



NORDIC
INVESTMENT
BANK

FINANCING
THE
FUTURE

MAGAZINE

2014/2015

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IMPROVE THE
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NIB green bonds improve the environment



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WORKING FOR A BETTER FUTURE

Nordic industrial activities continue to be on a slow burn due to a lack of global growth engines. The situation is further made worse by geopolitical concerns spoiling opportunities for a European recovery. Because of this we do not expect any significant pick up in investment activities in the coming months.

Although the investment environment is a difficult one, the demand for NIB financing has remained stable and our lending activities have developed satisfactorily and according to plan.

In this edition of the NIB Magazine you can read that NIB launched its largest NIB Environmental Bond ever in September 2014. This USD 500 million bond has a maturity of seven years and is the longest USD-denominated green bond from a supranational issuer to date. We see it as very positive that a growing number of fixed-income investors choose to meet environmental challenges and support projects with a positive environmental impact.

However, our mission here at NIB is to improve both the competitiveness and environment of the Nordic and Baltic countries. It's a bit like our children—you cannot say which one you prefer the most—each one is equally important.

We all agree that it is important to provide financing for the many small and medium sized enterprises. In 2013, NIB started to offer loans to SMEs in the Nordic-Baltic region that also include projects that improve competitiveness. Earlier, our lending to this sector had focused mostly on lending to environmental and renewable energy projects. NIB continues to broaden its SME loan offering via our partnering financial institutions.

You can also read that 2015 marks the 10th anniversary of the Baltic countries becoming owners of NIB. Our guest columnist from the Stockholm School of Economics in Riga writes that the economic ups and downs for the Baltics during the past ten years have been like riding a rollercoaster. He also writes that the “next ten years look quite positive for the Baltic countries, but [that] it will be uphill most of the way”. Metaphors aside, NIB will continue to support the economies of Estonia, Latvia and Lithuania with long-term loans.

We are working for a prosperous and sustainable Nordic-Baltic region.

Henrik Normann

NIB President & CEO
Nordic Investment Bank



NIB's financial figures January–August 2014:

Stable loan demand, solid profit

The European recovery was again interrupted in recent months, this time as rising geopolitical tensions cooled business confidence. With global growth lacking key engines, Nordic exports and business investment have been lacklustre.

Despite the difficult investment environment, the demand for NIB financing remained stable. A slight decrease in the Bank's profit, totalling EUR 148 million (Jan–Aug 2013: EUR 153 million), reflected the pressure of margins on NIB's net interest income. Impairments remained low and amounted to EUR 9 million.

During the period, the Bank's lending activities developed satisfactorily and according to plan. Twenty-two new loans were agreed with borrowers, with an aggregate amount of approximately EUR 1,277 million, up from EUR 859 million during the same period a year ago. Loan disbursements totalled EUR 1,159 million (Jan–Aug 2013: EUR 1,039 million). Energy and the environment was the biggest disbursement sector, accounting for 38% of all disbursement for the period.

In January–August 2014, NIB issued new funding transactions for a total amount of EUR 2.7 billion, which accounts for nearly 80%

of the Bank's annual funding programme. In April, NIB launched a five-year global USD 1 billion benchmark transaction. In addition, the Bank issued 29 public and private transactions in eight different currencies.

Interest rates in the Nordic–Baltic region look set to stay very low for an extended period. Amid fragile confidence due to elevated uncertainty, business investment is not expected to pick up substantially in the coming months.

Henrik Normann
President & CEO

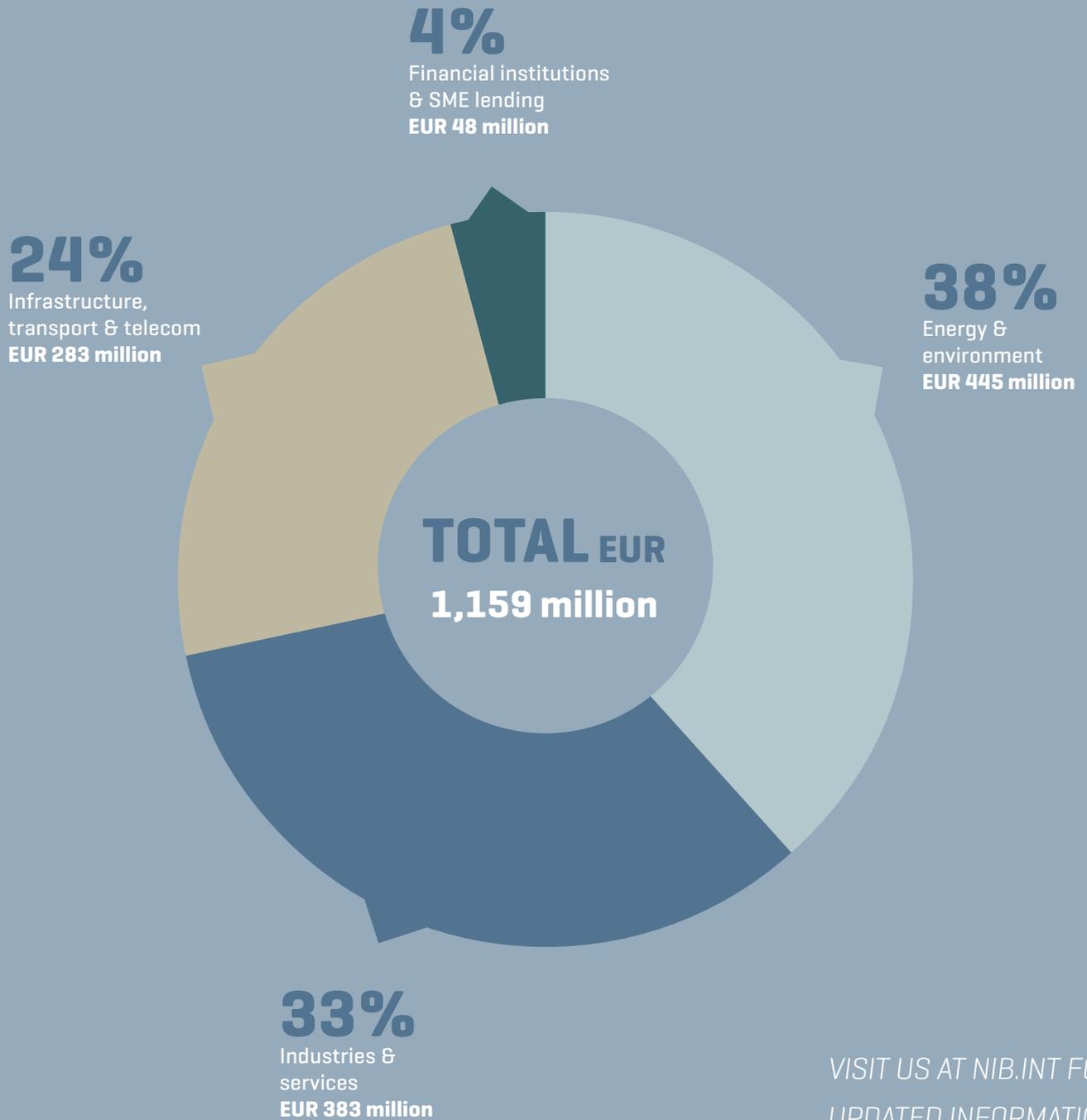
KEY FIGURES

[in million EUR unless otherwise specified]

	Aug 2014*	Aug 2013*	Dec 2013
Net interest income	159	166	244
Profit/loss	148	153	217
Loans disbursed	1,159	1,039	1,922
Loans agreed	1,277	859	1,810
Loans outstanding	14,820	14,804	14,667
Guarantee commitments	-	-	-
New debt issues	2,714	3,356	4,080
Debts evidenced by certificates	19,747	19,386	18,421
Total assets	24,657	24,562	23,490
Equity/total assets [%]	11.9	11.3	12.1
Profit/average equity [%]	7.7	8.4	7.9
Number of employees (average during year)	185	182	183

* Unaudited figures, to be read in conjunction with NIB's audited financial statement for 2013 and the notes thereto.

Loans disbursed in January-August 2014



VISIT US AT NIB.INT FOR
UPDATED INFORMATION
ABOUT OUR LOAN PROJECTS.

Ryfast tunnel: A CHALLENGING UNDERSEA RECORD

Major highways around Norway's fjord- and island-rich western coastline are now being improved with increasingly long tunnels.

Photo: Bjørn Egil Gilje

The most ambitious ongoing road project in Norway—both in terms of construction and later driving comfortably through it—is the Ryfast tunnel, which is set to become the world’s longest and deepest undersea road tunnel.

The construction of the 14.3 km twin road Ryfast tunnel started in the summer of 2013. It will link Stavanger—Norway’s fourth largest city and the centre of the country’s offshore oil and gas industry—with Solbakk near the small town of Tau, currently only accessible by a 45-minute ferry ride. When ready, the tunnel will take 15 minutes to drive through at depths of down to 292 metres below sea level.

The benefits are substantially reduced travel time, an improved local labour market and the possibility to create many new residential areas in the districts of Ryfylke and Jaeren in the county of Rogaland. These are improvements that will most likely increase the competitiveness of local markets and benefit the whole of Western Norway.

However, switching from a ride in a nice cafeteria on board a ferry while gazing out over the beautiful landscape scenery between roads 13 and E39 to a drive through the world’s longest and deepest undersea tunnel may be challenging for quite a few.

An estimate from the independent Norwegian contract research institute SINTEF shows that as many as 10–20% of the population feel uncomfortable while driving in tunnels. Older people in particular tend to feel unsafe. It is important to acknowledge this, because anxiety and discomfort in tunnels may lead to an increased risk of traffic accidents if measures are not taken.

The solution to increasing the drivers’ feelings of security, and thereby road safety itself, is to break up the monotony by introducing architecture, art and lightning, says Sylvia Piamonte Samuelsen, Landscape Architect at the Norwegian community planning and design company Norconsult AS, which is one of the subcontractors to the Ryfast project.

“There are several steps that can be taken to prevent monotony and underground angst,

and these include improving visual comfort by ensuring good lighting, having good information about the remaining length of tunnel, and having variations in the tunnel itself”, says Samuelsen.

Because the tunnel is so long, an extended viewing hall called “Bakenfor pusten”, or “Behind the breath” will be constructed beneath the island of Hidle, approximately halfway through the Ryfast tunnel. This will be the main art installation focusing on light. The extended cave will be approximately 22 metres wider than the road tunnel and extend about three metres above and below the road surface. All lamps will be hidden so that the light is experienced as the present material, giving a feeling of the cave being much larger than it physically is. The light will also vary throughout the day and by season to accommodate new experiences.

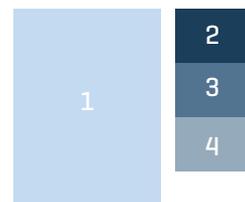
“It is clearly difficult to compete with the experience of travelling on a ferry with a view of nature, but the tunnel lightning is a way of offering a new landscape to make the driving experience a little more exciting and safe”, Samuelsen says.

The Ryfast tunnel project also includes the 5.5 km Hundvaag tunnel and will connect with the 3.7 km Eiganes tunnel. The whole Ryfast project involves the construction of three tunnels and 53 kilometres of new roads, all due for completion by the end of 2018.

The Ryfast project is being led by the Norwegian Public Roads Administration and constructed by Swiss constructor Marti Group. Total cost is estimated at 6.4 billion Norwegian kroner (785 million euros).

NIB participates in financing the project and has signed a 25-year maturity loan of 120.5 million euros with the special purpose entity Ryfast AS to finance the construction costs. Ryfast AS is owned by Rogaland county and the municipality of Stavanger and is responsible for financing the construction costs of the project by charging toll fees until the year 2039.

It is estimated that approximately 4,000 cars a day will start using the tunnels after completion, doubling to about 8,000 cars a day by 2035. ▀



1. Construction start
2. The first blast
3. The extended viewing hall
4. The Eiganes and Ryfast tunnel



NIB LOAN:

Danish Crown launches slaughterhouse

On 22 August 2014, Denmark's food processing company Danish Crown A/S inaugurated a new cattle slaughterhouse in Holsted, southern Jutland. The construction has been co-financed with a long-term loan from NIB.

The new facility will use the best available techniques as defined for the sector, which will help it reduce the consumption of energy and water by a third compared to older slaughterhouses the Holsted plant is replacing. The slaughterhouse in Holsted will be among the three largest in Europe. It will handle roughly half of the national cattle slaughtering.

Danish Crown is the world's second largest abattoir and Europe's largest meat processing company. The company is a cooperative owned by around 9,000 Danish pig and beef farmers.

The 10-year maturity loan from NIB to Danish Crown totaling EUR 46 million was agreed in December 2013.

Det handler om mad – It's about food.

DET HANDBLER
OM MAD

KEEPING NIB RELEVANT

The Nordic-Baltic investment climate is slightly improving and the Nordic Investment Bank sees good demand for its long-term loans, says Thomas Wrangdahl, First Vice-President and Head of Lending at NIB.

“For sure, there is a lot of liquidity and private and public companies have access to financing in a much more favourable way than before. This is good for the market and also for the Bank’s vision of a prosperous and sustainable Nordic-Baltic region”, Wrangdahl says in an interview with NIB Magazine.

How can NIB stay relevant in such a market situation?

“We are here to complement that development with long-term funding. It’s all about being present in the market, maintaining a dialogue with potential clients and trying to understand their needs. Through meetings we seek to help develop interesting opportunities that are in line with our mission to finance projects that improve competitiveness and the environment of the Nordic-Baltic countries.”

How is the Bank guided by its mandate?

“The competitiveness and environmental parts of NIB’s mandate are equally important. I like that. That is the way I see my role here at NIB, to push for those kinds of deals so that we can find interesting projects. And people also come to us with interesting ideas.”

“There is also a clear connection between the Bank’s loan projects that we want to be eligible for green bond funding and NIB’s issuance of Environmental bonds. I think that is a very strong and promising connection very much in line with NIB’s mandate.”

Wrangdahl expects the Bank to achieve its goal of disbursing EUR 2 billion in loans in 2014. The aim is to disburse a similar amount in 2015, as well.

What can NIB offer in addition to long-term funding?

“We can still often go a bit longer in maturities than commercial banks and even bond markets, and that is where we should add value. In addition, NIB offers valuable diversification: it is important for our clients that they have many ways of getting funding.”

“Our sustainability also often functions as a stamp of approval. Getting a loan from NIB can sometimes help clients to get access to additional funding elsewhere. The Bank sometimes also has a role of actually providing knowledge, such as the many public-private partnerships we have been involved with in the Nordic countries.”

“Our AAA rating is of course the ultimate stamp of quality, as it allows us to raise funds in the best available manner.”

There is much talk about SMEs’ unmet financing needs, what is NIB doing?

“Sure, there is clearly a broad consensus that SMEs’ access to funding should be improved and that we need a broader product portfolio than what exists today. At NIB, we are continuously working to develop our loan offering to the SME sector.”



Photo: Marjo Koivumäki

“Getting a loan from NIB can sometimes help clients get access to additional funding elsewhere.”

Thomas Wrangdahl,
First Vice-President and Head of Lending

NIB OFFERS LOANS TO SMES VIA ONLENDING PARTNERS:

LONG-TERM LOANS FOR SMES

SMEs employ two thirds of all employees in the Nordic-Baltic region and contribute a similar share of the added value produced. This is precisely why long-term lending to SMEs is a priority at the Nordic Investment Bank.

“SMEs enhance entrepreneurship, competition and innovation and they are of great importance for productivity and economic growth in their home countries. Removing obstacles that impede the growth of the SME sector needs to become a priority in their economic policies,” says researcher Lisbet Horslund.

In 2013, Horslund conducted a study for NIB on the SME sector and its access to financing in the Bank’s member countries. The study estimated that SME portfolios in the banking sectors of the Nordic and Baltic countries were in the range of EUR 102-164 billion in 2013.

“It may seem very large, but, unfortunately, it is not enough and the demand for SME long-term financing, particularly as a result of the crisis, is increasing,” Horslund said then.

NIB’s total outstanding loans to SMEs stood at EUR 657 million at the end of August 2014. Enterprises considered to be SMEs, in accordance with an EU definition, employ fewer than 250 persons with annual turnover below EUR 50 million or an annual balance sheet less than EUR 43 million. On average, SMEs numerically by this definition accounts for 99% of all enterprises in the Nordic-Baltic region.

Many SMEs in the Nordic-Baltic region need to invest in new technology to increase efficiency and sustainability of their production. NIB seeks to meet this demand by providing long term financing in cooperation with local financial institutions that already have a focus on SMEs.

“This allows NIB to reach out to SMEs that otherwise would not have been possible,” says

Marjo Harri, Director and Head of Financial Institutions & SMEs at NIB.

The intermediary partner banks allocate the funds themselves according to NIB’s requirements, and report to NIB on how much they have extended to different types of projects.

“We have several interesting new projects in the pipeline that we hope to sign during the winter of 2014-2015.”

Marjo Harri,
Director and Head of Financial
Institutions & SMEs at NIB

“There is a scarcity of longer-term financial sources for SMEs and NIB has the capability to meet the demand with longer tenors than are otherwise typically available,” Harri says.

NIB BROADENED ITS LOAN OFFERING TO SMES

In 2013, NIB decided to expand its loan offering for on-lending to SMEs to include investments in new machinery, production or service provision facilities and investments in ICT and R&D. These project categories came in addition to NIB’s traditional SME onlending

that earlier had mainly focused on small scale environmental and renewable energy projects. The broadened scope of eligible investments has been well received by the on-lending banks.

CHALLENGING TIMES

The current investment climate is weak as industrial activities are on a slow burn due to a lack of global growth engines. The situation is further made worse by geopolitical concerns hampering opportunities for a European recovery.

While there currently is an abundance of liquidity in the commercial banking sector, the new Basel III regulatory framework is expected to increase the need of long term stable funding to match the long term lending.

“NIB can help here because long-term loans are precisely what NIB offers. And ultimately this can make it easier for SMEs to get loans,” says Harri.

NIB paid-out EUR 70 million in loans to SMEs in January-September 2014. In 2013, NIB disbursed EUR 171 million for the SMEs in member countries. The bulk of this was disbursed during the last quarter of the year and a similar effect is expected for the end of 2014.

“We have several interesting new projects in the pipeline that we hope to sign during the winter of 2014-2015,” Harri says.



Construction of a 3.5 MW steam boiler plant fuelled by wood residue in Pyhäntä, near Oulu in Finland: Sales Manager Jouni Heikkinen and Bank Manager Helinä Saarela of Oulun Osuuspankki onlends NIB funds to local entrepreneur Pekka Kemppainen of Latvaenergia. The investment creates more local jobs and improves the environment by replacing fossil fuels with renewable energy.

Photo: Niina Rantti

NIB SEEKS NEW PARTNERSHIPS:

SMEs tapping wind power

In the past five years, NIB and Ringkjøbing Landbobank (RLB) from Denmark have launched four facilities for SME and environmental projects with a combined value of about EUR 80 million.

“The cooperation with NIB that started in 1999 has been one of the contributors to our bank’s success in financing small and medium-sized enterprises, particularly in the area of renewable energy. We have established significant expertise in financing wind turbine projects, which is an important area of our banking activities nowadays”, says Lars Hindø, Executive Assistant at Ringkjøbing Landbobank A/S.

NIB’s loan programmes have become a reliable source of long-term financing, and in 2010–2014 alone they helped to build 54 wind turbines. The total expected annual output of 473 GWh is equal to the consumption of some 45,000 households. The NIB- and RLB-financed wind turbine farms are scattered throughout many parts of Denmark, but concentrated in central and western Jutland, the core region for Ringkjøbing Landbobank.

Ringkjøbing Landbobank is a full-service regional bank that operates mainly in central and western Jutland in Denmark. The bank ranks among the 15 largest banking groups in Denmark in terms of total assets.

SMEs create varied local economies

In 2013, NIB and Sparbanken Nord signed a EUR 20 million loan programme for onlending to SMEs and environmental investments with the purpose of decreasing greenhouse gas emissions and producing other positive environmental impacts.

“Savings banks normally have access to short-term deposit money. NIB can provide much longer tenors to finance infrastructure development and SME projects. This is extremely valuable for us,” Erik Hägglov, Chief Executive Officer of Sparbanken Nord.

“Some areas are becoming depopulated for economic reasons if they are not diversified enough. Financing is needed for investments in machinery and equipment, research, ICT, energy efficiency and renewable energy production. These are our priorities. This is why we appreciate NIB’s involvement in providing access to finances for SMEs.”

Sparbanken Nord has 14 branches in ten different municipalities in northern Sweden, and is the third largest independent savings bank in the country. About two thirds of the Sparbanken Nord’s lending comprises loans to households and individuals.

New opportunities for SMEs

Since 2010, NIB and Oulun Osuuspankki have signed two facilities for SMEs with a combined value of EUR 45 million.

“From Oulun Osuuspankki’s perspective, the NIB loan programme fits perfectly with our corporate responsibility, especially now that this region is heavily reliant on entrepreneurs existing and growing their businesses. For us, it is important that we share the responsibility to both society and the environment,” says Helinä Saarela, Bank Manager at Oulun Osuuspankki.

Oulun Osuuspankki’s Sales Manager Jouni Heikkinen agrees: “The loan programme with NIB is a great way to open up new opportunities for the SMEs in this region. Principally, we need more investments made by SMEs in tangible capital, such as machinery and equipment, as that kind of industry didn’t really exist in Oulu previously, when this region concentrated too much around one sector,” says Heikkinen.

So far, Oulun Osuuspankki has utilised NIB funding for financing machinery and equipment investments and various energy efficiency projects to mention a few.

Oulun Osuuspankki has 12 branches in six municipalities, in Oulu and its neighbouring localities in northern Finland. The bank is part of the OP-Pohjola Group and provides banking services to both corporate customers and private individuals. ▀

Competitiveness of SMEs

a must for success

While Europe has been struggling to fully recover and emerge from the persistent economic issues spurred by the financial crisis of 2008 and the following debt crisis of 2011, our competitors have not remained idle.

The European share of foreign direct investment has fallen by 40% since 2000 and by 2015 90% of world growth will be generated outside Europe. Such predictions are worrying as they imply a loss of competitiveness. Emphasis must therefore be on improving the competitiveness of European businesses, as this is the only way to boost growth and employment in Europe.

The economies of the Nordic-Baltic region have generally proved to be relatively resilient to the European economic turmoil. Although these countries also witness unemployment and modest growth, the region as a whole possesses a strong foundation for a lasting recovery.

Small and medium-sized enterprises (SMEs) are the backbone of the economies in the Nordic-Baltic region and thus major drivers of economic development. In Denmark, SMEs constitute more than 99% of the total number of companies and account for more than half of total Danish employment. Analyses show that the net inflow of new enterprises contributes significantly to productivity growth and that SMEs create more jobs than large enterprises. Consequently, enhancing competitiveness of the Nordic-Baltic region is inevitably also enhancing competitiveness of the Nordic-Baltic SMEs.

The success of the Nordic-Baltic region will largely depend on the scale and the speed in the adoption of new advanced technologies. This particularly applies to energy efficiency and new digital technologies for the production of goods and services responding to societal challenges such as climate change. Thus, policies should facilitate an entrepreneurial business environment allowing innovation to flourish among SMEs and encouraging the internationalisation of SMEs. In this, the first order of business should be to ease access to finance for SMEs.



Thomas Bustrup, Deputy Director
General Confederation of Danish Industry

Access to finance is a key determinant for companies to succeed in their drive to build productive capacity, to be competitive internationally and to create employment. Especially SMEs have identified limited access to finance as one of the major barriers to growth. Finance allows companies to acquire and absorb new technologies and expand in global markets. For these reasons, financing institutions such as the Nordic Investment Bank are important partners for Nordic and Baltic businesses and are often referred to as the missing piece of the puzzle when assembling a competitive financing package. It is therefore encouraged that international finance institutions put renewed emphasis in strengthening country competitiveness and to a larger degree engage and include companies in their strategy and work to secure the continued relevance of their products.

Looking forward the Nordic-Baltic countries should join forces to unleash the Nordic-Baltic potential. Competitive and innovative companies that create economic growth and employment are imperative to the future of the Nordic-Baltic region and for Europe as a whole. ▀

Estonia, Latvia and Lithuania ten-year co-owners of NIB:

EVERYONE'S A WINNER



After close cooperation between NIB and Estonia, Latvia and Lithuania since the early 1990s, the three Baltic countries became full-fledged co-owners of the Bank in 2005. Since then, NIB's lending exposure has more than doubled in the Baltics, contributing to NIB's vision of a prosperous and sustainable Nordic-Baltic region.



At a meeting of Nordic prime ministers at Harpsund in Sweden in June 2003, the five heads of government agreed in principle to invite Estonia, Latvia and Lithuania to become members of NIB. The initiative expanded the Nordic policy to include the development of the Baltic Sea region, a matter of great interest to all Nordic and Baltic countries. Following national ratification processes, the three Baltic countries became full-fledged owners of NIB on 1 January 2005.

Ten years of NIB membership has been like a flash from a lighthouse in the Baltic Sea. For NIB, having three new member countries has meant increased scope for lending. More importantly, the enlargement meant that the Bank's mission covered a larger geographical area than before and with countries in the midst of capital-intensive transformation.

In February 2004, former president of Finland Martti Ahtisaari gave a speech at a business forum in Vilnius where he stated that the Baltic Sea region has a range of challenges that are best solved by working together.

"The Nordic Investment Bank has an important role to play in investing in cross-border projects and financing infrastructure. There is great potential for growth in the whole Baltic Sea region. The membership of Lithuania, Latvia and Estonia in the Nordic Investment Bank is one way of supporting this growth, which benefits the Nordic and the Baltic countries alike," Ahtisaari said then.

Ten years after, Pentti Pikkarainen, Director and Chairman of the Board at NIB, says that inviting the Baltic countries as co-owners of NIB was "definitely a right decision."

"It has strengthened economic and political cooperation in our region. There is a lot

of sympathy among the owners of NIB to support prosperity in the Baltic countries," says Pikkarainen who is also Director General of Financial Markets at the Finnish Ministry of Finance.

"The Nordic-Baltic countries belong also to the same constituency in the IMF and the World Bank and we have excellent cooperation also in those institutions."

THE BALTIC INVESTMENT PROGRAMME

NIB has had long and fruitful cooperation with Estonia, Latvia and Lithuania since long before 2005. The Baltics have been important lending receivers since they regained their independence in 1991. Back then, there was a great need to develop financial mechanisms and to provide technical assistance with the purpose of initiating investments in small and medium sized enterprises.

In the Baltic countries the Bank issued loans via a Baltic Investment Programme that ran until 1999, and also provided technical assistance to the management of banks, resident advisors in the credit departments and hands-on training of staff.

NIB's lending exposure to the Baltic countries has more than doubled since they became members in 2005. At the end of August 2014, NIB's total loan exposure in the Baltic countries amounted to EUR 1,110 million equal to 6.9% of NIB's total exposure.

SIGNIFICANT LOAN PROJECTS

In the past decade, NIB has financed the acquisition of new service vessels and expansion of cargo handling capacity at the sea ports of Klaipeda, Riga and Tallinn.

The Bank has also contributed to the technical modernisation of railway operators in all three Baltic countries. In 2013, NIB and the Lithuanian railway company AB Lietuvos

gelezinkeliai signed a 19-year-maturity EUR 114 million loan agreement for the construction of a European-gauge track as part of the future Rail Baltica route.

Rail Baltica can be easily labelled the project of the century for Estonia, Latvia and Lithuania. An investment in infrastructure of a magnitude historically unprecedented for the Baltic trio, its significance in the second decade of the 21st century compares to the opening of national borders after the fall of the Iron Curtain in the early 1990s.

Several loans to the countries' national power utilities have financed the refurbishment of power plants and upgraded transmission lines. In 2005, NIB signed a loan agreement of EUR 53 million with Nordic Energy Link, a joint venture of five companies from the Baltic countries and Finland, to finance Estlink 1. This was the first ever power connection between the Baltic region and the rest of the EU.

In 2014, the Bank signed a 10-year-maturity, EUR 50 million loan agreement with AB Litgrid for the construction of an electricity transmission line between Lithuania and Poland. The LitPol Link will be the first interconnection between the Lithuanian power system and the electricity infrastructure of Western Europe.

The Bank has also participated in the modernisation of the health care sectors and acquisition of equipment for a number of hospitals in Latvia and Estonia.

These are but a few of NIB's loan projects in Estonia, Latvia and Lithuania. All in all, the Bank had 98 outstanding loans in the Baltics at the end of August 2014. You can read more about NIB's loan projects on our website at www.nib.int. ▀

Baltic economies expert:

Past ten years a rollercoaster ride



Morten Hansen, Head of the Economics Department at Stockholm School of Economics in Riga

The Baltic countries are often lumped together—just consider the name “Baltic countries”—as if they represent identical political and economic values and development. In many ways they do not, but in some ways they certainly do: for instance in terms of the wish for still closer integration with the West.

The past ten years have seen the three countries join NATO, the European Union and the Schengen Area, with entry into the euro zone underway [Estonia in 2011, Latvia in 2014, Lithuania from 2015] and with OECD membership also in the pipeline [Estonia in 2010, Latvia from 2016, and Lithuania not much later].

In many ways, this has served the Baltic countries very well. The countries are highly integrated into the EU in terms of foreign trade, and have in the past ten years obtained partial economic convergence with GDP per capita levels jumping from 57% to 72% of the EU28 average in Estonia, from 47% to 67% in Latvia, and from 52% to 74% in Lithuania. This is quite impressive, although it still leaves the countries behind the “old EU”, including Portugal and Greece.

The past ten years were more of a rollercoaster ride than steady economic development. All three allowed massive credit booms in 2004–2007, and in particular Latvia and Lithuania followed this with reckless procyclical fiscal policies, thereby exacerbating the booms and subsequent busts when drastic austerity measures were needed to rein in the excessive spending of the boom years. Here, the Baltic economies demonstrated that the way they conducted their economic policies was too short-sighted and with inadequate competence. These shortcomings, however, have been partly remedied with much-improved fiscal policies, e.g. the formation of fiscal discipline councils in Estonia and Latvia.

The Baltic economies have grown—and grown up—over the past ten years, but they still face formidable challenges. Poor demographics with very low birth rates from as far back as the Soviet perestroika years have now started to affect the labour markets, with small cohorts of young people joining, a trend that will continue for at least twenty years.

Combined with substantial outward migration due to wages lower than in most of the EU and because of high unemployment during the 2008–2010 recession, this will have a permanent crunch effect on the labour markets. Add the brain drain which is part of the outward migration, and the path to economic convergence is severely hampered; these countries may face what is known as “middle-income trap”.

This even dwarfs the immediate challenges of being quite dependent on Russian Federation for trade and energy imports. Having said that, the Baltic countries have undertaken many reforms since they joined the EU, and most structural indicators put them in a much better position for future growth than, for instance, many countries in southern Europe.

The next ten years look quite positive for the Baltic countries, but it will be uphill most of the way. ▽



NIB LOAN: Vilnius thriving on change

The Lithuanian capital Vilnius is upgrading itself to become a more comfortable place to live. Since 2009, NIB has provided five loans, worth a combined EUR 75 million, for rebuilding the city's infrastructure and improving energy efficiency.

"Some projects would have been difficult to finalise without the loans from NIB", says Linas Bartusevičius, the head of the municipality's Infrastructure division. "For example, there are many additional actions to consider when building a road: rebuilding water supply network connections or installing new electricity cables. These details, which may add up to a huge portion of the project costs, do not qualify for EU financing. That's where NIB's loans become indispensable."

The road building projects implemented with NIB co-financing include a new access road to Vilnius airport. The new throughput was built in only six months. The bypass west of the city centre will be finalised in 2016. Once completed, it will help shorten the travel time between Lithuania's two biggest cities, Vilnius and Kaunas.

Another showcase project is the reconstruction of the most intensive street in Vilnius, Geležinio vilko. NIB will leave its own signature on this construction: the Bank suggested a noise reduction wall for the road which the city has agreed to build.

Renovation of city's public buildings, including kindergartens, schools, a hospital and a foster home, intended to lower the municipal energy bills. At the same time, conditions have improved for the users of these buildings.

A new sludge treatment plant has also been part of the city's investment programme co-financed with a NIB loan. The improvements let the residents of Vilnius western neighbourhoods breathe easier, literally.

Bypass in the western part of Vilnius.

Green bonds: MONEY THAT IMPROVES THE ENVIRONMENT



14 projects
financed with NIB
Environmental
Bonds

Denmark's largest offshore wind farm, is co-financed by a NIB Environmental Bond. The farm was inaugurated on 4 September 2013.

Photo: Courtesy of DONG Energy

NIB has a long track record in financing environmental projects through lending operations. Each project to be financed by NIB undergoes an assessment of its potential environmental impact. A considerable part of the Bank's total loan portfolio is classified as environmental loans.

The NIB Environmental Bond was established in 2011 as an investment product geared at investors willing to support sustainable environmental investments in the Nordic–Baltic region.

“These investors would like to see their money working to mitigate the climate change and reduce air and water pollutions” says Lars Eibeholm, Vice-President and Head of Treasury at NIB.

The NIB Environmental Bond (NEB) framework outlines how NIB selects, assesses, separates and reports on the projects that the Bank finds eligible for green bond financing.

“We would like the Nordic–Baltic region to be seen as a pioneer in sustainable investments, which is an area where NIB is contributing to the benefit of its customers, investors and owners”, Eibeholm continues.

In the past three years since the NEB framework was established, fourteen projects have been financed with the proceeds of these bond transactions. The total amount of NEB financing for projects with a positive environmental impact has to date reached EUR 647 million. The total emission reduction impact of these projects is equivalent to 265,550 tonnes of CO₂.

“Green bonds differ from ‘regular’ bonds in one important aspect: the investment decision is not only driven by the assessment of the risk and return relationship inherent in the investment, but also by an opinion on how the proceeds should be used”, say Eibeholm.

“The risk return aspect is well understood, and organisations such as ratings agencies provide standardised, comparable information for investors. The environmental aspect is a new perspective for investors to analyse. This is why we think it is very important to make information about the projects readily available through our communication channels.”

The proceeds raised under NIB’s environmental bond framework are only used to finance projects located in NIB member countries or the EU in the areas of energy efficiency, renewable energy, public transport using electricity or biofuels, electricity transmission and distribution systems increasing renewable energy capacity, wastewater treatment and green buildings.

The first of the NEB-financed projects was Anholt Offshore Wind Farm in the strait of Kattegat. A NIB Environmental Bond contributed (EUR 91 million) to financing this project. Hydropower plants are also included in the list of projects that get a green light for financing from the environmental bond proceeds. For instance, Agder Energi in Norway is upgrading one hydropower plant and building another in southern Norway. An environmental bond-funded loan is helping UPM-Kymmene in Finland produce renewable diesel from crude tall oil, which is the first ever industrial-scale project of its kind in the world.

NEB is also financing combined heat and power (CHP) plants in Sweden and Norway, a winning biomass-fuelled model widely applied in the Nordic countries. These are municipally owned projects intended to replace outdated heating and energy generating technology with a more powerful and eco-friendly equivalent. The largest of them is Fortum Värme’s CHP plant in Stockholm, with sufficient capacity to heat about 20% of the Swedish capital. Other projects are located in the Swedish cities of Linköping and Vimmerby, as well as in Gjøvik municipality in central Norway.

Another large group of projects financed from NEB proceeds focuses on innovation and modern technologies aimed at cutting production or running costs, thus contributing to more efficient use of energy and other resources. The Swedish firm SKF, for instance, is investing in reducing friction and wear in the moving parts

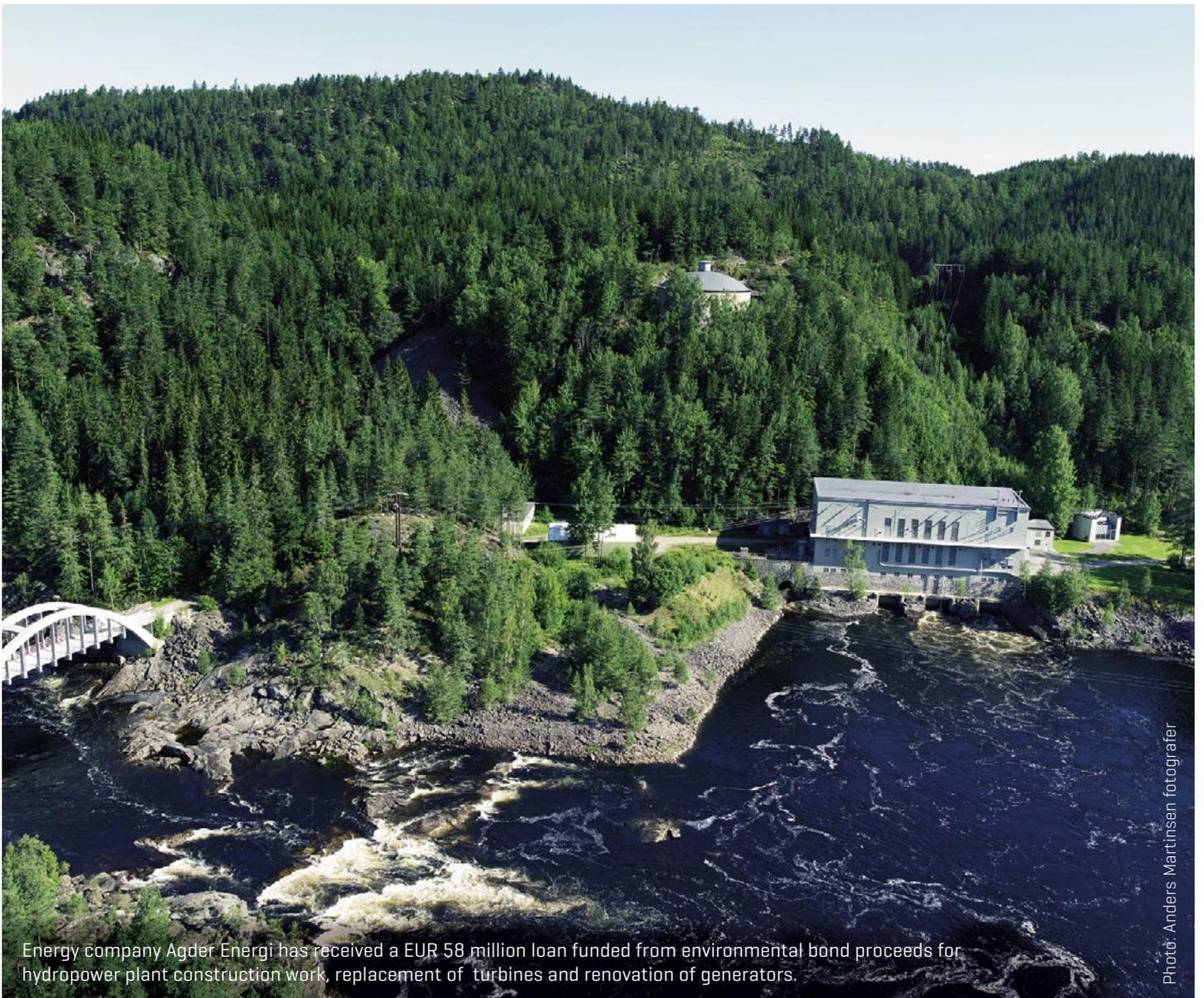
Total emission reduction impact equivalent to 265,550 tonnes of CO₂

of industrial equipment. The meat packaging company Danish Crown is using heat recovery installations for cooling areas and water heating in its new slaughterhouse. S-ryhmän logistiikkakeskus Oy in Finland is building a logistics hub that will utilise geothermal sources for heating.

You can find more information about the NIB Environmental Bond framework, transactions and financed projects on our website: http://www.nib.int/capital_markets/environmental_bonds ▀

High acceptance of NIB's first USD benchmark environmental bond:

GREEN BONDS TO BECOME A STRATEGIC PART OF NIB'S FUNDING



Energy company Agder Energi has received a EUR 58 million loan funded from environmental bond proceeds for hydropower plant construction work, replacement of turbines and renovation of generators.

Photo: Anders Martinsen fotografier

NIB's seven-year USD 500 million benchmark environmental bond issued in September 2014 caught the attention of many socially responsible investors. "Also in the future we aim to offer benchmark sized transactions in USD or EUR to the market," says Jens Hellerup, Senior Director, Head of Funding and Investor Relations at NIB.

The rapidly growing green bond market has had a tremendous development in recent years. It is estimated to more than double to USD 40 billion in 2014 from the previous year, according to the Climate Bonds Initiative, a non-profit organisation mobilising the bond

market for climate change solutions. Expectations are for USD 100 billion in 2015.

NIB believes in an open dialogue with the investor community in developing the green bond market.

The Bank has an explicit environmental mandate and it is therefore logical to introduce a green bond framework which allows investors to provide funds for the Bank's environmental lending. Having issued smaller green bond transactions since 2011, NIB decided in September 2014 to sell a seven-year USD 500 million benchmark environmental bond.

NIB's environmental bonds offer investors investments with a positive environmental impact.

Another driver for issuing green bonds is that it offers the possibility of reaching out to new investors and thereby diversifying the investor base.

HIGH ACCEPTANCE

As it turned out, over a third of the investors in the seven-year benchmark issue were buying NIB bonds for the first time in the primary market. A large share of them

screened the bond for the environmental impact before investing.

"85% of the investors can be categorised as being 'green'," Hellerup says, adding that "This reflects socially responsible investors' view of the NIB Environmental Bonds framework as robust and trustworthy."

Hellerup says in addition to NIB offering benchmark-sized transactions in USD or EUR to the market in the future, smaller offerings may also be possible, for example in the Nordic markets.

"The NIB Environmental Bond programme will become a strategic part of our yearly funding programme."

WHAT IS IMPORTANT IN NIB'S FRAMEWORK FOR ENVIRONMENTAL BONDS?

NIB agrees that the green investment product in itself should matter, but considers the issuer's environmental lending profile to be equally important.

"It is important to assess the projects in terms of both their environmental impact and economic viability."

NIB conducts an environmental impact and sustainability assessment of all projects considered for financing. The Bank does this to ensure that projects comply with its environmental mandate. Projects which could be eligible for NIB Environmental Bonds are identified early in the loan process. The early involvement of the bank's environmental specialists gives NIB the opportunity to actively steer projects towards having a significant positive environmental impact.

It's important to assess the projects in terms of both their environmental impact and economic viability.

To better serve investors in their search for the right green bond among the different issuers, NIB has taken the transparent approach:

All important information about which kind of projects are eligible for NIB Environmental Bonds, how proceeds are monitored and disbursed to eligible projects, and how the bank reports on the environmental impact of these projects, are summarised in a framework document.

This framework has been reviewed by the independent Norwegian research institute Center for International Climate and Envi-

ronmental Research (CICERO), thus adding additionally transparency for investors.

You can find the environmental bond framework on the Bank's website www.nib.int. Here you can also read about all the projects that have received funding from NIB Environmental Bonds.

The Bank announces annually the CO₂ equivalent impact of all its financing, and separately the impact of all projects that have received funds from NIB Environmental Bonds. ▀



"The NIB Environmental Bond programme will become a strategic part of our yearly funding programme."

Jens Hellerup,
Senior Director, Head of Funding and Investor Relations at NIB

NIB attracts socially responsible investors

The order book for NIB's USD 500 million benchmark green bond in September 2014 reached over USD 800 million within a short period, attracting strong demand predominantly from investors with an interest in supporting climate-friendly projects. Over a third of the investors were buying NIB for the first time in the primary market.

One of the new investors is Mirova, the responsible investment subsidiary of Natixis Asset Management with EUR 4.3 billion of managed assets. NIB's funding team asked Christopher Wigley, Senior Portfolio Manager at Mirova, why they invest in green bonds and what their requirements are.

"As an asset management company dedicated to responsible investment, Mirova wants to actively finance the energy transition. We are aware that the energy transition is a major challenge of our world that requires specific investment. Green Bonds are part of the answer to this challenge. Green bonds have a double impact, they provide finance for a specific project or pool of projects, which have a positive impact on the environment and they also provide financial returns for investors," Wigley says.

How important is it that the issuer has a sustainable profile, or is it only the issue which is important?

Wigley says that Mirova makes a thorough sustainability analysis of both the project and the issuer before it invests in green bonds.

"The team creates six level opinions: worst offender, negative, risk, neutral, positive, and committed. At Mirova, we only invest in an issuer that is rated at least neutral, positive or committed."

How important is reporting on projects financed by green bonds and how do you want to see the reporting?

"At Mirova we have developed our own analysis process especially designed for analysing green bonds to avoid 'green-washing'. Before investing in a green bond, we want to meet the issuer to proceed to a deep analysis of the project and of the issuer. We based our definition of a green bond on the Green Bond Principles."

Wigley says reporting is one of the key elements Mirova has of determining whether a green bond is a "real" green bond.

"We want to receive an annual report to see the progress of the project, and when the project is achieved we want to know exactly how the project is having a positive impact on the environment with accurate data," Wigley explains. ▀

Before investing in a green bond, we want to meet the issuer to proceed to a deep analysis of the project and of the issuer.



"At Mirova we have developed our own analysis process especially designed for the analysis of green bonds to avoid 'green washing.'"

Christopher Wigley, Senior Portfolio Manager at Mirova, the responsible investment subsidiary of Natixis Asset Management

Nordic peace of mind.

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US\$ 500,000,000

NiB Environmental Bond 2.25% due September 2021



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NIB LOAN: UPM taps into renewable diesel

Finnish forest industry company UPM-Kymmene Oyj develops its business to create more with less. A promising new product is a renewable diesel made of crude tall oil residue from pulp mills. The new fuel can be used in any diesel engine and will contribute to reaching the EU 2020 targets.

The new refinery in Kaukas, Finland, will produce 100,000 tonnes renewable diesel, called BioVerno, annually. One of the benefits of BioVerno is that it significantly reduces greenhouse gas emissions, up to 80% in its purest form compared to standard fossil diesel.

UPM says the technology to refine tall oil is based on the company's R&D and co-operation with Danish catalysis company Haldor Topsøe A/S, another loan customer of NIB.

NIB is co-financing the project with a 7-year maturity loan of EUR 50 million.

UPM-Kymmene aims to become a significant producer of renewable biodiesel.



ENERGY EXPERT:

New power lines end Baltic isolation

For the Baltic countries, building new cross-border power lines to other EU countries means solving the inherent systemic problem of Baltic dependence on a single source of external power supply, says Romas Švedas, Lithuanian energy expert.

In August 2014, NIB and Lithuania's Litgrid signed a EUR 50 million long-term loan agreement for the construction of the LitPol Link, the first ever overhead power line between the Baltic countries and the rest of the EU. The launch of the new 500-megawatt line is scheduled for late 2015.

"Isolation from the rest of the EU is the basic problem of the Baltic countries. Isolation makes virtually impossible the diversification and security of supply, as well as the implementation of the EU policies of energy market liberalisation", says Švedas, a Lithuanian diplomat, former vice-minister of energy and now a university lecturer.

Although the total isolation was broken when the Estlink-1 (2007) and Estlink-2 (2014) subsea cables between Estonia and Finland began operating, the Baltic countries remain part of the old-fashioned Soviet grid locking Estonia, Latvia and Lithuania into one power ring together with Russia and Belarus.

"The new LitPol link is vitally important for Lithuania and the other two Baltic countries. So are the Estlinks and so is the future subsea link between Lithuania and Sweden, NordBalt, and what's important to add is that all of them are of regional importance", Švedas explains.

"Only when all these planned links, including LitPol and NordBalt, are in place, we can talk about some balance between the westward capacity and eastward, which is approximately 3,000 MW."

Importing about 70% of its electricity, mostly from Russia, Lithuania's dependence on external energy supplies is the highest in the EU. The remaining 30% is mostly generated from natural gas, for which Lithuania fully depends on a single source, the Russian gas giant Gazprom.

"Dependence on a single source of supply is wrong economically and extremely dangerous politically. As we have all witnessed, Russia doesn't hesitate to use its monopolistic position as political leverage to exert pressure on neighbouring countries", says the Lithuanian expert.

"Diversifying energy supply and creating alternative energy sources is the best Lithuania can do to decrease its dependence on single-source supplies."

The three Baltic countries have been making steps towards this diversification in the framework of the Baltic Energy Market Interconnection Plan (BEMIP) developed at the initiative of the European Commission to promote connecting Lithuania, Latvia and Estonia to wider EU energy networks.

"The EU has set a goal of eliminating energy islands within its borders by the end of 2015. I think we are on schedule, and I see no particular risks of it not being implemented on time", Švedas continues.

The interconnections will also secure the Baltic countries' full access to the NordPool Spot power exchange of the Nordic countries.

"Power trading on the NordPool Spot exchange is transparent because the spot price depends on supply and demand, not on current political issues", says Švedas. ▀



Romas Švedas,
Vilnius University lecturer, former vice-minister of energy of Lithuania

LONG-TERM CORPORATE LENDING:

Going the extra mile

NIB is committed to serving its corporate borrowers by going the extra mile to provide very long-term debt financing that is not readily available in the bank and bond markets.

In today's market companies in the Nordic and Baltic region can typically obtain debt financing from banks with maturities up to five years, and from the bond market up to seven years.

NIB specialises in providing very long-term debt financing that better matches the pay-back period of investments such as research and development, and new production facilities.

NIB is well equipped to provide long term debt financing for corporates. Firstly, the AAA credit rating enables the bank to fund itself competitively even for very long maturities. Secondly, its deep knowledge of member country corporate borrowers gives it special competence in evaluating and pricing long-term corporate credit risk.

The map provides an illustration of this based on some of NIB's recent loans:



Customer: Danfoss A/S
Country: Denmark
Project: R&D investments in the company's climate and energy business segment
Amount: EUR 134 m
Maturity: 10 years



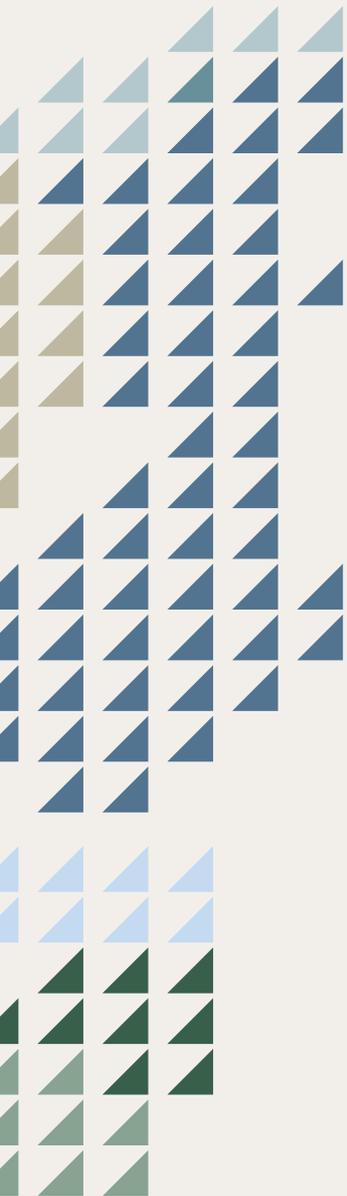
Customer: Tekniska verken i Linköping AB
Country: Sweden
Project: Construction of a waste- and biomass-fuelled 80 MW combined heat and power plant at the Gårstad-verket facility in Linköping
Amount: SEK 450 m
Maturity: 15 years



Customer: Borregaard ASA
Country: Norway
Project: R&D programme for 2013–2016 and construction of a biological purification plant
Amount: EUR 40m
Maturity: 10 years



Customer: Tartu University Hospital
Country: Estonia
Project: Construction of a new medical campus for the Tartu University Hospital
Amount: EUR 21 m
Maturity: 17 years



“NIB specialises in long-term debt financing. Going the extra mile is one of the key things that differentiates us from other banks.”

Joseph Wright,
Senior Director, Head of NIB’s Transaction and Portfolio Management



Customer: Jotun A/S
Country: Norway
Project: Construction of a new paint production facility in Sandefjord, Norway, and R&D from 2013-2016
Amount: EUR 90m
Maturity: 10 years



Customer: Danish Crown A/S
Country: Denmark
Project: Construction of a cattle slaughterhouse in Holsted, Denmark
Amount: DKK 340m
Maturity: 10 years



Customer: AB Lietuvos gelezinkeliai
Country: Lithuania
Project: Investments in railway infrastructure
Amount: EUR 114 m
Maturity: 18 years



Customer: VAS Latvijas Dzelzceļš
Country: Latvia
Project: Construction of a second track on the 52-kilometre Skrīveri–Krustpils section of the east-west railway corridor
Amount: EUR 17m
Maturity: 10 years



Customer: NorgesGruppen ASA
Country: Norway
Project: Financing of a regional distribution hub in the vicinity of Tromsø
Amount: NOK 172m
Maturity: 10 years



Customer: Wärtsilä Corporation
Country: Finland
Project: R&D programme to further develop medium-speed engines
Amount: EUR 50m
Maturity: 10 years



Customer: AB Fortum Värme
Country: Sweden
Project: Construction of a biofuel combined heat and power plant in Värtan Stockholm
Amount: SEK 1400
Maturity: 12 years

Three multilateral finance institutions in the same block in Helsinki, Finland:

NORDIC FINANCE GROUP

In addition to NIB, there are two other international financial institutions located on Fabianinkatu 34 in Helsinki, Finland. The institutions in this group offer different types of financing and competences. Here is a short presentation of all three institutions:

NORDIC ENVIRONMENT FINANCE CORPORATION (NEFCO)

NEFCO is a risk capital institution financing green growth investments with environmental benefits.

NEFCO provides loans, export credits and capital investments for green growth investments in order to generate positive environmental effects of interest to the Nordic region. NEFCO is an international finance institution owned by the five Nordic countries.

The core market area consists of Russia, Belarus and Ukraine. NEFCO's activities are focused on projects that achieve cost-effective emission reductions both in the private and public sectors across the region. NEFCO's Carbon Finance and Funds Unit finances climate projects globally.

As of January 2014, NEFCO and the Nordic Project Fund (Nopef) were merged. Nopef works to strengthen the international competitiveness of Nordic small and medium-sized enterprises by providing co-financing for projects with environmental benefits in countries outside the EU/EFTA -area. The fund is financed by the Nordic Council of Ministers.

Read more about NEFCO at www.nefco.org

Read more about Nopef at www.nopef.com



NORDIC DEVELOPMENT FUND (NDF)

NDF is a multilateral development finance institution providing financing for projects that address causes and consequences of climate change in low-income countries.

NDF is a joint development finance institution of the five Nordic countries. The objective of NDF is to facilitate climate change investments in low-income countries while also promoting a broad scope of Nordic priorities in its activities.

NDF supports projects in infrastructure, natural resources and climate change related capacity building. NDF's projects are often done in co-financing with multilateral development banks.

Nordic Climate Facility (NCF), funded by NDF and administered by NEFCO, is a special financing instrument to promote transfer of technology, know-how and innovative ideas between various organisations and companies in the Nordic countries and their partner organisations in low-income countries.

Read more about NDF and its projects at www.ndf.fi



NORDIC INVESTMENT BANK (NIB)

NIB is the International Financial Institution of the Nordic and the Baltic countries. The Bank adds value and complements commercial lending to help ensure sustainable growth. By providing long-term loans to its customers, NIB makes a lasting impact on the competitiveness and environment of the region.

While the main focus of NIB's activities is on its membership area, the Bank also operates in selected non-member countries in the Baltic Sea region and emerging markets. Loans are extended on market terms and according to sound banking principles.

NIB acquires the funds for its lending by borrowing on the international capital markets. With its strong ownership and highest possible credit rating, the Bank offers stability and reliability to global investors.

NIB needs to be financially strong in order to fulfil its mandate efficiently. The Bank aims at earning a sufficient amount of return from its business operations and at the same time guarantee the owners a reasonable return on capital.

Read more about NIB's loan projects at www.nib.int





NIB LOAN:

Tartu hospital: We hope researchers will like it here

The University Hospital in Tartu, Estonia's second largest city, is expanding. By 2015, the hospital will provide care to 50% more patients in its clinical units. The investment makes Tartu hospital one of the most modern high-tech bases for medical education and research in the Nordic-Baltic region.

"The research work makes us very strong in the fields of cancer treatment, organ transplants, neuroscience, andriatics and reproductive medicine. In cardiac surgery for children and in organ and bone marrow transplants, our hospital is second to none in Estonia," says Toomas Kivastik, the manager of the hospital upgrade project.

NIB is co-financing the project with a 17-year maturity loan of EUR 21 million.

"Without financing from the EU and NIB, we wouldn't have been able to build the new high-tech campus. We would just have had to improve the old buildings and suffer with all the restrictions that implies. Also, we would not be able to provide technology-intensive treatment, as the upgrade project will permit when the construction is completed," says Kivastik.

Tartu University Hospital is expanding.

Visualisation: TUH

NIB LOAN:

Finland: E18 Koskenkylä-Kotka ready ahead of schedule

The final stretches of a new 53 km motorway between Koskenkylä and Kotka in southeast Finland were taken into use on 1 September, 2014, one month ahead of schedule. The motorway is the result of a public-private-partnership that got underway less than three years ago and includes all necessary maintenance work until the end of 2026.

The life-cycle model is an agreement between the Finnish Transport Agency and special purpose vehicle Tiesyhtiö Valtatie 7 Ltd. The cost of the project is 340 million euros, and the value of the service contract value is approximately 623 million.

Jaakko Kouvalainen, Chief Executive Officer of Tiesyhtiö Valtatie 7 says the project would have lasted significantly longer if it had been financed through traditional budget funding.

“Since the public-private-partnership model has been developed holistically together with the contractor, the funding has not put any restraints on the progress of the project,” says Kouvalainen.

The consortium headed by Kouvalainen consists of Meridiam Infrastructure, pension insurer Keskinäinen eläkevakuutusyhtiö Ilmarinen, and construction firms Destia Oy and YIT Rakennus Oy. NIB is participating in the financing of the E18 Koskenkylä-Kotka motorway with a 14-year-maturity loan of EUR 91 million signed with the consortium.

E18: Ahvenkoski bridge

HOW TO OBTAIN A LOAN FROM NIB

The Nordic Investment Bank finances projects that improve competitiveness and the environment of the Nordic and Baltic countries. NIB adds value and complements commercial lending to help ensure sustainable growth. The Bank provides loans and guarantees based on sound banking principles.



NIB finances only specific investment projects that fulfil the Bank's mission. To improve competitiveness of its member countries, the NIB-financed projects should support productivity growth through:

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

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

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



NIB also has a Sustainability policy and guidelines that define projects not financed by the Bank.



NIB provides financing for a wide range of private and public sector projects, including:

- direct loans for large-scale projects,
- loans for SMEs and smaller projects through other financial institutions,
- climate change mitigation and adaptation projects,
- other environmental projects in the Baltic Sea region,
- NIB can consider lending to projects fulfilling the Bank's mandate in a few select number of countries outside the Nordic-Baltic region.



NIB acquires the funds for its lending by borrowing on the international capital markets. With its strong ownership and highest possible credit rating, the Bank offers stability and reliability to global investors. NIB can therefore offer:

- competitive market-based loans,
- loans that normally range between EUR 10–100 million,
- maturities ranging 5–10 years on average, with possibility of extending loans up to 30 years,
- grace periods, normally up to 5 years but occasionally also longer,
- EUR and USD as well as local currencies such as SEK, DKK and NOK.



There is no standard application form for NIB financing. Just contact NIB for guidance on what information is required in the specific case.

Visit NIB's website at nib.int for further information.

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Marjo Harri	Financial institutions and SMEs	+358 10 618 0227
Tarja Kylänpää	Infrastructure, transportation and telecom	+358 10 618 0237
Sebastian Påwals	Energy and environment	+358 10 618 0527

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NIB'S CREDIT AND MANDATE PROCESS

1

LOAN INITIATIVE AND MANDATE EVALUATION

The first step is to determine if the project seeking financing fulfils NIB's mandate of strengthening competitiveness in the Nordic-Baltic region and enhancing the environment. NIB will need a brief project description to understand the client's rationale for the investment.

NIB will review and rate the proposed loan considering the:

- relative improvement compared to a no-project situation,
- relative impact compared to similar projects in the same business area,
- net benefit for the environment based on a before-and-after comparison,
- risk that the full benefit of the project would not be realised

2

ANALYSIS

NIB will then visit the client to obtain sufficient information for the Bank's credit risk analysis. In most cases, the customer will also be asked to present further detailed project- and borrower-related information.

The Bank will produce a loan proposal consisting of:

- credit risk analysis,
- environment and social impacts analysis,
- mandate fulfilment analysis.

Projects that could have extensive environmental impacts must undergo a full environmental impact assessment. NIB makes these projects publicly available for commenting before it makes a decision to finance or not.

3

PROJECT APPROVAL

A decision to grant a loan is made by the Board of Directors, after a preliminary approval by the Bank's Credit Committee. NIB's loan decision process normally takes from three months upwards, depending on the complexity of the transaction.

4

LOAN NEGOTIATIONS AND AGREEMENT

NIB uses loan documentation typical for international loan transactions and prepares a draft based on standard terms and conditions. Documentation requirements will vary according to the nature of the transaction. After signing, NIB will publish information about the loan sum, maturity, a description of the client's project and mandate fulfilment.

5

LOAN DISBURSEMENT

The loan is disbursed in one or several tranches, as agreed with the borrower, upon fulfilment of the conditions precedent or specified in the loan agreement.

6

PROJECT MONITORING

The Bank continuously follows the performance of borrowers based on agreed reporting as well as regular contacts. Special monitoring is carried out for projects with potential environmental and social risks and impacts.



BANKING EXPERT: Opportunities abound for the responsible investor

Focus on the United Nations-backed responsible investment principles may offer opportunities for any financial institution with an interest in creating a more sustainable future, says Antti Savilaakso, Chairman of Finland's Sustainable Investment Forum.

"I encourage all financial institutions to find out how they could benefit from the responsible investment practice," says Savilaakso. He is leading a forum of more than 50 Finnish institutional investors working on responsible investments. A large number of these are also signatories to the UN-supported PRI initiative.

Launched in 2006 under the guidance of then-UN Secretary General Kofi Annan, the Principles for Responsible Investment (PRI) Initiative brings together more than 1,260 institutional investors from around the world aiming to integrate environmental, social and governance (ESG) factors into their investment management. The principles for responsible investments are defined as an approach to investment that explicitly acknowledges the relevance to the investor of ESG issues, and of the long-term health and stability of the market as a whole.

Savilaakso says financial institutions should consider ESG issues in their investment management because of a growing client demand for it, because many stakeholders think it is the right thing to do, and because it may simply improve investment decisions.

Being "green" or "responsible" gives a certain kudos to a company and many critics also say that the UN-backed investment principles are more symbolic than practical.

What is your response to this kind of criticism?

"There is a certain trust deficit towards large banks, especially after the financial crisis, and yes, making responsible investments helps them in this sense. However, while signing up with the ESG principles is easy, PRI membership comes with an obligation to report according to certain principles. My advice would be that everyone buying into responsible investment products should read the small print and find out what responsible investment means in practice," Savilaakso says.

Savilaakso is also Director of Responsible Investments and Governance for Nordea Investment Management in Finland. He has previously worked with ESG analysis and corporate engagement in Singapore, Brussels and Amsterdam.

How does PRI-defined responsible investment differentiate from conventional investing?

"I would say it is complementary as responsible investing considers environmental, social and governance issues in addition to analysing the financial metrics as in traditional investing."

Having a methodology to find and analyse the appropriate cases is key also when it comes to responsible investments. However, "what 'constitutes' sustainable in one region of the world may be insignificant in another".

"A lot of values that resonate well in the Nordic countries like nature, equality, transparency and democracy, tend to be prominent in responsible investments here but not necessarily that much elsewhere on the planet," Savilaakso says.

What compromises are frequently made when investing "responsibly"?

"You don't necessarily need to forego any profit, because ESG-responsible companies tend to be good investments, as shown in numerous academic studies. But you need to make a strategic decision about whether or not to become a responsible investor, and then develop a thorough ESG analysis that improves your investment decision and that certainly requires time and money." ▴



Photo: Marjo Koivumäki

"What constitutes 'sustainable' in one region of the world may be insignificant in another," says Chairman Antti Savilaakso of FINSIF.

Antti Savilaakso,
Chairman of Finland's Sustainable Investment Forum



NIB LOAN: Búðarháls hydropower station in Iceland starts production

On 7 March 2014, a new hydropower station began operations in Búðarháls, southern Iceland. This is the first power station being built in Iceland since the economic recession. Búðarháls is expected to produce 585 GWh of electricity annually. That compares to the annual electricity consumption of the country's capital, Reykjavik.

Renewable energy is one of the pillars of Iceland's economy. Iceland is the only European country that produces all of its electricity from renewable sources. The country is exploring how to export its renewable energy surplus in order to further increase its competitiveness.

The country's largest power producer, the state-owned company Landsvirkjun, has had plans to build a power station in Búðarháls since 2001. Construction work actually began but was soon put on hold. In 2011, NIB agreed a 16-year maturity loan of EUR 52.5 million with the company, and the project was brought back to life.

Búðarháls hydropower plant in the southern highlands of Iceland.

APPOINTMENTS AT NIB

NEW STAFF



Björn Ordell (SE) has been appointed Chief Financial Officer, Vice-President and Head of Risk & Finance. He will be a member of the Executive Committee and responsible for NIB's functions within Risk & Finance, including risk management, financial administration and accounting. Mr Ordell will take up his appointment in April 2015 at the latest. He previously worked as CFO and Vice President at Landshypotek Bank in Stockholm.



Gustaf Wachtmeister (SE) has been appointed Chief Special Credit Manager for the Special Credits unit. He has functioned as an external consultant for this unit since 2010. Before that he worked as General Manager for the Stockholm branch of the HSH Nordbank in Sweden.



Niina Rantti (FI) has been appointed Communications Officer for the Communications unit. Her former employment was as Sustainability Communications Manager for the Finnish forestry company Metsä Group in Helsinki.



Jon Lindström (FI) has been employed Executive Assistant for the General Counsel in the Legal department. He previously worked as Parliamentary Assistant in the Parliament of Finland.



Marcos Esteves (BR/FI) has been employed as HR Business Partner in the Human Resources unit. He previously worked as Global HR Concept Owner at Wärtsilä in Finland.

FROM TEMPORARY TO PERMANENT EMPLOYMENT



Joakim Holmström (FI) has been employed Senior Manager for the Transaction & Portfolio Management - Financial, Municipal & Sovereign unit in the Lending department.



Helmi Karesti (FI) has been employed Manager in the Transaction & Portfolio Management – Corporate unit in the Lending department.



Elias Poutanen (FI) has been employed Compliance Officer for the office of the Chief Compliance Officer.



Matti Häkkinen (FI) has been appointed Financial Analyst with the Portfolio Management unit in the Treasury department.

PROMOTIONS



Mia Grundström (FI) has been promoted Manager in the Business Development & Control unit in the Lending department.



Andreas Nyberg (FI) has been promoted HR Business Partner for the Human Resources unit in the Business Intelligence & Administration department.

THIS IS NIB

NIB's vision is a prosperous and sustainable Nordic-Baltic region. We work towards that goal by financing projects that improve the competitiveness and environment of our member countries. Through this, we are living up to our promise of financing the future.



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