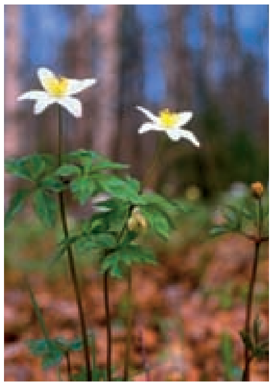
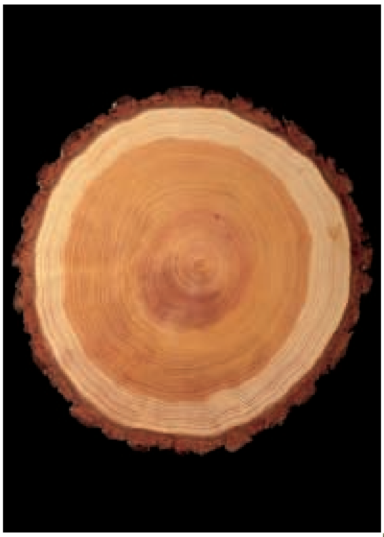
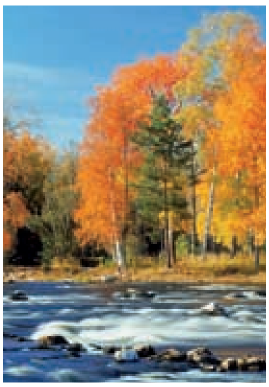
NORDIC INVESTMENT BANK

Annual Report 2004



CONTENTS

THIS IS NIB

The Nordic Investment Bank (NIB) finances private and public projects, which have high priority with the member countries and the borrowers. NIB finances projects both within and outside the member countries. NIB offers its clients long-term loans and guarantees on competitive market terms.

NIB acquires the funds to finance its lending by borrowing on the international capital markets. NIB's bonds enjoy the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's.

NIB is a multilateral financial institution that operates in accordance with commercially sound banking principles. The Bank was originally founded by the five Nordic countries Denmark, Finland, Iceland, Norway and Sweden. At the beginning of 2005, NIB received three new owners, when Estonia, Latvia and Lithuania became members of the Bank. NIB's operations are governed by an agreement among the member countries and statutes pertained thereto.

NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. On 31 December 2004, the Bank had 147 employees.

NIB'S FINANCING POSSIBILITIES

NIB finances investment projects and project export, which are of mutual interest for the member countries and for the borrower countries. NIB finances projects in member countries, OECD countries and emerging markets.

High priority is given to investments, which improve the economic cooperation in the member countries. Loans and guarantees are granted to finance investments that assure energy supply, improve infrastructure or support research and development. High priority is also given to projects that improve the environment in the member countries and their neighbouring areas. NIB participates in the financing of foreign investments, which provide employment in the member countries. In different parts of the world, NIB finances investments of mutual interest for the borrower countries and the member countries.

In addition to loans, NIB also issues guarantees for projects that meet the Bank's conditions.

Projects appraised by the Bank for possible financing are subject to analyses of sustainability and environmental consequences. Further, increasing emphasis is attached to social consequences.

LENDING IN MEMBER COUNTRIES

In the member countries, NIB offers medium- and long-term investment loans with maturities of five to fifteen years. The loans are granted in various currencies at fixed or floating market-based interest rates, for up to half of the project's total cost.

NIB finances

- projects in the manufacturing industry, including investments in industrial facilities;
- infrastructure investments within sectors, such as energy, transport, telecommunications, water supply and waste management;
- environmental investments in the business and public sectors;
- cross-border investments, such as mergers and corporate acquisitions;
- research and development;
- foreign investments in the member countries;
- improvement of the economic conditions for small and medium-sized enterprises in prioritised areas.

LENDING OUTSIDE MEMBER COUNTRIES

The core of NIB's international lending operations consists of Project Investment Loans. These are long-term loans—up to 20 years—for projects in emerging markets in Africa and the Middle East, Asia, Central and Eastern Europe as well as Latin America. Loans are primarily granted to the borrowing countries' governments or public financial institutions. Project Investment Loans may also be granted without a government guarantee, particularly to private sector infrastructure investments. The loans are granted for up to half of the project's total cost. Project Investment Loans can be utilised to finance all types of project costs, including local costs. The loans are granted at market-based interest rates in a currency preferred by the customer. Project Investment Loans have been granted for projects in approximately 40 countries.

In the member countries' neighbouring areas, NIB grants loans primarily to projects, aimed at infrastructure development and promoting economic conditions for small and medium-sized enterprises. The Bank has a special environmental loan facility for financing environmental projects in the member countries' neighbouring areas. The projects are to help in reducing environmental degradation and thereby also in reducing cross-border pollution. The Environmental Investment Loans are granted on the basis of commercial banking terms to governments, governmental authorities, institutions and companies.

NIB can also provide investment loans to projects and companies' investments, including joint ventures and corporate acquisitions, within the OECD area.

Key figures (in EUR million)

	2004	2003
Net interest income	163	155
Core earnings	147	139
Profit	172	151
Loans disbursed	1,348	1,841
Loans agreed	1,657	1,859
Loans outstanding	10,279	10,522
Guarantees outstanding	25	29
New debt issues	1,808	3,258
Debts evidenced by certificates	12,355	13,087
Net liquidity	2,876	2,744
Total assets	16,363	16,666
Equity/total assets (%)	10.9	9.9
Profit/average equity (%)	10.1	9.5
Number of employees	147	147

The year 2004 in brief

- good financial results
- profit EUR 172 million
- net interest income EUR 163 million
- dividends to the owners EUR 55 million
- high quality of the loan portfolio and the Bank's financial counterparties
- energy and environment important sectors in the lending activities
- new loan agreements for environmental projects in the Baltic Sea region and Northwest Russia
- scope for lending outside the Nordic region enlarged
- new agreement on NIB signed and ratified
- preparations for accession of Estonia, Latvia and Lithuania as new members of NIB

MISSION AND STRATEGY

MISSION

The Nordic Investment Bank is the common international financial institution of its member countries, with the objective of strengthening and further developing the cooperation between them. The primary purpose of the Bank is to promote sustainable growth in the economies of the member countries through the long-term financing of projects in the private and public sectors.

Loans and guarantees are granted on commercial banking terms within and outside the member countries for projects that promote the objectives of the member countries and are prioritised by the borrower country. The Bank operates on the basis of sound banking principles and it aims at creating added value for its clients by providing loans that supplement other sources of finance. In addition, the Bank shall achieve an adequate and stable return on the capital the owners have invested in the Bank.

Within the member countries, NIB participates in the financing of cross-border investments and industrial projects that affect more than one member country. The Bank participates in the financing of projects that improve infrastructure in the member countries, secure energy supplies, or support projects within research and development. Priority is given to projects that improve the environment.

In the emerging markets outside the member countries, the Bank finances projects that promote the internationalisation of the business and industry of the member countries and that are prioritised by the borrower country. The Baltic Sea and Barents regions are areas of priority in the operations of the Bank. The Bank grants loans to projects that support sustainable development in the neighbouring areas of the member countries and particular importance is given to projects that improve the environment. Within the framework of the Nordic finance group in Helsinki, NIB strives to further develop the competence of the financing group as a whole.

STRATEGY

NIB aims at fulfilling the objectives of its owners and meeting the needs of its clients as set out in its mission statement by:

- Acting as a catalyst for cross-border industrial cooperation between the member countries by financing new investments, infrastructure projects and structural improvements, particularly cross-border investments;
- Promoting the internationalisation of the member countries' industries by participating in the financing of foreign direct investments and cross-border projects;
- Participating, in its capacity as a multilateral financial institution, in the financing of projects in the emerging markets outside the member countries that promote the internationalisation of the member countries' industries and thereby the cooperation between companies in developing and transition countries and the member countries' companies;
- Contributing with financing to the economic transformation and development in the neighbouring areas of the member countries;
- Playing an important role in the financing of improvements of the environment in the Nordic region and in the Baltic Sea and Barents Sea regions;
- Cooperating with and supplementing other domestic or international lenders. The financing of small and medium-sized companies' investments is an important objective in this cooperation;
- Developing the expertise and competence of its staff within the Bank's field of operation;
- Striving to maintain the highest possible credit rating, in order to be able to supplement other lending institutions in the member countries with long-term loans on favourable terms. For this purpose, which is central to the Bank's operational concept, the Bank aims to be at the cutting edge in terms of financial risk management and cost effectiveness.

PRESIDENT'S STATEMENT

2004 was a historic year for the Nordic Investment Bank. On 11 February 2004, representatives of the governments of the Nordic and Baltic countries signed a new NIB agreement, effective from 1 January 2005. The new Agreement implied that Estonia, Latvia and Lithuania are now members of NIB on the same terms as the five countries—Denmark, Finland, Iceland, Norway and Sweden—which originally agreed to found the Bank thirty years ago. This enlargement of NIB's ownership is also a remarkable event in the development of the relations between the Nordic and the Baltic countries. NIB is the first joint Nordic intergovernmental institution also numbering the Baltic countries among its members.

Wider membership means that the Bank's mission of promoting sustainable economic development through long-term financing of cross-border investments, environment protection and internationalisation of business enterprise acquires a broader operational base. The new member countries are passing through a capital-intensive process of transformation and adjustment to the rules of the common European market. Thus the Bank has an important task ahead of it in the years to come. NIB, by virtue of its financial and institutional strength, has every prospect of accomplishing this mission.

NIB has good results to show for 2004. The profit for the year was the best so far in the Bank's history, namely EUR 172 million as against EUR 151 million for the preceding year. The quality of the Bank's assets—both loan portfolios and financial assets—at year-end was on the same high level as at the opening of the year. The return on equity, at 10.1%, was 6.6 percentage points in excess of NIB's benchmark, the five-year euro rate in swap contracts. The margin in excess of the euro rate is the best the Bank has ever achieved.

The Board of Directors has proposed a dividend of EUR 55 million to the Bank's owners. This brings the total dividends paid by the Bank to its owners since the beginning of operations in 1976 to EUR 450 million, of which EUR 405 million since 1994.

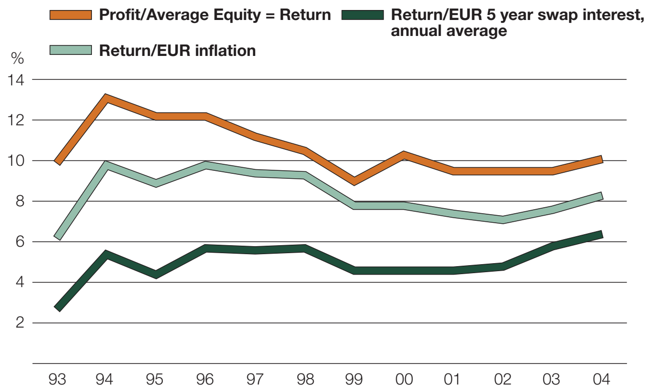
The international upturn in 2004, headed by the USA and the big Asian economies, failed to achieve any noticeable acceleration of growth in Europe. Nordic growth was slightly stronger than elsewhere in Europe. Uncertainty regarding the strength and duration of the upturn entailed caution regarding investment decisions in the corporate sector. Coupled with good liquidity in that sector, it weakened demand for investment loans. Despite this trend, NIB succeeded in keeping the volume of new loans agreed at a fairly strong level. A number of prepayments of loans, the falling dollar exchange rate and some temporary delays in disbursements caused, however, the nominal stock of loans outstanding to fall by 2.3% to EUR 10.3 billion. Adjusted for exchange rate fluctuations, the loan stock remained unchanged, between 2003 and 2004. The prospects are that growth of the loan stock can return to trend in 2005 with a strong rate of growth.

The Bank's good performance, effective risk management and solid ownership give it a strong position in international capital markets. In recent years, its borrowing strategy has rested on a mixture of large, global benchmark issues and smaller issues targeting market niches. This strategy has enabled NIB to establish itself as a prime issuer within the group of international financial institutions. Borrowing in 2004 was considerably less than in the previous two years, but is expected during 2005 to rise again to a level of about EUR 3 billion.

ACCOUNTING, RISK MANAGEMENT AND AUDITING

It is of great importance for the Bank's standing in capital markets that internationally accepted accounting standards are applied to its annual accounts. Since 1994, accordingly, NIB has

RETURN ON AVERAGE EQUITY 1993–2004
Adjusted for inflation and long-term interest benchmark



drawn up its annual accounts in compliance with International Accounting Standards (IAS). These standards are developing all the time, and in 2001 the IAS 39 standard was introduced, incorporating new accounting principles for financial instruments. The main rule of this standard is for financial instruments to be recorded in the annual accounts at fair value. NIB has applied IAS 39 as from the 2001 annual accounts, and accordingly complies with IAS, today known as *International Financial Reporting Standards* in this respect as well.

During 2004, the Bank took the major step of developing an actuarial model covering the whole of its financial and credit activities for credit risk management purposes. The model is based on financial analysis, methods of financial statistics and probability calculus. This tool will make it possible to evaluate the risk entailed by each individual transaction to the Bank as a whole. It will supplement traditional methods for the assessment of capital needs and reserves, as well as pricing and portfolio management within the Bank's overall mandate. Introduction of these new tools is underway. The Bank's aim is always to be in the forefront of financial risk management.

NIB has been continuously putting emphasis on improving its risk management. In 1995, a thorough review was conducted of the Bank's financial guidelines and methods of risk management for its entire operations. New methods and systems of risk classification, reporting and control of credit and market risks were introduced to ensure the Bank's compliance with the highest standards of risk management and control in a changeable financial environment. An independent Risk Management Department was established to follow up this review. By 1996, an integrated risk classification of all the Bank's positions had been completed, for both financial and lending activities. Effective benchmarking of the Bank's portfolio management—both long-term investments and liquidity management—was introduced at the same time.

The Bank continuously strives to improve its organisational structure in terms of both efficiency and security by clearly distinguishing between responsibility for business-generating activities on the one hand and reporting and auditing on the other. The Bank's internal audit has been strengthened in recent years, both resource-wise and methodologically. An evaluation by the Institute of Internal Auditors has confirmed that NIB's internal audit conforms to high international standard. NIB's external audit is the responsibility of the Control Committee, which is appointed by the Bank's owners and is quite separate from the Bank's Board of Directors.

LONG-TERM DEVELOPMENT OF LENDING

Following a slowdown in the beginning of the 1990s, the Bank's lending has been showing a strong rising trend in the last decade.

Lending within the member countries makes up the core of the Bank's lending activities. At year-end 2004, loans outstanding in the Nordic countries totalled EUR 8.2 billion, which means that the stock of loans has more than doubled over the last decade. During this period, the trend rate of growth of the Nordic loan stock was 6–7% per year. The statutory ceiling for Ordinary Loans is at present EUR 12.7 billion. This leaves ample scope for expanding this mainstay of the Bank's operations in the years to come.

In keeping with the owners' priorities and the Bank's long-term strategy, loans to projects outside the Nordic area have acquired increasing prominence in NIB's operations. Loans to the borrowers in the Nordic countries and to counterparties outside the Nordic area constituted, respectively, 80% and 20% of the total loan stock at the end of 2004. The corresponding breakdown at the beginning of 1994 was approximately

85% to 15%. NIB's special loan facilities, PIL and MIL, provide a good basis for further increases in the proportion of loans for projects outside the member countries. The Project Investment Loan (PIL) facility, backed up by the owners with special guarantees, is the cornerstone of this outgoing activity. Project exports are an important prerequisite of economic growth in the Bank's member countries. At year-end 2004, the loan stock outside the Nordic area totalled EUR 2.1 billion. This stock totalled EUR 709 million at the beginning of 1994 and has thus tripled since then. During this period the trend rate of growth of the Bank's international loans outstanding has been 8–9% per year.

In 2003, with total loan commitments under the PIL facility already approaching the ceiling of EUR 3.3 billion, the Bank's owners resolved to raise the PIL facility to EUR 4.0 billion. This increase took effect on 1 July 2004. At the same time, the Bank assumed greater responsibility for underwriting the PIL facility, which has sustained no losses in two decades. The enlargement of the PIL facility provides scope for a continuing growth of NIB's international activities. The scope for PIL loans outside the member countries was also enlarged by EUR 232 million by a resolution at the end of 2004 transferring PIL commitments in Estonia, Latvia and Lithuania to the Bank's Ordinary Loan portfolio. When the PIL facility was established in 1982, the total ceiling was EUR 390 million, whereas today it is EUR 4.0 billion, i.e., over ten times greater.

The environmental mandate is a vital part of NIB's mission, with environmental loans accounting for nearly one-fifth of the total loan stock at the end of 2004. The Environmental Investment Loan (MIL) facility for the neighbouring regions, established in 1996 and based on special guarantees from the owners, has a very important bearing on the Bank's operations in the Baltic Sea and Barents regions. The MIL facility, amounting since the beginning of 2003 to EUR 300 million, was decisive for NIB's initiative in the establishment of the Northern Dimension Environmental Partnership, NDEP, and for the Bank's active role in that partnership. The purpose of the NDEP is to activate and coordinate the funding by multilateral banks, bilateral donors, the European Commission and the Russian Federation of important environmental projects in the area of the Northern Dimension.

Initially, the NDEP is concentrating on environmental projects in Northwest Russia to overcome major environmental problems inherited from the Soviet era. Many of these projects have cross-border effects. NIB chaired the steering group of the NDEP during its first year of operations in 2001–2002 and now holds the chairmanship again as from July 2004. The NDEP has drawn up an investment programme comprising thirteen priority environmental projects entailing a total cost of nearly EUR 2 billion. NIB is the lead bank for seven of these thirteen projects, and the EBRD is the lead bank for the other six. The NDEP has already scored notable successes where traditional environmental investments are concerned. The relatively modest contribution from the NDEP support fund has made it possible to mobilise substantial finance from the international financial institutions for the benefit of the environment of the Baltic Sea and Barents regions. By the end of 2004, the NDEP fund had made grants totalling EUR 46 million towards environmental investments totalling some EUR 900 million. More than half of the total amount took the form of long-term loans by the international financial institutions to Russian counterparties. Russian contributions, both from the national budget and from other sources, make up the remainder.

During 2004, NIB inaugurated cooperation with the private sector in Russia under the Ladoga programme for limiting harmful emissions and improving industrial efficiency on the shores of the great lakes Ladoga and Onega.

The NDEP has drawn up an initial investment programme of EUR 500 million for clearance and storage of radioactive waste and spent nuclear fuel in the Kola Peninsula. Implementation of concrete projects within the nuclear part of the NDEP will begin during 2005.

The flagship of the NDEP projects is without question the Southwest Wastewater Treatment Plant in St. Petersburg, the financing of which has been directed by NIB. The plant takes the form of a public private partnership company, with shareholders in both Russia and the Nordic countries. The plant is to be commissioned in the summer of 2005. This first NDEP project, to be completed at a total cost of EUR 190 million, will drastically reduce discharges of unprocessed sewage from St. Petersburg, the biggest single pollution source on the Baltic coast.

NIB IN BALTIC SEA REGION

The global economic recovery broadened in 2004 to include more regions and sectors. Growth in the USA and Asia is still favourable, and the situation in the euro zone gives a sign of a brighter outlook. The positive trend in the market development is expected to continue in 2005.

Since 2000, the economies of the Baltic Sea region have been growing faster than the rest of Europe. This is especially noticeable in the countries of the east Baltic littoral, i.e., Russia, Estonia, Latvia, Lithuania and Poland. Growth in these countries since 2000 has varied between 6 and 7% annually. This pace of development, more than twice that of the euro zone and the Nordic region, is expected to continue at a similar rate for the next few years. These countries have a much lower income level than the euro zone and the Nordic countries, and so the growth differential will be needed for some considerable period of time, to enable them to catch up with the rest of Europe. There is an obvious advantage to the Nordic area in having fast-growing countries with big investment needs as its next-door neighbours. That advantage is still further highlighted by the development of investment in the Nordic countries and the EU, especially industrial investment, which has been sagging in recent years. From the viewpoint of Nordic project exports, the hope is that the eastern neighbours of the Nordic countries will be able to sustain their progress, at the same time as business activity takes an upward turn in Europe as a whole. At the end of 2004 and beginning of 2005, business investments in the Nordic countries showed signs of picking up again after the stagnation of the past few years. The preconditions for a return to the long-term trend in the growth of NIB's loan portfolios would consequently seem to be in place.

Effective investment finance is an important prerequisite of continuing growth in the Nordic-Baltic region. True to its mission, NIB has been very active to the eastward in recent years, and especially in Estonia, Latvia and Lithuania. Baltic membership of NIB as from the new year is a natural continuation of this development, affording a wider base for the Bank's integration mandate and outgoing activities.

The question of Russia's integration with the open, regulated, global trade system is of crucial importance for the future development of the Baltic Sea region, not only because of the sheer size of the Russian market, but also with a view to securing the stability of the region. Hopefully, social developments in Ukraine and Belarus over the next few years will make it possible for NIB to finance projects in those countries as well. Russia's ratification of the Kyoto Agreement inspires hopes of imminent Russian WTO membership, which would be a great step forward for cross-border trade and investment in the region.

Free trade, infrastructure development, cross-border investment and pollution abatement are the main elements needed in order to support continuing economic growth and stability in the Baltic Sea region. NIB cooperates with the EIB, the EBRD and the EU support funds, both in the new EU member states and in Russia, for the promotion of this kind of development.

EU relations with Russia are highly important in this connection. The Northern Dimension, and not least the NDEP, has been a useful testing ground for improving those relations. It is important to build on the experience within the NDEP and to explore the possibilities of establishing partnerships for infrastructure finance in general within the Northern Dimension, so as to address the major tasks waiting to be tackled in the region's infrastructure.

NIB has important tasks ahead of it in coming years, both in the member countries and in their neighbouring countries further east. Lending activities within the member countries will undoubtedly be able to show good growth in future. The objective should imply a stronger growth of lending outside the member countries, both near and far. Both Nordic and Baltic countries, as small, open market economies, can achieve growth only through export-driven activities. Good growth opportunities for project exports are in Central and Eastern Europe, as well as in Asia and Latin America.

NIB, with its strong financial position and highly efficient organisation, is well prepared for these tasks. The development of the Bank's activities over the past decade, a development characterised by internationalisation and concentration on infrastructure and environmental investments, demonstrates the possibility of combining the Bank's overarching mandate with good financial performance. The Bank's risk management, continuously developed during the period, has played a very important part in achieving this consistently good outcome.

When, in April of this year, I come to relinquish my position as President of the Bank, I can look back with satisfaction on the eleven years for which I have had the privilege of heading the Bank's activities. The Bank's good results during this period have been founded not least on the professionalism of its personnel. I am profoundly grateful for the close support received from my NIB associates during all these years, at the same time as I can be confident of NIB's future under the direction of my successor as President, Johnny Åkerholm, who will be taking over the helm of a well-crewed, efficient and eminently seaworthy craft.

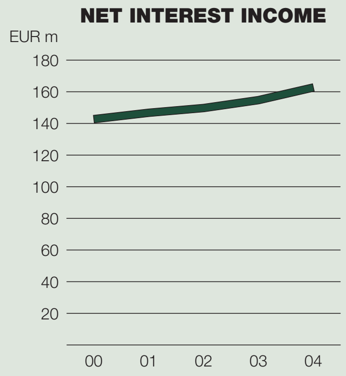
Helsinki in March 2005

Jón Sigurðsson

FIVE-YEAR COMPARISON (IN EUR MILLION)

	2004	2003	2002	2001	2000
PROFIT AND LOSS ACCOUNT					
Net interest income	163	155	150	147	143
Commission income and expenses etc.	8	6	7	7	6
General administrative expenses, depreciation and write-down	-24	-22	-22	-23	-20
Core earnings [1)]	**147**	**139**	**135**	**130**	**128**
Adjustments to fair value in trading portfolio	20	3	10	3	4
Provisions for possible loan losses	4	-	-3	-	-2
Adjustment to hedge accounting	2	8	-	-3	-
Profit for the year	**172**	**151**	**142**	**131**	**130**
BALANCE SHEET					
Assets					
Cash and cash equivalents, placements and debt securities	4,546	4,384	4,304	3,734	3,922
Loans outstanding	10,279	10,522	10,110	10,067	9,288
Intangible and tangible assets	42	37	36	36	40
Accrued interests and other assets	1,495	1,723	1,498	1,187	600
Total assets	**16,363**	**16,666**	**15,948**	**15,024**	**13,850**
Liabilities and equity					
Amounts owed to credit institutions	417	367	381	254	228
Debts evidenced by certificates	12,355	13,087	13,150	12,298	11,326
Accrued interests and other liabilities	1,811	1,563	877	1,031	970
Paid-in capital	404	404	404	404	394
Statutory Reserve	645	645	554	529	469
Credit risk funds	550	440	429	362	332
Other value adjustments	9	10	11	14	-
Profit for the year	172	151	142	131	130
Total liabilites and equity	**16,363**	**16,666**	**15,948**	**15,024**	**13,850**
ACTIVITIES					
Disbursements of					
Nordic loans	1,033	1,277	1,268	1,179	842
International loans	315	564	380	482	259
Total disbursements	**1,348**	**1,841**	**1,648**	**1,661**	**1,101**
Issued guarantees					
Nordic guarantees	-	-	-	25	-
International guarantees	-	-	-	-	3
Total guarantees issued	**-**	**-**	**-**	**25**	**3**
Outstanding at year-end					
Nordic loans	8,192	8,350	7,975	7,748	7,357
International loans	2,087	2,172	2,135	2,319	1,931
Total loans outstanding	**10,279**	**10,522**	**10,110**	**10,067**	**9,288**
Guarantee commitments at year-end					
Nordic guarantees	25	29	32	33	8
International guarantees	-	-	-	-	25
Total guarantee commitments	**25**	**29**	**32**	**33**	**33**
Annual debts evidenced by certificates (including capitalisations)	1,808	3,258	3,320	2,099	1,865
Number of staff (at year-end)	147	147	144	137	129

[1)] Core earnings consist of the profit before adjustments to hedge accounting, fair value adjustments made to the trading portfolio and provisions made for possible loan losses and reversals of these.


NET INTEREST INCOME
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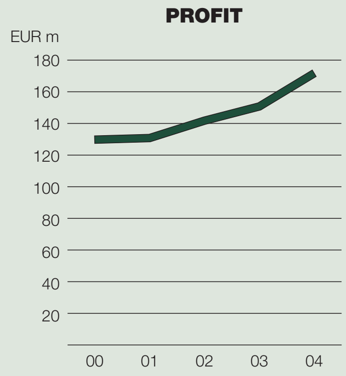
PROFIT
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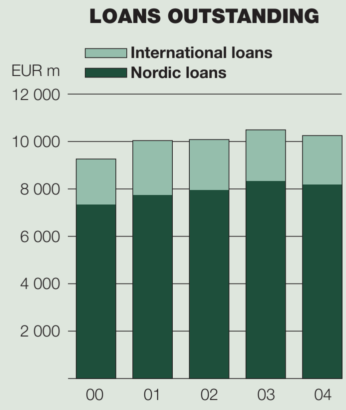
LOANS OUTSTANDING
International loans
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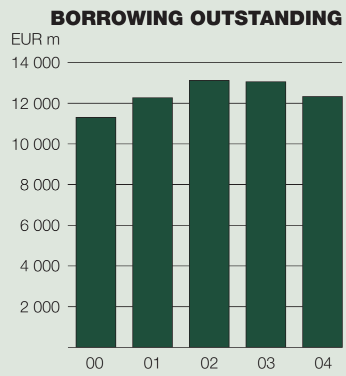
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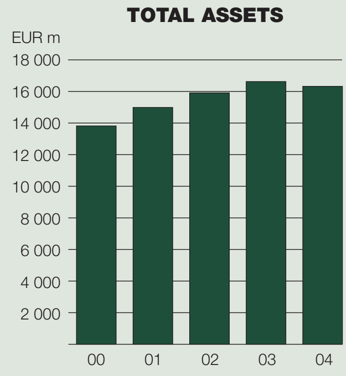
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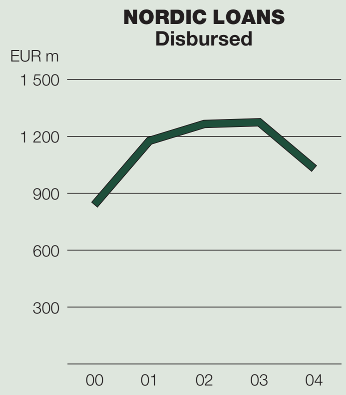
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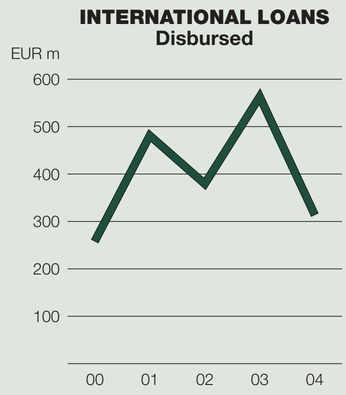
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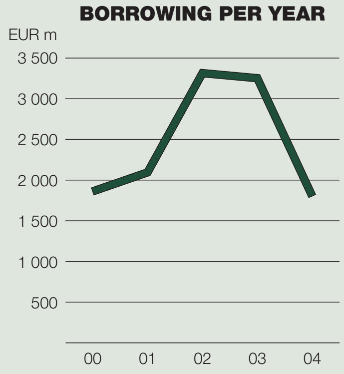
BORROWING PER YEAR
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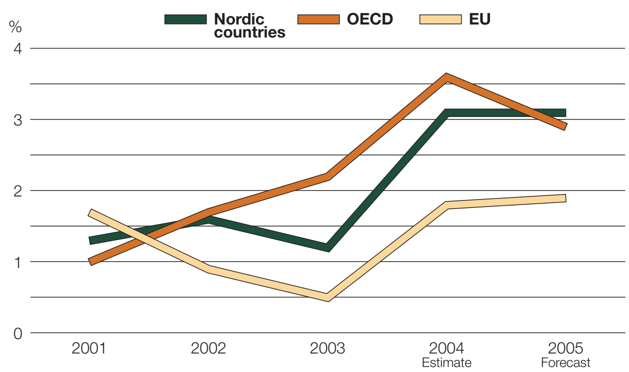
NORDIC ECONOMY

The favourable conditions in the international economy that characterised 2004 are expected to continue, but the economic upturn is expected to be slightly slower during 2005. The economic growth that in 2004 was primarily fuelled by consumption and exports will for the most part be spurred by a rise in investments in 2005.

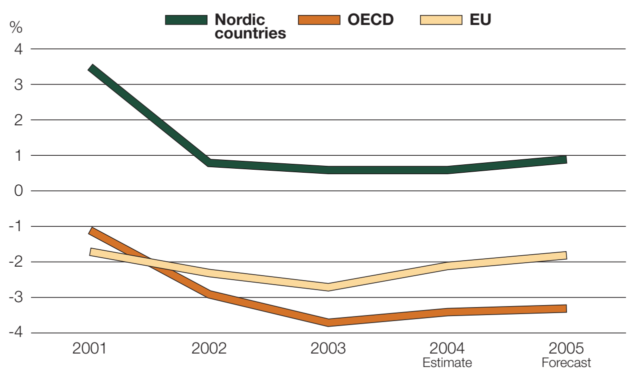
Average GDP growth in the OECD area is expected to reach 2.9%. In contrast, recovery in Europe will still be modest, with a GDP growth of only 1.9% in the euro zone. The picture looks somewhat brighter in the Nordic countries compared to the rest of Europe. The Nordic countries are expected to reach an average GDP growth of 3.2% during 2005, which is significantly more than expected average GDP growth for the EU. The three Baltic countries are in the middle of a strong growth phase, and are expected to achieve an average GDP growth of just over 6% in 2005. On the worldwide economic scene, the USA and Asia are expected to be the most significant driving forces. Export growth is expected at about 15% for Asia and almost 7% for the USA.

Economic policies in the Nordic countries are guided by the long-term goals of achieving a high rate of economic growth, high level of employment, and a low, stable rate of inflation. In order to achieve these goals, the Nordic countries have chosen a macroeconomic policy that is primarily based on sound public finances. In addition, the population structure of these countries requires a high public sector savings rate and a sound structure for public finances. This is necessary to secure the current level of social welfare in these countries.

GROSS DOMESTIC PRODUCT
Annual changes



GENERAL PUBLIC FINANCES
Net balance as a per cent of GDP



Public sector savings in the Nordic countries have been relatively high for some years. In order to prevent the cyclical downturn in 2003 from further deepening, the Nordic countries were forced to increase public outlays. Average public sector savings declined to 0.6% p.a. of GDP during 2003 and 2004, if Norway's income from oil production is excluded from the calculation. Public sector savings are expected to rise again to about 1% during 2005. If Norwegian oil income is included in the calculation, average public sector savings in the Nordic countries will be 3.5% during 2005.

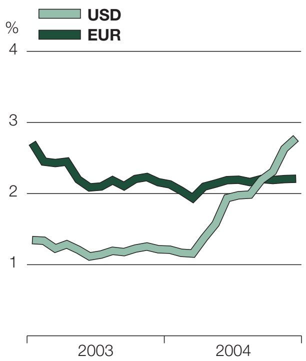
CAPITAL AND FOREIGN EXCHANGE MARKETS

Since summer of 2004, the US central bank, the Federal Reserve, has pursued a monetary policy of economic tightening. The Federal Reserve has gradually increased the federal funds interest rate as a result of the well-paced growth in the US economy. Expectations call for persistently tight US monetary policy during the first half of 2005, while the European Central Bank will probably follow a more careful monetary policy line. Although the economic outlook is brighter in the euro area than it has been in several years, a great deal of unused resources exists, and the low inflation rate is not creating any pressure toward urgent economic policy measures. With tighter monetary policy, international bond rates are expected to rise during 2005.

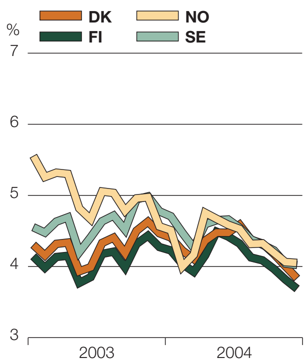
US treasury bond rates have risen, and the trend points to a continued rise in the interest rate level. The ten-year rate on US treasury bonds was 4.3% at year-end, and is expected to rise to 5.1% toward the end of 2005. The ten-year government bond rate in Germany was 3.8% at year-end, and is expected to rise to 4.5% toward the end of 2005.

During the second half of 2004, the US dollar weakened after having slightly strengthened at the beginning of the year. At year-end 2004, the dollar had reached a record-low level against the euro and the Japanese yen. Several macroeconomic factors point toward a continued weakening of the US dollar in 2005. The large deficit in the US balance of current accounts is one of the most important causes of the dollar's decline. International forecasting institutions are predicting that the US dollar might decline to between 1.30 and 1.40 dollars per euro toward the end of 2005.

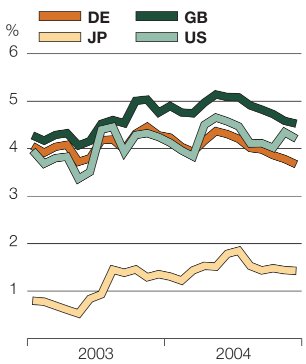
6 MONTH USD AND EUR RATES



NORDIC INTEREST RATES
10 year government bonds



INTERNATIONAL INTEREST RATES
10 year government bonds



DEVELOPMENT IN THE NORDIC REGION

In 2004, the Nordic countries experienced a 3.3% growth of economy. The primary engine for this growth was the good rate of increase in private consumption, which in turn was spurred by a favourable interest rate level and reduced taxes on wage and salary income. The international economic upswing and growth in world trade have provided a welcome stimulus for the Nordic export industry. Even investment demand increased perceptibly during the later half of 2004.

In 2005, investments and foreign trade are expected to be the primary forces behind a relatively good economic growth in the Nordic region. GDP is expected to rise by 3.2% in 2005. The average growth in gross investments is anticipated to be ca. 6%, and export growth is also expected to be 6% on average. The scope and stability in economic growth will be further buttressed by a rise in housing construction in all the Nordic countries.

Denmark

GDP growth in Denmark is estimated to have been 2.4% in 2004, and is expected to be 2.7% in 2005. The international economic upswing will increase Denmark's exports, and a rise in capacity utilisation is expected to result in increased investments. Business investments are expected to rise by just over 4% in 2005, and exports are expected to rise at almost the same rate. The public sector's budgeted surplus is 1.4% of GDP.

Unemployment has been stable at between 5% and 6% for quite a long time, and is expected to be 5.6% in 2005. Inflation in Denmark is expected to be approximately 2% in 2005, which is in line with the country's monetary policy.

Finland

GDP in Finland increased by 3.7% in 2004. The rise in consumption that was strong in previous years is expected to be replaced in 2005 by good growth in exports and investments. Exports are expected to increase by slightly more than 4%, and business investments are expected to grow by 3%. GDP growth is expected to be 3.3% in 2005. The public sector's budgeted surplus for 2005 is 1.6% of GDP, which is somewhat lower than in 2004.

Unemployment is still high—it is expected to be 8.4% in 2005—which is the highest level among the Nordic countries. Finland's monetary policy is controlled by the European Central Bank. Finland has achieved the ECB's inflation objective of a maximum of 2%, and inflation is expected to be 1.2% during 2005, compared with a very low level of 0.2% for 2004.

Iceland

For the third year in a row, Iceland is expected to achieve good GDP growth. The growth rate was 5.8% in 2004, and is expected to be between 5.0% and 5.5% in 2005. The strong economic upturn in Iceland is a result of large investment projects within the energy production and aluminium industry sectors. Business investments are expected to increase by 26% in 2005, while gross investments are expected to rise by 23%. The public sector's financial savings have been budgeted at 1.5% of GDP for 2005.

Unemployment is low in Iceland, and is estimated to be 2.8% in 2005. Employment has strengthened, thanks to the favourable economic situation in the country. The inflation goal set by Iceland's central bank is 2.5%, with a permissible variation of 1.5 percentage points. Inflation was 3.2% in 2004, and is expected to be at the same level in 2005.

Norway

Norway's economy recovered well in 2004. GDP growth for Norway as a whole is anticipated to be 3.7% in 2005. GDP for mainland Norway rose by 3.5% in 2004, and is expected to rise by 3.8% in 2005. Private consumption has been the primary driver, but investments are also growing at a good pace. The basis for Norway's economic growth has further widened by virtue of the favourable export outlook for 2005. Investments are expected to rise most sharply in the offshore and shipping sectors, but investment in mainland Norway's industry is also expected to achieve a good rate of increase of about 4% in 2005.

Unemployment is expected to drop marginally to 4.1% in 2005. Inflation will rise from the low level in 2004 of 0.4%. For reasons that include the publicised increase in the value added tax, inflation in Norway is expected to rise to 1.4% in 2005.

Sweden

GDP growth in Sweden was 3.8% in 2004, and economic growth is expected to be the same in 2005. An increase in exports has been more of a significant factor for growth in Sweden than in the other Nordic countries. The investment outlook for 2005 is also favourable. Gross investments are expected to rise by 8.0% in 2005. The largest contributing factor comes from the business sector, with an estimated rise in investment of just over 6% in 2005. Given the clear rise in investments, the rate of employment is also expected to improve.

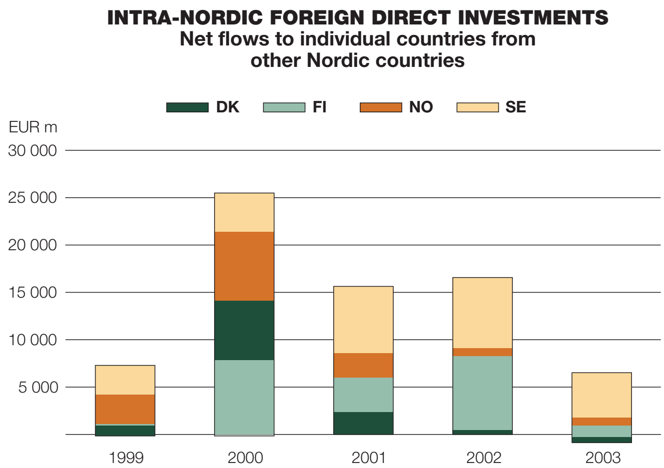
Unemployment is expected to drop to 5.0%. The increasing economic activity is expected to result in a rise in the rate of inflation in 2005. Inflation was 0.5% in 2004, and is expected to reach 1.8% in 2005.

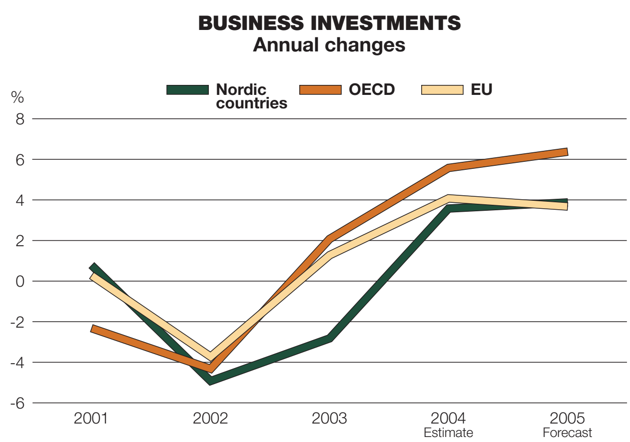
DIRECT INVESTMENTS

Since the first half of the 1990s, direct investments within the Nordic region have stayed at a high level. During the years 1990–1997, the volume of intra-Nordic direct investments was around EUR 2 billion per year. In 1998–2002, intra-Nordic direct investments rose to an average of over EUR 15 billion per year. These exceptionally high volumes are not expected to continue, however, and a certain slackening in direct investments within the Nordic region was already noticeable in 2003. The trend for intra-Nordic direct investment volumes is EUR 5 billion in annual volume over the medium-term.

Finland and Sweden have been the largest recipients of direct investments from the other Nordic countries. In certain years, business sectors in Denmark and Norway have also been the object of considerable interest from investors in the rest of the Nordic region. Although many individual countries in Europe and North America are the recipients of large volumes of direct investments from the Nordic region, the Nordic countries will probably continue to be the most important recipient countries for direct investments from the Nordic region in the future.

The Nordic countries' direct investments outside the Nordic region are partially aimed at the traditional industrial countries in Europe and North America, and partially at the growth economies in Central and Eastern Europe and in Asia. Estonia, Latvia and Lithuania have become important recipient countries for Nordic companies' investments outside their home countries and outside the Nordic region. Globalisation has brought with it a gradually increasing interest in the Nordic business community to gain a foothold in growth markets, primarily in Asia, but also in Latin American and in other regions.





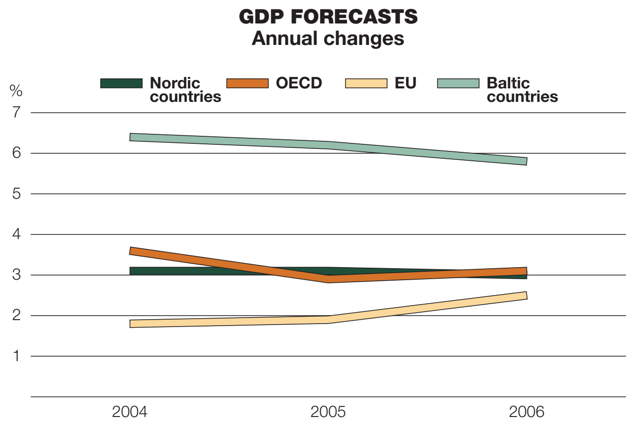
ECONOMIC OUTLOOK

The favourable economic climate is expected to continue in 2005. Economic activity is internationally considered to be at a high level. The need for investment has increased noticeably in the last year as a result of the very strong upturn in world trade. In the OECD area, the European Union and the Nordic region business investments are expected to be an important engine for the economic development during the next few years. While the USA and Asia are expected to experience a somewhat dampened increase in the growth rate of investment compared with the previous year, Europe is predicted to have a good rate of investment growth. Capacity utilisation in the Nordic region has again reached high levels, and a large need for investment has become apparent. Business investments are expected to rise by 4–5% per year in the Nordic region in 2005 and 2006. In Europe, business investments are expected to rise by 4%, and in the OECD area by 6%.

Although a slight dampening in economic growth is discernable in North America and Asia, it is clear that a strong rate of growth in these regions will continue throughout 2005 and 2006.

The globalisation of the world economy is expected to continue at the same rate as in the past. It is clear that the business sector in the Nordic countries will be part of this development. Increased exports of capital goods to the areas experiencing strong growth will be a driving force for the Nordic countries' economic growth. Nordic industry is also expected to establish activities in these areas in order to be a participant at an early stage in the structural transformation that is going on internationally.

The Bank's new member countries, Estonia, Latvia, and Lithuania, are experiencing a strong economic growth. This growth is expected to continue for several years into the future, and is based on those countries' well-structured economic policies and their continued work toward integration with the European Union.



Average growth in GDP in the Nordic countries is expected to be ca. 3% per year in 2005 and 2006. Average economic growth in Estonia, Latvia, and Lithuania is expected to be ca. 6% per year in 2005 and 2006. Growth in the OECD area and in the EU is expected to stay at a level of ca. 3% and just over 2%, respectively. As regards the Bank's lending regions outside the member countries, Asia is expected to show an average GDP growth of 7%, while Africa and Latin America are expected to continue to grow at a slower rate of 3–4% per year.

The favourable economic climate today in all the Nordic countries and in the Baltic countries, as well as the economic upswing internationally, will in all likelihood create favourable conditions for a positive development for the member countries' business sectors. The rate of investment is expected to be good during the next few years into the future.

Statistics and forecasts presented here are based on material available from Nordic central statistical offices, the Nordic countries' Ministries of Finance and Economy and central banks, as well as from the OECD Paris and the IMF.

FUNDING AND PORTFOLIO MANAGEMENT

NIB finances its lending activities by borrowing and issuing bonds on global and domestic capital markets. The Bank has enjoyed the best possible credit rating, AAA/Aaa, with the leading rating agencies, Standard & Poor's and Moody's, since it was first given a credit rating in 1982.

The Bank invests its equity (paid-in capital and reserves) and liquidity in accordance with a strategy aimed at ensuring that sufficient liquidity reserves are available at all times, and that the Bank's profits are stable over the long term. A strong capital base and good liquidity are important foundations for maintaining the Bank's high creditworthiness.

LONG- AND MEDIUM-TERM BORROWING

NIB is flexible in terms of meeting investors' various wishes as to the size, currency, maturity, and structure of the bonds it issues. In recent years, NIB has pursued a strategy of entering into global benchmark transactions with the goal of further expanding and diversifying its investor base. In March 2004, this strategy was followed up by the third benchmark transaction of USD 1,000 million, with a five-year maturity.

The Bank's borrowing operations during 2004 amounted to EUR 1,808 million (2003: 3,258). In addition, call options at the amount of EUR 676 million on previously issued bonds were not exercised, thus bringing the total annual funding for the year to EUR 2,484 million. The amount of borrowings outstanding at the end of the year amounted to EUR 12,355 million (13,087). NIB carried out 18 (82) borrowing transactions distributed over eight (13) different currencies in 2004. The Bank has borrowings outstanding in 18 different currencies. See Figures 1, 2 and 4.

Out of the total volume of bonds issued during the year, Asian investors bought 65%, including 19% bought by Japanese investors. European investors purchased 18% of the bonds and North American investors 10%. Investors in the Middle East and Africa bought the remaining 7%.

US dollar

During the year, the US dollar was the most important borrowing currency, due to the global benchmark issue and private placements. NIB carried out eight US dollar transactions for a total of USD 1,610 million, corresponding to EUR 1,255 million, or 69% of new borrowings for the year.

European currencies

Of new borrowings in 2004, the funding obtained by the Bank in European currencies constituted 8%. In Slovak koruny, NIB made an issue of five-year inverse Floating Rate Notes worth SKK 2,000 million, equivalent to EUR 51 million. In euro, the Bank made two 25-year deals for the total of EUR 20 million. And finally in pounds sterling, an issue worth GBP 50 million, equivalent to EUR 75 million, was carried out with a five-year maturity.

Asian currencies

The funding in Asian currencies accounted for 4% of NIB's new borrowings in 2004. NIB carried out two transactions in Hong Kong dollars totalling HKD 602 million, corresponding to EUR 53 million, which constituted 3% of the year's new borrowings. Further one transaction in Japanese yen was executed, corresponding to EUR 11 million.

Other currencies

NIB executed two transactions in Australian dollars totalling AUD 340 million, corresponding to EUR 203 million. NIB also did a public transaction with ten-year maturity in Canadian dollars with the amount of CAD 100 million, corresponding to EUR 63 million.

Private Japanese investors continued to make up an important investor base for NIB during 2004. For these investors, the Bank issued three so-called uridashi issues, two in Australian dollars and one in US dollars, corresponding to EUR 218 million (710).

Value adjustments according to IAS 39 are not included in segment information and currency distribution in this section.

BORROWING

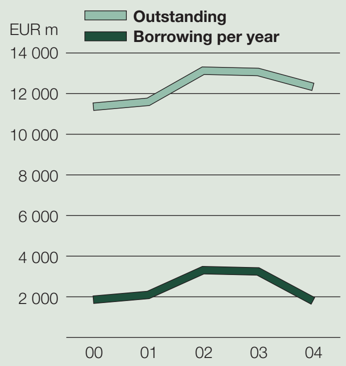


Fig. 1

BORROWING OUTSTANDING
31 Dec 2004

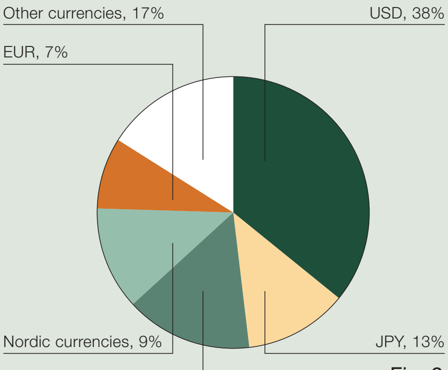


Fig. 2

BORROWING OUTSTANDING AFTER SWAPS
31 Dec 2004

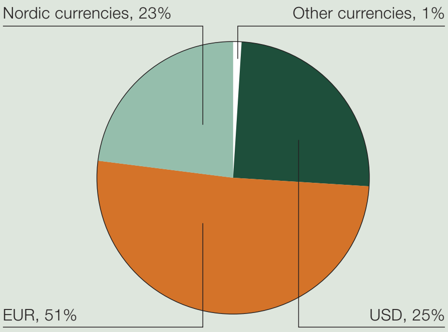


Fig. 3

NEW BORROWING
By currency 2004

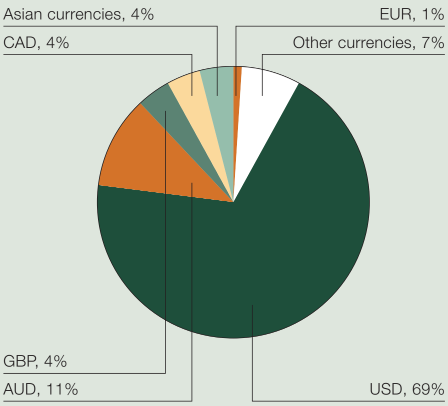


Fig. 4

Currency distribution after swaps

The composition of NIB's borrowing generally does not correspond to the need in its lending operations for particular currencies and types of interest. The Bank therefore makes use of the swap market to a considerable degree, using reliable counterparties to match its borrowing and lending operations.

The after-swap distribution of borrowings outstanding at year-end 2004 was as follows: euro 51%, US dollar 25%, Nordic currencies 23%, and other currencies 1%. See Figure 3.

Maturity profile of new borrowings

	Amount in EUR million		Share of total		Number of transactions	
	2004	2003	2004	2003	2004	2003
1 to 2 years	0	824	0%	25%	0	47
3 to 4 years	219	685	12%	21%	3	16
5 to 6 years	1,004	1,372	56%	42%	4	9
7 to 9 years	244	117	13%	4%	3	3
10 years and longer	341	260	19%	8%	8	7
Total	**1,808**	**3,258**	**100%**	**100%**	**18**	**82**

Maturity profile of new borrowings

NIB tries to match the maturities of its borrowings so that they on the average correspond to the maturity profile of its lending. In 2004, the transactions were concentrated in the 5–10 year maturity segment. This was mainly due to the benchmark transaction, as well as to the fact that some private placements had maturity in the 8–10 year segment. The demand for transactions with maturities greater than ten years has not been particularly large, which is partially due to the low level of interest rates during 2004. The average maturity for new borrowings was 5.9 years in 2004, compared with 4.9 years in 2003.

Structured transactions

Structured borrowing transactions are bonds and other types of borrowings, in which the interest rate and repayment can be tied to the development of, for example, interest rates, exchange rates and share indexes. The transactions can also consist of so-called zero-coupon bonds. The Bank uses swap transactions to cover the market risk involved in this type of borrowing. NIB has a well trained staff and highly developed risk management processes, which enable the Bank to handle these transactions in a secure manner.

In 2004, structured transactions accounted for only 5% of new borrowings compared to 49% in 2003. The drop in the structured funding was mainly due to the fact that NIB was not active in the structured JPY market, and the demand for zero-coupon bonds from Asian investors was low.

Bond repurchases

The Bank has taken a positive attitude towards repurchasing or restructuring its outstanding bonds. In 2004, NIB repurchased EUR 130 million (312) of its outstanding bonds.

Borrowing programmes

NIB has a global borrowing programme with a size of USD 8,000 million. The Bank can issue bonds in various currencies under the programme, which is registered with the Securities and Exchange Commission (SEC) in the USA. Links to clearing systems outside the USA (Euroclear and Clearstream) make it possible to issue global bonds. It was under this programme that NIB made its three benchmark issues each with a size of USD 1,000 million.

The Bank has a medium-term note borrowing programme for its borrowing on the Euromarket. The ceiling for this programme is EUR 15,000 million at present. In 2004, fourteen transactions in a total amount of EUR 809 million were carried out under the programme, compared with 78 transactions in a total amount of EUR 2,031 million in 2003. At the end of 2004, the total amount of outstanding bonds under the programme was EUR 8,116 million.

NIB has a medium-term note borrowing programme on the Australian market. The size of the programme is AUD 2,000 million. No notes have been issued thus far under this programme. The Bank also has a medium-term note programme on the Swedish capital market. The programme is in the amount of SEK 8,000 million. At year-end the amount outstanding under the programme was SEK 1,600 million.

SHORT-TERM BORROWING

NIB's lending is primarily financed with long-term borrowing. NIB also has access to short-term funds through its short-term borrowing programmes and the interbank market, which NIB can avail itself of to satisfy liquidity requirements.

NIB has a commercial paper programme both in the United States and in the Euromarket, with a USD 600 million borrowing ceiling in each of these markets. There was no need to issue notes under these programmes in 2004, however, and NIB had no borrowings outstanding under the commercial paper programmes at year-end.

In 2004, NIB used the interbank market for short-term financing, and EUR 417 million (367) was outstanding at year-end.

PORTFOLIO AND LIQUIDITY MANAGEMENT

NIB considers it important to maintain liquidity, which covers its liquidity needs during twelve months ahead. This makes it possible to avoid borrowing at times, when market conditions are not favourable. In addition, earnings on liquid assets provide a positive contribution to the Bank's net interest income. At year-end, the Bank's net liquidity calculated according to IAS was EUR 2,876 million (2,744). See Figures 5 and 6.

The bank's liquid assets are mainly invested in money market deposits and Floating Rate Notes (FRN). Investments in FRN concern bonds issued by banks and other counterparties within the financial sector in the OECD area with a sufficiently high creditworthiness, as well as Asset Backed Securities (ABS). So far,

NET LIQUIDITY
According to IAS

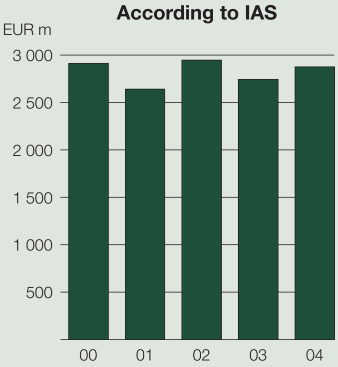


Fig. 5

CURRENCY DISTRIBUTION OF LIQUIDITY
31 Dec 2004

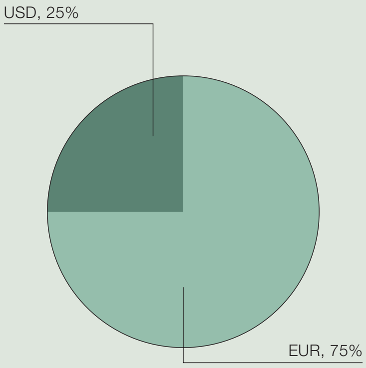


Fig. 6

NIB has only invested in ABS issues backed by credit card receivables and residential mortgage loans with the highest long-term credit rating (AAA/Aaa) from at least two credit rating institutions.

The liquidity is managed actively, and the return is compared to money market benchmarks. Like in the years since 2001, when the active management of the liquidity was introduced, the return on liquidity was somewhat higher in 2004 compared to the benchmark.

NIB has an external interest rate trading programme related to the management of its liquidity. The purpose of the programme is to utilise active trading as a way of increasing return, as well as strengthening and benchmarking the Bank's own internal liquidity management. By the end of 2004, the Bank had contracted four asset management firms for the management of a USD denominated nominal portfolio of USD 200 million, corresponding to EUR 147 million.

PAID-IN CAPITAL AND RESERVES

NIB invests in a portfolio of interest-bearing securities denominated in the euro. The total value of the portfolio, EUR 1,716 million in 2004, is approximately equal to the size of the Bank's equity.

The total securities portfolio is divided into the held-to-maturity and marked-to-market portfolios. The marked-to-market portfolio includes securities that can be traded following the assessment of market developments. The marked-to-market portfolio accounted for 34% of the total portfolio at year-end.

The long-term goal of the total portfolio is to achieve a return that corresponds to the return of a portfolio of euro zone government bonds having an average duration of about 4.5 years. The return on the portfolio in 2004 was in line with the long-term objective.

The modified duration for the portfolio was 4.2 years at the end of 2004, compared with 3.8 years at the end of 2003.

DERIVATIVES

NIB uses interest rate swaps and cross-currency swaps in order to hedge against market risks and to match its borrowing operations with the currency, maturity and type of interest rate in which its lending operations are carried out. The Bank also uses swaps and other derivative instruments, primarily futures and forward contracts, to manage its general interest rate and exchange rate risks.

CAPITAL STRUCTURE

As of 31 December 2004, NIB's authorised capital was EUR 4,000 million. At the end of 2004, the paid-in capital amounted to EUR 404 million. The remainder of NIB's authorised capital consists of callable capital, which 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 Ordinary Lending ceiling corresponds to 250% of the authorised capital and accumulated general reserves. After appropriation of profits from the financial year 2004 in accordance with the proposal made by the Board of Directors, the Ordinary Lending ceiling amounts to EUR 12,673 million.

In addition to Ordinary Lending, NIB has three special lending facilities.

The Project Investment Loan facility (PIL) was increased from EUR 3,300 million to EUR 4,000 million as of 1 July 2004. PIL is backed by special guarantees from the member countries. The Board of Directors can call the guarantees, according to the guarantee agreements with the Bank's member countries and established guidelines, up to a total amount of EUR 1,800 million. In connection with the increase of the PIL facility, the Bank assumed responsibility for all possible PIL loan losses up to the amount, which is allocated to the Special Credit Risk Fund for PIL.

The Environmental Investment Loan facility (MIL) amounts to EUR 300 million. The Bank's member countries guarantee up to 100% of loans outstanding under MIL.

The Baltic Investment Loan facility (BIL) that expired on 31 December 1999 has a ceiling of EUR 60 million. No new loans have been granted under the BIL facility since year-end 1999. The Nordic countries guarantee 100% of loans outstanding under BIL.

NIB's member countries have subscribed to its authorised capital and guaranteed the special loan facilities in proportion to their gross national income. At the end of the year, Sweden accounted for 38% of the authorised capital, Denmark's share was 22%, Norway had 20%, Finland 19% and Iceland 1%.

A closer presentation of the loan facilities, the guarantee structure and guarantee distribution is given in the Notes to the Financial Statements, Note 8, page 57.

Due to the fact that Estonia, Latvia and Lithuania become members of the Bank on 1 January 2005, the Bank's authorised and subscribed capital increases to EUR 4,142 million as of 1 January 2005. The capital increase is carried out as an issue subscribed by the new member countries proportionally to the distribution key based on the member countries' gross national income.

As a result of the increase, the paid-in portion of the authorised capital rises to EUR 418.6 million. The new member countries shall make their payments of the paid-in portion pursuant to an agreed schedule in three annual instalments starting on 31 March 2005.

In consequence of the membership enlargement, the shares of the member countries in the authorised capital and in the guarantees for PIL and MIL change as of 1 January 2005.

In view of the Bank's strong capital base, the quality of its assets, and its status as a multilateral 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, respectively, for short-term obligations. NIB obtained the highest possible credit rating in 1982. Since then, the Bank has continuously been maintaining this credit rating.

NORDIC LOANS

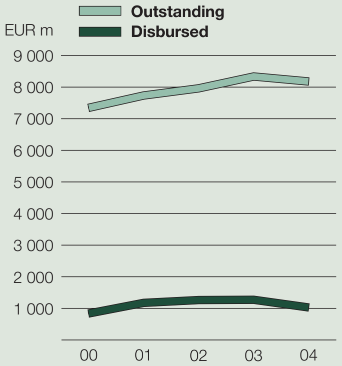


Fig. 1

NORDIC LOANS DISBURSED
Distribution per country 2004 according to the domicile of the borrower's group headquarters

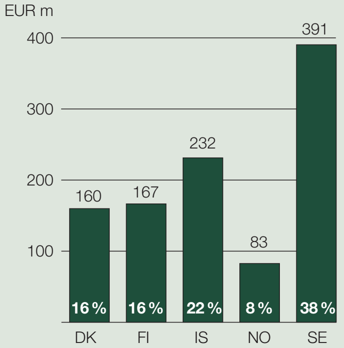


Fig. 2

NORDIC LOANS DISBURSED
Sectoral distribution 2004

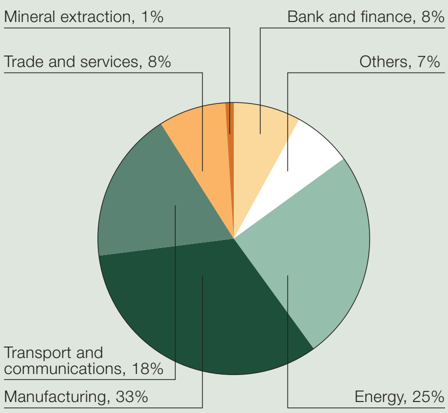


Fig. 3

NORDIC LOANS DISBURSED
Manufacturing 2004

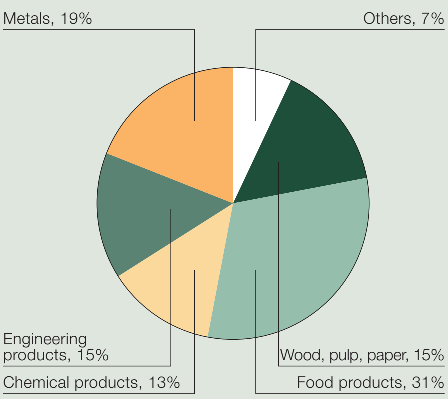


Fig. 4

The total amount of the separate percentage shares may differ from 100% due to rounding.

NORDIC LENDING

The market situation during 2004 was characterised both by increased caution in investment decisions and by sound liquidity among the Bank's Nordic borrowers. It was followed by large prepayments, which led to a decline of the outstanding Nordic loan stock of around 2% at the end of 2004 compared to year-end 2003. Nordic loans disbursed amounted to EUR 1,033 million (2003: 1,277). No new guarantees were issued. Notable for 2004 was the high level of activity among NIB's Icelandic borrowers. The amount of lending to Iceland was the largest in the Bank's history. The breakdown of disbursements by the borrowing group's country of domicile is presented in Figure 2.

Of all 41 Nordic borrowers during the year, fourteen were companies or financial intermediaries, with which the Bank had no outstanding commitments at the beginning of the year. In monetary terms these new borrowers represented 26% of total disbursements.

In addition to the loans disbursed, loans amounting to EUR 172 million were agreed during the year.

The euro continued to be the most significant lending currency for NIB's Nordic lending activities with a 53% share of annual disbursements. The proportion of disbursements in Swedish kronor was 25% and the proportion in Danish kroner was 16%, while disbursements in Norwegian kroner amounted to only 1%. The US dollar's share of disbursements continued to decrease and amounted to 5% of disbursements in 2004.

Floating interest rates were applied to 93% of the loans disbursed during 2004. The average maturity of loan disbursements during the year was ten years.

SECTOR BREAKDOWN

Breakdown into sectors for loans disbursed in 2004 indicates that disbursements to both the manufacturing industry and the energy sector decreased compared to 2003. On the other hand, disbursements to the transport and construction sectors increased. On the whole, NIB's lending was more evenly distributed between the various sectors than in previous years. The sectoral distribution of Nordic loans disbursed can be seen in Figure 3. Specification for the manufacturing industry is shown in Figure 4.

Despite the decrease, manufacturing remained the largest sector with thirteen loans disbursed. Disbursements to this sector amounted to EUR 336 million, equivalent to 33% of new lending in 2004. Within manufacturing, the largest part of loans was disbursed to projects in food and beverage production, such as a loan to Danisco for the company's research and development. Significant disbursements were also made to projects within metal production. By means of a loan to the Swedish company Boliden Mineral for the modernisation of the company's zinc smelting plant in Norway, NIB is financing new technology developed by the Finnish company Outokumpu. The investment paves the way for a more efficient production. The modernisation will also reduce emissions into air and water significantly. As a consequence of the positive trend in earnings and following the restructuring in the Boliden group, the Bank disposed of its shareholdings in Boliden at the beginning of the year.

The energy sector that accounted for a quarter of the loans disbursed during the year was in receipt of disbursements amounting to EUR 263 million to a total of ten projects in all Nordic countries.

Lending to the Icelandic energy sector was especially significant. Loans to the energy sector there amounted to half the total lending to Iceland for 2004. A significant loan went to Landsvirkjun for the construction of the Kárahnjúkar power plant to supply electricity to a planned aluminium smelting plant at Reyðarfjörður. The project is the largest power plant launched to date on Iceland. NIB also financed two geothermal power plants in Iceland. The three new

Value adjustments according to IAS 39 are not included in segment information and currency distribution in this section.

power plants will have a positive impact on the country's economy in general, especially in the regions concerned.

As during the previous year, lending to the energy sector was also significant in Denmark and Finland. In Denmark, a loan was disbursed, for example, to SEAS Distribution for replacing overhead line with underground cable, which will increase distribution security. A loan was also disbursed to the Danish company Energi E2 for the acquisition of shares in hydropower plants in Norway through acquisition of shares in Narvik Energi and Salten Kraftsamband. Two loans were disbursed to Finnish companies for projects in the energy sector. One contributed to Finnish M-real's investments in a biofuelled power station at the company's paper mill in Austria. NIB has also continued lending to the Finnish company Fingrid for the extension and upgrading of the trunk grid for power transmission in Finland.

In Sweden, NIB financed the upgrading of an incineration plant through a loan to Tekniska Verken in Linköping. The investment will virtually double waste incineration capacity and thereby improve waste management and contribute to the district heating capacity in the region.

The Bank was also involved in the financing of environmentally sound energy production in Norway through a loan to Østfold Energi for investments in incineration plants utilising household waste as an energy source.

A list of the loans agreed during the period can be found on pp. 78–79.

LOAN CATEGORIES

The loans disbursed are divided into the following categories according to the Nordic interest of the projects: cross-border investments, environmental investments, research and development, infrastructure investments, and furthermore loans to small and medium-sized enterprises either directly or through intermediaries.

The disbursements for cross-border investments totalled EUR 286 million (321) in 2004, of which EUR 169 million concerned investments in the Nordic countries and EUR 117 million concerned investments outside the region. The category for cross-border investments includes acquisitions of business operations or companies, such as the purchase of the Swedish company Altima by Finnish Ramirent. Altima is a significant player in the construction equipment rental in the Nordic countries. Another example is the expansion of the Norwegian media group Schibsted in Sweden through investments in the Swedish publishing company Svenska Dagbladet and in the company Blocket maintaining an advertising site on the internet. By financing investments of the Austrian steel manufacturer Böhler-Uddeholm into its Swedish subsidiaries, NIB contributes to further development and reduction of unemployment in those areas in Sweden where the subsidiaries are located.

Loan disbursements for environmental investments in the Nordic countries amounted to EUR 166 million (231). NIB disbursed a loan, for example, to Rottneros for investments in a new and more environmentally sound pulp production facility. Thanks to the modernised production process nearly 90% of the raw materials are utilised in the final product compared to 50% in the old sulphite-based production process. Additional examples of environmental loans in the Nordic countries can be found in the section "NIB and the environment".

The disbursements amounting to EUR 144 million (147) for investments in research and development included a loan to Ericsson for investments related to research and development in the Nordic countries. The aim of these investments is to increase the company's competitiveness to secure its position among the leading companies in the industry. Furthermore, NIB contributed to the financing of a research centre for generic medicines in Iceland. For this purpose, NIB granted a loan to Actavis Group. The investment is aimed at promoting further growth of the company and securing its positions as a significant player in the European generic medicine market.

Disbursements to infrastructure projects amounted to EUR 412 million (310). Within the infrastructure category, the telecom sector continues to represent an important subcategory. One of NIB's loans went to Telia Sonera for the acquisition of an outstanding block of shares in the Lithuanian mobile telecom operator Omnitel. The acquisition is part of Telia

NORDIC LOANS OUTSTANDING
Distribution per country according to the domicile of the borrower's group headquarters as of 31 Dec 2004

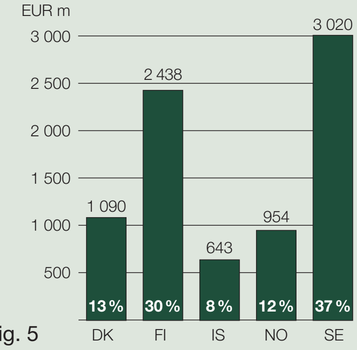


Fig. 5

NORDIC LOANS OUTSTANDING
Sectoral distribution as of 31 Dec 2004

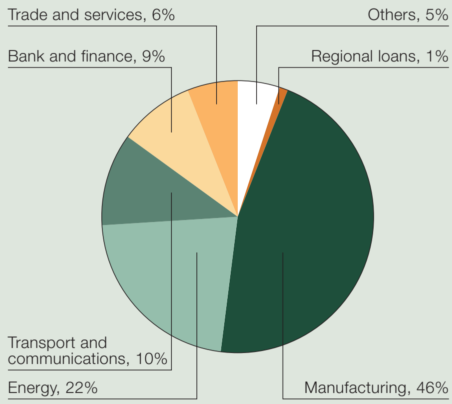


Fig. 6

NORDIC LOANS OUTSTANDING
Manufacturing as of 31 Dec 2004

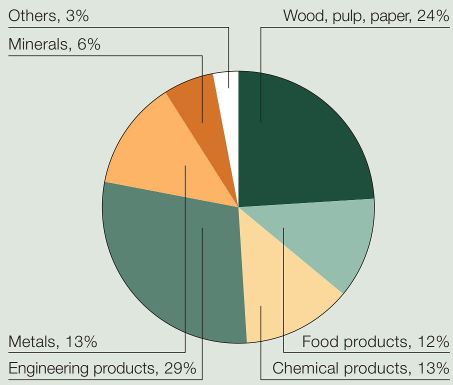


Fig. 7

NORDIC LOANS OUTSTANDING
Accumulated group exposure as of 31 Dec 2004

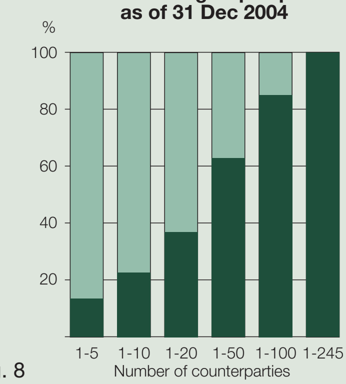


Fig. 8

Sonera's strategy to secure its position on its domestic market in the Nordic and Baltic countries.

In accordance with the Bank's strategy, NIB cooperates with and complements other Nordic and international financiers. NIB has provided loans to small and medium-sized companies during the year mainly through intermediaries, i.e., banks and regional financial institutions. To Finance for Danish Industry, a subsidiary of the forcefully expanding Icelandic Kaupthing Bank, a loan was disbursed for on-lending to SMEs in Denmark. This will allow NIB to reach more SMEs in Denmark than would otherwise be possible.

LOANS OUTSTANDING

During the year, the outstanding loan stock decreased by 2% from EUR 8,350 million at the end of 2003 to EUR 8,192 million at year-end 2004 (see Figure 1). The change excluding exchange rate fluctuations and IAS effects is 1%. At the end of 2004, guarantees outstanding amounted to EUR 25 million (29). Only minor changes have occurred in the breakdown of loans outstanding per country. Figure 5 illustrates the distribution at the end of the year.

Sectoral distribution of loans outstanding can be seen in Figure 6 and specification for the manufacturing industry in Figure 7. Despite a decline, the manufacturing industry continued to predominate with loans outstanding of EUR 3,718 million (3,979), or 46% (48) of loans outstanding. The engineering industry, with a total of EUR 1,091 million (1,115) in loans outstanding, is the largest category in the manufacturing industry, followed by wood, pulp and paper manufacturing with loans outstanding totalling EUR 885 million (940). This is equivalent to a share of 29% and of 24% respectively of loans outstanding to the manufacturing industry. Figures for chemical products and food products, metals and minerals remained on the whole unchanged.

Energy was another sector significantly represented in the outstanding loan stock with loans outstanding of EUR 1,820 million (1,740), which represents an increase to 22% from 21% as compared to the previous year. The transport and communications sector accounted for EUR 853 million, or just over 10% of the outstanding loan stock. Trade and services continued to account for 6% of loans outstanding.

At the end of 2004, the Bank had loans outstanding to 30 (28) Nordic banks and financial institutions for the financing of small and medium-sized companies' Nordic projects. Altogether loans to the bank and finance sector amounted to EUR 731 million (672), which represents 9% (8) of the outstanding loan stock. In addition, NIB had regional loans outstanding with four (4) counterparties for the total of EUR 64 million (87), or 1% (1) of loans outstanding.

Like in the previous years, the Bank's ten largest borrowers at group level constituted approximately 23% of the loan volume, with the 50 largest accounting for about 63%. The largest commitment within NIB's Nordic lending amounted to EUR 263 million at the end of 2004. The figure for the tenth largest group commitment stood at EUR 142 million. Altogether the ten largest commitments amounted to EUR 1,853 million (1,869). Figure 8 shows accumulated group exposure.

The proportion of loans outstanding to or guaranteed by governments or local authorities was 5% (6) of loans outstanding.

In accordance with NIB's classification of risk, the Nordic loans are divided into risk categories 1 to 10 with reference to the risk of losses. This classification is based on a combination of counterparty risk and security received. The quality of the outstanding loan stock remains very good. See the section "Financial guidelines and risk management".

In addition to the existing total of loans outstanding and guarantees issued, the Bank had by the end of 2004 concluded agreements on loans, not yet disbursed, totalling EUR 280 million (214).

A list of loans agreed during the year can be found on pp. 78–79.

LENDING IN THE BALTIC COUNTRIES

NIB has been active in Estonia, Latvia and Lithuania ever since they recovered their independence in 1991. Within the framework of cooperation between the Nordic and the Baltic countries, the Bank has played an active role in all three countries, especially with regard to economic cooperation and the environment.

NIB's loans outstanding for projects in the three Baltic countries totalled EUR 386 million at the end of 2004, as against only EUR 21 million ten years previously. In addition to the loans outstanding, the Bank had loans agreed not yet disbursed and loans granted not yet agreed, totalling EUR 224 million at the end of 2004. This brings its total credit exposure in the Baltic countries to EUR 610 million. The accompanying figure illustrates the development of NIB's credit exposure in the Baltic countries between 1992 and 2004.

Cooperation between NIB and the three Baltic countries is expected to increase further with their accession to the Bank. The enlargement of NIB's membership is both a challenge and an opportunity for supporting sustainable economic growth in the Baltic-Nordic region.

SECTOR BREAKDOWN

NIB's lending in the Baltic Sea region has grown rapidly in recent years, above all with reference to infrastructure. Energy, transport, communications and municipal investments are the most important sectors. NIB today is the biggest external financier of the Baltic energy sector. In the transport sector, the Bank is one of the financiers of upgrading projects for the Baltic road network. The Via Baltica project, for example, came about on NIB's initiative. The Bank is also an important financier of Baltic harbour projects. The municipal investments have comprised a hundred or more water purification and district heating projects, plus energy efficiency improvements in more than a hundred schools, hospitals and other public buildings.

BALTIC INVESTMENT PROGRAMME

NIB's lending activities in Estonia, Latvia and Lithuania were inaugurated in 1992 under the Baltic Investment Programme, the purpose of which was to promote the economic development of the Baltic countries by providing various support to mainly small and medium-sized enterprises (SMEs) in the private sector. One of NIB's main tasks under the programme was the granting of Baltic Investment Loans (BIL) through a facility guaranteed by the Nordic countries. In 1996, the original facility was raised from EUR 30 million to EUR 60 million. Lending under the BIL facility was concluded in 1999, but BIL loans totalling EUR 12 million remained outstanding at the end of 2004.

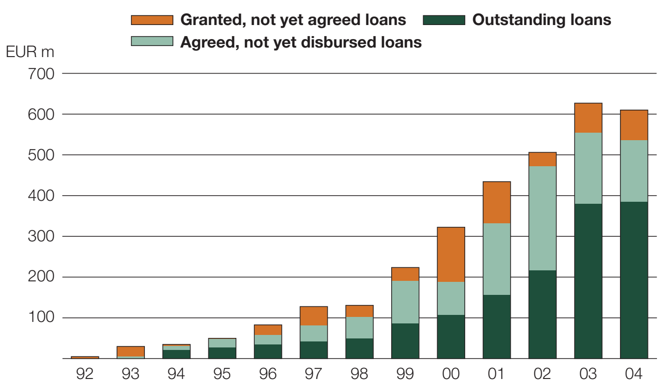
Under the Baltic Investment Programme, the Bank provided technical assistance for the establishment of the Estonian Investment Bank, the Investment Bank of Latvia and the Lithuanian Development Bank, as well as contributed equity in order to develop these three Baltic investment banks into efficient financial institutions. NIB also established several credit lines with the banks for financing SME investments. The three banks have since been privatised and now form part of the operations of the Nordic commercial banks Nordea and Sampo in the Baltic countries.

In the early stages of the Baltic Investment Programme, NIB was directly involved in financing the manufacturing of packaging materials, carton, water purification chemicals, cement, lubricating oil and textiles. NIB helped to finance a stevedoring company, sawmills, joinery factories and several hotel projects in all three of the Baltic countries.

All the arrangements under the BIL facility were entered into for financing industrial or commercial private sector projects, as a rule involving Nordic investors, Nordic suppliers or procurement through Nordic enterprises.

NIB's lending in the Baltic countries was initiated in 1997 under the Bank's Project Investment Loan (PIL) facility and in 2001 under its Ordinary Lending facility. At the end of 2004, all Baltic PIL loans in the portfolio were transferred to the Ordinary Lending facility. Accordingly, all NIB lending to the Baltic countries as from the beginning of 2005 is under the Ordinary Lending facility.

LOANS IN THE BALTIC COUNTRIES 1992–2004



ENVIRONMENT AND INFRASTRUCTURE

NIB played an active role in the environment protection of the Baltic countries all through the 1990s, participating with other international finance institutions in a survey of pollution hot spots around the Baltic Sea already at the start of the decade, under HELCOM auspices. In particular, NIB led the survey regarding the Baltic countries and Northwest Russia. The results of this survey laid the foundations of extensive environmental investments in the catchment area of the Baltic Sea.

NIB has signed loan programmes with each of the Baltic countries for municipal investments in environmental improvements. These programmes have included a large number of individual investment projects, especially in water, wastewater and solid waste treatment, energy efficiency improvements to public buildings and district heating distribution. In addition to its loan programmes, NIB has been able to provide international support to the national intermediaries that have now developed into national cornerstones of the EU support programme for the new member countries.

In Estonia, Latvia and Lithuania, NIB has also financed telecommunications investments. In Estonia and Latvia, the Bank has granted loans to, among others, Eesti Energia and Latvenergo. NIB has acted as lead bank for their investment programmes for the upgrading and modernisation of power and heat production facilities, as well as investments in transmission and distribution networks.

The Bank has financed investments in improvements to the road network in Estonia and Lithuania. It has also financed harbour infrastructure investments in Tallinn and Klaipeda, and municipal infrastructure investments in Tallinn and Riga. In Estonia, moreover, NIB has financed refurbishment of a postal distribution centre and the construction of a new prison conforming to West European standards.

In addition to the three Baltic investment banks mentioned above, NIB has also granted loan programmes to several other banks for private sector investments in housing construction, for SME activities and for women's entrepreneurship. NIB commitments have also included financing of shopping centres in Tallinn and Riga.

Infrastructure projects, both public and private, have dominated direct lending in recent years, while the bulk of other private sector projects have been financed indirectly, through financial intermediaries.

Information about agreed loans in the Baltic countries in 2004 can be found on p. 27.

INTERNATIONAL LENDING

NIB's international lending is aimed at financing projects of mutual interest to the Bank's member countries and the 36 emerging markets and transition countries, with which the Bank cooperates. The information in this section concerns NIB's total international lending during 2004 and includes lending to the Baltic countries as well as NIB's lending within the Northern Dimension.

Demand for the Bank's international loans was slightly weaker during 2004, as compared to the previous year and total loans disbursed was less than in recent years. The cause of the decrease was primarily that the volume of disbursements of individual loans and loan programmes with financial intermediaries in particular was not as high as during the previous years, which in turn was due to a lower rate of investment in several of the Bank's borrower countries. The international loan portfolio was also affected by more significant prepayments this year than is normally the case. The majority of NIB's international loans are denominated in US dollars. The continued weakening of the US dollar against the euro had a negative effect on the loan portfolio also during 2004.

A lower disbursement level, prepayments and the downswing of the US dollar resulted in a reduction in the Bank's international loans outstanding, despite the Bank's international loan portfolio being slightly larger overall at year-end 2004 than at the end of 2003.

During the year, 35 (2003: 35) international loans were granted, totalling EUR 676 million (741), and agreements concerning 30 (26) new loans were entered into, totalling EUR 539 million (557). Loan disbursements amounted to EUR 315 million (564). NIB made a commitment to issue a guarantee of EUR 30 million (0).

LOAN PORTFOLIO

At the close of the year, the Bank's international loan portfolio, which comprises loans and guarantees outstanding as well as loans agreed but not yet disbursed, totalled EUR 2,978 million (2,930). Of these, EUR 2,082 million (2,166) was outstanding and EUR 897 million (764) was agreed but not yet disbursed. No guarantees were outstanding at year-end (0). See Figure 1 and Figure 3.

The international loans are entered into under the Bank's lending facilities, briefly described below.

The Project Investment Loan facility (PIL) is intended for loans to emerging markets and transitional economies and constitutes the core of the Bank's international lending. The PIL ceiling totalled EUR 4,000 million after an increase on 1 July 2004. Loans outstanding and loans agreed but not yet disbursed under the PIL facility totalled EUR 2,267 million (2,634) at year-end. As a result of the Baltic countries' membership in NIB as of 2005, all Baltic loans within PIL were transferred during 2004 to the Bank's Ordinary Lending facility, which is the main reason for the decrease in the PIL portfolio. See Figure 2.

The Environmental Investment Loan facility (MIL) provides a supplement to PIL. MIL is intended to promote environmental investments in the neighbouring regions of the member countries. The MIL ceiling totalled EUR 300 million. The focus is on financing projects in Northwest Russia.

Loans outstanding and loans agreed but not yet disbursed under the MIL facility at year-end totalled EUR 128 million (107). See the section "NIB and the environment".

The Baltic Investment Loan facility (BIL) was set up in 1992. New loans have not been issued since 1999. Loans outstanding under the BIL facility totalled EUR 12 million (18) at year-end.

All lending to the Baltic countries will be carried out as a part of the Bank's Ordinary Lending facility as of 2005. On an ad hoc basis through the Ordinary Lending facility, the Bank can also participate in the financing of projects within the OECD area. International loans outstanding and loans agreed but not yet disbursed under the Ordinary Lending facility totalled EUR 543 million (171) at the end of 2004.

LENDING

International loans are being provided as direct loans to individual projects or loan

Value adjustments according to IAS 39 are not included in segment information and currency distribution in this section.

INTERNATIONAL LOANS AND GUARANTEES

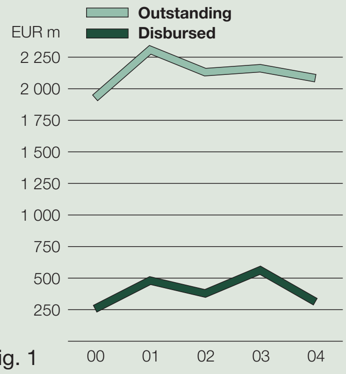


Fig. 1

PROJECT INVESTMENT LOANS

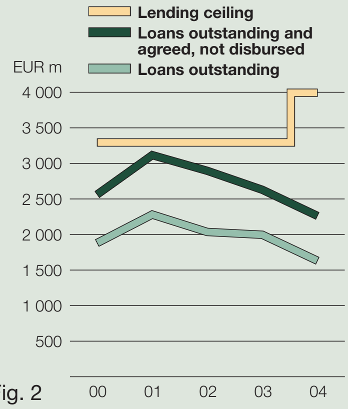


Fig. 2

INTERNATIONAL LOANS OUTSTANDING
By currency as of 31 Dec 2004

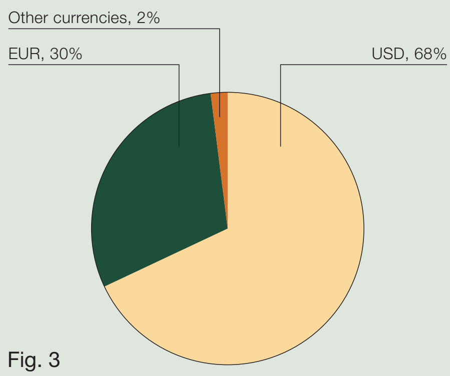


Fig. 3

The total amount of the separate percentage shares may differ from 100% due to rounding.

INTERNATIONAL LOAN PORTFOLIO
Geographical distribution as of 31 Dec 2004

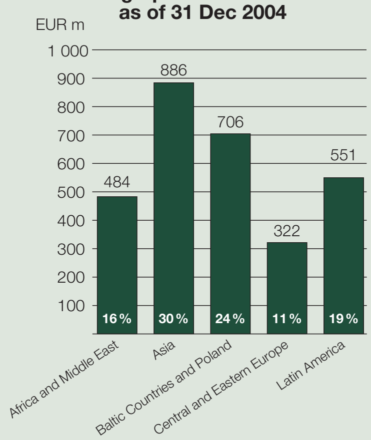


Fig. 4

INTERNATIONAL LOANS DISBURSED
Geographical distribution 2004

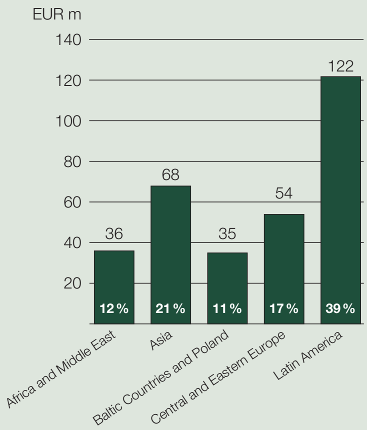


Fig. 5

INTERNATIONAL LOANS OUTSTANDING
Sectoral distribution as of 31 Dec 2004

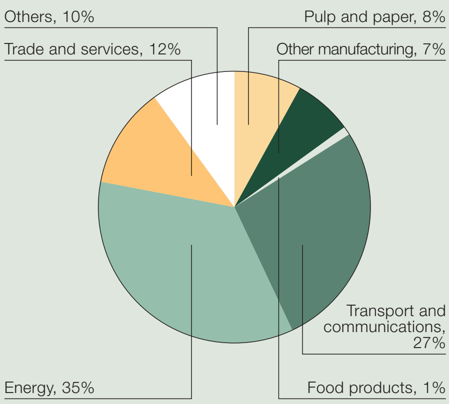


Fig. 6

programmes to financial intermediaries. The Bank has active loan programmes with 29 financial intermediaries, mostly state-owned development banks and local commercial banks. Lending through intermediaries serves above all to finance projects in the SME sector.

The loan programmes to financial and other intermediaries account for a large proportion of the Bank's international lending. At the end of 2004, outstanding and agreed but not yet disbursed loan programmes reached EUR 1,619 million (1,461), equalling 54% (50) of the international loan portfolio. The Bank approved 69 new projects (74) under the loan programmes in 2004, and allocations under the programmes totalled EUR 191 million (299).

The share of loans to the private sector was increasing in recent years, but the main part, or 63% (62), of the international loan portfolio, consisted of loans that went directly to states or had a state guarantee.

The quality of NIB's international loans outstanding improved slightly during the year. The share of loans in the three lowest risk classes at year-end totalled around 6% compared to around 7% at the end of the previous year. The share of loans in the better risk classes was maintained at about the same level as in the previous year. At year-end, there was one non-performing loan with a total value of EUR 4.4 million. See the section "Financial guidelines and risk management".

BORROWER COUNTRIES

NIB has established formal cooperation with 36 emerging and transitional economies. Cooperation with these countries is long-term and generally based on agreements concluded with each country's Ministry of Finance. The Bank's international lending is divided into geographical regions: Africa and the Middle East, Asia, the Baltic countries and Poland, Central and Eastern Europe, and Latin America. See Figure 4 and Figure 5.

Through NIB's loan programmes to regional development banks, projects may also be financed in countries, with which the Bank has no framework agreement. The Bank's loan programmes with the Central American development bank CABEI, the Andean development bank CAF and the regional Black Sea Trade and Development Bank provide examples of such access.

In addition, some of the Bank's other financial intermediaries, for example, in South Africa, finance projects outside their main country of activity.

AFRICA AND MIDDLE EAST

The Bank's loan portfolio in Africa and the Middle East reached EUR 484 million (445) at year-end.

An agreement on a loan programme of EUR 50 million was signed with the Tunisian state-owned telephone company Tunisie Telecom for investments in the country's fixed and mobile telecommunication networks. The loan programme is the fourth to the company and is guaranteed by the Tunisian state.

A loan agreement of EUR 16 million was signed with the state-owned Mauritian energy company Central Electricity Board to finance the expansion of the energy plant St. Louis Power Station.

NIB also entered into agreements for general loan programmes with two new financial intermediaries in South Africa. An agreement of USD 25 million was signed with Nedbank Limited and an agreement of USD 25 million was signed with the Standard Bank of South Africa. Both loan programmes are intended to finance projects in countries south of the Sahara.

ASIA

At year-end, loans and guarantees outstanding and agreed but not yet disbursed in Asia totalled EUR 915 million (885).

During the year, lending to the People's Republic of China, which is the Bank's largest single international borrower, was broadened by one new loan programme. The loan programme for the total of USD 60 million concerns projects in the health care sector. It is NIB's third loan programme to the health care sector in China.

During the year, cooperation with the the government of Vietnam was also extended through four loan programmes totalling USD 105 million. One loan programme was intended for financing of projects in the energy sector and totalled USD 40 million. A loan programme of USD 15 million provided financing for projects in the coal sector. Two loan programmes of a general nature totalled USD 20 million and USD 30 million. An existing loan programme was expanded by USD 3 million to ensure inclusion of a number of project allocations within the same loan programme. A supplementary loan totalling USD 10 million was signed for further investments in a cement production plant in the Tam Diep district.

Furthermore, NIB entered into an agreement for a loan of USD 20 million to the Philippine telephone operator Digitel Mobile Philippines. The loan will finance the company's further expansion of the mobile telecommunications network in the Philippines.

A loan of USD 7 million was agreed with Rain Calcining Limited in India to finance new investments and the modernisation of the company's coke production plant.

Furthermore, NIB made a commitment to issue a guarantee of INR 1,700 million to the Indian telephone operator IDEA Cellular. The guarantee will secure the company's bond loan in Indian rupees. The transaction will finance the company's continued expansion of the mobile telecommunications network in India.

BALTIC COUNTRIES AND POLAND

The Bank's loan portfolio in the Baltic countries and Poland reached EUR 706 million (738) at year-end.

The Bank signed an agreement with Port of Tallinn (Tallinna Sadam) in Estonia for a loan programme totalling EUR 15 million. The loan will finance investments in harbour infrastructure.

As a continuation of the Bank's earlier loan programmes to promote women's entrepreneurship in the Baltic countries, two new loan programmes were agreed with Hansabanka in Latvia and the Mortgage and Land Bank of Latvia. The loans are for EUR 1 million each.

A review of the Bank's current and previous activities in Estonia, Latvia and Lithuania is provided in the section "Lending in the Baltic countries".

CENTRAL AND EASTERN EUROPE

The Bank's loan portfolio in Central and Eastern Europe reached EUR 322 million (271) at year-end.

Agreements were signed concerning general loan programmes in the region with three new financial intermediaries. In Bulgaria and Slovakia, agreements were signed with the development banks Encouragement Bank and Slovenská Záručná a Rozvojová Banka for loan programmes of EUR 10 million each. NIB also signed an agreement for a loan programme of EUR 15 million with the Black Sea Trade and Development Bank, which is a regional development bank that finances projects in its member countries around the Black Sea.

During the year, a loan agreement was signed with the Romanian energy company Transelectrica for investments in the Romanian power network. The loan, totalling EUR 23 million, is to upgrade the transformer station in the city of Gutinas. This is the Bank's third loan to the company.

Furthermore, an agreement was signed for a loan of EUR 10 million with the Czech telephone operator Oskar Mobil. The loan will finance the company's continued expansion of the mobile telecommunications network in the Czech Republic.

Within the Northern Dimension Environmental Partnership (NDEP), a loan of EUR 9 million was signed for the St. Petersburg water utility Vodokanal to finance a sludge incineration facility at the city's northern wastewater treatment plant. Moreover, a loan programme was signed for a EUR 15 million loan programme to Industry & Construction Bank for financing environmental projects in Northwest Russia.

A loan programme for the promotion of women's entrepreneurship in Russia was signed with Vneshtorgbank. The loan programme amounts to EUR 2 million.

An agreement was also signed for a loan of USD 30 million to the Russian telephone operator Megafon. The loan will finance the company's further expansion of the mobile telecommunications network in Russia.

NIB's activities in Central and Eastern Europe, in Northwest Russia and within the framework of the NDEP are described in more detail in the section "Northern Dimension".

LATIN AMERICA

The Bank's loan portfolio in Latin America totalled EUR 551 million (591) at year-end.

An agreement was signed during the year for a new loan programme of USD 50 million with the Mexican development bank Banco Nacional de Comercio Exterior (Bancomext). The general loan programme for projects in Mexico is NIB's third programme with the bank.

During the year, NIB signed an agreement for a loan of USD 30 million with the Brazilian aluminium oxide producer Alumina do Norte do Brasil. The loan will finance the expansion of the company's production capacity.

Furthermore, NIB entered into an agreement for a USD 20 million loan to the Brazilian telephone operator Telemar Norte Leste for financing investments in the company's mobile telecommunications network.

SECTOR BREAKDOWN

NIB's international loans are provided mainly for infrastructure investments, especially in the energy sector with a share of 35% and in the transport and communications sector that accounts for 27% of loans outstanding. In the transport and communications sector, telecommunications comprises a major share. The manufacturing industry is the third largest sector with a share of almost 16% of loans outstanding and with financing mainly through NIB's loan programmes to financial intermediaries. See Figure 6.

A list of the loans and guarantees agreed in 2004 is provided on p. 80.

According to its mission and strategy, NIB shall, by means of financing projects, support the economic transition and development in the member countries' neighbouring regions, which are strategically important to the Bank. In 2004, NIB continued its strong focus on environmental projects in Northwest Russia, including Kaliningrad.

In 2004, NIB's activities in the Northern Dimension area were further intensified in terms of the preparation of new projects, new concluded agreements and the amounts disbursed. Furthermore, cooperation with financial intermediaries and local banks was intensified through loan programmes and security arrangements.

ENVIRONMENTAL PROJECTS IN NORTHWEST RUSSIA

Northwest Russia is a priority area for NIB, with the activities mainly directed towards large environmental projects. Financing is provided to public projects, as well as to investments in the private sector. While initially the primary focus was on environmental projects within the municipal sector, industrial environmental projects in the private sector are now also included in the scope of activities. Normally the Bank finances large projects through direct loans, whereas smaller projects are mainly financed under loan programmes in cooperation with local financial intermediaries.

All currently outstanding environmental loans and commitments in Northwest Russia are so far booked under the Environmental Investment Loan (MIL) facility, which amounts to EUR 300 million. At year-end loans outstanding and agreed, but not yet disbursed under the MIL facility, totalled EUR 127.7 million.

The Bank's financing of environmental projects in Northwest Russia will secure remarkable reduction of harmful discharges. Tables 1 and 2 show the estimated reductions of air and water emissions in NIB's projects in Northwest Russia.

Northern Dimension Environmental Partnership

NIB plays an active role in the Northern Dimension Environmental Partnership (NDEP), established in 2001. The aim of the NDEP is to coordinate and support the financing of urgent environmental investments with cross-border effects in the Baltic Sea and Barents regions, with the focus on Northwest Russia, including the enclave of Kaliningrad. The partnership combines the expertise and resources of the EBRD, the EIB, NIB, the World Bank, the European Commission and the Russian Federation.

The partnership tackles urgent environmental problems within the EU's Northern Dimension by promoting sustainable solutions in wastewater treatment, solid waste management and energy supply, as well as the treatment of nuclear waste. The partnership also addresses industrial environmental concerns. Projects are financed through a combination of long-term loans, donor financing and local funds.

The NDEP activities are led by a steering group, which selects priority projects and appoints a lead bank for each project. Since July 2004, the steering group is chaired by NIB. The partnership has a support fund with the task of attracting contributions from donor countries in order to ensure the sufficient financing of projects. At the end of 2004, the fund had more than EUR 190 million at its disposal. This amount consists of grants from the European Commission and individual participant countries. A substantial part of the contributions to the fund are earmarked for the clean-up of nuclear waste.

Currently, the partnership encompasses thirteen traditional environmental projects in Northwest Russia with an estimated investment need of around EUR 1.3 billion. NIB is leading the financing and preparation of seven NDEP projects. Closest to completion is the NDEP's flagship project, the Southwest Wastewater Treatment Plant in St. Petersburg, in which NIB has since 2000 been acting as lead bank. The other NDEP projects, in which NIB has a lead role, are municipal or regional projects in Murmansk, Novgorod, Kaliningrad, the Leningrad region and St. Petersburg. In addition to the municipal projects, NIB has initiated the Ladoga Environmental Programme, which is addressing environmental issues in the private sector. The programme aims at promoting environmental investments in industry by supporting measures to achieve productivity and efficiency gains.

A brief overview of the status of the NIB-related environmental projects within the Northern Dimension is provided below.

Southwest Wastewater Treatment Plant in St. Petersburg

In St. Petersburg, the construction of the city's Southwest Wastewater Treatment Plant is continuing. When completed, it will treat wastewater from about 700,000 residents living in the southwestern parts of the city. At present, untreated wastewater is discharged into the Gulf of Finland. The total project costs are estimated at EUR

Table 1

Estimated reductions of air emissions

NIB projects in Northwest Russia and comparison with emissions to air from Sweden

Project	*SO_2 (tons/year)*	*CO_2 (tons/year)*
Pechenga Nickel	136,000	214,000
Biofuel project	620	25,800
Gas power plant Vyborg	60	1,270
Sludge incineration plant St. Petersburg	1,675	94,600
Segezha pulp and paper mill	1,910	84,700
District heating Murmansk	900	65,000
Gas conversion project Kondopoga	9,600	165,000
All NIB projects	**150,765**	**650,470**
Total emissions from Sweden	**52,000**	**72,200,000**

190 million. The construction began in 2003, and the treatment plant is to be completed by summer 2005.

NIB has granted a EUR 45 million loan for the financing of the investment. The project is cofinanced by the EBRD, the EIB, Finnfund and Swedfund, together with equity from the Nordic Environment Finance Corporation NEFCO, the construction companies NCC, Skanska and YIT, and the St. Petersburg water utility Vodokanal. It is the first project to receive contributions from the NDEP support fund. Substantial grant funds from Finland and Sweden, as well as the European Commission, have been allocated to the project. NIB is the lead financier and coordinates the monitoring of the project.

The project is being carried out as a public private partnership, PPP. In practice, the project company Nordvod and Vodokanal are responsible for the implementation of the project in cooperation with local authorities. Nordvod is owned by Vodokanal, NEFCO and the Nordic construction companies YIT, Skanska and NCC. When completed, the plant will be operated by a separate company under the same ownership as Nordvod.

Sludge incineration plant in St. Petersburg

NIB has signed a EUR 9 million loan with Vodokanal of St. Petersburg for the financing of a sludge incinerator at the city's northern wastewater treatment plant. Additional EUR 3.9 million from an earlier loan agreement with Vodokanal has been allocated to this project. The total cost of the project will reach approximately EUR 90 million. The project has been granted assistance from the NDEP support fund.

Flood barrier in St. Petersburg

NIB has approved a loan of USD 40 million to finalise the Flood Protection Barrier project in St. Petersburg in cooperation with the EIB and the EBRD. The project costs are estimated at USD 420 million. The NDEP provides a grant at the amount of USD 1 million. The Russian Federation guarantees the loans and will provide budget funds amounting to approximately USD 90 million for the financing of the project.

Direct discharges in St. Petersburg

The completion of the Southwest Wastewater Treatment Plant creates capacity for the city to treat all wastewater. Nevertheless even after the plant's launch, approximately 25% of the city's wastewater will still be discharged into the Neva river from more than 400 discharge spots not connected to the central sewerage network. NIB has been mandated to commission a feasibility study on elimination of the remaining discharge points. The study, which will be financed by Finland and Sweden, is to be completed by the end of 2005. The project is included in the NDEP list.

Table 2

Estimated reductions of discharges to water

NIB projects in Northwest Russia and a comparison with riverine discharges to the Gulf of Finland

Project	*P-tot (tons/year)*	*N-tot (tons/year)*	*BOD (tons/year)*
Southwest Wastewater Treatment Plant St. Petersburg	200	1,000	14,000
Wastewater treatment Sestroretsk	1.4	27.7	110
Wastewater treatment Kaliningrad	138	1,240	9,540
Water and wastewater Leningrad region	50	100	110
Manure handling system	110	140	0
Water treatment Kondopoga	0	0	1,875
Segezha pulp and paper mill	0	0	690
All NIB projects	**500**	**2,500**	**26,300**
Total riverine discharges to the Gulf of Finland	**4,940**	**110,000**	**201,600**

Wastewater treatment in the Leningrad region

In Leningrad Oblast, NIB leads a development programme for environmental investments in a number of selected cities in the region. In the first phase, the investment programme includes four towns: Gatchina, Kirovsk, Pikalevo and Tikhvin. NEFCO, the governments of Sweden, Denmark and Finland, as well as the NDEP support fund will contribute grants for the financing of the programme. The costs for the programme are estimated at EUR 20 million. NIB has approved a loan of EUR 5.3 million for the project.

Ladoga Environmental Programme

The Ladoga Environmental Programme is an industrial rehabilitation initiative, established to address the environmental concerns within the private sector in the Northwest Russian part of the catchment area of the Baltic Sea. This area includes the Neva river and the two major lakes Ladoga and Onega. The aim of the programme is to reduce emissions to air and discharges to water from the pulp and paper, metallurgical and chemical industries. The programme is expected to have significant positive environmental impact on the Baltic Sea. The projects will be financed either directly by NIB in cooperation with other financial institutions or through credit facilities with financial intermediaries. Three loans have been approved by the Bank for the financing of environmental investments in the pulp and paper industry. The Ladoga Environmental Programme has the status of an NDEP project.

Municipal environmental project in Novgorod

NIB has been mandated by the City of Novgorod to lead and structure an investment project aimed at rehabilitation of the city's water, wastewater, solid waste and district heating sectors. The feasibility studies have been financed by Sida through a Swedish trust fund at NIB. It is expected that the project will gain funding from the NDEP.

Solid waste management in the Kaliningrad region

NIB has been mandated by the administration of the Kaliningrad Oblast to lead a solid waste project aimed at implementing a comprehensive solution for the collection, sorting and end deposit of solid waste for the whole region. The objective is to reduce the pollution of both the ground and surface water. A feasibility study on the project was completed at the end of 2004. The implementation of the project requires substantial grants from the NDEP and other donor agencies.

District heating in Murmansk

NIB has approved a loan of EUR 15 million for a project aiming at the modernisation of the district heating network in the city of Murmansk. The project includes rehabilitation of the production and distribution networks. The project will be implemented in two stages, the first covering approximately one-third of the district heating system of the city. The Swedish International Development Cooperation Agency (Sida) and the Norwegian Ministry of Foreign Affairs have financed the feasibility studies for the preparation of the project. The NDEP has allocated EUR 5 million in grant funding to the project.

Pechenga Nickel on the Kola Peninsula

NIB participates with a loan of USD 30 million in the financing of the rehabilitation of a nickel smelter and a roasting plant run by Norilsk Nickel in the towns of Zapolyarny and Nikel on the Kola Peninsula. The total value of the project is USD 93.5 million. The investment will drastically reduce emissions of SO_2 gas and heavy metals dust from the plants. Grant funding is provided by Norway in the amount of NOK 270 million, and Sweden in the amount of SEK 32 million. Norilsk Nickel's own equity contribution is approximately USD 30 million. The grant financing is handled by NIB. The project is under implementation and a 20% reduction of SO_2 has already been achieved.

Wastewater treatment in Sestroretsk

The Sestroretsk wastewater treatment project is part of the comprehensive development programme for the St. Petersburg municipal water utility Vodokanal. The total cost of the project is EUR 23.7 million financed through substantial grants from Denmark, Finland and Sweden, and a loan from NIB. The project was completed at the end of 2004.

Water and wastewater treatment in Kaliningrad

Since 2001, NIB has had a loan agreement of USD 13 million with the Russian Federation for the development of water and wastewater services in the city of Kaliningrad. The implementation of the project experiences some deviations from the original schedule. Due to the delays, considerable cost overruns are expected. Sweden, Denmark and NEFCO have provided substantial grants for the project, which encompasses investments in potable water and wastewater treatment, as well as institutional development.

Loan programmes with Russian intermediaries

NIB has concluded loan programmes for environmental investments in Northwest Russia with two local banks. The first one, totalling EUR 20 million, was signed with Vneshtorgbank. During 2004, the second loan programme in the amount of EUR 15 million was signed with Industry & Construction Bank in St. Petersburg.

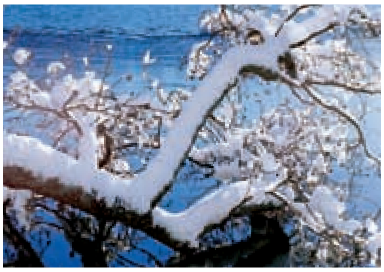
Administration of external funds

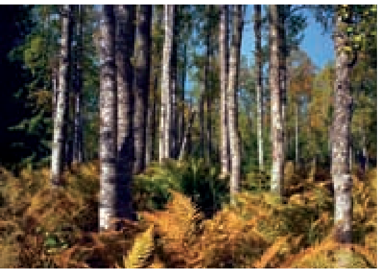
The Bank's member countries engage NIB as one of the channels, through which technical assistance is allocated to projects in the neighbouring regions of the Nordic countries. In one project in Russia (Pechenga Nickel), involving both loan and grant financing, NIB has undertaken to administer grants from Norway and Sweden.

In addition, Finland and Sweden have placed separate funds with NIB for financing consultancy services used for preparation and monitoring of projects identified by NIB and approved by the respective authorities. In 2004, these technical assistance trust funds were as follows:

- **A Finnish technical assistance trust fund** at NIB, intended for potential NIB and/or NEFCO projects, above all in infrastructure, the environment, forestry and forest industries in Central and Eastern Europe, including Russia and Ukraine. The Finnish Government is represented by the Ministry of Foreign Affairs.
- **Two Swedish technical assistance trust funds** at NIB, intended for potential NIB projects relating to the environment and energy in Estonia, Latvia, Lithuania, Poland and Northwest Russia, and for one of the funds also Ukraine. The Swedish Government is represented by Sida. One of the technical assistance trust funds paid out its reserves in their entirety and was closed during the year.
- **Two special Swedish technical assistance trust funds** at NIB, intended to be used for two environmental projects that the Bank is preparing in Russia: the Southwest Wastewater Treatment Plant in St. Petersburg and Pechenga Nickel on the Kola Peninsula. The Swedish Government is represented by Sida.
- **A Finnish technical assistance trust fund** at NIB, intended to support and facilitate the financing of SMEs in Lithuania that involve women entrepreneurs. The Finnish Government is represented by the Ministry of Foreign Affairs. The fund was established in cooperation with Council of Europe Development Bank (CEB). The fund had paid out its reserves in their entirety and was closed during 2004.

In 2004, NIB received the first allocation of earmarked financing from the NDEP support fund for the Southwest Wastewater Treatment Plant project in St. Petersburg. The Northern Dimension Environmental Partnership (NDEP) combines financing from several international financing institutions, the European Commission and the Russian Federation with the purpose of supporting the implementation of high-priority environmental projects in Northwest Russia.





NIB AND THE ENVIRONMENT

NIB's strategy calls for the Bank to play an important role in financing environmental improvements in the member countries as well as in the Baltic Sea and Barents regions. The Bank focuses on projects leading to a reduction of emissions or to environmentally sustainable solutions in the member countries and their neighbouring areas. Projects generating positive environmental effects on the Baltic Sea have a special status, and NIB has financed over one hundred such projects.

NIB's environmental policy specifies guidelines for the Bank's environmental activities. One of the most important points in the policy is that environmental issues are to be evaluated in every loan application. The evaluation of environmental aspects is an important part of the preparation of all projects that are considered for possible financing.

NIB should actively promote investments with positive environmental effects and investments that directly or indirectly reduce emissions or other environmental hazards. The environmental investments comprise two types: projects designed to treat pollution and projects aimed at preventing it. Typical pollution treatment investments include wastewater treatment, flue gas purification and waste management. In addition, a large number of projects are for investments in the development and implementation of environmentally friendly and pollution-preventing technologies.

ENVIRONMENTAL MANAGEMENT SYSTEM

NIB's environmental management system includes clear procedures for evaluating potential projects. According to the Bank's established environmental procedures, all relevant environmental risks and consequences must be taken into account in the projects it intends to finance. NIB employs the same classification system as other international institutions, such as the EBRD and the World Bank Group. Each loan application is classified according to the extent of the project's environmental impact. If the project has the potential for making an extensive environmental impact or if the legislation of the project's host country requires it, the project must undergo a full environmental impact assessment (EIA) and is classified as a category A project. If the project has the potential for making a moderate environmental impact (category B), it must undergo a partial EIA. Finally, projects that are considered to have an insignificant or not readily measurable environmental impact (category C) are not required to undergo any formal EIA. Environmental impact assessments are usually carried out by independent consulting firms and the reports are published in the host country of the project according to the requirements of its national legislation. In addition, during the EIA process, the public or those groups that are affected by the project are usually consulted. In some cases NIB can demand an EIA even if it is not required by the host country's legislation.

In conjunction with the environmental impact assessment, a project's social impact can also be taken into account, if it is broad in scope or will have a significant influence on the living conditions of many people in the region, where the project is located. Projects that must undergo a social assessment include large-scale projects in densely populated areas and projects that lead to extensive and lasting changes in the ability of the local population to pursue its livelihood.

In conjunction with company acquisitions, it may be necessary to carry out an environmental audit, which is a systematic analysis of the company's potential environmental risks and liabilities. An environmental audit is required in projects, in which there is an obvious risk of the purchaser incurring environmental liability in the form of remediation costs relating to environmental damage, such as contaminated soil, polluted groundwater, leaking landfill sites and chemical storage facilities.

In accordance with NIB's environmental management system, an internal, independent environmental review is also carried out for every loan application. The review is based on completed environmental impact assessments, environmental audits and other available documents.

All NIB-funded projects shall comply with national environmental legislation and international environmental agreements. All projects NIB finances must comply with the host country's relevant environmental legislation and international environmental conventions and standards as well as have all the necessary environmental permits. The projects must also otherwise fulfil the Bank's criteria for environmental acceptability. A written assessment for all loan applications regarding the project's environmen-

Environmental policy

- NIB assesses the environmental aspects of every loan application.
- NIB actively promotes investments with a positive environmental impact.
- All NIB-funded projects should comply with national environmental legislation and international environmental agreements.
- NIB ensures that its employees have a high standard of environmental knowledge to be capable of good environmental management.
- NIB conducts an active environmental dialogue with its owners, customers and other business contacts.
- NIB provides information on its environmental activities.
- NIB encourages its financial intermediaries to include environmental aspects in their own credit decisions.
- NIB promotes environmentally responsible procurement.
- NIB will continuously improve its environmental management.

The environmental policy can be found in its entirety on the Bank's website on the Internet: http://www.nib.int/about/e_policy.html

Value adjustments according to IAS 39 are not included in segment information in this section.

tal impact is included in the material, on which credit decisions are based.

NIB refrains from financing projects if they are environmentally dubious or if they obviously violate environmental regulations. If a project is considered to be environmentally dubious already in the early stages, it does not proceed further in NIB's credit preparation process.

If a project is deemed to be environmentally acceptable overall but some details remain unresolved at the point of presenting the application to the Credit Committee, environmental covenants are usually included in the loan agreement. In certain cases, NIB requires environmental monitoring of projects. The monitoring is usually carried out by independent environmental experts and may include, for example, the monitoring of water quality in a watercourse or the measurement of discharges from an industrial plant. In rare cases, NIB demands that a project be reformulated in terms of the environment, for example, that an environmental management system be introduced in the borrowing company or that an environmentally hazardous substance be replaced.

NIB has undertaken environmental protection measures at its headquarters in Helsinki, both complying with the requirements of current Finnish environmental legislation and in many respects going beyond what the legislation requires. During 2004, NIB introduced internal environmental guidelines for office practices, facilities management and procurement, to name a few examples. When the environmental guide was adopted, training on internal environmental guidelines for personnel was arranged.

Environmental staff resources

The Bank has devoted considerable resources to environmental project work. NIB's environmental organisation includes two full-time environmental analysts working on environmental assessments and the development of environmental investment projects. In addition, several of the Bank's loan officers are engaged in the management of environmental loans.

ENVIRONMENTAL LOANS

The investment projects that NIB finances usually have positive environmental effects through, for example, the introduction of new technology. In spite of the fact that environmental benefits are included in projects, not all loans are classified as environmental loans. In granting environmental loans, the Bank finances expressly environmental projects, in other words investments that substantially reduce pollution (pollution treatment) or investments that prevent the generation of pollution (pollution prevention). Environmental projects focusing on pollution treatment might include wastewater treatment in industry or municipalities, waste treatment, recycling and flue gas treatment for industry and power stations. Pollution-preventing environmental investments with indirectly positive environmental effects include efforts to develop biofuelled power stations, wind power, geothermal energy as well as investments in new, environmentally appropriate production technologies in industry.

In order for a project to be granted an environmental loan, the investment is required to bring about positive environmental effects. Like all the Bank's loans, environmental loans are competitive, priced on market terms, and do not include any form of subsidies. Environmental loans can have a longer than usual maturity of up to 20 years. Above all, in countries that are undergoing economic transition, long-term loans contribute to a project's financial stability and prevent sudden increases in fees for end consumers. For example, for a municipal water treatment plant with a limited cash flow from its operating activities, the maturity can be decisive for the realisation of the investment.

The Bank has at its disposal a special Environmental Investment Loan facility (MIL) for neighbouring areas, and which is guaranteed by the Bank's member countries. MIL targets important environmental projects, primarily in Northwest Russia and the Barents region. The aim is to reduce cross-border pollution in these regions and contribute to reducing negative impact on the environment, protecting the marine environment and generally improving the quality of the air and water.

MIL was established in 1996 by a decision of the Nordic Council of Ministers to facilitate the financing of important and prioritised environmental projects in the neighbouring areas of the member countries and which cannot be financed within the Bank's Project Investment Loan facility (PIL). In 2003, the MIL ceiling was raised from EUR 100 million to EUR 300 million.

NIB has environmental loans outstanding in all geographical areas, where it is active. The share of environmental loans of all lending varies by country and region. Of the Bank's total environmental loans outstanding, Sweden and Finland comprise the largest shares, followed by the Baltic countries, Poland and Norway. Approximately half of NIB lending to Central and Eastern Europe consists of environmental loans, while the corresponding figures for the Baltic countries and Poland are over one-third. See Figures 1 and 2.

Nordic countries

By the end of 2004, Nordic environmental loans outstanding totalled EUR 1,473 million (2003: 1,282), an increase of 15% in comparison to 2003. The share of environmental loans of the Nordic loan stock amounted to 18% (15) at the end of 2004. During the last few years, the share of environmental loans of the Nordic

ENVIRONMENTAL LOANS OUTSTANDING
Sectoral distribution 2004

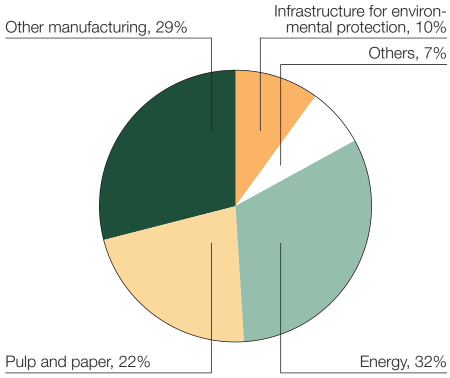


Fig. 1

ENVIRONMENTAL LOANS

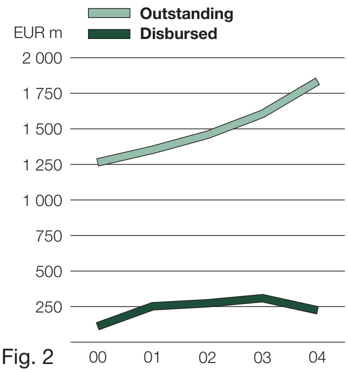


Fig. 2

Environmental loans

As of 31 December 2004 in EUR m

	Granted, not agreed	Agreed, not disbursed	Loans outstanding	Total EUR m	Number of loans
The Nordic countries	74.2	43.7	1,472.7	1,590.6	165
Estonia	0.0	30.0	50.7	80.7	20
Latvia	2.1	2.5	41.4	46.0	43
Lithuania	0.0	0.6	25.4	26.0	12
Poland	0.0	6.1	99.2	105.3	7
Russia	76.7	84.1	43.6	204.4	19
Others	48.1	62.0	104.4	214.5	35
Total	**201.1**	**229.0**	**1,837.4**	**2,267.6**	**301**

loan stock varied between 14% and 18%.

During 2004, a total of EUR 166 million (231) was disbursed to 15 (15) environmental projects in the Nordic countries. For several years now, annual disbursements of environmental loans have totalled approximately EUR 200 million.

Considerable environmental loans were granted in the energy sector in 2004. Two loans were granted for the expansion and capacity enhancement of geothermal energy along with a loan for environmentally adapted drilling technology for production drilling related to geothermal energy. Several environmental loans were granted for investments in biofuelled energy systems. The biofuel raw materials used in the various projects ranged from incinerable waste to waste products from the pulp and paper industry.

An environmental loan was disbursed to an energy company for replacing 700 km of overhead power transmission lines with underground cables. By moving the transmission lines underground, the visual impact of the landscape is improved and land areas are freed up. Another environmental loan was disbursed for the upgrading of an existing hydro power plant to increase efficiency and improve thriftiness of the utilisation of the water resources.

An environmental loan was disbursed for investments in new, more environmentally adapted pulp production technology at a pulp and paper mill, where considerable reductions can be made in emissions, even if production is increased. Emissions of nitrogen into water are expected to be reduced by 180 tonnes annually, phosphorus emissions are expected to fall by 18 tonnes annually and emissions of sulphur dioxide into the air will fall by 90 tonnes annually.

Three environmental loans were granted to research and development projects in basic industry. The research and development projects concern emission reductions for products, reduced energy consumption and resource-conserving production processes. Several of the environmental loans granted during the year were aimed at introducing new emission-reducing technology in the manufacturing industry and resulted in reduced emissions of nitrogen oxides, metals and sulphur dioxide. One of the environmental loans was disbursed to a municipal company for upgrading wastewater treatment. The project will reduce the nutrients released into a nearby bay.

Outside the Nordic countries

NIB also has a significant environmental loan portfolio outside the Nordic countries, including the neighbouring areas of the member countries, as well as other parts of the world. In the neighbouring areas, which have high priority in the Bank's environmental lending, there are still a number of major points of discharge both to the air and the water. The energy sector, which is a major source of pollution, dominates the Bank's environmental lending in the Baltic countries and Poland. Current environmental investments in these countries include desulphurisation plants and flue gas treatment. Investments have also been made in improving energy efficiency. In Latvia and Lithuania, the Bank has loan programmes for improving energy efficiency in district heating systems and in public buildings.

NIB's environmental loans outstanding in neighbouring areas at the end of 2004 totalled just over EUR 260 million (232), which reflects an increase of 12% in comparison to 2003. During 2004, environmental loans were disbursed to 21 projects in the neighbouring areas totalling EUR 37 million.

Environmental programme for Ladoga region

The Ladoga Environmental Programme, initiated by the Bank, is an environmental programme for the Ladoga and Onega lakes, the Neva river east of St. Petersburg and the areas around them. The programme targets cross-border discharges to the air and water. Lake Ladoga is one of Europe's largest inland lakes and is the source of the Neva river that provides drinking water for St. Petersburg.

In the framework of the Ladoga programme, NIB is striving to finance investments related to the environment and increasing productivity in industrial operations in the private sector. Companies in the Ladoga area, which are mainly within the pulp and paper industry, as well as the metallurgy and chemical industries, are in great need of upgrading. External treatment of wastewater and exhaust and the upgrading of processes and production technologies are prioritised areas, since they cause extensive discharges and cross-border pollution.

The condition of Lake Ladoga has gradually deteriorated and the lake is a recipient of severe quantities of pollutants that flow via the Neva river out into the Gulf of Finland and the Baltic Sea. Russian environmental authorities have a monitoring programme for the area, in which the environmental status of the lake is carefully followed.

The Ladoga programme is part of the NDEP.

Nine of the projects were for investments in wastewater treatment plants, where positive environmental effects are achieved through reduced discharges of nutrients and oxygen-consuming substances in water that flows out to the Baltic Sea.

Completion of the Southwest Wastewater Treatment Plant in St. Petersburg has now entered its final phase. When the plant is in full operation, wastewater from almost a fourth of the city's residents will be treated, reaching a quality standard that corresponds to the recommendations of the Baltic Sea Commission, HELCOM, and EU wastewater directives. At present, the wastewater that is discharged directly into the Gulf of Finland is either untreated or is insufficiently treated.

Several loans were disbursed during the year for investments in improving energy efficiency. Most of the loans went to district heating—for the installation of modern district heating pipes, phasing out of old furnaces, fuel conversion from fossil fuels to biomass fuels and the building of new boilers with a high degree of efficiency and low emissions. Loans were also disbursed for the reconstruction and insulation of public buildings as well as schools and hospitals.

The state-owned Latvian energy company received loans for extensive renovation of power stations and the upgrading of the transmission network. The investments will lead to large reductions in emissions.

The Bank disbursed two loans under MIL this year. One to the wastewater treatment plant in St. Petersburg and another to a financial intermediary for environmental projects within the Ladoga Environmental Programme. The focus of the programme is on environmental investments in private industry in Northwest Russia (see the fact box). In 2004, two environmental loans were granted through the Ladoga programme to the pulp and paper industry. The investments are for fuel conversion from heavy oil to natural gas with considerable reductions in sulphur dioxide and carbon dioxide emissions, as well as more energy efficient production equipment.

Outside the Nordic countries and neighbouring areas, NIB disbursed environmental loans for projects in China, Vietnam, Colombia, Romania and Turkey in 2004. These environmental loans are aimed at investments in environmental improvements in the pulp and paper industry and in district heating, as well as modernisation of transmission networks and water treatment.

ENVIRONMENTAL COOPERATION

NIB participates in several international and regional forums for environmental cooperation, in which important environmental matters are discussed.

HELCOM

The Bank works actively in the Baltic Marine Environment Protection Commission—also known as the Helsinki Commission, or HELCOM. Since 1992 the Bank and its sister organisation NEFCO, along with the international financial institutions the EBRD, the EIB and the World Bank, have participated in the work of HELCOM.

HELCOM originally identified 132 hot spots, i.e., major emission sources, round the Baltic Sea. Of the 18 municipalities and industrial points of discharge in Denmark, Sweden and Finland, NIB has contributed with financing to 13. NIB's financing of the projects contributed considerably to several of the pollution sources having been deleted from the original list.

Baltic Agenda 21

Within the Council of Baltic Sea States, NIB is part of an international working group that has drawn up a regional Agenda 21 for the Baltic Sea region: Baltic Agenda 21.

MFI Environmental Working Group

NIB participates in a global forum, the MFI Environmental Working Group, which is a common cooperation forum for multilateral financial institutions. The purpose of the forum is to create common guidelines for what environmental impact assessments should entail and how they should be carried out.

NDEP

The Northern Dimension Environmental Partnership, NDEP, is a cooperation forum for environmental issues in Northwest Russia, in which the EBRD, the EIB, NIB, the World Bank, the European Commission and the Russian Federation cooperate. For more details, see the section on the Northern Dimension.

GLOBAL DEVELOPMENT TRENDS

NIB will continue to prioritise the financing of environment-related projects in its activities. Base investments in developing countries for water and wastewater treatment, as well as solid waste treatment are important components in the social infrastructure. The increased environmental requirements of the EU Environmental Directive, coming into effect within the next few years in Central and Eastern Europe, will be accompanied by the need for more investments. In the Nordic countries, investments aimed at reducing emissions of greenhouse gases will increase, when the Kyoto Protocol is ratified and enters into force. Investments in the reduction of greenhouse gas emissions are carried out through direct investments and trading in emissions. NIB will continue to finance direct environmental investments through its lending activities and by developing new environmental loan programmes, above all in Central and Eastern Europe.

Since the UN world conferences on the environment and sustainable development in Rio de Janeiro in 1992 and in Johannesburg in 2002, sustainable development issues have been emphasised more and more. The social dimension and social benefits of business activities are gaining increasing significance. The debate on corporate responsibility and the increased interest in social reporting have widened the attention from purely environmental questions to a holistic perspective that includes the environment, social responsibility, public goods, and issues of justice and human rights. NIB intends to further develop reporting on its work for sustainable development.

Social impacts are gaining increasing significance in the evaluation of projects, especially in large-scale projects in developing countries, where many people with limited means of livelihood can be affected. Social studies and action programmes are thus becoming more common, for example, in the construction of power plants and dams. This is reflected in the fact that social issues are dealt with in NIB's project evaluations to a greater extent than previously.

FINANCIAL GUIDELINES AND RISK MANAGEMENT

NIB's guidelines for its financial transactions and risk management are characterised by a conservative attitude towards financial risk taking. The Articles of Agreement signed by the member countries and governing NIB's operations require that loans be made on the basis of commercial banking considerations. The Bank's Statutes call for adequate security for the loans made by the Bank, as well as hedging of the Bank's foreign exchange risks. NIB's use of various financial instruments in its operations, including derivative instruments, demands continual oversight of its financial operations and risk management.

MARKET RISK

The Bank's financial guidelines specify that all types of risk-taking, including interest rate, foreign exchange and counterparty risk, should be strictly controlled. The main component of NIB's treasury operations—a global, investor-oriented borrowing strategy, under which borrowing is often carried out in other currencies and with other interest rate structures than is the case for the funds NIB lends—demands the use of derivative financial instruments to cover the pertinent interest rate and foreign exchange risks. The use of these instruments, in turn, gives rise to counterparty risks, which are likewise carefully controlled within a system of limits and comprehensive portfolio monitoring.

FOREIGN EXCHANGE RISK

The Bank's Statutes require it to hedge all foreign exchange risks to the extent practicable. The foreign exchange risks are controlled on a daily basis, and are kept within the very narrow limits established by the Board of Directors. NIB has no foreign exchange risks in its Balance Sheet that could affect its financial position and net income other than to a marginal extent.

The Bank's loans are made primarily in euros and US dollars. Interest income in US dollars can cause a certain fluctuation in the Bank's future net income in euro terms. However, any such potential fluctuations in future cash flows would be minor, compared with the Bank's total assets and equity.

INTEREST RATE RISK

The Board of Directors sets maximum limits for the interest rate risk the Bank can take. The interest rate risk—the sensitivity of the Bank's income to changes in interest rates—is calculated by measuring how much an interest rate change of 1 percentage point can affect the net interest income over time (gap analysis). The limits are set both for each individual currency and for the Bank as a whole. The limits are adjusted annually, and are set in relation to the Bank's equity. At present, the total limit is fixed at EUR 32 million, which corresponds to approximately 2% of NIB's equity. Total interest rate exposure at year-end 2004 was approximately EUR 3.3 million, or 10% of the limit.

In addition to using gap analysis, NIB has a limit system, designed to ensure efficient management of the maturity profile of the assets and the liabilities on the Balance Sheet in order to minimise any discrepancies. Large differences in asset and liability maturities can give rise to a refinancing and reinvestment risk. These risks occur when the margin on assets and liabilities changes at the time of the refinancing and reinvestment. The exposure is calculated by measuring how much a 0.1 percentage point change in the margin on an asset or liability can affect the Bank's net interest income over time. The calculation is made in a manner similar to that of the gap analysis mentioned above. The limit is established for NIB as a whole, and is now set at EUR 16 million, which is about 1% of the Bank's equity. NIB's total exposure at year-end was about 98% of the total limit. In addition to this sensitivity analysis, a EUR 1 billion ceiling has been established to limit the difference in the cash flow between assets and liabilities in the course of any given year. This serves to prevent a large concentration of refinancing or reinvestment needs in the capital markets in a single year.

The placement of assets in an amount corresponding to NIB's equity is managed as a separate portfolio and is not included in the normal calculation of NIB's interest rate risk limits and exposures. In accordance with a previous decision of the Board of Directors, a maximum of 35% of these placements can belong to the so-called marked-to-market trading portfolio. This portfolio is managed more actively. The Bank has also established benchmark portfolios in order to improve the management of these capital market placements, both with regard to risk and return.

The Bank supplements the abovementioned foreign exchange risk control and gap analysis system used for measuring interest rate risk by using the value-at-risk methodology to evaluate the totality of market risk in the Bank's financial portfolios.

The value-at-risk analysis includes all of the Bank's financial portfolios. In order to assess the value at risk, NIB uses both a parametric method and the Monte Carlo method. Under the Monte Carlo method, simulations are used to estimate the sensitivity of the portfolios and the individual transactions to changes in various factors, such as the yield curve or the exchange rate.

CREDIT AND COUNTERPARTY RISK

NIB takes a careful attitude towards credit and counterparty risk, which arises in connection with lending and the Bank's treasury operations. In order to make it easier to manage the credit risks as one portfolio, the Bank has a common, unified risk classification system for the various operational areas. The system consists of categories from 1 to 10, of which 1 is the best and 10 is the worst in terms of risk. The ordinary lending operations usually take place in risk categories 1 to 6, which more or less corresponds to investment grade. The Bank also has strict rules regarding exposure to individual borrowers and composition of the portfolio.

During the year, NIB introduced and further developed a portfolio credit risk model. This tool, comprising both lending and treasury activities, enables the Bank to estimate the capital needed to withstand adverse changes in the creditworthiness of the Bank's counterparties. The new system, based on an economic capital approach, will contribute to a more efficient allocation of the Bank's capital as required by the goals of the Bank's owners. It will also facilitate the optimal allocation of the Bank's capital as regards both the capital backing of individual loans and the backing of the Bank's various portfolios. The end product of this model is a loss distribution that is used for calculating the capital buffer. As input information about each counterparty in the portfolio model, the Bank assesses stand-alone parameters, such as probability of default, loss given default and exposure at default, and monitors asset correlations among the counterparties. For the basis of the asset correlations, NIB has chosen two types of credit drivers: sector and geography. Implementation of the new portfolio credit risk model is currently underway and will be completed in 2005.

Lending

NIB's Board of Directors authorises all loans, with some delegation of decision-making power to the Bank's President for decisions concerning loans of small amounts. The Bank's Board of Directors and its Credit Committee receive regular reports on the economic situation of its clients and guarantors. All of NIB's lending operations are classified according to risk, based on both the client's creditworthiness and the quality of the security. Figure 1 shows the quality of the loan portfolio broken down by type of security.

Treasury operations

NIB only accepts counterparties of high credit standing in carrying out its financial placement activities, and is continuously evaluating the creditworthiness of existing and potential counterparties. NIB's Board of Directors sets limits for each individual counterparty. The Board of Directors adjusts these limits annually on the basis of the size of NIB's equity and is also continuously involved in approving changes to limits based on changes in the counterparties' creditworthiness and economic position.

NIB applies a system for managing derivative financial instruments, particularly swaps, which permits precise monitoring of the market value for each individual swap and, as a result, NIB's exposure vis-à-vis its swap counterparties. In addition to the current market value, the potential risk exposure for the agreement entered into is also calculated. The calculation of this potential risk is made in the manner required under the BIS regulations. However, NIB in fact uses stricter criteria than those required under the BIS regulations.

CREDIT QUALITY

The average quality of the Bank's total credit exposure improved marginally during 2004, and continues to remain at a high level. Two-thirds of the credit exposure is within risk categories 3 through 5 in the Bank's risk classification system at year-end. Figure 2 compares the quality of the Bank's credit risks under the general credit risk classification system at year-end 2003 and year-end 2004.

Nordic lending

The quality of the Nordic loan portfolio improved marginally during the year. The share of the three lowest risk classifications in the portfolio continued to decline and is only slightly more than 1%. Most of the portfolio—more than 70%—belongs to risk classifications 4 and 5. The Nordic lending portfolio is still well balanced in terms of geographical distribution, industrial sector distribution and the loans' size distribution.

International lending

The quality of the international loan portfolio also improved during 2004. The last few years' decline in the share of the three lowest risk classifications continued, and the share amounted to slightly more than 6% at year-end (2003:7). The share of projects in the best risk classifications, namely 3 to 5, remained unchanged.

Financial counterparties

The credit quality of the Bank's financial exposure has maintained a very high level. The share of the three highest risk classifications is approximately 75%.

The Bank as a whole

Taken as a whole, the average credit quality in the Bank's portfolios improved slightly during the year and is still very strong. About 66% of NIB's total exposure consists of exposure in risk categories 3 to 5. The share in the most risky categories, namely 8 to 10, continued to decrease and was 1.6% (2.3) at year-end.

OPERATIONAL RISKS—INTERNAL CONTROL

NIB deals with legal risks and other operative risks through a system of internal controls, and by clear rules for assignment of work and responsibilities among and within all the Bank's departments. The internal controls cover systems and procedures for monitoring transactions, positions and documentation with a clear division of labour between recording, risk management and transaction generating functions.

The work of the Bank's internal audit, which is part of the Bank's internal control system, is in accordance with the international professional standards issued by The Institute of Internal Auditors.

OUTSTANDING LOANS AND GUARANTEES
By type of security provided
as of 31 Dec 2004

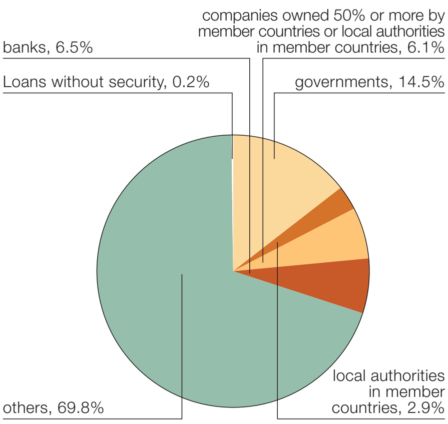


Fig. 1

TOTAL EXPOSURE BY NIB RATING

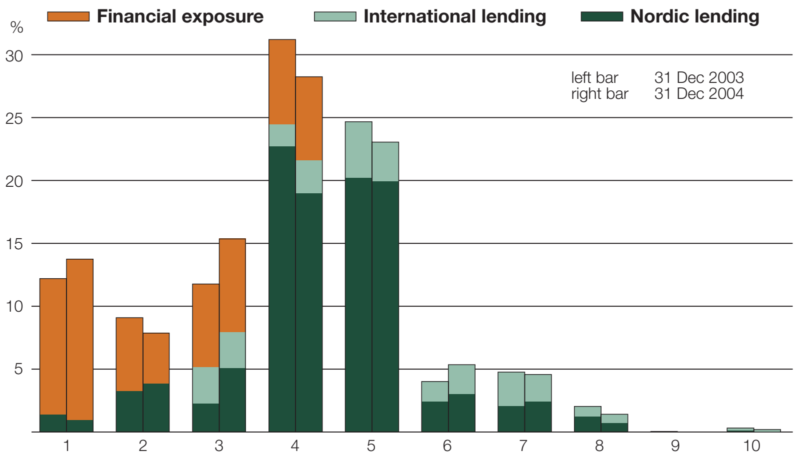
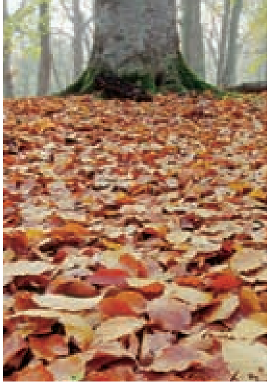
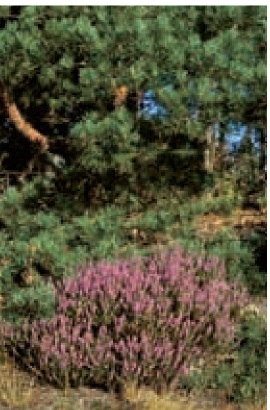


Fig. 2





ANNUAL REPORT 2004

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REPORT OF THE BOARD OF DIRECTORS 2004

The year 2004 was an eventful and positive year for NIB. A new agreement on the Bank was signed and ratified effecting the membership of Estonia, Latvia and Lithuania in the Bank. The financial results for the year were the best in the Bank's history. New lending maintained a fairly strong level despite sluggish investment demand.

Important strategic questions on the agenda of the Board of Directors in 2004 were preparations for the Baltic countries' membership in NIB and the implementation of a new framework for the Bank's Project Investment Loan facility for international lending. The Board has also followed closely the activities of the Northern Dimension Environmental Partnership (NDEP), in which NIB is an active partner. The Bank continued to reinforce its activities in Northwest Russia within the NDEP.

During the year, the Bank's Financial Policies and Guidelines as well as Guidelines for Lending were updated and approved by the Board. During the year, the Bank continued developing its risk management systems and new methods for portfolio credit risk management.

During 2004, the Board approved the Bank's revised Staff Regulations and Rules. The Board approved a revised resolution on counter-corruption measures, according to which a counter-corruption committee will be established in the Bank.

NEW MEMBER COUNTRIES

Membership in NIB was broadened in the beginning of 2005, when the three Baltic countries became full members of the Bank. On 11 February 2004, representatives of the Nordic and Baltic countries' governments signed the new Agreement on NIB. The Agreement was ratified by all eight countries during 2004. Accordingly, Estonia, Latvia and Lithuania became members of NIB on 1 January 2005 on an equal footing with NIB's original five members: Denmark, Finland, Iceland, Norway and Sweden.

Together with the new Agreement, revised Statutes for the Bank came into force on 1 January 2005. The membership of the Baltic countries in NIB is an important milestone in the Bank's history.

The Board took an active part in the preparations for Baltic membership in NIB. A group of senior officials representing the Bank's eight member countries oversaw the process. An internal working group was established to ensure the successful integration of the three new member countries in the Bank's activities.

PIL FACILITY FOR INTERNATIONAL LENDING

NIB can provide loans and guarantees for projects outside the member countries under a special loan facility called the Project Investment Loan facility, PIL, with special guarantees from the Bank's owners. On 1 July 2004, the Bank's PIL facility was increased from EUR 3,300 million to EUR 4,000 million. New guidelines for the PIL guarantees also became effective on that date. The ceiling of the owners' PIL guarantees remains at EUR 1,800 million. The increase provides greater scope for the Bank to grant loans to countries that are not members of NIB, including new members of the European Union. In connection with the increase of the PIL facility, the Bank itself assumed responsibility for any PIL loan losses that might be incurred up to the amount set aside in the Special Credit Risk Fund for PIL. In order to cover such risks, allocations to this fund were substantially increased.

NEW PRESIDENT AND CEO

In September, after a thorough recruitment process, the Bank's Board of Directors appointed Johnny Åkerholm the Bank's new President and Chief Executive Officer. He takes up his position on 1 April 2005. He succeeds Jón Sigurðsson, who has been NIB's President and CEO since April 1994.

SUMMARY OF THE YEAR

NIB's operations developed well during 2004. The financial results for the year were better than for any previous year in the Bank's history. New lending was maintained at a fairly high level in spite of weak industrial investment demand. The level of new loan agreements in the Bank's Nordic and international lending was approximately the same as in 2003. The level of disbursements, on the other hand, fell from the previous year, which was a record year for loan disbursements.

The recovery in the international economy was more pronounced during 2004 than in 2003. In Europe, however, the recovery was more sluggish. The Nordic countries could nevertheless gain from the international upturn. Economic growth in the Nordic countries is estimated to have been just over 3% during 2004. This growth was primarily driven by increased consumption but also by export growth. The propensity to invest began slowly to increase in the course of the year, and the volume of investments grew on average in the Nordic area by about 3.8% in 2004. Industrial investment in the Nordic countries increased by 3.6%, following a decrease of 2.8% in 2003.

NIB's profit for 2004 rose to EUR 172 million, an increase of EUR 21 million (+13.9%) compared with 2003. Most of this improvement was due to higher net interest income, returns from the trading portfolio and its fair value adjustments. Net interest income rose to EUR 163 million, an increase of 5.0% compared with 2003. Core Earnings of EUR 147 million, i.e., profit before provisions for possible loan losses and the adjustments to hedge accounting and fair value adjustments to the trading portfolio, were EUR 7 million above Core Earnings of 2003.

Disbursements of new loans reached EUR 1,348 million in 2004 and new loan agreements amounted to EUR 1,657 million in 2004, a decrease on the previous year. The value of loans agreed, but not yet disbursed amounted to EUR 1,147 million (2003: 978 million). NIB's loans outstanding totalled EUR 10,279 million (10,522), representing a decrease of 2.3%. Adjusted for exchange rate changes the stock remained unchanged. The development was due to lower levels of disbursements, higher amounts of prepayments of loans and the weakening of the USD exchange rate.

During the period under review, specific provisions for possible loan losses were recognised in the Profit and Loss Account with a sum of only EUR 0.7 million. Reversals of previous years' recognised specific provisions totalled EUR 4.5 million. A total of EUR 1 million has been deducted from the Bank's loans outstanding for provisions for possible loan losses. The quality of the Bank's portfolios, taken as a whole, continues to be very high.

The volume of new borrowing amounted to EUR 1,808 million (3,258). This included the Bank's third global USD 1 billion five-year benchmark issue, which was successfully completed in March. Callable bonds from earlier issues that were not called, in the amount of EUR 676 million, can be added to the new borrowing. Thus total funding amounted to EUR 2,484 million. Borrowing outstanding amounted to EUR 12,355 million at the end of 2004 (13,087), reflecting a decrease of EUR 732 million compared with 2003.

Profit as a proportion of average equity rose from 9.5% to 10.1%. The solvency ratio rose from 9.9% to 10.9%.

At year-end, total assets amounted to EUR 16.4 billion (16.7). Net liquidity amounted to EUR 2,876 million (2,744). The Board proposes that EUR 55.0 million (41.3) be paid as dividends to the Bank's owners, the Nordic countries, for the year 2004.

LENDING

Nordic countries

Lending in the Nordic countries maintained nearly the same level as last year, despite the prevailing weak economic conditions and low investment activity. In particular in the energy and environmental sectors, NIB added value for its clients by offering long-term financing for large, long-term investments, in line with its role as a provider of complementary financing.

Disbursements of new loans in 2004 amounted to EUR 1,033 million (1,277). The stock of Nordic loans agreed, not yet disbursed, increased by EUR 66 million. Although the number of disbursements decreased, there was an increase in the average amount disbursed per loan compared to previous years. Reflecting the relatively good liquidity among the Bank's customers, the amounts received as repayments and prepayments have exceeded the amounts disbursed during the period. In addition, there has also been a decline in extensions of maturing loans. As a result of these factors, the growth of the lending was lower than anticipated and the total volume decreased by EUR 159 million since year-end 2003.

The Nordic loans outstanding amounted to EUR 8,192 million (8,350) at year-end. NIB entered into new loan agreements amounting to EUR 1,118 million (1,302). Exchange rate fluctuations caused a decrease of EUR 72 million in loans outstanding.

For the fourth year in a row, there was a significant amount of financing of energy-related investments having a positive effect on the environment. The energy sector accounted for 25% (31) of Nordic lending. The Bank made loan disbursements to energy investments in all five Nordic countries.

The manufacturing industry continues to be the most important sector in the Bank's Nordic lending, with a share of 33% (42) of new lending. In the manufacturing sector, disbursements to the food and beverage industries were the most important, followed by metal manufacturing. New lending to financial intermediaries for onlending to small and medium-sized companies amounted to 8% (9) of disbursements.

Of the total amount of loans disbursed, 40% (24) involved the financing of infrastructure projects. About 28% (25) of the lending went to cross-border investments, in particular with Swedish companies as investors. Environmental investments accounted for 16% (18) of disbursements, and investments in research and development for 14% (12).

As in previous years, the euro was the currency most frequently used for lending purposes, followed by the Swedish krona and Danish krone.

Lending in the Baltic countries

Lending activities in the Baltic countries focused particularly on environmental and infrastructure investments. NIB has many projects pending in the pipeline for the region. The Bank's total lending commitment in the Baltic countries amounted at year-end to EUR 610 million. During 2004, NIB entered into a loan agreement for the development of several port facilities in Estonia. Two loan programmes for the promotion of women's entrepreneurship in Latvia were agreed. NIB has allocated resources with a view to supporting environmental improvement investments in small and medium-sized cities and municipalities in all three Baltic countries.

In Lithuania, the Bank has continued to finance an energy efficiency programme in cooperation with the Lithuanian Central Project Management Agency. The programme is aimed at improving energy efficiency in schools, hospitals and public institutions. This agency has been appointed by the Lithuanian government as the focal point for the distribution of international (EU and EFTA) support for the new EU member states.

The national Baltic environmental financiers, which NIB and the Nordic countries have actively supported for several years, and which act as intermediaries for loans within the environmental area, have continued their work for the environment around the Baltic Sea. Thirteen environmental projects in Estonia have received NIB financing during the period. In addition to environmental and infrastructure investments, the Bank's activities in the region are also focused on the financing of small and medium-sized enterprises and women's entrepreneurship. This lending takes place within various programmes for lending to financial intermediaries.

International lending

Demand for the Bank's international loans was somewhat weaker during 2004 than in 2003. The Board of Directors approved a total of 35 new loans (35), amounting to EUR 676 million (741): EUR 335 million to 20 individual projects and EUR 340 million to 15 loan programmes in cooperation with financial and other intermediaries.

The Bank entered into new agreements for a total of 30 loans corresponding to EUR 539 million (557) during the year. Loan disbursements for the period declined to EUR 315 million, compared with EUR 564 million during 2003. Due to a lower amount disbursed, many prepayments and the weak US dollar rate, the total in loans outstanding declined during the year and ended at EUR 2,087 million (2,172) for 2004. Loans agreed but not yet disbursed amounted to EUR 868 million (764) at year-end.

At present, the Bank has loans outstanding in 30 countries outside the Nordic region. The Bank's cooperation with these countries is on a long-term basis, and is based on framework agreements most often made with the countries' governments. These agreements usually make it possible for NIB to participate in the financing of projects within both the public and the private sectors. The geographic distribution of loans outstanding in NIB's lending outside the Nordic countries at year-end was as follows: Central and Eastern Europe 33% (of which the Baltic countries make up more than half), Asia 31%, Latin America 19%, and the Middle East and Africa 17%. Loans outside the Nordic region are usually granted to governments or with government guarantees for important public projects. The share of loans for projects in the private sector—usually for privatised infrastructure, such as telecommunications or energy—has been increasing in recent years.

The Bank continues to increase its cooperation with financial intermediaries in most of the countries, with which it has framework agreements.

International lending continues to be dominated by loans to infrastructure investments, particularly within the energy, transportation and telecommunications sectors. Projects in the energy sector comprised 18% and transportation and communication comprised 20% of the disbursements in 2004. The share of disbursements to environmental projects and the health care sector also grew, amounting to 19% and 8% respectively.

ENVIRONMENTAL FINANCING

Financing environmental investments is one of the cornerstones of NIB's lending operations. During the year, 26 new environmental loans totalling EUR 300 million were granted. Of the loans disbursed during the period, 17% comprised environmental loans. In the Nordic countries, NIB granted loans to several resource-based industry projects. The investments cover a wide range of energy efficiency, resource management and pollution-reduction projects. All these investments will result in cleaner, more resource-effective and cost-effective production. Environmental investments in the energy sector were significant during 2004. These projects include development of new thermal power areas, upgrading of existing hydropower stations for more efficient utilisation and expansion of renewable energy facilities.

NIB has participated in the financing of a number of environmental projects in the neighbouring areas of the Nordic countries, for which the construction work has already begun or is in the final phase. Environmental investments in the private sector include energy efficiency and cleaner production measures within the pulp and paper industry. The public sector investments are focused on the upgrading of the water supply and wastewater treatment, district heating systems and improved energy efficiency.

NIB has environmental loans outstanding in all regions where it has operations. In 2004, NIB disbursed environmental loans for projects in China, Vietnam, Colombia, Romania and Turkey. These loans are aimed at investments in environmental improvements in the pulp and paper industry and in district heating, as well as in the modernisation of transmission networks and water treatment.

Northern Dimension Environmental Partnership

An important part of NIB's strategy is contributing to the reduction of environmental pollution in areas neighbouring the member countries. NIB therefore has a major programme for environmental projects in Northwest Russia and has taken on an active role in the Northern Dimension Environmental Partnership (NDEP). The purpose of the NDEP is to coordinate and streamline the financing of environmental projects with cross-border impacts in the Northern Dimension area. The NDEP's working programme also comprises investments to tackle the environmental risks associated with radioactive waste on the Kola Peninsula. A facility of EUR 500 million has been defined for the initial measures to be taken in this critical area.

The NDEP consists of a steering group and a support fund. The support fund is intended for financing the NDEP projects in combination with long-term loans from international financial institutions as well as local funds. Activities are directed by the Steering Group, which prioritises projects and appoints a lead bank for each project. Permanent members of the Steering Group are the EBRD, the EIB, NIB, the World Bank, the European Commission and the Russian Federation.

In July 2004, NIB assumed the chairmanship of the Steering Group for the NDEP. Thirteen large environmental projects are either in the preparation or implementation stage within the partnership. NIB is responsible for preparing and coordinating seven of these projects.

The Southwest Wastewater Treatment Plant in St. Petersburg is the largest NIB-led project within the NDEP. The project is in an active implementation phase. The treatment plant, which has a total investment cost of approximately EUR 190 million, is expected to be completed in July 2005. The investment will radically reduce discharges of polluting sewage into the Gulf of Finland, and will improve water quality throughout the Baltic Sea. Since the year 2000, NIB has acted as lead bank for the financing of this project within a bank consortium, and has also coordinated the grant funds to the project. The other six NIB-led environmental projects in the public sector are currently at various stages of planning and implementation. They are located in Murmansk, Kaliningrad, St. Petersburg, Leningrad Oblast and Novgorod.

An important element in the effort aimed at decreasing environmental degradation in the member countries' neighbouring areas is an environmental investment programme for the area around the Ladoga and Onega lakes. The lakes are sources for the Neva river, which flows into the Baltic Sea. The programme, which NIB launched within the NDEP at the end of 2003, is mainly geared toward large private companies within the paper, pulp, and metal industries in the area. The programme is designed to finance investments that increase productivity and at the same time contribute to considerable environmental improvement. The programme is expected to lead to a reduction in harmful emissions from industrial processes in the region and to positive environmental effects for the Baltic Sea. In 2004, loans were granted to several projects, e.g., within the pulp and paper industry.

COOPERATION WITH FINANCIAL INSTITUTIONS

NIB places great importance on its cooperation with commercial banks in and outside the member countries, as well as with international financial institutions, in order to create added value for its customers through supplementing other sources of finance with long-term loans. The cooperation with other financiers deepened in a number of areas during the year.

The Bank's cooperation within the NDEP with the EBRD, the EIB, the World Bank Group, and the European Commission developed further during the year.

NIB has cooperation agreements with international and regional development banks, such as the Asian Development Bank, ADB; the African Development Bank, AfDB; the European Bank for Reconstruction and Development, EBRD; the Inter-American Development Bank, IDB; as well as the IBRD, IDA, and IFC within the World Bank Group.

NIB has close cooperation with the other financial institutions within the Nordic Finance Group (the Nordic Development Fund, NDF; the Nordic Environment Finance Corporation, NEFCO; and the Nordic Project Fund, Nopef). These three sister organisations of NIB have their offices in the Bank's building in Helsinki.

Channelling parts of the Bank's lending operations through financial intermediaries is an efficient way for NIB to participate in the financing of small and medium-sized enterprises' investments.

NIB has agreements with 28 Nordic banks and financial institutions which act as intermediaries for lending to SMEs in the Nordic countries. NIB also cooperates across a broad spectrum with financial intermediaries in most of the countries with which it has cooperation agreements outside the member countries. The number of financial intermediaries outside the Nordic countries today is 29, often state-owned development banks or local commercial banks.

FINANCIAL ACTIVITIES

NIB borrowed EUR 1,808 million (3,258) on the capital markets in 2004 through 18 (82) transactions in eight (13) different currencies. In addition, call options in the amount of EUR 676 million on previously issued bonds were not exercised, thus bringing the total funding for the year to EUR 2,484 million. Borrowing outstanding amounted to EUR 12,355 million (13,087) at year-end.

During the year, NIB carried out its third global benchmark issue of USD 1 billion. The issue had a maturity of five years and was very well received in the market. The geographic distribution of the bonds was as follows: 52% were placed with investors in Asia, 22% with investors in North America, 12% with investors in Europe, and 14% with investors in the Middle East and Africa.

The US dollar was the Bank's most important borrowing currency in 2004, with a share of 69% of NIB's new borrowing. The Bank issued USD-denominated bonds corresponding to EUR 1,255 million, distributed over eight transactions.

Besides the eight US dollar transactions, NIB issued two transactions in Australian dollars, euro and Hong Kong dollars and one new transaction in each of the following currencies: pounds sterling, Canadian dollars, Japanese yen and Slovak koruny. NIB's borrowing in these different currencies is then swapped with reliable counterparties into the currencies demanded by the Bank's customers.

Asian investors were the most important investor base for NIB, with 65% of the total funding. Funding from European investors comprised 18%, from North American investors 10%, while the rest came from the Middle East, Africa and the Nordic countries.

NIB invests an amount corresponding to the size of its equity in a fixed income portfolio denominated in the euro. The portfolio is divided into a held-to-maturity portfolio, consisting of securities which are anticipated to be held until maturity, and a marked-to-market portfolio, consisting of securities which can be bought and sold, based on the assessment of market developments. The marked-to-market portfolio accounted for 34% of the total portfolio at year-end.

The Bank's net liquidity amounted to EUR 2,876 million at the end of 2004. Due to a lower than expected liquidity need throughout 2004, this amount was somewhat higher than the liquidity budget.

RISK MANAGEMENT AND INTERNAL AUDIT

The Bank's risk management guidelines are characterised by a prudent attitude towards risk-taking. The Statutes, for example, call for adequate security for loans, as well as the avoidance of currency risks. An extensive system of limits and monitoring ensures the sound application of these general guidelines.

During 2004, NIB continued developing and improving its risk management methods, which combine a traditional system of management by limits and the use of benchmarks with a model-based follow-up of portfolio risks. These two different approaches complement each other and are used in the management of both market risk and credit risk.

The goal for the management of the Bank's financial portfolio is to guarantee that NIB is prepared financially to carry out its operational tasks, and to maintain its status as an issuer in the market, simultaneously contributing to income generation by virtue of active asset management. The high quality of the Bank's financial exposure has been maintained during the year.

In 2004, the Bank introduced a new system of portfolio credit risk management, whereby the need to allocate capital for covering the risks of possible loan losses is related to each specific, individual transaction. The new system, based on an economic capital approach, will contribute to a more efficient allocation of the Bank's capital as required by the goals of the Bank's owners. It will also facilitate the optimal allocation of the Bank's capital as regards both the capital requirement of individual loans and the Bank's various portfolios. The Bank pays special attention to further improving its existing systems and models.

The quality of the Bank's portfolios, taken as a whole, continues to be very high. The portfolios are well balanced as regards both geographical and sectoral distribution, as well as the degree of concentration. At the end of the year, the quality of the Bank's assets was generally as high as at the beginning of the year.

The Bank's internal audit, which is a part of the internal control of the Bank, follows international professional standards established by the Institute of Internal Auditors.

ADMINISTRATION

At year-end, the number of employees was 147 (147). The staff training programmes continued to be implemented actively during the year, including language training in more than ten different languages. Most language courses were held in English. A staff seminar on the Baltic countries was a part of the Bank's multifaceted preparations for the countries' membership in NIB. At a staff seminar on risk management, the development of the Bank's risk management and its risk rating process were discussed and the new portfolio credit risk management system was presented. To ensure the effective integration of the new member countries in the Bank's activities, a review of the organisation of its lending operations was initiated.

The Bank continued a large-scale programme of upgrading its core IT capacities. The modernisation programme launched in 2002 is aimed at renewing the IT systems for commercial lending, treasury back-office and accounting.

RESULTS AND DIVIDEND POLICY

NIB has since 1994 prepared its Financial

Statements in compliance with International Financial Reporting Standards, IFRS. The Bank shows a profit of EUR 172 million for 2004, compared with EUR 151 million in 2003. This represents an increase of 13.9%. Net interest income rose to EUR 163 million (155). Profits rose as a result of higher net interest income, increased returns and fair value adjustments in the trading portfolio. In 2004, profits from financial operations were EUR 22.8 million, an increase of EUR 8.2 million, which is partially due to a general decrease in the market interest rates. The provisions made for possible loan losses in 2004 and reversals of previous provisions had a positive net effect of EUR 3.8 million (0.3) on the Profit and Loss Account. New provisions for possible loan losses were recorded on a gross basis in the amount of EUR 0.7 million.

Profit as a proportion of average equity was 10.1% (9.5). This can be compared with the last five years' moving average for the five-year euro interest rate, which was 4.3% (4.5). The corresponding annual average figure for 2004 was 3.5% (3.5).

In its operations NIB aims at a profit that enables accumulation of reserves as well as a reasonable return on paid-in capital. The Bank's dividend policy is to aim at a ratio of dividend to paid-in capital that over time reflects the return on the Bank's equity as a whole. The aim is also to keep a stable rate of dividend payment—while respecting the need to build up adequate reserves in relation to the risk assumed in the Bank's operations. The level of solvency should be kept in line with the Bank's peer group among the IFIs, considering its portfolio composition. NIB regularly assesses its capital requirements on the basis of an actuarial portfolio credit risk management model. These are the considerations taken into account when deciding on the allocation of profits between reserves and dividends. NIB is the only IFI that pays dividends to its owners on a regular basis and has done so every year since 1994.

The Board of Directors has decided that the reserve level for the PIL portfolio should gradually be increased so that it would correspond, from the guarantors' point of view, to a risk of Aaa/Aa quality. A transfer of EUR 50 million of profits for 2004 to the Credit Risk Fund for PIL will be made. After this allocation the size of this fund will approach the required level.

As of 31 December 2004, NIB's equity, which consists of capital paid in by the owners plus accumulated reserves, amounted to EUR 1,781 million (1,650), corresponding to 10.9% (9.9) of total assets.

OUTLOOK

The human tragedy and devastation caused by the tsunami disaster that hit the countries on the rim of the Indian Ocean on Boxing Day seem to have had a limited macroeconomic impact even in the Asian countries most seriously affected. The financial markets were not significantly affected by the economic impact of the catastrophe.

The positive world economic climate that emerged in 2004 is expected to continue in 2005. Global economic activity has picked up with business investment in the industrial countries taking over from consumption and export as the main driver of growth. However, the investment growth cycle seems to have reached its top in North America and Asia, but the momentum for growth appears to be on its way to spread to Continental Europe. An average economic growth rate of 3% is expected for the Nordic countries in 2005, which is above the average for the euro zone. The economies of the three Baltic countries, NIB's new members, are expected to grow at an average rate of approximately 6% in 2005. As confidence in the recovery is gaining strength in the corporate sector, industrial investment is expected to increase by 6% for the whole membership of NIB in 2005, with an expected increase of investments in the Baltic countries of more than 10%. Consequently, demand for NIB's long-term loans in the member countries can be expected to be stronger in 2005 than in the previous year.

As regards the prospects of the countries outside the membership region that are important for NIB's lending activities, it is expected that their growth rate will be strong and significantly higher than for the EU countries as a whole. This ought to strengthen the demand for NIB's international loans compared with 2004. Among the countries with good growth prospects for 2005 are the new member countries of the European Union. NIB will continue its lending operations in all these countries.

On the whole the prospects are good for a resumption of strong growth in NIB's lending in 2005. Priority will continue to be given to the financing of environmental projects and infrastructure investment both within and outside the member countries. The membership of Estonia, Latvia and Lithuania in NIB will further sharpen the Bank's focus on projects in these countries.

Preparations are underway for important projects within the NDEP with emphasis on Northwest Russia. The volume of NIB's lending commitments for environmental projects in Northwest Russia will be approaching the EUR 300 million limit of the lending frame for the Bank's environmental facility (MIL) for the neighbouring region during 2005.

An increase in lending can be expected in Asian countries in 2005, primarily in China and Vietnam. Latin America may also offer good prospects for lending in 2005.

The scope of international lending has been increased considerably with the increase in the PIL facility and the transfer of PIL loans in the Baltic countries to ordinary lending. This means that NIB is well equipped to expand its lending to projects in emerging markets in order to support the internationalisation of the member countries' industry and business in line with the priorities of the Bank's owners.

In order to fund its lending operations, NIB will continue its flexible, global borrowing strategy in 2005, through a combination of global benchmark issues of bonds and smaller issues targeting particular market niches in the global capital markets.

NIB will continue strengthening and further developing its financial and risk management methods with an economic capital approach to portfolio credit risk management, the foundation for which was laid in 2004.

The Bank's operational results in terms of its core profits are expected to be at a similar level in 2005 as in 2004. Unavoidably, however, there is a certain degree of unpredictability with respect to the development of interest rates and exchange rates, which may affect the operational results.

With reference to the decision of the Nordic and Baltic Ministers of Finance and Economy in Stockholm on 31 October 2004, the Board of Directors proposes the following allocation of profits for the year 2004:

Proposal by the Board of Directors to the Nordic Council of Ministers

The Board of Directors' proposal for the allocation of profits for the year 2004 takes into consideration that the Bank's operations are carried out with an objective to achieve a reasonable return on the Bank's equity and a satisfactory dividend to the owners. The proposal will facilitate the continuing accumulation of the Bank's equity and keep its ratio of equity to total assets at a secure level, both of which are prerequisites for maintaining the Bank's high creditworthiness.

The Board of Directors proposes to the Nordic Council of Ministers that the profit for 2004 of EUR 172,366,696.29 be allocated as follows:

- That EUR 67,366,696.29 be transferred to the General Credit Risk Fund as a part of equity.
- That EUR 50,000,000.00 be transferred to the statutory Credit Risk Fund for Project Investment Loans.
- That no transfer be made to the Statutory Reserve. The Statutory Reserve amounts to EUR 644,982,835.99 or 16.1% of the Bank's authorised capital stock.
- That EUR 55,000,000.00 be available for distribution as dividends to the Bank's owners in the year 2004.

The Profit and Loss Account, Balance Sheet, Changes in Equity and Cash Flow Statement, as well as the Notes to the Financial Statements, are to be found on pages 46 through 67.

The Board of Directors further proposes that the Nordic Council of Ministers, after appropriate decisions, hand over the annual report of the Board of Directors and the audited financial statements of the Bank for the year 2004 to the new Board of Governors and to the new Board of Directors.

Helsinki, 3 March 2005

Bolli Thór Bollason

Hans Denkov

Claes de Neergaard

Bo Göran Eriksson

Lars Kolte

Bo Marking

Thorsteinn Ólafsson

Kristina Sarjo

Arild Sundberg

Eli Telhaug

Jón Sigurðsson
President and CEO

PROFIT AND LOSS ACCOUNT 1 JANUARY – 31 DECEMBER

	Note	*2004 1,000 EUR*	*2003 1,000 EUR*
Interest income		447,527	469,341
Interest expense		-284,364	-313,912
Net interest income	(1), (2)	**163,163**	**155,429**
Commission income and fees received	(3)	7,998	4,876
Commission expense and fees paid		-1,157	-1,470
Net profit on financial operations	(4)	22,788	14,569
Foreign exchange gains and losses		87	-23
Operating income		**192,879**	**173,381**
Expenses			
General administrative expenses	(5)	21,395	19,753
Depreciation and write-down in value of tangible and intangible assets	(10)	2,880	2,600
Provision (-reversals) for possible loan losses	(6), (8)	-3,764	-307
Total expenses		**20,512**	**22,047**
PROFIT FOR THE YEAR		**172,367**	**151,334**

The Nordic Investment Bank's accounts are kept in euro.

BALANCE SHEET AT 31 DECEMBER

	Note	2004 1,000 EUR	2003 1,000 EUR
ASSETS	(1), (18), (19)		
Cash and cash equivalents	(17), (20)	3,198,351	2,996,669
Financial placements	(7), (17)		
Placements with credit institutions		89,730	124,364
Debt securities		1,251,341	1,254,377
Other		6,713	8,152
		1,347,784	1,386,893
Loans outstanding	(8), (17)	10,279,082	10,522,411
Intangible assets	(9)	5,928	2,570
Tangible assets	(9)	36,037	34,631
Other assets	(11), (17)		
Derivatives		1,208,380	1,387,480
Other assets		3,227	5,083
		1,211,607	1,392,563
Accrued interest and fees receivable		283,856	330,519
Total assets		**16,362,645**	**16,666,256**
LIABILITIES AND EQUITY	(18), (19)		
Liabilities			
Amounts owed to credit institutions	(17)		
Short-term amounts owed to credit institutions	(20)	322,378	252,373
Long-term amounts owed to credit institutions		94,467	114,364
		416,845	366,738
Debts evidenced by certificates	(12), (17)		
Debt securities issued		12,132,371	12,822,379
Other debt		222,267	264,300
		12,354,638	13,086,679
Other liabilities	(13), (17)		
Derivatives		1,565,235	1,266,571
Other liabilities		4,244	15,066
		1,569,479	1,281,638
Accrued interest and fees payable		241,116	281,592
Total liabilities		**14,582,078**	**15,016,646**
Equity			
Authorised and subscribed capital 4,000,000			
of which callable capital -3,595,740			
Paid-in capital 404,260	(14)	404,260	404,260
Reserve funds	(15)		
Statutory Reserve		644,983	644,983
General Credit Risk Fund		357,000	337,000
Special Credit Risk Fund PIL		188,200	98,200
Fund, HIPC programme		4,300	4,300
Other value adjustments		9,457	9,532
Profit for the year		172,367	151,334
Total equity		**1,780,567**	**1,649,610**
Total liabilities and equity		**16,362,645**	**16,666,256**
Guarantee commitments	(8), (16)	25,000	28,572
Collateral and commitments	(16)		

The Nordic Investment Bank's accounts are kept in euro.

CHANGES IN EQUITY

(AMOUNTS IN EUR MILLION)

	Paid-in capital	*Statutory Reserve*	*General Credit Risk Fund*	*Special Credit Risk Fund PIL*	*Fund, HIPC programme*	*Other value adjustments*	*Profit for the year*	***Total***
Equity at 31 December 2002	**404.3**	**554.0**	**327.0**	**98.2**	**4.0**	**11.0**	**141.6**	**1,540.1**
Appropriations between reserve funds		91.0	10.0		0.3		-101.3	0.0
Dividend payment							-40.3	-40.3
Available-for-sale portfolio						1.7		1.7
Hedge accounting						-3.1		-3.1
Profit for the year							151.3	151.3
EQUITY AT 31 DECEMBER 2003	**404.3**	**645.0**	**337.0**	**98.2**	**4.3**	**9.5**	**151.3**	**1,649.6**
Appropriations between reserve funds			20.0	90.0			-110.0	0.0
Dividend payment							-41.3	-41.3
Available-for-sale portfolio								0.0
Hedge accounting						-0.1		-0.1
Profit for the year							172.4	172.4
EQUITY AT 31 DECEMBER 2004	**404.3**	**645.0**	**357.0**	**188.2**	**4.3**	**9.5**	**172.4**	**1,780.6**

Proposed appropriation of the year's profit	*2004*	*2003*
Appropriation to Statutory Reserve	-	-
Appropriations to credit risk reserve funds		
General Credit Risk Fund	**67.4**	20.0
Special Credit Risk Fund PIL	**50.0**	90.0
Fund, HIPC programme	-	-
Appropriation to dividend payment	**55.0**	41.3
PROFIT FOR THE YEAR	**172.4**	**151.3**

The Nordic Investment Bank's accounts are kept in euro.

CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

	Note	2004 1,000 EUR	2003 1,000 EUR
Cash flows from operating activities	(20)	**177,841**	**152,211**
Cash flows from investing activities			
Lending			
Disbursements of loans		-1,347,779	-1,842,064
Repayments of loans		1,408,072	749,739
Exchange rate adjustments		188,852	666,094
Placements and debt securities			
Purchase of debt securities		-492,460	-606,556
Sales of debt securities		502,834	311,156
Placements with credit institutions		34,171	-28,127
Other financial placements		1,552	-549
Exchange rate adjustments etc.		-701	9,224
Other items			
Change in other assets		826	46,565
Change in tangible and intangible assets		-7,644	-3,809
Investing activities, total		**287,722**	**-698,328**
Cash flows from financing activities			
Debts evidenced by certificates			
Issues of new debt		1,808,339	3,257,711
Redemptions		-1,764,676	-1,870,382
Exchange rate adjustments		-485,749	-1,322,162
Issuing charges		-1,525	-3,137
Other items			
Placements from credit institutions		-19,898	14,025
Change in other liabilities		170,957	308,101
Dividend paid		-41,334	-40,300
Financing activities, total		**-333,885**	**343,855**
CHANGE IN NET LIQUIDITY	(20)	**131,678**	**-202,262**
Opening balance for net liquidity		**2,744,295**	**2,946,558**
Closing balance for net liquidity		**2,875,973**	**2,744,295**

The Nordic Investment Bank's accounts are kept in euro.

General operating principles

The operations of the Nordic Investment Bank (hereinafter called the Bank or NIB) are governed by an agreement among the governments of Denmark, Finland, Iceland, Norway and Sweden (hereinafter called the member countries), and the Statutes adopted in conjunction with that agreement. The Agreement establishing the Bank dated 4 December 1975 was replaced by a new agreement that was signed on 23 October 1998 and entered into force on 18 July 1999. The new Agreement further strengthens the Bank's status as an international financial institution as well as its legal status.

In the member countries, the Bank is exempt from payment restrictions and credit policy measures, and has the legal status of an international juridical person, with full legal capacity. The Agreement contains provisions concerning the Bank's immunity and the exemption of the Bank's assets and income from all taxation.

The purpose of the Bank is to grant loans and issue guarantees on sound banking terms and in accordance with socio-economic considerations for the implementation of investment projects of interest to its member countries and other countries that receive loans or guarantees from the Bank.

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

Significant accounting principles

BASIS FOR PREPARING THE FINANCIAL STATEMENTS

The Bank's Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). Since 1 January 1999, the Bank's accounts are kept in euro. The Bank's Financial Statements are presented in millions or thousands of euro. With the exceptions noted below, they are based on historical cost.

ASSESSMENTS MADE IN PREPARING THE FINANCIAL STATEMENTS

As part of the process of preparing the Financial Statements, the Bank's management is required to make certain estimates and assumptions that have an effect on 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 outcome may deviate from the assessments thus made, and such deviations may at times be substantial compared to the Financial Statements.

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 monthly basis to the euro, in accordance with the euro exchange rate at the end of each month.

Realised and unrealised exchange rate gains and losses are recognised in the Profit and Loss Account.

The Bank uses the official exchange rates published for the euro by the European Central Bank. See note 21.

CASH AND CASH EQUIVALENTS, NET LIQUIDITY

The item "Cash and cash equivalents" refers to monetary assets and placements with original maturities of 6 months or less, calculated from the date the acquisition and placements were made. The item also includes placements in liquid debt securities at floating interest rates, regardless of original maturity.

Net liquidity refers to the net amount of monetary assets, placements and liabilities with original maturities of 6 months or less calculated from the time the transaction was entered into, as well as placements in liquid debt securities at floating interest rates irrespective of original maturity. This corresponds in substance to the Bank's operational net liquidity.

FINANCIAL PLACEMENTS

Items recognised as financial placements in the Balance Sheet include placements with credit institutions and 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 the purpose of the placements.

Financial assets held for trading are carried at fair value. Changes in fair value are recognised in the Profit and Loss Account. Held-to-maturity financial assets are carried at amortised cost. These financial assets are assessed on an ongoing basis for impairment.

Available-for-sale financial assets are measured at fair value. Unrealised value changes are recognised in "Equity" under the item "Other value adjustments" until the asset is sold or the unrealised loss is considered to be permanent. When the placement is sold or written down, the accumulated unrealised gain or loss is transferred to the year's profit or loss, and becomes part of "Net profit on financial operations".

LENDING

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

Ordinary Lending includes loans and guarantees in and outside the member countries, as well as Regional Loans in the Nordic countries. In addition, loans in Estonia, Latvia and Lithuania were transferred from the PIL facility to Ordinary Lending as of November 2004. The Bank's Ordinary Lending ceiling corresponds to 250% of its authorised capital and accumulated general reserves and amounts to EUR 12,673 million following the appropriations of the year's profits in accordance with the Board of Directors' proposal.

Project Investment Loans are granted for financing creditworthy projects in the emerging markets of Asia, the Middle East, Central and Eastern Europe, as well as Latin America and Africa. PIL loans were also granted to the Baltic countries until the transfer to Ordinary Lending. 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. During 2003 the Nordic Council of Ministers approved an increase in the PIL facility from EUR 3,300 million to EUR 4,000 million, with no change in the EUR 1,800 million guarantee. The increase became effective on 1 July 2004. In connection with this increase, and with the same effective date, the Bank decided to adjust the guidelines for calling the member countries' guarantees. Under the adjusted guidelines, the Bank will assume 100% of any losses occurred 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 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 takes 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 (MIL) up to an amount of EUR 300 million, for the financing of environmental projects in the neighbouring areas to the member countries. The increase in the Bank's Environmental Investment Loan facility from EUR 100 million to EUR 300 million became effective on 1 January 2003. The Bank's member countries guarantee 100% of the MIL facility.

Until 31 December 1999 the Bank granted loans for investments in the Baltic countries within the EUR 60 million Baltic Investment Loan facility (BIL). The Nordic countries guarantee 100% of the BIL facility.

The Bank's lending transactions are recognised in the Balance Sheet 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 by using derivative instruments, they are recognised in the Balance Sheet at fair value, with value changes recognised in the Profit and Loss Account.

PROVISIONS FOR LOAN LOSSES

Receivables are carried at their estimated recoverable amount. Loans are recognised in the Balance Sheet net of write-downs both for actual as well as possible loan losses. On the liabilities side, possible loan losses are recognised in respect of the guarantees NIB has issued. Actual and possible losses are taken as charges to the Profit and Loss Account, less amounts recovered. The net cost of any calls made under guarantees and other similar commitments issued by NIB is likewise recognised in the Profit and Loss Account.

Provisions for impairment are made based on individual assessment of the collectable amount for loans and guarantees. The assessment takes into account any costs of administration or realisation of the security.

In the event that payments in respect of an Ordinary Loan are more than 90 days overdue, all of the borrower's loans are deemed to be non-performing.

In the event that payments in respect of a PIL loan to a government or guaranteed by a government are more than 180 days overdue, all of the borrower's loans are deemed to be non-performing. Whenever payments in respect of a PIL loan that is not to a government or guaranteed by a government are more than 90 days overdue, all of the borrower's loans are deemed to be non-performing. Provisions for loan losses are then made in respect of the part of the outstanding loan principal, interest, and fees that correspond to the Bank's own risk for this loan facility at any given point in time.

INTANGIBLE ASSETS

Intangible assets mainly consist of investments in software, software licenses and ongoing investments in new IT systems. The investments are carried at historical cost, and are amortised over the assessed useful life of the assets, which is estimated to be between 3 and 10 years. The amortisations are made on a straight-line basis over the useful life of the assets.

TANGIBLE ASSETS

Tangible assets in the Balance Sheet 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. No depreciations are made for land. The Bank's office building in Helsinki is depreciated straight-line 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 3 to 5 years.

WRITE-DOWNS

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

BORROWING

The Bank's borrowing transactions are recognised in the Balance Sheet at the time the funds are transferred to the Bank. The borrowing transactions are recognised initially at historical cost, which is the fair value of the funds transferred, less transaction costs. Borrowing outstanding is carried at amortised cost. The Bank uses derivative instruments to hedge the fair value of virtually all its borrowing transactions. In these instances the borrowing transaction is recognised in the Balance Sheet at fair value, with any changes in value recognised in the Profit and Loss Account.

DERIVATIVE INSTRUMENTS

The Bank's derivative instruments are recognised at fair value in the Balance Sheet as "Other assets" or "Other liabilities".

During the time the Bank holds a derivative instrument, any changes in the fair value of such an instrument are recognised in the Profit and Loss Account, or directly in "Equity" as part of the item "Other value adjustments", depending on the purpose for which the instruments were acquired. The value changes of derivative instruments that were not acquired for hedging purposes are recognised in the Profit and Loss Account. The accounting treatment for derivative instruments that were acquired for hedging purposes depends on whether the hedging operation was in respect of cash flow or fair value.

When hedging future cash flows, the change in fair value of the effective portion of the hedging instrument is recognised directly in "Equity" as part of the item "Other value adjustments" until the maturity of the instrument. At maturity, the amount accumulated in "Equity" is included in the Profit and Loss Account in the same period or periods during which the hedged item affects the Profit and Loss Account.

When hedging the fair value of a financial asset or liability, the derivative instrument's change in fair value is recognised in the Profit and Loss Account together with the hedged item's change in fair value in "Net profit on financial operations".

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 Profit and Loss Account.

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 on the hedged item or the cash flows generated by the hedged item on the other hand, 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 assessed continuously.

FAIR VALUE

The fair value of financial instruments, including derivative instruments that trade in a liquid market, is the bid or offered closing price at Balance Sheet date. Where there is no liquid market for a financial instrument, fair value is determined by discounting the estimated future cash flows at market rates that correspond to the remaining lifetime of the instrument. The Bank's structured borrowing transactions with embedded derivative instruments, and the hedging swap contracts, are measured at fair value by using valuation models.

EQUITY

The Bank's authorised and subscribed capital was EUR 4,000 million, of which the paid-in portion was EUR 404.3 million. Payment of the subscribed, non-paid-in portion of 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.

Estonia, Latvia and Lithuania became members of the Bank on 1 January 2005; as of that date, the Bank's authorised capital increased to EUR 4,142 million. As a result, the paid-in portion will rise to EUR 418.6 million. The new member countries shall make their payments of the paid-in portion pursuant to an agreed schedule of payments in three annual instalments starting on 31 March 2005. In consequence of the membership enlargement, also the share of each member country in the authorised capital and in the guarantees for the PIL and MIL facilities changed as of 1 January 2005.

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 funds for credit risks: the General Credit Risk Fund, the Special Credit Risk Fund for PIL, and the Fund for the HIPC programme (Debt Initiative for Heavily Indebted Poor Countries).

The Bank's profits are transferred to the Statutory Reserve until it amounts to 10% of NIB's subscribed authorised capital. Thereafter, the Nordic Council of Ministers, after proposal of the Bank's Board of Directors, shall decide upon the allocation of the profits between the Statutory Reserve 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 loan losses on PIL loans.

In 2000, the Bank decided to participate in the HIPC programme initiated by the World Bank and the International Monetary Fund. NIB's participation in the programme concerns only one borrower country.

INTEREST

The Bank's net interest income includes accrued interest on loans as well as accruals of the premium or discount value of financial instruments. Net interest income also includes swap fees that are accrued over the transactions' lifetimes.

Borrowing costs are recognised as reductions of the borrowing in the Balance Sheet. They are amortised over the lifetime of the borrowing and included in "Net interest income" in the Profit and Loss Account.

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 upon but not yet disbursed, and are accrued in the Profit and Loss Account 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 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 is shown in note 5 and reduces the Bank's administrative expenses.

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.

EMPLOYEES' PENSIONS AND INSURANCE

The Bank is responsible for the pension coverage of its employees. In accordance with the Headquarters Agreement between the Bank and the Finnish Government and as part of its employee pension coverage, the Bank has adopted the Finnish State pension system. Contributions to this pension system, which are paid to the Finnish State Pension Fund, are calculated as a percentage of salaries. The Finnish Government determines the basis for the contributions, and the Finnish State Treasury establishes the actual percentage of the contributions.

NIB has also provided its employees with an additional 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 a comprehensive accident, life and health insurance policy for its employees in the form of a group insurance plan.

Risk management

The Bank applies conservative guidelines for its risk management. These guidelines call for continuous monitoring of NIB's risk exposure with regard to interest rate, foreign exchange rate, and counterparty risks. The Board of Directors establishes limits for these risks. The market risks are controlled with a combination of value-at-risk (VaR), duration, and gap analysis.

The Bank uses derivative instruments in the form of interest rate and currency swaps, forward contracts, futures, forward rate agreements, and options, in order to protect itself against market risks that may occur in the Bank's borrowing and lending operations. Through this hedging policy, the Bank strives to eliminate these market risks, usually on a back-to-back basis.

FOREIGN EXCHANGE RATE RISK

According to its Statutes, the Bank has to protect itself against foreign exchange rate risk to the extent practicable. Exchange rate risks can occur in the Bank's operations mainly because NIB's lending operations are funded in a currency other than the currency in which the loan is denominated. These exchange rate risks are minimised by hedging the exchange rate exposure inherent in the borrowing operations by means of swap contracts. Swap contracts, however, do not eliminate the exchange rate risk in the Bank's future interest margin income in foreign currencies. The risk primarily involves exchange rate changes between the euro and the US dollar. The effects of such changes are, however, limited.

INTEREST RATE RISK

The interest rate risk is the possible effect that changes in market interest rates can have on the value of interest-bearing assets and liabilities, and on the interest flow that is recognised in the Profit and Loss Account. The interest rate risk is dependent on the length of the interest rate fixing period, and on the maturity profile of assets relative to liabilities. Differences in the length of interest rate fixing periods can involve sensitivity to changes in interest rate levels (general interest rate risk). The differences in the maturity profile between assets and liabilities can lead to a refinancing or reinvestment risk, as changes may occur in interest rate margins of the assets or liabilities. The Bank has an established limit system to control general interest rate risk as well as refinancing and reinvestment risks. The system measures differences in interest rate fixing periods and in maturity profiles, and calculates their estimated effect on the Bank's net interest income.

The Bank invests an amount corresponding to its equity in interest-bearing securities with high credit ratings. Approximately one-third of the Bank's equity has been placed in a marked-to-market portfolio with a maximum duration of 5.5 years and a daily value-at-risk not exceeding 0.4% of the portfolio's value at a 95% confidence level. The remaining two thirds of the Bank's equity has been placed in a held-to-maturity portfolio that has a duration of between 3.0 and 5.5 years. Fluctuations in the value of the trading portfolio affect the Bank's profits. Fluctuations in interest rates also affect the net interest income in the held-to-maturity portfolio, since the interest and capital at maturity are reinvested.

CREDIT RISK

Credit risk is realised in the event the Bank's counterparties fail to fulfil their contractual obligations vis-à-vis the Bank. Credit risk is an integral part of banking operations, and exists in the Bank's various products such as loans, guarantees, derivative instruments, etc.

The Bank's credit risk is monitored by means of a common, unified risk classification system, in which the Bank's counterparties are divided into credit risk categories on a scale from 1 to 10. The Bank also has rules for credit risk concentrations with regard to individual counterparties, economic sectors, countries, etc.

Note 8 provides information regarding the geographical distribution of the Bank's loans and guarantees issued, as well as their distribution by type of security.

LIQUIDITY RISK

The Bank's policy is to have a level of liquidity that corresponds to its net liquidity requirements for the following 12 months. These funds are invested partially in the interbank market and partially in various kinds of floating interest rate debt securities. A small portion is invested in fixed-interest rate instruments. The average duration of the liquidity portfolio is restricted by the limit for interest rate risk.

OPERATIONAL RISK

NIB deals with legal risks and other risks through a system of internal controls, and by clear rules for the assignment of work and responsibilities among and within all the Bank's departments. The internal controls cover systems and procedures for monitoring transactions, positions and documentation with a clear segregation of duties between recording, risk management and transaction generating functions.

Internal audit

The internal audit is part of the Bank's internal control system. Important focal areas for the internal audit include the efficiency and reliability of the Bank's individual processes and systems, as well as compliance with the Bank's Statutes and other central directives and regulations. The internal audit is carried out in accordance with international standards for professional practice issued by the Institute of Internal Auditors. The internal audit annual activity plan is approved by the Board of Directors, and the audit reports are regularly submitted to the Board of Directors and to the Bank's Control Committee.

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.

Reclassifications

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

Revised IAS 39

NIB will adopt the revised International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39), based on new and amended International Financial Reporting Standards (IFRSs). This revised standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* (revised in 2000) and will be applied to annual periods beginning on or after 1 January 2005. The new standard is not expected to have a significant effect on the financial statements.

Notes to the Profit and Loss Account, Balance Sheet and Cash Flow Statement

(1) SEGMENT INFORMATION

Primary reporting segment—business operations

(Amounts in EUR 1,000)

In its segment reporting, NIB divides its operations into two major segments: lending and financial operations. The lending operations consist of granting loans on commercial terms in and outside the member countries for projects of mutual interest for the member countries and the borrower country. Financial operations consist of the management of liquidity and placement of funds in financial investment portfolios.

	Lending	*Liquidity*	*Placements in financial investment portfolios*	*Total*	*Lending*	*Liquidity*	*Placements in financial investment portfolios*	*Total*
	2004	*2004*	*2004*	*2004*	*2003*	*2003*	*2003*	*2003*
Net interest income	**73,510**	**19,575**	**70,078**	**163,163**	69,523	15,354	70,552	155,429
Commission income and fees received	**4,329**	**3,669**	**-**	**7,998**	4,753	123	-	4,876
Commission expense and fees paid	**-5**	**-1,152**	**-**	**-1,157**	-76	-1,394	-	-1,470
Net profit on financial operations	**797**	**5,831**	**16,161**	**22,788**	396	12,628	1,545	14,569
Foreign exchange losses	**-**	**87**	**-**	**87**	-	-23	-	-23
Administrative expenses, depreciations and write-downs	**-20,657**	**-1,289**	**-2,329**	**-24,276**	-19,274	-941	-2,139	-22,354
Provisions for possible loan losses	**3,764**	**-**	**-**	**3,764**	307	-	-	307
Profit for the year	**61,737**	**26,720**	**83,910**	**172,367**	55,629	25,747	69,958	151,334
Assets	**10,345,947**	**4,236,131**	**1,780,567**	**16,362,645**	10,588,906	4,427,740	1,649,610	16,666,256

Secondary reporting segment—geographical segment

(Amounts in EUR 1,000)

In the Nordic countries, the Bank participates in the financing of cross-border investments and projects in industry that involve several Nordic countries. The core of NIB's lending operations outside the Nordic countries consists of loans under the Bank's Project Investment Loan facility for projects in emerging markets. NIB also grants loans to projects in the OECD area and the Baltic countries.

The table below is based on the region where the borrowers reside.[1)]

	2004 Net interest income	*2003 Net interest income*
Nordic loans		
Denmark	**5,590**	4,880
Finland	**15,484**	14,233
Iceland	**2,372**	2,205
Norway	**5,725**	5,336
Sweden	**21,370**	19,678
Total, Nordic loans	**50,540**	**46,332**

	2004 Net interest income	2003 Net interest income
International loans		
Africa	2,188	2,049
Asia	6,804	7,518
Baltic countries	3,309	2,609
Central and Eastern Europe	4,056	3,879
Latin America	5,235	5,217
Middle East	1,378	1,442
Western Europe	-	477
Total, international loans	**22,970**	**23,191**
Total, net interest income from lending	**73,510**	**69,523**

1) According to the domicile of the borrower's group headquarters.

(2) INTEREST INCOME AND INTEREST EXPENSE

(Amounts in EUR 1,000)

Interest income	2004	2003
Cash and cash equivalents	77,007	81,353
Placements with credit institutions for more than 6 months	2,557	1,677
Debt securities of more than 6 months	58,531	54,851
Loans outstanding	309,129	331,005
Other interest income	303	454
Total, interest income	**447,527**	**469,341**
Interest expense		
Short-term amounts owed to credit institutions	6,515	5,498
Long-term amounts owed to credit institutions	2,328	2,339
Debts evidenced by certificates	610,531	653,899
Swap contracts and other interest expenses, net	-342,380	-356,623
Borrowing costs	7,370	8,798
Total, interest expense	**284,364**	**313,912**

(3) COMMISSION INCOME AND FEES RECEIVED

(Amounts in EUR 1,000)

	2004	2003
Commitment fees	1,803	1,997
Loan disbursement fees	1,875	2,114
Guarantee commissions	156	172
Premiums on prepayments of loans	3,995	470
Commissions on lending of securities	169	123
Total, commission income and fees received	**7,998**	**4,876**

(4) NET PROFIT ON FINANCIAL OPERATIONS

(Amounts in EUR 1,000)

	2004	2003
Debt securities in trading portfolio, realised gains and losses	13,095	7,443
Debt securities in trading portfolio, unrealised gains and losses	7,019	-3,976
Adjustment to hedge accounting, unrealised gains and losses of fair value hedges	3,927	5,427
Changes in fair value of non-hedging derivatives, unrealised gains and losses	-2,005	2,794
Repurchase of NIB bonds, other items	752	2,880
Total, net profit on financial operations	**22,788**	**14,569**

(5) GENERAL ADMINISTRATIVE EXPENSES

(Amounts in EUR 1,000)

	2004	*2003*
Personnel costs	**14,714**	13,845
Pension premiums in accordance with the Finnish State pension system	**2,781**	2,786
Other pension premiums	**597**	678
Office premises costs	**1,353**	900
Other general administrative expenses	**7,501**	7,076
Cost coverage, NDF and NEFCO	**-938**	-879
Cost coverage, rental income and other administrative income	**-643**	-991
Total	**25,365**	**23,415**
Host country reimbursement according to agreement with the Finnish Government	**-3,970**	-3,662
Net	**21,395**	**19,753**
Average number of employees	**148**	**147**

The average age of the staff was 44, and the average period of employment was 9 years.

Compensation for the Board of Directors, the Control Committee, and Senior Management

Compensation for the Board of Directors and the Control Committee was set by the Nordic Council of Ministers. Compensation for the Bank's senior management was set by the Board of Directors, and is paid in the form of fixed salaries and ordinary fringe benefits.

Compensation for the Chairman of the Board of Directors, the Members of the Board of Directors, the President and CEO and the Control Committee is presented in the table below:
(Amounts in EUR)

	2004 Compensation/ emolument	*2003 Compensation/ emolument*
Chairman of the Board of Directors	**13,956**	12,089
Other Members of the Board of Directors	**86,351**	78,163
President and CEO	**369,831**	364,907
Control Committee	**21,550**	18,792

Senior management is granted staff loans from the Bank at interest rates and on terms and conditions equal to those applicable to other employees. The rates are set with reference to the so-called base rate determined from time to time by the Finnish Ministry of Finance.

The pension benefits for the Bank's senior management follow the same rules applied to the pension benefits for the rest of the permanent staff, with a few exceptions.

Rental agreement

NIB operates in its own office building in Helsinki. Of the building's total area of 18,500 m^2, 2,000 m^2 are rented to other parties. The Bank rents an additional office space of 837 m^2.

(6) POSSIBLE LOAN LOSSES AND ACTUAL LOAN LOSSES

(Amounts in EUR 1,000)

	2004	*2003*
Loan losses covered by provisions previously made	**-**	2,857
Reversals of previous provisions recognised in this year's accounts as actual losses	**-**	-3,500
Provisions for the year's possible loan losses	**702**	988
Reversals of previous provisions for possible loan losses	**-4,466**	-652
Provision for possible loan losses, net	**-3,764**	**-307**

See also note 8.

(7) FINANCIAL PLACEMENTS

The debt securities were issued by the following counterparties:
(Amounts in EUR million)

	2004	*2003*
Governments	**519**	569
Public institutions	**12**	52
Other	**720**	633
Total, debt securities	**1,251**	**1,254**

These debt securities are at fixed interest rates.

The distribution of the Bank's debt security portfolios was as follows:
(Amounts in EUR million)

	Book value		*Fair value*	
	2004	*2003*	*2004*	*2003*
Trading portfolio	**304**	361	**304**	361
Held-to-maturity portfolio	**947**	893	**1,007**	936
Total, debt securities	**1,251**	**1,254**	**1,311**	**1,297**

(8) LOANS AND GUARANTEES OUTSTANDING

Loans outstanding are recognised net of possible loan losses and actual loan losses.

Loans outstanding were distributed as follows over the Bank's four loan facilities:
(Amounts in EUR million)

	2004	*2003*
Ordinary Loans		
Investment loans in the Nordic countries	**8,080**	8,219
Regional loans in the Nordic countries	**64**	87
Investment loans outside the Nordic countries[1)]	**390**	130
Adjustment to hedge accounting	**48**	45
Total	**8,583**	**8,481**
Project Investment Loans (PIL)		
Africa	**246**	247
Asia	**632**	701
Baltic countries[1)]	**-**	223
Central and Eastern Europe	**267**	314
Latin America	**380**	389
Middle East	**111**	126
Adjustment to hedge accounting	**5**	6
Total	**1,640**	**2,006**
Environmental Investment Loans (MIL)	**44**	**17**
Baltic Investment Loans (BIL)	**12**	**18**
Total, loans outstanding	**10,279**	**10,522**

[1)] PIL loans to Estonia, Latvia and Lithuania (totalling EUR 232.2 million) were transferred to Ordinary Lending in 2004. Thus, the amounts for 2003 and 2004 in these categories are not comparable.

Loans outstanding at floating interest rates amounted to EUR 9,028 million (9,081), while those at fixed interest rates amounted to EUR 1,199 million (1,391). Guarantees issued under Ordinary Lending amounted to EUR 25.0 million (28.6) on 31 December 2004.

Provisions for loan losses

A total of EUR 1.0 million (4.8) has been deducted from the Bank's loans outstanding for provisions for possible loan losses. In 2004, this amount was comprised only of provisions for Project Investment Loans (1.8). The following changes were recognised in the Balance Sheet in respect of provisions for loan losses:

(Amounts in EUR million)

	2004	*2003*
Provisions on 1 January	**4.8**	8.4
Provisions made during the year	**0.7**	1.0
Reversals of previous provisions	**-4.5**	-1.3
Loan losses covered by provisions previously made	**-**	-2.9
Exchange rate adjustments	**-**	-0.4
Provisions on 31 December	**1.0**	**4.8**

See also note 6.

The distribution of provisions for possible loan losses was as follows:

(Amounts in EUR million)

Distribution by lending facility:	*2004*	*2003*
Ordinary Loans		
Investment loans in the Nordic countries	**-**	3.0
Project Investment Loans (PIL)		
Asia	**-**	0.2
Central and Eastern Europe	**-**	0.2
Latin America	**1.0**	1.3
Total, provisions	**1.0**	**4.8**

As of 31 December 2004, none of the Bank's Ordinary Loans were non-performing (-), i.e., were more than 90 days overdue. As of 31 December 2004, the Bank had EUR 4.4 million (17.8) in non-performing loans under its Project Investment Loan facility. Under the Baltic Investment Loan and Environmental Investment Loan facilities, there were no loans that were non-performing as of 31 December 2004.

As of 31 December 2004, loans agreed but not yet disbursed amounted to the following:

(Amounts in EUR million)

Loans agreed but not yet disbursed	*2004*	*2003*
Ordinary Loans	**432**	254
Project Investment Loans	**632**	633
Environmental Investment Loans	**84**	90
Total, loans agreed but not yet disbursed	**1,147**	**978**

The amounts set forth above for loans agreed but not yet disbursed include loans for considerable amounts, where certain conditions, primarily interest rate conditions, may not yet have been finally approved. They therefore cannot be considered as binding commitments for the Bank.

Currency distribution of loans outstanding

(Nominal amounts, in EUR million)

Currency	*Ordinary Loans*		*PIL loans*		*Total*[1)]	
	2004	*2003*	***2004***	*2003*	***2004***	*2003*
Nordic currencies	**2,835**	2,716	**2**	3	**2,837**	2,719
EUR	**4,461**	4,093	**238**	435	**4,751**	4,558
USD	**1,130**	1,517	**1,358**	1,522	**2,492**	3,041
Other currencies	**108**	110	**37**	40	**146**	154
Total	**8,535**	**8,436**	**1,636**	**2,001**	**10,226**	**10,472**
Adjustment to hedge accounting	**48**	45	**5**	6	**53**	51
Total, loans outstanding	**8,583**	**8,481**	**1,640**	**2,006**	**10,279**	**10,522**

1) The total amount also includes EUR 44 million (17) in Environmental Investment Loans (MIL) and EUR 12 million (18) in Baltic Investment Loans (BIL).

Sector distribution

(Amounts in EUR million)

Loans outstanding as of 31 December	***2004***		*2003*	
Manufacturing	**4,052**	**40%**	4,317	41%
Energy	**2,540**	**25%**	2,494	24%
Transport and communication	**1,412**	**14%**	1,526	15%
Trade and services	**760**	**7%**	719	7%
Bank and finance[1)]	**746**	**7%**	682	6%
Regional loans	**64**	**1%**	87	1%
Other	**652**	**6%**	647	6%
Adjustment to hedge accounting	**53**	**0%**	51	0%
Total	**10,279**	**100%**	**10,522**	**100%**

Loans disbursed	***2004***		*2003*	
Manufacturing	**410**	**30%**	637	34%
Energy	**320**	**24%**	491	27%
Transport and communication	**245**	**18%**	290	16%
Trade and services	**133**	**10%**	183	10%
Bank and finance[1)]	**91**	**7%**	123	7%
Regional loans	**-**	**0%**	-	0%
Other	**147**	**11%**	117	6%
Total	**1,348**	**100%**	**1,841**	**100%**

1) The Bank's financial intermediaries.

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:
(Amounts in EUR million)

As of 31 December 2004		*Amount*	*Share, in %*
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries	116		
Loans to or guaranteed by other countries	1,368	1,484	14.5
Loans to or guaranteed by local authorities in member countries		300	2.9
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries		619	6.0
Loans to or guaranteed by banks		669	6.5
Other loans			
Backed by a lien or other security in property	402		
With a guarantee from the parent company and other guarantees	1,772		
With a negative pledge clause and other covenants	4,986	7,160	69.8
Loans without formal security		18	0.2
Total		10,251	100.0
Adjustment to hedge accounting		53	
Total, loans outstanding (including guarantees)		10,304	

As of 31 December 2003		*Amount*	*Share, in %*
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries	189		
Loans to or guaranteed by other countries	1,421	1,610	15.3
Loans to or guaranteed by local authorities in member countries		294	2.8
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries		628	6.0
Loans to or guaranteed by banks		618	5.9
Other loans			
Backed by a lien or other security in property	460		
With a guarantee from the parent company and other guarantees	1,855		
With a negative pledge clause and other covenants	4,992	7,307	69.6
Loans without formal security		43	0.4
Total		**10,500**	**100.0**
Adjustment to hedge accounting		51	
Total, loans outstanding (including guarantees)		**10,551**	

The member countries guaranteed Project Investment Loans (PIL) up to the following amounts as of 31 December 2004:
(Amounts in EUR 1,000)

Member country	*Amount of guarantee*	*Share, in %*
Denmark	391,225	21.7
Finland	357,094	19.8
Iceland	16,139	0.9
Norway	340,991	19.0
Sweden	694,551	38.6
Total	1,800,000	100.0

The member countries guaranteed Environmental Investment Loans (MIL) up to the following amounts as of 31 December 2004:
(Amounts in EUR 1,000)

Member country	*Amount of guarantee*	*Share, in %*
Denmark	72,600	24.2
Finland	53,200	17.7
Iceland	3,300	1.1
Norway	63,500	21.2
Sweden	107,400	35.8
Total	300,000	100.0

The member countries guaranteed Baltic Investment Loans (BIL) up to the following amounts as of 31 December 2004:
(Amounts in EUR 1,000)

Member country	*Amount of guarantee*	*Share, in %*
Denmark	13,380	22.3
Finland	11,700	19.5
Iceland	630	1.0
Norway	11,340	18.9
Sweden	22,950	38.3
Total	60,000	100.0

From 1 January 2005 the member countries' relative shares in the PIL and MIL guarantee amounts changed as a result of Estonia's, Latvia's and Lithuania's membership in the Bank.

(9) INTANGIBLE AND TANGIBLE ASSETS

The Bank's intangible assets amounted to EUR 5.9 million (2.6).

As of 31 December 2004, the historical cost for buildings and land was recognised in the Balance Sheet, net of depreciation on the buildings in accordance with the depreciation plan, at EUR 29.6 million (30.3). Shares providing ownership rights in connection with employee housing accommodation and other shares and holdings have a balance sheet value of EUR 1.1 million (1.1).

The value of office equipment and other tangible assets is recognised at EUR 5.3 million (3.2).

(10) DEPRECIATIONS AND WRITE-DOWNS

(Amounts in EUR 1,000)

	2004	*2003*
Intangible assets	811	761
Tangible assets		
Buildings	670	670
Office equipment	1,399	1,169
Total	**2,880**	**2,600**

(11) OTHER ASSETS

(Amounts in EUR million)

Derivatives are included in Other assets.

	2004	*2003*
Floating interest rates, nominal amount	6,824	6,511
Fixed interest rates, nominal amount	10,539	11,032
Total, nominal amount	**17,363**	**17,543**
Netting of nominal amount per derivative	-16,724	-16,987
Derivative receivables, net[1]	**639**	**556**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	569	831
Derivative instruments	**1,208**	**1,387**
Other	3	5
Total	**1,212**	**1,393**

[1] Includes capitalised swap fees.

Derivatives are carried at fair value in the Balance Sheet net per contract. Thus, swap contracts with a positive net fair value are recognised in the Balance Sheet under "Other assets", while swap contracts with a negative net fair value are recognised under "Other liabilities".

(12) OUTSTANDING DEBTS EVIDENCED BY CERTIFICATES AND SWAPS

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

(Amounts in EUR million)

Currency	*Borrowing*		*Swap contracts payable/receivable*		*Net currency*	
	2004	*2003*	*2004*	*2003*	*2004*	*2003*
Nordic currencies	1,031	1,246	1,842	1,544	2,873	2,790
EUR	830	928	5,618	5,112	6,448	6,040
USD	4,500	3,695	-1,391	130	3,108	3,825
JPY	1,560	1,839	-1,522	-1,796	38	43
GBP	1,827	2,379	-1,810	-2,364	17	15
HKD	450	535	-450	-535	-	-
Other currencies	1,571	1,584	-1,526	-1,541	45	43
Total	**11,769**	**12,205**	**762**	**550**	**12,530**	**12,755**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	586	882	-548	-844	38	37
Swap fees	-	-	143	174	143	174
Total, borrowing outstanding	**12,355**	**13,087**	**357**	**-121**	**12,711**	**12,966**

The table set forth above includes 237 (249) borrowing transactions in the equivalent amount of EUR 8,116 million (8,934) entered into under the Bank's euro medium-term note programme, 4 (4) borrowing transactions in the equivalent amount of EUR 177 million (176) under the Bank's Swedish medium-term note programme, and 3 (2) borrowing transactions in the equivalent amount of EUR 2,202 million (1,584) under the Bank's US medium-term note programme. The Bank has established a USD 600 million commercial paper programme in Europe and another USD 600 million programme in the United States.

Of debt securities issued, the amount of EUR 1,556 million (1,571) is at floating interest rates, while EUR 9,998 million (10,375) is at fixed interest rates. Other borrowing transactions, amounting to EUR 215 million (259), are at fixed interest rates. As of 31 December 2004, the Bank had entered into agreements for future borrowings of EUR 85.4 million (20.0) in the form of 2 (2) borrowing transactions in USD and JPY having an average maturity of 21.2 years (25.0).

(13) OTHER LIABILITIES

(Amounts in EUR million)

Derivatives are included in Other liabilities.

	2004	2003
Floating interest rates, nominal amount	**16,919**	16,740
Fixed interest rates, nominal amount	**1,207**	1,352
Total, nominal amount	**18,126**	**18,092**
Netting of nominal amount per derivative	**-16,582**	-16,812
Derivative payables, net[1]	**1,544**	**1,280**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	**21**	-13
Derivative instruments	**1,565**	**1,267**
Other	**4**	15
Total	**1,569**	**1,282**

[1] Includes capitalised swap fees.

Derivatives are carried at fair value in the Balance Sheet net per contract. Thus, swap contracts with a positive net fair value are recognised in the Balance Sheet under "Other assets", while swap contracts with a negative net fair value are recognised under "Other liabilities".

(14) AUTHORISED CAPITAL—PAID-IN CAPITAL

The member countries have subscribed to the following amounts of the Bank's authorised capital: (Amounts in EUR million)

Member country	*2004*	*Share, in %*
Denmark	**881.1**	**22.0**
Finland	**765.8**	**19.2**
Iceland	**38.6**	**1.0**
Norway	**793.1**	**19.8**
Sweden	**1,521.4**	**38.0**
Total	**4,000.0**	**100.0**

The member countries' portions of paid-in capital are as follows:
(Amounts in EUR million)

Member country	*2004*	*Share, in %*
Denmark	**89.2**	**22.1**
Finland	**74.4**	**18.4**
Iceland	**3.9**	**1.0**
Norway	**77.1**	**19.1**
Sweden	**159.5**	**39.5**
Total	**404.3**	**100.0**

Due to the fact that Estonia, Latvia and Lithuania became members of the Bank on 1 January 2005, the Bank's authorised capital increased to EUR 4,142 million as of 1 January 2005 and the paid-in portion of the authorised capital will increase to EUR 418.6 million.

(15) STATUTORY RESERVE AND CREDIT RISK FUNDS

At the end of 2004, the Statutory Reserve amounted to EUR 645.0 million, or 16.1% of the Bank's authorised capital of EUR 4,000.0 million. No appropriations were made to the Statutory Reserve from the profits of the financial year 2003.

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 General Credit Risk Fund and the Statutory Reserve together constitute the Bank's general reserves. The General Credit Risk Fund amounted to EUR 357.0 million in 2004. The Board of Directors is proposing that EUR 67.4 million be allocated to this fund from the year's profits.

In accordance with its Statutes, the Bank has a Special Credit Risk Fund for the Project Investment Loan facility. This fund is primarily designed to cover the Bank's own risk in respect of this lending facility. In 2004, the fund amounted to EUR 188.2 million. The adjusted guidelines for calling the member countries' guarantees entered into force on 1 July 2004. Under these guidelines, 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 the member countries' guarantees. The Board of Directors decided in 2003 to propose that significant annual allocations be made to the Special Credit Risk Fund for PIL. In line with this, the Board of Directors is proposing that EUR 50.0 million be allocated to this fund from 2004 profits.

In addition, the Bank has established a EUR 4.3 million fund in "Equity" for the HIPC programme (Debt Initiative for Heavily Indebted Poor Countries).

Taken together, these credit risk funds amounted to EUR 549.5 million on 31 December 2004.

As part of the terms and conditions of membership, Estonia, Latvia and Lithuania have, as of 1 January 2005, agreed to pay to the Bank's reserves altogether the amount of EUR 42.7 million in the same proportion as their share of the subscribed capital. Estonia, Latvia and Lithuania will make their payments in semi-annual instalments in accordance with individual payment agreements during the period from 31 March 2008 to 30 September 2012.

(16) COLLATERAL AND COMMITMENTS

(Amounts in EUR million)

	2004	*2003*
Guarantees issued (note 8)	**25**	29
Loans agreed but not yet disbursed (note 8)	**1,147**	978
Borrowing commitments	**32**	20
Subscription to shares in the European Investment Fund, unpaid portion	**4**	4
Collateral with respect to derivatives exposure		
Collateral received[1)]	**223**	162
Collateral given[2)]	**313**	255

1) Fair value.

2) Book value.

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

(Amounts in EUR million)

	2004			*2003*		
	Carrying amount	*Fair value*	*Fair value - Carrying amount*	*Carrying amount*	*Fair value*	*Fair value - Carrying amount*
Assets						
Cash and cash equivalents	**3,198**	**3,198**	**-**	2,997	2,997	-
Placements with credit institutions	**90**	**90**	**-**	124	124	-
Debt securities	**1,251**	**1,311**	**60**	1,254	1,297	43
Other financial placements	**7**	**7**	**-**	8	8	-
Loans outstanding	**10,279**	**10,281**	**2**	10,522	10,526	4
Derivatives, net	**1,208**	**1,208**	**-**	1,387	1,387	-
			62			**47**
Liabilities						
Short-term amounts owed to credit institutions	**322**	**322**	**-**	252	252	-
Long-term amounts owed to credit institutions	**94**	**94**	**-**	114	114	-
Debt securities issued	**12,132**	**12,135**	**3**	12,822	12,826	4
Other debt	**222**	**222**	**-**	264	264	-
Derivatives, net	**1,565**	**1,565**	**-**	1,267	1,267	-
			3			**4**
Net			**59**			**43**

(18) MATURITY PROFILE

(Amounts in EUR million)

The table set forth below presents assets and liabilities according to their remaining maturities, calculated from closing date to maturity date. The possibility of prepayments is taken into consideration regarding derivative contracts and borrowing transactions. Loans outstanding, however, are reported according to the latest possible repayment date. Those assets and liabilities that do not have a contractual maturity date, as well as all value adjustments, are recognised in the "Undefined" column. See also notes 11 and 13.

	0–6 months	6–12 months	1–5 years	5–10 years	More than 10 years	Undefined	Total
Assets							
Cash and cash equivalents	516	5	1,853	421	400	4	3,198
Financial placements							
Placements with credit institutions	48	41	-	-	-	-	90
Debt securities	108	-	581	401	151	11	1,251
Other	-	-	-	-	-	7	7
	156	41	581	401	151	17	1,348
Lending							
Loans outstanding	293	374	4,777	4,023	759	53	10,279
Intangible assets	-	-	-	-	-	6	6
Tangible assets	-	-	-	-	-	36	36
Other assets							
Derivatives							
Receivables[1)]	577	220	3,893	1,178	1,080	569	7,517
Payables	-483	-198	-3,695	-1,133	-800	-	-6,309
	94	21	198	46	280	569	1,208
Other assets	-	-	-	-	-	3	3
Accrued interest and fees receivable	-	-	-	-	-	284	284
Total assets	**1,060**	**442**	**7,409**	**4,890**	**1,590**	**972**	**16,363**

	0–6 months	6–12 months	1–5 years	5–10 years	More than 10 years	Undefined	Total
Liabilities and equity							
Liabilities							
Amounts owed to credit institutions							
Short-term	322	-	-	-	-	-	322
Long-term	48	46	-	-	-	-	94
	371	46	-	-	-	-	417
Debts evidenced by certificates	861	314	7,362	1,709	1,523	586	12,355
Other liabilities							
Derivatives							
Receivables[1)]	-338	-147	-7,413	-1,439	-935	21	-10,251
Payables	391	185	8,394	1,666	1,181	-	11,816
	53	38	981	226	246	21	1,565
Other liabilities	-	-	-	-	-	4	4
Accrued interest and fees payable	-	-	-	-	-	241	241
Total liabilities	**1,285**	**399**	**8,343**	**1,935**	**1,768**	**852**	**14,582**
Equity	-	-	-	-	-	1,781	1,781
Total liabilities and equity	**1,285**	**399**	**8,343**	**1,935**	**1,768**	**2,633**	**16,363**
Net during the period	-225	43	-934	2,955	-178	-1,660	-
Cumulative net during the period	-225	-183	-1,116	1,839	1,660	-	-

1) Including swap fees.

(19) AVERAGE BALANCE SHEET

(Amounts in EUR million)

	2004	*2003*
Assets		
Cash and cash equivalents	**3,621**	3,578
Financial placements		
Placements with credit institutions	**128**	123
Debt securities	**1,227**	1,101
Other	**8**	2
	1,362	**1,226**
Lending		
Loans outstanding	**10,414**	10,197
Intangible assets	**4**	2
Tangible assets	**35**	34
Other assets		
Derivatives	**1,344**	1,202
Other assets	**5**	13
	1,349	**1,215**
Accrued interest and fees receivable	**325**	341
Total assets	**17,111**	**16,594**
Liabilities and equity		
Liabilities		
Amounts owed to credit institutions		
Short-term amounts owed to credit institutions	**296**	280
Long-term amounts owed to credit institutions	**126**	121
	422	**401**
Debts evidenced by certificates		
Debt securities issued	**13,245**	13,145
Other debt	**242**	269
	13,487	**13,413**
Other liabilities		
Derivatives	**1,205**	877
Other liabilities	**6**	6
	1,211	**883**
Accrued interest and fees payable	**283**	301
Total liabilities	**15,404**	**14,999**
Equity	**1,707**	1,594
Total liabilities and equity	**17,111**	**16,594**

The average Balance Sheet is calculated on a monthly basis.

(20) CASH FLOW STATEMENT

(Amounts in EUR 1,000)

	2004	*2003*
Profit for the year	**172,367**	151,334
Amortisation of issuing charges	**7,370**	8,798
Market value adjustment, trading portfolio	**-5,039**	6,364
Depreciation and write-down in value of tangible and intangible assets	**2,880**	2,600
Change in accrued interest and fees (assets)	**35,041**	23,805
Change in accrued interest and fees (liabilities)	**-28,848**	-32,219
Provision for possible loan losses	**-3,764**	-307
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	**-1,921**	-8,221
Other adjustments to the year's profit	**-245**	57
Cash flow from operating activities	**177,841**	**152,211**

Specification of the change in cash and cash equivalents on 31 December:
(Amounts in EUR 1,000)

	2004	*2003*
Cash and balances with banks	**12,706**	10,430
Short-term placements with credit institutions	**505,724**	575,337
Liquid debt securities at floating interest rates	**2,679,922**	2,410,902
Cash and cash equivalents	**3,198,351**	**2,996,669**
Short-term amounts owed to credit institutions	**-322,378**	-252,373
Net liquidity	**2,875,973**	**2,744,295**
Change in net liquidity	**131,678**	**-202,262**

(21) EXCHANGE RATES

		EUR rate on 31 Dec 2004	***EUR rate on 31 Dec 2003***
DKK	Danish Krone	**7.4388**	7.4450
ISK	Icelandic Króna	**83.6**	89.46
NOK	Norwegian Krone	**8.2365**	8.4141
SEK	Swedish Krona	**9.0206**	9.0800
AUD	Australian Dollar	**1.7459**	1.6802
CAD	Canadian Dollar	**1.6416**	1.6234
CHF	Swiss Franc	**1.5429**	1.5579
CZK	Czech Koruna	**30.464**	32.410
EEK	Estonian Kroon	**15.6466**[1]	15.6466[1]
GBP	Pound Sterling	**0.70505**	0.7048
HKD	Hong Kong Dollar	**10.5881**	9.8049
JPY	Japanese Yen	**139.65**	135.05
LVL	Latvian Lats	**0.6979**	0.6725
NZD	New Zealand Dollar	**1.8871**	1.9244
PLN	Polish Zloty	**4.0845**	4.7019
SDR	Special Drawing Right	**0.88**[2]	0.84823[3]
SGD	Singapore Dollar	**2.2262**	2.1450
SKK	Slovak Koruna	**38.745**	41.170
TWD	New Taiwan Dollar	**43.34202**[2]	42.82379[3]
USD	United States Dollar	**1.3621**	1.2630
ZAR	South African Rand	**7.6897**	8.3276

[1] Fixed exchange rate in Currency Board arrangement with regard to the euro.
[2] The exchange rate is calculated by using the market rate for USD/relevant currency, as of 30 December 2004, which then provides the EUR/relevant currency rate.
[3] The exchange rate is calculated by using the market rate for USD/relevant currency, as of 31 December 2003, which then provides the EUR/relevant currency rate.

To the Control Committee of the Nordic Investment Bank

In our capacity as auditors appointed by the Control Committee of the Nordic Investment Bank we have audited the Financial Statements, the accounting records and the administration of the Bank for the year 2004. The Board of Directors and the President are responsible for the accounting documents as well as the administration. Based on our audit, it is our responsibility to express an opinion on the Financial Statements and the administration of the Bank.

Our audit was conducted in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates as well as evaluation of the overall financial statement presentation. 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. We believe that our audit provides a reasonable basis for our opinions below.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Nordic Investment Bank as at 31 December 2004 and of the results of its operations and its cash flows in 2004 in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board. It is also our opinion that the administration of the Board of Directors and the President complied with the Statutes of the Bank.

Helsinki, 4 March 2005

Kristian Hallbäck
Authorised Public Accountant
Ernst & Young, Helsinki

Torbjörn Hanson
Authorised Public Accountant
Ernst & Young, Stockholm

To the Nordic Council of Ministers

Statement by the Control Committee of the Nordic Investment Bank on the audit of the administration and accounts of the Bank

In accordance with section 13 of the Statutes of the Nordic Investment Bank, we have been appointed to control the operations of the Bank and to be responsible for the auditing of the Bank's accounts. After having completed our assignment for the year 2004, 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. Control and examination measures considered necessary were then performed. The Annual Report of the Bank was examined at a meeting in Helsinki on 4 March 2005. 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 Auditors' Report, submitted on 4 March 2005 by the authorised public accountants appointed by the Control Committee.

Following our audit, we note that:

- The Bank's operations during the financial year have been conducted in accordance with the Statutes, and that
- The Financial Statements give a true and fair view of the financial position of the Bank as at 31 December 2004 and of its results and financing in 2004.

The Profit and Loss Account shows a profit of EUR 172,366,696.29 for the financial period.

We recommend to the Nordic Council of Ministers that:

- The appropriation of the Bank's profits for the financial period, as proposed by the Board of Directors, be approved;
- The Profit and Loss Account and the Balance Sheet be adopted;
- The proposal by the Board of Directors regarding distribution of dividends to the Bank's owners be approved; 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.

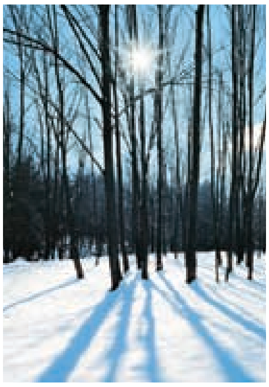
Helsinki, 4 March 2005

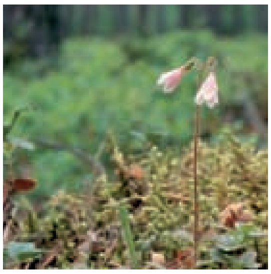
Guðmundur Snorrason

Olavi Ala-Nissilä **Jónína Bjartmarz** **Bill Fransson**

Trond Helleland **Per Kaalund** **Riitta Prusti**

Gitte Seeberg **Tuve Skånberg** **Anders Talleraas**





CONTROL COMMITTEE 2004

The Control Committee ascertains that the Bank's operations are carried out in accordance with its Statutes. The Committee is responsible for the audit of the Bank. The Control Committee 2004 provides the Auditors' Report to the Nordic Council of Ministers.

The Control Committee 2004 consisted of ten members. One representative for each Nordic country was appointed by the Nordic Council of Ministers and five representatives by the Nordic Council. The Control Committee met twice during 2004.

Information about the Control Committee 2005 can be found on p. 74.

DENMARK
Per Kaalund Member of Parliament
Gitte Seeberg Member of the European Parliament

FINLAND
Olavi Ala-Nissilä Member of Parliament
Riitta Prusti former Member of Parliament

ICELAND
Jónína Bjartmarz Member of Parliament
Guðmundur Snorrason Authorised Public Accountant (Chairman)

NORWAY
Trond Helleland Member of Parliament
Anders Talleraas Civil Engineer

SWEDEN
Bill Fransson Director
Tuve Skånberg Member of Parliament

AUDITORS APPOINTED BY THE CONTROL COMMITTEE
Kristian Hallbäck Authorised Public Accountant, Ernst & Young, Helsinki
Torbjörn Hanson Authorised Public Accountant, Ernst & Young, Stockholm

Per-Olof Johansson Authorised Public Accountant, Ernst & Young, Helsinki
Secretary to the Control Committee

BOARD OF DIRECTORS 2004

The Board of Directors exercises all of the Bank's powers, but to the extent it is deemed practical, may delegate them to the Bank's President. The Board adopts decisions in matters that involve lending, borrowing and administrative questions.

The Board of Directors 2004 consisted of ten members. Each member country was represented by two Board members and two alternates. The Board of Directors met eight times during 2004.

Information about the Board of Directors 2005 is found on p. 73.

DENMARK

Hans Denkov
(from 25 September 2004)
Assistant Director,
Danmarks Nationalbank

Ib Katznelson
(until 24 September 2004)
Deputy Secretary,
Ministry of Economic
and Business Affairs

Lars Kolte
(from 1 August 2002)
Managing Director,
Danish Export Credit
Agency

Alternates:
Hans Denkov
(until 24 September 2004)
Assistant Director,
Danmarks Nationalbank
William Friis-Møller
Ambassador

FINLAND

Bo Göran Eriksson
(from 1 April 1998)
Director General,
Ministry of Trade
and Industry

Kristina Sarjo
(from 1 July 2003)
Financial Counsellor,
Ministry of Finance

Alternates:
Risto Paaermaa
Deputy Director General,
Ministry of Trade and
Industry
Seppo Suokko
Financial Counsellor

ICELAND

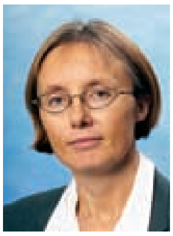
Bolli Thór Bollason
(from 1 June 2002)
Deputy Chairman until
30 May 2004, Chairman
from 1 June 2004
Permanent Secretary,
Prime Minister's Office

Thorsteinn Ólafsson
(from 1 July 1996)
Director

Alternates:
Ragnheiður E. Árnadóttir
Political Adviser to the Minister,
Ministry of Finance
Páll Magnússon
Political Adviser to the Minister,
Ministry of Industry and
Commerce

NORWAY

Arild Sundberg
(from 1 June 1996)
Deputy Chairman from
1 June 2004
Director General,
National Insurance
Administration



Eli Telhaug
(from 1 June 1998)
Director General,
Ministry of Finance

Alternates:
Kari Gjesteby
Executive Director,
Central Bank of Norway
Peter Reine
Deputy Director General,
Ministry of Finance

SWEDEN

Bo Marking
(from 1 June 1996)
Director

Claes de Neergaard
(from 1 February 2003)
Chairman until
30 May 2004
Director

Alternates:
Ulrika Barklund Larsson
(from 1 June 2004)
Director, Ministry of Finance

Jan Landahl
(until 30 May 2004)
Director, The Committee on
Public Sector Responsibilities,
Ministry of Finance

Lena Rooth
Manager, International Financial
Services, Swedish Trade Council

NEW MEMBER COUNTRIES

On 1 January 2005, Estonia, Latvia and Lithuania join the Nordic countries as members of the Nordic Investment Bank. The enlargement of the membership follows an eighteen month-long preparation after a policy decision taken by the Nordic prime ministers in June 2003.

In fact, the actual negotiations and the preparation of a new legal framework for the Bank were finalised in a very short time between October 2003 and January 2004. On 11 February 2004, the new Agreement on the Bank, with the new Statutes pertaining thereto, was signed by all eight countries. During 2004, the eight countries undertook the necessary national procedures for approval and ratification of the Agreement.

Furthermore, Estonia, Latvia and Lithuania and the Bank signed bilateral payment agreements as to their contribution to the authorised capital and the reserves. Finally, the Bank also signed new guarantee agreements with each of the eight countries individually for the PIL facility and for the MIL facility.

The new Agreement on NIB includes changes in the official languages of the Bank. From the beginning of 2005 the Bank has two official languages: English and Swedish.

EQUAL TERMS

The main principle underpinning the new membership provides that Estonia, Latvia and Lithuania join the Bank on equal terms with the original five member countries. Consequently, as of 1 January 2005, the new member countries enjoy the same rights and obligations as the founding member countries. Equal terms also entail the same representation and voting rights in the Bank's governing bodies. Moreover, the new member countries will have the right to receive possible dividend payments from the profit of the year 2005 and onwards. The three countries also share the guarantee commitments for the Bank's special loan facilities for Project Investment Loans (PIL) and Environmental Investment Loans (MIL).

CAPITAL STRUCTURE

The new member countries contribute to the capital of the Bank by subscribing to a new capital issue. As a consequence, the authorised and subscribed capital of the Bank increases from EUR 4,000 million to approximately EUR 4,142 million from 1 January 2005. Estonia, Latvia and Lithuania subscribe their respective portions of the authorised capital in accordance with their share of the total sum of the gross national incomes of the Baltic and Nordic countries at market prices. Thus calculated, Estonia's share amounts to 0.7%, Latvia's share to 1.1% and Lithuania's share to 1.6% of the capital.

According to the same principles, the new member countries pay their portions of the accumulated reserves which form a part of the Bank's equity. Their share is calculated on the basis of the accumulated reserves on 31 December 2003. The total contribution of all three countries to the reserves is approximately EUR 42.7 million.

According to the Statutes of the Bank, only approximately 10.1% of the authorised capital shall be paid in, while the rest is subject to call if needed to fulfil the debt obligations of the Bank. The payment of the paid-in portion of the authorised capital by the new member countries shall be made in three equal annual instalments starting on 31 March 2005. Thereafter their payments to the reserves will be made during a period beginning 31 March 2008 and ending no later than 30 September 2012. The new member countries will pay their contributions to the reserves in semi-annual instalments in each consecutive year according to individual payment schedules drawn up in their respective payment agreements.

NEW GOVERNANCE

The new Agreement on NIB calls for a new structure for the governance of the Bank. From 2005 onwards, NIB will have an entirely new body, *the Board of Governors*, consisting of a cabinet minister from each member country. The Bank will continue to have a *Board of Directors* and a *President*. The *Control Committee* is responsible for the audit of the Bank and for the supervision of its operations. The working language in the governing bodies will be English.

Board of Governors

The Board of Governors will basically replace the Nordic Council of Ministers and its function in the previous legal framework. According to the Statutes, the Board of Governors shall in particular have the power to

- amend the Statutes;
- decide upon increases of the authorised capital stock;
- approve the annual Report of the Board of Directors and the audited Financial Statements of the Bank;
- appoint the Chairman and Deputy Chairman of the Control Committee;
- decide upon interpretation and application of the provisions of the Agreement and the Statutes; and
- decide upon procedures for withdrawals of membership and the liquidation of the Bank.

The decisions of the Board of Governors shall be unanimous.

Board of Directors

The number of members in the Board of Directors has been reduced in the new Statutes from ten to eight. Each Director shall have one alternate. The Directors and alternates are appointed by the respective member country for a maximum term of four years at a time. Each Director has one vote and seven Directors or alternates entitled to vote form a quorum. Five affirmative votes shall form a decision. Except for the powers of the Board of Governors, all the powers shall be vested in the Board of Directors, including the powers to

- adopt policy decisions concerning the operations of the Bank;
- approve the financing and guarantee transactions proposed by the President;
- authorise the President under annual general authorisations to carry out borrowings and associated treasury activities; and
- to approve the annual budget and the annual report.

As in the earlier legal framework, the Board of Directors can delegate its powers to the President to the extent it considers appropriate.

President

The President is appointed by the Board of Directors for a term of five years at a time. The President, who may not be a member of the Board of Directors, is responsible for the conduct of current operations of the Bank. The President is assisted by the Bank's management and other staff.

Control Committee

The Control Committee consists of ten members. The Nordic Council and the Parliaments of Estonia, Latvia and Lithuania appoint eight members, one from each country. Furthermore, two members are appointed by the Board of Governors to serve as Chairman and Deputy Chairman.

The Control Committee is responsible for the audit of the Bank and supervises that the operations of the Bank are conducted in accordance with the Statutes.

GOVERNING BODIES 2005

In accordance with the Agreement on NIB and the Statutes, and decisions taken by the Bank's owners, the governing bodies of the Bank in 2004 will be responsible for the annual report and accounts for 2004. Information about the governing bodies in 2004 is provided on pp. 70–71.

The governing bodies in charge of the activities of the Bank as of 1 January 2005 will consist of the following persons:

BOARD OF GOVERNORS 2005

DENMARK **Bendt Bendtsen**
Minister for Economic and Business Affairs

ESTONIA **Taavi Veskimägi**
Minister of Finance

FINLAND **Ulla-Maj Wideroos**
Coordinate Minister for Finance

ICELAND **Geir H. Haarde**
Minister of Finance

LATVIA **Oskars Spurdziņš**
Minister of Finance

LITHUANIA **Algirdas Butkevičius**
Minister of Finance

NORWAY **Per-Kristian Foss**
Minister of Finance

SWEDEN **Pär Nuder**
Minister of Finance

BOARD OF DIRECTORS 2005

DENMARK **Lars Kolte** Managing Director, Danish Export Credit Agency
Alternate:
Kåre Klein Emtoft Chief of Division, Ministry of Economic and Business Affairs

ESTONIA **Madis Üürike** Advisor, Ministry of Finance
Alternate:
Ülle Mathiesen Head of State Treasury Department, Ministry of Finance

FINLAND **Kristina Sarjo** Financial Counsellor, Ministry of Finance
Alternate:
Bo Göran Eriksson Director General, Ministry of Trade and Industry

ICELAND **Bolli Thór Bollason** (until 31 May 2005)
Chairman until 31 May 2005
Permanent Secretary, Prime Minister's Office
Baldur Gudlaugsson (from 1 June 2005)
Chairman from 1 June 2005
Permanent Secretary, Ministry of Finance
Alternates:
Baldur Gudlaugsson (until 31 May 2005)
Permanent Secretary, Ministry of Finance
Ragnheiður E. Árnadóttir (from 1 June 2005)
Political Adviser to the Minister, Ministry of Finance

LATVIA **Edmunds Krastiņš** Counsellor to the Minister of Finance, Ministry of Finance
Alternate:
Nikolajs Sigurds Bulmanis Member of the Council, A/s Māras Banka

LITHUANIA **Rolandas Kriščiūnas** Under Secretary, Ministry of Finance
Alternate:
Vilma Mačerauskienė Head of Financial Institutions Division Financial Markets Department, Ministry of Finance

NORWAY **Arild Sundberg** Deputy Chairman
Director General, National Insurance Administration
Alternate:
Eli Telhaug Director General, Ministry of Finance

SWEDEN **Erik Åsbrink** Former Minister of Finance
Alternate:
Ulrika Barklund Larsson Director, Ministry of Finance

CONTROL COMMITTEE 2005

CHAIRMAN

Bill Fransson
Director, Sweden

DEPUTY CHAIRMAN

Dace Nulle
Director of Internal Audit Department Ministry of Finance, Latvia

DENMARK	**Per Kaalund** Member of Parliament	**LATVIA**	**Valdis Dombrovskis** Member of the European Parliament
ESTONIA	**Andres Lipstok** Member of Parliament	**LITHUANIA**	**Sigita Burbienė** former Member of Parliament
FINLAND	**Arja Alho** Member of Parliament	**NORWAY**	**Trond Helleland** Member of Parliament
ICELAND	**Steingrímur J. Sigfússon** Member of Parliament	**SWEDEN**	**Tuve Skånberg** Member of Parliament

AUDITORS APPOINTED BY THE CONTROL COMMITTEE

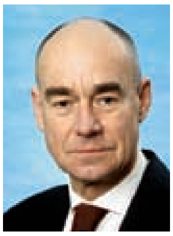
Per-Olof Johansson Authorised Public Accountant, Ernst & Young, Helsinki
Erik Mamelund State Authorised Public Accountant, Ernst & Young, Oslo

Marja Tikka Authorised Public Accountant, Ernst & Young, Helsinki
Secretary to the Control Committee

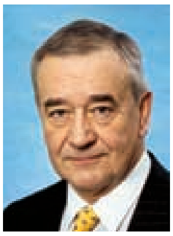
MANAGEMENT COMMITTEE

Jón Sigurðsson
President and CEO since 1994.
B.A., Stockholm University; M.Sc.Econ., London School of Economics and Political Science.
President and CEO until 31 March 2005.

Johnny Åkerholm
President and CEO from 1 April 2005.
M.Sc.Econ., The Swedish School of Economics, Helsinki; Licentiate in Political Science, University of Helsinki.



Carl Löwenhielm
Executive Vice President since 1996.
Head of the Nordic Lending Department.
Also responsible for IT.
MBA, Stockholm School of Economics.

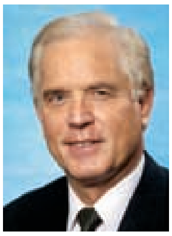


Erkki Karmila
Executive Vice President since 1993.
Head of the International Lending Department.
Licentiate in Law, University of Turku; Master of Laws, Harvard.

Siv Hellén
Senior Vice President since 1985.
General Counsel.
LL.M., University of Helsinki; eMBA, Helsinki School of Economics and Business Administration.

Juha Kotajoki
Senior Vice President since 1996.
Head of the Risk Management Department. Responsible for Personnel and Office and for Accounting and Budgeting.
B.A., University of Turku.

Torben Nielsen
Senior Vice President since 1999.
CFO and Treasurer since 2004.
Diploma in Finance, Copenhagen Business School; Leadership programme, INSEAD.



Oddvar Sten Rønsen
Senior Vice President since 1993.
Head of the Appraisal Department.
Responsible for Financial Administration and Planning, and heads the project organisation for environmental financing within the Northern Dimension.
B.A. (Econ.) Hon., Manchester University; M. Sc., Warwick University Graduate Business School, England.

ORGANISATION

PRESIDENT AND CEO

Jón Sigurðsson (until 31 March 2005)
Johnny Åkerholm (from 1 April 2005)

SUPPORTING DEPARTMENTS

Accounting and Budgeting	Stina Kontro
Appraisal Department and project organisation for the Northern Dimension	Oddvar Sten Rønsen (Member of the Management Committee)
Financial Administration and Planning	Christer Björklund
General Counsel's Office	Siv Hellén (Member of the Management Committee)
Information and PR	Jamima Löfström
Information Technology	Seija Hallavo
Internal Auditing	Martin Gardberg
Personnel and Office	Christer Boije
Risk Management	Juha Kotajoki (Member of the Management Committee)

NORDIC DEPARTMENT

	Carl Löwenhielm (Member of the Management Committee)
Denmark	Per Klaumann
Finland	Lars Selenius
Iceland	Benedikt Árnason (from 1 April 2005)
Norway	Lars Fuglesang
Sweden	Lars Norén
Credit Unit	Kenneth Grönholm
Nordic Legal Matters	Ann Damström

INTERNATIONAL DEPARTMENT

	Erkki Karmila (Member of the Management Committee) Lars-Åke Olsson (Deputy Head of the Department)
Africa and the Middle East	Jørgen D. Ilsøe
Asia	Søren Kjær Mortensen
Baltic Countries and Poland	Lauri Johnson
Central and Eastern Europe	Martin Relander
Latin America	Lars-Åke Olsson
Private Sector Financing	Tarja Kylänpää
Credit Unit	Liisa Niemelä
International Legal Matters	Mirja Koskimäki, Klaus Stubkjær, Ebbe Thalin

FINANCE DEPARTMENT

	Torben Nielsen (Member of the Management Committee)
Funding	Kari Kukka
Portfolio Management	Torben Nielsen
Financial Analysis Support	Kaare Guttorm Andersen
Financial Legal Matters	Sten Holmberg

For updates and details about NIB's personnel, please, visit www.nib.int

HUMAN RESOURCES

NIB is strongly committed to the development and well-being of its employees. The staff policy underscores the vital importance of dedicated employees for the organisation's development and performance. The purpose of the staff policy is to create an attractive and professionally stimulating work environment.

The total number of employees at the end of 2004 was 147, comprising 73 women and 74 men. The figure beside shows the nationality breakdown. The average age of the employees was 43.6, and the average length of service was 9.3 years.

Important aspects of project work in 2004 included among other things preparations for the Baltic countries' membership in the Bank, development of the Bank's risk management systems and renewal of the Bank's IT systems. As in previous years, NIB involved external consultants for some of these projects. Cooperation with external consultants is expected to continue for the next few years. In order to provide adequate working facilities for both internal project groups and consultants, NIB has rented extra office space in the building next to its headquarters in Helsinki, as well as made use of office space at the entrance level of the Bank's headquarters, previously leased to others.

In 2004, the work continued on revising the Bank's Set of Staff Regulations and Rules , the structure of which is similar to the regulations and rules of other multilateral institutions. The Set of Staff Regulations and Rules was approved by the Bank's Board in 2004 and becomes effective in spring 2005. The Bank has revised its previous staff documents, Staff Policy and Staff Rules, and added new elements. The new elements in the regulations and rules include Staff Regulations, Rules for the Ombudsman, as well as separate Arbitration Rules to be applied in the event of any employment-related disputes.

The approaching membership of the Baltic countries in NIB also characterised work in the Bank during the year. An internal project group was set up to ensure smooth integration of the three new member countries Estonia, Latvia, and Lithuania into the Bank. The project group's responsibilities included among other tasks recruiting employees from the new member countries. During the autumn, a staff seminar was arranged on the Baltic countries. The seminar included a presentation of history and economic development in the Baltic countries.

During the year, the Bank also prepared for the transition to English as a new official language. From the beginning of 2005, the Bank's two official languages are English and Swedish.

Training activities in 2004 generally were focused on preparations for the Bank's expanded membership. Foremost, these preparations involved concentration on improved skills in English: ten new English-language training groups were started. In addition, several seminars on different topics were arranged in English during the autumn and also courses in, for example, presentation techniques and project financing were arranged in English. Language tuition was provided in more than ten different languages. The courses involved about 90 participants.

As before, employees also took part in external training, such as courses and seminars on current themes related to their work duties, as well as in individual training programmes. The average number of training days per person was 6.5 during the year. This figure includes both in-house courses and external training.

The theme for the Bank's annual employee seminar was NIB's risk management and the risk classification process. The Bank's new model for portfolio management of credit risk and new tools for credit evaluation was presented at the seminar, which was attended by 120 of the Bank's staff.

An internal environmental policy and practices guide was launched during the year, including environmental-friendly practices for office work in the Bank. Simultaneously with putting the guidelines into effect, the internal environmental guidelines were introduced to the staff.

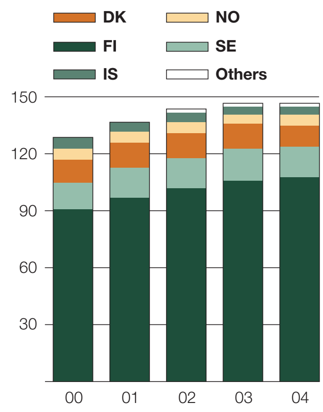
NIB takes care of the well-being of its employees by means of, for example, preventive health care and by measures for the promotion of occupational safety and ergonomics. Private health care and medical services are available to the employees based on a health insurance policy taken out by NIB.

Various fitness activities are subsidised as a part of preventive health care. For the enhancement of workplace satisfaction also various social activities are organised. The cultural events and leisure activities arranged for employees and their families facilitate social contacts across linguistic and cultural boundaries.

The process of improving the quality of the Bank's work climate continued during the year. Each department reviewed the results of the 2003 work climate survey. Based on the survey, aspects of the work climate calling for improvement were elaborated during the year.

The Bank's Cooperation Council is entrusted with the task of developing working conditions and streamlining the interaction between employer and employees. The Council met eight times in 2004, discussing the Bank's new internal regulations and rules at most of the meetings. Other items on the Council's agenda included evaluation of the previous year's work climate survey, as well as discussion of NIB's internal staff report for 2003.

NUMBER OF EMPLOYEES



NORDIC LOANS 2004

AGREED LOANS BY SECTOR

The list only includes customers who have consented to publication.

Sector/Customer	*Project*
MANUFACTURING INDUSTRY	
Food and drink industries	
Carlsberg A/S, Denmark	Acquisition of the remaining part in the beer producer Carlsberg Breweries' stock. The transaction will ensure the company's control over its largest operational assets.
Danisco A/S, Denmark	Financing of the company's R&D activities in the field of food ingredients.
Wood, pulp and paper	
Holmen AB, Sweden	Investment in a new paper-making machine in order to replace the old one that has been in use for 35 years.
Rottneros AB, Sweden	Financing of environmental improvements at the company's pulpmill. The innovation will allow raising the mill's output capacity, while reducing supplies of round timber.
Publishing and printing	
Schibsted Finans AS, Norway	Financing of equity investment in the publishing company Svenska Dagbladet Holding AB and the internet classified advertising company Blocket AB.
Chemicals and minerals	
Actavis Group hf, Iceland	Investment in the company's new R&D centre in Iceland and the recently acquired subsidiary in Denmark.
Kemira GrowHow Oyj, Finland	Investment in a plant for nitric acid in Finland. The production facility will replace an old one and raise the output capacity in fertiliser production.
Metals	
Boliden Mineral AB, Sweden	Modernisation of the company's zinc smelting plant in Norway. As a result, the plant's efficiency increases and the environmental impact on the surrounding area can be further reduced.
Böhler-Uddeholm Precision Strip AB, Sweden	Financing of the Austrian steel manufacturer Böhler-Uddeholm's investment in its Sweden-located production unit.
Uddeholm Tooling AB, Sweden	Upgrading of the Austrian steel manufacturer Böhler-Uddeholm's tool manufacturing plant in Sweden.
Engineering	
Mölnlycke Health Care AB, Sweden	Financing of the company's R&D projects within the development of surgical and wound care solutions.
Perlos Corporation, Finland	Acquisition of and development investments in the Swedish Moteco AB hi-tech manufacturing group.
ENERGY, GAS AND WATER SUPPLY	
Energi E2 A/S, Denmark	Investments in environmentally friendly power production in Norway.
Fingrid Oyj, Finland	Investment in the national electric power transmission grid. The project is aimed at improving the infrastructure and the capacity of the grid.
Hitaveita Suðurnesja, Iceland	Financing of a new geothermal power plant in Iceland. The increase in power producing capacity is necessary due to the rise of industrial activities in the country's southwest region.
Landsvirkjun, Iceland	Building of a new hydro power plant in the eastern part of Iceland.
M-real Corporation, Finland	Construction of a heat and power plant in Austria, where the company operates a paper mill. The new facility based on biomass will substantially reduce the waste processing costs of the company.
Orkuveita Reykjavíkur, Iceland	Construction of a geothermal power plant in southwestern Iceland. The new plant will enable the aluminium smelter located in this region to double the output.
Rapid Power Oy, Finland	Financing of a long-term power supply contract from the Norwegian state power utility.
SEAS Distribution A.M.B.A., Denmark	Replacing of a 700 km overhead line with an underground cable. The purpose of the project is to improve the power supply and reduce the risk of power interruptions due to, e.g., storms.

Tekniska Verken i Linköping AB, Sweden	Upgrading of an incineration plant in Linköping. Environmentally, the modernised plant will considerably reduce the emission of carbon dioxide to air.
Østfold Energi AS, Norway	Investment in two incinerators and a hydro power generator. Modern incineration technologies will reduce emission of carbon dioxide to air.

CONSTRUCTION

Allfarveg AS, Norway	Financing of the construction of a public private partnership highway in southern Norway.
Skanska Financial Services AB, Sweden	Construction of a 60 km toll road in Chile. The new motorway will partially unload the existing traffic network and remedy exhaust smoke problem in Santiago.
YIT Corporation, Finland	Acquisition of the ABB group's building enterprises in Finland, Sweden, Norway, Denmark, the Baltic countries and Russia.

TRADE AND SERVICES

Reykjavík kommune, Iceland	Development of the sewer system in Iceland's capital. The project is expected to contribute to the endeavour of cleaning the coastline within the city limits and in neighbouring areas.
Ramirent Oyj, Finland	Acquisition of the Swedish Altima AB, one of the largest construction equipment rental providers in the Nordic countries.
Smaralind ehf, Iceland	Financing of the company's 63,000 square metre shopping mall in the Greater Reykjavik area.

TRANSPORT AND COMMUNICATIONS

Eimskipafélag Íslands ehf, Iceland	Acquisition of the shipping company Faroe Ship in the Faroe Islands. The merger will create the largest sea transport operator in the North Atlantic.
Telefonaktiebolaget LM Ericsson, Sweden	Financing of the company's R&D activities in the Nordic countries. The investment is an important prerequisite for the company's ability to sustain its competitive position in the telecom sector.
Farice Ltd, Iceland	Installation of a seabed optical cable between the telecom networks in Iceland, the Faroe Islands and Scotland. The new link will ensure a modern alternative to the existing capacities.
Finnlines Plc, Finland	Purchase of a RoPax vessel for cargo operations between ports on the Baltic Sea.
Telia Sonera AB, Sweden	Acquisition of a minority interest in the Lithuanian mobile telecom operator UAB Omnitel. The transaction will increase Telia Sonera's ownership in the Lithuanian company to 100%.

BANKING AND FINANCE

Finance for Danish Industry, Denmark	Financing of Danish SME projects, mainly in manufacturing industries.
Sparebanken Hedmark, Norway	Financing of SME projects in the Hedmark region in Norway.

INTERNATIONAL LOANS 2004

LOANS AND GUARANTEES AGREED BY REGION

The list only includes customers who have consented to publication.

Africa and the Middle East

Mauritius	Central Electricity Board	Loan for financing an extension of St. Louis Power Station
South Africa	Nedbank Limited	General loan programme in Sub-Saharan Africa
South Africa	Standard Bank of South Africa	General loan programme in Sub-Saharan Africa
Tunisia	Tunisie Telecom	Loan programme for investments in telephone networks

Asia

China	People's Republic of China	Loan programme for investments in the health care sector
India	IDEA Cellular Limited	Guarantee for financing of investments in mobile telephone networks
India	Rain Calcining Limited	Loan for financing an expansion of a coke extraction plant
Philippines	Digitel Mobile Philippines, Inc.	Loan for investments in mobile telephone networks
Vietnam	Socialist Republic of Vietnam	General loan programme
Vietnam	Socialist Republic of Vietnam	Loan programme for investments in the energy sector
Vietnam	Socialist Republic of Vietnam	General loan programme
Vietnam	Socialist Republic of Vietnam	Loan programme for investments in the coal sector
Vietnam	Socialist Republic of Vietnam	Increase of general loan programme
Vietnam	Socialist Republic of Vietnam	Supplementary loan for investments in a cement production plant

Baltic countries and Poland

Estonia	AS Tallinna Sadam	Loan programme for investments in port infrastructure
Latvia	Hansabanka A/S	Loan programme for promotion of women's enterprise
Latvia	Mortgage and Land Bank of Latvia	Loan programme for promotion of women's enterprise

Central and Eastern Europe

Bulgaria	Encouragement Bank AD	General loan programme
Czech Republic	Oskar Mobil A.S.	Loan for investments in mobile telephone networks
Regional	Black Sea Trade and Development Bank	Loan programme for investments in member countries of the Black Sea Trade and Development Bank
Romania	National Power Grid Company "Transelectrica" S.A.	Loan for upgrading a transformer station in Gutinas
Russia	Industry & Construction Bank	Loan programme for environmental projects in Northwest Russia
Russia	JSC Vneshtorgbank	Loan programme for promotion of women's enterprise
Russia	OJSC Megafon	Loan for investments in mobile telephone networks
Russia	State Unitary Enterprise Vodokanal of St. Petersburg	Loan for investments in a sludge combustion plant
Slovakia	Slovenská Záručná a Rozvojová Banka	General loan programme

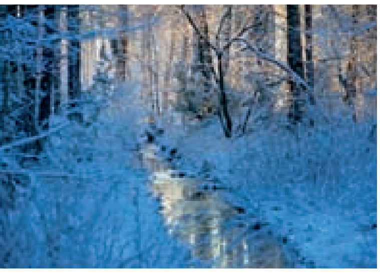
Latin America

Brazil	Alumina do Norte do Brasil S.A.	Loan for investments in and expansion of an aluminium oxide plant
Brazil	Telemar Norte Leste S.A.	Loan for investments in mobile telephone networks
Mexico	Banco Nacional de Comercio Exterior S.N.C.	General loan programme

LONG-TERM BORROWING 2004

Currency	Amount million	Amount EUR million	Issue price	Coupon rate %		Maturity year	Leading/Arranging Bank
PUBLIC SYNDICATED BOND ISSUES							
USD	1,000	818	99.853%	2.875%		2009	Citigroup Global Markets Inc./ Nomura International Plc
OTHER LISTED BORROWINGS							
AUD	220	134	100.000%	5.350%		2007	Mizuho International Plc
GBP	50	75	100.000%	4.800%		2009	BNP Paribas
CAD	100	63	101.163%	4.500%		2014	Canadian Imperial Bank of Commerce
SKK	2,000	51	100.000%	FRN	1)	2009	Merrill Lynch International
OTHER BORROWINGS							
EUR	10	10	100.000%	5.000%	2)	2029	Nordea Bank Finland Plc
EUR	10	10	100.000%	5.000%	2)	2029	Nordea Bank Finland Plc
HKD	400	41	100.000%	3.150%		2009	Barclays Bank Plc
HKD	202	11	53.500%	0.000%	3)	2017	Hongkong and Shanghai Banking Corporation Limited
USD	100	84	100.000%	3.880%		2011	Tokyo-Mitsubishi International Plc
USD	100	84	100.000%	4.040%		2012	Citigroup Global Markets Ltd
AUD	120	68	100.000%	5.140%		2007	Mizuho International Plc
USD	20	16	100.000%	3.260%		2008	Mizuho International Plc
USD	100	83	100.000%	FRN	1)	2014	Caja de Madrid
JPY	1,500	11	100.000%	PRDC	2) 4)	2034	Nomura International Plc
USD	100	75	100.000%	4.430%		2014	Goldman Sachs International
USD	90	20	30.311%	0.000%	2) 3)	2024	HSBC Bank Plc
USD	100	75	100.000%	4.210%		2012	The Royal Bank of Scotland Plc

1) Floating rate
2) Callable
3) Zero coupon
4) Linked to JPY/AUD rate



ABBREVIATIONS

BIL	Baltic Investment Loans were granted by NIB until the end of 1999 for investments in the Baltic countries.
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
HIPC programme	Programme for the most indebted countries in the world (Heavily Indebted Poor Countries). The programme is being operated in close partnership with other multilateral financial institutions, with the World Bank responsible for coordination and administration.
IAS 39	Standard for the accounting of financial instruments. Under IAS 39 all derivatives are recognised on the Balance Sheet and a greater number of financial instruments in the Balance Sheet are carried at fair value.
IFRS	International Financial Reporting Standards as adopted by the International Accounting Standards Board (IASB).
m	million(s)
MIL	Environmental Investment Loans are granted by NIB for the financing of environmental projects in the neighbouring areas of the member countries.
NDEP	Northern Dimension Environmental Partnership
NDF	Nordic Development Fund
NEFCO	Nordic Environment Finance Corporation
PIL	The Project Investment Loan facility is intended for loans to emerging markets and transition economies and constitutes the core of NIB's international lending.
Sida	Swedish International Development Cooperation Agency

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