AB Fortum Värme Holding, co-owned with City of Stockholm (Sweden)	Construction of a biofuel-fired combined heat and power plant in Stockholm, Sweden	Energy and environment
Agder Energi AS (Norway)	Roll-out of smart electricity meters in Aust-Agder and Vest-Agder, Norway	Energy and environment
Helgeland Sparebank (Norway)	Onlending to SMEs and environmental projects in northern Norway	Financial institutions and SMEs
AB Transitio (Sweden)	Acquisition of 33 new trains for regional traffic in central Sweden	Infrastructure, transportation and telecom
Deutsche Leasing Sverige AB (Sweden)	Loan programme for financing SMEs and small mid-caps in NIB's member countries	Financial institutions and SMEs
Länsimetro Oy (Finland)	Construction of a metro line in Espoo, Finland's capital region	Infrastructure, transportation and telecom
Helsinki City Transport HKL (Finland)	Purchase of energy-efficient trams	Infrastructure, transportation and telecom
Sydvatten AB (Sweden)	Construction of a freshwater pipe in southern Sweden	Infrastructure, transportation and telecom
AstaZero AB (Sweden)	Construction of a vehicle-safety testing site in Borås, Sweden	Infrastructure, transportation and telecom
City of Oslo (Norway)	Expansion of the wastewater treatment plant and network in Oslo, Norway	Energy and environment
Aalto University Foundation (Finland)	Construction of new premises for Aalto University in Finland's capital region	Infrastructure, transportation and telecom
Municipality of Kungälv (Sweden)	Water and sewage sector investments by Kungälv Municipality in Sweden	Infrastructure, transportation and telecom
Helen Oy (Finland)	Construction of a wood pellet heating plant and an underground cooling centre in Helsinki, Finland	Energy and environment
SG Finans AS (Norway)	Loan programme for onlending to SMEs in Norway	Financial institutions and SMEs
City of Turku (Finland)	Construction of multipurpose education centres, day care facilities, and renovation of five schools in Turku, western Finland	Infrastructure, transportation and telecom

LOANS AGREED 2016

BORROWER	PROJECT	SECTOR
European Spallation Source ERIC (Sweden)	Construction of the European Spallation Source facility in Lund, Sweden	Infrastructure, transportation and telecom
Lahti Energia Oy (Finland)	Constructing a biomass-fired power plant in Lahti, Finland	Energy and environment
Össur Finance AG (Iceland)	Acquisition of Touch Bionics (UK) and R&D costs in 2016–2019	Industries and services
AS Tallinna Lennujaam (Estonia)	Upgrade of infrastructure at Tallinn International Airport	Infrastructure, transportation and telecom
Sparebanken Møre (Norway)	Loan programme for financing SMEs and small mid-caps as well as environmental projects in central Norway	Financial institutions and SMEs
City of Luleå (Sweden)	Municipal investment in upgrading biofuel production, a sewage pipeline, and expanding a drinking water plant in Luleå, Sweden	Energy and environment
Nord-Trøndelag Elektricitetsverk (Norway)	Roll-out of an advanced metering system and upgrades to electricity networks in Nord-Trøndelag county, Norway	Energy and environment
Sparbanken Skåne (Sweden)	Loan programme for onlending to SMEs and small mid-caps in south-eastern Sweden	Financial institutions and SMEs

TREASURY

Liquidity

NIB has a survival horizon measuring the period during which the Bank is able to fulfil all its payment obligations stemming from ongoing business operations under a severe stress scenario. The target survival horizon is twelve months and must always exceed nine months.

At the end of 2016, NIB's survival horizon is calculated at 443 days, equivalent to more than 14 months.

In order to limit the liquidity risk, NIB maintains a liquidity buffer, mainly invested in EUR, USD and the Nordic currencies. At the end of 2016, the liquidity buffer amounted to EUR 11,097 million, of which 39%, or EUR 4,361 million, is held as cash in short-term money market instruments, and 61%, or EUR 6,736 million, is held in securities with longer maturities.

The liquidity buffer must fulfil the quality requirements stipulated in NIB's Liquidity Policy, thereby ensuring that the buffer maintains both its market value and sufficient liquidity under severe market conditions, and that the asset quality is high.

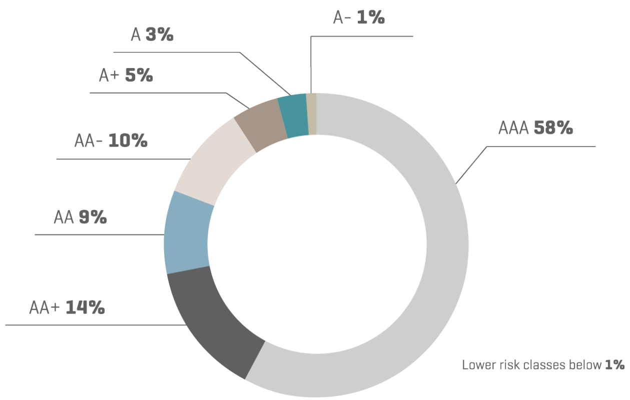
At year-end, 83% of the liquidity buffer was warehoused in high-quality liquid assets (HQLA), 91% was eligible as repo collateral in one or several central banks, and 91% of the assets belonged to the top four internal rating categories.

Furthermore, the Bank easily fulfilled the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements specified in the Capital Requirements Regulation of the European Union.

Counterparty risk class in 2016

as of 31 Dec 2016

%, distribution by risk class



CAPITAL MARKETS

NIB's funding strategy is to be a leading issuer of USD benchmarks, attracting global investors. The aim is to diversify the borrowing into different currencies and markets, including issuing NIB Environmental Bonds (NEBs).

To be in line with the market standard, the Bank decided in 2016 to convert its one-way credit support annexes (CSAs) to bilateral agreements with counterparties. Two-way CSAs reduce the counterparty exposure in derivative contracts by requiring both parties of contract to post collateral to each other. NIB has signed 17 agreements at the end of the year.

Borrowing

In 2016, NIB raised an all-time high of EUR 6.7 billion in new funding. The record high funding volume was mainly due to record disbursement on the lending side, but also due to liquidity requirements in connection with the above mentioned implementation of bilateral CSA agreements.

The Bank issued a total of 58 bonds in nine different currencies. At year-end, outstanding debt totalled EUR 23.9 billion in 18 currencies.

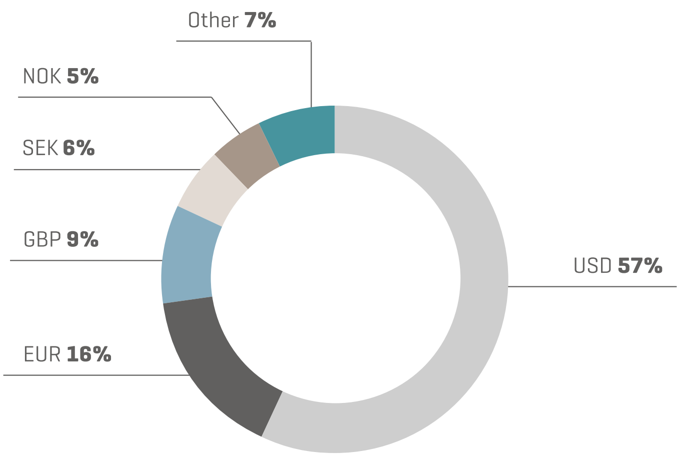
NIB issued three USD-denominated global benchmark transactions in 2016. The three-year, USD 1.25 billion global benchmark issued in February was the largest transaction issued during the year.

In July, NIB issued a second US dollar-denominated benchmark transaction: a five-year, USD 1 billion bond. The third benchmark, with a volume of USD 1 billion and a two-year maturity, was placed in September.

The three global benchmark transactions brought in a diversified group of global investors.

New borrowings in 2016

as of 31 Dec 2016
%, distribution by currency



With three USD global benchmarks, the USD was the largest currency, representing 58% of the total funding. The second largest currency was EUR at 16%, followed by GBP at 9%. Of the Nordic currencies, SEK and NOK represented 6% and 5%, respectively.

The Bank successfully issued two syndicated GBP 250 million transactions with maturities in 2019 and 2021.

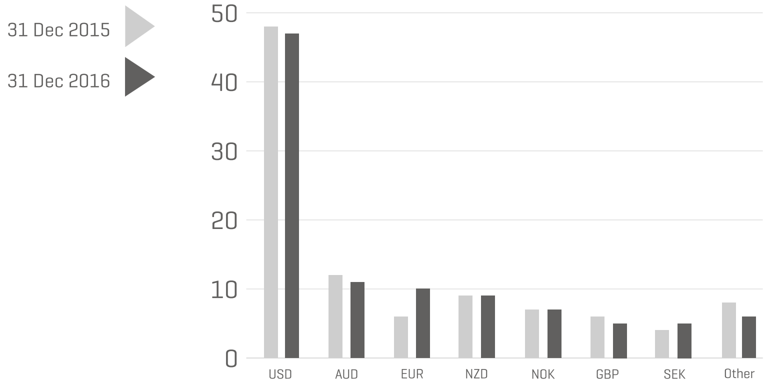
During 2016, the Bank was active in the Nordic currencies with total issuances of SEK 2,450 million and NOK 2,700 million. In EUR, the Bank saw a substantial appetite for long-dated callable structures.

NIB also issued three transactions in NZD during 2016, a new five-year NZD 200 million issue and two increases totalling NZD 75 million in the 2025 maturity line. In AUD, a total increase of AUD 245 million was made for the 2026 maturity line.

Borrowings outstanding

Currency distribution

%



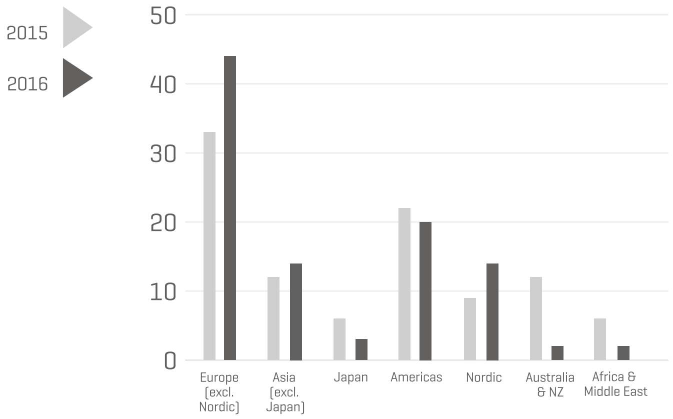
Investors

A major share of investors buying NIB's bond issues during the year 2016 are located in Europe, including the Nordic countries (58%). Investors from the Americas accounted for 20%, and investors based in Asia for 17%. Investors from other regions contributed 5% to NIB's annual funding.

New borrowings in 2016

Geographical distribution

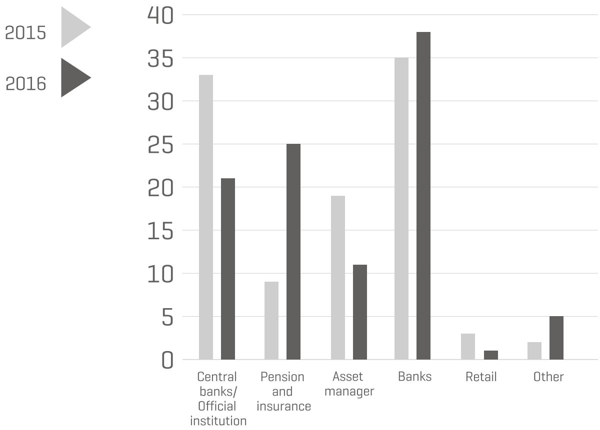
%



New borrowings in 2016

Investor distribution

%



NIB ENVIRONMENTAL BONDS

The NIB Environmental Bond (NEB) framework sets out the Bank's criteria for issuing environmental bonds and for identifying eligible lending projects with a positive impact on the environment. Focus is placed on assessing the potential environmental impact and realisation risk.

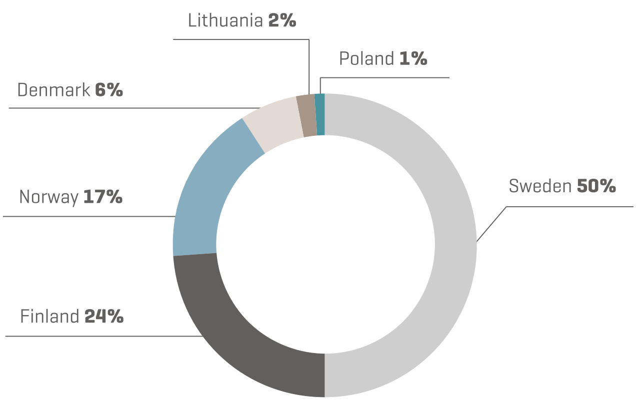
NIB continued to be active in the green bond market in 2016. During the year, the Bank issued NEBs equivalent to a total of EUR 763 million under its environmental bond framework.

In January, NIB issued a five-year, SEK 1,000 million environmental bond, followed by an eight-year, EUR 500 million environmental bond in June. A seven-year, SEK 1,500 million issue took place in September.

Since the implementation of its NIB Environmental Bond framework in 2011, the Bank has issued a total of EUR 2.1 billion worth of NEBs. By year-end 2016, the Bank had identified 45 eligible projects.

Projects financed by NEBs 2012–2016

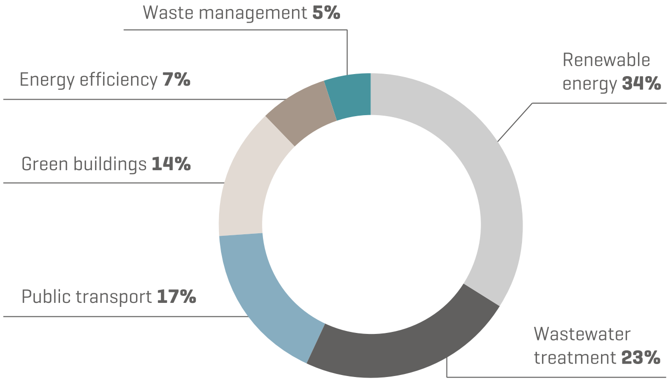
as of 31 Dec 2016
%, projects by country



Projects financed by NEBs 2012–2016

as of 31 Dec 2016

%, projects by type



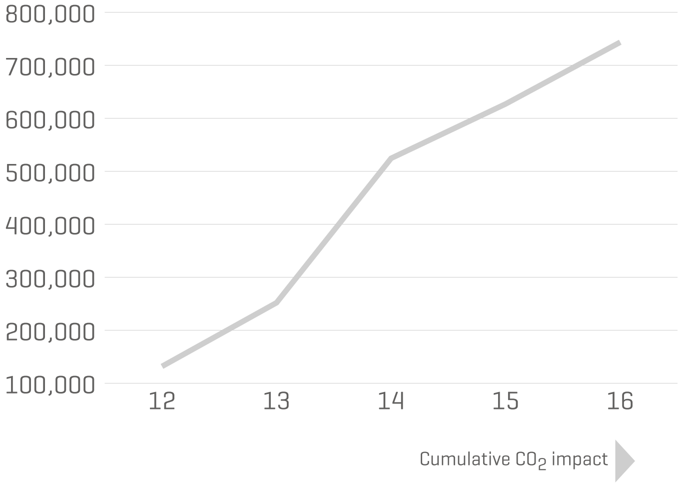
All NIB Environmental Bonds and eligible projects that have been financed under the framework are published on NIB's website at www.nib.int/capital_markets/environmental_bonds.

In line with market practice, NIB publishes the figure for the cumulative CO2 equivalent impact of all projects financed by NIB Environmental Bonds. At year-end 2016, the CO2 equivalent impact was calculated as 740,000 tonnes.

The number is calculated in accordance with the new harmonised methodology implemented by IFIs in January 2016. NIB is part of the working group developing the impact reporting.

Cumulative CO2 impact of projects under NEB*

Reduction in CO_2 emission (t/a)



* The cumulative CO_2 impact is calculated in accordance with the new harmonised methodology implemented by IFIs in January 2016.

The Bank's commitment to the green bond market was recognised with NIB being elected a member of the Green Bond Principles' Executive Committee. The Bank was also invited to be an observer to the European Commission's High-Level Expert Group on Sustainable Finance.

In addition, the Bank joined the European Association of Long-Term Investors' declaration for COP21, stating their commitment to contributing to the transition towards a low-carbon economy.

It is important to the Bank to show our investors the actual outcome of their investment decisions. NIB therefore invited investors in its environmental bonds to visit some of the projects they have helped finance in Finland. Read more about the project visit.

NIB is actively participating in and developing the Nordic green bond market by also investing in green bonds, as part of the Bank's lending operations. NIB started cooperation with seven green bond arranging banks whose environmental processes align with that of NIB.

This allows for better cooperation and, when time for pre-evaluation is limited, for NIB to trust to buy a green bond and assess it afterwards. You can read more about Lending's green bond purchases here.

The Bank will continue to issue and invest in environmental bonds over the coming years. NIB will also contribute to further developing the market by actively taking part in different working groups engaged in the field.

ASSET LIABILITY MANAGEMENT

The Asset and Liability Management (ALM) unit is responsible for managing NIB's market risks on the balance sheet. ALM also handles daily cash, including collateral management, and calculates transfer pricing between treasury and the lending operations.

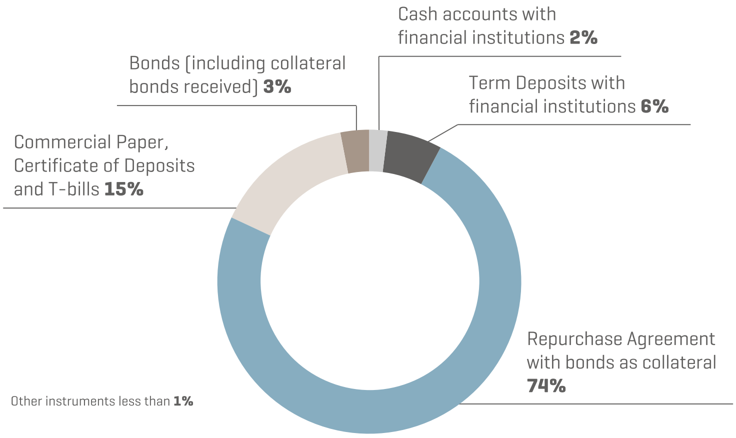
In 2016, the Bank disbursed new loans of EUR 3,373 million and obtained new funding of EUR 6,700 million in nine different currencies.

Short-term money market instruments increased from EUR 2,653 million in 2015 to EUR 4,361 million in 2016 due to record high funding volume. The amount covers the expected net cash outflows of the coming three months. Reverse repos (collateralised placements) are actively used by the ALM unit to reduce the total treasury counterparty exposure. The instrument distribution is shown here:

Money market instruments in 2016

as of 31 Dec 2016

%, distribution by instrument



The amount of cash collateral received decreased from EUR 1,449 million at the end of 2015 to EUR 1,311 million at the end of 2016. As NIB moved to two-way credit support annex agreements during 2016, NIB has posted EUR 222 million in cash collateral.

In total, the balance sheet increased from EUR 27,311 million at the end of 2015 to EUR 30,178 million at the end of 2016.

In 2016, ALM contributed EUR 28.2 million to NIB in net interest income earnings.

PORTFOLIO MANAGEMENT

The Portfolio Management unit manages bonds with longer maturities. Bonds may be sold or lent out for short term liquidity operations, in which case they do not constitute a part of the liquidity buffer. Additionally, the Bank receives bonds as collateral.

The market value of the bond portfolios grew from EUR 6,264 million at the end of 2015 to EUR 6,736 million at the end of 2016, and the net of bonds received and given as collateral was EUR 112 million, resulting in a total of EUR 6,848 million at end of 2016.

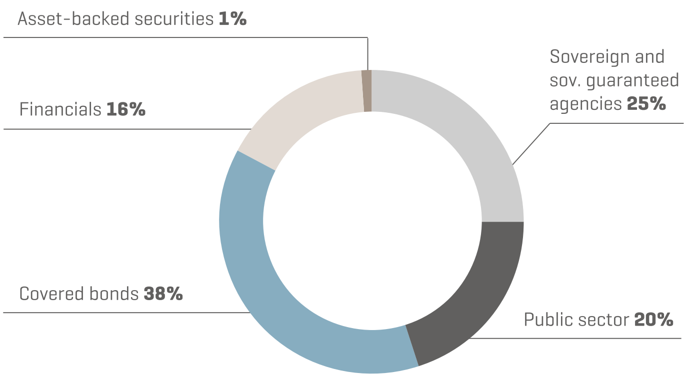
The bond portfolios contain both interest risks and credit spread risks directly affecting NIB, while securities movements for collateral purposes do not affect NIB's income. The bond portfolios include bonds held both at amortised cost and at fair value, and with floating and fixed-rate coupons.

During 2016, the currency distribution of the bond portfolios became more diversified, with increased holdings of bonds denominated in USD and DKK, while the EUR share decreased. The rating and instrument distribution, however, were largely unchanged. The instrument distribution of the portfolio can be seen here:

Bond instruments in 2016

as of 31 Dec 2016

%, distribution by instrument



In 2016, Portfolio Management contributed EUR 63.2 million to NIB in net interest income earnings.

CASE STUDIES

Helgeland Kraft AS

Construction of six hydropower plants with an estimated total generation capacity of 166 GWh in Northern Norway.

Country: Norway

Amount in NOK: NOK 470 million

Amount in EUR: EUR 49.8 million

Maturity: 15 years

Össur Finance AG

NIB finances in part Össur's R&D programme for new prosthetic and orthotic solutions, and re-finances the company's acquisition of Touch Bionics.

Country: Iceland

Amount in EUR: EUR 50 million

Maturity: 7 years

City of Stockholm

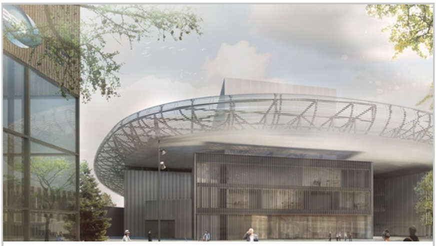
Expansion of the Henriksdal wastewater treatment plant and construction of a sewer tunnel in Stockholm.

Country: Sweden

Amount in SEK: SEK 3,000 million

Amount in EUR: EUR 321.7 million

Maturity: 10 years



European Spallation Source ERIC

Construction of the European Spallation Source facility in Lund.

Country: Sweden

Amount in EUR: EUR 100.2 million

Maturity: 7 years

SG Finans AS

A loan programme for onlending to SMEs in Northern Norway to finance equipment leasing. Up to EUR 25 million of the loan facility is earmarked for SME projects in the country's Arctic areas.

Country: Norway

Amount in EUR: EUR 150 million

Maturity: 5 years

A/S Arbejdernes Landsbank

A loan programme for financing environmental projects and SMEs in Denmark.

Country: Denmark

Amount in EUR: EUR 50 million

Maturity: 5 years

NIB 40TH ANNIVERSARY

The Nordic Investment Bank started its operations in 1976; just 18 months after the Nordic prime ministers had switched on the green light for its foundation. Five governments stood firmly behind the decision to establish the bank, paving the way for a smooth and efficient negotiation process to hammer out all the necessary modalities.

NIB 40: FINANCING THE FUTURE-SEMINAR

On 2 November 2016, NIB hosted a seminar titled “Financing the Future” to celebrate its 40th anniversary. The event was held in connection with the annual session of the Nordic Council at Christiansborg Palace in Copenhagen, the seat of the Danish Parliament.

The seminar gathered around 140 participants, including state officials and representatives of the business community in the Nordic and Baltic countries.

Finland’s Prime Minister Juha Sipilä opened the seminar and underlined the role of NIB for the region.

“NIB is not only a child of Nordic co-operation; today, it is also the most tangible institution of Nordic-Baltic co-operation”, the Finnish Prime Minister said.

Henrik Normann, NIB President & CEO, followed with an address entitled “Is there a future worth financing?”, highlighting both positive and negative trends in the developments of recent years in Europe.

“In a well-governed, transparent region with innovative economies, there is a future worth financing. But progress is not automatic. We need to create strong growth and NIB has the ‘patient capital’ needed to make it happen”, Mr. Normann concluded.

The keynote speech on the role of innovation policy in shaping and creating markets was delivered by Mariana Mazzucato, Professor in the Economics of Innovation at the University of Sussex.

The seminar programme was closed by Latvia’s Minister of Finance, Dana Reizniece-Ozola. She commended the Bank’s commitment to support sustainable investments.

“Innovative services, innovation in technology, even innovation in regulatory approach will increase availability of credit for borrowers and create new and less costly equity, thus financing the future”, said Ms Reizniece-Ozola.

Read more about the seminar.

HOW NIB CAME TO BE 40 YEARS AGO

Green light at third attempt: How NIB came to be forty years ago

By Bengt Dennis, Member of NIB's Board of Directors in 1976

Signing the agreement for the establishment of NIB on 4 December 1975, from the left: Minister of Justice Kristian Gestrin, Finland; Finance Minister Kjell-Olof Feldt, Sweden; Foreign Minister Ivar Nørgaard, Denmark; Church and Education Minister Bjartmar Gjerde, Norway; and Iceland's Ambassador to Denmark, Sigurður Bjarnason.

The Nordic Investment Bank started its operations in 1976; just 18 months after the Nordic prime ministers had switched on the green light for its foundation. Five governments stood firmly behind the decision to establish the bank, paving the way for a smooth and efficient negotiation process to hammer out all the necessary modalities.

The background

The idea to create a Nordic investment bank surfaced for the first time in the 1950s within the framework of establishing a Nordic customs union. However, the customs union never materialised, scuppering the plans for the bank. A second attempt was made in the late 1960s when the governments aimed to form a Nordic Economic Union (Nordek). However, in March 1970, the project collapsed as the Finnish government announced its withdrawal. The reason was its relations with the Soviet Union, although this was never explicitly stated.

Testing the ground for a new attempt

The third attempt to launch the bank was made in late 1974 and early 1975, and proved successful. I remember it as a cautious and gradual process. It was brought to the political decision making level through some small but important steps taken by high officials in government administrations. A breakthrough was achieved on 11 January 1975, when officials met in Copenhagen to prepare for a meeting of the Nordic prime ministers at the end of the month.

From notes taken at the meeting, we know that the Danish representative initiated a discussion about the bank; the prime ministers were to take a decision to launch a new study of the bank. However, there was only a caretaker government in Copenhagen, and the Danish representative had not been able to clear his proposal on the political level. Norway expressed support and Finland abstained. As a representative of Sweden, I spoke guardedly about the implications of launching a new round of studies; it would be interpreted by the public as a political endorsement of setting up the bank.

Prime ministers give the green light

However, the cat was out of the bag; a Nordic investment bank was once again on the governments' agenda. The prime ministers were to meet in Oslo on 31 January 1975, and the preparations were now in full swing in all the Nordic capitals. The bank was the main topic, and the issue quickly progressed, so when

The prime ministers saw the creation of a Nordic investment bank as a valuable supplement to existing credit institutions in financing investments and exports of Nordic interest. In addition, such a bank might facilitate the coordination of major investment projects, thereby achieving a better utilisation of existing resources.

It is interesting to note that the prime ministers made no reference to the high oil prices and the deteriorating current account balances of the Nordic economies. These factors entered into the debate later.

The prime ministers' decision was operational; the objective was clear and there was no need for further studies on the pros and cons of a bank. It was a clear call to go ahead.

Negotiations on the modalities

The Council of Ministers set up a working group of high officials to draft an agreement and statutes for the bank. The chairman was Hermod Skånland, a director at Norges Bank. The working group delivered a unanimous report to the ministers as early as May 1975. I remember the group as being disciplined under able chairmanship. Its members worked closely with political decision makers at home.

The working group drew on studies on the bank made for the Nordek negotiations in the 1960s, inspired by the European Investment Bank, established in 1958.

The purpose of the bank had already been decided by the prime ministers and required no further action by the working group; to make loans and to give guarantees in accordance with regular banking practice.

However, should the bank take into account socioeconomic considerations when providing loans and guarantees? Sweden said no, fearing that non-viable investments would be approved due to regional and other socioeconomic preferences. The other four countries said yes. The issue caused lengthy discussions and proved to be the most controversial part of the negotiations. Sweden had to yield and the compromise was a watered down language and accompanying clarifying comments.

The working group agreed that the bank's capital was to be denominated in SDRs (Special Drawing Rights). Gold was quickly dismissed, and a Nordic currency was also rejected as it might indicate that the bank was more closely linked to a specific Nordic country (read Sweden). A basket of Nordic currencies was discarded as it would be deemed unknown in international capital markets. The US dollar was a strong candidate, but was considered too unstable and politically coloured, causing emotions in certain political circles in Finland. SDR, therefore, was partly chosen by elimination, as Hermod Skånland put it.

The amount of capital—the authorised stock—caused lengthy negotiations in the working group. Finland suggested SDR 1,000 million, Norway and Denmark opted for 400-500 million and Sweden for 300-400 million. The working group agreed on 400 million.

The composition of the bank's board was an issue that triggered a sensitive question. Should Iceland, with a population of 220,000, have the same voting weight in the board of the bank as the other Nordic countries? The question was new, as Iceland had not been part of the bank in the Nordek framework. The question soon fell off the table, and Iceland got two seats on the board, just as the other members did.

Mixed reaction from stakeholders

The Ministers welcomed the report from the working group and, after some minor editing, sent it to the Nordic Council, the parliamentary body for Nordic cooperation. The Council, in its turn, asked for comments from a great number of stakeholders in the Nordic countries.

The reaction was mixed; in Iceland there was unanimous support for the bank, in Finland and Sweden broad support, and in Denmark and Norway a not insignificant resistance. Business organisations and related interests were mainly opposed or neutral.

The Nordic Council had a heated debate about the bank. Ivar Nørgaard, chairman of the Council of Ministers, highlighted the need for capital import to all the Nordic countries in the coming years. However, his foremost argument for setting up the bank was the incentives it would bring for "thinking and acting in a Nordic way," as he put it.

The arguments against differed. MPs from Denmark and Norway, on the right side of the political scale, argued that the Council of Ministers had not proven that there was any need for a Nordic investment bank. Existing financial institutions were adequate. In addition, it was doubtful whether a Nordic bank would add to the supply of external capital to the Nordic area. There was also a political dimension to the issue, well spelled out by Ib Stetter, the Danish conservative leader, who saw the bank as a socialist and centralistic endeavour.

On the left, the bank was generally welcomed, but was considered to be given too narrow a mandate. Too much emphasis was on profitability, too little on socioeconomic considerations.

The final vote in the Nordic Council was overwhelmingly in approval; 59 votes in favour, 10 against and 5 abstentions. Conservative MPs from Denmark and Norway voted against and so did the Finnish SKDL representatives (left).

On the whole, the political parties negative or hesitant to setting up the bank had taken the same position when the Nordek plan was on the table. Adding to the political heat and flavour in the deliberations at the Nordic Council was most likely the fact that the bank was seen as a baby of the political left; four of the governments behind the proposal to set up the bank were led by social democrats. For them, it was pure joy to see the bank opposed by the conservatives in Denmark and Norway.

Signing and choice of Helsinki and MD

After the vote in the Nordic Council, the sailing was smooth, and on 4 December 1975, the Council of Ministers signed the agreement for the establishment of the bank. The same day, Helsinki was chosen as headquarter for the bank. The NIB had a birth date and a home.

The choice of Helsinki was controversial as Norway and Sweden favoured their own capitals. No one was in favour of Helsinki; a place not deemed attractive for spoiled finance people, with poor international communications and with Finland’s particular relations with the Soviet Union. After a lot of political haggling behind closed doors, Helsinki was nonetheless chosen. Perhaps once again a choice by elimination; Finland was the only country without a weighty Nordic institution. For the Swedish government, under Prime Minister Olof Palme, the choice of Helsinki had a political dimension; it brought Finland closer to the Nordic community, and a little further away from Moscow.

A great number of practical issues had to be settled before the bank could start its operations, and an organisational committee was set up under the chairmanship of Pentti Uusivirta, a director of Bank of Finland. The Finnish government was helpful and a lot of trivial issues were swiftly sorted out, but one major issue was left to the board of the Bank; selection of the managing director. The organisational committee had 15 applicants for the job after the position had been advertised in major newspapers in the Nordic countries.

The board of the Bank met for the first time on 9 June 1976, and selected Hermod Skånland as chairman. Bert Lindström was chosen as managing director. Bert had held a number of high positions in Swedish industry, inter alia managing director of Göteborgs Bank. At the time of the decision, he held a high position at the UNDP.

Why did the third attempt succeed?

With that decision, the bank was operational—after 25 years of efforts to establish a Nordic investment bank. The politicians looked back and asked themselves: why did we succeed this time? Why did we fail on earlier occasions? Did the oil crisis and its effect on the external balances of the Nordic economies act as a trigger?

A general answer is that the political and economic environment was more favourable than on earlier occasions, and that the governments chose a different political decision making process.

- The most important factor was the firm commitment by all the Nordic governments to establish the bank without further studies.
- All the governments were aware that this third attempt to launch the bank could not be allowed to fail; the political costs would be too high.
- After the prime ministers’ policy decision in January 1975, there were no ifs and whens, but only how to implement the bank as soon as possible.
- The timetable for negotiations and preparations was compressed.
- The bank was easy to sell to the public as it was not part of a complex framework like a customs union or Nordek.
- European integration was not a complicating factor as it had been in the Nordek negotiations.

The situation in the oil market is often seen as the driving force behind the launch of the bank project in 1975. My view is that it was supportive but not driving. The third attempt to launch the bank might very well have happened without any turmoil in the energy sector. The prime ministers did not even refer to the oil markets and the effects on the balance of payments for the Nordic economies when they took the decision to launch the bank. The need for external financing, however, came in handy, when the governments argued the case for setting up the bank.

All in all, the bank met with little opposition in the national parliaments during the ratification process, and any remaining political resistance evaporated rather quickly.

Bert Lindström started his missionary work as MD to establish a friendly working relationship with all the Nordic business organisations, a number of which had been hostile or hesitant about establishing a Nordic investment bank. He succeeded, and Nordiska Investeringsbanken is today an integrated and recognised part of the Nordic-Baltic financial community. The controversy surrounding the bank, when it came into being, is history.

Bengt Dennis

When NIB came into being, Bengt Dennis was under-secretary of state at the Ministry of Trade, Stockholm, and participated in all the meetings and negotiations leading up to the establishment of the bank. In addition, Bengt became a member of the board when the bank commenced its operations in 1976.

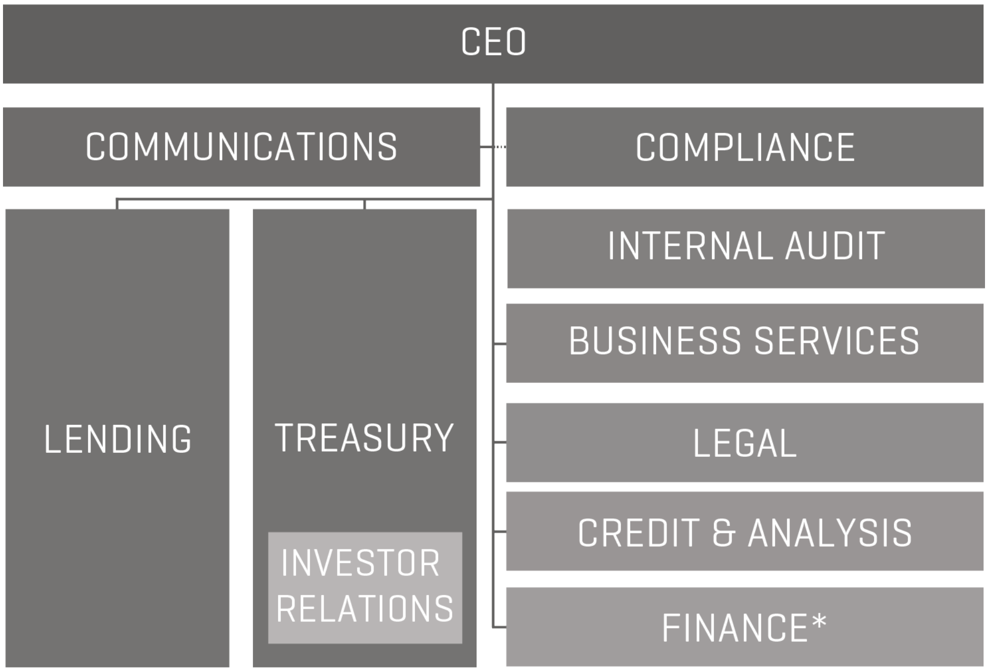
GOVERNANCE

The Nordic Investment Bank ("NIB" or "the Bank") was established on 4 December 1975 through an intergovernmental treaty between Denmark, Finland, Iceland, Norway and Sweden. As of 1 January 2005, Estonia, Latvia and Lithuania became members of the Bank on equal terms with the original member countries.

NIB is governed by the Agreement concerning the Nordic Investment Bank among its Member countries signed in 2004, thereto related Statutes and the Host Country Agreement concluded between the Government of Finland and the Bank in 2010.

According to the Statutes, the Bank shall have a Board of Governors, a Board of Directors, a President and the staff necessary to carry out its operations. In addition, the Bank shall have a Control Committee.

NIB promotes transparency, predictability, accountability, responsibility and disclosure as general principles enhancing and furthering good governance. NIB aims to follow best practices in the field of corporate governance.



*As of 1 January 2017, the Risk & Finance department has changed its name to Finance department due to an organisational change.

Board of Governors

The Board of Governors is composed of eight governors, one designated by each member country from among the Ministers in its government. The Board of Governors appoints a Chairman for a term of one year according to the rotation scheme it has adopted.

Until 31 May 2016 the Governor for Estonia served as Chairman. The Governor for Norway is currently serving as Chairman until 31 May 2017.

The Board of Governors held its annual meeting by written procedure on 26 May 2016 and an extra meeting by written procedure on 7 September 2016.

Board of Directors

All the powers that are not exclusively vested in the Board of Governors are entrusted to the Board of Directors. The Board of Directors is composed of eight directors and eight alternates appointed by each member country.

The Board of Directors approves projects to be financed by the Bank, adopts the policy decisions concerning the operations of the Bank, in particular the general framework for the financing, borrowing and treasury operations and their management. The Board of Directors may delegate its powers to the

President to the extent it considers appropriate.

The Board of Directors held eight ordinary meetings in 2016 and two extra meetings, one by written procedure and one online meeting.

The Board of Directors appoints from among its members a Chairman for a term of two years.

The member of the Board from Finland served as Chairman until 31 May 2016. The member from Latvia was appointed as Chairman starting from 1 June 2016.

President

The President is responsible for conducting the Bank's current operations and is appointed by the Board of Directors for a term of five years at a time. Since 1 April 2012, Mr Henrik Norrman has been the President and Chief Executive Officer of the Bank. NIB's Board of Directors extended the appointment of Henrik Normann as President & CEO until the end of March 2020.

Advisory bodies to the President

The President is assisted in his work by the Executive Committee, the Credit Committee, the Asset and Liability Committee, the Finance Committee and the Business and Technology Committee (previously named ICT Council).

The Executive Committee is a forum for addressing all aspects of the performance, policy and financial soundness of the Bank. The Executive Committee consists of the President and six senior officers, whose appointments are confirmed by the Board of Directors.

The Executive Committee meets formally approximately twice a month. In 2016, it met 23 times. The meetings are ordinarily chaired by the President, who reaches decisions after having consulted the members of the committee. The Executive Committee meets informally at the commencement of every working day.

The Credit Committee is responsible for the preparation and decision-making related to the Bank's credit (lending) matters and treasury counterparty matters. The President exercises his executive powers concerning lending operations in the Credit Committee.

The Credit Committee is composed of the President and six senior officers appointed by the Board of Directors. At the end of 2016, the Credit Committee had the same members as the Bank's Executive Committee. The Credit Committee is chaired by the President or, in his absence, by one of its members. The Credit Committee usually meets once a week. In 2016, it met 63 times.

The Asset and Liability Committee assists and advises the President in strategic balance sheet planning and is a forum for sharing information on issues relating to the Bank's asset and liability management. The members of the Asset and Liability Committee are appointed by the President who chairs the committee.

In 2016, the Asset and Liability Committee was composed of the members of the Executive Committee and the Chief Risk Officer. The Asset and Liability Committee meets approximately six times a year, but can convene more frequently if necessary. In 2016, the Asset and Liability Committee met six times.

The Finance Committee assists and advises the President in monitoring the market risk, borrowing activities and treasury portfolio management of the Bank. The Finance Committee includes the President, the Head of Treasury and the Head of Risk and Finance. The Finance Committee usually convenes once a month. In 2016, it met eleven times.

In late 2016, it was decided to reorganise the ICT Council and re-name it *the Business and Technology Committee*. The Business and Technology Committee assists and advises the President in information and communications technology matters, and functions as a steering committee for ICT development projects.

However, strategically important decisions on ICT matters are taken by the President in the Executive Committee. The Business and Technology Committee consists of the Head of ICT and other senior staff members appointed by the President. The chairman of the Committee shall be a member of the Executive Committee.

The ICT Council met three times and Business and Technology Committee four times.

Other internal committees

In addition to the aforementioned advisory bodies to the President, the Bank has also the following permanent internal committees: the New Product and Structure Committee, the Committee on Fighting Corruption and the Trust Fund Committee, all composed of senior staff members.

The New Product and Structure Committee scrutinizes product and deal structure proposals which from a risk and/or administrative point of view significantly differ from what NIB has entered into previously, and gives its recommendations to the Finance Committee or the Credit Committee for their decision-making.

The Bank has established a Council of Fighting Corruption (previously named Committee on Fighting Corruption) to enhance the awareness of integrity and corruption risks among the Bank's staff and stakeholders. The Committee deals with both corruption prevention and cases of suspected corruption and gives recommendations for actions to the President for decision-making.

The Board of Directors approved during 2016 three new policies under the Compliance and Anti-corruption Framework: Compliance, Integrity and Anti-Corruption Policy, Investigation and Enforcement Policy, and Speaking-up and Whistleblowing Policy. The following previously existing Compliance-related policies have as a consequence been abolished: The Compliance Policy, Resolution on Fighting Corruption and the Rules of the Procedures for the Committee on Fighting Corruption.

The Trust Fund Committee ensures that the purposes of the trust funds managed by NIB are fulfilled in the most efficient way. The Committee also approves the activity plan of the trust funds as well as proposed allocations from trust funds. The Committee gives its recommendations to the respective donor(s) for their final decision.

Control Committee

The Control Committee is a supervisory body established to ensure that the operations of the Bank are conducted in accordance with the Statutes. The Control Committee is responsible for the audit of the Bank's accounts, and annually delivers an audit statement to the Board of Governors. The audit of the financial statements of the Bank is carried out by external professional auditors appointed by the Control Committee.

To enhance its governance, the Control Committee appointed an independent expert to assist the Chairmanship in financial and audit matters for a period starting from 1 November 2016 and ending 31 May 2018.

Remuneration and incentive programmes

The Board of Governors determines annually the remuneration and attendee allowance for the Board of Directors and for the Control Committee. The President's terms of employment, including remuneration, are determined by the Board of Directors. The Control Committee determines the principles for remuneration of the professional auditors.

The principles for the remuneration of staff are set out in the Compensation Policy. The Bank applies a fixed salary-based system in which individual performance plays an important role, as well as a small bonus programme that rewards exceptional performance on a yearly basis.

Internal control

NIB's internal control system has the dual objective of securing and developing the long-term financial preconditions for operations while conducting cost-efficient operations that comply with rules and regulations. Internal control is focused on managing various forms of financial, compliance and operational risks.

NIB's operational risk management focuses on proactive measures in order to ensure business continuity, the accuracy of information used internally and reported externally, the expertise and integrity of the Bank's personnel and its adherence to established rules and procedures, as well as security arrangements to protect the physical and ICT infrastructure of the Bank.

The Compliance function assists the Bank in identifying, assessing, monitoring and reporting on compliance risk in matters relating to the institution, its operations and the personal conduct of staff members. The Chief Compliance Officer reports to the President, with full and unlimited access to the Chairman of the Board of Directors and the Chairman of the Control Committee.

NIB's internal audit adheres to international professional standards established by the Institute of Internal Auditors. The task of the Internal Audit function is to provide assurance on the effectiveness of the Bank's internal control, risk management and governance processes, and to make recommendations to the management.

The Internal Audit function of the Bank reports to the Board of Directors and to the Control Committee and works administratively under the auspices of the President. The Board of Directors approves the annual plan for the Internal Audit.

For further information on risk management, see the Financial Report.

PRESIDENT'S REVIEW 2016

The Nordic Investment Bank (NIB) experienced strong demand for long-term financing in 2016. This is of course reflected in NIB's annual results, which will be remembered as record-breaking. Demand increased mostly from municipalities in our member countries, much like in 2015. More than half of all our loan agreements were signed with new borrowers in different business sectors.

In 2016, NIB reached all-time highs with EUR 4.4 billion in agreed loans and EUR 3.4 billion in disbursed loans. The Bank also raised EUR 6.7 billion in new funding and continued to issue NIB Environmental Bonds. Despite the low interest rates, NIB made a profit of EUR 212 million (EUR 215 million in 2015).

Our significance lies in that we can provide "patient" money in the form of long-term loans, which is crucial for many projects. This can also create synergies between public and private sectors.

NIB continued to implement its recently updated strategy. We increased lending to SMEs and midcaps and launched an Arctic Financing Facility. NIB also started to purchase green bonds as part of its lending to projects that improve the environment. We want to further develop the green bond market, both as an issuer and a buyer of green bonds. This is a good example of how NIB seeks to stay relevant and add value.

NIB supports our Nordic and Baltic member countries' policies for improving competitiveness and the environment. That is our mission. In 2016, 96% of our agreed loans rated "good" or "excellent" in fulfilling this mission. All our projects are reviewed from the perspective of sustainability.

NIB exists as a tool for the Nordic and Baltic countries to create a prosperous and sustainable region. Do you have a project that improves competitiveness and/or the environment?

Henrik Normann, President & CEO

EXECUTIVE COMMITTEE

As of 31 Dec 2016

From the left: Heikki Cantell, Björn Ordell, Henrik Normann, Thomas Wrangdahl, Gunnar Okk, Lars Eibeholm and Hilde Kjelsberg

Mr Henrik Normann (1953)

- President and CEO, joined NIB in 2012
- Master of Arts, History and Political Science, Copenhagen University
- Harvard Business School AMP

Mr Thomas Wrangdahl (1957)

- First Vice-President, Head of Lending, joined NIB in 2012
- Master of Law, University of Lund
- Master of Science, Stockholm School of Economics
- Harvard Business School AMP

Mr Lars Eibeholm (1964)

- Vice-President, Head of Treasury, joined NIB in 2007
- HD-Master's Degree in Finance and Credit, Copenhagen Business School
- Harvard Business School AMP

Ms Hilde Kjelsberg (1963)

- Vice-President, Head of Credit & Analysis, joined NIB in 2006
- M.Sc., Norwegian School of Economics and Business Administration
- AFF Management programme for young leaders
- Harvard Business School AMP

Mr Gunnar Okk (1960)

- Vice-President, Head of Business Intelligence & Administration, joined NIB in 2006
- M.Sc., Tallinn University of Technology
- Harvard Business School AMP

Mr Heikki Cantell (1959)

- General Counsel, Head of Legal Department, joined NIB in 2007
- Master of Law, University of Helsinki
- Postgraduate degree in Commercial Law, University of Paris II

Mr Björn Ordell (1973)

- Vice-President, CFO and Head of Risk and Finance, joined NIB in 2015
- Bachelor of Business Administration, Umeå University

BOARD OF DIRECTORS

as of 31 Dec 2016

Julie Sonne

Denmark

Member of the Board

From 19.1.2016

Attended meetings: 8

Head of Division, Ministry of Industry, Business and Financial Affairs

Hans Høj

Denmark

Member of the Board

Until 18.1.2016

Elected 2015

Attended meetings: 0

Head of Division, Financial and Legal Affairs, Ministry of Business and Growth

Pekka Morén

Finland

Member of the Board

From 1.6.2016

Attended meetings: 5

Director, Ministry of Finance

Pentti Pikkarainen

Finland

Chairman of the Board

Until 31.5.2016

Elected 2012

Attended meetings: 3

Director General, Ministry of Finance

Silje Gamstøbakk

Norway

Member of the Board

From 1.6.2016

Attended meetings: 3

Deputy Director General, Ministry of Finance

Trond Eklund

Norway

Member of the Board

Until 31.5.2016

Attended meetings: 3

Elected 2015

Director, Norges Bank

Sven Hegelund

Sweden

Member of the Board

Elected 2012

Attended meetings: 8

Former State Secretary

Madis Üürike

Estonia

Member of the Board

Elected 2005

Attended meetings: 8

Advisor, Ministry of Finance

Kaspars Āboliņš

Latvia

Chairman of the Board

From 1.6.2016

Elected 2008

Attended meetings: 8

Treasurer, Treasury of the Republic of Latvia

Algimantas Rimkūnas

Lithuania

Member of the Board

Until 4.11.2016

Elected 2014

Attended meetings: 6

Vice-Minister of Finance, Ministry of Finance

Esther Finnbogadóttir

Iceland

Member of the Board

From 1.6.2016

Attended meetings: 5

Head of Division, Ministry of Finance and Economic Affairs

Þorsteinn Þorsteinsson

Iceland

Member of the Board

Until 31.5.2016

Elected 2009

Attended meetings: 2

Senior Advisor, Ministry of Finance

Alternate board members

Rasmus Mortensen

Denmark

Alternate

From 19.8.2016

Attended meetings: 3

Head of Division, Ministry of Industry, Business and Financial Affairs

Arendse Ekegren Baggesen

Denmark

Alternate

Until 18.8.2016

Attended meetings: 1

Head of Section, Ministry of Industry, Business and Financial Affairs

Petri Peltonen

Finland

Alternate

Elected 2015

Attended meetings: 3

Permanent State Under Secretary, Ministry of Economic Affairs and Employment

Anders Wahlberg

Sweden

Alternate

Elected 2015

Attended meetings: 8

Deputy Director / Deputy Head of the Division for International Financial Institutions, Ministry of Finance

Trond Eklund

Norway

Alternate

From 1.6.2016

Attended meetings: 3

Elected 2010

Director, Norges Bank

Ingrid Rasmussen

Norway

Alternate

Until 31.5.2016

Elected 2015

Attended meetings: 3

Deputy Director General, Tax Policy Department, Ministry of Finance

Katrin Rasmann
Estonia

Alternate

Until 25.11.2016

Elected 2015

Attended meetings: 5

Head of the State Treasury Department, Ministry of Finance

Līga Kļaviņa
Latvia

Alternate

Elected 2013

Attended meetings: 5

Deputy State Secretary on Financial Policy Issues, Ministry of Finance

Dovilė Jasaitienė
Lithuania

Alternate

Elected 2013

Attended meetings: 8

Deputy Director, EU and International Affairs Department, Ministry of Finance

Steinunn Sigvaldadóttir
Iceland

Alternate

From 1.11.2016

Attended meetings: 1

Head of Division, Ministry of Finance and Economic Affairs

Guðmundur Pálsson
Iceland

Alternate

From 1.6.2016 until 31.10.2016

Attended meetings: 1

Director, Ministry of Finance and Economic Affairs

Sigurður Helgason
Iceland

Alternate

Until 31.5.2016

Elected 2014

Attended meetings: 1

Director General, Ministry of Finance and Economic Affairs

CONTROL COMMITTEE

As of 31 December 2016

Chairman

Mr Sigurður Þórðarson

CPA
Former State Auditor
ICELAND

Deputy Chairman

Ms Rasa Kavolytė

Deputy Director of State Treasury Department
LITHUANIA

Mr Sjúrður Skaale

Member of Parliament
DENMARK

Mr Remo Holsmer

Member of Parliament
ESTONIA

Mr Arto Pirttilahti

Member of Parliament
FINLAND

Mr Höskuldur Þórhallsson

Member of Parliament
ICELAND

Ms Karina Ploka

Parliamentary Secretary
LATVIA

Ms Sigita Ščajevienė

Head of the Office of the
Committee on Audit
LITHUANIA

Mr Michael Tetzschner

Member of Parliament
NORWAY

Ms Penilla Gunther

Member of Parliament
SWEDEN

External auditors appointed by the Control Committee

Mr Marcus Tötterman
Authorised Public Accountant,
KPMG Finland

Mr Anders Tagde
Authorised Public Accountant,
KPMG Sweden

The Control Committee met twice in 2016.

BOARD OF GOVERNORS

As of 31 December 2016

Ms Siv Jensen	Minister of Finance NORWAY
Mr Brian Mikkelsen	Minister for Industry, Business and Financial Affairs DENMARK
Mr Sven Sester	Minister of Finance ESTONIA
Mr Petteri Orpo	Minister of Finance FINLAND
Mr Bjarni Benediktsson	Minister of Finance and Economic Affairs ICELAND
Ms Dana Reizniece-Ozola	Minister of Finance LATVIA
Mr Vilius Šapoka	Minister of Finance LITHUANIA
Ms Magdalena Andersson	Minister of Finance SWEDEN

The Annual Meeting of the Board of Governors was held according to written procedure by 26 May 2016.

ETHICS AND INTEGRITY

NIB expects its staff, members of governing bodies and other stakeholders to adhere to the highest level of integrity and ethical standards. To pursue these goals, the Bank has adopted a zero tolerance attitude towards fraud and corruption in all of its operations and activities.

The Bank has also established codes of conduct for its staff, the Board of Directors and President and the members of the Control Committee.

The Board of Directors adopted a new compliance integrity and anti-corruption framework in 2016. This framework includes the Compliance, Integrity and Anti-Corruption Policy, the Investigation and Enforcement Policy and the Speaking-up and Whistleblowing Policy.

NIB's anti-corruption efforts are based on the principals of the Uniform Framework for Preventing and Combating Fraud and Corruption, which was agreed upon by the major international financial institutions in 2006.

A major change in NIB's new framework is the establishment of a Sanctions Panel and an appeal function for external fraud and corruption cases. In 2016, the Board of Directors appointed Ms Enery Quinones and Mr Rohil Hafeez as external members of the Sanctions Panel. In addition to the two external members, the Sanctions Panel will have one internal member appointed by the President on a case-by-case basis.

The Office of the Chief Compliance Officer (OCCO) is responsible for investigating allegations of prohibited practices including fraud and corruption, misconduct and complaints related to non-compliance with the Bank's polices.

For investigations of prohibited practice involving external parties to the Bank, OCCO shall present its findings and recommendations to the Sanctions Panel, which will review the findings and decide on possible sanctions.

For investigations of prohibited practice involving NIB staff members, including allegations of misconduct, OCCO will report its findings to the President, who shall decide on appropriate actions based on the Bank's Staff regulations.

OCCO oversees and coordinates matters relating to integrity and reputational risks and regularly provides advice and guidance to the Bank's management and Board of Directors on how to address integrity and reputational risks in new and ongoing lending operations. OCCO is headed by the Chief Compliance Officer who reports directly to the President and has unrestricted access to the chairpersons of the Board of Directors and the Control Committee.

In terms of prevention, NIB puts particular emphasis on knowing its customers, for which purpose the Integrity Due Diligence (IDD) Guidelines are established. Training of operational staff is an important aspect of the IDD process, with the aim of identifying potential integrity risks as early as possible in the project cycle.

This is to avoid that the Bank becomes involved with unethical borrowers and projects in which corruption, money laundering, terrorist financing or tax fraud and evasion could take place. All new clients are screened thoroughly in the Bank's integrity due diligence processes, as well as in the annual portfolio follow-up work.

In 2016, the Bank's Council of Fighting Corruption was reinforced with more members from different departments of the Bank and focusing on prevention of fraud and corruption. Also in 2016, the Council was involved in the risk assessment of the Bank's procedures to combat money laundering and terrorist financing.

This work resulted in a comprehensive integrity risk assessment of all of the Bank's operations, which will be used as a foundation for the development of improved integrity due diligence controls.

Two new external cases of corruption involving borrowers from NIB member countries were registered in 2016. These cases are currently under investigation by OCCO in consultations with national enforcement agencies and co-financing partners.

OCCO has continued to follow up with a national enforcement agency on a fraud and corruption case, for which NIB's own investigation was concluded in 2014.

CODES OF CONDUCT

The Bank has codes of conduct for its staff, the Board of Directors and the President and the members of the Control Committee. These codes establish a shared approach of behaviour expected from the Bank's staff and members of governing bodies and guiding them on everyday questions relating to ethics and integrity.

The codes of conduct are in place to prevent conflicts of interest, to prohibit the use of insider information, to provide guidelines for handling confidential information, for receiving and offering gifts, and for hospitality and representation. In addition, the codes contain limitations to the staff's and the President's possibility to trade in financial instruments.

Once a year, or when changes occur, the staff, the President and the members of the Board of Directors must disclose to the Chief Compliance Officer (CCO) any personal financial and business interests that might cause a conflict of interest.

In 2016, a code of conduct e-learning program was rolled out for all NIB staff. The training aimed at familiarising the staff with the code and to instil a culture of high ethical standards and integrity in the Bank.

To ensure vigilance and awareness among staff, the Office of the Chief Compliance Officer (OCCO) regularly provides in-class training of all new staff. OCCO also arranges training on anti-corruption and ethics for the members of the Board of Directors and the Control Committee.

ABOUT NIB

The Nordic Investment Bank finances projects that improve competitiveness and the environment of the Nordic and Baltic countries.

NIB offers long-term loans to complement and leverage commercial lending in order to help ensure its vision of a prosperous and sustainable Nordic–Baltic region. The Bank extends loans according to sound banking principles and on market terms.

Value creation to society

NIB analyses all potential projects for their direct and indirect impact on competitiveness and the environment.

To improve competitiveness, NIB-financed projects should support productivity growth for example through:

- technical progress and innovation;
- development of human capital;
- improvements in infrastructure;
- increased market efficiency.

In terms of the environment, NIB lends to projects that lead to:

- improved resource efficiency;
- development of a competitive low carbon economy;
- protection of the environment and its ecosystem services;
- development of clean technology.

NIB celebrated its 40th anniversary in 2016. The Bank was established in accordance with a treaty signed by the Nordic countries Denmark, Finland, Iceland, Norway and Sweden in December 1975. NIB started its activities in June 1976. The Nordic Council played an active and important role in the establishment of NIB.

The Bank acted under the Council until 2005, when Estonia, Latvia and Lithuania became members of NIB on an equal footing.

NIB acquires the funds for its lending by borrowing on the international capital markets. With its strong ownership and highest possible AAA/Aaa issuer credit rating with the leading ratings agencies Standard & Poor's and Moody's, the Bank offers stability and reliability to global investors.

The Bank needs to be financially strong in order to fulfil its mission efficiently. The Bank aims to earn a profit enabling both accumulations of adequate reserves and a reasonable return for the owners on the paid-in capital.

NIB is located in Helsinki, Finland, and employed 195 people in permanent positions at the end of 2016.

FIVE-YEAR COMPARISON

IN EUR MILLION	2016	2015	2014	2013	2012
STATEMENT OF COMPREHENSIVE INCOME, 1 Jan – 31 Dec					
Net interest income	242	247	239	244	252
Net fee and commission income	11	10	7	10	17
Total operating expenses	-45	-50	-41	-39	-38
Realised and unrealised gains and losses of financial instruments	20	-9	26	15	36
Net loan losses	-20	-3	-21	-15	-56
Adjustment to hedge accounting	4	21	-1	2	-1
Net profit for the year	**212**	**215**	**210**	**217**	**209**
Other comprehensive income	-28	–	–	–	–
Total comprehensive income	**184**	**215**	**210**	**217**	**209**

STATEMENT OF FINANCIAL POSITION, AS OF 31 DEC	2016	2015	2014	2013	2012
Assets					
Cash and cash equivalents, placements and debt securities	11,056	8,776	7,158	7,131	8,092
Loans outstanding	16,640	15,627	15,156	14,667	15,131
Intangible and tangible assets	28	28	34	35	34
Accrued interest and other assets	2,454	2,880	2,523	1,657	2,726
Total assets	**30,178**	**27,311**	**24,870**	**23,490**	**25,983**

LIABILITIES AND EQUITY	2016	2015	2014	2013	2012
Amounts owed to credit institutions and repurchase agreements	1,329	1,589	872	372	1,609
Debts evidenced by certificates	23,907	20,862	19,446	18,421	20,332
Accrued interest and other liabilities	1,667	1,713	1,567	1,866	1,377
Paid-in capital	419	419	419	419	419
Statutory reserve	686	686	686	686	686
Credit risk funds	1,986	1,826	1,671	1,509	1,352
Hedging reserve	-28	–	–	–	–
Profit/loss for the year	212	215	210	217	209
Total liabilities and equity	**30,178**	**27,311**	**24,870**	**23,490**	**25,983**

ACTIVITIES	2016	2015	2014	2013	2012
Disbursements of loans	3,373	2,716	2,274	1,922	2,355
Loans outstanding at year-end	16,640	15,627	15,156	14,667	15,131
New debt issues (including capitalisations)	6,700	4,276	3,361	4,080	4,355
Number of employees (average during year)	192	188	186	183	180

KEY FIGURES

IN MILLION EUR UNLESS OTHERWISE SPECIFIED	**2016**	**2015**
Net interest income	242	247
Profit before net loan losses	232	218
Net profit	212	215
Loans disbursed	3,373	2,716
Loans agreed	4,363	2,830
% of loans achieving good or above mandate	95.7%	94.1%
Loans outstanding	16,640	15,627
Total assets	30,178	27,311
New debt issues	6,700	4,276
Debts evidenced by certificates	23,907	20,862
Total equity	3,275	3,146
Equity/total assets (%)	10.9%	11.5%
Profit/average equity (%)	6.7%	7.0%
Cost/income (%)	16.1%	18.8%
Number of employees (average during year)	192	188

CAPITAL STRUCTURE

NIB's capital base consists of authorised capital subscribed by the member countries and reserves accumulated through internal profit generation.

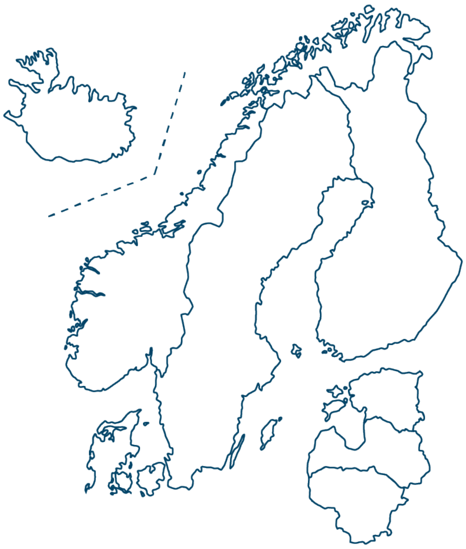
The Bank's authorised capital was EUR 6,141.9 million as of 31 December 2016. The paid-in capital at the end of the year amounted to EUR 418.6 million. The remainder of NIB's authorised capital is subject to call if the Bank's Board of Directors deems it necessary for the fulfilment of the Bank's debt obligations.

The Bank's equity consists of the paid-in portion of the authorised capital and accumulated reserves. As of 31 December 2016, the Bank's equity amounted to EUR 3,275.1 million. Further information on the composition of the Bank's equity is provided in the Statement of financial position and the Statement of changes in equity.

NIB's member countries have subscribed to the Bank's authorised capital and guaranteed the special loan facilities mentioned below in proportion to their gross national incomes. The countries' share of the authorised capital is shown on the map of member countries.

Member countries

Share of authorised capital and rating by credit rating
agencies Moody's and Standard & Poor's as of 31 January 2017.



SWEDEN ....Aaa/AAA...... **34.6%**
NORWAY ....Aaa/AAA...... **21.5%**
DENMARK ....Aaa/AAA...... **21.1%**
FINLAND ....Aa1/AA+ **17.7%**
LITHUANIA.........A3/A-.................**2%**
LATVIA...................A3/A-.............**1.3%**
ESTONIA..............A1/AA- **0.9%**
ICELAND..............A3/A-.............**0.9%**

The Bank's ordinary lending ceiling corresponds to 250% of the authorised capital and accumulated general reserves. After the appropriation of profits from the financial year 2016, in accordance with the proposal made by the Board of Directors, the ordinary lending ceiling amounts to EUR 21,244 million.

In addition to ordinary lending, NIB has two special lending facilities. The Project Investment Loan facility (PIL) amounts to EUR 4,000 million. The member countries guarantee 90% of each loan under the PIL facility up to a total amount of EUR 1,800 million.

The Bank, however, will assume 100% of any losses incurred under an individual PIL loan, up to the amount available at any given time in the Special Credit Risk Fund for PIL. Only thereafter would the Bank be able to call in the member countries' guarantees. Each member country's share of the guarantee amount is shown in Note 11.

The second special facility, the Environmental Investment Loan facility (MIL) has a statutory ceiling of EUR 300 million. The Bank's member countries guarantee 100% of loans outstanding under the MIL facility.

CAPITAL STRUCTURE

Following a call on the guarantees in 2014 and 2016 the member countries' total guarantee liabilities as of year-end 2016 amount to EUR 266 million. Each member country's share of the total guarantee liabilities is shown in Note 11.

In view of the Bank's strong capital base, the quality of its assets and its status as an international financial institution, the leading international rating agencies, Standard & Poor's and Moody's, have accorded NIB the highest possible credit rating, AAA/Aaa, for long-term obligations and A-1+/P-1 for short-term obligations.

NIB first obtained the highest possible credit rating in 1982. Since then, the Bank has continuously maintained this credit rating.

OUR STAKEHOLDERS

NIB's main stakeholders are our customers, investors, political decision-makers and public administrations as well as our own staff. We strive to maintain an open, continuous and constructive dialogue with our key counterparties, and engaged in a number of stakeholder activities during 2016.

Events and seminars in 2016

In May 2016, the Nordic Council of Ministers Office in Lithuania organised a seminar in Vilnius entitled "NIB: new opportunities in the Nordic-Baltic region" to mark the Bank's 40th anniversary. NIB's President & CEO Henrik Normann participated in the seminar.

In July, NIB arranged a panel discussion on the risks and opportunities of green financing together with Sweden's Savings Banks Association at Almedalen Week on the Baltic Sea island of Gotland.

On 2 November, NIB hosted a seminar titled "Financing the Future" to celebrate the Bank's 40th anniversary. The event was held in connection with the annual session of the Nordic Council and took place at Christiansborg Palace in Copenhagen, the seat of the Danish Parliament.

The event gathered politicians, civil servants, representatives of the business community and investors from the Nordic and Baltic countries. The vent was arranged in co-operation with the Finnish Presidency of the Nordic Council of Ministers and the Latvian NB8 Presidency.

Also in November, NIB participated in two panel debates on de-risking and mobilising climate finance at the COP22 UN Climate Conference in Marrakech, Morocco. The events were hosted by the Nordic Council of Ministers.

Following the COP22 Climate Conference, the Nordic Council of Ministers arranged a workshop on climate finance, co-hosted by NIB in Helsinki on 30 November. The workshop gathered participants from the Nordic countries, mainly finance and sustainability professionals from the private and public sector.

Ongoing communication with stakeholders

As an on-going general practice and as defined in NIB's Public Information Policy, the Bank publishes information on all loans agreed. This includes information about the borrower, the sum of the loan, its maturity, and description of the project.

The degree to which the loan projects comply with the Bank's mission is published as well. During 2016, NIB signed 58 new loan agreements and invested in eight green bonds.

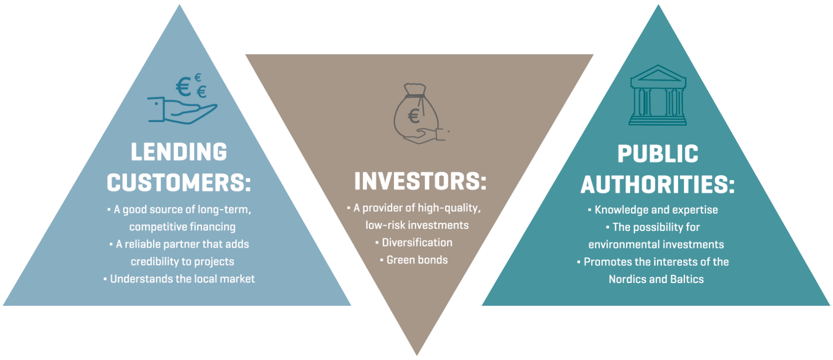
NIB classifies all loan projects with potential negative social or environmental impacts as Category A projects. Such projects must undergo a full environmental impact assessment (EIA).

The EIAs are made publicly available on NIB's website (www.nib.int) for a period of 30 days. This allows our stakeholders to give their opinions before the Bank makes a decision on financing the project.

In 2016, NIB published information about seven Category A projects, and received no responses. NIB eventually signed loan agreements with five of the Category A projects.

In line with its Public Information Policy, NIB actively and regularly seeks feedback from its key target groups on their awareness of the Bank and its reputation, the importance of sustainability matters and NIB's added value. In practice, this is done by conducting a thorough stakeholder survey every three years. The most recent survey was completed in 2015.

NIB's added value according to stakeholders



The Bank is developing its sustainability reporting based on the Global Reporting Initiative (GRI). NIB aims to report on the most essential economic, environmental and social impacts of its operations. Our reporting also includes indicators from the GRI's Financial Sector Supplement.

	KEY STAKEHOLDERS	MODES OF INTERACTION	2016 ACTIVITY EXAMPLES
Customers	Private and public companies, institutions, municipalities, sovereign countries, banks and other IFIs	Visits, meetings, seminars, correspondence, newsletters	– 58 new loans signed – More than two thirds of loans to new customers – SMEs reached via seven new loans to financial institutions
Investors	Central and commercial banks, pension and insurance funds, asset managers and government entities	Bilateral meetings, newsletters, seminars, conferences, and web-based communication	– Issuance of three USD benchmark bonds – Issuance of three NIB Environmental Bonds (NEB)
Political decision-makers and public administrations	State representatives in Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, as well as other selected countries where NIB operates	Our owners govern NIB via representatives on the Board of Governors (BoG), Board of Directors (BoD) and Control Committee (CC).	– The BoG approved dividends of EUR 55 million for 2015. – The BoD held 8 ordinary meetings, one online meeting and one by written procedure. – "NIB 40" seminar held in connection with the annual Nordic Council session – Participation in Almedalen and COP22
NGOs	Non-governmental organisations raising awareness of ways to protect the environment	Publishing information on loans signed. Inviting comments to loan projects with potentially extensive environmental impacts, known as Category A projects	– Contributions to NGOs working to protect the Baltic Sea in the form of expertise and donations
Media	Mainly the financial media	Press releases about loans signed, electronic newsletters, emails and bilateral meetings with press representatives	– Interviews with NIB's directors and experts – Answering questions from the media – Offering background information to journalists writing about green investments
General public	Everyone interested in NIB's operations	Meetings, website, newsletters, the printed *NIB Magazine*, online annual reports, social media and emails	– Staff giving presentations about NIB and its mission to various student groups and NGOs – Dialogue via info@nib.int
Staff	NIB is headquartered in Helsinki and had 195 permanent employees at year-end 2016.	Meetings, intranet, monthly plenum, induction for new employees, in-house training	– Continuation of the "Raising the Bar" training programme – Monthly plenary meetings -Staff event for team building

OUR PEOPLE

NIB is continuously developing its working culture and maintains high levels of professionalism based on its values of commitment, competence and cooperation.

Work community

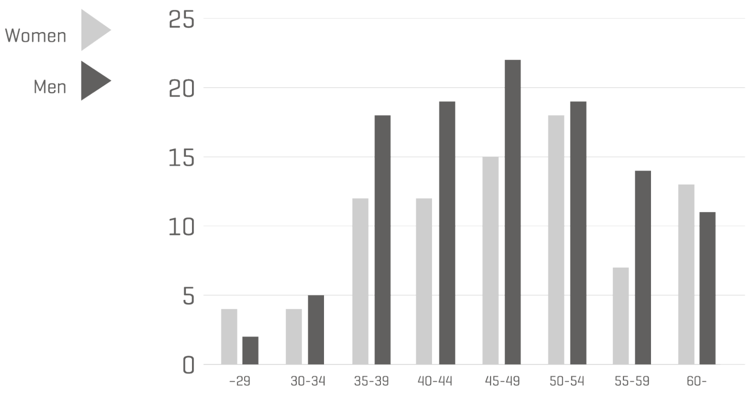
At the end of 2016, NIB had 195 employees in permanent positions. Of these, 85 were women and 110 men. The average number of permanent employees during the year was 192. In addition, three employees worked on projects in long-term temporary positions.

In 2016, the average length of employment was 11.7 years. Seven permanently employed staff members left the Bank in 2016, resulting in an exit turnover of 3.6%.

The number of permanent employees holding a university degree was 144, or 74% of NIB's staff. The average age of employees was 47 years. All in all, our people represented 17 nationalities.

Employees by gender and age group

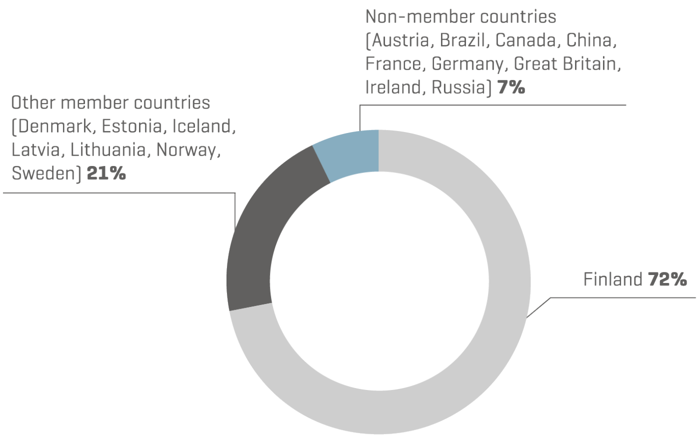
as of 31 Dec 2016



Origins of staff

as of 31 Dec 2016

%, distribution by country



NIB continued to communicate with potential recruitment candidates via LinkedIn. The Bank also launched a career page on its website (nib.int/careers) to highlight relevant information about NIB as an employer.

Skills development

NIB offers training opportunities for its staff to develop both professionally and personally. In 2016, NIB organised various training courses on topics such as derivatives and derivatives pricing, banking regulations, introduction to banking and the financial markets.

Language skills are essential due to NIB's diverse staff and status as an international financial institution (IFI). NIB therefore offers internal language training. The average number of training days per employee, including professional and language training, was 5.4 in 2016, compared to 4.8 in 2015.

A continuous step towards strengthening the professional identity and competence of the staff was taken by initiating a new internal development programme: "Raising the Bar". The programme aims to increase the employees' understanding of the business environment and clients' needs in order to give an outside-in perspective.

"Raising the Bar" was first launched in January 2016 and included 20 participants. In January 2017, the second round of the programme kicked off with a new group of participants. The scope has remained the same.

Well-being and safety at work

NIB makes every effort to provide a safe and healthy working environment for its employees and encourages its staff members to establish and maintain a sustainable balance between their professional and private lives.

NIB provides both occupational healthcare and medical care services to its employees. The illness absence rate, as a percentage of total working time, stood at 2.2% in 2016, which is the same as in 2015.

Ongoing developments

In 2016, the Human Resources Unit continued to implement NIB's new HR IT system, which offers online tools in various HR-related processes to the management and to the employees. The system now includes new modules, such as "Performance" and "Learning". The next module to be implemented is "Compensation".

Code of Conduct and Ombudsman

NIB expects the highest ethical conduct from its staff members. The Code of Conduct for the staff, governed by the Compliance unit, provides guidance on business ethics and standards as well as personal conduct.

The functions and activities of the Ombudsman form an integral part of the legal framework for all staff members. The Ombudsman's role is to enhance cooperation on employment matters and represents a means of safeguarding the rule of law within the Bank while maintaining professional conduct and an attractive working environment.

In 2016, the Ombudsman was available once a month for all staff members. Three consultations on employment matters were held, none of which resulted in any further action.

To ensure a workplace free of harassment, NIB has anti-harassment guidelines in place, which are governed primarily by the Bank's Human Resources unit. In cases of harassment, the Ombudsman can be consulted as well. In 2016, zero incidents of harassment were reported.

NIB's fundamental objectives as an employer include promoting of balanced diversity among the staff, equal treatment of all staff members and preventing of discrimination. In an effort to address issues related to these objectives, NIB has put in place an Equality and Diversity Plan (2013–2015) that identifies different development areas.

In 2016, a working group consisting of members representing the staff as well as the employer reviewed the previous Plan's development areas and drew up a new plan: the Equality, Diversity and Inclusion Plan 2016–2018.

For the forthcoming period, efforts will focus on creating awareness among the staff about a diverse and inclusive work environment free of any form of harassment or discrimination.

Legal status

NIB has the status of an IFI. Hence the labour laws and other legislation of the host country Finland, or any of NIB's other member countries, do not automatically apply to the Bank's employees. There are, however, some exceptions, particularly with regard to taxation, social security and pensions. These are stated in the Host Country Agreement between the Government of the Republic of Finland and the Nordic Investment Bank.

See Note 7 in the Financial Report for more information on NIB's employees.

OUR ECOLOGICAL FOOTPRINT

NIB is making targeted efforts to improve its environmental management system. All changes implemented are in accordance with best practices and are permanent. They cover matters of internal operations and human resource management, including equal opportunity, work–life balance, health and safety.

NIB is currently refurbishing its premises in accordance with the BREEAM certification requirements for environmentally-friendly buildings. The refurbishment will take place over a multi-year period.

Further, the Bank is a member of WWF's Green Office programme. The programme aims to motivate staff to act in an environmentally conscious way in their everyday tasks and to improve both environmental awareness and cost efficiency.

A certified Green Office is audited every three years to verify its compliance with the programme's criteria. The audit process includes an office inspection as well as an interview to review the actions taken over the past three years. In addition, notes on possible future improvements are given. In 2016, NIB was awarded the use of the Green Office logo for the next three years.

The Bank's key ecological indicators are presented in the table below.

NIB purchases the electricity needed for its premises from clean and renewable energy sources. Our energy source is 100% wind energy. The origin is guaranteed by the European Energy Certificate System (EECS).

NIB also buys cleaning and recycling services certified by the official Nordic Eco label, the swan, introduced by the Nordic Council of Ministers.

In order to encourage the use of public transport among NIB personnel, the Bank offers commuter benefit coupons. The number of staff members using the coupons was 140 in 2016.

NIB has appropriate waste management and waste handling procedures for sorting its main types of waste: energy, mixed, bio, cardboard, metal, glass and hazardous waste, including electronic waste and ink cartridges. All waste fractions are recycled. In connection with the refurbishment project, a substantial part of old furniture is reused.

NIB's direct environmental impact:

	2013	2014	2015	2016	CHANGE FROM PREVIOUS YEAR, %
Electricity (MWh)	1,459	1,352	1,269	**1,280**	1%
District heating (MWh)	1,499	1,347	1,188	**1,348**	13%
District cooling (MWh)	429	422	336	**349**	4%
Energy total (MWh)	3,387	3,121	2,793	**2,977**	7%
Water (m3)	2,754	2,507	2,725	**2,738**	0%
Paper; copy and printing (t)	9	7	6	**6**	0%
Business travel, air (million km)	5,1	4,2	5,0	**4,2**	-15%
Business travel, CO_2 (t)	645	536	632	**491**	-22%
Recycled paper; office, newspapers, magazines and brochures (t)	16	12	12	**12**	0%
Other waste total (t)	18	15	16	**15**	-6%
Commuter benefit coupons (signed for in number of persons)	152	150	143	**140**	-2%

GRI INDEX

	GENERAL STANDARD DISCLOSURES	
	INDICATOR DESCRIPTION	**NIB'S RESPONSE**
	Strategy and analysis	
G4-1	A statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	President's review
G4-2	Description of key impacts, risks, and opportunities.	The Nordic Investment Bank finances projects that improve competitiveness and the environment of the Nordic and Baltic countries. President's review Report of the Board of Directors Operating and financial review Operating environment

	Organizational profile	
G4-3	Name of the organisation	Nordic Investment Bank (NIB)
G4-4	Primary brands, products, and services.	NIB offers long-term loans to complement and leverage commercial lending in order to help ensure its vision of a prosperous and sustainable Nordic–Baltic region. Loans are extended on market terms and according to sound banking principles.
G4-5	Location of organization's headquarters	Helsinki, Finland
G4-6	The countries where the organization operates, or that organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	NIB has lending operations in its Nordic-Baltic member countries as well as in non-member countries.
G4-7	Nature of ownership and legal form	NIB is an international financial institution (IFI) owned by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden.
G4-8	Markets served	NIB finances projects in many sectors in both member and non-member countries. The focus sectors of the bank's operations are the environment, energy, innovation, transport, infrastructure and telecommunications.
G4-9	Scale of organization	At the end of 2016, NIB employed 195 people. In 2016, the Bank signed 58 loan agreements with an aggregate total of EUR 4,363 million (including Lending Green Bond investments). The profit for the year 2016 was EUR 212 million.
G4-10	Total number of employees by employment contract, region, broken down by gender	Of the 195 permanent employees, 85 were women and 110 men. In addition, three employees worked on projects in temporary positions. The average number of permanent employees was 192 during the year. Read more about Our people.

	Organizational profile	
G4-11	Percentage of total employees covered by collective bargaining agreements	NIB's employees are members of an international financial institution. Based on NIB's legal status, the labour laws or other legislation of the host country Finland, or any other member country, do not automatically apply to its employees. There are, however, some exceptions, particularly with regard to taxation, social security and pensions. NIB grants the whole staff full freedom of association, subject to NIB's staff-related documents and Code of Conduct. These documents ensure full freedom of association, subject only to non-conflict of interest and democratic principles. As NIB is not subject to the jurisdiction of national courts, the Bank has set up arbitration rules for potential employment-related disputes. NIB has an Ombudsman whom the employees can consult and who may also act as mediator in the event of such disputes. The Bank has a Cooperation Council in place, consisting of four Members representing the Bank and four Members representing the staff. The Cooperation Council aims to promote communication and initiatives between the Bank and the staff in issues related to working conditions and the workplace, in particular in a manner enabling the Bank to take better account of the staff's opinions concerning such issues. The purpose is to achieve mutually acceptable solutions for both the Bank and the staff. The Cooperation Council met five times during 2016.
G4-12	The organization's supply chain.	Being a financial institution, NIB does not produce or manufacture any products. The materials NIB needs to perform its operations are mainly office supplies and electronics. In addition, the Bank uses external service providers to provide cleaning, security and catering services at our offices. As an international organisation (to which national legislation on public procurement does not apply) NIB has its own internal procurement rules. These rules are aligned with those of other international organisations. For projects financed by NIB, there are separate procurement guidelines. For more information, see Legal framework and policy documents.
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	In 2016, it was decided to transfer the Bank's ICT function from the Business Services department to the Finance department. Further, the responsibilities for Loan Administration, hitherto a part of the Financial Administration, were transferred to the Business Services department. The changes are effective as of 1 January 2017.
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	NIB's Sustainability Policy and Guidelines are based around the principle of taking precautions. Before NIB finances any project, the project is assessed from an environmental and social point of view based on the Sustainability Policy and Guidelines. NIB aims to identify and address concerns pre-emptively.
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	NIB has signed the Declaration on the European Principles for the Environment (EPE) concerning environmental management in the financing of projects.
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations	NIB is an active partner in the Northern Dimension Environmental Partnership (NDEP). Within the Council of the Baltic Sea States, NIB is part of the international Baltic Agenda 21 working group. NIB also participates in the MFI Environmental Working Group, which is a cooperation forum for multilateral financial institutions. In June 2016, NIB was voted into the Green Bond Principles (GBP) Executive Committee, a group within the International Capital Markets Association (ICMA) that develops the voluntary process guidelines for the green bond market. NIB first joined the GBP in 2014. In January 2017, NIB was appointed by the European Commission as observer to the High-Level Expert Group on sustainable finance.

	Identified material aspects and boundaries	
G4-17	All entities included in the organization's consolidated financial statements or equivalent documents	The Nordic Investment Bank
G4-18	The process for defining the report content and the aspect boundaries and how the organization has implemented the reporting principles for defining report content	Issues considered to be material or relevant for disclosure in this annual report were identified in three different processes that took place during 2015 and 2016. These were the strategy review and implementation process, the stakeholder survey and the work engagement survey. Based on the results of the processes mentioned above, we identified three key aspects that are of high priority for both internal and external stakeholders. These will be the main aspects that we report on for 2016: – The fulfilment of our mission to finance projects that improve competitiveness and the environment of the Nordic and Baltic countries – Anti-corruption, transparency and ethical business practice – The development of the Bank's working culture to maintain a committed and professional staff Read more about the materiality process and defining the content of the report.
G4-19	All the material aspects identified in the process for defining report content	Economic performance Indirect economic impact Environmental impact Labour practices Human rights and child labour Society and local communities Anti-corruption Grievance mechanisms (environmental, human rights, impact on society) Product portfolio / audit aspects (Financial Sector Supplement)
G4-20, G4-21	For each material aspect, the aspect boundary within the organization and outside the organisation	NIB is a financial institution providing only one product: long-term loans. The Bank's aim is to outline the sustainability considerations that apply to its lending and funding functions, daily operations and human resource management. In order to fulfil the Bank's mission, NIB has sustainability requirements for its loan clients. Read more about our process of defining our materiality and setting up the reporting boundaries.
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements	None
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	None

	Stakeholder engagement	
G4-24	A list of stakeholder groups engaged by the organization	NIB's stakeholders are our customers, investors, political decision-makers and public administrations, NGOs, the media, the general public and our staff.
G4-25	The basis for identification and selection of stakeholders with whom to engage	NIB aims to maintain an open dialogue with all interested parties. Stakeholders are categorised as external or internal. The internal stakeholders are the Bank's owners, the member countries that govern NIB via representatives on the Board of Governors (BoG), Board of Directors (BoD) and Control Committee (CC), and the staff. The main external stakeholders are customers and investors.
G4-26	The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	With regard to its lending activities, NIB publishes for each project information including the project description, the borrower, the amount of the loan and its maturity. We also publish the degree to which our loan projects comply with the Bank's mission, which is to improve the competitiveness and the environment of the Nordic and Baltic countries. See an extensive list of NIB's stakeholders, communication channels and activities with stakeholders in 2016.
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns	Every three years, the Bank conducts a stakeholder survey among its key target groups. NIB seeks to follow up on the findings of each survey to best meet stakeholders' expectations. The most recent stakeholder survey was carried out in 2015, and asked the interviewed counterparties to rate the importance of different sustainability topics. Investors' interest in and awareness of green bonds was also requested. NIB also conducts a work satisfaction survey among its staff every other year. The most recent survey was conducted in 2015, with the aim of assessing the wellbeing and functionality of the working community. Read more about the surveys and our materiality process. NIB classifies loan projects with potential significant adverse social or environmental impacts as Category A projects. These projects must therefore undergo a full environmental impact assessment (EIA). The EIAs are made publicly available on our website at www.nib.int for a period of 30 days to allow our stakeholders to give their opinions before the Bank makes a decision on financing the project. In 2016, the Bank published information about seven Category A projects and received no responses. NIB eventually signed loan agreements with five of these Category A projects. See the List of A, B, and C projects in 2016.

	Report profile	
G4-28	Reporting period (such as fiscal or calendar year) for information provided	NIB reports on an annual calendar year basis from 1 January until 31 December. This report covers the year 2016.
G4-29	Date of most recent previous report (if any)	9 March 2016
G4-30	Reporting cycle	Annual
G4-31	The contact point for questions regarding the report or its contents	Communications Unit; Chief Compliance Officer (contact information)
G4-32	Report the 'in accordance' option and the GRI Content Index for the chosen option.	NIB's Annual Report 2016 has been reported in accordance with the GRI G4 guidelines' core option. See more details on materiality.
G4-33	The organization's policy and current practice with regard to seeking external assurance for the report	NIB has not set a policy on seeking external assurance for its sustainability reporting.

	Governance	
G4-34	Report the governance structure of the organization, including committees of the highest governance body.	The Nordic Investment Bank was established in 1975 by Denmark, Finland, Iceland, Norway and Sweden. In 2005, Estonia, Latvia and Lithuania became members of the Bank on equal terms with the original member countries. NIB is governed by the Agreement concerning the Nordic Investment Bank among its Member countries signed in 2004, as well as the related Statutes and the Host Country Agreement concluded between the Government of Finland and the Bank in 2010. According to the Statutes, the Bank shall have a Board of Governors, a Board of Directors, a President and the staff necessary to carry out its operations. In addition, the Bank has a Control Committee.

	Ethics and intergrity	
G4-56	The organization's values, principles, standards, and norms of behavior, such as codes of conduct and codes of ethics	NIB's vision is a prosperous and sustainable Nordic–Baltic region. The Bank works towards that goal by financing projects that improve the competitiveness and environment of its member countries. Through this, NIB is living up to its promise of financing the future. The Bank's core values are competence, commitment and cooperation. NIB has codes of conduct in place for its staff, Board of Directors, the President and Control Committee. The codes of conduct are publicly available and demonstrate NIB's values and principles. In addition to the regular induction programmes covering the code of conduct for new staff, NIB introduced a compulsory e-learning course for all staff in the Code of Conduct in 2016. Read more about the Code of Conduct and the e-learning course here.
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	NIB expects a high level of integrity and high ethical standards among its staff and other stakeholders and has adopted a zero tolerance policy towards fraud and corruption. The Office of the Chief Compliance Officer (OCCO) oversees matters relating to integrity and is independent from the Bank's operations, reports directly to the Bank's President, and has unrestricted access to the chairpersons of the Board of Directors and the Control Committee. NIB puts particular emphasis on knowing its customers and training its staff well to avoid the Bank becoming involved with unethical borrowers and projects or in money laundering, terrorist financing or tax evasion. All new clients are screened thoroughly in the Bank's integrity due diligence (IDD) process. NIB has endorsed the Uniform Framework for Preventing and Combating Fraud and Corruption, which was agreed upon by the major Multilateral Development Banks (MDBs) in 2006.
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	NIB has a dedicated email address for reporting concerns of unethical or unlawful behaviour that is managed by the Office of the Chief Compliance Officer (OCCO). Reports can be made anonymously. Reporting can also be done by directly contacting OCCO by telephone or a personal visit or alternatively to a supervisor, who is obliged to pass on the report to OCCO. The Code of Conduct for Staff provides whistleblower protection. In addition, NIB introduced a Speaking-up and Whistleblowing Policy in 2016. The policy covers the protection of whistleblowers, the prohibition of retaliation aganst whistleblowers and guidance on situations when staff can report outside the Bank. The Policy is publically available and covers external whistleblowers as well.

	SPECIFIC STANDARD DISCLOSURES	
	INDICATOR DESCRIPTION	**NIB'S RESPONSE**
	CATEGORY: ECONOMIC	
	Aspect: Economic performance	
G4-DMA	Management approach	NIB offers long-term loans to complement and leverage commercial lending in order to help ensure its vision of a prosperous and sustainable Nordic–Baltic region. Loans are extended on market terms and according to sound banking principles. The funds acquired for NIB's lending are borrowed on the international capital markets. With its strong ownership and highest possible credit rating, the Bank offers stability and reliability to global investors. NIB needs to be financially strong in order to fulfil its mission effectively. The Bank aims to earn a sufficient amount of return from its business operations, and at the same time guarantee its owners a reasonable return on capital.
G4-EC1	Direct economic value generated and distributed	Financial report Operating and financial review Loans disbursed
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Each loan project under consideration for financing undergoes an individual assessment of its potential environmental impact, including social aspects, as an integral part of NIB's mission of promoting sustainable growth in its member countries. NIB has introduced a framework that allows investors to provide funds for the Bank's environmental lending, meaning that the Bank can issue NIB Environmental Bonds (NEB), the proceeds of which are used to finance projects that have a positive impact on the environment. The Bank regularly reports on the impact of projects it finances in terms of greenhouse gas emissions.
G4-EC3	Coverage of the organization's defined benefit plan obligations	See Note 7 in the Financial Report – Pension obligations.
G4-EC4	Financial assistance received from government	Capital structure

	Aspect: Indirect economic impact	
G4-DMA	Management approach	NIB's mission is to improve the competitiveness and environment of the Nordic–Baltic region, fostering sustainability and prosperity in its member countries. All projects are reviewed from a sustainability perspective, which distinguishes NIB from commercial banks. Within its lending, NIB aims to provide added value in its member countries, especially in energy, transport and environmental improvements.
G4-EC7	Development and impact of infrastructure investments and services supported	Lending in the business area of infrastructure, transportation and telecommunications is primarily directed towards financing efficiency improvements in transport, logistics and communications. In 2016, approximately 27% of all loans agreed were related to this business area, totalling EUR 1,198 million (including Lending Green Bond purchases). The financed projects include airport expansions, wastewater treatment, fresh water provision, rail infrastructure and road improvements.
G4-EC8	Significant indirect economic impacts, including the extent of impacts	In addition to financing projects directly with large enterprises, NIB channels financing to projects for small and medium-sized enterprises (SMEs) through intermediaries. SMEs are seen as the backbone of the economy of the Nordic–Baltic region. NIB decided in 2013 to expand its loan offering for onlending to SMEs to include investments in new machinery, production or service provision facilities, as well as investments in ICT and R&D. Further, SMEs and mid-caps are an integral part of NIB's reviewed lending strategy, as they employ two thirds of the workforce in the Nordic–Baltic region; consequently, they are of great importance for productivity and economic growth in their home countries. In 2016, some 17% of all loans agreed, a total of EUR 720 million (including Lending Green Bond purchases), were provided to banks and other financial institutions for on-lending to their clients, those being mainly SMEs.

	CATEGORY: ENVIRONMENTAL	
	Aspect: Materials	
G4-DMA	Management approach	The Bank promotes sustainable development in its business operations and extends financing to projects that improve competitiveness and the environment. Correspondingly, the Bank emphasises environmentally and socially sound practices in its internal operations. Being a relatively small organisation providing non-material services, NIB's usage of materials consists mainly of paper, office supplies and electronics. However, the Bank acknowledges that the purchasing decisions for these items have an impact on the environment. Therefore, NIB is part of WWF's Green Office Network, which assists the Bank in continuously reducing its ecological footprint in a cost-effective way. In 2016, NIB was awarded the use of the Green Office logo for the next three-year period. NIB's internal procurement instructions identify various requirements and best practices that NIB has chosen to comply with, especially in regards to procurement of goods and/or services. An internal website supports the procurement staff, and contains information on NIB's established best practices on contract issues with suppliers as well as environmental and social consideration in the procurement process.
G4-EN1, G4-EN2	Materials used by weight or volume, Percentage of materials used that are recycled input materials	As a bank offering loan products, NIB does not produce or manufacture any physical products. To conduct our work, we use paper, office supplies and electronics. NIB works to improve its waste management and waste handling procedures by cooperating with its catering and cleaning service providers. The Bank also actively informs the staff about sustainable behaviour at the workplace. NIB follows recycling success rates with its cleaning service provider, in accordance with the cleaning and recycling services certified by the official Nordic Ecolabel. For information regarding materials used and recycled, see NIB's ecological footprint table. NIB collaborates with its catering service provider to raise awareness about ecological food choices. In 2016, NIB continued to run campaigns about nutrition and locally produced food. NIB's herb garden, located in the Bank's inner courtyard, was once again utilised during summer 2016 for the daily staff lunch. The renovation of NIB's headquarters, which was initialised in 2015, will continue in 2017, and is carried out in accordance with the BREEAM existing building refurbishment standard. The standard requires the use of sustainable material choices in both construction work and furniture choices. Also, waste handling and disposal has strict pre-set requirements.

	Aspect: Energy	
G4-DMA	Management approach	NIB uses energy to run its day-to-day operations at its headquarters. Recognising the impact the extraction of fossil fuels may have, NIB favours the use of renewable energy. Therefore the Bank purchases its electricity from clean and renewable energy sources. Its origin is guaranteed by the European Energy Certificate System (EECS). NIB monitors its annual energy consumption and strives to reduce the amount of water, heat and electricity used, as well as consume less paper and fewer office supplies.
G4-EN3	Energy consumption within the organization	See NIB's ecological footprint table with more info about NIB's energy consumption.
G4-EN6	Reduction of energy consumption	In 2015, the Bank started a renovation project at its headquarters in accordance with the BREEAM existing building refurbishment standard. In 2016, the Bank planned the next phase of the renovation. In 2017, NIB will be carrying out the renovation of three office spaces, also in accordance with the BREEAM standard. NIB will be completing the renovation according to the standard's Excellent level. The BREEAM standard has strict pre-set requirements for a building's energy efficiency that will make NIB's energy consumption more efficient. In addition, NIB is also renewing the building's technical machinery, including the main air supply machines, and once they are fully operational, they will contribute to the reduction in energy in the premises.

	Aspect: Diversity	
G4-DMA	Management approach	In its Sustainability Policy and Guidelines, NIB states that projects should comply with any obligations and standards enshrined in relevant multilateral environmental agreements (MEAs) according to applicable EU legislation, for example those dealing with biodiversity, climate change, the ozone layer, wetlands, persistent organic pollution, trans-boundary air pollution, endangered species and environmental information, and others that may be ratified in the future. A benchmark reference often applied in NIB's projects is the HELCOM standards for discharges into the Baltic Sea. Correspondingly, the Bank emphasises environmentally and socially sound practices in its internal operations, and in the working environment NIB aims to avoid placing any unnecessary strain on the natural environment. By providing information and training and offering environmentally sound alternatives, the Bank sets out to encourage its staff to act in a way that has less impact on the environment.
G4-EN13	Habitats protected or restored	NIB does not have any specific programmes to protect or restore habitats.

	Aspect: Emissions	
G4-DMA	Management approach	NIB is committed to supporting action for mitigating and adapting to climate change. NIB calculates all the greenhouse gas emissions from its projects, either directly via fuel combustion or production process emissions, or indirectly through purchased electricity and heat. The Bank's management and Board of Directors consider these to be part of the loan decision process. Climate change is a societal challenge as well as an environmental one, and it requires adoption of advanced new technologies to improve, for instance, energy efficiency. Addressing this challenge is part of NIB's mission to improve the environment and competitiveness of the Nordic–Baltic region to increase sustainability and prosperity. As concerns its direct ecological footprint and housekeeping, NIB has internal environmental guidelines for office practices, business travel, facilities management and procurement.
G4-EN19	Reduction of greenhouse gas (GHG) emissions	In 2016, NIB's lending contributed to an annual reduction of 280,000 tonnes of CO_2 emissions, and to an increase of 6,000 tonnes of CO_2 emissions. Read more on NIB's internal ecological footprint at its headquarters in Helsinki, including information on emissions and waste.

	Aspect: Effluents and waste	
G4-DMA	Management approach	NIB joined the WWF Green Office programme and qualified for the certificate at the beginning of 2010. In 2016, NIB was awarded the use of the Green Office logo for the next three-year period. One of the main points for the Bank in the programme focuses on waste management and sorting, and NIB monitors the amount of waste it produces monthly. Appropriate waste management and waste handling procedures are in place, and the main types of waste the Bank generates are sorted. These are: energy, paper, mixed, bio-, cardboard, metal, glass and hazardous waste, including electronic waste and ink cartridges. These waste fractions are recycled. The Bank also decided to stop providing plastic water bottles to staff in 2016.
G4-EN23	Total weight of waste by type and disposal method	NIB's aim is to continuously improve the waste handling and recycling in the premises and the Bank plans to achieve a reduction by means of rearranging and simplifying the sorting stations and by raising awareness about waste management through marketing environmental campaigns, such as Earth Hour and Energy-Saving Week (a national energy-saving awareness campaign organised by a Finnish company specialising in energy and material efficiency).

	Aspect: Environmental grievance mechanisms	
G4-DMA	Management approach	In order to address any concerns regarding its operations, NIB has developed a channel for its stakeholders to express their views or comment on projects with potential significant adverse social or environmental impacts. These projects are classified as Category A projects and are made publicly available for comments before the Bank makes a decision on financing. In addition, if any persons involved in the activities of NIB observe or have reasonable grounds to suspect misconduct, they are encouraged to report such information. Complaints can be filed with, and are handled by, NIB's Office of the Chief Compliance Officer. In 2016, the Board of Directors approved a new Compliance, Integrity and Anti-Corruption Policy, a Speaking-up and Whistleblowing Policy and an Investigation and Enforcement Policy. The renewed policies establish a function for investigating the Bank's compliance with its own rules, including the Sustainability Policy, the Public Information Policy and procurement rules. These policies are publically available on NIB's website.
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	In 2016, the Bank published details of seven Category A projects and received no responses. No grievances were filed with the Office of the Chief Compliance Officer.

	CATEGORY: SOCIAL	
	SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK	
	Aspect: Employment	
G4-DMA	Management approach	NIB's employees are the Bank's strongest asset in its mission to finance projects that improve the competitiveness and environment of the Nordic and Baltic countries. Many employees choose to stay for a lengthy part of their careers. NIB appreciates staying in touch with its former employees and has an alumni network of about 90 registered members. In December 2016, NIB's President and CEO hosted a Christmas lunch for the alumni. NIB conducts a survey among its staff bi-annually. The purpose of this Work Engagement survey is to assess the engagement of the staff as well as the wellbeing and functionality of the working community. The most recent survey was conducted in 2015.
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	In 2016, the average length of employment was 11.7 years. Seven permanently employed staff left the Bank in 2016, resulting in an exit turnover of 3.6%. At the end of 2016, NIB had 195 employees in permanent positions. Of these, 85 were women and 110 men. In addition, three employees worked on projects in temporary positions. The average number of permanent employees was 192 during the year. Read more about Our people.
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Note 7 has explanations of "Additional benefits for expatriates", "Pension obligations" and "Staff loans".

	Aspect: Labor practices	
G4-DMA	Management approach	NIB employees are members of an international financial institution. Based on NIB's legal status, the labour laws or other legislation of the host country Finland, or any other member country, do not automatically apply to its employees. There are, however, some exceptions, particularly with regard to taxation, social security and pensions. You can read about these in the Host Country Agreement between the Government of the Republic of Finland and the Nordic Investment Bank.
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	NIB employees are members of an international financial institution. Consequently, NIB has established its own regulations for the staff. See Staff regulations.

	Aspect: Occupational health and safety	
G4-DMA	Management approach	NIB makes every effort to create a safe and healthy working environment for its employees. The Bank considers all aspects of work, such as general working conditions, the environment and the personal capacities of its employees. NIB encourages its staff to establish and maintain a sustainable balance between their professional and private lives. NIB cooperates closely with its occupational health care service provider. Prevention is taken care of through regular health checks and by conducting work engagement surveys and offering flexible working hours. In 2015, NIB conducted its most recent Work Engagement Survey in cooperation with the Finnish Institute of Occupational Health (FIOH). The survey, which is conducted every two years, periodically collects employee feedback on issues related to the work environment, management and well-being at work, as well as to initiate actions for improvement of practices. The response rate of the 2015 Work Engagement Survey was 84%, which is an increase of six percentage points since 2013, when the survey was last carried out. NIB achieved a high score and was placed in the top 25 of the FIOH's external sample.
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and saftey programs	NIB strives to continually develop the interaction and cooperation between employer and staff. NIB's Cooperation Council consists of four Members representing the Bank and four Members representing the staff. The Cooperation Council aims to promote communication and initiatives between the Bank and its staff in issues related to working conditions and the workplace, in particular in a manner enabling the Bank to take better account of the staff's opinions concerning such issues. The goal is to achieve mutually acceptable solutions for both the Bank and the staff. The Cooperation Council functions as an occupational health and safety body. The Occupational Health and Safety Commission consist of an Occupational Health and Safety Manager representing the employer and two Occupational Health and Safety Agents representing the staff. In addition, NIB has a Business Continuity and Security Unit that is responsible for, among other things, the development and implementation of NIB's security policies covering all areas of physical, personal and knowledge security. All of NIB's staff are included in its health and safety management system. Read more about Our people.
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	The Bank encourages participation in activities that support wellbeing, and these are highly appreciated by the employees. The sickness absence rate—as a percentage of total working time—stood at 2.2% in 2016, the same as in 2015.

	Aspect: Training and education	
G4-DMA	Management approach	NIB is a professional expert organisation and encourages its employees to develop their competencies. It is essential for the Bank to have highly skilled and committed staff members that are able to meet its customers' needs.
G4-LA9	Average hours of training per year per employee by gender, and by employee category	NIB evaluates the need for additional training every year. The average number of training days per employee was 5.4 in 2016, compared to 4.8 in 2015.
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	In 2016, NIB initiated a new internal development programme, "Raising the Bar", as part of the Bank's strategy for strengthening the professional identity and competence of its employees. The programme aims to increase the staff's understanding of the business environment and clients' needs in order to provide an outside-in perspective. The programme continued in 2017. The Bank's staff represents 17 nationalities and uses English as their working language. Therefore it is essential to provide language training to ensure that all employees develop and maintain excellent language skills. NIB also focuses on developing its managers through supervisor training and personal growth processes. Managers have access to a supervisor intranet site containing the Bank's policies, regulations and guidelines. The site also provides recommendations on how managers can carry out their roles and fulfil their duties.
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	The employees' performance and individual work plans are reviewed in personal appraisal and development discussions with their supervisors. These talks are held at the beginning of the year and again in the autumn.

	Aspect: Diversity and equal opportunity	
G4-DMA	Management approach	NIB updated its Equality, Diversity and Inclusion Plan in 2016. The key themes of the plan are the prevention of harassment, the promotion of diversity and an inclusive work environment and the establishment of a reference group for equality, diversity and inclusion. Read more in Our people.
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	See Executive Committee Board of Directors Board of Governors Control Committee

	Aspect: Labor practices grievance mechanisms	
G4-DMA	Management approach	As NIB is not subject to the jurisdiction of national courts, the Bank has set up arbitration rules for potential employment-related disputes. NIB has an Ombudsman whom employees can consult and who may also act as mediator in the event of such disputes. The purpose of the Ombudsman function is to enhance cooperation in employment matters and to help maintain an attractive working environment.
G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	The Ombudsman was available once a month for all staff members during 2016. During the year, the Ombudsman held 3 consultations on different employment issues, none of which resulted in any further action. The current Ombudsman's mandate period is from 1 August 2016 until 31 August 2018.

	SUB-CATEGORY: HUMAN RIGHTS	
	Aspect: Investments	
G4-DMA	Management approach	NIB takes into account the Worldwide Governance Indicators in its country analysis. Screening and assessment of social aspects are also carried out at project level.
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All projects undergo an environmental and social impact assessment. The dialogue with stakeholders is an integral component of this approach. The social impact assesment includes the screening of issues relating to labour conditions, workers' rights and their freedom of association, discrimination based on gender, race, nationality, ethnic origin, religion, disability, age or sexual orientation, as well as the employment of minors, use of forced labour, and the safety and health of workers and communities.

	Aspect: Non-discrimination	
G4-DMA	Management approach	NIB has zero tolerance for any type of discrimination. To ensure a workplace free of harassment, NIB has in place an Anti-harassment Policy that is governed primarily by the Human Resources unit. In cases of harassment, the Ombudsman can also be consulted. See staff regulations.
G4-HR3	Total number of incidents of discrimination and corrective actions taken	In 2016, no incidents of harassment were reported.

	Aspect: Freedom of association and collective bargaining, child labor, compulsory labor	
G4-DMA	Management approach	NIB believes in good human resources management. Respect for workers' rights and their freedom of association is part of good business. The Bank does not tolerate discrimination based on gender, race, nationality, ethnic origin, religion, disability, age or sexual orientation. Further, NIB requires its clients to comply with international standards for the employment of minors. Use of forced labour is not accepted by NIB. Sound management of the safety and health of workers and communities is essential for the productivity and efficiency of the business, as is respect for their livelihood.
G4-HR4, HR5, HR6	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk Operations and suppliers identified as having significant risk for incidents of child labor or forced and compulsory labor	None

	SUB-CATEGORY: HUMAN RIGHTS, SOCIETY	
	Aspect: Local communities and grievance mechanisms for human rights and impacts on society	
G4-DMA	Management approach	NIB finances large projects that may have a significant impact on the surrounding community, environment, people and economy. Some projects may entail some negative consequences. In order to ensure that such risks are identified and addressed, NIB's approach is that all projects undergo an environmental and social impact assessment, of which dialogue with stakeholders is an integral component. The preparation of loans that are listed as Category A projects due to social and environmental concerns are published for 30 days on NIB's website to enable stakeholders to submit their views to NIB. However, any persons involved in the activities of NIB who observe or have reasonable grounds to suspect misconduct, corruption or non-compliance are encouraged to report it. Complaints can be filed with, and are handled by, NIB's Office of the Chief Compliance Officer. There are no regular mechanisms in place to evaluate the management approach or its effectiveness. However, NIB's policies and procedures are regularly reviewed. The present Sustainability Policy and Guidelines were reviewed and changes adopted by the Board in 2012.
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	In 2016, the Bank published seven Category A projects and received no responses. In 2016, no grievances were filed with the Office of the Chief Compliance Officer. There is no separate human rights grievance mechanism in NIB other than the general complaints mechanism.
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	The Bank assesses the environmental and social impacts of all loan applications. The environmental and social review includes: categorisation based on assessment of potential negative impacts of the project, definition of the risks and impacts of the project and of planned mitigation measures, benchmarking of the project's environmental and social performance with relevant standards, assessment of the commitment and capacity of the client to manage the potential impacts, and verification that the costs resulting from the environmental and social risks and impacts are factored into the project.
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	In 2016, the Bank published details of seven Category A projects and received no responses. In 2016, no grievances were filed with the Office of the Chief Compliance Officer.

	Aspect: Anti-corruption	
G4-DMA	Management approach	NIB has adopted a zero-tolerance policy towards fraud and corruption. As the funds handled and projects financed by NIB are of a high monetary value, issues relating to corruption and bribery could be material. After a major review process conducted in 2015, the Board of Directors approved three new policies under the Compliance and Anti-Corruption Framework in February 2016. These include the Compliance, Integrity and Anti-Corruption Policy; the Investigation and Enforcement Policy; and the Speaking-up and Whistleblowing Policy. The new framework has been adopted by the Bank to promote its anti-corruption work, both in terms of preventing and identifying prohibited practices and investigating allegations of fraud and corruption. NIB is also endorsing the Uniform Framework for Preventing and Combating Fraud and Corruption that was agreed upon by the major multilateral development banks (MDBs) in 2006. Further, the Bank's Council on Fighting Corruption has the purpose of enhancing awareness of integrity and anti-corruption among the Bank's staff and stakeholders. Also in 2016, a Sanctions Panel was introduced as part of the new Investigation and Enforcement Policy. The Panel will decide on the sanctioning of external entities that have engaged in prohibited practices. The Sanctions Panel is constituted of two external members and one internal member. With the assistance of external consultants, the Bank undertook a review of its current procedures and processes relating to anti-money laundering and counteracting terrorist financing. Read more about NIB's compliance and anti-corruption policies. During 2016, a comprehensive assessment of the Bank's integrity risk, including money laundering, terrorist financing and sanctions, was conducted as well. On this basis, NIB is reviewing its integrity screening procedures. In terms of prevention, the Bank puts particular emphasis on knowing its customers and training its staff well to avoid the Bank becoming involved with unethical borrowers and projects, or in money laundering, terrorist financing or tax evasion. All new clients are screened thoroughly in the Bank's integrity due diligence (IDD) processes. The Bank also follows up on investigations and actions taken by national enforcement agencies and prosecutors relating to NIB borrowers and contractors financed by NIB loans. OCCO regularly provides advice and guidance to the Bank's Lending department on how to address integrity and reputational risks in new and ongoing lending operations.
G4-SO3	Total number and percentage of operations asessed for risks related to corruption and the significant risks identified	All NIB's operations are assessed from a corruption risk point of view, and these concerns are addressed in NIB's IDD process.
G4-SO4	Communication and training on anti-corruption policies and procedures	All staff at NIB receive training in anti-corruption, integrity, money laundering and ethics as part of NIB's induction programme. Members of NIB's Board of Directors have also received training in the same subject. Staff working in the lending operations receive additional training in conducting integrity due diligence (IDD) checks. In 2016, NIB has introduced a compulsory e-training for all staff in the Code of Conduct. Training is centralised at NIB's headquarters in Helsinki, Finland, which is the Bank's only office. Read more about the e-learning course.
G4-SO5	Confirmed incidents of corruption and actions taken	Two new external cases of corruption involving borrowers from NIB member countries were registered and filed in 2016. These cases are currently under investigation by OCCO in consultations with national enforcement agencies and co-financing partners. OCCO has continued to follow up with a national enforcement agency on a fraud and corruption case for which NIB's own investigation was concluded in 2014.

	Aspect: Financial sector supplement – product portfolio	
	Management approach	The Bank assesses the environmental and social impacts of all loan applications for consistency with the Sustainability Policy and Guidelines. A proposed project can be rejected due to non-compliance with the policy. The policy also includes an exclusion list with activities not eligible for financing. See NIB's Sustainability Policy and Guidelines.
FS1	Policies with specific environmental and social components applied to business lines	Sustainability Policy and Guidelines
FS2, FS5	Procedures for assessing and screening environmental and social risks in business lines. Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	NIB's environmental and social review (see also a summary here) The review includes the following key components: – categorisation based on assessment of the potential negative impact of the project – definition of risks and impact of the project and of planned mitigation measures – benchmark of the project's environmental and social performance with relevant standards – assessment of the commitment and capacity of the client to manage the potential impact – verification that the costs resulting from the environmental and social risks and impacts are factored into the project. Based on the categorisation, NIB indicates to the customer what type of environmental information NIB requires.
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	The need for monitoring is assessed as part of NIB's environmental and social review. The Bank expects its clients to be in compliance with the Sustainability Policy and Guidelines throughout the project, and provisions entitling the Bank to monitor projects are incorporated into the loan agreement. After NIB's financing is committed in legal documents and disbursed, the Bank monitors projects with major environmental and social risks and impacts in accordance with the environmental review or as deemed necessary by NIB due to unexpected events. In 2016, NIB started a procedure for performing ex-post mandate assessments of financed projects. The Bank will continue to keep systematic records of how well the expected mandate contribution was achieved. The first cases of completed ex-post mandate assessments were presented to the Board during the year.
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector	Lending areas
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	The purpose of NIB's lending activities is to improve the competitiveness and environment of the Nordic and Baltic countries. NIB rates all potential loans internally according to how they contribute to this mission. Only projects that contribute sufficiently strongly to NIB's mission fulfilment qualify for loan approval. The share of lending with a "good" or "excellent" mandate continued to be at a very high level, accounting for 96% of all loans agreed in 2016. Read more about "Mission fulfilment".

	Aspect: Financial sector supplement – audit	
	Management approach	The Control Committee is a supervisory body that ensures that the operations of the Bank are conducted in accordance with its Statutes. The Control Committee is responsible for the audit of the Bank's accounts and annually delivers an audit statement to the Board of Governors. The Control Committee also monitors the compliance and anti-corruption practices of the Bank. The audit of the financial statements of the Bank is carried out by external professional auditors appointed by the Control Committee. In 2016, the Control Committee appointed an independent expert to assist in matters within its responsibility. This was done to further strengthen the competence within the Committee and to enhance its supervisory capabilities.
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	NIB is mission-driven and its core business is long-term lending. The main risks are assessed in the due diligence process prior to lending agreements. After NIB's financing is committed in legal documents and disbursed, the Bank monitors projects with major environmental and social risks and impacts in accordance with the environmental review or as deemed necessary by NIB due to unexpected events. Beginning in 2016, NIB has decided to introduce a special monitoring and ex-post mandate assessment process to examine the implementation and results of projects financed by the Bank.
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	Loans agreed 2016
FS11	Percentage of assets subject to positive and negative environmental or social screening	The Bank assesses the environmental and social impacts of all loan applications.

REPORT OF THE BOARD OF DIRECTORS

Summary

- In 2016, NIB's operations exceeded expectations in terms of lending volumes and financial results.
- The Bank's operations focused on implementing the areas of activity that the Board identified in the latest strategy review. The Bank increased lending to SMEs and mid-sized corporates, and launched the Arctic Financing Facility.
- As a new initiative, NIB started purchasing green bonds issued by companies or municipalities in the member countries. The purpose of this new product is to finance environmental projects and to support the green bond market.
- Loans provided to projects achieving a "good" or "excellent" mandate rating for improving competitiveness and the environment accounted for 96% of the total amount of lending, excluding investments in green bonds.
- In 2016, long-term loans to projects with a "good" or "excellent" mandate rating on their environmental impact amounted to an all-time high of EUR 1,567 million, or 37% of agreed loans. These loans were provided, to a large extent, for projects aimed at improving wastewater treatment and water supply in the member countries.
- Loans aimed at improving competitiveness mainly supported investments in R&D, infrastructure and energy.
- In order to identify areas of improvement in project implementation, NIB launched ex-post mandate assessments of financed projects.
- NIB's volume of loans agreed grew markedly. The Bank signed 58 loan agreements and invested in eight green bonds with a combined value of EUR 4,363 million. Financing long-term investments in public infrastructure was one of the principal drivers of this development.
- Disbursements of loans also saw a significant increase to an all-time high of EUR 3,373 million.
- The profit was EUR 212 million (2015: EUR 215 million).
- NIB raised an all-time high of EUR 6.7 billion in new funding and continued to issue NIB Environmental Bonds.

Operating environment

The global and Nordic–Baltic economies grew by 3% and 2%, respectively, in 2016—a very similar pace as in the previous year. However, within the region, the developments continued to vary between the countries. While the strong growth of the Swedish economy has slowed somewhat, in Finland, the economy showed signs of improvement. The decline in oil investment is still damping activity in Norway, and weak global demand for exports has kept the economy in low gear in Denmark. The Icelandic economy is showing strong growth, with early signs of overheating. The Estonian, Latvian and Lithuanian economies ended the year on a good note, and this positive momentum is expected to carry over into 2017.

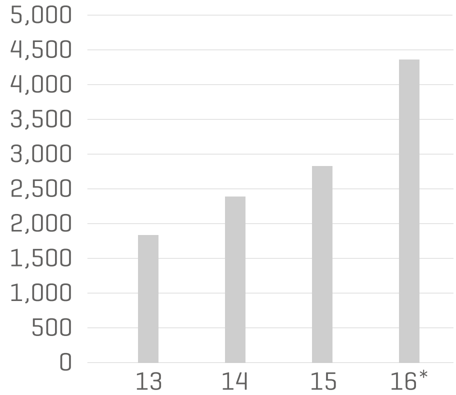
Despite favourable financing conditions, corporate investment activity and related demand for long-term loans remained subdued. Loans to non-financial corporations in the four main Nordic markets grew by an average of 3.7% in 2016. Meanwhile, the demand from the public sector for long-term loans to finance infrastructure investments grew strongly, and margins also compressed further. Corporate spreads for euro area BBB-rated companies ended 2016 about 30–50 basis points lower than at the end of 2015.

Lending activities

NIB's lending activities saw continued strong development in 2016, with new lending volume reaching an all-time high. In particular, demand for long-term financing from municipalities in the member countries increased substantially. The Bank signed 58 loan agreements and invested in eight green bonds with an aggregate value of EUR 4,363 million (out of which EUR 143 million were invested in green bonds). Disbursements of loans also saw a significant increase to an all-time high of EUR 3,373 million, compared to EUR 2,716 million in 2015. More than half of the new loans were extended to new borrowers. Lending volumes by business sector are displayed in the table below.

Loans agreed

EUR m



*including Lending Green Bonds

Following the review of NIB's strategy performed a year earlier, the core business model of the Bank remains intact. NIB continues to fulfil its mission to finance investments that improve competitiveness and the environment in the region. However, it was decided that within this mission, NIB will develop its lending activities in order to increase its impact.

One focus area is to increase lending to small and medium-sized enterprises (SMEs) in cooperation with financial intermediaries, as well as to mid-sized corporates. These activities have been initiated, and NIB's offering is being broadened with new lending products, for example through risk-sharing mechanisms. NIB's aim is to complement other sources of financing and to stand ready to respond to demand. Alongside these new initiatives, the Bank continues its traditional lending through local banks and other financial intermediary institutions.

A further aim based on the review is to increase NIB's lending activities in non-member countries to approximately one fifth of the total amount of annual new lending. The purpose of these activities is to support the Bank's clients by financing investments outside the Nordic–Baltic region. NIB has enhanced its outreach activities directed towards the member country business community and its partners among regional financial institutions. As a result, the project pipeline is developing and the first transaction was concluded. The Bank also completed a review of its China lending programme.

The strategic focus on projects in the Arctic region is being implemented within the framework of the EUR 500 million Arctic Financing Facility. This activity had a good start in 2016, with several loans approved and four deals signed.

Another prioritised activity is financing investments in the Baltic countries. During the year, NIB was actively sourcing deals in this region and building a good pipeline, which is expected to materialise in 2017.

LENDING (IN EUR MILLION, UNLESS OTHERWISE SPECIFIED)	2016	2015	2014
Loans agreed, including green bond investments, according to business areas:			
Energy and environment	1,534	710	630
Infrastructure, transportation and telecom	1,198	823	557
Industries and services	912	996	926
Financial institutions and SMEs	720	301	277
Loans agreed, including green bond investments, total	4,363	2,830	2,389
Loans disbursed, total	3,373	2,716	2,274
Number of loan agreements, including green bond investments, total	66	45	45
Repayments/prepayments	2,471	2,351	2,005
Loans outstanding and guarantees	16,640	15,627	15,156
Member countries	14,831	13,347	12,705
Non-member countries	1,851	2,341	2,506
Collective impairments	-42	-61	-55

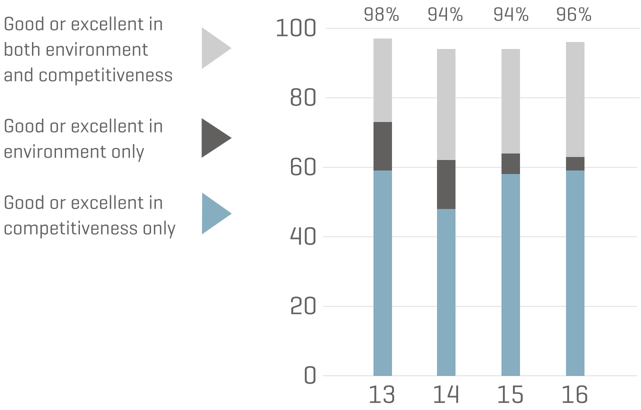
Mission fulfillment*

Projects financed by the Bank are expected to contribute to the Bank's mission to improve competitiveness and the environment of the Nordic–Baltic countries. Before approval is given in each individual case, all eligible investments are scrutinised and rated against the criteria developed on the basis of the Bank's mission. In 2016, loans achieving a "good" or "excellent" mandate rating accounted for 96% of the total amount of loans agreed. Some 37% of the new lending is classified as environmental.

In 2016, NIB started a procedure of performing ex-post mandate assessments of financed projects. The Bank will continue to keep systematic records of how well the expected mandate contribution was achieved. The first cases of completed ex-post mandate assessments were presented to the Board during the year.

Mandate rating

% of loans agreed, excluding
Lending Green Bond purchases



* NIB buying green bonds is classified as lending. The data provided in the sections "Mission fulfilment", "Competitiveness impact" and "Environmental impact" are calculated on the basis of the total amount of loans agreed that do not include investments in green bonds. The reason is that the mandate rating, which is required for regular lending, does not apply to green bond investments due to the nature of bond transactions. NIB defines loans with "good" or "excellent" environmental mandate as environmental loans.

Competitiveness impact

In 2016, the largest part (27%) of NIB's lending was extended for investment projects in member country municipalities, typically regional growth centres that are attracting new population and experiencing rising pressure on their public infrastructure. These projects will improve key infrastructure services in education, public transport, and water supply and wastewater treatment. These investments will have long-term impacts on the growth potential and business environment in the whole Nordic–Baltic region.

The Bank continued financing investments by energy utilities in energy production and networks. An effective and sustainable energy system is a cornerstone of long-term competitiveness. The utilities in Norway mainly invested in electricity networks and rolled out automated metering systems to improve the management of the distribution network and to facilitate the development of smart grids. NIB also financed several heat and power production facilities fuelled with local biomass in Finland and Sweden, and a geothermal project in Iceland. Energy sector projects accounted for 18% of the total loans agreed.

NIB extended loans to support research and development activities in several member countries. Innovations add value to companies' product offerings and have spill-over effects on other companies in the member area business clusters and regions. Loans to finance R&D accounted for 14% of NIB's lending.

In line with NIB's strategy to reach out to smaller member area companies, NIB increased its lending to financial intermediaries. Loan programmes for SMEs and non-member country counterparts reached 12% of NIB's total lending in 2016. The 50% annual increase in NIB-funded loan programmes for small and medium-sized companies will improve the capacity of such companies to grow and innovate.

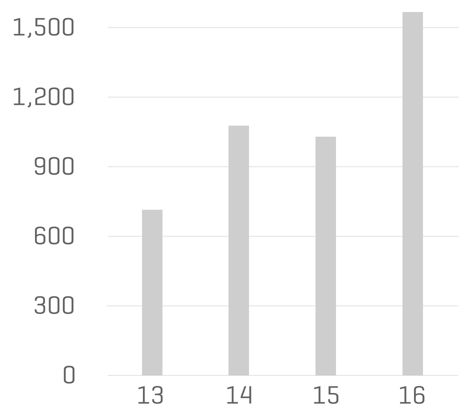
Environmental impact

NIB's major environmental impact comes through its traditional long-term lending. Since 2011, NIB has also raised funds for its environmental lending through issuing green bonds. Last year, this was complemented when NIB started to buy green bonds issued by companies and municipalities in the member countries. NIB is actively participating in setting standards for green financing.

In 2016, long-term loans for projects with a "good" or "excellent" mandate rating on their environmental impact amounted to an all-time high of EUR 1,567 million, or 37% of agreed loans.

Environmental loans

(of loans agreed, excluding Lending Green Bonds)
EUR m



In particular, the Bank financed eight wastewater treatment projects in Sweden and Norway for a total of EUR 683 million, which was a markedly larger amount than in any of the previous years. Several wastewater treatment projects included biogas utilisation of the sludge and thus contributed to climate change mitigation.

Public transport projects with a climate change mitigation effect received a total of EUR 390 million in loans from NIB. Loans for biomass-fired power plants and hydropower investments in Sweden, Finland and Norway amounted to EUR 378 million.

The energy projects that the Bank financed in 2016 are expected to add 1.5 TWh annually to renewable energy generation. NIB estimates that the loans agreed during the year have the potential to reduce CO_2 emissions by 280,000 tonnes annually, prorated to NIB's share of the financing.

With a framework of EUR 500 million, NIB launched a new lending product for investing in green bonds issued by companies or municipalities in the member countries. The purpose of the new approach is to support the development of the green bond market, finance environmental investments and promote good standards. In 2016, NIB invested in eight bond transactions, which exceeded expectations. At year-end, the Bank held EUR 143 million in green bonds.

As an active promoter of the green bond market, NIB was elected as a member of the Executive Committee of the Green Bond Principles, an international group of issuers, investors and intermediaries in the green bond market. NIB was also appointed by the European Commission as an observer to the High-Level Expert Group on sustainable finance.

NIB's Sustainability Policy and Guidelines cover the environmental, social and ethical aspects of the Bank's operations. More detailed information on NIB's corporate responsibility matters are described in the Annual Report 2016, specifically under "GRI reporting", available online (click here).

Treasury activities

In 2016, NIB's funding amounted to EUR 6.7 billion, which was the largest amount NIB has ever raised in one year. Altogether, the Bank issued 58 bonds. At year-end, outstanding debt totalled EUR 24 billion in 18 currencies.

In 2016, NIB issued three USD-denominated global benchmark transactions and maintained its position as a leading USD benchmark issuer. The overall funding costs from the programme are deemed to be attractive and to contribute positively to NIB's business model.

The Bank continued the NIB Environmental Bond (NEB) programme targeting sustainability-conscious investors. In this segment, NIB also continued to develop well, issuing a record-high number of environmental bonds, totalling EUR 763 million, in three transactions. An eight-year, EUR 500 million Environmental Bond benchmark was issued in June, and bonds in Swedish kronor in January and September. The proceeds from the Environmental Bond issues are used to finance projects with a positive impact on the environment.

NIB's investor base continued to be global and diversified. Of all investors that NIB's bond issues attracted during the year, only 14% were from the Bank's member countries; given that the Bank lent almost exclusively within its member countries, this means that NIB continued to draw funds into the Nordic–Baltic region. Of the investors, 44% were from Europe (excluding the member countries) and investors from the Americas accounted for 20%, while investors based in Asia bought 17% of NIB's new issuance. Investors from other regions of the world contributed 5% to NIB's annual funding.

In 2016, the Bank gradually moved from one-way to two-way credit support agreements with its derivative counterparties. This is now the market standard and is expected to decrease the cost of derivative contracts for the Bank. It also requires a higher liquidity buffer to mitigate the need for the Bank to post collateral with swap counterparties.

Risk management

The Bank's overall risk position remained strong, with high asset quality, solid liquidity and strong capitalisation.

The credit quality of the lending exposure was stable, with 85% of the exposure placed in investment-grade categories (risk classes 1–10; it was 83% at year-end 2015). The exposure in the best risk classes (1–2) increased, mainly due to growth in lending to the public sector. This reflects the Bank's response to the demand for financing from this sector in the Bank's member countries. In terms of geographical distribution, lending exposure in Norway and Sweden increased the most.

The Treasury portfolio continued to be of high credit quality, with close to 100% of the exposure in the investment-grade categories (risk classes 1–10).

In terms of market risk, the Bank is mainly exposed to interest rate risk, credit spread risk and cross currency basis risk in treasury operations. Market risk is monitored with sensitivity-based measures and managed within strict limits. The Bank's overall market risk remained almost unchanged compared to the previous year. At the end of the year, the Bank's liquidity buffer amounted to EUR 11,097 million. The survival horizon measured according to the Bank's liquidity policy was 443 days, exceeding the target level of 365 days. More detailed commentary on the Bank's risk exposures is provided in the "Risk management" section in the notes to the financial statements.

The Bank continued to strengthen its risk management in line with evolving market standards. During 2016, the Bank progressed with the development of an internal capital adequacy assessment process and started the development of a methodology for expected credit loss calculation in accordance with the new IFRS 9 standard. Risk management reporting was also further improved during the year.

In early 2016, the Bank implemented the methodology developed for calculating credit valuation adjustments (CVA/DVA) for counterparty credit risk in the derivative portfolio.

Financial results

Despite the low interest rate environment, the Bank managed to maintain its financial results. NIB's annual profit of EUR 212 million, compared to EUR 215 million in 2015, was the result of the successful advancement in lending operations, higher net profit on financial operations, and lower general administrative expenses. Net interest income deviated negatively by EUR 5 million compared with last year.

As described above, the quality of the loan portfolio remained high, and the Bank continues to adopt a conservative approach in relation to loan impairment provisions.

More detailed commentary on the Bank's financial results can be found in the Operating and financial review.

Dividend

The Board of Directors proposes to the Board of Governors that EUR 55 million be paid in dividends to the Bank's member countries for the year 2016.

Governance

The Control Committee is the Bank's supervisory body. It ensures that the operations of the Bank are conducted in accordance with the Statutes. The Control Committee is responsible for the audit of the Bank and submits its annual audit report to the Board of Governors. In 2016, the Control Committee for the first time appointed an independent expert, Peter Engberg Jensen, to assist on matters within its responsibility. This was done to further strengthen the competence within the Committee and to enhance its supervisory capabilities.

The Control Committee appointed Anders Tagde, Authorised Public Accountant from KPMG Sweden, as dual-signing external auditor, together with Marcus Tötterman, Authorised Public Accountant from KPMG Finland.

Compliance

Two new external cases of corruption involving borrowers of the Bank were reported to the Board. These cases are currently under investigation by the Office of the Chief Compliance Officer (OCCO). In addition, in cooperation with national enforcement agencies, OCCO followed up on other cases registered in previous years.

In February 2016, the Board of Directors adopted three new policies in NIB's anti-corruption framework: the Speaking-up and Whistleblowing Policy; the Compliance, Integrity and Anti-corruption Policy; and the Investigation and Enforcement Policy. As part of the latter policy, a Sanctions Panel was established. The panel consists of three members, including two external members, both appointed by the Board of Directors in June 2016. An appeal function and procedures were also established in line with the Investigation and Enforcement Policy.

During 2016, a comprehensive assessment of the Bank's integrity and corruption risks was conducted. On the basis of this assessment, the Bank will improve its control and screening procedures for anti-money laundering and counteracting terrorist financing as well as integrity issues and sanctions.

Adjustment and alignment of NIB's authorised capital

In line with the Bank's Statutes, NIB's Board of Governors decided to review, adjust and align the authorised capital of the Bank according to the allocation currently in force for the authorised capital; each member country's share, in percentage of paid-in capital and callable capital, is equal to its share of the authorised capital. This was based on a proposal from the Board of Directors. The adjustment also concerns the member countries' statutory guarantee, where it was decided to also align each member country's share of the guarantee for the Project Investment Loan and Environmental Investment Loan facilities in accordance with its share of the authorised capital of the Bank. The changes will enter into force as soon as the approval or ratification process is completed in all member countries in early 2017.

Chairmanship and meetings

During the year, the Board of Directors had eight ordinary meetings and one extra online meeting. Seven meetings were held in Helsinki, Finland, and one in Copenhagen, Denmark. Four meetings were chaired by Mr Pentti Pikkarainen (Finland) and the remaining four meetings by the new Chairman, Mr Kaspars Āboliņš (Latvia). Three seminars were held for the Members of the Board.

In connection with the Nordic Council session held in Copenhagen in November, NIB organised its 40th Anniversary event with external speakers: Finland's Prime Minister, Mr Juha Sipilä, and Latvia's Minister of Finance, Ms Dana Reizniece-Ozola, as well as Professor in the Economics of Innovation from the University of Sussex, Ms Mariana Mazzucato.

Other strategy initiatives

Implementing the strategy review completed a year earlier, NIB conducted a number of measures with the aim of "keeping the house in order". The Bank carried out the first round of the training programme "Raising the Bar" for staff members, initiated the implementation of the comprehensive ICT project FOBORA (an integrated system for treasury front office, back office, risk management and accounting), and continued the ongoing renovation of its office building in Helsinki.

Outlook

Entering 2017, economic indicators are pointing to a modest global cyclical upswing in industrial activity. In the absence of clarity, however, forecasts for economic growth globally and the Nordic–Baltic region continue to have positive indications but below full potential. Inflation and commodity prices are forecast to rise, while short-term interest rates should increase slightly in the US but remain unchanged in the euro area and most of Europe.

In this context, the long-term trend of subdued corporate investment is expected to continue. On the other hand, infrastructure investments by local and Lower net interest income and valuation effects are expected to result in a lower profit in 2017. At the same time, the implementation of the strategic initiatives that started in 2016 will help the Bank build a healthy flow of deals in lending.

OPERATING AND FINANCIAL REVIEW

Ratios and key figures

(AMOUNTS IN EUR MILLION UNLESS OTHERWISE STATED)	2016	2015
Net interest income	242	247
Profit before net loan losses	232	218
Net Profit	212	215
Loans disbursed	3,373	2,716
Loans agreed	4,363	2,830
% of loans achieving good or above mandate	95.7%	94.1%
Loans outstanding	16,640	15,627
Total assets	30,178	27,311
New debt issues	6,700	4,276
Debts evidenced by certificates	23,907	20,862
Total equity	3,275	3,146
Equity/total assets (%)	10.9%	11.5%
Profit/average equity (%)	6.7%	7.0%
Cost/income (%)	16.1%	18.8%
Number of employees (average during the year)	192	188

Total comprehensive income

Total operating income increased from EUR 268 million to EUR 276 million and total operating expenses decreased by EUR 6 million resulting in an increase in profit before net losses from EUR 218 million to EUR 232 million. The main driver for the increase in operating income was one off gains related to the implementation of two way credit support annexes (CSAs).

The main change in operating expenses related to the additional depreciation and amortisations recorded in 2015. Net loan losses increased from the low amount in 2015 of EUR 3 million to EUR 20 million in 2016 resulting in a decrease in net profit from EUR 215 million to EUR 212 million.

The Bank separates the foreign currency basis spread from financial instruments used in fair value hedging and this separated amount recorded in "Other comprehensive income" amounted to EUR -28 million. The resulting total comprehensive income for the year amounted to EUR 184 million down from EUR 215 million in 2015.

Net interest income

Net interest income decreased from EUR 247 million in 2015 to EUR 242 million in 2016 mainly due to the continuing lower interest rates. The adverse impact of the negative interest rates has been mitigated by increased volumes of loans outstanding.

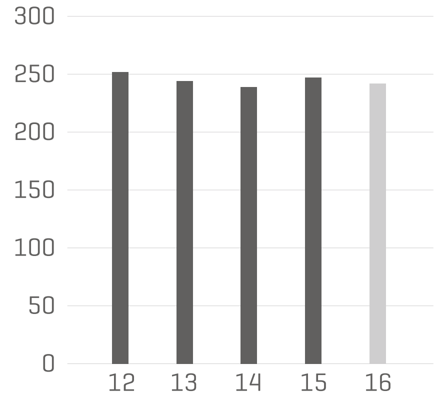
Despite the challenging negative rate environment interest income from lending was EUR 150.4 million which was EUR 4.5 million higher than in 2015 due to the mitigating factors described above. Treasury, on the other hand has limited options available to lessen the impact from market conditions and as a result their interest income decreased by EUR 9.5 million to EUR 91.4 million.

Commission income and fees

Fee and commission income was EUR 13 million compared to EUR 12 million in 2015. EUR 0.5 million of the increase relates to commitment fees due to higher volumes. EUR 0.5 million relates to early repayment fees on the prepayment of loans which were also higher than in the previous year.

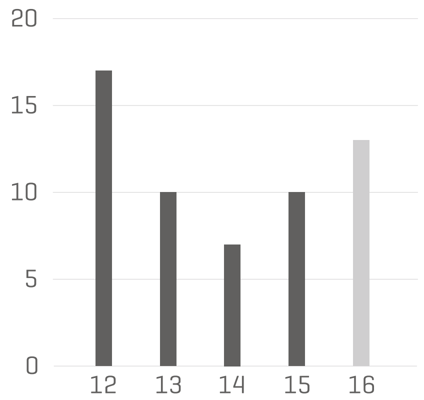
Net interest income

EUR m



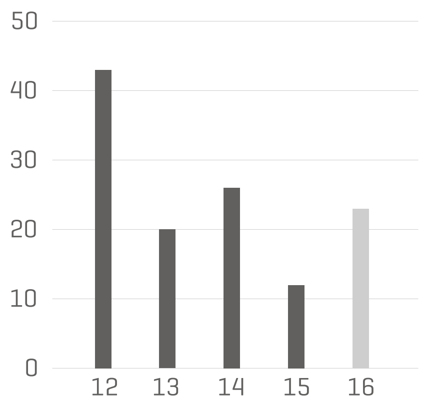
Commission income and fees

EUR m



Profit on financial operations

EUR m



Profit on financial operations

The profit on financial operations of EUR 23 million is EUR 12 million higher than in 2015. The result comprises realised profit of EUR 19 million and unrealised profit of EUR 4 million. This year's result includes one off gains related to cost compensation from counterparties for the implementation of two way credit support annexes (CSAs). Also contributing are buybacks of issued bonds and termination of related swaps, sales of amortised cost bonds, as well as income from claims. The unrealised profit is driven by positive valuation effects from spread tightening earlier in the year and hedge accounting valuations.

Total operating expenses

Although other administrative expenses are EUR 2 million higher than in 2015, largely related to IT expenditure the total operating expenses decreased by EUR 6 million mainly as a result of the decrease in depreciation due to additional depreciation and amortisations recorded in 2015.

Net loan losses

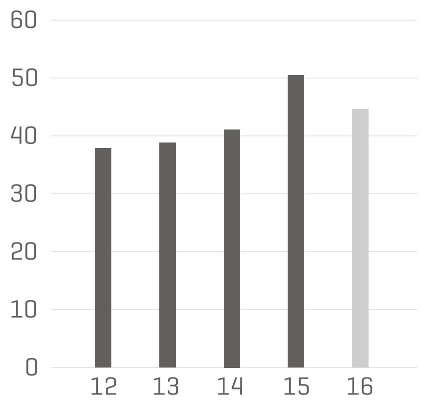
Net loan losses consist of a reduction of the collective impairment provision of EUR 19 million, an increase of EUR 41 million in individually assessed impairments and recovery on claims of EUR 2 million. The credit quality of the total loan portfolio remains high and the Bank continues to adopt a conservative approach to loan impairment provisions.

Other comprehensive income

The bank separates the foreign currency basis spread from financial instruments used in fair value hedging and this separated amount is recorded in "Other comprehensive income" (OCI). The valuation of foreign currency basis spread will be zero upon maturity and therefore the amount recorded in OCI will not be reclassified to the income statement.

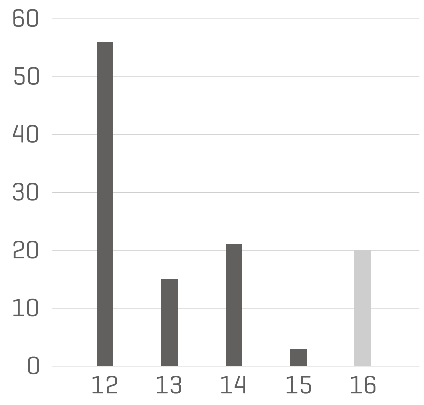
Operating expenses

EUR m



Net loan losses

EUR m



Balance Sheet

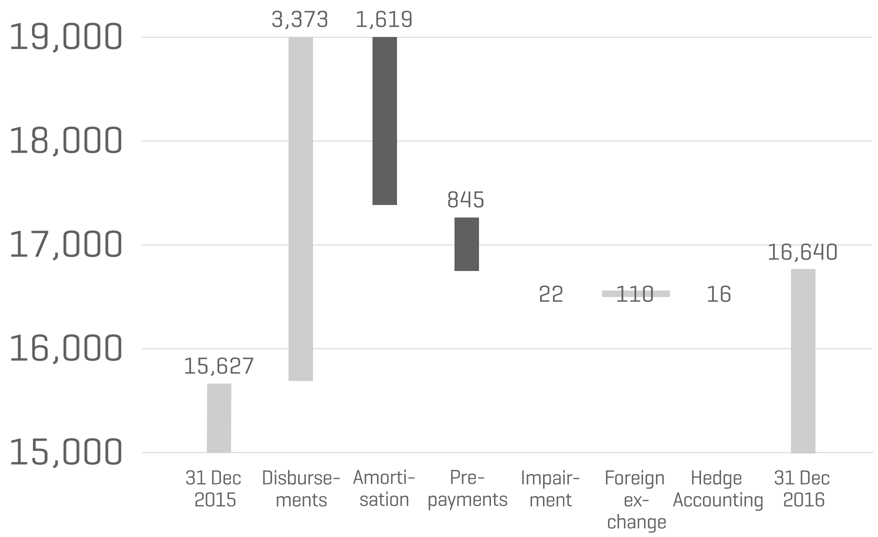
(AMOUNTS IN EUR MILLIONS)	2016	2015
Cash and cash equivalents	4,456	2,666
Financial placements	6,600	6,110
Loans outstanding	16,640	15,627
Derivatives	2,157	2,558
Other assets	325	350
Total assets	**30,178**	**27,311**
Equity	3,275	3,146
Owed to credit institutions	1,329	1,467
Debts evidenced by certificates	23,907	20,862
Derivatives	1,444	1,481
Other liabilities	223	355
Total liabilities and equity	**30,178**	**27,311**

Loans outstanding

During the year, NIB experienced strong demand for its long-term financing resulting in an increase in loans outstanding from EUR 15,627 million to EUR 16,640 million as at 31 December 2016. The Bank signed 58 loan agreements (2015: 45) and invested in eight green bonds with a combined value of EUR 4,363 million (2015: EUR 2,830 million). Disbursements totalled EUR 3,373 million (2015: EUR 2,716 million).

Loans outstanding development during 2016

EUR m



Funding

During the year, NIB raised EUR 6.7 billion (EUR 4.3 billion) in new funding through 58 issues in 9 different currencies with an average maturity of five years. The most significant transactions included, the three-year, USD 1.25 billion global benchmark in February which was followed by a five-year USD 1 billion benchmark in August and in September, NIB issued a global USD 1 billion bond, its third and final of 2016. The Bank continued to issue NIB Environmental Bonds and a total of EUR 763 million was issued during the year.

STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	NOTE	2016	2015
Interest income		311,856	338,781
Interest expense		-70,047	-92,005
Net interest income	(3) (4)	**241,809**	**246,776**
Commission income and fees received	(5)	13,124	12,218
Commission expense and fees paid		-2,025	-2,212
Net fee and commission income		**11,099**	**10,006**
Net profit/loss on financial operations	(6)	23,292	11,521
Foreign exchange gains and losses		22	82
Total operating income		**276,222**	**268,385**
Expenses			
General administrative expenses			
Personnel expenses	(7)	-28,637	-29,925
Other administrative expenses	(8)	-13,617	-11,815
Depreciation	(13)	-2,319	-8,737
Total operating expenses		**-44,573**	**-50,478**
Profit before loan losses		**231,649**	**217,907**
Net loan losses	(9)	-19,839	-2,509
Net Profit for the year		**211,810**	**215,398**
Other comprehensive income			
Items that will not be reclassified to income statement			
Fair value hedges			
Valuation of cross currency basis spread		-28,202	–
Total other comprehensive income		**-28,202**	**–**
Total comprehensive income		**183,608**	**215,398**

STATEMENT OF FINANCIAL POSITION

EUR 1,000	NOTE	2016	2015
ASSETS			
Cash and cash equivalents	(24)	4,455,860	2,666,070
Financial placements			
Placements with credit institutions		8,771	7,921
Debt securities	(10)	6,572,244	6,080,069
Other		18,901	22,023
		6,599,916	**6,110,012**
Loans outstanding	(11)	16,640,030	15,626,946
Intangible assets	(12)	938	–
Tangible assets, property and equipment	(12)	26,723	28,360
Other assets			
Derivatives	(14)	2,156,921	2,557,979
Other assets	(14)	12,589	23,103
		2,169,510	**2,581,083**
Accrued interest and fees receivable		285,353	298,977
TOTAL ASSETS		**30,178,330**	**27,311,447**
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to credit institutions			
Short-term amounts owed to credit institutions	(18) (24)	1,310,873	1,448,888
Long-term amounts owed to credit institutions		17,973	18,000
		1,328,846	**1,466,888**
Repurchase agreements		–	122,556
Debts evidenced by certificates	(15)		
Debt securities issued		23,825,644	20,802,164
Other debt		81,745	59,860
		23,907,389	**20,862,024**
Other liabilities			
Derivatives	(16)	1,444,341	1,480,736
Other liabilities	(16)	11,355	9,946
		1,455,696	**1,490,682**
Accrued interest and fees payable		211,294	222,800
Total liabilities		**26,903,225**	**24,164,950**
Equity	(17)	**3,275,105**	**3,146,497**
TOTAL LIABILITIES AND EQUITY		**30,178,330**	**27,311,447**

CHANGES IN EQUITY

EUR 1,000	PAID-IN CAPITAL	STATUTORY RESERVE	GENERAL CREDIT RISK FUND	SPECIAL CREDIT RISK FUND PIL	FUNDS AVAILABLE FOR APPROPRIATION	HEDGING RESERVE	TOTAL
EQUITY AT 31 DECEMBER 2014	**418,602**	**686,325**	**1,275,041**	**395,919**	**210,211**	**–**	**2,986,099**
Profit for the year	–	–	–	–	215,398	–	215,398
Other comprehensive income	–	–	–	–	0	–	0
Total comprehensive income	**0**	**0**	**0**	**0**	**215,398**	**0**	**215,398**
Transaction with owners in their capacity as owners							
Appropriations between reserve funds	–	–	155,211	–	-155,211	–	0
Dividends	–	–	–	–	-55,000	–	-55,000
EQUITY AT 31 DECEMBER 2015	**418,602**	**686,325**	**1,430,252**	**395,919**	**215,398**	**0**	**3,146,497**
Profit for the year	–	–	–	–	211,810	–	211,810
Other comprehensive income	–	–	–	–	–	-28,202	-28,202
Total comprehensive income	**0**	**0**	**0**	**0**	**212,810**	**-28,202**	**184,608**
Transaction with owners in their capacity as owners							
Appropriations between reserve funds	–	–	110,398	50,000	-160,398	–	0
Dividends	–	–	–	–	-55,000	–	-55,000
EQUITY AT 31 DECEMBER 2016	**418,602**	**686,325**	**1,540,651**	**445,919**	**211,810**	**-28,202**	**3,275,105**

PROPOSED APPROPRIATION OF THE YEAR'S PROFIT	2016	2015
Appropriations to credit risk reserve funds		
General Credit Risk Fund	156,810	110,398
Special Credit Risk Fund PIL	–	50,000
Appropriation to dividend payment	55,000	55, 000
Profit/loss for the year	**211,810**	**215,398**

The accompanying notes are an integral part of these financial statements.

CASH FLOW STATEMENT

EUR 1,000	NOTE	JAN–DEC 2016	JAN–DEC 2015
Cash flows from operating activities			
Net profit for the year		**211,810**	**215,398**
Adjustments:			
Unrealised gains/losses of financial assets held at fair value		1,548	13,865
Depreciation and write-down in value of tangible and intangible assets		2,319	8,737
Change in accrued interest and fees (assets)		13,625	6,613
Change in accrued interest and fees (liabilities)		-11,506	-7,986
Impairment of loans		19,839	2,509
Adjustment to hedge accounting		-4,271	-20,667
Other adjustments to the year's profit		-628	376
Adjustments, total		**20,926**	**3,447**
Lending			
Disbursements of loans		-3,373,252	-2,715,757
Repayments of loans		2,464,579	2,350,532
Capitalisations, redenominations, index adjustments, etc.		-32	-51
Exchange rate adjustments		-110,135	-247,764
Lending, total		**-1,018,840**	**-613,039**
Cash flows from operating activities, total		**-786,103**	**-394,193**
Cash flows from investing activities			
Placements and debt securities			
Purchase of debt securities		-2,287,945	-2,168,290
Sold and matured debt securities		1,843,682	1,614,972
Placements with credit institutions		-850	-1,350
Other financial placements		2,714	2,699
Exchange rate adjustments, etc.		-47,891	-59,523
Placements and debt securities, total		**-490,290**	**-611,491**
Other items			
Acquisition of intangible assets		-938	-1,005
Acquisition of tangible assets		-682	-2,551
Change in other assets		10,698	5,676
Other items, total		**9,078**	**2,120**
Cash flows from investing activities, total		**-481,212**	**-609,372**

EUR 1,000	NOTE	JAN–DEC 2016	JAN–DEC 2015
Cash flows from financing activities			
Debts evidenced by certificates			
Issues of new debt		6,700,059	4,276,138
Redemptions		-3,823,944	-3,636,669
Exchange rate adjustments		380,563	884,174
Debts evidenced by certificates, total		**3,256,678**	**1,523,643**
Other items			
Long-term placements from credit institutions		-27	18,000
Change in swap receivables		265,363	-441,813
Change in swap payables		-86,468	218,769
Change in other liabilities		1,409	3,186
Dividend paid		-55,000	-55,000
Other items, total		**125,277**	**-256,858**
Cash flows from financing activities, total		**3,381,955**	**1,266,784**
CHANGE IN CASH AND CASH EQUIVALENTS, NET		**2,114,639**	**263,219**
Opening balance for cash and cash equivalents, net	[24]	**1,030,348**	**767,129**
Closing balance for cash and cash equivalents, net	[24]	**3,144,987**	**1,030,348**
Additional information to the statement of cash flows			
Interest income received		325,481	345,394
Interest expense paid		-81,553	-99,991

The accompanying notes are an integral part of these financial statements.

NOTE 1: ACCOUNTING POLICIES

Reporting entity

The operations of the Nordic Investment Bank (hereinafter called "the Bank" or "NIB") are governed by an agreement (hereinafter called "the Agreement") between the governments of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden (hereinafter called "the member countries"), and the statutes adopted in conjunction with the Agreement (hereinafter called "the Statutes"). NIB is an international financial institution that operates in accordance with sound banking principles. NIB finances private and public projects that have high priority for the member countries and borrowers. NIB finances projects both within and outside the member countries, and offers its clients long-term loans and guarantees on competitive market terms.

NIB acquires the funds to finance its lending by borrowing on international capital markets.

The authorised capital stock of the Bank is subscribed by the member countries. Any increase or decrease in the authorised capital stock shall be decided by the Board of Governors, upon a proposal of the Board of Directors of the Bank.

In the member countries, the Bank has the legal status of an international legal person, with full legal capacity, and is exempt from payment restrictions and credit policy measures. The Agreement concerning NIB contains provisions regarding immunities and privileges accorded to the Bank, e.g. the exemption of the Bank's assets and income from taxation.

The headquarters of the Bank are located at Fabianinkatu 34 in Helsinki, Finland.

Basis of accounting

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The financial statements have been prepared in accordance with the historical cost convention with some exceptions described in the policies below.

The cash flow statement has been prepared using the indirect method whereby operating profit is adjusted for effects of non-cash transactions such as depreciation and loan losses. The cash flows are classified by operating, investing and financing activities

On 9 March 2017, the Board of Directors approved the financial statements for publication. These financial statements will be submitted for approval to the Annual Meeting of the Board of Governors scheduled to be held no later than by the end of May 2017.

Functional and presentation currency

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

Significant accounting judgements and estimates

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

The Bank uses various valuation models and techniques to estimate the fair values of assets and liabilities. There are significant uncertainties related to these estimates, in particular when they involve modelling complex financial instruments, such as derivative instruments used for hedging activities related to both borrowing and lending. The estimates are highly dependent on market data, such as the level of interest rates, currency rates and other factors. The uncertainties related to these estimates are reflected mainly in the statement of financial position. NIB undertakes continuous development in order to improve the basis for fair value estimates, with regard to both modelling and market data. Changes in estimates resulting from refinements in assumptions and methodologies are reflected in the period in which the enhancements are first applied.

Judgements and estimates are also associated with impairment testing of loans and claims.

Foreign currency translation

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

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

The Bank uses the official exchange rates published for the euro by the European Central Bank with some exceptions, as disclosed in Note 25.

Recognition and derecognition of financial instruments

Financial instruments are recognised in the statement of financial position on a settlement date basis, except for derivative instruments, which are recognized on a trade date basis.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

Basis for classification and measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position.

Following the early adoption of IFRS 9 in 2011, the Bank classifies its financial assets into the following categories: those measured at amortised cost, and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

Financial assets at amortised cost

An investment is classified at "amortised cost" only if it is not designated as a FVTPL and both of the following criteria are met: the objective of the Bank's business model is to hold the assets in order to collect the contractual cash flows, and the contractual terms of the financial assets must give rise on specified dates to cash flows that are only payments of principal and interest on the principal amount outstanding.

Financial assets at fair value

If either of the two criteria above is not met, the asset cannot be classified in the amortised cost category and must be classified at fair value.

Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

Determination of fair value

The fair value of financial instruments, including derivative instruments that are traded in a liquid market, is the bid or offered closing price on the balance sheet date. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques which include the use of mathematical models. The input to these models is taken from observable market data where possible. Many of NIB's financial instruments are not traded in a liquid market, such as the Bank's borrowing transactions with embedded derivative instruments. These are measured at fair value using different valuation models and techniques. This process involves determining future expected cash flows, which can then be discounted to the balance sheet date. The estimation of future cash flows for these instruments is subject to assumptions on market data, and in some cases, in particular where options are involved, on the behaviour of the Bank's counterparties. The fair value estimate may therefore be subject to variations and may not be realisable in the market. Under different market assumptions, the values could also differ significantly.

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and where the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

See Note 19 for further details.

Offsetting

A financial asset and a financial liability are offset and the net amount recognised only where there is a legal right to do so and the intention is to settle on a net basis.

Cash and cash equivalents

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

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

Financial placements

Items recognised as financial placements in the statement of financial position include placements with credit institutions and placements in debt securities, for example, bonds and other debt certificates, as well as certain placements in instruments with equity features. The placements are initially recognised on the settlement date. Their subsequent accounting treatment depends on both the Bank's business model for managing the placements and their contractual cash flow characteristics.

Loans outstanding

The Bank's lending transactions are recognised in the statement of financial position at the time the funds are transferred to the borrower. Loans are recognised initially at historical cost, which corresponds to the fair value of the transferred funds, including transaction costs. Loans outstanding are carried at amortised cost. If the loans are hedged against changes in fair value caused by changes in market interest rates by using derivative instruments, they are recognised in the statement of financial position at fair value, with value changes recognised in the statement of comprehensive income.

Impairment of loans and receivables

The bank applies the principles set out in IAS 39 for impairment of loans and receivables. The bank will apply the expected credit loss model according to IFRS 9, from 1 January 2018.

Impairment of individually assessed loans

Exposures to obligors in default classes are classified as non-performing. A default occurs with regard to an obligor when either or both of the following have taken place:

(a) NIB considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the institution to actions such as realising security.

(b) The obligor is past due by more than 90 or 180 days in the case of sovereign lending exposure to member countries, or countries with which NIB has an existing framework agreement in place.

Obligors that satisfy the criteria in (a) above are set to default class D1 and those that satisfy the criteria in (b) above are set to default class D2. If both criteria (a) and (b) are satisfied, the obligor is set to default class D2.

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

Where the collectability of identified loans is in doubt, specific impairment losses are recognised in the statement of comprehensive income. Impairment is defined as the difference between the carrying value of the asset and the net present value of expected future cash flows, determined using the instrument's original effective interest rate, where applicable. If the carrying amount of the loan is higher than the net present value of the estimated future cash flows, including the fair value of the collaterals, the loan is impaired.

For issued guarantees, the impairment is recognised when it is both probable that the guarantee will need to be settled and the settlement amount can be reliably estimated.

Impairment of collectively assessed loans

Loans that are not individually impaired will be transferred to a group of loans with similar risk characteristics for a collective impairment test.

The Bank assesses the need to make a collective impairment test on exposures that, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective impairment test is based on any deterioration in the internal rating of the groups of loans or investments from the time they were granted or acquired. These internal ratings take into consideration factors such as any deterioration in counterparty risk, the value of collaterals or securities received, and the outlook for the sector, as well as identified structural weaknesses or deterioration in cash flows.

The process includes the management's judgement based on the current macroeconomic environment and the current view of the expected economic outlook. In the Bank's view, the assumptions and estimates made are appropriately conservative and are reflective of the predicted economic conditions, the Bank's portfolio characteristics and their correlation with losses incurred based on historical loss experience. The impairment remains related to the group of loans until the losses have been identified on an individual basis.

Intangible assets

Intangible assets mainly consist of investments in software, software licences and ongoing investments in new ICT systems. Acquisitions that generate economic benefits exceeding costs beyond one year are recognised as intangible assets. The investments are carried at historical cost, and are amortised over the assessed useful life of the assets, which is estimated to be between three and five years. The amortisations are made on a straight-line basis.

Tangible assets

Tangible assets in the statement of financial position include land, buildings, office equipment and other tangible assets owned by the Bank. The assets are recognised at historical cost, less any accumulated depreciation based on their assessed useful life. Land is not depreciated. The Bank's office building in Helsinki is depreciated on a straight-line basis over a 40-year period. The Bank's other buildings are depreciated over a 30-year period. The depreciation period for office equipment and other tangible assets is determined by assessing the individual item. The depreciation period is usually three to five years. The depreciations are calculated on a straight-line basis.

Write-downs and impairment of intangible and tangible assets

The Bank's assets are reviewed annually for impairment. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets.

Derivative instruments and hedge accounting

The Bank's derivative instruments used to manage interest rate and currency risk are recognised on a trade-date basis at fair value in the statement of financial position as "Other assets" or "Other liabilities". The Bank applies hedge accounting in accordance with IFRS 9 when the conditions set out by the standard are met. The hedge accounting is based on a clearly documented relationship between the item hedged and the hedging instrument. When there is a high (negative) correlation between the hedging instrument on the one hand and the value change of the hedged item or the cash flows generated by the hedged item on the other, the hedge is regarded as effective. The hedging relationship is documented at the time the hedge transaction is entered into, and the effectiveness of the hedge is continually assessed.

Derivatives where hedge accounting is not applied are recognised at fair value through the income statement.

Fair value hedging

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk in the same line item in the statement of profit or loss and OCI as the hedged item. Sometimes a derivative may be a component of a hybrid financial instrument that includes both the derivative and a host contract. Such embedded derivative instruments are part of a structured financing transaction that is hedged against changes in fair value by means of matching swap contracts. In such cases, both the hedged borrowing transaction and the hedging derivative instrument are recognised at fair value with changes in fair value in the statement of comprehensive income.

Currently the Banks fair value hedges mainly relate to swapping fixed to floating rates on its borrowing and lending transactions.

Cash flow hedging

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI. Currently the Bank does not apply cash flow hedge accounting but may choose to in the future.

Foreign currency basis spread

Following the early adoption of IFRS 9 in 2011, the bank separates the foreign currency basis spread from financial instruments used in hedging and this separated amount is recorded in "Other comprehensive income" (OCI). The foreign currency basis spread will be zero upon maturity and therefore the amount recorded in OCI will not be reclassified to the income statement.

Discontinuance of hedge accounting

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Debts evidenced by certificates

The Bank's borrowing transactions are recognised in the statement of financial position at the time the funds are transferred to the Bank. The borrowing transactions are recognised initially at a cost that comprises the fair value of the funds transferred, less transaction costs. The Bank uses derivative instruments to hedge the fair value of virtually all its borrowing transactions. In these instances, the borrowing transaction is subsequently recognised in the statement of financial position at fair value, with any changes in value recognised in the statement of comprehensive income.

Securities delivered under repurchase agreements are not derecognised from the statement of financial position. Cash received under repurchase agreements is recognised in the statement of financial position as "Amounts owed to credit institutions".

Equity

As of 31 December 2016, the Bank's authorised and subscribed capital is EUR 6,141.9 million, of which the paid-in portion is EUR 418.6 million. Payment of the subscribed, non-paid-in portion of the authorised capital, i.e. the callable capital, will take place at the request of the Bank's Board of Directors to the extent that the Board deems it necessary for the fulfilment of the Bank's debt obligations.

The Bank's reserves have been built up by means of appropriations from the profits of previous accounting periods, and consist of the Statutory Reserve, as well as the General Credit Risk Fund and the Special Credit Risk Fund for PIL (see note 17).

The Bank's profits, after allocation to appropriate credit risk funds, are transferred to the Statutory Reserve until it amounts to 10% of NIB's subscribed authorised capital. Thereafter, the Board of Governors, upon a proposal by the Bank's Board of Directors, decides upon the allocation of the profits between the reserve fund and dividends on the subscribed capital.

The General Credit Risk Fund is designed to cover unidentified exceptional risks in the Bank's operations. Allocations to the Special Credit Risk Fund for PIL are made primarily to cover the Bank's own risk in respect of credit losses on PIL loans.

The hedging reserve consists of the unrealised value changes of currency basis spreads of derivatives included in hedge accounting. Valuation changes will be zero upon maturity and therefore the amount recorded in the hedging reserve will not be reclassified to the income statement.

Interest

The Bank's net interest income includes accrued interest on loans, debt securities, placements and accruals of the premium or discount value of financial instruments. Net interest income also includes interest expenses on debts, swap fees and borrowing costs.

Fees and commissions

Fees collected when disbursing loans are recognised as income at the time of the disbursement, which means that fees and commissions are recognised as income at the same time as the costs are incurred. Commitment fees are charged on loans that are agreed but not yet disbursed and are accrued in the statement of comprehensive income over the commitment period.

Annually recurrent costs arising as a result of the Bank's borrowing, investment and payment transactions are recognised under the item "Commission expense and fees paid".

Financial transactions

The Bank recognises in "Net profit on financial operations" both realised and unrealised gains and losses on debt securities and other financial instruments. Adjustments for hedge accounting are included.

Administrative expenses

The Bank provides services to its related parties, the Nordic Development Fund (NDF) and the Nordic Environment Finance Corporation (NEFCO). Payments received by the Bank for providing services at cost to these organisations are recognised as a reduction in the Bank's administrative expenses. NIB receives a host country reimbursement from the Finnish Government equal to the tax withheld from the salaries of NIB's employees. This payment reduces the Bank's administrative expenses, as shown in Note 7.

Leasing agreements

Leasing agreements are classified as operating leases if the rewards and risks incident to ownership of the leased asset, in all major respects, lie with the lessor. Lease payments under operating leases are recognised on a straight-line basis over the lease term. The Bank's rental agreements are classified as operating leases.

Employee pensions and insurance

The Bank is responsible for arranging pension security for its employees. In accordance with the Host Country Agreement between the Bank and the Finnish Government and as part of the Bank's pension arrangements, the Bank has decided to apply the Finnish state pension system. Contributions to this pension system, which are paid into the Finnish State Pension Fund, are calculated as a percentage of salaries. The Finnish Ministry of Finance determines the basis for the contributions and establishes the actual percentage of the contributions according to a proposal from the local government pension institution Keva. See Note 7.

NIB also provides its permanent employees with a supplementary pension insurance scheme arranged by a private pension insurance company. This is group pension insurance based on a defined contribution plan. The Bank's pension liability is completely covered.

In addition to the applicable local social security systems, NIB has taken out, for example, comprehensive accident, life, medical and disability insurance policies for its employees in the form of group insurance.

Segment information

Segment information and currency distribution in the notes are presented in nominal amounts. The adjustment to hedge accounting is presented as a separate item (except for Note 3, the primary reporting segment).

Reclassifications

Some other minor reclassifications have been made. The comparative figures have been adjusted accordingly.

New and amended standards applied in the financial year 2016

NIB has no transactions that have been materially affected by new amendments or standards during 2016.

Adoption of new and amended standards and interpretations applicable in future financial years

NIB has not yet adopted the following new and amended standards and interpretations already issued by the IASB. NIB will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- New IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

  Classification and Measurement – The new standard introduces a new financial asset classification type, Fair value through other comprehensive income (FVOCI) for financial assets held in a business model whose objective is to hold assets to collect contractual cash flows and selling financial assets and the cash flows consist solely payments of principal and interest on the principal amount outstanding ("SPPI"). NIB is assessing the impact of this change and some assets may fall into this new category.

  Expected credit loss – The bank continues to develop its model for forecasting expected credit losses according to the new standard. Preliminary analysis indicates that the new approach will not have a very significant impact however, testing and calibration of the model continues and the final outcome may differ from the preliminary analysis.

- IFRS 16 Leases substantially changes the accounting treatment as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The standard replaces IAS 17 Leases and is effective as of January 1, 2019. However, the Bank does not have significant leasing commitments and therefore the new standard is not expected to have a significant impact. The current operating lease commitments disclosed in Note 18 provide, subject to the provision of the standard, an indicator of the impact of the implementation of IFRS 16 on the Banks statement of financial position.

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

NOTE 2: RISK MANAGEMENT

The Bank assumes a conservative approach to risk-taking. Careful balancing of mission fulfilment, revenue generation and risk mitigation is a key consideration in the Bank's risk-taking. The constituent documents require that loans be granted in accordance with sound banking principles, that adequate security be obtained for the loans, unless sufficient security is considered to exist under the circumstances, and that the Bank protect itself against the risk of exchange rate losses to the extent practicable. The Bank's risk tolerance is defined with the objective of maintaining strong credit quality, stable earnings and a level of capital and liquidity required to maintain the Bank's AAA/Aaa rating.

The main risks — credit risk, market risk, liquidity risk, operational risk and compliance risk — are managed carefully with the overall objective of maintaining financial soundness and avoiding activities that could threaten the Bank's reputation. As an international financial institution, the Bank is not subject to national or international prudential regulation of the banking sector. However, the Bank's risk management framework is regularly reviewed and adapted to changing conditions with the aim of complying in substance with what the Bank identifies as the relevant market standards and best practices, including the standards and guidelines of the Basel Committee on Banking Supervision.

The Bank's risk management framework comprises risk policies and procedures formulated for the assessment, measurement, monitoring and reporting of risks including a comprehensive limit system for managing the exposure to quantifiable risks. The Bank recognises that effective risk management is based on a sound risk culture, which is characterised, among other things, by a high level of awareness concerning risk and risk management in the organisation. Regular training of staff in risk-related matters is part of the Bank's risk management practices.

Key risk responsibilities

The *Board of Directors* lays down the general framework for the Bank's risk management by approving its risk management policies, including maximum limits for exposure to the main types of risk. The Board approves credits and grants authorisation to the Bank to raise funds in the capital markets based on its estimated funding requirements.

The *President* is responsible for managing the risk profile of the Bank within the framework set by the Board of Directors and for ensuring that the Bank's aggregate risk is consistent with its financial resources and willingness to take risk. The Board of Directors has delegated some credit approval authority to the President for execution in the Credit Committee.

The following committees assist and advise the President:

The *Executive Committee* consists of the President and senior officers, whose appointment to the committee has been confirmed by the Board of Directors. The committee is the forum for addressing policy and management issues, including following up the financial results, business plan and strategy of the Bank. The committee meets approximately twice a month.

The *Credit Committee* consists of the President and senior officers appointed by the Board of Directors. The committee is responsible for preparing and making decisions on credit matters related to lending operations and for decisions on treasury counterparties. Among other things, the committee reviews all credit proposals before they are submitted to the Board of Directors for approval. The committee usually meets weekly.

The *Finance Committee* consists of the President, the Head of Treasury and the Head of Risk and Finance. The committee is responsible for preparing and making decisions on matters related to treasury operations. The committee makes recommendations and, where appropriate, decisions in the area of market, counterparty and liquidity risk exposure. It also monitors the Bank's borrowing activities and has oversight of treasury risk reporting to the Board of Directors. The committee usually meets monthly.

The *Asset and Liability Committee* (ALCO) consists of the members of the Executive Committee and the Chief Risk Officer. Together with the Executive Committee, it has overall responsibility for the Bank's risk management. ALCO's duties include monitoring the Bank's balance sheet development and capital adequacy, setting targets and limits for risk to be managed at the bank level, reviewing liquidity risk management and funding structure, as well as monitoring performance against the agreed risk appetite. The committee meets approximately six times a year.

The *Business and Technology Committee (BTC)* assists and advises the President in information and communications technology (ICT) matters and functions as a steering committee for ICT development projects. The President makes strategically important decisions on ICT matters in the Executive Committee. The BTC consists of the Head of ICT and other senior staff members appointed by the President. The chairman of the Committee shall be a member of the Executive Committee.

In addition to the advisory bodies to the President, the Bank has the following permanent internal committees focusing on risk aspects:
The *New Product and Structure Committee* scrutinises product and deal structure proposals which from a risk and/or administrative point of view significantly differ from what the Bank has entered into previously.

The *Council of Fighting Corruption* has been established to enhance the awareness of integrity and corruption risks among the Bank's staff and stakeholders.

In the day-to-day operations, the Bank has established a segregation of duties between units that enter into business transactions with customers or otherwise expose the Bank to risk, and units in charge of risk assessment, risk measurement, monitoring and control.

The business units, *Lending* and *Treasury*, are responsible for implementing the Bank's business strategy. Lending is responsible for loan origination and mandate fulfilment in accordance with the Bank's willingness to take risk. Treasury provides support by executing the funding strategy and managing the liquidity as well as balance sheet risks (Asset and Liability Management). The business units carry out the day-to-day management of all risks assumed in their operations and ensure that an adequate return is achieved for the risks taken. The Head of Lending and the Head of Treasury report to the President.

The Risk Management unit within *Risk and Finance* carries out independent measuring, controlling, monitoring and reporting of the Bank's credit risk, liquidity risk, market risk and operational risk exposures. The Head of Risk and Finance reports to the President.

Credit and Analysis is responsible for assessing and monitoring counterparty credit risk in the Bank's lending and treasury operations. The *Credit unit* oversees that credit proposals are in compliance with established limits and policies. The *Special Credits unit* manages transactions requiring particular attention due to restructuring work-out and recovery processing. The Head of Credit and Analysis reports to the President.

The *Legal* department supports all units of the Bank carrying the responsibility for minimising and mitigating legal risks in the Bank's operational and administrative activities. The General Counsel reports to the President.

The *Compliance* function assists the Bank in identifying, assessing, monitoring and reporting on compliance risks in matters relating to the institution, its operations and the personal conduct of staff members. The Chief Compliance Officer reports to the President, with unrestricted access to the Chairman of the Board of Directors and the Chairman of the Control Committee.

Internal Audit provides an independent evaluation of the controls, risk management and governance processes. The Head of Internal Audit reports to the Board of Directors and the Control Committee.

The *Control Committee* is the Bank's supervisory body. It ensures that the operations of the Bank are conducted in accordance with the Statutes. The committee is responsible for the audit of the Bank's accounts and submits its annual audit statement to the Board of Governors. The committee also monitors the anti-corruption and compliance practices of the Bank.

Credit risk

Credit risk is the Bank's main financial risk. Credit risk is defined as the risk of loss resulting from the failure of the Bank's borrowers and other counterparties to fulfil their contractual obligations and that collateral provided does not cover the Bank's claims. Following from NIB's mission, most of the credit risk stems from the Bank's lending operations. The Bank is also exposed to credit risk in its treasury activities, where credit risk derives from the financial assets that the Bank uses for investing its liquidity, such as fixed-income securities and interbank deposits, and from derivative instruments used for managing currency and interest rate risks and other market risks related to structured funding transactions.

Credit risk management

The Bank's credit risk management builds on the principles of (1) appropriate risk diversification within the scope of the mission; (2) thorough risk assessment at the credit appraisal stage; (3) risk-based pricing and risk mitigation; (4) continuous risk monitoring at the individual counterparty level as well as portfolio level; (5) avoidance of undesirable risks to the extent possible.

Credit risk limits

The maximum credit exposure that the Bank is willing to take is expressed in terms of exposure limits set by the Board of Directors. Credit exposure is the aggregate of lending and treasury exposure. Limits at counterparty level are scaled to the Bank's equity and the counterparty's equity. Portfolio level limits are defined in relation to the Bank's equity.

Counterparty limits are determined based on the probability of default and expected loss. The Bank defines a single counterparty as a counterparty or group of counterparties that are legally and/or financially consolidated or otherwise interdependent from a risk perspective. For exposure limit purposes, the Bank considers the entity where the risk resides, i.e. the risk-owner, as the counterparty. The risk-owner is the entity that is ultimately responsible for the Bank's

claim and may be different from the obligor if the risk is transferred through a guarantee. In order for a guarantee to be eligible for risk transfer, it must cover the full exposure and be a guarantee undertaking securing the borrower's debt "as for own debt", meaning that the Bank can make a claim under the guarantee immediately after the borrower has failed to pay on a due date.

To prevent excessive concentrations, the Bank applies portfolio-level limits for large counterparty exposure, as well as for industry sector and country exposures. The Bank has not set limits for the aggregate lending exposure in its member countries. Lending in non-member countries is subject to country limits. For the Bank's treasury operations, country limits apply for exposure in member and non-member countries.

As a general principle, the Bank limits the maximum amount granted as loan or guarantee for a single project to 50% of the total project cost. Financing to small and medium-sized enterprises, small mid-cap corporates and mid-cap corporates in the Bank's member countries can be extended up to 75% of the total project or financing need qualifying for a NIB mandate.

Credit risk assessment

The counterparty's debt servicing capacity is a key consideration for credit approval. The assessment of a counterparty's creditworthiness focuses on identifying the main financial and business risks related to the counterparty. Based on the assessment, a risk rating indicating the probability of default (PD) is assigned to the counterparty. The credit risk assessment includes the use of quantitative risk methodologies and models as well as qualitative assessments based on expert judgement. The process of assigning PD ratings to counterparties is carried out in the Credit & Analysis department.

A separate expected loss (EL) rating is assigned at the transaction level. The EL rating factors in the loss given default (LGD), i.e. the loss severity in the event of a counterparty default. The LGD assignment process relies on models that produce an LGD estimate based on the type of counterparty and the characteristics of the transaction, such as guarantees, collateral, the seniority of the claim and other credit enhancing factors in the transaction. The risk ratings are approved by the Credit Committee.

The Bank's risk rating system comprises 20 classes to differentiate the risk of counterparty default and the expected loss on a transaction. In addition, a separate D class applies for non-performing transactions. For reference to external ratings, the internal scales are mapped to the ratings of S&P and Moody's such that classes 1 to 10 correspond to the external rating equivalent of the investment grade AAA to BBB- and Aaa to Baa3, respectively.

Credit risk mitigation

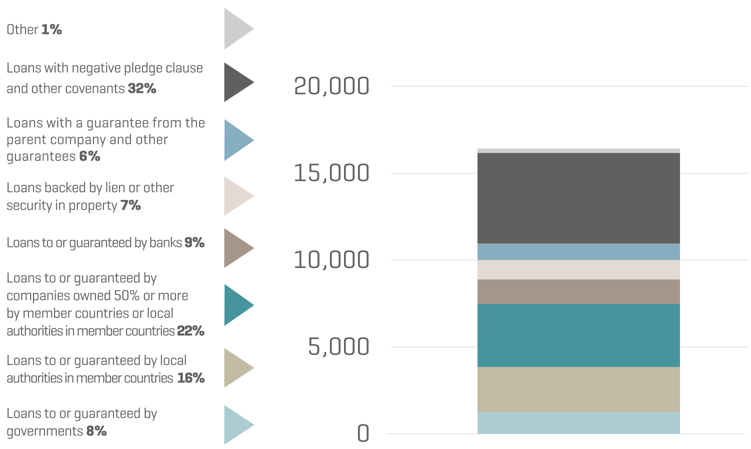
The Bank lends and invests on a senior unsecured or secured basis. The level of credit enhancement required in the Bank's lending depends, among other things, on the creditworthiness of the counterparty and the tenor and repayment structure of the loan. When lending on an unsecured basis, the Bank requires that various undertakings, such as negative pledges and financial and non-financial covenants, are incorporated in the loan agreements.

In its secured lending, the Bank primarily relies on collateral and/or guarantees. The collateral should preferably be independent from the obligor (e.g. third-party shares or commercial real estate that can readily be taken into alternative use) and there should be a reasonably functioning market for the collateral.

The distribution of the Bank's lending portfolio by type of credit enhancement at year-end 2016 is presented below with further information in Note 11.

Lending by type of security

as of 31 Dec 2016
EUR m



In its treasury operations, the Bank applies netting and collateralisation to mitigate counterparty credit risk related to derivatives and collateralised placements. The Bank undertakes swap transactions only with counterparties that meet the required minimum counterparty credit rating and have executed an International Swaps and Derivatives Association (ISDA) Master Agreement and signed a Credit Support Annex (CSA). Collateralised placements in the form of reverse repo transactions are made on the terms of the Global Master Repurchase Agreement (GMRA).

The ISDA master agreement allows for a single net settlement of all swap transactions covered by the agreement in the event of a counterparty default or early termination of the transactions. Netting is applied for the measurement of the Bank's credit exposure only in cases when it is deemed to be legally valid and enforceable in the relevant jurisdiction and against a counterparty. At year-end 2016, netting reduced the swap exposure by EUR 889 million from a gross total market value of EUR 2,264 million to EUR 1,375 million (year-end 2015: EUR 2,748 million and EUR 1,976 million, respectively).

The CSA further mitigates credit risk related to swaps, as the swap positions are marked to market daily and the resulting exposures exceeding agreed thresholds, if any, are collateralised by cash or high-quality government securities. At year-end 2016, the Bank held EUR 1,420 million (2015: EUR 1,829 million) in gross collateral received, of which EUR 1,309 million (2015: EUR 1,440 million) was in cash and EUR 111 million (2015: EUR 389 million) in securities (See Note 18, Collateral and Commitments).

Credit risk monitoring

The Bank puts strong emphasis on continuous monitoring of the credit risk development in its lending and treasury operations. Credit risk is monitored both at counterparty level and at portfolio level. The primary responsibility for credit risk monitoring resides with the unit responsible for the client relationship, i.e. Lending, Treasury and Special Credits with support from Credit & Analysis. Risk Management carries out the portfolio level monitoring.

All lending exposures are subject to continuous monitoring of contractual compliance and events/signals that could potentially lead to or indicate a material change in risk. In addition, an annual follow-up is conducted on the entire loan portfolio. The annual follow-up is presented to the Credit Committee and reported to the Board of Directors.

Treasury exposures are subject to continuous monitoring of events and market signals that could potentially lead to or indicate a material change in risk. At a minimum, the counterparties are analysed and the risk class validated every two years. The follow-up is presented to the Credit Committee.

Following the identification of a seriously deteriorated debt repayment capacity and/or a serious deterioration in the financial standing, the counterparty is placed on the watch-list and becomes subject to specific watch-list monitoring. Watch-listed counterparties are reviewed by the Credit Committee at agreed intervals and reported to the Board of Directors.

If a credit exposure requires the expertise of specialists in workout and restructuring, it will be transferred to the Special Credits unit. The unit's primary objective is to take over responsibility for distressed loans from Lending and devote sufficient time and effort to the individual case in order that the Bank may recover all or as much as possible of distressed loans outstanding.

Credit risk monitoring at portfolio level includes, among others, an analysis of the aggregate credit risk exposure, credit risk concentrations and changes in the risk profile. The development is reported to ALCO and the Board of Directors.

Compliance with existing limits is monitored regularly; for treasury counterparties, limit compliance is monitored on a daily basis. Exposure in excess of maximum limits may occur e.g. due to downgrade of a counterparty rating. Limit breaches are reported to senior management, relevant committees and the Board of Directors.

Risk-based pricing

The Statutes stipulate that the Bank shall operate according to sound banking principles and aim for a profit allowing the formation of reserves and a reasonable return on capital.

Loans and guarantees are priced to cover the Bank's cost of funds, administration costs, the cost of the risk involved in the transaction and the cost of capital employed. For loan pricing purposes, the Bank uses a pricing tool that enables calculation of the minimum earnings required on a loan in order to cover all lending related costs and an appropriate return for the level of risk assumed. Internal credit risk ratings and associated risk parameters, as well as the structure of the transaction, are key input factors in the pricing tool.

Credit risk reserves, impairment methodology

The Bank maintains two credit risk funds within its equity, in addition to the Statutory Reserve. The General Credit Risk Fund is available to cover unexpected losses arising from the Bank's lending and other business activities. At year-end 2016, the fund amounted to EUR 1,541 million before allocation of the profit for the year. The Statutes require that the Bank maintains the Special Credit Risk Fund for the Project Investment Loan (PIL) facility to cover the Bank's own risk on such loans before resorting to the member countries' guarantees that support the facility. At year-end 2016, the fund amounted to EUR 446 million before allocation of the profit for the year.

At least every four months, the Bank reviews the need for impairment provisions on weak exposures. The assessment is carried out both at the level of the individual counterparty and collectively for groups of counterparties. At the counterparty level, a specific impairment provision is recognised if there is objective evidence that the counterparty's capacity to fulfil its obligations has deteriorated to the extent that full repayment is unlikely, taking into consideration any collateral received. Collective impairment provisions are determined on a portfolio basis for exposures with similar credit risk characteristics as reflected in their risk ratings. The process includes the management's judgement based on the current macroeconomic environment and the current view of the expected economic outlook. In the Bank's view, the assumptions and estimates made are appropriately conservative and are reflective of the predicted economic conditions, the Bank's portfolio characteristics and their correlation with losses incurred based on historical loss experience. In the assessment of sovereign exposures, the Bank takes into account its preferred creditor status. The Bank's principles for impairment provisioning are described in more detail in note 1 "Accounting policies".

Credit risk exposure

Tables 1 to 3 below provide an overview of the Bank's aggregate credit risk exposure at year-end 2016 distributed according to expected loss (EL) before collective impairment. Aggregate credit exposure comprises lending and treasury exposure. Lending exposure includes loans outstanding and loans agreed but not yet disbursed, without taking into account any collateral or other credit enhancement. Regarding the treasury exposure, capital market investments are included at nominal value, while derivatives are included at market value net of collateral held. The exposure to collateralised placements in the form of reverse repo transactions is calculated as a fixed percentage of the market value of the collateral held.

TABLE 1. Credit risk exposure by internal rating based on expected loss (EL) (in EUR million)

RISK	S&P	31 DEC 2016			31 DEC 2015		
CLASS	EQUIVALENT	LENDING	TREASURY	TOTAL	LENDING	TREASURY	TOTAL
1–2	AAA/AA+	4,458	5,005	9,463	3,659	5,181	8,839
3–4	AA/AA-	1,231	1,991	3,223	559	1,001	1,560
5–6	A+/A	1,544	1,164	2,707	1,412	1,307	2,719
7–8	A-/BBB+	4,799	232	5,031	4,907	212	5,119
9–10	BBB/BBB-	3,582	1	3,583	3,213	0	3,213
11–12	BB+/BB	1,671	0	1,671	2,067	0	2,067
13–14	BB/BB-	718	0	718	333	0	333
15–16	BB-/B+	289	0	289	322	0	322
17–18	B/B-	15	0	15	64	0	64
19–20	B-/CCC	7	0	7	0	0	0
D		21	2	23	74	6	80
TOTAL		**18,335**	**8,396**	**26,730**	**16,607**	**7,707**	**24,314**
Class D							
Gross		118	45	163	205	46	251
Impairment		97	42	140	131	40	171
Net		**21**	**2**	**23**	**74**	**6**	**80**

The quality of the Bank's aggregate credit exposure remained sound in 2016. Lending exposure increased by 10% due to a high volume of loan disbursements. Around one third of the disbursements were to counterparties in the best risk classes (EL1-2), which was largely explained by new lending to the public sector. Treasury exposure increased by 9% due to a higher level of liquid assets. At year-end 2016, 85% (2015: 83%) of lending exposure and practically 100% (2015: 100%) of treasury exposure was in risk classes 1-10, corresponding to investment-grade quality. The lending exposure in the weakest risk classes (EL 17-20) was reduced mainly due to repayment. The decrease in exposure in risk class D (non-performing) was the result of payments received, write off of claims as well as the upgrade of one customer.

TABLE 2. Geographical distribution of the credit risk exposure (in EUR million)

The geographical distribution of the aggregate credit risk exposure is shown in the table below. The distribution is based on the risk-owner's country of domicile.

	31 DEC 2016			31 DEC 2015		
COUNTRY/REGION	**LENDING**	**TREASURY**	**TOTAL**	**LENDING**	**TREASURY**	**TOTAL**
Denmark	1,324	1,311	2,635	1,610	828	2,438
Estonia	215	0	215	221	0	221
Finland	4,068	911	4,978	3,640	928	4,568
Iceland	618	1	619	535	2	537
Latvia	232	48	280	287	18	305
Lithuania	625	0	625	652	20	672
Norway	4,103	277	4,380	3,030	355	3,384
Sweden	4,944	1,334	6,278	4,040	871	4,912
Africa and Middle East	125	0	125	187	0	187
Americas	253	800	1,054	311	604	915
Asia-Pacific	587	31	618	857	39	897
Europe	903	3,136	4,039	985	3,643	4,628
Multilaterals	336	547	883	251	399	650
TOTAL	**18,335**	**8,396**	**26,730**	**16,607**	**7,707**	**24,314**

In the context of the Bank's mission, the credit risk exposure continued to be fairly well balanced in terms of geographical distribution. At year-end 2016, the member countries accounted for 88% of the Bank's lending exposure (2015: 84%) with the exposure to Norway and Sweden showing the largest increase in 2016. The largest lending exposures outside the member countries were in Poland, China, Brazil and India. The Bank's exposure in Russia, Ukraine and Belarus amounted to EUR 159 million (2015: EUR 312 million), including EUR 55 million (2015: EUR 84 million) under the MIL facility and EUR 25 million (2015: EUR 27 million) in agreed, not disbursed loans.

Of the treasury exposure, 46% (2015: 39%) was in the member countries, while the rest of Europe accounted for 37% (2015: 47%), dominated by Germany, The Netherlands and France. The major part of the treasury exposure outside Europe was in Canada.

TABLE 3. Credit risk exposure by industry sector (in EUR million)

The distribution of the credit risk exposure by sector is based on the industry sector of the risk-owner. These sectors are different from the four business areas into which the Bank has organised its lending operations.

	31 DEC 2016			31 DEC 2015		
INDUSTRY SECTOR	**LENDING**	**TREASURY**	**TOTAL**	**LENDING**	**TREASURY**	**TOTAL**
Oil & Gas	125	0	125	344	0	344
Materials	1,053	0	1,053	1,115	0	1,115
Industrials	3,540	0	3,540	3,668	0	3,668
Consumer discretionary	568	0	568	540	0	540
Consumer staples	977	0	977	1,018	0	1,018
Health care	551	0	551	519	0	519
Financials	2,202	5,275	7,477	1,442	4,470	5,913
Information technology	186	0	186	220	0	220
Telecommunication services	309	0	309	429	0	429
Utilities	4,255	0	4,255	3,773	0	3,773
Public sector	4,569	3,121	7,689	3,540	3,237	6,776
TOTAL	**18,335**	**8,396**	**26,730**	**16,607**	**7,707**	**24,314**

The distribution of the lending exposure by industry sector remained stable in 2016 compared to the previous year, with the public sector, the utility sector and the industrials sector accounting for 67% (2015: 66%) of the total exposure. In nominal terms the most significant increase was in the exposure to the public sector and the financial sector. The exposure to these sectors increased as a consequence of new lending and included EUR 1.1 billion in agreed, not disbursed loans at year-end 2016.

The Bank has defined limits for maximum exposure to a single industry measured by the economic capital requirement and total credit risk exposure in relation to the Bank's equity. At year-end 2016, the Bank was in compliance with these limits.

TABLE 4. Largest counterparty exposures (% of total credit risk exposure)

A counterparty exposure is defined as the consolidated group exposure, i.e. individual counterparties that are linked to one another by ownership or other group affiliation are considered as one counterparty.

	31 DEC 2016	31 DEC 2015
Top 5	10%	9%
Top 10	17%	16%
Top 20	27%	27%

The limits for large single counterparty exposures and for the aggregate of such large exposures are scaled to the Bank's equity. Any deviations from the set limits must be approved by the Board of Directors. At year-end 2016, the Bank was within the aggregate limits set for large exposures

Market risk

The Bank defines market risk as the risk of valuation loss or reduction in the expected earnings stemming from adverse fluctuations in exchange rates, interest rates, credit spreads and cross-currency basis spreads.

Market risks predominantly arise from the Bank's core business activities and the liquidity portfolio needed to support these activities. The Bank's strategy is to obtain cost-efficient funding from diversified sources and provide lending that is tailored to the needs of its customers. This gives rise to foreign exchange risk and structural interest rate risk due to mismatches in the Bank's assets and liabilities in terms of currency composition, maturity profile and interest rate characteristics. Cross-currency basis risk stems from the hedging techniques used by the Bank to mitigate spot foreign exchange risk deriving from funding and lending in different currencies. This risk relates to transactions exchanging foreign currencies at a future point in time.

The Bank's securities portfolio held for liquidity purposes is exposed to interest rate risk and credit spread risk, i.e. potential decline in market value due to perceived change in the credit quality of the issuers of the securities held in the portfolio.

Market risk management

The Bank manages market risks by hedging against foreign exchange risk and interest rate risk with the objective of protecting its earnings and the economic value of its assets and liabilities. Foreign exchange risk is practically fully hedged. Interest rate risk deriving from mismatches between funding and lending is kept at a modest level. The Bank's tolerance for interest rate risk and credit spread risk pertains to the earnings expectations set for the liquidity portfolio.

As part of its structured funding transactions, the Bank may use financial instruments linked to other market risk factors than the above. A prerequisite is that such transactions are completely hedged with derivatives and that the Bank is able to valuate and measure the risks involved in the derivatives.

All of the Bank's market risks are transferred to and managed by Treasury. The Risk Management unit provides independent oversight of all significant market risks, supporting the Finance Committee, ALCO and Treasury with risk measurement, analysis, daily monitoring and reporting.

Foreign exchange rate risk

Table 5. Foreign exchange rate risk (in EUR million)

		TOTAL LIMIT	31 DEC 2016	31 DEC 2015
Net open positions	USD	4,000	1,940	2,030
	DKK	1,000	0,170	0,010
	SEK	1,000	0,300	0,460
	NOK	1,000	0,280	0,110
	Other currencies, Total	4,000	1,770	2,570

The Statutes require that the Bank shall, to the extent practicable, protect itself against the risk of exchange rate losses.

Exchange rate risk is measured on the basis of net open positions in each currency. The limits set to restrict the overnight positions and the actual exposure as at year-end 2016 is presented in the above table. Note 22, Currency risk, shows the net of assets and liabilities at fair value in the major currencies as of year-end 2016.

The Bank hedges foreign exchange rate risk with cross-currency basis swaps, which gives rise to currency basis risk. The market value sensitivity of the Bank's swap portfolio to one basis point shift in the relevant currency basis curves was EUR 2 million at year-end 2016 (2015: EUR 2 million) mostly deriving from the euro/US dollar basis.

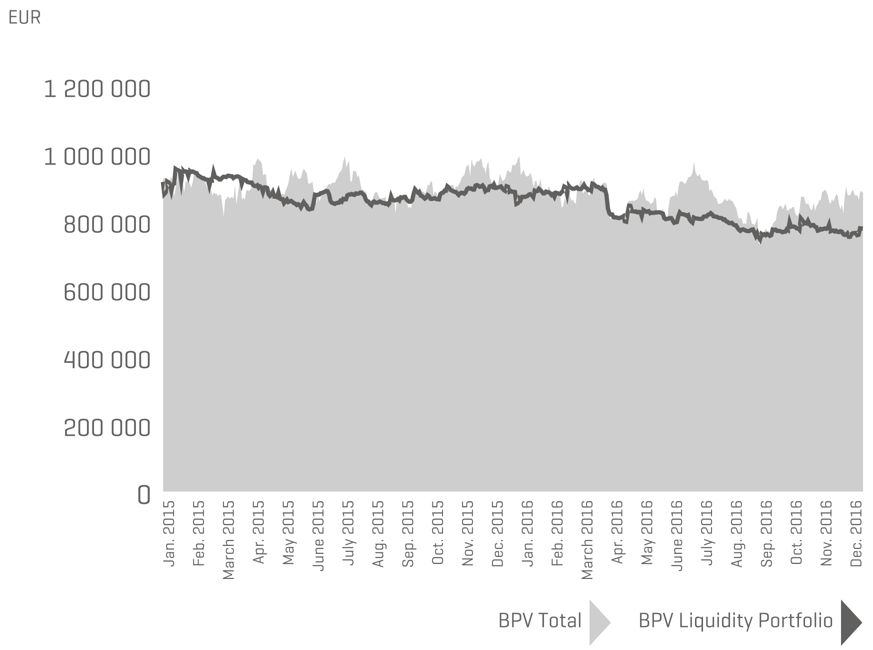
The Bank does not hedge future net interest income in foreign currency. Loans are provided primarily in euro, US dollars and Nordic currencies. There is a possibility that interest income in currencies other than the euro may cause some fluctuation in the Bank's future net income in euro terms. However, at present the Bank expects that any such potential fluctuations in future cash flows from its current portfolio would be minor in relation to its total assets and equity.

Interest rate risk

Table 6. Interest rate risk (in EUR million)

	TOTAL GROSS LIMIT	31 DEC 2016	31 DEC 2015
Sensitivity to 1bp change in interest rates	1,500	0,884	0,950

Development of interest rate risk



The Bank manages interest rate risk by using derivatives to convert fixed-rate funding into floating-rate liabilities. Fixed-rate lending that is not match-funded is converted to floating-rate receivables. This hedging approach ensures that the interest rate risk between lending and funding in each currency remains low. The majority of the Bank's interest rate risk, therefore, stems from the portfolio of liquid assets.

The Bank measures and manages interest rate risk by estimating the sensitivity of the economic value of its balance sheet to an interest rate shock. The sensitivity is measured by means of basis point value (BPV) quantifying the impact of a parallel increase in interest rates of one basis point on the present value of interest-bearing assets and liabilities.

Maximum limits have been set for the acceptable exposure to interest rate risk both at an aggregate balance sheet level and at portfolio level.
A gross limit equivalent to EUR 1.5 million covering all currencies restricts the BPV interest rate risk to approximately 0.05% of the Bank's equity. In addition, individual BPV limits have been set for interest rate risk in EUR, USD and the Nordic currencies, whereas a combined limit applies for all other currencies. As a supplementary indicator of interest rate risk, the Bank estimates the worst-case effect of a 0.1% change in interest rates on its net interest income over the lifetime of interest-bearing assets and liabilities due to mismatches in terms of re-pricing periods and volumes. This is managed through a limit of EUR 34 million, corresponding to approximately 1% of the Bank's equity. At year-end 2016, the exposure amounted to EUR 13.9 million (2015: EUR 10.5 million).

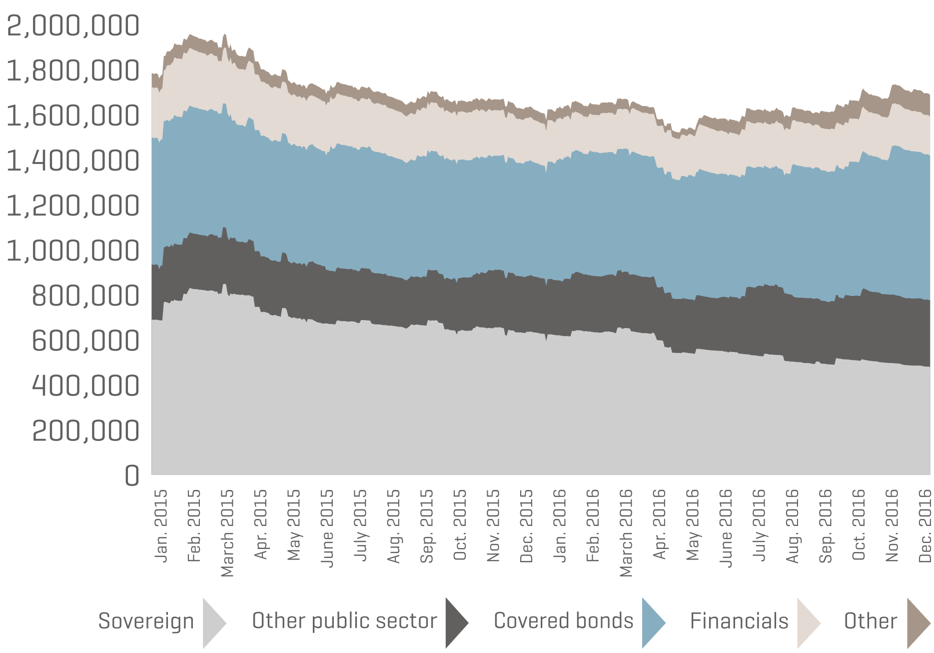
Credit spread risk

Table 7. Credit spread risk (in EUR million)

	TOTAL LIMIT	31 DEC 2016	31 DEC 2015
Sensitivity to 1bp change in credit spreads	2,500	1,688	1,580

Development of credit spread risk

EUR



The Bank manages its exposure to credit spread risk by calculating the sensitivity of its liquid assets portfolio to credit spread movements. The sensitivity is measured by means of Credit Spread Basis Point Value (Spread BPV) quantifying the impact of an increase of one basis point in credit spreads on the present value of the assets.

Limits have been defined to restrict the decrease in asset value to acceptable levels in accordance with the Bank's willingness to accept risk in its liquidity portfolio. The Bank has set an overall limit of EUR 2.5 million for credit spread risk, with specific sub-limits defined for various asset classes. To ensure that the liquidity portfolio maintains its market value and liquidity under severe market conditions, the assets in the portfolio must satisfy minimum rating requirements and other quality criteria.

Liquidity risk

Liquidity risk is defined as the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due. The Bank categorises liquidity risk into funding liquidity risk, which occurs when payment obligations cannot be fulfilled because of an inability to obtain new funding, and market liquidity risk, which occurs when the Bank is unable to sell or transform assets in the liquidity buffer into cash without significant losses.

Liquidity risk management

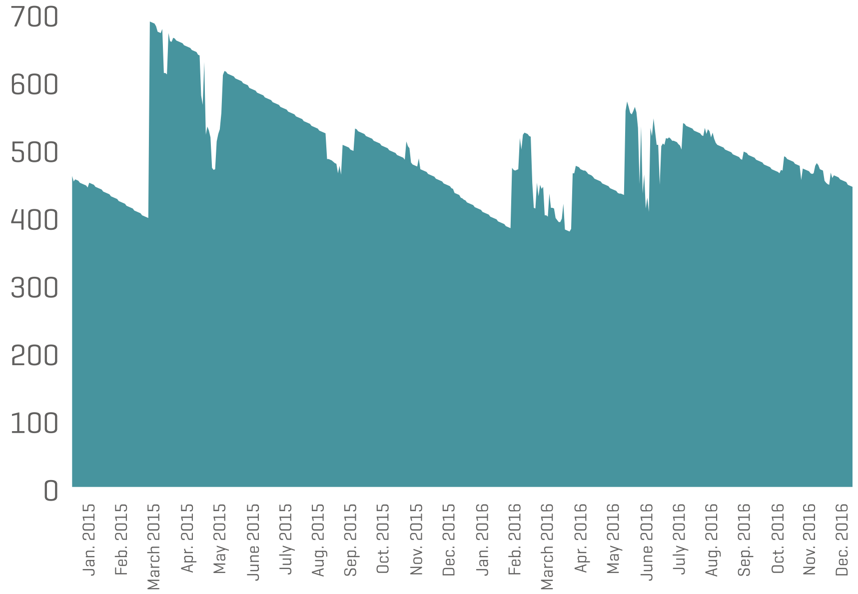
The Bank's business model gives rise to liquidity risk mainly through maturity mismatches between assets (loans and treasury investments) and liabilities (borrowing and equity). The liquidity position and adherence to exposure limits is managed by Treasury and monitored by Risk Management on a daily basis.

The Finance Committee and ALCO oversee the development of the Bank's funding and liquidity position and decide on liquidity risk-related matters in accordance with their respective mandates. The Board of Directors receives regular reports on the liquidity and funding situation of the Bank.

The key metric applied for managing liquidity risk is the survival horizon, which measures how long the Bank would be able to fulfil its payment obligations in a severe stress scenario. The target survival horizon is twelve months, which means that the Bank would be able to meet its payment obligations and continue its business operations without disruption for the coming twelve months under stressed conditions. The minimum requirement is that the survival horizon must at all times exceed nine months. The stress scenario includes, among other things, the assumption of payment disruptions in the loan portfolio, no access to market funding, early termination of all callable funding transactions and severe decline of asset value in the liquidity buffer. At year-end 2016, the survival horizon was 443 days (2015: 431 days).

Development of the survival horizon

Days



In addition, the Bank requires that the liquidity position should be strong enough to secure the highest possible issuer credit rating by S&P and Moody's and fulfil the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements as specified in the Capital Requirements Regulation of the European Union. At year-end 2016 the LCR was approximately 3500% (2015: 1200%) and the NFSR approximately 160% (2015: 150%). The minimum requirement for NSFR and LCR is 100% for regulated banks once the Basel III regulations are fully implemented.

The Bank's liquidity buffer comprises unencumbered cash, deposits and securities mainly denominated in EUR, USD and the Nordic currencies. In order to ensure that the market value and liquidity of the buffer is preserved during adverse market conditions, the Bank has set strict rules for the composition of the buffer. As such, the buffer must include a minimum level of High Quality Liquid Assets as defined in the EU capital requirement regulation and a minimum level of assets in the internal rating categories corresponding to at least AA- from S&P and Aa3 from Moody's. Furthermore, the buffer must comprise a certain level of assets eligible as repo collateral in central banks. The Bank does not have direct access to central bank repo facilities but can repo its bond securities via intermediating banks.

The maturity profile of the liquidity buffer is structured to fulfil the Bank's requirement that the expected net cash outflow during the next three months must be covered by maturing investments in the liquidity buffer.

TABLE 8. Composition of the liquidity buffer

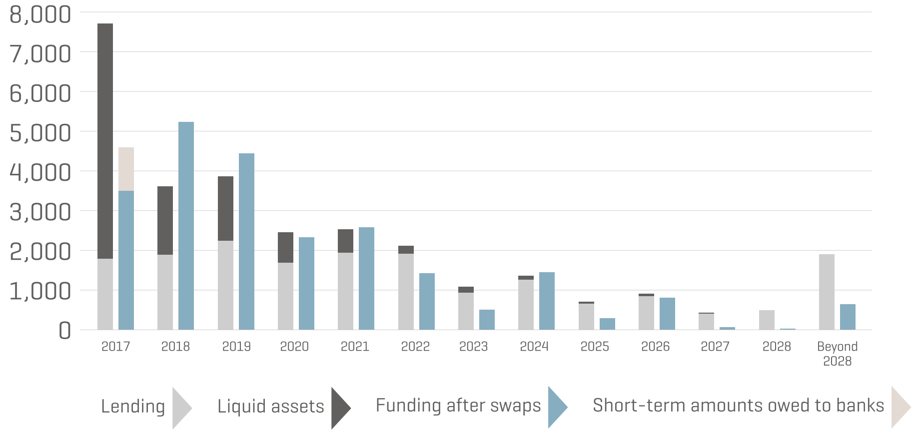
	31 DEC 2016		31 DEC 2015	
	EUR MILLION	%	EUR MILLION	%
Cash and cash equivalents	356	3%	678	7%
Securities issued or guaranteed by sovereigns, public sector entities and supranational institutions	3,273	29%	3,269	36%
Covered bonds	2,570	23%	2,123	23%
Securities issued by financial institutions, excluding covered bonds	1,544	14%	1,164	13%
Securities received as collateral	3,354	30%	1,843	20%
TOTAL	**11,097**	**100%**	**9,077**	**100%**

Diversification is a key objective of the Bank's funding and liquidity management. The Bank strives to diversify its borrowing in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources. Through regular benchmark issues, the Bank aims to secure broad market access. The annual funding plan is based on the projected twelve-month liquidity requirement and the projected size of the liquidity buffer. The funding plan is regularly adjusted to reflect changes in the liquidity requirement.

The following graph shows the maturity profile of liquid assets and the annual scheduled payments on loans outstanding compared to payments on the Bank's funding. Payments on loans outstanding are shown until the contractual maturity of the loans. Repayment of funding is shown until the first possible early repayment date and taking into account the cash flow from associated swaps. Short-term amounts owed to credit institutions predominantly comprise cash collateral received from swap counterparties.

Maturity profile of funding, lending and liquid assets

As of 31 December 2016
EUR m



A breakdown of the Bank's financial assets and liabilities by maturity at year-end 2016 is presented in Note 20.

The Bank has a contingency plan in place which defines the actions to be taken should the Bank encounter a liquidity shortfall in an emergency situation. The President decides on the activation of the contingency plan and subsequently informs the Board of Directors.

Operational risk

The Bank defines operational risk as the risk of direct or indirect losses or damaged reputation due to failure attributable to technology, employees, processes, procedures or physical arrangements, including external events and legal risks.

Operational risk management

NIB's operational risk management focuses on proactive measures in order to ensure business continuity, the accuracy of information used internally and reported externally, the expertise and integrity of the Bank's personnel and its adherence to established rules and procedures, as well as on security arrangements to protect the physical and ICT infrastructure of the Bank. The Bank's operational risk management policy is set by the Board of Directors. The policy is complemented by an operational risk management framework comprising the guiding principles for the identification, assessment, monitoring and control of the operational risks that the Bank faces or may face.

The day-to-day management of operational risk is performed across the organisation and is primarily the responsibility of each function. Emphasis is put on training the Bank's personnel in risk awareness. In the risk and control self-assessment (RCSA) process, risks are identified and their impact assessed by the various functions for their respective fields of expertise. Focus is placed on identifying key risks and assessing the quality of risk detection and risk mitigation in order to ensure compliance with the Bank's policies and guidelines. Operational risks are also identified through analysis of results obtained from the Bank's incident reporting system. Recent priority areas include increased focus on risks in the Bank's key processes and further development of reporting on material operational risks and trends. No material losses were incurred as a result of operational risks during the year. The Bank strives to continuously build expertise in operational risk management concepts and tools.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation due to failure to comply with laws, rules and standards.

The Bank is committed to follow best practices and market standards in the areas of accountability, governance, corporate social responsibility, transparency and business ethics in order to promote sustainability. In managing compliance risk, the Bank places particular emphasis on preventing corruption, money laundering and the financing of terrorism. The Bank's procedures are aligned with the International Financial Institutions (IFI) Uniform Framework for Preventing and Combating Fraud and Corruption, which the Bank has endorsed.

For NIB, integrity means adherence to the Bank's ethical values. The Bank focuses on preventive measures as the most effective way to avoid becoming involved with unethical borrowers and projects, money laundering, terrorist financing or tax evasion. Particular emphasis is put on knowing the customers and training the staff to ensure awareness and vigilance. All new clients are screened thoroughly in the Bank's integrity due diligence processes. Monitoring of integrity risks in the loan portfolio is part of the Bank's regular follow-up procedures.

The Office of the Chief Compliance Officer oversees and coordinates matters relating to integrity and reputational risks and provides independent expert advice to management and the Board of Directors in compliance matters. Allegations of fraud and corruption in relation to the Bank's projects or counterparties are investigated by the Office of the Chief Compliance Officer (OCCO) and sanctioning is decided upon by the newly established Sanctions Panel.

The Chief Compliance Officer reports to the President and has unrestricted access to the chairpersons of the Board of Directors and the Control Committee. He reports to the Board of Directors on serious fraud and corruption investigations and once a year on other integrity and compliance matters. Reports on anti-corruption and compliance matters are presented to the Control Committee at its regular meetings.

Once a year, the Office of the Chief Compliance Officer publishes its Integrity Report on the Bank's website.

NOTE 3: SEGMENT INFORMATION

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"), who is responsible for allocating resources and assessing the performance of the operating segments. The CODM at NIB is the President. Segment results that are reported to the management include items directly attributable to that segment as well as other items allocated on a reasonable basis. In its segment reporting, NIB divides its operations into two major segments: lending and treasury operations. Treasury operations consist of Asset and Liability Management and Portfolio Management.

2016

(AMOUNTS IN EUR 1,000)	LENDING	ASSET AND LIABILITY MANAGEMENT	PORTFOLIO MANAGEMENT	TREASURY TOTAL	TOTAL
Net interest income	**150,404**	**28,224**	**63,181**	**91,405**	**241,809**
Commission income and fees received	10,531	2,478	115	2,593	13,124
Commission expense and fees paid	-165	-1,273	-587	-1,859	-2,025
Net profit on financial operations	825	14,416	8,051	22,467	23,292
Foreign exchange gains and losses	–	22	–	22	22
Administrative expenses	-27,661	-10,215	-4,378	-14,592	-42,254
Depreciation	-1,440	-615	-264	-879	-2,319
Impairment of loans	-19,839	–	–	–	-19,839
Profit/loss for the year	**112,654**	**33,037**	**66,119**	**99,156**	**211,810**
Assets	**16,684,812**	**6,921,645**	**6,571,873**	**13,493,518**	**30,178,330**
Liabilities and equity	**16,684,812**	**6,921,645**	**6,571,873**	**13,493,518**	**30,178,330**

2015

(AMOUNTS IN EUR 1,000)	LENDING	ASSET AND LIABILITY MANAGEMENT	PORTFOLIO MANAGEMENT	TREASURY TOTAL	TOTAL
Net interest income	**145,884**	**30,783**	**70,109**	**100,891**	**246,776**
Commission income and fees received	9,379	2,839	–	2,839	12,218
Commission expense and fees paid	-161	-1,356	-695	-2,051	-2,212
Net profit on financial operations	2,567	9,147	-193	8,954	11,521
Foreign exchange gains and losses	–	82	–	82	82
Administrative expenses	-28,860	-9,016	-3,864	-12,881	-41,740
Depreciation	-5,705	-2,123	-910	-3,033	-8,737
Impairment of loans	-2,509	–	–	–	-2,509
Profit/loss for the year	**120,596**	**30,356**	**64,446**	**94,802**	**215,398**
Assets	**15,672,071**	**5,559,295**	**6,080,081**	**11,639,376**	**27,311,447**
Liabilities and equity	**15,672,071**	**5,559,295**	**6,080,081**	**11,639,376**	**27,311,447**

Geographical segments

The table below is based on the region where the borrowers reside, according to the domicile of the borrower's group headquarters.

(AMOUNTS IN EUR 1,000)	2016 NET INTEREST INCOME	2015 NET INTEREST INCOME
Member countries		
Denmark	16,062	14,520
Estonia	1,927	1,922
Finland	28,101	30,650
Iceland	6,129	5,438
Latvia	2,227	2,981
Lithuania	5,659	5,036
Norway	23,672	20,755
Sweden	39,085	32,093
Total, member countries	**122,863**	**113,394**
Non-member countries		
Africa	1,276	1,772
Asia	9,225	10,698
Europe and Eurasia	10,812	13,845
Latin America	5,782	5,573
Middle East	447	601
Total, non-member countries	**27,541**	**32,490**
Total, net interest income from lending	**150,404**	**145,884**

NOTE 4: NET INTEREST INCOME

(AMOUNTS IN EUR 1,000)	2016	2015
Interest income		
Cash and cash equivalents	-1,643	-309
Placements with credit institutions more than 6 mths	-147	–
Debt securities	70,117	81,526
Loans outstanding	242,510	256,268
Other interest income	1,019	1,296
Total, interest income	**311,856**	**338,781**
Of which, interest income from financial assets that is not measured at fair value through the income statement	*285,449*	*308,583*
Interest expense		
Short-term amounts owed to credit institutions	1,345	-1,310
Long-term amounts owed to credit institutions	-60	-9
Short-term repurchase agreements	-436	–
Debts evidenced by certificates	487,060	590,836
Swap contracts and other interest expenses, net	-417,861	-497,511
Total, interest expense	**70,047**	**92,005**
Of which, interest expense from financial liabilities that is not measured at fair value through the income statement	*166,192*	*122,710*
Net interest income	**241,809**	**246,776**

Interest income and expense includes amounts from related parties as described in note 23.

NOTE 5: COMMISSION INCOME AND FEES RECEIVED

(AMOUNTS IN EUR 1,000)	2016	2015
Commitment fees	2,584	2,053
Loan disbursement fees	7,151	7,239
Guarantee commissions	–	–
Early repayment fees	3,095	2,549
Commissions on lending of securities	293	377
Total, commission income and fees received	**13,124**	**12,218**

NOTE 6: NET PROFIT ON FINANCIAL OPERATIONS

(AMOUNTS IN EUR 1,000)	2016	2015
Financial instruments held at fair value, realised gains and losses	16,096	-1,647
Financial instruments held at fair value, unrealised gains and losses	-280	-9,517
Financial instruments held at amortised cost, realised gains and losses	1,062	627
Adjustment to hedge accounting, unrealised gains and losses of fair value hedges	4,271	20,667
Repurchase of NIB bonds, other items	2,142	1,391
Net profit on financial operations	**23,292**	**11,521**

This year's result includes one off gains of EUR 16.0 million related to cost compensation from counterparties for the implementation of two way credit support annexes.

NOTE 7: PERSONNEL EXPENSES

(AMOUNTS IN EUR 1,000)	2016	2015
Salaries and other remuneration	24,299	25,196
Social security and employee insurances	2,793	2,322
Pensions	7,412	7,739
Other personnel expenses	3,197	3,071
Gross personnel expenses	**37,700**	**38,328**
Host country reimbursement according to agreement with the Finnish Government	-9,064	-8,403
Net personnel expenses	**28,637**	**29,925**

The personnel expenses include costs for the Board of Directors and the Control Committee. In 2015, an extra provision of EUR 2 million was reserved for the purpose of planning, training and adapting to the changing banking industry requirements.

NUMBER OF EMPLOYEES IN PERMANENT POSITIONS	2016	2015
Average number of employees	192	188
Average age of employees	47	47
Average period (years) of employment	12	12
Distribution by gender as of 31 Dec		
All employees	195	189
Female	85	82
Male	110	106
Executive Committee (including the President)		
Female	1	1
Male	6	5
Professional staff		
Female	67	60
Male	99	92
Clerical staff		
Female	17	21
Male	5	9

The figures in the table above comprise of staff in permanent positions including the President.

Compensation for the Board of Directors, the Control Committee, the President and the Executive Committee

Compensation for the Board of Directors (BoD) and the Control Committee (CC) is set by the Board of Governors (BoG). The compensation consists of fixed annual remuneration and an attendee allowance. The members of the BoD and the CC are also entitled to reimbursement of travel and accommodation expenses and a daily allowance in accordance with the Bank's travel policy.

NOTE 7: PERSONNEL EXPENSES

The BoD decides on the appointment and remuneration of the President. As a rule, the President is appointed on a fixed-term contract for five years at a time, but the existing contract can also be prolonged for a shorter period. The current President's contract commenced on 1 April 2012 and was due to expire on 31 March 2017, however the contract has been extended until 31 March 2020. The President decides upon the employment of the Executive Committee (ExCo) members. The members of the ExCo are normally employed for an indefinite period of time. The period of notice is six months. The President is authorised by the BoD to make decisions regarding compensation within the scope of the Staff Policy, Staff Regulations and the Financial Plan. The remuneration package for the members of the ExCo includes a fixed base salary and customary taxable benefits, which are in principle the same for all staff at the managerial level. In addition to this remuneration package, the members of the ExCo enjoy other benefits common to all staff (e.g. health care, supplementary group pension, insurance coverage and staff loans). The Bank can pay performance premiums of up to three months' salary for excellent and extraordinary performance and are presented in the table below if awarded. The maximum cost for the Bank of performance premiums is a total of 3% of the estimated salary costs.

SALARIES AND OTHER REMUNERATION IN EUR 1,000	**2016**	**2015**
Board of Directors (remuneration and attendee allowance)		
Chairman	15	15
Other Directors and Alternates (15 persons)	86	90
Control Committee		
Chairman	5	5
Other members (9 persons)	17	19
President	751	705
Members of the Executive Committee (6 persons)	2,447	2,386
Other staff	20,978	21,976
Total	**24,299**	**25,196**

The executive committee comprised of five persons during the period from 1 October 2014 to 31 March 2015.

Pension obligations

NIB is responsible for arranging pension security for its employees. The current pension arrangement consists of pensions based on the Finnish state pension system (VaEL Pension) as the basis for the pension benefits. The VaEL Pension is calculated on the basis of the employee's annual pensionable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2016 was 15.85% of the pensionable income. The employee's pension contribution was either 5.70% or 7.20%, depending on the employee's age. NIB pays this contribution for its permanent staff, and it is taxed as a benefit for the employee. The State pension is accounted for as a defined contribution plan.

In addition to the VaEL Pension, the Bank has taken out a supplementary group pension insurance policy for all its permanently employed staff, including the President. This pension insurance is based on the principle of a defined contribution. The insurance premium, 6.50%, is calculated on the basis of the employee's taxable income and paid until the age of 63. The supplementary pension is also accounted for as a defined contribution plan

The employer's pension contribution regarding the President amounted to EUR 216,057 (219,706) of which EUR 42,964 (40,164) comprised supplementary pension premiums. The corresponding figures for the ExCo members were EUR 811,950 (823,084) and EUR 266,495 (251,342) respectively.

Staff loans

Staff loans can be granted to permanently employed staff members who have been employed by the Bank for a period of at least one year. The staff loans are granted by a commercial bank, subject to a recommendation from NIB.

At present, the maximum loan amount is EUR 200,000. The employee pays interest on the loan in accordance with the official base rate established by the Ministry of Finance in Finland or 0.25% whichever is the higher. The same interest rates, terms and conditions are applicable to all the employees of the Bank, including the President and the ExCo members.

As of 31 December 2016, there were no (-) outstanding staff loans to the President or the ExCo members.

Additional benefits for expatriate personnel

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

Host country reimbursement

According to the Host Country Agreement between the government of the Republic of Finland and the Bank the amount of tax withheld in advance on the salaries of the Bank's staff and the final tax on salaries collected shall be repaid to the Bank. Amounts repaid contribute to the surplus the Bank may distribute among the member countries.

NOTE 8: OTHER GENERAL ADMINISTRATIVE EXPENSES

(AMOUNTS IN EUR 1,000)	2016	2015
IT	8,256	6,645
Office premises	1,823	1,430
Travel	1,221	1,305
Communications and marketing	386	380
Other administrative expenses	3,228	3,369
Cost coverage, NDF and NEFCO (Note 23)	-905	-969
Rental and other income	-393	-344
Total	**13,617**	**11,815**

Remuneration to the auditors	2016	2015
Audit fee	97	64
Other audit-related service fees	87	66
Total remuneration	**184**	**130**

NOTE 9: NET LOAN LOSSES

(AMOUNTS IN EUR 1,000)	2016	2015
Increase in provisions	47,343	5,807
Reversals of previous provisions	-25,580	-88
Net impairment losses	**21,763**	**5,719**
Recoveries on claims	-1,924	-3,210
Net loan losses	**19,839**	**2,509**

See also Note 11 ‘Loans outstanding and guarantee commitments’.

NOTE 10: DEBT SECURITIES

The debt securities were issued by the following counterparties:

(AMOUNTS IN EUR MILLION)	2016	2015
Governments	1,103	1,219
Public institutions	1,778	1,623
Other	3,692	3,238
Total, debt securities	**6,572**	**6,080**

The distribution of the Bank's debt security portfolios was as follows:

	BOOK VALUE		FAIR VALUE	
(AMOUNTS IN EUR MILLION)	2016	2015	2016	2015
Held at fair value	4,157	3,154	4,157	3,154
Held at amortised cost	2,416	2,926	2,534	3,057
Total, debt securities	**6,572**	**6,080**	**6,690**	**6,211**

Of these debt securities, EUR 4,413 (4,345) million is at fixed interest rates and EUR 2,159 (1,735) million at floating interest rates. The fair values are disclosed in Note 19.

NOTE 11: LOANS OUTSTANDING AND GUARANTEE COMMITMENTS

(AMOUNTS IN EUR MILLION)	2016	2015
Ordinary loans	15,160	13,707
Project investment loans	1,311	1,731
Environmental investment loans	30	43
Total loans outstanding before impairment and hedge accounting	**16,501**	**15,481**
Individual assessed impairments	-97	-55
Collectively assessed impairments	-42	-61
Total impairments	-139	-116
Adjustment to hedge accounting	278	263
Total loans outstanding	**16,640**	**15,627**

The fair values of amount above are disclosed in Note 19.

The Bank may grant loans and provide guarantees under its Ordinary Lending or under special lending facilities. The special lending facilities, which carry member country guarantees, consist of Project investment loans (PIL) and Environmental investment loans (MIL).

Ordinary Lending includes loans and guarantees within and outside the member countries. The Bank's Ordinary Lending ceiling corresponds to 250% of its authorised capital and accumulated general reserves and amounts to EUR 21,244 million following the allocations of the year's profit in accordance with the Board of Directors' proposal.

Project Investment Loans are granted for financing creditworthy projects in the emerging markets of Africa, Asia, Europe and Eurasia, Latin America and the Middle East. The Bank's Statutes permit loans to be granted and guarantees to be issued under the PIL facility up to an amount corresponding to EUR 4,000 million. The member countries guarantee the PIL loans up to a total amount of EUR 1,800 million. The Bank, however, will assume 100% of any losses incurred under an individual PIL loan, up to the amount available at any given time in the Special Credit Risk Fund for PIL. Only thereafter would the Bank be able to call on the member countries' guarantees according to the following principle: the member countries guarantee 90% of each loan under the PIL facility up to a total amount of EUR 1,800 million. Payment under the member countries' guarantees would take place at the request of the Board of Directors, as provided for under an agreement between the Bank and each individual member country.

The Bank is authorised to grant special Environmental Investment Loans, originally up to the amount of EUR 300 million, for the financing of environmental projects in the areas adjacent to the member countries. The Bank's member countries guarantee 100% of the MIL facility.

The table below presents the movement schedule of loans before impairment and hedge accounting adjustments.

2016

(AMOUNTS IN EUR MILLION)	ORDINARY LOANS	PROJECT INVESTMENT LOANS	ENVIRONMENTAL INVESTMENT LOANS	TOTAL
Opening balance	**13,707**	**1,731**	**43**	**15,481**
Lending for the year	3,367	4	3	3,373
Amortisation, write-offs, redemption, other	-1,990	-458	-16	-2,465
Translation differences	77	34	1	112
Closing balance	**15,160**	**1,311**	**30**	**16,501**
Adjustment to hedge accounting				278
Loan impairments (see below)				-139
Net balance				**16,640**

2015

(AMOUNTS IN EUR MILLION)	ORDINARY LOANS	PROJECT INVESTMENT LOANS	ENVIRONMENTAL INVESTMENT LOANS	TOTAL
Opening balance	**12,925**	**1,878**	**61**	**14,864**
Lending for the year	2,601	115	–	2,716
Amortisation, write-offs, redemption, other	-1,949	-381	-20	-2,350
Translation differences	130	120	2	251
Closing balance	**13,707**	**1,731**	**43**	**15,481**
Adjustment to hedge accounting				263
Loan impairments (see below)				-116
Net balance				**15,627**

The loans outstanding of EUR 16,640 (15,627) million, includes medium-term notes (MTN) of EUR 295 (618) million. These are held at amortised cost unless they form part of a qualifying hedging relationship with a derivative. In a hedge accounting relationship, the MTNs are recognised at fair value.

Loans outstanding at floating interest rates amounted to EUR 13,228 (12,897) million, while those at fixed interest rates amounted to EUR 3,176 (2,529) million. There were no guarantee commitments (-) under Ordinary Lending as of 31 December 2016.

The Bank defines "Forbearance" as a concession granted to a counterparty for reasons of financial difficulties, i.e. a concession that would not otherwise be considered by the lender. Forbearance recognition is not limited to measures that give rise to a loss for the lender. Modification of the terms and conditions of the contract may include, for example, reduction of the interest rate, principal or accrued interest, or rescheduling of the payment dates of principal and/or interest, and has an actual effect on the future cash flows. Loan forbearance is granted on a selective basis and purposefully to avoid counterparty default in favour of the Bank's collection opportunities. Counterparties under forbearance activities are moved to the watch list, and are subject to the impairment policies of the Bank. As of 31 December 2016, there were no Ordinary loans (2015: EUR 45.9 million) and EUR 118.3 (101.1) million of Project investment loans affected by forbearance. There were no impairments recorded for Ordinary loans as at 31 December 2016 (2015: EUR 45.9 million). The impairments recorded for Project investment loans amounted to EUR 20.9 million at 31 December 2016 (2015: EUR 46.2 million). The interest income on loans affected by forbearance amounted to EUR 4.2 million in 2016. See also "Credit risk monitoring" under Risk Management.

During 2016, the Bank adjusted its non-performing definition to be in line with the Basel's definition for non-performing. As of 31 December 2016, there were three non-performing PIL loans totalling EUR 118.6 million. According to the prevailing definition, there was one non-performing MIL loan totalling EUR 14.8 million as of 31 December 2015, however using the new definition, the number of loans would have been five amounting to EUR 129.7 million. See also "Impairment of loans and receivables" under Accounting policies.

A total of EUR 139.4 (192.3) million has been deducted from the Bank's loans outstanding and from lending claims in "other assets". Specific allowances for impairment amounted to EUR 97.4 million and collectively assessed allowances amounted to EUR 42.0 million. During 2016, no (-) lending transactions were converted into claims under "other assets". The following changes in allowances for impairment and effects of foreign currency movements are recognised in the statement of comprehensive income under "net loan losses" and "foreign exchange gains and losses".

Specific and collective allowances for impairment

2016

(AMOUNTS IN EUR MILLION)	INDIVIDUALLY ASSESSED	INDIVIDUALLY ASSESSED	COLLECTIVELY ASSESSED	
	ORDINARY LOANS	PROJECT INVESTMENT LOANS	ALL LOANS	TOTAL
Opening balance	**0**	**55**	**61**	**116**
New provisions	–	47	–	47
Reversal of provisions	–	-6	-19	-26
Impairment losses through income statement (note 9)	0	41	-19	22
Translation differences	–	2	–	2
Closing balance	**0**	**97**	**42**	**139**

2015

(AMOUNTS IN EUR MILLION)	INDIVIDUALLY ASSESSED	INDIVIDUALLY ASSESSED	COLLECTIVELY ASSESSED	
	ORDINARY LOANS	PROJECT INVESTMENT LOANS	ALL LOANS	TOTAL
Opening balance	**0**	**52**	**55**	**107**
New provisions	–	–	6	6
Reversal of provisions	–	–	–	0
Impairment losses through income statement (note 9)	0	0	6	6
Translation differences	–	3	–	3
Closing balance	**0**	**55**	**61**	**116**

As of 31 December 2016, loans agreed but not yet disbursed amounted to the following:

(AMOUNTS IN EUR MILLION)	2016	2015
Loans agreed but not yet disbursed		
Ordinary Loans	1,835	936
Project Investment Loans	134	230
Environmental Investment Loans	25	27
Total, loans agreed but not yet disbursed	**1,994**	**1,193**

The amounts set forth above for loans agreed but not yet disbursed include loans in considerable amounts where certain conditions, primarily interest rate conditions, may not yet have been finally approved.

Currency distribution of loans outstanding

	ORDINARY LOANS		PROJECT INVESTMENT LOANS		ALL LOANS [1]	
(NOMINAL AMOUNTS IN EUR MILLION)	2016	2015	2016	2015	2016	2015
Currency						
Nordic currencies	6,119	4,400	57	66	6,177	4,466
EUR	7,261	7,574	366	509	7,647	8,111
USD	1,619	1,556	739	1,046	2,365	2,616
Other currencies	161	177	51	54	215	232
Total after individiual impairments	**15,160**	**13,707**	**1,213**	**1,676**	**16,404**	**15,426**
Adjustment to hedge accounting	255	249	23	13	278	263
Collective impairment					-42	-61
Total, loans outstanding	**15,415**	**13,956**	**1,236**	**1,689**	**16,640**	**15,627**

[1] The total amount also includes EUR 30 (43) million in Environmental Investment Loans (MIL)

Distribution of loans outstanding and guarantees by various types of security

The following table shows loans outstanding, including guarantee commitments, distributed by type of security:

	2016		2015	
(AMOUNTS IN EUR MILLION)	**AMOUNT**	**SHARE IN %**	**AMOUNT**	**SHARE IN %**
Loans to or guaranteed by governments				
Loans to or guaranteed by member countries	278		327	
Loans to or guaranteed by other countries	968		1,128	
Loans to or guaranteed by governments, total	1,246	7.6 %	1,456	9.4 %
Loans to or guaranteed by local authorities in member countries	2,593	15.8 %	1,642	10.6 %
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries	3,616	22.0 %	1,402	9.1 %
Loans to or guaranteed by banks	1,422	8.7 %	1,258	8.2 %
Loans backed by a lien or other security in property	1,124	6.9 %	1,109	7.2 %
Loans with a guarantee from the parent company and other guarantees	940	5.7 %	810	5.3 %
Loans with a negative pledge clause and other covenants	5,224	31.8 %	7,748	50.2 %
Loans without formal security	96	0.6 %	0	0.0 %
Lending Green Bonds	143	0.9 %	0	0.0 %
Total	**16,404**	**100 %**	**15,425**	**100 %**
Collective impairment	-42		-61	
Adjustment to hedge accounting	278		263	
Total, loans outstanding	**16,640**		**15,627**	

According to NIB's Statutes, the member countries shall cover the Bank's losses arising from failure of payment in connection with PIL loans up to the following amounts:

	2016		2015	
(AMOUNTS IN EUR 1,000)	**AMOUNT OF GUARANTEE**	**SHARE IN %**	**AMOUNT OF GUARANTEE**	**SHARE IN %**
Member country				
Denmark	377,821	21.0 %	377,821	21.0 %
Estonia	13,139	0.7 %	13,139	0.7 %
Finland	344,860	19.2 %	344,860	19.2 %
Iceland	15,586	0.9 %	15,586	0.9 %
Latvia	19,058	1.1 %	19,058	1.1 %
Lithuania	29,472	1.6 %	29,472	1.6 %
Norway	329,309	18.3 %	329,309	18.3 %
Sweden	670,755	37.3 %	670,755	37.3 %
Total	**1 800,000**	**100 %**	**1 800,000**	**100 %**

According to NIB's Statutes, the member countries shall cover 100% of the Bank's losses arising from failure of payment in connection with MIL loans. The MIL loan facility has a statutory ceiling of EUR 300 million. Following the Board of Directors' decision to call for payments under the MIL guarantees in 2014 due to non-payment of one MIL loan, all member countries made guarantee payments to the Bank.

The member countries' total guarantee liabilities under the MIL facility are as follows after the guarantee payments as of 2 July 2014. Furthermore, in 2015 the Bank decided to call on the MIL guarantee due to non-payment of one MIL loan. The execution of the decision took place in 2016.

NOTE 11: LOANS OUTSTANDING AND GUARANTEE COMMITMENTS

	2016		2015	
(AMOUNTS IN EUR 1,000)	AMOUNT OF GUARANTEE	SHARE IN %	AMOUNT OF GUARANTEE	SHARE IN %
Member country				
Denmark	62,211	23.4 %	65,573	23.4 %
Estonia	1,943	0.7 %	2,048	0.7 %
Finland	45,587	17.1 %	48,051	17.1 %
Iceland	2,828	1.1 %	2,981	1.1 %
Latvia	2,818	1.1 %	2,971	1.1 %
Lithuania	4,358	1.6 %	4,594	1.6 %
Norway	54,413	20.4 %	57,354	20.4 %
Sweden	92,031	34.6 %	97,005	34.6 %
Total	**266,191**	**100 %**	**280,577**	**100 %**

After the Board of Governors' annual meeting in May 2016 concerning the adjustment and alignment of the Bank's authorised capital, the Bank's Governors have made a unanimous decision in autumn to adjust and align NIB's authorised capital so that each member country's share in percentage of paid-in capital and callable capital will be equal to its share of the authorised capital. The adjustment and alignment also concerns the member countries' statutory guarantee shares in percentage for the Project Investment Loan facility (PIL) and the Environmental Investment Loan facility (MIL). In several member countries, the decision needs to be ratified by parliament before it enters into force. The changes are expected to be implemented first half of 2017.

NOTE 12: INTANGIBLE ASSETS, TANGIBLE ASSETS (PROPERTY AND EQUIPMENT)

(AMOUNTS IN EUR 1,000)	COMPUTER SOFTWARE DEVELOPMENT COSTS, TOTAL 2016	COMPUTER SOFTWARE DEVELOPMENT COSTS, TOTAL 2015
Intangible assets		
Acquisition value at the beginning of the year	27,581	26,576
Acquisitions during the year	938	1,005
Sales/disposals during the year	–	–
Acquisition value at the end of the year	**28,519**	**27,581**
Accumulated amortisation at the beginning of the year	27,581	21,359
Amortisation for the year	–	6,222
Accumulated amortisation on sales/disposals during the year	–	–
Accumulated amortisation at the end the of the year	**27,581**	**27,581**
Net book value	**938**	**0**

During 2015 an impairment charge of EUR 4.2 million was booked in relation to intangible assets. The additions in 2016 relate mainly to a new integrated Treasury Front office, Back office, Risk & Accounting IT solution (FOBORA) which is in the implementation phase.

2016

(AMOUNTS IN EUR 1,000)	BUILDINGS	OFFICE EQUIPMENT AND OTHER TANGIBLE ASSETS	TOTAL
Tangible assets			
Acquisition value at the beginning of the year	33,769	22,453	56,222
Acquisitions during the year	–	704	704
Sales/disposals during the year	–	-182	-182
Acquisition value at the end of the year	**33,769**	**22,975**	**56,744**
Accumulated depreciation at the beginning of the year	11,444	16,419	27,863
Depreciation for the year	673	1,646	2,319
Accumulated depreciation on sales/disposals during the year	–	-161	-161
Accumulated depreciation at the end of the year	**12,117**	**17,904**	**30,021**
Net book value	**21,652**	**5,071**	**26,723**

On each closing date, the Bank's assets are assessed to determine whether there is any indication of an asset's impairment. As of 31 December 2016, there were no indications of impairment of the intangible or tangible assets.

2015

(AMOUNTS IN EUR 1,000)	BUILDINGS	OFFICE EQUIPMENT AND OTHER TANGIBLE ASSETS	TOTAL
Tangible assets			
Acquisition value at the beginning of the year	33,769	20,017	53,786
Acquisitions during the year	–	2,572	2,572
Sales/disposals during the year	–	-136	-136
Acquisition value at the end of the year	**33,769**	**22,453**	**56,222**
Accumulated depreciation at the beginning of the year	10,771	14,692	25,462
Depreciation for the year	673	1,842	2,515
Accumulated depreciation on sales/disposals during the year	–	-115	-115
Accumulated depreciation at the end of the year	**11,444**	**16,419**	**27,863**
Net book value	**22,326**	**6,034**	**28,360**

NOTE 13: DEPRECIATION

(AMOUNTS IN EUR 1,000)	2016	2015
Intangible assets (Note 12)	0	6,222
Tangible assets (Note 12)	2,319	2,515
Buildings	673	673
Office equipment	1,646	1,842
Total	**2,319**	**8,737**

During 2015 impairment charge of EUR 4.2 million and EUR 0.3 million were booked in relation to intangible assets and office equipment respectively.

NOTE 14: OTHER ASSETS

Derivatives are included in “Other assets”.

(AMOUNTS IN EUR MILLION)	2016	2015
Interest rate swaps at floating rates	6,184	6,200
Interest rate swaps at fixed rates	14,626	12,073
Currency swaps at floating rates	11,594	11,309
Currency swaps at fixed rates	6,998	6,686
Total, nominal amount	**39,401**	**36,270**
Netting of nominal amount per derivative	-37,755	-34,358
Derivative receivables, net	**1,647**	**1,912**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	510	646
Derivative instruments	**2,157**	**2,558**
Receivables from defaulted counterparties	2	6
Other	10	17
Total	**2,170**	**2,581**

Derivatives are carried at fair value in the statement of financial position net per contract. Thus, swap contracts with a positive net fair value are recognised in the statement of financial position under “Other assets”, while swap contracts with a negative net fair value are recognised under “Other liabilities”.

Derivative instruments net exposure after collaterals

(AMOUNTS IN EUR MILLION)	2016	2015
Derivative instruments in financial position	2,157	2,558
Netting by counterparty	-913	-795
Derivative instruments net per counterparty	**1,244**	**1,763**
Accrued interest net per counterparty	97	97
Net exposure before collaterals	**1,341**	**1,861**
Collateral received	-1,212	-1,725
Net exposure	**130**	**135**

See also Risk Management, Credit Risk, Derivatives.

NOTE 15: DEBTS EVIDENCED BY CERTIFICATES AND SWAPS

At year-end, the Bank's borrowings evidenced by certificates were distributed between the currencies shown in the table below. The table also demonstrates the distribution of borrowings by currency on an after-swap nominal basis.

	BORROWING		SWAP CONTRACTS PAYABLE/RECEIVABLE		NET CURRENCY	
(AMOUNTS IN EUR MILLION)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Currency						
USD	11,039	9,739	-7,243	-5,169	3,796	4,570
AUD	2,579	2,369	-2,579	-2,369	–	–
NZD	2,095	1,821	-2,095	-1,821	–	–
EUR	2,222	1,158	8,547	8,490	10,769	9,648
GBP	1,127	1,144	-1,127	-1,144	–	–
JPY	567	559	-563	-548	4	11
Nordic currencies	2,667	2,175	5,442	2,901	8,110	5,076
Other currencies	1,134	1,272	-922	-1,051	211	220
Total	**23,430**	**20,238**	**-541**	**-712**	**22,890**	**19,526**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	477	624	-172	-365	305	259
Total, issued debt securities	**23,907**	**20,862**	**-713**	**-1,077**	**23,195**	**19,785**

The table set forth above includes the following medium-term note (MTN) programmes: 140 (124) borrowing transactions in the equivalent amount of EUR 7,354 (5,862) million entered into under the Bank's euro MTN programme; 17 (11) borrowing transactions in the equivalent amount of EUR 10,955 (9,706) million under the Bank's US MTN programmes; and 44 (37) borrowing transactions in the equivalent amount of EUR 4,626 (4,171) million under the Bank's Australian MTN programme. There were no borrowing transactions outstanding under the Bank's Swedish MTN programme during the years 2016 and 2015. The Bank has established a EUR 2,000 million commercial paper programme in Europe.

Of debt securities issued, the amount of EUR 1,796 (1,402) million is at floating interest rates, while EUR 21,578 (18,725) million is at fixed interest rates and EUR 0 (64) million is in short-term discounted papers. Of the other borrowing transactions, the amount of EUR 10 (10) million is at floating interest rates, while EUR 47 (37) million is at fixed interest rates.

NOTE 16: OTHER LIABILITIES

Derivatives are included in “Other liabilities”.

(AMOUNTS IN EUR MILLION)	2016	2015
Interest rate swaps at floating interest rates	16,407	14,427
Interest rate swaps at fixed interest rates	4,404	3,847
Currency swaps at floating interest rates	17,354	16,929
Currency swaps at fixed rates	718	327
Total, nominal amount	**38,884**	**35,529**
Netting of nominal amount per derivative	-37,778	-34,329
Derivative payables, net	**1,106**	**1,200**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	338	281
Derivative instruments	**1,444**	**1,481**
Other	11	10
Total	**1,456**	**1,491**

Derivatives are carried at fair value in the statement of financial position net per contract. Thus, swap contracts with a positive net fair value are recognised in the statement of financial position under “Other assets”, while swap contracts with a negative net fair value are recognised under “Other liabilities”.

Derivative instruments net exposure after collaterals

(AMOUNTS IN EUR MILLION)	2016	2015
Derivative instruments in financial position	1,444	1,481
Netting by counterparty	-913	-795
Derivative instruments net per counterparty	**532**	**686**
Accrued interest net per counterparty	-72	-79
Net exposure before collaterals	**460**	**607**
Collateral given	-207	-94
Net exposure	**252**	**513**

See also Risk Management, Credit Risk, Derivatives.

NOTE 17: EQUITY

The member countries' portions of authorised capital are as follows:

(AMOUNTS IN EUR MILLION)	2016	SHARE, IN %	2015	SHARE, IN %
Member country				
Denmark	1,293.9	21.1%	1,293.9	21.1%
Estonia	56.3	0.9%	56.3	0.9%
Finland	1,088,1	17.7%	1,088,1	17.7%
Iceland	58.1	0.9%	58.1	0.9%
Latvia	82.1	1.3%	82.1	1.3%
Lithuania	119.8	2.0%	119.8	2.0%
Norway	1,320.8	21.5%	1,320.8	21.5%
Sweden	2,122.8	34.6%	2,122.8	34.6%
Total	**6,141.9**	**100.0%**	**6,141.9**	**100.0%**

The member countries' portions of paid-in capital are as follows:

(AMOUNTS IN EUR MILLION)	2016	SHARE, IN %	2015	SHARE, IN %
Member country				
Denmark	89.2	21.3%	89.2	21.3%
Estonia	3.1	0.7%	3.1	0.7%
Finland	74.4	17.8%	74.4	17.8%
Iceland	3.9	0.9%	3.9	0.9%
Latvia	4.4	1.1%	4.4	1.1%
Lithuania	6.9	1.6%	6.9	1.6%
Norway	77.1	18.4%	77.1	18.4%
Sweden	159.5	38.1%	159.5	38.1%
Total	**418.6**	**100.0%**	**418.6**	**100.0%**

After the Board of Governors' annual meeting in May 2016 concerning the adjustment and alignment of the Bank's authorised capital, the Bank's Governors have made a unanimous decision in autumn to adjust and align NIB's authorised capital so that each member country's share in percentage of paid-in capital and callable capital will be equal to its share of the authorised capital. The adjustment and alignment also concerns the member countries' statutory guarantee shares in percentage for the Project Investment Loan facility (PIL) and the Environmental Investment Loan facility (MIL). In several member countries, the decision needs to be ratified by parliament before it enters into force. The changes are expected to be implemented in the first half of 2017.

Statutory reserve and credit risk funds

At the end of 2016, the Statutory Reserve amounted to EUR 686.3 million, or 11.2% of the Bank's authorised capital of EUR 6,141.9 million.

The General Credit Risk Fund recognised in "Equity" is built up by means of allocations from prior years' profits. This fund is established to cover unidentified, exceptional credit losses. The Statutory Reserve and the General Credit Risk Fund together constitute the Bank's general reserves. The General Credit Risk Fund amounted to EUR 1,540.7 million in 2016.

In accordance with its Statutes, the Bank has a Special Credit Risk Fund for the Project Investment Loan facility (PIL). This fund is primarily designed to cover the Bank's own risk in respect of this PIL loan facility, which in part is guaranteed by the member countries. In 2016, the fund amounted to EUR 445.9 million. The Bank assumes 100% of any losses under individual PIL loans, up to the amount available at any given time in the Special Credit Risk Fund for PIL. Only after this fund has been fully used can the Board of Directors call on the member country guarantees. Taken together, these credit risk funds (General Credit Risk Fund and Special Credit Risk Fund PIL) amounted to EUR 1,986.6 million as of 31 December 2016.

NOTE 18: COLLATERAL AND COMMITMENTS

(AMOUNTS IN EUR MILLION)	2016	2015
Guarantees issued at nominal amount (Note 11)	–	–
Loans agreed but not yet disbursed (Note 11)	1,994	1,193
Borrowing commitments	–	–
Collateral provided for staff loans [1]	–	–
Securities given as collateral for repurchase agreements [1]	–	121
Callable commitments in financial placements	5	6
Collateral received for collateralised placements [2 3]	3,208	1,677
Collateral given for collateralised placements [1 4]	15	
Gross collateral with respect to derivatives exposure		
Collateral received [2 5]	1,420	1,829
Collateral given [14]	207	94

[1] Book value.

[2] Fair value.

[3] Including cash of EUR 2 (8) million and securities of EUR 3,207 (1,669) million received.

[4] Cash collateral.

[5] Including cash of EUR 1,309 (1,440) million and securities of EUR 111 (389) million received.

Operating leases – NIB as lessee

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

(AMOUNTS IN EUR MILLION)	2016	2015
Within one year	1,062	978
Later than one but not two years	978	978
Later than two but not three years	905	973
Later than tree but not four years	6	905
Later than four but not five years	–	6
Later than five years	–	–
Total	**2,951**	**3,840**

The leases mainly related to office space and IT equipment

Operating leases – NIB as lessor

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

(AMOUNTS IN EUR MILLION)	2016	2015
Within one year	1,449	1,468
Later than one but not two years	142	142
Later than two but not three years	142	142
Later than three but not four years	–	142
Total	**1,733**	**1,894**

The bank sub-lets office space to related parties as described in Note 23 and rents properties received as security in default situations. These properties are held for sale but rented until sold.

Purchase commitments

During 2016 the Bank initiated a procurement process for the purpose of purchasing an integrated Treasury Front office, Back office, Risk & Accounting IT solution (FOBORA) in order to modernise NIB's business processes and IT systems. The procurement process engaged several potential vendors and it was concluded by end of November 2016 with one successful vendor. At 31 December 2016, the non-cancellable purchase commitment amounted to EUR 6.5 million.

NOTE 19: FAIR VALUE OF FINANCIAL INSTRUMENTS

	2016			2015		
(AMOUNTS IN EUR MILLION)	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE
Assets						
Cash accounts with banks [1]	107	107	–	111	111	–
Cash equivalents held at fair value [1]	3,877	3,877	–	1,985	1,985	–
Other cash and cash equivalents held at amortised cost [2]	472	472	–	570	570	–
Cash and cash equivalents, total	**4,456**	**4,456**	**–**	**2,666**	**2,666**	**–**
Placements with credit institutions [2]	9	9	–	8	8	–
Debt securities held at fair value [13]	4,157	4,157	–	3,154	3,154	–
Other debt securities held at amortised cost [1]	2,416	2,534	118	2,926	3,057	131
Debt securities, total	**6,572**	**6,690**	**118**	**6,080**	**6,211**	**131**
Other financial placements at fair value [13]	19	19	–	22	22	–
Hedged loans outstanding in fair value hedging relationships [2]	3,321	3,321	–	2,749	2,749	–
Green lending bonds at fair value [1]	143	143	–			
Loans outstanding, other [2]	13,177	13,185	8	12,878	12,877	-1
Loans outstanding, total	**16,640**	**16,648**	**8**	**15,627**	**15,626**	**-1**
Hedging derivatives at fair value [2]	732	732	–	1,115	1,115	–
Other derivatives at fair value [2]	1,425	1,425	–	1,443	1,443	–
Derivatives at fair value, total	**2,157**	**2,157**	**–**	**2,558**	**2,558**	**–**
Receivables from defaulted counterparties at fair value [3]	2	2	–	6	6	–
			126			**130**
Liabilities						
Short-term amounts owed to credit institutions [2]	**1,311**	**1,311**	–	**1,449**	**1,449**	–
Long-term amounts owed to credit institutions [2]	**18**	**18**	–	**18**	**18**	–
Repurchase agreements [2]	–	–	–	123	123	–
Hedged debt securities issued in fair value hedging relationships [2]	22,668	22,668	–	20,051	20,051	–
Other debt securities issued [2]	1,157	1,158	1	751	749	-1
Debt securities issued, total	**23,826**	**23,826**	**1**	**20,802**	**20,801**	**-1**
Hedged other debt in fair value hedging relationships [2]	82	82	–	60	60	–
Other debt [2]	–	–	–	–	–	–
Other debt, total	**82**	**82**	**0**	**60**	**60**	**–**
Hedging derivatives at fair value [2]	1,392	1,392	–	1,371	1,371	–
Other derivatives at fair value [2]	53	53	–	109	109	–
Derivatives at fair value, total	**1,444**	**1,444**	**0**	**1,481**	**1,481**	**–**
			1			**-1**
Net			**127**			**128**

[1] The fair value is determined according to market quotes for identical instruments.

[2] The fair value is determined using valuation techniques with observable market inputs.

[3] The fair value is determined using valuation techniques with unobservable market inputs.

Level of fair value measurement for financial instruments at the end of the period

The table below analyses financial instruments' fair value at the end of the year by the level in the fair value hierarchy into which the fair value measurement is categorised. See Accounting policies, Determination of fair value.

	2016			2015		
(AMOUNTS IN EUR MILLION)	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Assets						
Cash accounts with banks	107	–	–	111	–	–
Cash equivalents held at fair value	3,877	–	–	1,985	–	–
Other cash and cash equivalents held at amortised cost	–	472	–	–	570	–
Cash and cash equivalents, total	**3,984**	**472**	**0**	**2,096**	**570**	**0**
Placements with credit institutions	–	9	–	–	8	–
Debt securities held at fair value	4,138	–	18	3,132	–	22
Other debt securities held at amortised cost	2,534	–	–	3,057	–	–
Debt securities, total	**6,672**	**0**	**18**	**6,189**	**0**	**22**
Other financial placements held at fair value	3		16	2	–	20
Hedged loans outstanding in fair value hedging relationships	–	3,321	–	–	2,749	–
Green lending bonds at fair value	143	–	–	–	–	–
Loans outstanding, other	–	13,185	–	–	12,877	–
Loans outstanding, total	**143**	**16,506**	**0**	**0**	**15,626**	**0**
Derivatives	–	2,157	–	–	2,558	–
Receivables from defaulted counterparties	–	–	2	–	–	6
Financial assets, total	**10,802**	**19,143**	**37**	**8,287**	**18,761**	**49**
Liabilities						
Short-term amounts owed to credit institutions		1,311			1,449	
Long-term amounts owed to credit institutions		18			18	
Repurchase agreements		–			123	
Debt securities issued						
Hedged debt securities issued in fair value hedging relationships		22,668			20,051	
Other debt securities issued		1,158			749	
Hedged other debt in fair value hedging relationships		82			60	
Other debt		–			–	
Debt securities issued, total		**23,908**			**20,861**	
Derivatives		**1,444**			**1,481**	
Financial liabilities, total		**26,681**			**23,931**	

In 2015, due to ongoing negotiations regarding two-way Credit Support Annex (CSA) for derivatives, the Bank decided to exclude Credit Valuation Adjustment (CVA), reflecting the market value of counterparty default risk, and Debit Valuation Adjustment (DVA), reflecting the market value of the Bank's own default, in the fair values of derivative positions. The largest counterparty negotiation were finalised during 2016 and the remainder in 2017. At 31 December 2015, unrecorded CVA amounted to EUR -12 million, while DVA was EUR 31 million. At 31 December 2016, recorded CVA amounted to EUR -8 million, while DVA was EUR 10 million. Receivables from defaulted treasury counterparties are measured at fair value. Receivables from defaulted lending counterparties are measured at cost minus impairment.

Changes in fair values categorised at level 3

(AMOUNTS IN EUR MILLION)	DEBT SECURITIES HELD AT FAIR VALUE	OTHER FINANCIAL PLACEMENTS HELD AT FAIR VALUE	RECEIVABLES FROM DEFAULTED COUNTERPARTIES	LEVEL 3, TOTAL
31 Dec 2014	**23**	**21**	**8**	**51**
Matured transactions	–	-1	–	-1
Sold transactions	–	–	-48	-48
Changes in fair values	-1	1	46	46
31 Dec 2015	**22**	**20**	**6**	**49**
Matured transactions				
Sold transactions				
Claims received	–	–	-5	-5
Claims Written off	–	–	-84	-84
Changes in fair values	-4	-4	86	78
31 Dec 2016	**18**	**16**	**2**	**37**

Sensitivity analysis of level 3 financial instruments

	2016			2015		
(AMOUNTS IN EUR MILLION)	CARRYING AMOUNT	FAVOURABLE CHANGE	UNFAVOURABLE CHANGE	CARRYING AMOUNT	FAVOURABLE CHANGE	UNFAVOURABLE CHANGE
Financial instruments categorised at level 3	37	1	-1	49	1	-1

The table above shows the sensitivity of the fair value of level 3 instruments to changes in key assumptions. The sensitivity analysis of the debt securities valued as level 3 is based on cash flow evaluation on Bloomberg. The implied market spread over the reference curve has been changed, reflecting a credit migration of the issuer. The fair value for other financial placements in level 3 is received from the funds in question and is based on the present value of their cash flows. No quotation exists for these placements.

NOTE 20: MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below sets out a maturity analysis for financial assets and liabilities containing principal and interest flows. For loans outstanding, undiscounted cash flows are presented until contractual final maturity. For borrowing outstanding and derivatives with call options, cash flows are presented until the first possible termination date. Cash flows are presented on net basis for interest rate swaps and on gross basis for all other swaps. Interest cash flows are projected based on the interest rates prevailing on the closing date. See also Notes 14 and 16, and Risk Management, Liquidity Risk.

2016

(AMOUNTS IN EUR MILLION)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO AND INCLUDING 3 MONTHS	OVER 3 MONTHS AND UP TO AND INCLUDING 6 MONTHS	OVER 6 MONTHS AND UP TO AND INCLUDING 1 YEAR	OVER 1 YEAR AND UP TO AND INCLUDING 5 YEARS	OVER 5 YEARS
Assets							
Cash and cash equivalents	4,456	4,453	4,453				
Financial placements							
Debt securities	6,572	6,773	528	489	669	4,565	522
Loans outstanding	16,640	17,917	374	469	925	7,774	8,375
Other assets							
Derivatives							
Receivables	34,096	14,957	823	1,489	980	8,209	3,457
Payables	-31,939	-11,931	-630	-1,221	-703	-6,566	-2,810
	2,157	**3,026**	**193**	**268**	**277**	**1,643**	**647**
Assets, total	**29,825**	**32,169**	**5,548**	**1,226**	**1,871**	**13,982**	**9,544**
Liabilities							
Amounts owed to credit institutions							
Short-term	1,311	1,311	1,311	–	–	–	–
Long-term	18	18	–	18	–	–	–
	1,329	**1,329**	**1,311**	**18**	**0**	**0**	**0**
Debts evidenced by certificates	23,907	25,543	2,857	427	1,033	15,785	5,442
Other liabilities							
Derivatives							
Receivables	-5,856	-6,383	-236	-41	-496	-3,753	-1,857
Payables	7,300	7,044	191	67	490	4,129	2,168
	1,444	**661**	**-46**	**27**	**-6**	**376**	**311**
Liabilities, total	**26,680**	**27,533**	**4,122**	**471**	**1,027**	**16,160**	**5,753**
Net during the period			**1,426**	**755**	**844**	**-2,178**	**3,791**
Loans agreed but not yet disbursed			1,994				

2015

(AMOUNTS IN EUR MILLION)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO AND INCLUDING 3 MONTHS	OVER 3 MONTHS AND UP TO AND INCLUDING 6 MONTHS	OVER 6 MONTHS AND UP TO AND INCLUDING 1 YEAR	OVER 1 YEAR AND UP TO AND INCLUDING 5 YEARS	OVER 5 YEARS
Assets							
Cash and cash equivalents	2,666	2,666	2,666	–	–	–	–
Financial placements							
Debt securities	6,080	6,325	288	494	652	4,282	609
Loans outstanding	15,627	16,847	365	739	948	7,602	7,193
Other assets							
Derivatives							
Receivables	30,424	13,580	576	1,696	1,143	7,238	2,928
Payables	-27,866	-10,443	-395	-1,177	-830	-5,754	-2,288
	2,558	**3,137**	**182**	**519**	**313**	**1,484**	**641**
Assets, total	**26,931**	**28,976**	**3,501**	**1,752**	**1,913**	**13,368**	**8,443**
Liabilities							
Amounts owed to credit institutions							
Short-term	1,449	1,449	1,449	–	–	–	–
Long-term	18	18	–	–	18	–	–
	1,467	**1,467**	**1,449**	**–**	**18**	**–**	**–**
Repurchase agreements	123	122	–	122	–	–	–
Debts evidenced by certificates	20,862	22,393	1,414	2,544	502	13,434	4,500
Other liabilities							
Derivatives							
Receivables	-6,491	-6,403	-165	-290	-236	-3,769	-1,942
Payables	7,972	7,250	153	373	196	4,113	2,415
	1,481	**847**	**-13**	**83**	**-40**	**343**	**473**
Liabilities, total	**23,932**	**24,830**	**2,850**	**2,749**	**480**	**13,778**	**4,972**
Net during the period			**651**	**-998**	**1,433**	**-410**	**3,470**
Loans agreed but not yet disbursed			1,193	–	–	–	–

NOTE 21: INTEREST RATE RISK

Interest rate risk is the impact that fluctuations in market interest rates can have on the value of the Bank's interest-bearing assets and liabilities and on the interest income recognised in the statement of comprehensive income. The table below provides information on the extent of the Bank's interest rate exposure. The assets and liabilities are grouped into buckets defined by their time to maturity or the date of the interest rate adjustment. The difference, or gap, between assets and liabilities in each time bucket makes the Bank sensitive to interest rate fluctuations. See also Risk Management, Market Risk.

2016

(AMOUNTS IN EUR MILLION)	UP TO AND INCLUDING 3 MONTHS	OVER 3 MONTHS AND UP TO AND INCLUDING 6 MONTHS	OVER 6 MONTHS AND UP TO AND INCLUDING 1 YEAR	OVER 1 YEAR AND UP TO AND INCLUDING 5 YEARS	OVER 5 YEARS AND UP TO AND INCLUDING 10 YEARS	OVER 10 YEARS	UNDEFINED	TOTAL
Assets								
Cash and cash equivalents	4,456	–	–	–	–	–	–	4,456
Financial placements								
Placements with credit institutions	–	–	–	–	–	–	9	9
Debt securities	2,419	350	283	3,007	455	35	23	6,572
Other	0	0	0	0	0	0	19	19
	2,419	**350**	**283**	**3,007**	**455**	**35**	**51**	**6,600**
Loans outstanding	6,538	6,817	149	1,518	899	483	237	16,640
Intangible assets	–	–	–	–	–	–	1	1
Tangible assets	–	–	–	–	–	–	27	27
Other assets								
Derivatives								
Receivables [1]	17,461	3,206	764	13,336	4,018	616	550	39,952
Other assets							13	13
Accrued interest and fees receivable							285	285
Total assets	**30,873**	**10,373**	**1,196**	**17,861**	**5,372**	**1,133**	**1,163**	**67,973**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term	1,311	–	–	–	–	–	–	1,311
Long-term	–	18	–	–	–	–	–	18
	1,311	**18**	**0**	**0**	**0**	**0**	**0**	**1,329**
Repurchase agreements								
Debts evidenced by certificates	4,128	567	766	13,393	3,993	585	477	23,907
Other liabilities								
Derivatives								
Payables [1]	28,573	5,788	277	2,319	1,134	794	355	39,239
Other liabilities	–	–	–	–	–	–	11	11
Accrued interest and fees payable	–	–	–	–	–	–	211	211
Total liabilities	**34,012**	**6,373**	**1,042**	**15,711**	**5,127**	**1,378**	**1,055**	**64,698**
Equity							3,275	3,275
Total liabilities and equity	**34,012**	**6,373**	**1,042**	**15,711**	**5,127**	**1,378**	**4,330**	**67,973**
Net during the period	-3,139	4,000	154	2,150	246	-245	-3,167	
Cumulative net during the period	-3,139	862	1,016	3,166	3,412	3,167	0	
Guarantee commitments	–	–	–	–	–	–	–	–

[1] Swaps are not netted.

2015

(AMOUNTS IN EUR MILLION)	UP TO AND INCLUDING 3 MONTHS	OVER 3 MONTHS AND UP TO AND INCLUDING 6 MONTHS	OVER 6 MONTHS AND UP TO AND INCLUDING 1 YEAR	OVER 1 YEAR AND UP TO AND INCLUDING 5 YEARS	OVER 5 YEARS AND UP TO AND INCLUDING 10 YEARS	OVER 10 YEARS	UNDEFINED	TOTAL
Assets								
Cash and cash equivalents	2,666	–	–	–	–	–	–	2,666
Financial placements								
Placements with credit institutions	–	–	–	–	–	–	8	8
Debt securities	1,925	159	329	3,106	504	35	22	6,080
Other	–	–	–	–	–	–	22	22
	1,925	**159**	**329**	**3,106**	**504**	**35**	**52**	**6,110**
Loans outstanding	6,264	6,604	269	977	860	452	201	15,627
Intangible assets	–	–	–	–	–	–	–	–
Tangible assets	–	–	–	–	–	–	28	28
Other assets								
Derivatives								
Receivables [1]	15,773	5,211	212	11,442	3,008	624	646	36,916
Other assets	–	–	–	–	–	–	23	23
Accrued interest and fees receivable	–	–	–	–	–	–	299	299
Total assets	**26,627**	**11,975**	**810**	**15,525**	**4,371**	**1,111**	**1,250**	**61,669**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term	1,449	–	–	–	–	–	–	1,449
Long-term	–	–	18	–	–	–	–	18
	1,449	**0**	**18**	**0**	**0**	**0**	**0**	**1,467**
Repurchase agreements	–	123	–	–	–	–	–	123
Debts evidenced by certificates	2,275	2,699	212	11,496	3,008	548	624	20,862
Other liabilities								
Derivatives								
Payables [1]	23,875	7,986	246	1,558	1,185	679	309	35,838
Other liabilities	–	–	–	–	–	–	10	10
Accrued interest and fees payable	–	–	–	–	–	–	223	223
Total liabilities	**27,599**	**10,808**	**476**	**13,053**	**4,193**	**1,227**	**1,166**	**58,523**
Equity	**–**	**–**	**–**	**–**	**–**	**–**	**3,146**	**3,146**
Total liabilities and equity	**27,599**	**10,808**	**476**	**13,053**	**4,193**	**1,227**	**4,313**	**61,669**
Net during the period	-972	1,167	335	2,471	179	-117	-3,063	0
Cumulative net during the period	-972	194	529	3,000	3,179	3,063	0	
Guarantee commitments	–	–	–	–	–	–	–	–

[1] Swaps are not netted.

NOTE 22: CURRENCY RISK

NIB's operations are mostly in euro and US dollars. The table below shows the net of assets and liabilities in the major currencies. See also Risk Management, Market Risk.

Net currency position as of 31 December 2016:

(AMOUNTS IN EUR MILLION)	EUR	USD	SEK	NOK	DKK	OTHER CURRENCIES	FAIR VALUE ADJUSTMENTS AND SWAP NETTING	TOTAL
Assets								
Cash and cash equivalents	3,124	463	1	1	865	2	–	4,456
Financial placements								
Placements with credit institutions	9	–	–	–	–	–	–	9
Debt securities	4,351	1,172	187	170	691	–	–	6,572
Other financial placements	19	–	–	–	–	–	–	19
	4,379	**1,172**	**187**	**170**	**691**	**0**	**0**	**6,600**
Loans outstanding	7,557	2,414	2,927	2,599	649	216	278	16,640
Intangible assets	1	–	–	–	–	–	–	1
Tangible assets, property and equipment	27	–	–	–	–	–	–	27
Other assets								
Derivatives	-8,547	7,243	-2,035	-1,194	-2,215	7,288	1,616	2,157
Other assets	4	9	–	–	–	–	–	13
	-8,544	**7,252**	**-2,035**	**-1,194**	**-2,215**	**7,288**	**1,616**	**2,170**
Accrued interest and fees receivable	68	80	7	21	7	98	4	285
Total assets	**6,611**	**11,381**	**1,088**	**1,598**	**-4**	**7,605**	**1,898**	**30,178**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term amounts owed to credit institutions	1,036	275	–	–	–	–	–	1,311
Long-term amounts owed to credit institutions	18	–	–	–	–	–	–	18
	1,054	**275**	**0**	**0**	**0**	**0**	**0**	**1,329**
Debts evidenced by certificates								
Debt securities issued	2,165	11,039	1,083	1,581	–	7,505	452	23,826
Other debt	57	–	–	–	–	–	25	82
	2,222	**11,039**	**1,083**	**1,581**	**0**	**7,505**	**477**	**23,907**
Other liabilities								
Derivatives	–	–	–	–	–	–	1,444	1,444
Other liabilities	11	–	–	–	–	–	0	11
	11	**0**	**0**	**0**	**0**	**0**	**1,444**	**1,456**
Accrued interest and fees payable	19	72	4	17	-3	98	4	211
Total liabilities	**3,306**	**11,386**	**1,087**	**1,598**	**-3**	**7,604**	**1,925**	**26,903**
Equity	**3,091**	**0**	**0**	**0**	**0**	**0**	**-28**	**3,063**
Total liabilities and equity	**6,397**	**11,386**	**1,087**	**1,598**	**-3**	**7,604**	**1,897**	**29,967**
Net of assets and liabilities as of 31 Dec 2016	**214**	**-5**	**1**	**0**	**-1**	**2**	**1**	**212**

Net currency position as of 31 December 2015:

(AMOUNTS IN EUR MILLION)	EUR	USD	SEK	NOK	DKK	OTHER CURRENCIES	FAIR VALUE ADJUSTMENTS AND SWAP NETTING	TOTAL
Assets								
Cash and cash equivalents	1,480	1,180	1	2	3	1	–	2,666
Financial placements								
Placements with credit institutions	8	–	–	–	–	–	–	8
Debt securities	4,662	827	195	109	287	1	–	6,080
Other financial placements	22	–	–	–	–	–	–	22
	4,692	**827**	**195**	**109**	**287**	**1**	**–**	**6,110**
Loans outstanding	8,027	2,639	2,248	1,657	559	235	263	15,627
Intangible assets	–	–	–	–	–	–	–	–
Tangible assets, property and equipment	28	–	–	–	–	–	–	28
Other assets								
Derivatives	-8,490	5,169	-1,640	-407	-856	6,937	1,846	2,558
Other assets	–	21	–	–	2	–	–	23
	-8,490	**5,190**	**-1,640**	**-407**	**-854**	**6,937**	**1,846**	**2,581**
Accrued interest and fees receivable	75	74	6	21	6	116	2	299
Total assets	**5,812**	**9,909**	**809**	**1,382**	**–**	**7,290**	**2,110**	**27,311**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term amounts owed to credit institutions	1,342	107	–	–	–	–	–	1,449
Long-term amounts owed to credit institutions	18	–	–	–	–	–	–	18
	1,360	**107**	**–**	**–**	**–**	**–**	**–**	**1,467**
Repurchase agreements	123	–	–	–	–	–	–	123
Debts evidenced by certificates								
Debt securities issued	1,111	9,739	805	1,364	–	7,172	611	20,802
Other debt	47	–	–	–	–	–	13	60
	1,158	**9,739**	**805**	**1,364**	**–**	**7,172**	**624**	**20,862**
Other liabilities								
Derivatives	–	–	–	–	–	–	1,481	1,481
Other liabilities	9	–	1	–	–	–	–	10
	9	**–**	**1**	**–**	**–**	**–**	**1,481**	**1,491**
Accrued interest and fees payable	23	63	2	18	–	116	2	223
Total liabilities	**2,672**	**9,909**	**808**	**1,382**	**–**	**7,287**	**2,107**	**24,165**
Equity	**2,931**	**–**	**–**	**–**	**–**	**–**	**–**	**2,931**
Total liabilities and equity	**5,603**	**9,909**	**808**	**1,382**	**–**	**7,287**	**2,107**	**27,096**
Net of assets and liabilities as of 31 Dec 2015	**208**	**–**	**–**	**–**	**–**	**2**	**3**	**215**

NOTE 23: RELATED PARTY DISCLOSURES

Nordic Development Fund and Nordic Environment Finance Corporation

According to the constituent documents of Nordic Development Fund (NDF) and Nordic Environment Finance Corporation (NEFCO), their principal offices shall be located at the principal office of Nordic Investment Bank (NIB). Furthermore the Statutes of NDF and NEFCO set out that their Control Committee members appointed by the Nordic Council shall be the same persons as appointed by the Council to the Control Committee of NIB. In addition the Statutes of NDF and NEFCO set out that the powers vested in their respective Board of Directors may to the extent appropriate be delegated to the President of the respective organisation and /or to NIB.

The Bank provides administrative services to NDF and NEFCO the compensation of which is disclosed in note 8. The following table shows the outstanding balance of amounts owed to NDF, NEFCO and the trust funds administered by them, and the interest paid during the year. The interest paid to these institutions is at normal commercial rates.

(AMOUNTS IN EUR 1,000)	INTEREST FROM RELATED PARTIES	INTEREST TO RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES AS OF 31 DEC	AMOUNTS OWED TO RELATED PARTIES AS OF 31 DEC
2016	–	-60	10	18,045
2015	–	-22	13	17,994

Rental income (NDF, NEFCO)

(AMOUNTS IN EUR 1,000)	NDF	NEFCO
2016	146	267
2015	52	98

Key management personnel

The Bank has identified members of the Board of Directors, the Control Committee and the Executive Committee as key management personnel. There have been no transactions between the Bank and key management personnel. Information regarding the compensation of key management personnel for the relevant reporting periods can be found in Note 7.

NOTE 24: CASH FLOW STATEMENT

Specification of the change in cash and cash equivalents, net on 31 December:

(AMOUNTS IN EUR 1,000)	2016	2015
Cash and balances with banks [1]	107,049	111,256
Short-term placements with credit institutions	1,122,663	861,672
Collateralised placements [2]	3,226,148	1,693,142
Cash and cash equivalents	**4,455,860**	**2,666,070**
Short-term amounts owed to credit institutions [3]	-1,310,873	-1,448,888
Repurchase agreements		-122,556
Short-term debt		-64,277
Cash and cash equivalents, net	**3,144,987**	**1,030,349**
Change in cash and cash equivalents, net	**2,114,639**	**263,219**

[1] Including an initial margin requirement of EUR 295 (413) thousand for futures on 31 December.

[2] Net exposure after collaterals for collateralised placements EUR 6,138 (993) thousand.

[3] Of which cash received as collateral EUR 1,310,597 (1,448,881) thousand

NOTE 25: EXCHANGE RATES

	EUR RATE ON 31 DEC 2016	EUR RATE ON 31 DEC 2015
DKK Danish krone	7.4344	7.4626
ISK Icelandic króna [1]	118.8	141.15
NOK Norwegian krone	9.0863	9.603
SEK Swedish krona	9.5525	9.1895
ARS Argentine peso [2]	16.72175	14.14056
AUD Australian dollar	1.4596	1.4897
BRL Brazilian real	3.4305	4.3117
CAD Canadian dollar	1.4188	1.5116
CHF Swiss franc	1.0739	1.0835
CZK Czech koruna	27.021	27.023
GBP Pound sterling	0.85618	0.73395
HKD Hong Kong dollar	8.1751	8.4376
JPY Japanese yen	123.4	131.07
MXN Mexican peso	21.7719	18.9145
NZD New Zealand dollar	1.5158	1.5923
PLN Polish zloty	4.4103	4.2639
RUB Russian rouble	64.3	80.6736
SDR Special drawing right [3]	0.78411	0.78565
SGD Singapore dollar	1.5234	1.5417
TRY Turkish lira	3.7072	3.1765
TWD New Taiwan dollar [2]	34.1662	35.8096
USD US dollar	1.0541	1.0887
ZAR South African rand	14.457	16.953

[1] Reuters closing.

[2] The exchange rate is calculated using the year-end market rate for USD/relevant currency, which then provides the EUR/relevant currency rate.

[3] IMF (International Monetary Fund) closing per 31 December 2016 and per 31 December 2015.

NOTE 26: POST BALANCE SHEET EVENTS

On 24 January 2017, NIB priced a new 5-year global USD 1.25 billion bond, the Bank's first public benchmark of 2017. The issue has a final maturity of 1 February 2022, pays a semi-annual coupon of 2.125% and has an issue price of 99.939%, to give a spread of +23.5 basis points over the UST 2% due December 2021, equivalent to 17 basis points over mid-swaps.

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

AUDITOR'S REPORT

Independent Auditor's Report

To the Control Committee of the Nordic Investment Bank

Independent Auditor's Report on the Financial Statements

Opinion

In our capacity as auditors appointed by the Control Committee of the Nordic Investment Bank we have audited the financial statements of Nordic Investment Bank for the year ended 31 December, 2016. The financial statements comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the Nordic Investment Bank's financial position as at December 31, 2016 and of its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of financial placements and derivatives (Refer to Summary of significant Accounting policies: Determination of fair value, Financial placements, Derivative instruments and hedge accounting and to the notes 10, 14, 16 and 19 to the financial statements)	

• Due to the business model in use by NIB, assets classified as financial placements account for a substantial part of the balance sheet. NIB also has substantial positions in derivative financial assets and financial liabilities due to its policy to hedge interest rate and currency risk. • The valuation of these items has a significant impact on the Statement of Comprehensive Income so they have been identified as a key audit area	Our audit procedures over financial placements included, among others, • Assessment and testing of the design and operating effectiveness of the controls over valuations. • Valuation testing by comparing values in accounting to independently obtained market prices. • Assessing the liquidity of these items for indications of impairment. • Confirming existence of these items at year end by obtaining external confirmations Our audit procedures over derivative financial assets and financial liabilities included, among others, • Assessing the appropriateness of the calculation models used. • Challenging the assumptions used by comparing to market information. • Identifying controls over the calculation process and assessing their effectiveness. • Testing the valuation of the derivatives on a spot check basis by using market data obtained from an external provider of market information. • We also read and assessed the disclosures made in the financial statements for valuation adjustments

Hedge accounting (Refer to Summary of significant accounting polices: Derivative instruments and hedge accounting and note 19 to the financial statements)

• NIB uses hedge accounting to reduce the accounting mismatch in the reporting between the accounting of financial assets, financial liabilities and the accounting of related derivative contracts hedging inherent market risks of borrowing and lending activities • The accounting process has been subject to significant development during financial year 2016. Inter alia hedging instruments included in fair value hedges excludes cross currency basis spread movements from the hedging relationship recognizing movements in the hedging reserve through Other Comprehensive Income. • Due to the complexity of the accounting requirements for hedge accounting, the change in NIB's hedge accounting process and the effect on the line items in the Statement of Comprehensive Income, the correct application of hedge accounting has been considered a key audit area.	Our procedures included, among others, • Assessing the internal control procedures relating to inclusion of derivatives in a hedge accounting relationship and the effectiveness tests. • Assessing the accounting treatment of the hedging relationships for compliance with the relevant accounting standard by using our financial instruments accounting specialists. • Challenging the assumptions used by comparing to market information. • Assessing the hedge effectiveness testing which is prepared by NIB. • We also read and assessed the disclosures made in the financial statements for hedge accounting.

Impairment of loans (Refer to Summary of significant accounting polices: Impairment of loans and receivable and notes 9 and 11 to the financial statements.)

• Management judgement is required to determine the amount and timing of loan impairment provisions. • Due to the substantial size of loans outstanding on the balance sheet and the significance of the judgement applied, impairment of loans has been identified as a key audit area.	Our procedures included, among others, • Gaining an understanding of the impairment process and identifying and testing the key controls in place. • Inspecting the minutes of the key governance meetings including Credit Committee and Board to ensure that there are governance controls in place.

- Evaluating the borrowers where increased credit risk has occurred and assessing the level of collective impairment booked. For significant provisions made, we understood and challenged the provisioning methodologies and underlying assumption used by comparing to our own expectations based on our knowledge of the macroeconomic environment and the borrowers.
- Comparing realised credit losses to the impairments booked to assess the reasonableness of impairment provisions.

Responsibilities of the Board of Directors and the President for the Financial Statements

The Board of Directors and the President are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the President are responsible for assessing the Bank's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention to liquidate the Bank or to cease operations, or there is no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.
- 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 Bank'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 President'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 Bank'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 Bank 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Other Reporting Requirements

Other Information

The Board of Directors and the President are responsible for the other information. The other information comprises information included in the report of the Board of Directors, in the Operating and financial review and in the Annual Report, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors and the Operating and financial review prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after that date.

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

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

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

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

Report on the other requirements

In accordance with the Terms of Engagement our audit also included a review of whether the Board of Directors' and the President's administration have complied with the Statutes of the Bank. It is our opinion that the administration of the Board of Directors and the President complied with the Statutes of the Bank.

Helsinki 10 March, 2017

Marcus Tötterman
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3A
00100 Helsinki
Finland

Anders Tagde
Authorized Public Accountant

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Vasagatan 16
111 20 Stockholm
Sweden

STATEMENT BY THE CONTROL COMMITTEE

STATEMENT BY THE CONTROL COMMITTEE OF THE NORDIC INVESTMENT BANK ON THE AUDIT OF THE ADMINISTRATION AND ACCOUNTS OF THE BANK

To the Board of Governors of the Nordic Investment Bank

In accordance with section 17 of the Statutes of the Nordic Investment Bank, we have been appointed to ensure that the operations of the Bank are conducted in accordance with its Statutes and to bear responsibility for the audit of the Bank and annually deliver an auditors' report to the Board of Governors. Having completed our assignment for the year 2016, we hereby submit the following report.

The Control Committee met during the fiscal year as well as after the Bank's Financial Statements had been prepared, and the Committee performed the control and examination measures considered necessary. The Annual Report of the Bank was examined at a meeting in Helsinki on 10 March 2017. In carrying out its tasks, the Control Committee received such information and carried out such examination measures as it deemed necessary to assess the Bank's position in regard to its risks. We have also received the Independent Auditors' Report, submitted on 10 March 2017 by the authorised public accountants appointed by the Control Committee.

Based on the audit, carried out by the independent auditors, we consider that:

The Bank's operations during the financial year have been conducted in accordance with the Statutes;

The Board of Directors and the President have complied with the Statutes of the Bank; and that

The Financial Statements give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its results and financing in 2016. The Statement of Comprehensive Income shows a profit of EUR 211,810,055.68 for the financial period.

We recommend to the Board of Governors that:

The allocation of the Bank's profit for the financial period, as proposed by the Board of Directors, be approved;

The Statement of Comprehensive Income and the Statement of Financial Position be adopted; and

The Board of Directors and the President be discharged from liability for the administration of the Bank's operations during the accounting period examined by us.

Helsinki, 10 March 2017

Sigurður Þórðarson

Rasa Kavolytė	Sjúrður Skaale	Remo Holsmer
Arto Pirttilahti	Höskuldur Þórhallsson	Karina Ploka
Sigita Ščajevienė	Michael Tetzschner	Penilla Gunther

PROPOSAL BY THE BOARD OF DIRECTORS TO THE BOARD OF GOVERNORS

The Board of Directors' proposal with regard to the financial results for the year 2016 takes into account the need to maintain the Bank's ratio of equity to total risk-weighted assets at a secure level, which is a prerequisite for maintaining the Bank's high creditworthiness.

In accordance with section 11 of the Statutes of the Bank, the profit for 2016 of EUR 211,810,055.68 is to be allocated as follows:

– EUR 156,810,055.68 will be transferred to the General Credit Risk Fund as a part of equity; and

– EUR 55,000,000.00 will be made available for distribution as dividends to the Bank's member countries.

More information can be found in the statement of comprehensive income, the statement of financial position, the changes in equity and cash flow statement, as well as the notes to the financial statements.

Helsinki, 9 March 2017

Kaspars Āboliņš	Esther Finnbogadóttir	Trond Eklund on behalf of Silje Gamstøbakk
Sven Hegelund	Julie Sonne	Pekka Morén
Jurgita Uzielienė	Henrik Normann President & CEO	Madis Üürike