NORDIC INVESTMENT BANK

ANNUAL REPORT 1998

Vaccinium myrtillus

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The Nordic Investment Bank (NIB) finances private and public projects, which have high priority with the Nordic countries and the borrowers. NIB finances projects both within and outside the Nordic countries.

NIB is a multilateral financial institution owned by the five Nordic countries, and operates in accordance with commercially sound banking principles. The member countries appoint representatives to the Bank's Board of Directors and to its Control Committee.

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 has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. The Bank has approximately 120 employees, recruited from all the five Nordic countries.

NIB'S FINANCING POSSIBILITIES

The Nordic Investment Bank finances projects of common interest within the Nordic region, and international investment projects of mutual interest to the customer country and the Nordic countries. In the neighboring regions of the Nordic countries, the Bank grants loans to projects, which support economic development, and to investments which improve the environment.

NIB also participates in the financing of foreign investments, which provide employment in the Nordic countries.

NIB offers medium- and long-term loans with maturities of 5 to 20 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.

NORDIC LOANS

Investment loans

NIB finances projects in:

• The manufacturing sector, including investments in facilities and machinery,

• Infrastructure, including transportation, telecommunications, energy, water supply, sewerage and waste treatment,

• Environmental improvement, both in the private and the public sector,

• Research and development,

• Cross-border investments, such as mergers and corporate acquisitions,

• Foreign investments in the Nordic countries.

Regional loans

Regional loans are granted to national, regional credit institutions for the further development of business in priority regions.

INTERNATIONAL LOANS

Project investment loans (PIL)

The core of NIB's international lending operations consists of project investment loans (PIL). These are long-term loans for projects in Asia, the Middle East, Central and Eastern Europe, Latin America as well as Africa.

The PIL loans are usually granted on a sovereign basis but may also be granted without a government guarantee, particularly to private sector infrastructure investments. The PIL loans can be utilized to finance all types of project costs, including local costs. PIL loans have been granted for projects in more than 40 countries.

Investment loans outside the Nordic countries

NIB provides loans to investments, including joint ventures and corporate acquisitions, within the OECD area.

THE NEIGHBORING AREAS

Baltic investment loans (BIL)

These loans are earmarked for the financing of small- and medium-sized private companies' investments of Nordic interest in the Baltic countries. The funds are in general to be channeled through the national investment banks in these countries, or in co-operation with them.

Environmental investment loans (MIL)

Environmental investment loans are granted to the Nordic countries' neighboring areas. The loans are granted to public and private-sector environmental protection projects in Poland, the Kaliningrad area, Estonia, Latvia, Lithuania and northwest Russia (St Petersburg, the Leningrad area, the Karelian Republic and the Barents region). The projects are to help in reducing environmental degradation, and thereby also in reducing cross-border pollution. Priority is given to projects that can be carried out in

Key figures for NIB (in ECU million)

	1998	*1997*
Profit	115	114
Net interest income	137	131
Loans disbursed	1,344	1,626
Guarantees issued	9	23
Loan agreements	1,191	2,164
Loans outstanding	7,568	7,179
Guarantees outstanding	29	30
New debt issues	2,484	1,696
Debts evidenced by certificates	9,059	7,836
Net liquidity	1,902	1,416
Total assets	11,122	10,086
Total equity	1,139	1,059
Number of employees	123	120

The Nordic Investment Bank's books have, until December 31, 1998 been kept in ecu. As from January 1, 1999, the Bank's accounting and capital currency is the euro.

Exchange rates in accordance with the EU Commissi-on, as of Dec. 31, 1998
ECU 1.00 = DKK 7.45 / FIM 5.95 /
ISK 81.30 / NOK 8.87 / SEK 9.49 / USD 1.17

NIB 1998

The year in brief

- Good, stable profit: ECU 115 million
- The capital increase raises NIB's lending capacity to ca. ECU 13,500 million
- The new agreement codifies the Bank's multilateral status
- Dividend of ECU 35 million to NIB's owners
- High quality of loan portfolio sustained, no credit losses

co-operation with other financing sources.

The environmental investment loans are granted on the basis of commercial banking terms to governments, governmental authorities, institutions and companies.

Investment loans

NIB participates in the financing of projects in the Baltic countries through investment loans to Nordic companies, which are investing in the Baltic countries.

1998 was a significant year in the Nordic Investment Bank's history, with the signing by the governments of the Nordic countries of a new agreement which, in the light of the Bank's growing international activity, confirms its position as an international financial institution. At the same time, it was decided to augment the Bank's resources.

In the spring of 1998 the Board of Directors issued a policy statement outlining the Bank's mission and strategy, defining its task of developing Nordic economic co-operation through long-term credit for private and public sector projects. Thus, economic growth and sustainable development within and outside the Nordic area is promoted with priority for the eastward neighboring regions. The Bank uses its good creditworthiness as a means of adding value to the financing of projects furthering the priority aims of the owners, as it seeks to co-operate with both Nordic commercial banks and international finance institutions.

Economic growth in the Nordic area during 1998 was relatively vigorous. Employment rose and inflation continued low. The Asian crisis, the economic problems of Russia and turbulence in financial markets had only a marginal impact on the Nordic countries during the year. Increasing uncertainty had, nevertheless, a restraining effect on project exports and industrial investments.

The Bank's lending activity steadied during the year, with new loans amounting to ECU 1,344 million as against ECU 1,626 million for the preceding year. This lower growth rate in the loan portfolio should be viewed in relation to the strong increases occurring in 1996 and 1997 and the Bank's decision to aim for a somewhat lower growth rate over the long term. The financial statements show a profit for the year of ECU 115 million, as against ECU 114 million for 1997, which makes 1998 the fifth consecutive year with a real return on equity of between 8.5 and 10 per cent annually.

The Board of Directors has proposed a dividend payment of ECU 35 million to the Bank's owners, i.e. the governments of the Nordic countries. It is worth noting that the Bank had no credit losses to report for the year, nor did it have any non-performing loans of appreciable importance at year-end.

EURO AS ACCOUNTING CURRENCY

The ecu has been NIB's accounting currency since 1993. As from January 1, 1999, with the inauguration of phase three of the EMU, the Bank has adopted the euro as its capital and accounting currency. The change is being made on a one-to-one basis. Its effect will be to strengthen NIB's position on both the borrowing and lending sides; on the borrowing side through an even sharper focus on credit rating in the emerging euro-capital market, and on the lending side through new opportunities for loans denominated in the euro. Further, the introduction of the euro will simplify NIB's asset-liability management for the avoidance of exchange rate risks.

CAPITAL INCREASE

Following a thorough review of the Bank's aims and an evaluation of the future need for NIB financing, the Bank's Board of Directors proposed augmenting the Bank's authorized capital and increasing the facility for its project investment loans outside the Nordic countries. The confirmation of the Bank's mission and strategy, a document presented in this annual report, played an important role for this proposal.

At its meeting in June 1998, the Nordic Council of Ministers (the Ministers of Finance and Economy) declared its support for increasing the Bank's authorized capital from ECU 2,809 million to ECU 4,000 million at the beginning of 1999. This ECU 1,191 million increase includes ECU 100 million paid-in capital from the owners, the remainder being callable capital. With a continued gearing of 2.5, this capital increase raises the ordinary loan facility from ECU 7 billion to ECU 10 billion. At the same time, the ministers decided to increase the lending authorization for the Project Investment Loan (PIL) facility from ECU 2 billion to ECU 3.3 billion. The owner countries' guarantee total of ECU 1.8 billion remains unaltered.

All in all, the capital reinforcement will increase the Bank's total lending capacity within and outside the Nordic area from ECU 9.2 billion to ECU 13.5 billion.

The capital reinforcement will meet demand for supplementary NIB finance for five or six years to come. Infrastructure projects, projects with environmentally improving effects and projects in the neighboring regions to the Nordic area, in both the private and public sectors, will have priority. NIB seeks to co-operate with and supplement other Nordic and international lenders.

NEW TREATY

The ongoing internationalization of Nordic business and industry has led to an expansion of the Bank's international activities. Mainly for this reason, it has become necessary for NIB's multilateral status to be formally documented and strengthened. The Bank's member countries therefore decided to enter into a new agreement on NIB, codifying its standing as an international legal person and generally endowing it with the same status as the other multilateral financial institutions with which NIB frequently co-operates. Great importance is attached in the agreement to the Bank's activities furthering the mutual interests of the borrowing countries and the Nordic area. In connection with the new agreement, NIB and the Finnish Government have concluded a detailed headquarters agreement on matters relating to the Bank's location in Helsinki.

The new agreement will enter into force in 1999, after it has been ratified by the member countries.

PROSPECTS

By financing important cross-border industrial projects, Nordic infrastructure and environmental projects, the Bank can help to strengthen the economies of the Nordic countries.

The growth in the Bank's loan portfolio during the second half of the nineties reflects the great interest taken by business enterprises in Nordic solutions. Nordic industry regards increasingly the whole of the Nordic area as their home market and home ground for international ventures, a trend, which certainly will continue.

During 1998, three important decisions were taken, which will form the basis of the Bank's future development. They concerned, respectively, the introduction of the euro as the Bank's capital and accounting currency with effect from January 1, 1999, the renewal of the international treaty concerning the Bank, and a substantial reinforcement of the Bank's capital base.

The reinforcement of NIB, which these three measures amount to, comes at a very opportune moment. The financial crisis, experienced in various parts of the world, and above all in the developing and transitional economies, may hamper growth of the world economy. Furthermore, the flow of capital to the emerging markets is globally predicted to be on a considerably lower level than in 1998, when it fell drastically. As a result, the role of strong multilateral financial institutions is emphasized.

Apart from activities in the Nordic area itself, NIB finances projects and investments in more than thirty countries further afield. This part of our operation has grown substantially and is expected to keep growing in the future. It is interesting to note that the Bank's lending to the Baltic Sea region – Poland not least – rose sharply during 1998. For the next few years, the main focus of the Bank's attention will be on projects in the Baltic Sea and Barents regions, with special emphasis on environmentally beneficial infrastructure projects.

The introduction of the euro as the common currency of the eleven Member States of the Economic and Monetary Union (EMU), as from 1999, will eventually lead to the formation of an integrated European capital market with greater depth and liquidity than the national markets. In the Euro-market, the focus on credit rating will be keener than ever. NIB stands to benefit from this, although the effect may not be immediate. In its borrowing activities, NIB will continue to combine euro and dollar issues with arbitrage-driven borrowing transactions in currencies outside the euro and dollar areas.

During 1999 the Bank's outstanding loan stock is expected to increase by about 8 per cent. Despite continuing pressure on interest margins and declining interest rates, the result for 1999 is expected to be satisfactory. NIB, with its balance sheet total of ECU 11.1 billion and its annual lending of ECU 1.2 billion to 1.5 billion for supplementary financing of Nordic and international projects, is making a practical and appropriate contribution towards the integration and, accordingly, a strengthening of the open Nordic economies. This is a solid basis to build on.

NIB is now entering a period of great challenges. The new treaty and capital increase leave us well equipped to meet those challenges and to go on being a useful instrument for the mutual benefit of Nordic enterprise and borrower countries both in the Nordic area and elsewhere.

Helsinki, February 1999

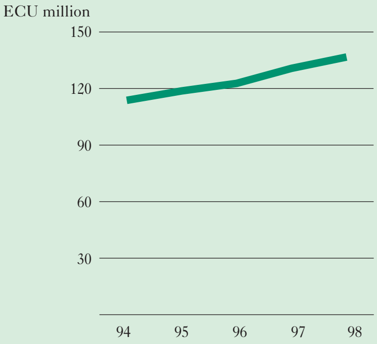
Jón Sigurðsson

Jón Sigurðsson

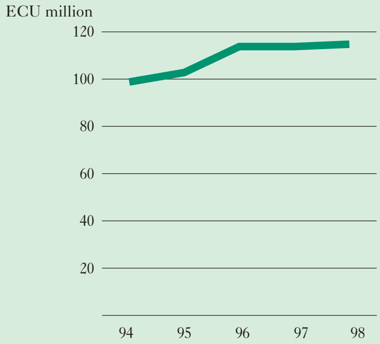
FIVE YEAR COMPARISON (IN ECU MILLION)

	1998	1997	1996	1995	1994
PROFIT AND LOSS ACCOUNT					
Interest income	575	518	487	520	435
Interest expense	-438	-387	-364	-401	-321
Net interest income	137	131	123	119	114
Issuing charges, commission income etc.	-4	-5	-4	-2	-6
General administratve expenses and depreciation	-16	-17	-15	-14	-12
Provisions for possible losses on loans, reversals (-)	-1	6	9	0	2
PROFIT FOR THE YEAR	**115**	**114**	**114**	**103**	**98**
BALANCE SHEET					
Assets					
Cash and balances with banks, Placements and debt securities	2,947	2,349	2,397	2,543	2,357
Loans outstanding	7,568	7,179	5,796	4,985	4,556
Issuing charges	46	34	34	20	22
Tangible assets	45	43	41	5	3
Accrued interest, exchange rate adjustment of currency contracts, other assets	516	481	485	525	602
TOTAL	**11,122**	**10,086**	**8,753**	**8,078**	**7,540**
Liabilities and equity					
Amounts owed to credit institutions	286	213	321	429	245
Debts evidenced by certificates	9,059	7,836	6,772	6,086	6,037
Accrued interest, exchange rate adjustment of currency contracts, other liabilities	638	978	681	668	457
Authorized and subscribed capital	2,809	2,809	2,809	2,809	2,809
of which callable capital	2,504	2,504	2,504	2,504	2,516
paid-in capital	304	304	304	304	293
Statutory reserve	519	468	430	375	320
Credit risk reserve, loan loss reserve (PIL)	281	252	210	186	168
Appropriation to dividend payment	35	35	35	30	20
TOTAL	**11,122**	**10,086**	**8,753**	**8,078**	**7,540**
ACTIVITIES					
Disbursements of					
Nordic loans	1,046	1,430	1,076	878	550
International loans	298	196	207	202	129
TOTAL	**1,344**	**1,626**	**1,283**	**1,080**	**679**
Issued guarantees					
Nordic guarantees	8	4	14	14	22
International guarantees	1	19	1	2	10
TOTAL	**9**	**23**	**15**	**16**	**32**
Outstanding at year-end					
Nordic loans	6,222	5,970	4,787	4,122	3,811
International loans	1,346	1,209	1,009	863	745
TOTAL	**7,568**	**7,179**	**5,796**	**4,985**	**4,556**
Guarantee commitments at year-end					
Nordic guarantees	9	9	33	44	56
International guarantees	20	21	0	11	10
TOTAL	**29**	**30**	**33**	**55**	**66**
Annual debts evidenced by certificates (including capitalizations)	2,484	1,696	2,021	1,592	1,433
NUMBER OF STAFF (AT YEAR-END)	**123**	**120**	**107**	**105**	**104**

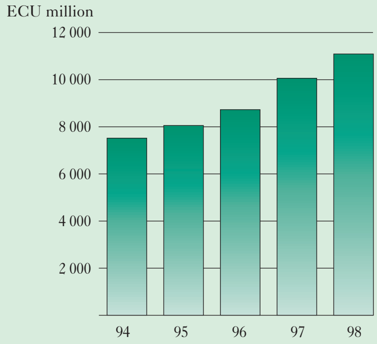
NET INTEREST INCOME



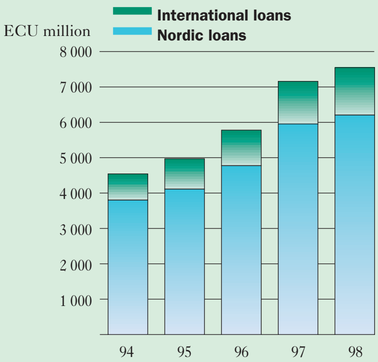
PROFIT



TOTAL ASSETS

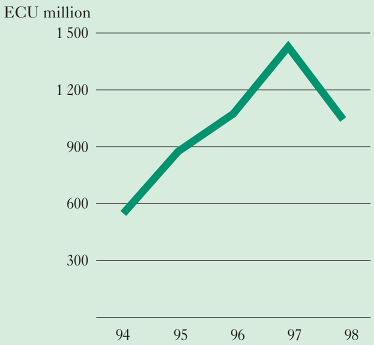


LOANS OUTSTANDING



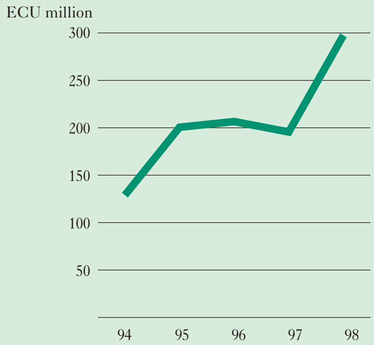
NORDIC LOANS

Disbursed

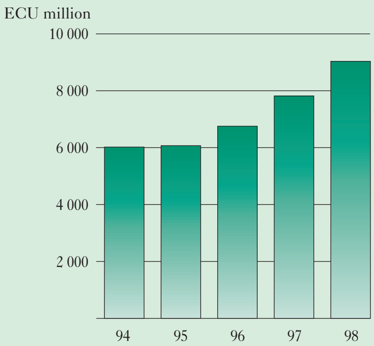


INTERNATIONAL LOANS

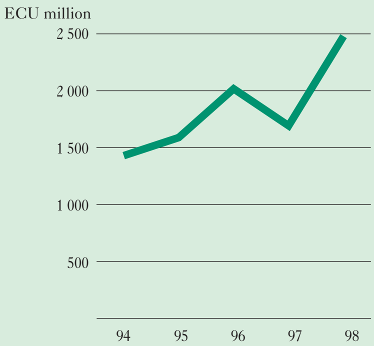
Disbursed



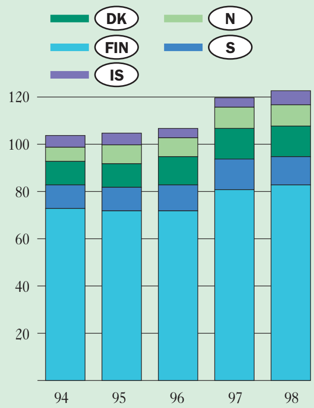
BORROWING OUTSTANDING



BORROWING PER YEAR



NUMBER OF EMPLOYEES



Economic growth in the Nordic area remains good. Estimated GDP growth for 1998 averaged 2.9 per cent. The world economic growth rate is expected to be practically halved in 1999, and the outlook for the Nordic economies has been scaled down somewhat for this year, with GDP growth expected to fall to 2.4 per cent. This is still well above the OECD average for 1999, which is put at 1.7 per cent, and slightly higher than the 2.2 per cent GDP growth forecast for the EU this year.

Recent years have seen a broadening of the basis of economic growth, which provide a stable foundation for the Nordic economies. The various countries show a good growth of domestic demand and a strong growth of exports. There has been a distinct upsurge of private consumption in all the Nordic countries over the past two years. Public sector consumption recently began to show a slight increase again, following some years of wide-ranging spending cuts. Growth in gross fixed investment volumes has varied from one country to another, but on average over the past four years, gross investments in the Nordic area have been rising by well over 5 per cent annually. The process of Nordic integration continues, and the internationalization of the Nordic industry has increased rapidly. Intra-Nordic cross-border investments and investments in the neighboring regions have grown substantially in the past few years.

The Nordic countries have been successful in their economic policy. The principal aims have been low inflation, a stable monetary and fiscal policy and concerted efforts to reduce unemployment. The measures taken by the Nordic countries in pursuit of these aims have been tailored to their economic and structural frames. During the past year both Norway and Denmark have found themselves constrained to take swift action for the restoration of economic balance. All the Nordic countries today have healthy public finances and can show positive net saving. Maintaining a high level of employment has been one of their prime concerns. Even in Finland and Sweden, where unemployment has been excessively high during the 1990s, employment policy has been successful and the level of unemployment is gradually falling.

The anti-inflationary policy pursued by the Nordic countries has been successful. Nordic inflation during 1998 averaged 1.1 per cent as against 2 per cent in 1997. The pressure on prices in the Nordic countries may, however, be augmented by a higher employment participation rate coupled with relatively large pay increases and a high level of industrial capacity exploitation. Inflation in the Nordic area during 1999 is expected to remain low: barely 1.6 per cent, which is lower than the OECD and EU average inflation rates.

ECONOMIC OUTLOOK

GDP growth in Denmark is expected to stop short at 1.6 per cent in 1999, as against 2.4 per cent for 1998. Important measures of economic policy are intended to curb the imbalance, which has developed in Denmark's economy. The country has incurred a slight deficit on current account, owing to loss of international competitiveness and rising domestic consumption. The aims of Denmark's economic policy are to create a balance between growth of domestic demand, international trade and employment.

GDP growth in Finland has been running high for the past five years. A slight deceleration is to be expected in 1999, and GDP growth for the year is expected to be 3.6 per cent as against 4.9 for 1998. Finland's economic prospects are affected mainly by a slowing down of export growth and a slight deceleration of gross investments. Economic policy has been successful and the basic ingredients of economic progress are considered to be in place. Finland has, as the only Nordic country, joined phase three of the EMU as from January 1999.

Iceland's GDP growth this year is forecast at 5 per cent (1998: 5.1 per cent). Its economic successes have been due above all to the heavy growth of domestic demand and the favorable development of exports. Gross fixed investments have risen on average by over 20 per cent in the past three years. The growth of domestic demand, however, is expected to tail off considerably this year. The big investments in the aluminium industry and the energy sector, for example, have been virtually completed and the volume of gross investments is expected to fall by 5 per cent. Meanwhile export growth is expected to accelerate.

Norwegian GDP growth in 1999 is expected to decelerate to 1.1 per cent, as against 2.0 for 1998. GDP growth in Mainland Norway is expected to remain unchanged in 1999, in comparison to the 3 per cent growth achieved in 1998. Norwegian economic growth is based above all on good export growth, while domestic demand is expected to grow less rapidly than in previous years. At the same time the trade balance has deteriorated, due to a substantial growth of imports and the low level of world market oil prices. Considerable public sector spending cuts and measures of financial policy to retain consumption and restore equilibrium are therefore expected to increase the importance of exports and thus the relative importance of oil exports for Norway's economic development.

Economic growth in Sweden for 1999 is put at approximately 2.2 per cent, as compared with 2.8 per cent for 1998. A general slackening of economic activity is to be expected, with a slight deceleration in the growth of domestic demand and–owing to the international downturn–a slower growth of exports. Private consumption is expected to show a continuing clear increase, while the growth of public sector consumption and gross investments is expected to be more restrained.

The relatively good trade prospects in the Nordic area are conditional on international economic developments not being subjected to any notable reverses. There are many indications that the worst of the crisis has passed and that the turbulence in international money markets has subsided, but developments in Japan continue to give cause for concern as regards the ongoing Asian recovery. At the same time, international measures to help stabilize the hard-pressed Brazilian economy have not been altogether successful in creating steadier prospects for the American markets. The economic situation in Russia remains very poor, with little short-term prospect of any clear improvement.

INVESTMENT OUTLOOK

Over the past four years, gross fixed investments in the Nordic area have been growing on average by more than 7 per cent annually. This notable rise, above all in the enterprise sector, is now expected to diminish somewhat. Gross investment growth is expected to fall to about 1.5 per cent in 1999. Housing construction, on the other hand, is expected to show a continuing strong increase throughout the Nordic area.

The remarkable growth of business investments hitherto has been due to rapidly increasing demand in both domestic and export markets. During the coming year, demand is expected to slacken in the main export markets of the Nordic countries. The heavy expansion of output capacity has resulted in a better balance between supply and demand, and clear indications of a falling off of demand in the Nordic area have therefore prompted early measures in industry to limit the expansion of capacity. The rate of investment in business enterprise is expected to decline over the next few years.

Capacity exploitation in Denmark decreased somewhat towards the end of 1998 and a lower level of demand is anticipated for 1999. Business investment growth this year is expected to be only 0.7 per cent, as against nearly 8 per cent in 1998. The major bridge projects are drawing to a close, which of course affects the outlook for infrastructure investments in Denmark. These are expected to fall by about 1 per cent during 1999.

The growth of housing production in Finland is expected to continue. On the other hand, a slackening of business investments was already apparent during 1998. This trend is expected to continue during 1999, with the volume of investments remaining unaltered or declining somewhat. Gross fixed investment growth is forecast at 5.0 per cent as compared with 8.2 per cent for the preceding year. As a result of financial austerity in the public sector, infrastructure investments are expected to go on declining during 1999.

The distinct growth of gross fixed investments in Iceland has been due to major projects in the aluminium industry and the energy sector. These are now virtually completed, but there are a number of projects in the energy sector where investments will continue during 1999. Gross investments are expected to decline by 5 per cent in 1999, whereas during 1998 they rose by about 23 per cent.

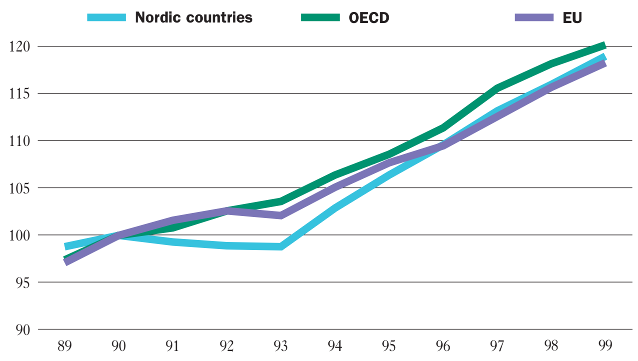
Although Norwegian exports are expected to show a clear growth for the current year, the rate of investment is expected to fall. Industrial output capacity is not fully subscribed and the low level of crude oil prices prompts the expectation that investments in the off-shore sector will diminish by more than 13 per cent in 1999, as compared with an increase of more than 12 per cent for the preceding year. Business investments in Mainland Norway are expected to decelerate by as much as 25 per cent in 1999, with growth by nearly 5 per cent in 1998. Norwegian gross fixed investments are expected to decline by 6.6 per cent in 1999, as compared with almost a 6 per cent increase for the preceding year.

Due to a slackening of export growth, demand for additional capacity is expected to diminish in Swedish industry. In particular, the industry sectors exposed to cyclic fluctuations have announced fewer investments than in previous years. Reduced output and poorer profitability are the main reasons for investment decisions now being deferred for at least a couple of years. Business investments are expected to rise by barely 5 per cent in 1999, as against almost 10 per cent in recent years. Given a continuing step rise in housing production, total gross fixed investments in Sweden are expected to increase by about 5.3 per cent in 1999 as compared with about 9 per cent in 1998.

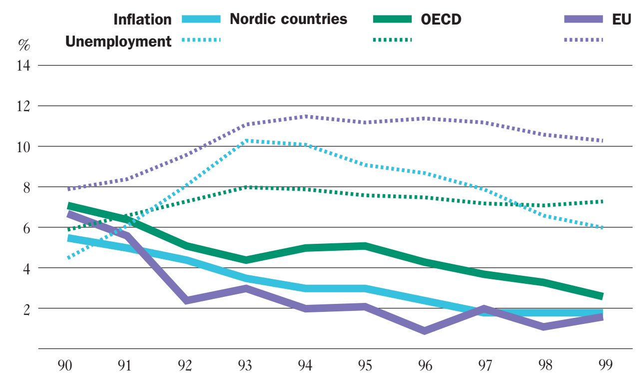
CROSS-BORDER INVESTMENTS

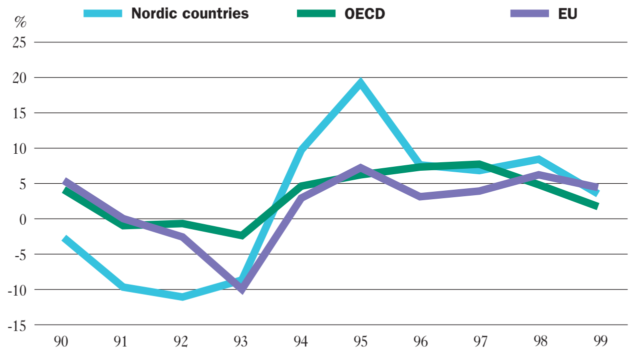
The Nordic countries have a long tradition of co-operation in both cultural and

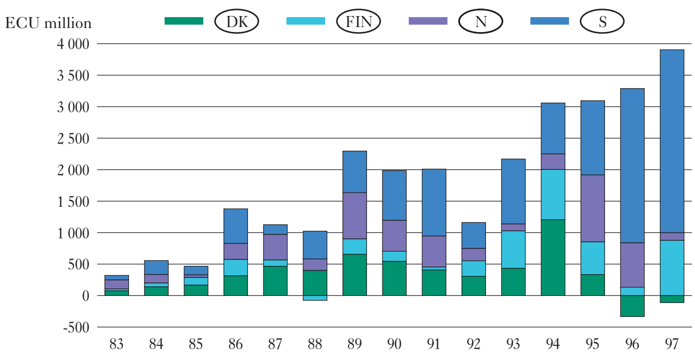
GROSS DOMESTIC PRODUCT
Index (1990=100)

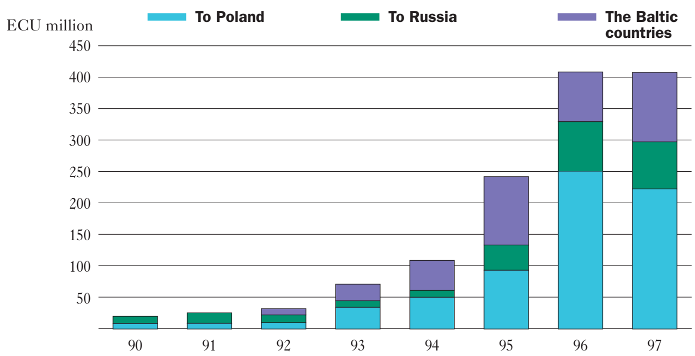


INFLATION AND UNEMPLOYMENT









economic affairs. The latter can be seen not least from the ongoing integration of Nordic business enterprise. Cross-border start-ups, mergers and company acquisitions with a view to long-term involvement have been an important factor of this development. The deregulation of currency transactions and capital transfers has been followed by a distinct growth of cross-border investments in the Nordic area. Direct investments have increased in proportion to capital flows, and the pursuit by Nordic industry of a higher level of internationalization has become increasingly apparent. This internationalization has above all been directed at the larger economies of Western Europe and the USA, but neighboring Nordic countries have been the biggest target group of Nordic cross-border investments.

Intra-Nordic direct investments have shown a rising trend ever since the beginning of the 1980s. Consequently, direct investments as a share of gross fixed investments have increased markedly. The recession occurring in several of the Nordic countries at the beginning of the 1990s caused only a brief hiatus in this respect. The growth in volume has been rapid since 1993, and in 1997 the flow of total intra-Nordic cross-border investments was close on ECU 4 billion, which represents a quadrupling in ten years.

Throughout the 1980s and in the early 1990s, Denmark, until 1995 the only Nordic Member State of the EU, was a natural recipient of Nordic cross-border investments. In this way firms in Finland, Norway and Sweden were able to enter the common market by means of start-ups in a Nordic corporate culture. Since Finland and Sweden joined the EU; the main focus of Nordic cross-border investments has switched to Sweden, but the past few years have also seen a distinct growth of Nordic interest where investments in Finland are concerned. During the past three years the flow of intra-Nordic cross-border investments to Sweden has risen to more than ECU 6.5 billion, as compared with about ECU 2.5 billion at the beginning of the 1990s.

Simultaneously with the rising trend in intra-Nordic investments at the beginning of the 1990s, opportunities were created for investment in the neighboring regions. The rapid creation of adequate conditions for foreign investments has been an important part of the transition from command to market economy in Estonia, Latvia, Lithuania and Poland, and also in Russia. The transition process began first in Poland, which was quick to perceive the importance of getting foreign businesses to contribute solid know-how from which local enterprise could also benefit. Soon after recovering their independence, the Baltic countries were able to offer good opportunities of cross-border investment. In Russia the process of transition has proved more difficult than could have been initially foreseen, but foreign cross-border investments are playing an important part in the country's development of a new economic structure.

The Nordic countries are actively contributing towards a satisfactory transition process in the countries of the neighboring regions. This is clearly evidenced by the rapid growth of cross-border investments since the process was inaugurated at the beginning of the 1990s. Just as with intra-Nordic investments, the nearest countries have been the main recipients of the biggest investments. Danish investments in the neighboring regions are concerned above all with long-term commitments in Poland and Lithuania. Swedish cross-border investments in the neighboring regions are mainly targeting Poland, though a considerable proportion have been directed at the Baltic countries. The Icelandic cross-border investments to the Baltic countries have during the past few years increased considerably. The main focus of investments by Finnish industry has been on Estonia, but the other Baltic countries and Russia have successively grown in importance with the passing years.

Between 1992 and 1997 the flow of cross-border investments by the Nordic countries in the neighboring regions rose from upwards to ECU 30 million to about ECU 400 million. This remarkable increase clearly shows the importance attached by Nordic enterprise to its presence in the neighboring regions. At the same time one notices a relatively wide spread of investments between different branches of economic activity, which further underscores the importance of Nordic business enterprise to the development of market economy in the region. Recipients of cross-border investments from the Nordic area have not been dominated by any particular branch of economic activity: important start-ups have been undertaken in the markets of neighboring regions by energy sector, heavy industry and service sector alike.

INCREASED OUTPUT

Economic prospects for the Nordic countries are affected by EU and EEA co-operation. Eleven European countries adopted the euro with effect from 1999. Of the Nordic EU Member States, Finland alone has opted for EMU participation from the very outset. Denmark and Sweden are awaiting developments and have chosen to defer any decision to participate, though it is clear that all the Nordic countries are keeping a very close watch on euro developments.

One of the principal aims of the common European currency has been to facilitate a common economic policy in the Member States. First and foremost this means healthy public finances and stable prices, as an adequate basis for steady economic growth and increased employment. In spite of not formally being a part of the monetary union, Denmark, Iceland, Norway and Sweden are pursuing an economic policy, which to all intents and purposes harmonizes with that of the EU.

One clear consequence of the introduction of the euro is expected to be a reduction of price differentials within the euro area. This in turn is expected to lead to a growth of competition in product development, distribution and quality which is likely to bring a growth of productivity.

ECONOMIC OUTLOOK FOR THE NEW MILLENNIUM

At the same time as economic policy in Europe covers a large new geographic area, the process of EU enlargement continues. The EU has opened talks with five Central and Eastern European countries concerning future membership. For the Nordic countries, an enlargement of the EU in the Baltic Sea region can spell many advantages, such as a closer "home market" and important competitive advantages.

Outside the European sphere, the turbulence caused in money markets by the Asian crisis and Russia has subsided, but developments remain relatively unsteady and for the future there is still some international uncertainty as to how the world's big leading economies can be ushered out of the critical situation. The ever-deepening financial crisis in Japan has plunged the country into severe recession. It is the slow pace of improvement in Japan, which makes it unlikely that we will see a steadying of the worst-hit Asian economies within the next few years.

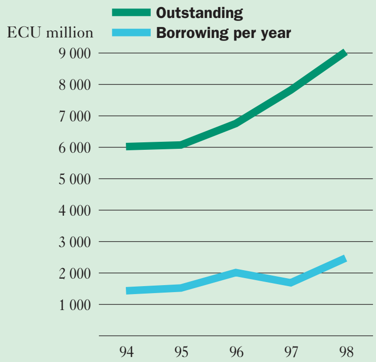
The American economy continues to perform well, but this year is expected to feel the impact of the international financial crises. If there is deepening of the current instability in Latin America, and especially in Brazil, the adverse effects on export industry in the USA can have far-reaching consequences for the country's economic development.

Generally speaking, international observers are very guarded concerning global economic developments in 1999; OECD growth is forecast at no more than 1.7 per cent. The new millennium, however, is expected to bring a faint upturn, with OECD growth in 2000 averaging 2.3 per cent. Despite the widespread uncertainty of global prospects, the economic outlook for the Nordic area can be based on relatively stable preconditions.

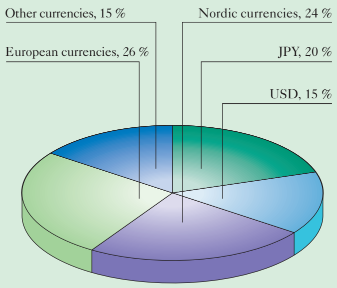
The economic policy pursued by the Nordic countries has created a firm basis of future progress. The Nordic countries have been able to act swiftly in taking necessary measures for the maintenance of economic balance. The broad base consisting of balanced growth in international trade, a stable domestic economy and healthy public finances provides the foundations of an economic growth in 2000 which is expected to be on the same level as the region presents today.

The main source material for this text comprises reports by the Ministries and Economic Affairs and Finance of the Nordic countries, central banks of the Nordic countries and reports from the OECD in Paris.

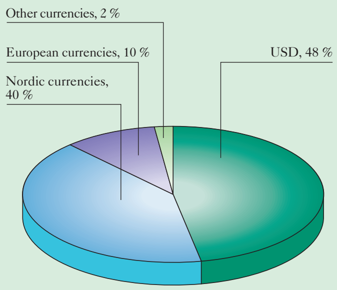
BORROWING



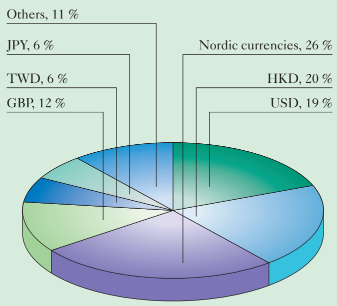
BORROWING OUTSTANDING
Dec. 31, 1998



BORROWING OUTSTANDING AFTER SWAPS
Dec. 31, 1998



NEW BORROWING
By currency 1998



FUNDING AND PORTFOLIO MANAGEMENT

In 1998, the capital markets were influenced by the financial crisis which started in Asia and spread to engulf Russia. The crisis contributed to lower expectations with regard to economic growth. In the latter part of the year, this development resulted in monetary policy easing measures in North America, while European countries continued easing monetary policies in order to achieve the final convergence of short-term interest rates within the EMU. Long-term interest rates in Europe and North America have exhibited a downward trend, partially due to lower growth rate expectations, and partly as a result of capital moving from stock markets to bond markets. That capital has, since to some extent, returned to the stock markets, particularly in the United States, which witnessed record share index levels as a result of the easing of monetary policy. The ecu yield curve leveled off during 1998, whereas the American yield curve became steeper.

The financial crisis resulted in a certain amount of pressure on several European currencies which are outside the EMU, such as the Swedish krona and the Norwegian krone. The Asian capital markets likewise exhibited a similar pattern.

For NIB, the proportion of loan disbursements in the Nordic countries denominated in Nordic currencies was 55%, compared with 50% in 1997. In total, NIB's disbursements in Nordic currencies amounted to 43% in 1998 (44%). The demand for loans in US dollars fell in 1998, accounting for 38% of the Bank's total loan disbursements (46%). The dollar portion of international lending was 84%, versus only 25% of Nordic lending. Loan disbursements in ecu constituted 7% of total disbursements in 1998. The demand for floating-rate loans has remained high. In 1997, 79% of NIB's loans were disbursed at floating rates of interest, compared with 76% the year before.

LONG- AND MEDIUM-TERM BORROWING

NIB adheres to a global, diversified borrowing strategy, based on choosing the capital markets, borrowing structures and instruments that enable the Bank to keep its financing costs at as low a level as possible, while at the same time allowing it to ensure continual access to stable sources of financing. In addition, NIB works toward limiting its future refinancing risks.

The Bank's borrowing operations during fiscal 1998 amounted to a total of ECU 2,484 million (1,696). Amortization of amounts previously borrowed amounted to ECU 1,281 million (839).

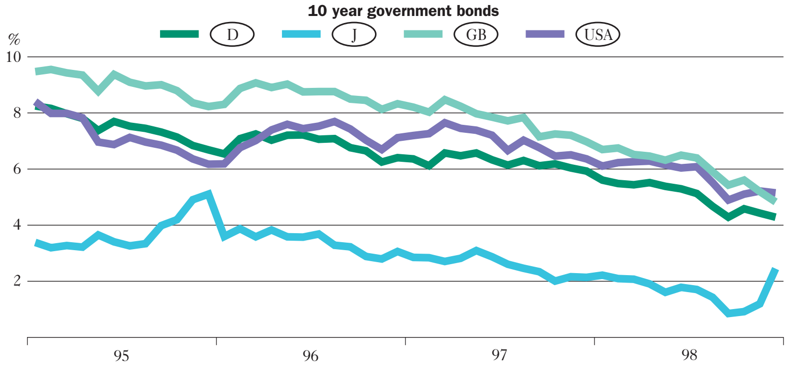
Borrowings outstanding at year-end 1998 amounted to ECU 9,059 million (7,836).

In 1998 the Bank made its first benchmark transaction in the form of a 10 year, USD 500 million issue. The Bank's goal in carrying out this transaction was in part to strengthen the Bank's net liquidity, and in part to market NIB as a borrower in new market segments.

NIB carried out 61 borrowing transactions distributed over 14 different currencies in fiscal 1998. The average maturity for NIB's 1998 borrowing operations was 7.4 years, compared with 7.5 years in 1997.

As a result of market conditions, a considerably smaller portion of the Bank's financing needs were covered by structured transactions in 1998 than was the case in 1997.

INTERNATIONAL INTEREST RATES
10 year government bonds



Source: Bloomberg

European currencies

Borrowings in European currencies constituted a total of 47% of the Bank's total borrowings. Nordic currencies accounted for 26%.

The drop in interest rates in many European countries resulted in investors' aiming some of their demand at other markets in Europe. These markets, such as England and the Nordic countries outside the EMU, were characterized by relatively high interest rate levels.

Eleven transactions totaling SEK 4,140 million were carried out in Swedish crowns, corresponding to 18% of NIB's total borrowings. NIB carried out one transaction in Danish crowns in the amount of DKK 750 million, and 3 transactions in Norwegian crowns totaling NOK 693 million. No borrowings were made in Finnish marks in 1998.

A total of 15 (7) borrowing transactions were made in Nordic currencies, corresponding to ECU 632 million (211).

On the other European capital markets, 7 borrowing transactions were carried out for a total of ECU 543 million (373), corresponding to 22% (22) of 1998's borrowings. Of that amount, ECU 286 million were issued in British pounds. In continuance of the goal to diversify its borrowings, the Bank launched its first bond issues in Polish zloty and in the Greek drachma. In addition, other bonds were issued in French franc, Italian lira and Czech koruna.

US dollars

The transaction accounted for 19% of fiscal 1998's borrowing. It was documented under the Bank's EMTN program, and was primarily sold to European investors.

Hong Kong dollars

The instability on the Asian capital markets contributed to greater demand for bonds with high, fixed interest rates from issuers with high creditworthiness. In order to tap this demand, NIB carried out 30 borrowing transactions in Hong Kong dollars, for a total of HKD 4,347 million (which corresponds to ECU 500 million). These transactions have generally carried shorter maturities than other borrowing transactions.

Japanese yen

The Japanese capital market was not as important a financing source for NIB in 1998 as it has been in previous years. Thus, 6 borrowing transactions were carried out in Japanese yen, in the amount of ECU 156 million, of which half consisted of short-term borrowings. This is partially attributable to the fact that Japanese investors concentrated on yen-denominated issues from Japanese issuers.

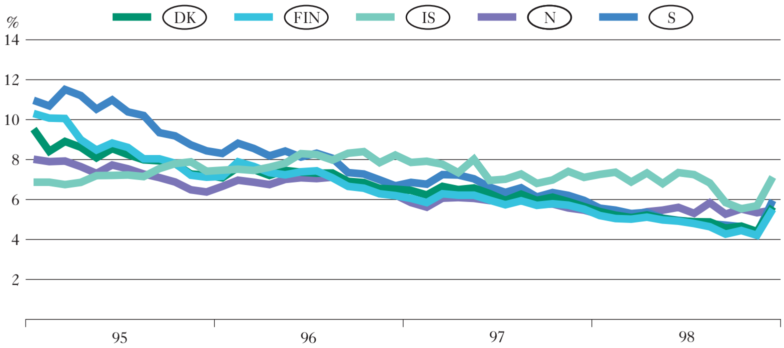
Other currencies

The Bank carried out two transactions in the amount of ECU 181 million (178) on other capital markets. The Bank increased its Taiwan dollar issue to an amount corresponding to ECU 262 million, or 3% of total borrowings. In addition, one borrowing was made in South African rand.

Composition of NIB's borrowing

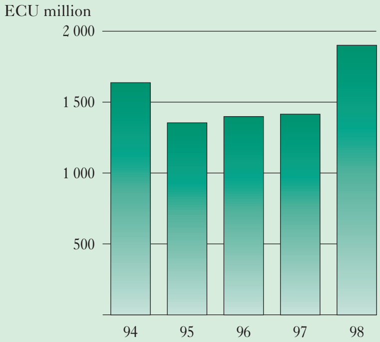
The proportion of Nordic currencies in NIB's total outstanding borrowings rose from 21.7% in 1997 to 24.0% in 1998. The proportion of Japanese yen fell from 21.7% to 19.8%. The share of the US dollar rose from 14.1% to 15.0%, while the HK dollar rose from 7.0% to 10.7%. Other curren-

NORDIC INTEREST RATES
10 year government bonds

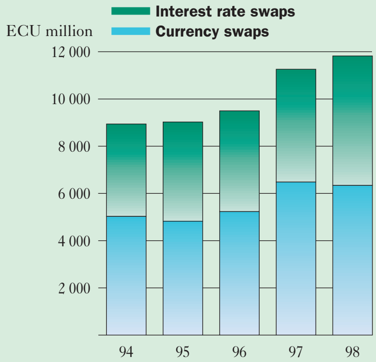


Source: Bloomberg

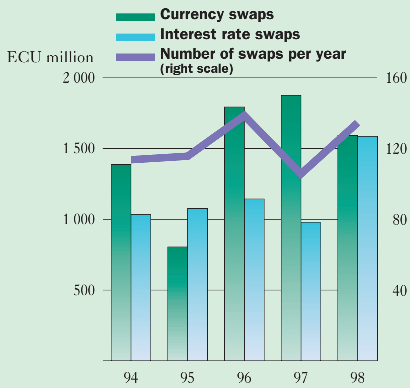
NET LIQUIDITY
According to IAS



SWAPS OUTSTANDING



NEW SWAP TRANSACTIONS



cies' share in NIB's total borrowing declined from 35.5% to 30.5% at year-end. The Bank has borrowings outstanding in 24 different currencies.

The table below shows the maturity profile for new borrowings in 1998 and 1997.

The distribution of maturities shows a picture of borrowings in 1998 primarily being contracted with maturities greater than five years, as well as in the 1-2 year category.

Currency distribution after swaps

The Bank uses the swap market to a considerable extent to match its borrowings to the currency, maturity and interest rate type desired by the borrower.

The distribution of new borrowing transactions in 1998 after swap is as follows: US dollar, 56%; Nordic currencies, 31%; ecu, 12%; and other currencies, 1%. Of the Nordic currencies, Swedish crowns make up 18%, Finnish marks 6%, Danish crowns 4%, and Norwegian crowns 3%.

It should be noted that a larger proportion of the Bank's borrowings than was the case in the past was swapped to euro in order to meet the greater demand anticipated from the Bank's clients for loans in that currency.

At year-end 1998, the distribution of NIB's total after-swap borrowings was the following: USD, 48%; Nordic currencies, 40%; ecu, 2%; and other currencies, 10%.

Structured transactions

The Bank enters into structured borrowing transactions in which the interest rate and amortization schedule can be tied to developments in, for example, interest rates, currency rates, or share indexes. The purpose of this is to satisfy the investors' demand for this type of transaction. The borrowing costs for this kind of borrowing are generally lower than is the case for borrowing through issuance of non-structured bonds.

As mentioned above, the activity in structured transactions was influenced by the financial crisis in Asia. A considerably smaller proportion of the Bank's financing needs was covered by structured transactions in 1998 than was the case in 1997. Thus, the proportion of structured transactions in 1998 was 16% of the year's borrowing operations, compared with 60% in 1997.

The Bank has taken a positive attitude toward increasing the liquidity of NIB's structured bonds, by negotiating for the repurchase or change in the structures of these bonds. The need for this in 1998, however, has been limited.

Borrowing program

In 1992, the Bank established its Euro Medium Term Note program for its borrowings on the Euromarket. The program ceiling was increased by ECU 4,000 million in 1998 to ECU 10,000 million. Forty-eight transactions were carried out under the program in fiscal 1998, for a total amount of ECU 1,721 million, compared with 27 transactions totaling ECU 1,327 million in 1997. Borrowings of ECU 5,206 million were outstanding under the program at year-end 1998.

In 1996, a Medium Term Note program was established on the Swedish capital market, amounting to SEK 4,000 million. This program's ceiling was increased to SEK 8,000 million in 1998 as a result of the significant issuing activity in Swedish crowns during the year. Ten borrowing transactions were carried out under the program in 1998, for a total amount of SEK 3,640 million.

No transactions were made under the Bank's USD 600 million borrowing program in the United States.

The Bank has decided to establish a Medium Term Note borrowing program on the Australian market as part of its strategy to diversify its sources of borrowing.

SHORT-TERM BORROWING

NIB's lending is primarily financed with long-term borrowing. NIB has access to short-term funds through its short-term borrowing program and the interbank market. NIB has a Commercial Paper program both in the US and in the Euromarket, with a USD 600 million borrowing ceiling in each of these markets.

NIB's short-term borrowing program is utilized primarily to cover its short-term financing needs. A total of ECU 350 million (549) was issued under these programs in 1998.

At year-end, NIB had ECU 106 million outstanding under the Commercial Paper programs, compared with ECU 22 million in 1997. The figures for the interbank market were ECU 286 million and ECU 213 million, respectively.

LIQUIDITY

NIB's goal is to continuously maintain a sufficiently ample amount of liquidity to give the Bank flexibility in carrying out its borrowing program. In general, NIB strives to achieve a level of net liquidity that corresponds to its liquidity needs for twelve months into the future. That enables the Bank to avoid accessing capital markets for borrowing during times of unfavorable market conditions.

Using the IAS method of calculation, the Bank's net liquidity amounted to ECU 1,902 million at year-end (1,416). This liquidity covers 97% of the Bank's anticipated need for liquidity in 1999.

NIB's liquidity is primarily placed in USD at variable interest rates. The US dollar constituted 39% of the Bank's placed liquidity at year-end. In addition, 31% of NIB's liquidity is placed in Nordic currencies, and 23% in ecu.

The Bank's liquid assets are placed in the short-term market, using several different money market instruments. These consist of deposits, commercial paper, floating rate notes (FRN), and asset swaps. The particular instrument to be used is chosen with a view to credit quality, li-

Maturity Profile of New Borrowing Transactions

	Number of transactions		*Amount in ECU million*		*Percent*	
	1998	*1997*	*1998*	*1997*	*1998*	*1997*
1–2 years	24	0	465	0	19	0
2–3 years	2	2	36	74	2	4
3–4 years	3	4	185	374	7	22
5 years and longer	32	30	1,798	1,248	72	74
Total	61	36	2,484	1,696	100	100

quidity, and return, as well as matching interest rate characteristics with those of the underlying borrowings. As a result of NIB's borrowing at advantageous rates, the Bank has been able to achieve a positive spread over borrowing costs on its liquid assets placements.

PAID-IN CAPITAL AND RESERVES

NIB's equity capital in the form of paid-in capital and reserves rose during the fiscal year, from ECU 1,059 million to ECU 1,139 million. Profits for the year rose to ECU 115 million. NIB paid ECU 35 million in dividends to its member countries out of profits for 1997.

NIB strives to achieve a stable return on its equity capital. Funds which by and large correspond to its equity capital are therefore placed at long term in ecu. The return on these placements is an important contributor to NIB's total profits.

For accounting purposes, these placements are divided into one portfolio, consisting of investment securities, which is anticipated to be held until maturity, and another portfolio, the dealing securities portfolio, which consists of securities that can be bought and sold continuously, depending on market developments. The goal is to have these portfolios distributed in such way that 75% consist of investment securities and 25% dealing securities.

NIB began to build up its dealing securities portfolio in 1998. The distribution between the portfolios compared with total capital placements was 88% investment securities and 12% dealing securities at year-end 1998.

Interest-rate risk limits have been established for the investment and dealing securities portfolios, which are partially expressed as modified duration limits and partially as value-at-risk limits.

The modified duration for these equity capital investments was 3.8 years at year-end 1998. The Bank's profits in relation to average equity capital was 10.5% in 1998, compared with 11.2% in 1997.

DERIVATIVES

The Bank uses interest rate and currency swaps to limit its financial risks.

NIB entered into 135 new swap agreements in 1998, compared with 106 in 1997. The table below sets forth the Bank's swap activities in nominal terms.

The Bank's total credit exposure as a result of possible non-payment of amounts owed to it in the future under swap agreements in which the Bank would stand to suffer losses was estimated at year-end, on the basis of prevailing market quotations, to amount to the equivalent of ECU 1,008 million (591).

Nominal volume of swaps (in ECU mill.)

	1998	*1997*
Entered into during the year:		
Interest rate swaps	1,591	978
Currency swaps	1,596	1,882
Outstanding as of Dec. 31:		
Currency swaps, owed to NIB	6,443	5,981
Currency swaps, owing by NIB	6,594	6,501
Interest rate swaps	5,414	4,790


Rubus chamaemorus

On December 31, 1998, the Bank's authorized capital amounted to ECU 2,809 million, of which ECU 304 million was paid in. The remainder consisted of callable capital. The Bank's ordinary lending ceiling amounts to 2.5 times its authorized capital, or ECU 7,021 million.

The Bank's member countries have subscribed to its authorized capital in proportion to their gross national product. Sweden has about 40 per cent of authorized capital, while Denmark, Finland and Norway have a share of approximately 20 per cent each. Iceland's share is about 1 per cent.

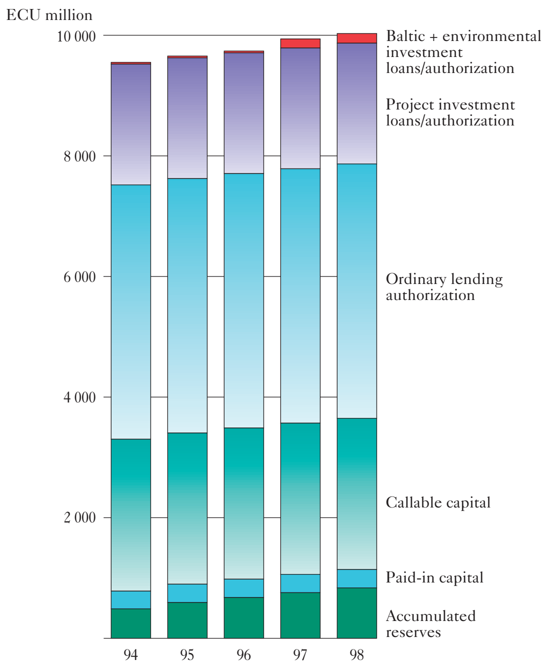
At its June 1998 meeting, the Nordic Council of Ministers decided to increase the Bank's authorized capital from ECU 2,809 million to ECU 4,000 million. ECU 100 million of the ECU 1,191 million increase will consist of paid-in authorized capital. Of the paid-in portion, ECU 70 million will be transferred in 1999 from the Bank's Statutory Reserve and ECU 30 million will be paid in by the member countries in equal annual installments over a three-year period. The increase became effective at the commencement of 1999, and will simultaneously have the effect of raising the Bank's ordinary lending ceiling from ECU 7,021 million to ECU 10,000 million.

In addition, NIB has separate lending ceilings of ECU 2,000 million for the international Project Investment Loan facility (PIL), ECU 60 million for the Baltic countries (BIL), and ECU 100 million for an environmental loan facility (MIL), which is earmarked to finance environmental protection investments in the adjacent areas of the Nordic countries.

Special guarantees from the Bank's member countries constitute the basis for the PIL, BIL, and MIL loan facilities. The member countries guarantee 90 per cent of each loan under the PIL lending facility, and 100 per cent of the BIL and MIL lending facilities.

At its June 1998 meeting the Nordic Council of Ministers decided to increase the ceiling for the PIL lending facility, from ECU 2,000 million to ECU 3,300 million. The member countries' total guarantee liability of ECU 1,800 million remains unchanged. Within the framework of this total potential guarantee liability, the member countries guarantee a maximum of 90% of each individual project investment loan. The increase in the PIL lending facility ceiling becomes effective at the commencement of 1999.

NIB'S CAPITAL BASE AND LENDING CEILING



The year's disbursements were down on 1997, despite rising demand for loans from NIB. Stricter requirements concerning the Bank's supplementary function, as established by the Board of Directors, have been taken into account both in the organization and internal procedures of the Nordic Lending Department and in the evaluation of incoming loan applications.

Exchange rate fluctuations and redeployments of the loan portfolio partly explain the low growth of the stock of loans outstanding, expressed in ecu.

In the award of loans during 1998, priority was given to loans for clearly defined, concrete projects and to greater co-operation with Nordic banks and financial institutions on the financing of both large corporations and SMEs.

LENDING AND LOAN PORTFOLIO

Disbursements to Nordic borrowers (see fig. 1) during the year totaled ECU 1,046 million (1997: ECU 1,430 million). The Bank issued ECU 8 million (4) in guarantees.

Sweden accounted for 38% (35%) of total disbursements, followed by Denmark with 23% (24%). Finland's share, at 19%, was appreciably down on 1997 (25%). Norway's share rose to 13% (10%) while Iceland's remained unaltered at 6%. This breakdown is illustrated in fig. 2.

As regards the breakdown of disbursements between borrowing sectors, manufacturing industry remains the paramount sector, with a share of ECU 464 million or 44%, which is 7 percentage points less than in 1997. The biggest growth came in financial activity, from 3% to 13%, and in transport and communications, which rose from 18% to 26%. The steepest reduction, from 21% to 5%, came in the energy sector. Disbursements to mineral extraction and to retail and wholesale trade accounted for 4% each as against 0% in 1997. Changes in other sectors were less than 4 percentage points.

All in all, engineering products account for nearly half of disbursements to the manufacturing sector. Within this sector, machinery and equipment manufacturing, with customers such as Electrolux, Cummins Wärtsilä and Partek, accounted for roughly one third, although disbursements in absolute figures declined from ECU 201 million in 1997 to ECU 115 million in 1998. In the motor manufacturing sector, mention can be made of disbursements to Scania and Autoliv. Sectors where disbursement volumes were considerably down on 1997 were paper and pulp, where the only disbursement on a notable scale went to SCA, and food manufacturing, which received just two small loans. The biggest increase, from 0% to 23%, occurred in steel and metal manufacturing, with disbursements to Outokumpu, Rautaruukki, SAB and Icelandic Alloys, followed by the chemicals sector, where the biggest loans were received by Norsk Hydro, Borealis and Faxe Paper Pigments (Denmark).

In transport and communications, there was a growth of disbursements to air transport, where customers like Braathens, Maersk Air and Icelandair had decided to modernize their aircraft fleets. Other big customers in this sector include the Swedish Post Office, which has invested in a new letter distribution system, and the Teracom and Sonera telecommunications corporations, which have digitalized their networks.

The substantial growth of lending to the financial sector derives mainly from loans to Nordic banks and financial institutes for onlending to SMEs for Nordic projects concerned, for example, with environment protection, energy production and R&D. The biggest loans were disbursed to Investor in Sweden and FIH in Denmark. In the banking sector, Sparbanken Gripen and Landsbanki Íslands were the biggest borrowers.

The sectoral breakdown of disbursements is illustrated in fig. 3, and a specification of the manufacturing sector will be found in fig. 4.

Loans disbursed and agreed on and guarantees issued during the period are listed on pages 66-67.

CROSS-BORDER INVESTMENTS IN GROWTH

Dividing disbursements into cross-border, environmental protection, R&D and infrastructure investments, one finds that it is above all cross-border investments that have notably increased during the year. Their share of total disbursements has risen from 19% to 27%, while investments

NORDIC LOANS

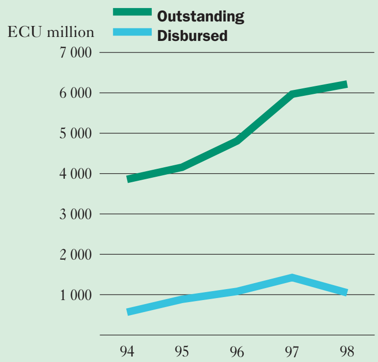


Fig. 1

NORDIC LOANS DISBURSED
Distribution per country according to the domicile of the borrower's group headquarters as of Dec. 31, 1998

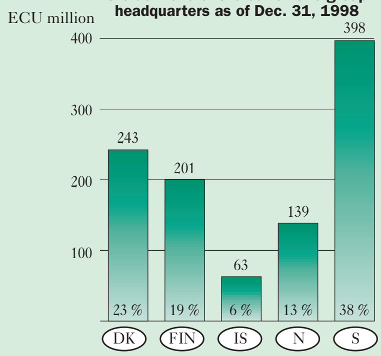


Fig. 2

NORDIC LOANS DISBURSED
Sectoral distribution 1998

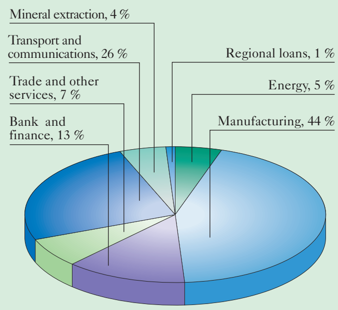


Fig. 3

NORDIC LOANS DISBURSED
Manufacturing 1998

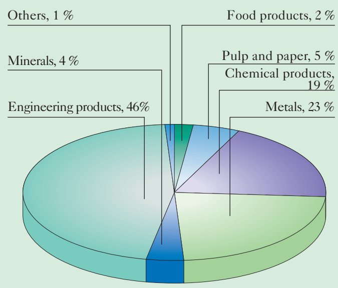


Fig. 4

NORDIC LOANS OUTSTANDING
Distribution per country according to the domicile of the borrower's group headquarters as of Dec. 31, 1998

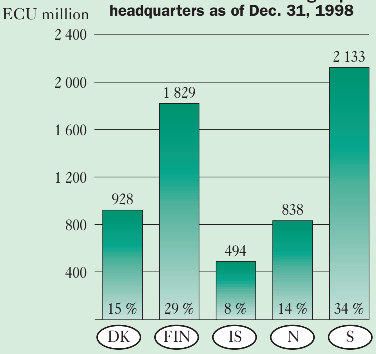


Fig. 5

NORDIC LOANS OUTSTANDING
Sectoral distribution as of Dec. 31, 1998

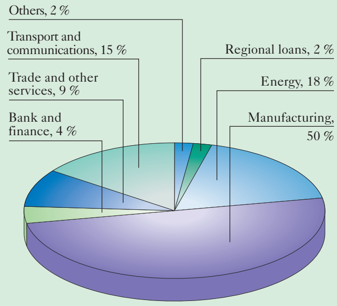


Fig. 6

NORDIC LOANS OUTSTANDING
Manufacturing as of Dec. 31, 1998

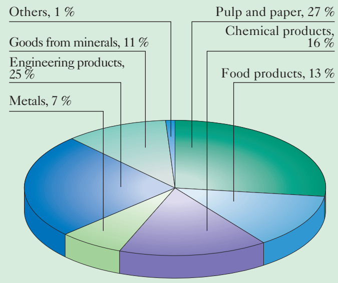


Fig. 7

NORDIC LOANS OUTSTANDING
Accumulated group exposure as of Dec. 31, 1998

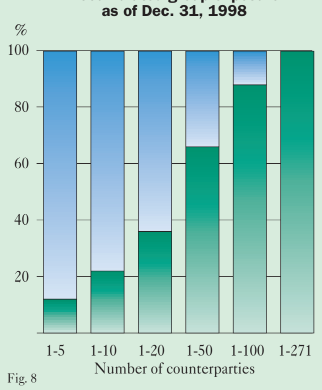


Fig. 8

in both infrastructure and R&D have fallen by about 8 percentage points. Environmental investments have gone up from 6% to 12%. In 1998, enviromental considerations were present in 30% of disbursements as against 15% in 1997.

About 40% of the year's disbursements were to new customers. In absolute figures, these loans accounted for slightly more than 30% of disbursements. If the SME sector financing to which NIB contributes through its co-operation with other banks and financial institutions is also included, this further enlarges the circle of customers, albeit indirectly.

Over and above the loans disbursed and guarantees issued, the Bank agreed on loans and guarantees amounting to ECU 156 million in 1998. Most of the loans agreed on will be disbursed at the beginning of 1999.

A change in the customers' choice of disbursement currency was observable during the year. Disbursements in SEK and ECU rose steeply, while those in FIM and USD declined. A more detailed description of these changes in the currency breakdown of loan disbursements will be found on page 14.

73% of loans disbursed during the year have floating interest rates.

The loan portfolio growth rate decelerated considerably during 1998 compared with the preceding year, due to the limited scope for lending and to large early repayments of loans. Loans outstanding, guarantees included, rose by 4%, from ECU 5,979 million to ECU 6,231 million (see fig. 1).

The breakdown of loans between member countries by conglomerate membership gives the largest number of loans outstanding (33%) in Finland, followed by Sweden (24%), Iceland (18%), Denmark (16%) and Norway (9%). Sweden accounts for ECU 2,133 million or 34% of the amount outstanding, Finland for ECU 1,829 million (29%), Denmark for ECU 928 million (15%), Norway for ECU 838 million (14%) and Iceland for ECU 494 million (8%). The country-by-country breakdown is much the same as in previous years.

Summing up, the total amount outstanding divided by the number of loans comes to about ECU 5 million for Iceland, about ECU 11 million for Finland and Denmark and about ECU 18 million for Sweden and Norway. The breakdown by total amount outstanding is illustrated by the graph in fig. 5.

SECTORAL BREAKDOWN

The manufacturing sector remains predominant, with loans outstanding (guarantees included) totalling ECU 3,093 million. This is roughly half the total loans outstanding. The corresponding figures for 1997 were ECU 3,025 million and 51%. Within this sector, the paper and pulp industry accounts for roughly 13% of total lending, but 1998 saw a continuing decline in its relative importance. The food and drink industry share has also diminished somewhat, while chemicals and chemical products, motor manufacturing and especially machinery and equipment manufacturing show a rising trend.

Other important sectors are electricity, gas, heat and water supply, at 18% (3 percentage points down on the previous year), and transport and communications with 15% (2 percentage points up on the previous year). Most of this increase occurred in postal services, telecommunications respectively in air transport.

The financial sector also presents a rising trend, with 4% of loans outstanding. This trend has been reinforced by the Bank's decision to support the SME sector by means of loans to intermediaries, which has led to an upsurge of lending to banks and financial institutions in Sweden, Denmark and Iceland.

The sectoral breakdown of loans outstanding is shown in fig. 6 and a specification of manufacturing industry will be found in fig. 7.

LOANS TO LARGE GROUPS

Loans outstanding by large-group borrowers show a slightly falling trend in terms of single-handed exposure, in relation both to equity and total lending. The Bank's 10 largest borrowers account for some 22% of total lending (23%) and the 50 largest for 66% (68%).

NIB's largest exposure, ECU 224 million, has come about through a merger and corresponds to some 20% of the Bank's equity. The corresponding figures for the tenth largest exposure are ECU 105 million or 9% of equity. Between them the 10 largest exposures account for ECU 1,373 million in lending, which is about 120% of the Bank's equity. Fig. 8 shows exposures in descending order of magnitude.

The falling trend in national and local government exposure continued during 1998. Compared with 1997, the proportion of loans outstanding to or guaranteed by governments or local authorities fell from 17% to 14% of total lending. Further to this, see the section on risk management, pages 30-31.

The currency breakdown of the loan portfolio is described in the financial section on page 52.

NIB's own risk classification divides the Nordic loans into risk classes (from 1 to 10). This classification is based on a combination of counterparty risk and the value of the security provided. A more exact description of risk classification and of the risk profile of the portfolio is given in the section dealing with risk management on pages 30-31.

The quality of the loan portfolio remains very good. At year-end there was only one unsettled claim, with a total of ECU 3.5 million outstanding. In the annual accounts a credit loss reserve of ECU 1.8 million has been entered for this exposure.

In addition to the existing stock of credits and guarantees, the Nordic Lending Department has concluded agreements on loans, yet to be disbursed, totaling some ECU 680 million and has granted further loans and guarantees amounting to some ECU 900 million.

PROJECTS AND BORROWERS

54 new loans were disbursed and another 7 agreed on during 1998. The projects and borrowers are briefly presented, grouped according to principal type and Nordic interest into the categories of cross-border investments, infrastructure investments, environmental investments, R&D investments and SME investments.

Projects can include components belonging to more than one of the main types mentioned above, in which case they are presented under the heading, which appears most relevant.

Loans disbursed

CROSS-BORDER INVESTMENTS AND DELIVERIES

NIB's involvement in the financing of acquisitions, entrepreneurial start-ups, and deliveries across national boundaries grew rapidly in 1998. Disbursements in absolute figures were on the same level as for the preceding year, in spite of a distinctly smaller volume of lending in total figures.

NORDIC LENDING

Borealis A/S

Borealis A/S is Europe's biggest producer of polyolefines. The company has decided to invest DKK 1,4 billion in capacity enlargements at Stenungssund in Sweden. These will raise its ethylene production capacity, which in turn is a precondition for boosting production of polyethylene. "The Borstar technology", a new technique developed at Borealis' Porvoo plant in Finland, yields a far stronger and more easily machined product.

Color Print A/S

Color Print is a Danish public company producing magazines, brochures and printed publicity. Color Print wishes to become the leading Scandinavian producer of multi-color printed matter in Scandinavia, and to this end has embarked on an investment program which comprises a printing and warehousing facility, a new rotary machine and the establishment of a Swedish sales company. Color Print has also acquired the Solrosen Grafiska AB printing group in Sweden.

Rosti A/S

The Danish company Rosti A/S, a member of the A.P. Møller Group, has acquired the Swedish company Primpac AB, which produces plastic bottles and plastic containers for the food and chemical industries among others. The acquisition is accompanied by substantial investments in Primpac's fixed assets.

Fiskars Corporation

Fiskars has completed an investment program at its scissors factory in Billnäs, Finland, and in its garden products manufacturing facilities in Denmark. The company is renewing its product range and enlarging its output capacity with a view to new ventures in the USA, the Mediterranean countries and Eastern Europe. Fiskars' production of scissors is based on continuous supply of special steel from Sandvik AB in Sweden.

Partek Corporation

Partek is increasing its shareholding in Kalmar Industries AB in Sweden, a leading producer of trucks and equipment for dockside container handling. The company is merging with Partek's Finnish company, Sisu Terminals Systems, in order to achieve co-ordinated production, deliveries and administration. Marketing and increased standardization of component production are expected to yield synergism estimated to total some SEK 150 million on an annual basis and expected to achieve full effect in the year 2000.

Grandi hf

Investment in a new fishmeal factory in Reykjavik. Work is proceeding in association with Norway's Stord International and the technical equipment is being delivered from Denmark.

Norsk Hydro ASA

Loan to finance the Group's investments in Sweden and Denmark between 1995 and 1997, which have included both the acquisition of new operations and enlargements to existing facilities in Sweden and Denmark.

Icelandic Alloys Ltd

Icelandic Alloys, owned principally by Norwegian Elkem, is investing in a third furnace for production of ferrosilicium. Greater capacity combined with favorable electricity prices will lead to competitive production costs.

El-Giganten Sverige Grossist AB

This Norwegian-owned electrical retailing group is investing in a central warehouse in Jönköping as part of its expansion in the Nordic countries. The warehouse will serve all the Group's retail outlets in the Nordic countries.

Narvesen ASA
Narvesen is a well-known Norwegian company in retailing and wholesaling and in catering activities. The company is strengthening its market position by acquiring Swedish Small Shops Holding AB, which owns Pressbyrån and Nordic 7-Eleven. The acquisition leaves the company with about 1,175 sales outlets in Norway, Sweden and Denmark.

PLM AB
PLM is strengthening its position in the Nordic area as one of the leading manufacturers of consumer packaging of metal, glass and plastic by acquiring the Danish Holmegaard Emballage A/S glassworks and its subsidiary Holmia A/S.

Villavent AS
The Swedish-owned Villavent company, active in the fields of ventilation, energy and environmental technology, is investing in a new main facility for its Norwegian operation. The new premises will include both main warehouse and office facilities.

SSAB Swedish Steel AB (publ)
SSAB is investing in the steel business in Borlänge, Luleå and Oxelösund, thereby augmenting its capacity for manufacturing its niche products, viz high-strength thin sheet and chilled steel for heavy plate applications.

FOREIGN INVESTMENTS IN THE NORDIC COUNTRIES

Faxe Paper Pigments (Denmark) A/S
J.M. Huber Corporation, a family business headquartered in New Jersey, USA, has acquired the shares in Danish Faxe Paper Pigments (Denmark) A/S, which develops, produces and supplies PCC to the paper industry. Simultaneously with the investment, J.M. Huber is transferring its European headquarters and management from the Netherlands to Denmark, which is expected to increase the Group's commitment in the Nordic countries.

Gate Gourmet Norge AS
The Swiss Gate Gourmet Holding AG group, one of the world's largest catering groups, specializing in in-flight catering, is investing, through its Norwegian subsidiary, in a production facility at the new Gardermoen Airport outside Oslo.

INFRASTRUCTURE INVESTMENTS

Ever since the Bank was founded, infrastructure projects have been one of the main emphases of its Nordic lending operations. One third of the year's disbursements concerned projects of this kind. Compared with the previous year, energy supply projects declined in percentage terms, while transport and communication investments increased their share of disbursements.

Dansk Naturgas A/S
Dansk Naturgas A/S, a fully owned subsidiary of state-owned DONG A/S (National Oil and Gas Company of Denmark), is investing in a natural gas storage facility at Stenlille to safeguard supplies of natural gas. This investment in storage capacity comes in response to growing demand for natural gas and will facilitate steady production all the year round.

Dansk Olierør A/S
Dansk Olierør A/S, a subsidiary of DONG A/S, owns the oil pipeline system that conveys oil from the Gorm E rig in the North Sea to the company's Fredericia crude oil terminal. The company has decided to upgrade its transmission capacity from 250,000 to 270,000 barrels per day. NIB is helping to finance the investment through a credit line.

Dansk Olie- og Gasproduktion A/S
Dansk Olie- og Gasproduktion A/S, a member of the DONG, is investing in the enlargement of the Lulita, Siri and Syd Arne oil fields in the Danish sector of the North Sea.

FLS International A/S
The FLS Group has invested more than DKK 1,000 million in its Nordic operations, above all by expanding and streamlining its transport and distribution systems in the Nordic countries. The biggest investments have been made in the Dan Transport Holding A/S Group, which has built up a regular network of Nordic routes in its home market through a combination of expansion and acquisitions in Sweden, Norway and Finland. Smaller investments are also being made in facilities and in measures of environmental improvement and energy conservation in the Group's other fields of operation.

Maersk Air A/S
Maersk has invested in new Boeing 737-700 and Boeing 737-500 aircraft, which are being delivered between September 1998 and October 1999. NIB is helping to finance the aircraft, which will be used for inter-Nordic and other international flights.

Nordvestsjællands Energiforsyning a.m.b.a., NVE
NIB has awarded loans for investment in two high-efficiency CHP (combined heating and power) plants, fuelled with natural gas, which are replacing electricity and heat supplies based on oil and coal firing. In addition, the NIB loan is being used for an expansion of the power distribution network and the construction of additional windpower generators for ecological power production. The CHP plants are being connected to the power supply network. The environmental impact is judged to be emphatically positive.

Føroya Tele
Føroya Tele, which is owned by the Faeroes Landstyre, is responsible for all public telecommunications and international telecommunications traffic to and from the Faeroes. Telecommunications in the Faeroes are now being upgraded by means of an investment program comprising digitalization of the permanent telephone network, establishment of a digital GSM mobile network and improvements to international telecommunications via the CANTAT fiber cable between Canada and Denmark/Germany. Most deliveries are being made by Ericsson.

Tieyhtiö Nelostie Oy
This road company, which is owned by the Skanska Group, the Sampo Group and the British Hyder Plc investment company, is co-ordinating reconstruction of the motorway section between Järvenpää and Lah-

ti, with Skanska Oy as contractor. This is the first major private road construction project ever mounted in Finland. The company will then take charge of road maintenance for about 15 years, at the end of which period responsibility will be transferred to the State.

Sonera Group plc
Sonera is modernizing the permanent national telephone network with uniform digital technology which will raise the technical standard and make global services available nationwide. The investment will help to make the permanent network one of the most up-to-date in the world and is of strategic infrastructural importance to Finland.

Flugleiðir hf / Icelandair
The company is investing in two new Boeing 757-200 aircraft, to be delivered in January 1998 and April 1999, and forms part of a larger investment program with the option of 12 aircraft altogether. The aircraft will serve routes between the other Nordic countries and Iceland, with a transfer to the USA. The investment is being financed with a syndicated loan.

Hitaveita Suðurnesja
The regional CHP plant in the Municipality of Reykjanes is making investments in the oldest geothermal energy source at Svartsengi, for use in the production of heat and electricity for the neighboring communities. Output will cover more than half the area's energy demand. The investment will raise production from 50 to 105 MW.

RARIK
RARIK is owned by the Icelandic Government and handles the distribution and sale of electrical power in Iceland. The company is continuously improving the power distribution system nationwide through a combination of rebuilding and new investment. At present the company is investing in a conversion of high voltage lines to ground cables, which will make power distribution less weather-prone, added to which it is investing in distribution cables in conjunction with the new Hvalfjörður tunnel and the Norðurál aluminium plant.

Municipality of Reykjavik
The municipally-owned Hitaveita Reykjavíkur CHP, which supplies heat to the whole of the Reykjavik region, is investing in the Nesjavellir geothermal power station to meet the additional demands on capacity entailed, for example, by contracted deliveries to Landsvirkjun for further distribution to industry.

Braathens ASA
The Norwegian public airline company Braathens ASA, with its fully owned subsidiaries Braathens Sweden and Malmö Aviation, is investing in six new Boeing 737-700 aircraft, with an option for ten more between 2001 and 2005. NIB is financing the first two aircraft, which were delivered in 1998.

ABB Credit Finans AB / Nordwaggon AB
NIB is helping to finance 45 multi-purpose goods wagons for leasing to Nordwaggon, which is equally owned by Electrolux and Swedish State Railways. The wagons have been ordered by ABB and are being manufactured in Finland by Transtech, a member of the Rautaruukki Group. The multi-purpose wagons can be loaded and unloaded faster than traditional goods wagons and can be used to carry both cars and conventional freight. They are designed for speeds of up to 120 km/h.

Municipality of Karlstad
In association with the Civil Aviation Administration and the Värmland County Council, Karlstad has built a new airport to replace the old one, which is too close to residential areas. The airport's capacity is estimated at 250,000 passengers annually and is expected to reach 350,000 by 2005. The investment is having a positive impact on employment in the region.

Nordiska Satellitaktiebolaget
Investment in a satellite for distribution and transmission of television and radio broadcasts and data communications. The main customers include national and commercial television companies in Sweden and Denmark.

Sweden Post AB (publ)
Sweden Post is investing a new mail distribution system. New, state-of-the-art letter sorting machines are superseding manual sorting in several places in Sweden. The investment means that service standards can be maintained a lower cost.

Teracom AB
Teracom is a state-owned company for the ground-based broadcasting and transmission of radio and television program. The company is investing in nationwide digital networks to replace the existing analogue variety. Digital technology means greatly improved sound and image quality and a wider range of uses. Development is proceeding in the context of European co-operation projects.

Östergötland County Public Transport
The company is investing in local rail transport in the south-east of Sweden by means of railway station improvements, track enlargements and the purchase of 14 sets of rolling stock. Deliveries from ABB.

ENVIRONMENTAL INVESTMENTS

Investments in projects with a positive environmental impact are a point of emphasis in NIB's lending activities. Environmental components are also included in about one third of the projects presented under one of our other main headings.

Jyväskylän Seudun Puhdistamo Oy
This municipally owned water purification company is augmenting the purification capacity of its facility by modernizing and developing the equipment for the mechanical phase of purification. This will reduce the amount of affluent entering Lake Päijänne, which is an important source of raw water for Helsinki and other regions.

Rautaruukki Oyj
Rautaruukki is investing in modernization and a reconstruction of a continuous casting plant in Raahe, which will mean greater productivity and more consistent quality at the steelworks. Combined with new environmental technology, the upgraded facility will make possible a reduction of emissions and improved energy efficien-

cy. The investment also includes a new, more efficient water purification plant.

Boliden Treasury AB (publ)
Through investments in the copper smelter and refinery at Rönnskär, Boliden intends to increase its output and reduce its energy consumption per ton of metal produced, while at the same time limiting emissions. A logistically important subproject is concerned with enlarging the Rönnskär harbour facilities.

AB Electrolux (publ)
Electrolux is modernising buildings, machinery and tooling equipment at its production facilities in Denmark, Norway and Finland. The Group's R&D investments have resulted among other things in a new, environment-friendlier motor with reduced outputs of exhaust emissions, noise and vibrations.

Kappala Association
The Käppala wastewater processing plant, which provides water purification for wastewater from nine suburban municipalities to the east and north of Stockholm, is investing in a 40% upgrade of its processing capacity. This will reduce the nitrogen content of the wastewater by at least 70% and will mean a reduction of phosphorus content and chemicals input in the processing plant.

Scan Farmek ek.för.
Scan Farmek is a co-operative agricultural enterprise which promotes its owners' economic interests by guaranteeing sales of their produce. Scan Farmek is operated as a group of companies and is currently implementing a program of rationalization and efficiency improvement at its meat production facilities. Equipment and refrigeration technology are being delivered from Denmark. The investments will also mean better environmental performance.

RESEARCH AND DEVELOPMENT

Lending to generally defined R&D projects in large corporations has diminished, but even so, projects with a total spend of nearly ECU 200 million were financed in 1998.

Cummins Wärtsilä SAS
Cummins Wärtsilä is a newly-formed company owned by Wärtsilä NSD and the American Cummins Engine Company. The company is investing in R&D and in the production of diesel and gas high speed engines for the power production, marine and rail transport sectors. Considerable co-operation with Wärtsilä's units in Sweden, Finland and Norway.

Outokumpu Oyj
Alteration and enlargement of the Kokkola zinc plant according to a newly developed, patented production process which will raise capacity by about 30% and at the same time reduce environmental impact. Raw material suppliers include Boliden in Sweden.

Autoliv AB (publ)
Autoliv, the leading supplier of systems for personal safety in cars, develops seat belt systems, front and side airbags, whiplash protection and roll-over protection. The process is based on co-operation with motor manufacturers and international experts in the field. The R&D commitment is aimed at maintaining the Group's leading position in the world market.

Investor AB (publ)
Investor is a public company with holdings in several of the largest public companies in Sweden. NIB is making the company a loan to finance R&D and investments in environmental improvements.

AB SCA Finans (guarantee of Svenska Cellulosa Aktiebolaget SCA)
SCA is investing in R&D of new products and improved manufacturing processes in the fields of body care (tissue and fluff products), packaging (corrugated cardboard) and graphic paper (printing and fine paper). The research and development measures will serve to strengthen group competitiveness.

Scania CV AB (publ)
This leading manufacturer of lorries, buses and engines is investing in product development, production technology and environmental re-mediation in collaboration with higher education establishments. The aim is to use alternative fuels and minimize emissions.

REGIONAL LOANS AND LOANS TO FINANCIAL INSTITUTIONS FOR ONLENDING

Co-operating with and supplementing other Nordic and international lenders is part of NIB's strategy. The award of credits to SMEs is an important part of this. Loans to SMEs during the year were mainly channeled through intermediaries, i.e. banks and brokers which onlend the credits.

FIH A/S – Finance for Danish Industry
FIH is a public financial institute offering medium and long-term finance above all to Danish SMEs. NIB has awarded a loan to FIH for onlending, primarily for projects concerned with energy production, the environment and R&D. In this way NIB reaches a wider circle of customers in Denmark.

Kerko Sport Ltd
The Kerko Group produces sports facilities in Finland, Sweden and Norway. Investment in machine line-up and control and information systems will mean a greater specialization and closer co-ordination between the units in each country.

Government of Åland
NIB has awarded the Government of Åland a regional loan which will be used for onlending towards investments in infrastructure, SMEs and the environment. The projects concerned will promote electricity supply, marine transport and the tourist industry, all of which are vitally important to the Åland economy.

Byggðastofnun, Iceland
Byggðastofnun's task is to contribute towards positive regional development in Iceland, partly by advancing loans to companies and local authorities in the different regions. NIB's loan to the Institute has regional loan status.

Lánasjóður sveitarfélaga

Lánasjóður sveitarfélaga is jointly owned by all local authorities in Iceland. It advances credits to Local Authorities for major long-term investments or for the refinancing of unfavourable pre-existing loans. NIB has granted the Association a credit line for re-lending to Icelandic Local Authorities.

Landsbanki Íslands hf.

The state-owned commercial bank, The National Bank of Iceland, is using the credit line granted by NIB for project loans in Iceland. The credit line has helped to augment lending activity among SMEs in Iceland and has strengthened NIB's supplementary function in the Icelandic money market.

Íslandsbanki hf

Íslandsbanki is a commercial bank which was formed through the amalgamation of four Icelandic banks in 1990. Its shares are quoted on the Icelandic stock exchange. NIB has awarded the bank a credit line for re-lending to businesses and Local Authorities in Iceland with reference to concrete projects.

Búnaðarbanki Íslands hf

This commercial bank is principally state-owned. NIB has awarded the bank a credit line to finance loans towards concrete projects, mainly in the SME sector.

Sparbanken Gripen

Sparbanken Gripen is an independent savings bank operating locally in the north-west of Skåne, Sweden. NIB's loan to Sparbanken Gripen refers to the financing of onlending for infrastructure projects, cross-border projects, environment protection, energy and R&D projects, and is aimed at SMEs in the north-west of Skåne. Gripen's operating region derives benefit from its closeness to Denmark, and development in the region is expected to take an upward turn when the Öresund bridge between Denmark and Sweden is completed. Through its co-operation with Sparbanken Gripen, NIB can reach customers who are otherwise difficult to target, owing to the small credit amounts and the difficulties of security valuation involved.

Loans not disbursed during the year

INFRASTRUCTURE INVESTMENTS

Port of Aarhus

Århus Havn forms part of the Trans-European TEN transport network. The company is investing in a new terminal for container traffic, to accommodate future needs for increased capacity and the service of the progressively large container vessels which are expected to dominate container shipping in future. Annual capacity is expected to rise from 300,000 to 500,000 containers. Deliveries of capital goods will come from Sweden, Norway and Finland.

Urbaanituuli Oy

Investment in a new wind farm on the coast outside Pori, with deliveries of capital goods from Denmark. The company is owned by nine municipal energy companies from different parts of Finland. This investment is the first in which the leading companies in the energy sector have co-operated on a larger scale in the wind power sector, and can therefore be regarded as a turning point where the future of wind energy in Finland is concerned.

Handelsbanken Finans AB (publ) / Nordwaggon AB Sverige

NIB is helping to finance 61 Rautaruukki Transtech multipurpose goods wagons which Handelsbanken Finance is purchasing and leasing to Nordwaggon. The wagons will be used mainly by Audi but can also be placed at the disposal of other motor manufacturers for deliveries of new cars from Germany to the Nordic countries. On the return journey the wagons will carry steel and paper exported from the Nordic countries to Europe.

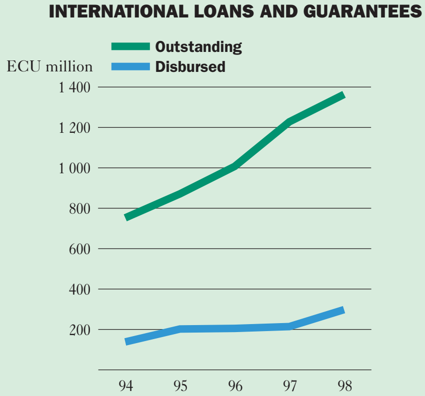
ENVIRONMENTAL INVESTMENTS

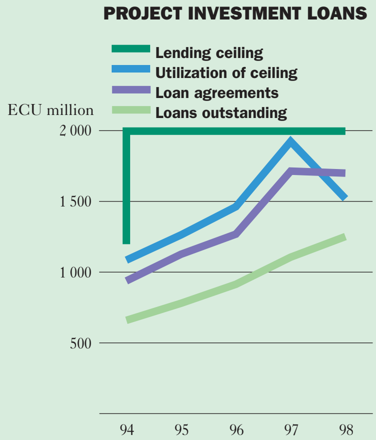
ABB Credit Oy / Sunila Oy

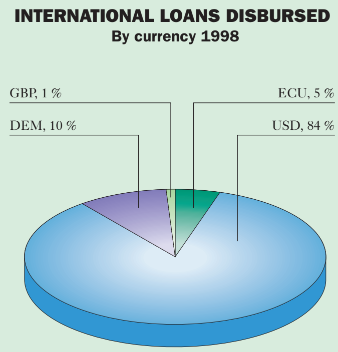
NIB is financing a leasing arrangement whereby Sunila Oy invests in a digester at its pulp mill. The investment includes large capital goods deliveries from Kværner Pulping and will have a distinctly remedial effect on the environment. Nordic ownership structure via Stora Enso and Myllykoski Paper.

Norsk Avfallshandtering AS (NOAH)

NOAH is owned by the Norwegian Government and nine large Norwegian industrial concerns. Its task is the reception and processing of all types of specialized waste in Norway. For this purpose the company is building a new facility for the reception of organic specialized waste, adjoining the Norcem cement factory at Brevik. After processing the waste will be used as energy in cement production, partly replacing the use of coal. The investment has a positive environmental impact.







INTERNATIONAL LENDING

1998 was a year of dramatic events in NIB's lending markets. Severe economic reverses have above all been experienced by the growth economies of Thailand and Indonesia and also, among the transitional economies, by Russia. India and Pakistan incurred international sanctions because of the nuclear test explosions they had carried out. Understandably, these events led to a certain slackening of demand for new loans, but PIL disbursements in 1998 were nevertheless up on previous years, due to loan agreements already concluded and to the cautious attitude of the commercial banks.

The Bank's lending to emerging and transitional markets mainly takes the form of project investment loans (PIL), with a ceiling of ECU 2,000 million. At year's end, loans outstanding and agreed upon under the PIL facility totalled ECU 1,703 million. During the year the Bank's owners approved the raising of the PIL ceiling to ECU 3,300 million, to facilitate the further growth of lending.

As a consequence of the profound crisis in several of the Asian economies, the rate of investment in these countries has noticeably declined, as regards both new investments and investments agreed on previously. There are, however, signs of a cautious optimism, and a revival of growth is hoped for in these markets, important as they are to Nordic industry. In spite of the economic difficulties, NIB's claims were serviced during the year without any appreciable delay.

The neighboring regions to the Nordic countries have high priority in the Bank's activities, and for this purpose the Bank has two facilities at its disposal: the Baltic Investment Loans (BIL) and the Environmental Investment Loans (MIL). BIL is more or less fully subscribed, and activities in the Baltic Sea region are continuing under the PIL facility. Under the MIL facility during the year, the Bank signed a credit line with Lithuania, and concrete projects are in preparation. The Bank also signed an agreement with State Unitary Enterprise Vodokanal in St. Petersburg. In Northwest Russia, NIB has taken part in preparations for urgently needed environmental projects. A fuller description will be found in the section on NIB and the neighbouring regions, page 29.

NIB's co-operation with the borrower countries is of a long-term nature and is based on co-operation agreements between the Bank and the national authorities (usually the Ministries of Finance) of the countries concerned. In 1998, NIB concluded two new agreements of this kind with Croatia and Argentina, and co-operation agreements with Romania and the Czech Republic were ratified by their parliaments. In this way, NIB is today co-operating with over 30 countries in Asia, Central and Eastern Europe, Latin America, Africa and the Middle East.

LENDING AND LOAN PORTFOLIO

The main emphasis of the Bank's international lending is on project investment loans (PIL), which are intended for financing projects of mutual interest to the borrower and the Nordic countries. Finance takes the form of loans for individual projects and also loan programmes with funding channelled into individual projects through financial intermediaries.

Disbursements during the year, guarantees included, totaled ECU 299 million. as against ECU 215 million in 1997. PIL loans accounted for ECU 286 million (179) of loan disbursements during the year, BIL loans for ECU 12 million (11) and ordinary investment loans and guarantees for ECU 1 million (24). 45% of loan disbursements went to Asia, 23% of Central and Eastern Europe (including the Baltic Sea region), 16% to the Middle East, 13% to the Latin American countries, 1% to Africa and 1% to Western Europe. The largest disbursements were to Turkey, Poland and Indonesia. One third of the loans disbursed referred to energy and water supply projects.

New international loans agreed on totaled ECU 237 million as against 418 million in 1997. Agreements were signed for PIL loans totaling ECU 200 million (364), BIL loans totaling ECU 1 million (5) and MIL loans totaling ECU 36 million (20).

New international loans were granted totaling ECU 380 million (597), comprising ECU 371 million in PIL loans and ECU 9 million in BIL loans. Argentina was added to the PIL borrower countries.

International loans outstanding at year's end totaled ECU 1,346 million (1,209), which means that international lending now accounts for some 18% of the Bank's total stock of loans outstanding. Guarantees outstanding at the end of the year totaled ECU 20 million (21). PIL loans accounted for the biggest share of loans outstanding, ECU 1,254 million (1,108), followed by ordinary investment loans at ECU 65 million (79) and BIL loans at ECU 27 million (22). At the end of the year the Bank had international loans outstanding in about 30 countries. The greater part of these loans outstanding, 54%, was in Asia, where China, Indonesia and Thailand deserve special mention as large borrower countries. 88% of the stock of loans outstanding was in USD.

21% consisted of loans for private sector projects and 79% of loans to national governments or with governmental guarantees.

ASIA

The Asian crisis followed more than ten years of rapid, continuous economic growth. Of NIB's partner countries it is above Thailand and Indonesia that have been most severely affected, and although the crisis was deeper and more prolonged than initially expected, there are hopeful signs of an economic recovery.

The effects of the crisis have also been felt by NIB's other partner countries in Asia - less severely, it is true, but sufficiently to bring about a noticeable reduction of new investments in these countries as well. The sanctions imposed on India and Pakistan have also affected investments in the region.

Through this combination of circumstances, fewer loans have been granted and fewer new loans agreed on than in previous years for projects in Asia. Disbursements for ongoing projects and disbursements under loan programs entered into before 1998 have, however, remained on the same high level as in previous years.

India

Under a loan program with the Industrial Development Bank of India (IDBI), three loans were approved for the construction of diesel-fuelled power plants adjoining pre-existing industrial facilities. The loans total ECU 5.8 million.

Indonesia

Under a loan program together with the Indonesian Finance Ministry, approval was given to six projects totaling ECU 25.5 million. A further USD 14.4 million has been disbursed under NIB's loan for a family planning program in conjunction with the World Bank.

China

China remains NIB's largest borrower country outside the Nordic region. During the year the Bank awarded two more new loans to China, totaling ECU 70 million, for the energy sector, and under the loan program a total of eight projects, amounting to ECU 24.8 million, were approved. The borrower is the Peoples Republic of China, previously through the Ministry of Foreign Trade and Economic Co-operation (Moftec), but during 1998 this role was transferred to the Finance Ministry, which is now NIB's counterpart concerning all loans to China.

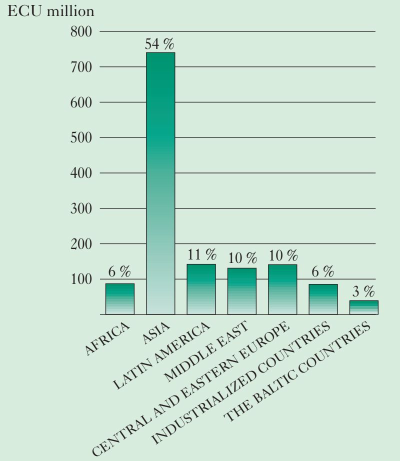
The Philippines

The Bank agreed a loan of USD 25 million to the National Power Corporation (NPC) for enlarging the country's transmission capacity, a loan program has also been granted for the Development Bank of the Philippines (DBP).

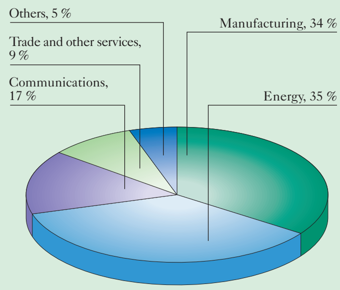
Thailand

At the end of 1997 NIB signed an agreement with the Industrial Finance Corporation of Thailand (IFCT), Thailand's national development bank, for a new USD 50 million loan program. The loan is guaranteed by the Thai Government. During the year NIB approved the first project under the program, a USD 25 million thermal power project in southeast Thailand. In addition the Bank granted a loan to the Metropolitan Electricity Authority (MEA) for the construction of a power transmission tunnel in Bangkok as well as the delivery and installation of cables and electrical systems.

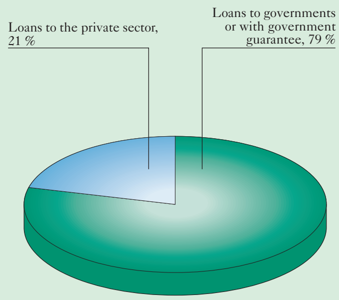
INTERNATIONAL LOANS AND GUARANTEES OUTSTANDING
Geographical distribution as of Dec. 31, 1998



INTERNATIONAL LOANS OUTSTANDING
Sectoral distribution as of Dec. 31, 1998



INTERNATIONAL LOANS AGREED
Exposure as of Dec. 31, 1998



Vietnam
NIB entered into an agreement with the Vietnamese Finance Ministry concerning a loan program for small-scale infrastructural and industrial projects, which totals USD 20 million, and approval of the first project, a transformer station, was given in 1998.

CENTRAL AND EASTERN EUROPE

Despite the serious financial crisis in Russia, which to a greater or lesser degree affected the Bank's other borrower countries in Central and Eastern Europe, demand for loans in the region was high during the year.

To facilitate the Bank's operation, co-operation agreements have been made up with each individual country. During the year NIB signed co-operation agreements with Croatia, Romania and the Czech Republic.

Environmental projects in the neighboring regions are given high priority in the Bank. NIB has committed substantial resources to the development of projects in the Baltic Sea region and Northwest Russia, and has a close co-operation with the European Bank for Reconstruction and Development (EBRD), the World Bank (IBRD), the European Investment Bank (EIB) and the Nordic environmental authorities.

Several projects are under preparation. A loan agreement has been concluded for financing a water supply and wastewater purification project in St. Petersburg, as well as two loan programs with Latvia and Lithuania respectively. These loan programs will mainly be used to finance smaller-scale projects, primarily for improving of municipal wastewater purification facilities and sewerage.

Poland
In Poland disbursements reached ECU 35 million in 1998 for projects in the energy and telecom sectors. In addition, a USD 60 million loan was granted for the refurbishment of Turów, Poland's second-largest power station. NIB also approved to participate in the financing of another coal-fired power plant, at Kozienice, and the Bank is taking part in a Polish telecommunications project, POLKOMTEL S.A., by a DEM 70 million financing.

Romania
A co-operation agreement with NIB was approved by the Romanian Parliament in November 1998. During the year the Bank signed a USD 15,2 million loan to the State-owned Conel energy corporation. Together with the EBRD, NIB is assisting in the financing of the expansion of Romania's mobile phone network.

The Czech Republic
During the year the Bank signed a loan program with the Czech Energy Corporation CEZ. The loan will be applied to modernizing and upgrading the country's power production.

The Baltic countries
The Bank remains very active in the Baltic Sea region. Loans agreed in 1998 include a ECU 20 million credit line for environmental investments in Lithuania. A corresponding environmental loan has also been granted to Estonia. Upon signing the Estonian credit line, the Bank will have environmental credit lines with all three Baltic states. The projects under these credit lines concerned with water concern primarily water and wastewater purification, refuse disposal, energy project improvements and district heating facilities.

NIB has assisted in financing a new postal distribution system in Estonia with a loan of DEM 10.5 million, including a new postal terminal in Tallinn.

Co-operation with the three Baltic investments banks has been one of the cornerstones of NIB's activities in the Baltic Sea region. So far the Bank has financed more than 35 projects in the private sector, directly or indirectly in co-operation with the investment banks under the Baltic investment programme (BIP).

LATIN AMERICA

During the year the Bank signed co-operation agreements with Argentina and Colombia. An agreement with Colombia existed already, but a more comprehensive agreement was needed enabling NIB to participate in private sector financing. The Bank has previously signed a co-operation agreement with Mexico.

New loan agreements signed by NIB have included a second loan program with CAF, the Development Bank of the Andean Pact, amounting to USD 30 million. This loan program, like the first one, will be applied to infrastructure development in CAF's member countries.

The Bank's first project in Argentina, a loan to the private transmission company Transener, was approved in 1998. This loan will be applied to an enlargement of Argentina's transmission network. In addition, the Bank granted a loan to the Mexican telecommunications corporation TELMEX.

AFRICA

NIB's activities on the African continent has a long-term perspective. Co-operation at present includes the following countries: Mauritius, Botswana, South Africa, Tunisia and Egypt. During the year the Bank signed an agreement for a new loan to Tunisia, for investments in the telecommunications sector totaling USD 30 million. A number of other loans have been granted, but commercial decisions are lacking for the time being.

TURKEY

Two new Turkish loans were agreed in 1998. One of them concerns supplementary financing of the underground railway construction project in Izmir. NIB has also been active in the private sector. A loan agreement of USD 25 million was signed during the year for enlarging the national mobile telephone network. The Bank further approved of a loan for a water supply project in Bandirma.

The neighboring regions to the Nordic area consist of Poland, the Baltic states (Estonia, Latvia and Lithuania) and Northwest Russia. In accordance with the Bank's mission and strategy, as defined during the year, priority in these regions is being given to the financing of environmental projects and other infrastructural investments.

ENVIRONMENTAL INVESTMENT LOANS

NIB is financing environmental projects in the neighboring regions through the regular Project Investment Loan (PIL) facility and through a special Environmental Investment Loan (MIL) facility for environmental projects of particular urgency. The guidelines for the MIL facility, which totals ECU 100 million, enable the Bank to provide additional finance for water and sewage purification, district heating and energy projects and suchlike infrastructure investments.

Agreements for two MIL loans were signed during the year. One of these concerns a project of great environmental urgency, namely the provision of effective water and sewage purification for the city of St. Petersburg, with its population of several million. NIB is collaborating on this project with the European Bank for Reconstruction and Development (EBRD) and the national environment protection authorities of the Nordic countries.

In addition the Bank has signed an agreement with the Lithuanian Government for a line of credit of ECU 20 million for local government investments in environmental improvements. A corresponding line of credit has been agreed on for environmentally related projects in Latvia. Preparations for projects under these lines of credit have now started. The projects involve comprehensive upgrading of district heating systems, energy efficiency improvements, wastewater purification and refuse disposal. The preparations are being undertaken in collaboration with the Nordic Environment Finance Corporation (NEFCO), the European Investment Bank (EIB) and the World Bank, with support from the Nordic Governments and the EU's PHARE and TACIS programs, as well as investment support under the EU support program for the candidate countries (known as the LSIF facility). MIL loans agreed on at year-end totaled ECU 55.9 million.

THE BALTIC INVESTMENT PROGRAMME

The Baltic Investment Programme (BIP) was established in 1992 by the Nordic countries together with the Baltic countries for the purpose of promoting economic development in the Baltic countries through investments above all in private sector SMEs. The program, which is implemented by NIB, the Nordic Project Export Fund (Nopef) and the EBRD, extends until the end of 1999 and comprises financial support totaling ECU 175 million from the Nordic countries and the EBRD. NIB has three tasks within the framework of the Baltic Investment Programme. Firstly, Baltic Investment Loans (BIL) are granted under a facility totaling ECU 60 million. This facility is 100 per cent guaranteed by the Nordic countries. BIL loans outstanding at year-end amounted to ECU 27 million, in addition to which the Bank had signed agreements for loans corresponding to ECU 11 million. Altogether over 35 projects have been financed since 1992.

NIB's second task under the Baltic Investment Programme is that of providing the three national Baltic investment banks with technical assistance through a fund totaling ECU 8.25 million. This fund has now been almost fully utilized, with technical assistance continuing, on a minor scale, in the Lithuanian Development Bank only.

Thirdly, NIB invests in the equity of the Baltic investment banks through a fund of ECU 7.5 million. NIB has, on behalf of this fund, during the year acquired shares in the Latvian Investment Bank for some ECU 2.3 million, equaling 20% of the Bank's share capital. In addition, NIB has increased its holding in the Lithuanian Development Bank to approximately 30%, through a total investment of ECU 3.2 million.

These investments have been designed to strengthen the capital base of the banks concerned, to guide the banks into commercial operations and to promote co-operation between Nordic and Baltic enterprises.

The employment of the funds for technical assistance and equity investments administered by the Bank under the Baltic Investment Programme are accounted for on page 61.

The Bank's guidelines for its financial transactions and risk management proscribe a conservative attitude toward financial risk taking. The Articles of Agreement signed by the owner countries as well as the Bank's Statutes call for adequate security for the Bank's lending operations as well as hedging of the Bank's foreign exchange risks to the extent practically possible. Developments in the financial markets with regard, for instance, to derivative financial instruments, together with the development of the Bank's own operations demand 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 components of NIB's operations – a globally diversified borrowing strategy, under which borrowing is most often done at fixed interest rates, liquid assets are placed at variable rates of interest, and lending takes place in other currencies and in other types of interest than funds borrowed – demand active management of interest rate and foreign exchange risks, for the purpose of which the Bank uses derivatives and other instruments. The use of derivatives and other instruments gives rise to counterparty risks, which in turn are controlled within a limit system.

FOREIGN EXCHANGE RISK

The Bank's Statutes require it to hedge all foreign exchange risks to the extent practically possible. The foreign exchange risks are controlled on a daily basis, and are kept within the very narrow limits that are decided by the Bank's Board. Assets and liabilities in currencies other than the ECU are translated into ECU in accordance with the official exchange rates quoted by the EU Commission. The Bank has no open foreign exchange positions in its Balance Sheet that could affect its financial position and net income other than to a marginal extent.

The Bank's future interest income has a considerable US dollar component. As a result, the Bank's future cash flow has a different currency composition than the ECU. This circumstance may from time to time imply a certain fluctuation in the Bank's future income in ECU terms, even though the Bank may have no open foreign exchange positions in its Balance Sheet. Any such fluctuations, however, would be minor, compared with the Bank's total assets and net worth.

INTEREST RATE RISK

The Bank's Board sets maximum limits for the interest rate risk the Bank can take. NIB's exposure is calculated by measuring how much an interest rate change of 1% can affect the Bank's net interest income over time (gap analysis). The limits are set for each individual currency as well as for the Bank as a whole. The limits are adjusted annually, and are set in relation to the Bank's equity capital. At present, the total limit is fixed at 2% of the amount of NIB's equity capital as of December 31, 1998, that is, ECU 22 million. Total interest rate risk exposure at year-end was approximately 10% of the total limit.

The placement of assets which constitute a counter-entry to NIB's equity capital are managed as a separate portfolio and are therefore not included in the normal calculation of NIB's interest rate risks limits and exposures. In accordance with a previous decision of the Board of Directors, beginning with 1998 a maximum of 25% of these placements can belong to the so-called market-value portfolio. This portfolio is managed more actively, and its risk limits are more circumscribed than is the case for the remainder of the placements. The Bank also established benchmark portfolios for these placements in order to improve the management of these placements on the capital market, both with regard to risk and yield.

NIB supplements the above-mentioned foreign exchange risk control and gap analysis system used for measuring interest rate risk by using the value-at-risk methodology to evaluate the comprehensive market risk. This is used primarily for placement of NIB's equity capital on the capital markets, and for its benchmark portfolios.

CREDIT- OR COUNTERPARTY RISK

The Bank takes a careful attitude toward credit or counterparty risk, which is borne out by the absence of losses due to credit risk over the last few years. Credit or counterparty risk arises in connection with lending operations, but also in connection with NIB's treasury operations.

In order to make it easier to manage NIB's operations as one portfolio, the Bank has a common, unified risk classifi-

OUTSTANDING LOANS AND GUARANTEES

By type of repayment protection as of Dec. 31, 1998

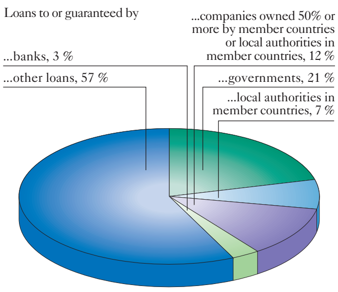


Fig. 1

TOTAL EXPOSURE BY NIB RATING

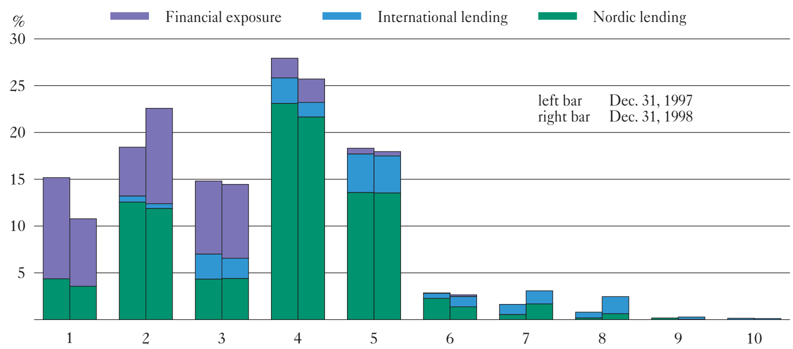


Fig. 2

cation 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 Bank also has strict rules regarding exposure to individual borrowers and composition of the portfolio.

Lending

The Bank's Board authorizes all loans, with some delegation of decisionmaking to the Bank's President for loans of small amounts. The Bank's Board and its Credit Committee receive regular reports on the economic situation of its clients and guarantors. All of the Bank's lending operations are classified according to risk, based on both the client's creditworthiness and the quality of the security.

Fig. 1 on page 30, shows the quality of the Bank's loan portfolio broken down by type of security.

Treasury operations

The Bank only accepts counterparts of high credit standing, and is continuously evaluating the creditworthiness of existing and potential counterparts. NIB's Board sets limits for each individual counterpart. The Board adjusts these limits annually on the basis of the size of NIB's equity capital, and also is continuously involved in approving changes to limits based on changes in counterparts' creditworthiness and economic position.

NIB utilizes a system for managing derivative financial instruments, particularly swaps, that permits precise monitoring of the market value for each individual swap, and, as a result, NIB's exposure vis-à-vis its swap counterparts. 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 utilizes figures that are twice as conservative as those required under the BIS regulations.

CREDIT QUALITY

Fig. 2 on page 30, shows the development of the credit quality of the Bank's credit exposures based on the common credit risk classification.

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Nordic lending

The quality of the Nordic lending portfolio has declined slightly during the year. The portion of loans in the lowest credit quality category is still extremely small.

International lending

The quality of the international lending portfolio has been affected by the negative economic development in some of the Bank's borrower countries. Therefore, the Bank lowered its internal risk classification of a certain number of its borrower countries in 1998. The result of this has been that the quality of the international lending portfolio is somewhat lower than it was at the corresponding point in time in 1997.

Financial counterparts

The credit quality of the Bank's financial counterparts declined slightly in 1998, but nonetheless continues to be very high.

The Bank as a whole

The quality of the Bank's credit exposures remains at a stable, high level, despite a certain degree of over-all weakening in quality, particularly in international lending.

OPERATIVE RISK

NIB deals with legal risks and other operative risks through a system for internal controls, and by clear rules for assignment of work and responsibility among and within all the Bank's departments. The Bank has a committee to oversee its management information system in order to make certain that there is a well-functioning flow of information to the Bank's management. The committee is composed of representatives of all the departments and the independent risk management unit. The internal controls cover systems and procedures for monitoring of transactions, positions and documentation with a clear division of labor between recording, risk management and transaction generating functions.

The Bank has continued its Year 2000 action program in accordance with a planned timetable. Most of the Bank's systems – especially its most important systems – have already been thoroughly studied and corrected. All of the Bank's information systems will be Year 2000-compatible during the first quarter of 1999.

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Contents

THE YEAR IN BRIEF

Good economic progress was achieved in the Nordic area during 1998, with the Nordic countries reporting a favorable growth of investment volumes. Exports of capital goods and contractor activities abroad by Nordic enterprise were somewhat inhibited by international turbulence in money markets. Direct cross-border investments within the Nordic area and in its neighboring regions continued growing. On the basis of these predominantly favorable conditions, NIB's activities continued to progress.

Net interest income rose to ECU 136.5 million (ECU 130.9 in 1997). Lending activities were slightly down on the previous year. This is partly explained by the steep rise one year earlier, but should also be viewed in the context of the Bank focusing more heavily on Nordic projects where its supplementary function is of importance. Lending in 1998 totaled ECU 1,344 million (1,626). No loan losses were recorded during the year, but a provision for possible losses on loans of net ECU 1.4 million was made. The profit for the year, ECU 115 million, is on a level with 1997 and 1996.

The Bank's borrowing operations in capital markets during the year amounted to ECU 2,484 million. A total of 61 (36) long-term borrowing transactions were undertaken in 14 (15) different currencies. The amount of borrowings outstanding rose to ECU 9,059 million (7,836).

Total assets at year-end amounted to ECU 11,122 million (10,086). Total equity at year-end was ECU 1,139 million (1,059). From 1997 profits, ECU 35 million (35) was distributed to NIB's member countries in 1998.

NIB's general task is to make professional use of its high international credit rating as a means of adding value to the long-term financing of projects benefiting Nordic economic co-operation both within the Nordic area itself and further afield. As a multilateral financial institution, the Bank endeavors to co-operate with and supplement other Nordic and international credit providers.

During the year the Board of Directors adopted a policy statement, appended to this Annual Report, describing the Bank's mission and strategy.

In the fall of 1998 the Board of Directors resolved that, as from January 1, 1999, the Bank would convert its present capital and accounting currency, the ecu, into the euro. The conversion was made, on a one-to-one basis, when the third phase of the EMU, with the euro as common currency, was inaugurated at the turn of the year.

On the basis of proposals by the Board, the Bank's member countries approved in 1998 an increase in the Bank's capital base and signed a new agreement codifying the Bank's multilateral status.

CAPITAL INCREASE

With reference to the future financial needs of Nordic enterprise, the Bank's Board of Directors proposed increasing the Bank's capital and the Project Investment Loan (PIL) facility. At their meeting in June 1998, the Nordic Ministers of Finance and Economy approved an increase in the Bank's capital stock from the present ECU 2,809 million to ECU 4,000 million. Of this ECU 1,191 million increase, subscribed by the member countries, ECU 100 million is paid-in capital, while the remainder is callable capital.

At the same time the Nordic Council of Ministers resolved to increase the Project Investment Loan (PIL) facility from ECU 2,000 million to ECU 3,300 million. The member countries' guarantee facility of ECU 1,800 million remains unchanged. Following approval of the capital increase by the parliaments of the five member countries, NIB's lending capacity will rise, at the beginning of 1999, from ca. ECU 9,200 million to ca. 13,500 million.

NEW AGREEMENT ON NIB

The internationalization of the Bank's activities, which in turn reflects the internationalization of Nordic enterprise, has made it necessary to strengthen the Bank's multilateral standing and, by the same token, its status of priority lender, in common with the other multilateral financial institutions with which the Bank cooperates.

Thus a revision of the NIB agreement was already decided upon by the Nordic Council of Ministers in November 1997. The wording of the new agreement was approved by the Council of Ministers at its meeting in June 1998, and the agreement was signed by the governments of the member countries on October 23.

The new agreement on NIB has already been processed and approved by the parliaments in four of the five owner countries, and is expected to enter into force in the spring of 1999. At the same time NIB and the Finnish Government have concluded a headquarters agreement dealing specifically with matters relative to the Bank's location in Helsinki. The new regulations for NIB serve to codify and strengthen its multilateral status.

LENDING

The Nordic countries

Loans outstanding in the Nordic area at the beginning of the year totaled ECU 6,231 million (5,979), guarantees included. Disbursements under loans to Nordic borrowers, at ECU 1,046 million (1,430), were 27% down on 1997. Guarantees were issued for ECU 8 million (4) and loan agreements entered into for ECU 954 million (1,745).

The drop in disbursements, guarantees included, should be viewed in relation to the rapid growth occurring in 1996 and 1997, when disbursements and guarantees totaled, respectively, ECU 1,090 million and ECU 1,434 million. Proximity to the Bank's lending ceiling, a tightening of requirements concerning NIB's supplementary financial function, and heavier concentration of loans to areas with clearly defined projects have combined to decrease disbursements during the year. 38% of disbursements went to Sweden, 23% to Denmark, 19% to Finland, 13% to Norway and 6% to Iceland.

44% (51%) of disbursements during the period referred to manufacturing, 26% (18%) to transport and communications, 13% (3%) to financial activities, mainly to banks and financial institutions for onlending to SMEs, and 5% (21%) to electricity, gas, heat and water supply.

The stock of loans outstanding, including guarantees, rose by only 4% (24%), due to the lower rate of disbursement, exchange rate fluctuations and early repayment of a number of large loans.

International lending

The Bank's international lending showed a marked decline in loans granted and agreed on, due to the large volume of lending operations for the two preceding years. This mirrored the current crisis in certain borrower countries, as well as the limited lending capacity available. Loans were granted for a total of ECU 380 million (597), and loan agreements were signed for a total of ECU 237 million (418).

Disbursements under international loans totaled ECU 298 million (196). This increase was based on loans granted and agreed upon during previous years. Loans outstanding, including guarantees, within NIB's international lending activities totaled ECU 1,366 million at year-end (1,230).

The Asian crisis has also had a restraining impact on project exports to the region. Exports to India and Pakistan have also declined, as a result of international sanctions. In many cases the Asian crisis has been noticeable from the small number of new project proposals from these countries. The turbulence in the Asian capital markets has not, however, entailed any problems in the servicing of the Bank's loans.

New project proposals have, on the other hand, continued to appear in Central and Eastern Europe and in Latin America, but even here a distinctly cautious attitude has begun to make itself felt among investors and other financiers. This restraint has been augmented by the economic crisis, which erupted in Russia last August.

During the fall the Board of Directors reported to the Nordic Council of Ministers on the Bank's involvement in the crisis-ridden countries. The conclusion reached was that, NIB being a multilateral financial institution with mainly governmental borrowers under its PIL lending facility, its risk exposure is acceptable, despite the economic difficulties which certain borrower countries are now experiencing. The likelihood of the Bank needing to call on the member countries' guarantees for the PIL lending facility is therefore limited.

Loan disbursements during the year broke down as follows: Asia 45 %, Central and Eastern Europe, the Baltic states included, 23 %, the Middle East 16 %, Latin America 13 % , Africa 1 % and Western Europe 1 %.

The neighboring regions to the Nordic area

The neighboring regions, comprising the Baltic countries, Poland and Northwest Russia, are one of the priority areas for the Bank's operations. NIB's lending to projects in the Baltic Sea region comprises Baltic Investment Loans (BIL), the Environmental Loan Facility (MIL) and PIL project loans.

In the Baltic countries, the Bank's resources have been allocated for financing SME private sector projects under the BIL facility. In addition, there are current environmentally related projects under the credit lines in Latvia and Lithuania. Exports by the Nordic countries to the Baltic countries and their companies' willingness to invest in the region are on the increase. Private sector investments have continued growing, and the negative impact of the Russian crisis has so far been limited.

The Polish economy has made good progress, as is reflected in the Bank's activities in Poland. Among other things, NIB has financed the enlargement and modernization of Polish power production facilities. Other environmental investment projects within the local government infrastructure are also imminent.

The Bank's lending in the neighboring regions has been dominated by loans to the private sector. With the phasing out of the BIL facility after 1999, the main focus of lending will be on the public and private sectors under the PIL facility.

During the year NIB granted the Baltic countries five loans totaling ECU 21.1 million. Loans granted to Poland totaled ECU 91 million, and in Russia an agreement was signed for an environmental loan of ECU 16 million, which has yet to be disbursed.

FINANCIAL ACTIVITIES

The Bank's borrowings on the capital markets during the year totaled ECU 2,484 million (1,696). Repayments of previously borrowed funds corresponded to ECU 1,281 million (839). Borrowings outstanding at year's end amounted to ECU 9,059 million (7,836). NIB carried out 61 (36) borrowing transactions in 14 different currencies during the year. The Hong Kong dollar predominated, accounting for 20%, while the US dollar represented 19% and the Swedish krona 18%.

The European capital markets were the dominant source of borrowing, accounting for 47% of new borrowing (34%). During the period the Bank carried out a benchmark borrowing of USD 500 million and for the first time borrowed in Polish zloty and Greek drachmas.

NIB's equity capital portfolio amounted to ECU 1,139 million at year-end (1,059). An amount corresponding to the equity capital is administered as a financial portfolio, part of which was transformed during the year into a mark-to-market portfolio.The Bank endeavors to maintain a net liquidity position corresponding to its anticipated liquidity needs for the next twelve months. Net liquidity was ECU 1,416 million at the beginning of the year and 1,902 million at year-end.

RISK MANAGEMENT

In its operations the Bank attaches great importance to efficient risk management. Further development of risk management methods, as regards both market risks and credit risks, continued during the year. Value-at-risk analysis has now been performed as a supplementary method for the analysis and management of market risks in the Bank's financial portfolios. The methods of credit risk management are being developed on the basis of the Bank's risk classification system and are aimed at achieving comprehensive credit risk models.

COMPUTER SYSTEM AND Y2K ISSUES

Work continued during the year on developing the Bank's computer system as a support for the management of the Bank's financial operations. The new computer system is being gauged to accommodate growing demands on information processing and the requirements which state-of-the-art risk management implies.

In planning the new computer system, special consideration has been paid to Y2K problems. Development work has been guided by the prioritization of secure systems, adjustment to Y2K and control of IT functions. Tests and adjustment to external systems have supplemented these measures. The greater part of the systems, and especially their core components, have already been examined and corrected. All the Bank's information systems will be Y2K-compatible during the first quarter of 1999.

Steps have been taken to check for Y2K-risks in the Bank's external surroundings, e.g. as regards customers and counterparts. Complete control of these external risks cannot be achieved, however, and a contingency and remediation plan is being prepared for dealing with any realized risks.

CO-OPERATION WITH OTHER FINANCIAL INSTITUTIONS

The Bank co-operates actively with other financial sources – Nordic and multilateral financial institutions and banks – in order to attract capital to Nordic projects on favorable terms. NIB has also looked for co-operation with local financial institutions, so as to be better able to finance projects in the SME sector. During the year, NIB and the Asian Development Bank (ADB) signed a joint communiqué aimed at intensifying co-operation between them and augmenting the exchange of information on financing of investments in both the public and private sectors.

ADMINISTRATION

The Bank's personnel strength remained more or less unaltered during the year, at 123 persons. This is partly because the hiring of new staff, budgeted for 1998, was deferred until 1999. The greater part of the Bank's employees is Finnish, 83 persons, while the other Nordic staff comprises 13 Danes, 12 Swedes, 9 Norwegians and 6 Icelanders.

In connection with the reinforcement of the Bank's status, certain questions affecting the staff have also been settled. The Bank provides its employees with pension insurance, under the headquarters agreement between NIB and the Government of Finland. The Board of Directors has resolved that the Finnish national pensions system shall continue to be the basis of pension insurance for employees, and that in addition the staff shall enjoy certain measure of additional benefits, insured in the private sector. The real estate company Fabianinkatu 34, which the Bank acquired in 1996, was dissolved during the year and the property transferred directly to the Bank's balance sheet.

PROFIT

The Bank is posting a profit of ECU 115 million for 1998, as against 114 million for the previous year. Net interest income rose to ECU 136.5 million (130.9). Despite some weakening of the Bank's international loan portfolio, the quality of the loan portfolios and of the Bank's financial counterparts has remained high. A provision of net ECU 1.4 million has been made for possible loan losses.

Profit, as a proportion of average equity capital is 10.5% as against 11.2% for the previous year. Of the profit for 1997, ECU 35 million was distributed in 1998 to the Bank's owners, i.e. the Nordic countries. The Bank's guiding aim is to achieve a steady return on its equity capital. To this end, funds corresponding to the equity capital are placed on the international capital market or as loans disbursed to the Bank's customers. In this way the return makes a signal contribution to the Bank's profits. The Bank's equity capital, i.e. capital paid in by its owners together with its accumulated reserves, amounted at year's end to ECU 1,139 million or 10.2% of total assets (10.5%).

In addition to paid-in capital, the Bank's capital structure also includes callable capital, which further contributes to NIB's high credit rating.

OUTLOOK FOR THE FUTURE

Despite an anticipated slowing down of economic growth in 1999 and a complicated risk picture attaching to the international business cycle, the macro-economic conditions affecting NIB's operations in the Nordic area are expected to remain good, owing to the strength of the Nordic economies. The international outlook is less propitious, but despite a falling off of investments in the developing and transitional economies, demand for NIB's financing outside the Nordic area remains strong, due to a general shortage of capital supply to the emerging market economies, NIB's supplementary role is therefore destined to become more important than before.

New lending in 1999 is expected to be on a somewhat lower level than during 1998 in the Nordic area, while new lending outside the Nordic area is expected to be on roughly the same level as in 1998. The growth of net interest income will subside, because falling interest rates in capital markets will inevitably reduce the return on the Bank's financial assets. On the other hand the Bank is expected to sustain a continuing good level of profits for 1999.

The introduction of the euro at the beginning of 1999 will trigger an important process in the capital markets. The formation of a common bond in the euro market will be a gradual process. This will spell keener competition in a wider capital market, which may eventually bring downward pressure to bear on interest margins for lending. On the whole, though, the formation of the EMU is an improvement from NIB's point of view and will facilitate balanced management of the Bank's assets and liabilities for the avoidance of exchange rate risks.

NIB'S SUPPLEMENTARY ROLE

The new agreement on the Bank and the augmentation of its capital come at a very opportune moment, now that developments in capital markets have made the need for NIB's supplementary role greater than ever. With these important decisions in place, the Bank is capable of serving as an important instrument for the owners' priorities. NIB's financing will continue to focus on areas where there are clearly defined projects of Nordic interest. The main focus of the Bank's international lending will continue to be on governmental borrowers, but creditworthy infrastructure projects in the private sector will also be financed where corporate governance and business environment are satisfactory. The same applies to credit lines to creditworthy financial intermediaries in the Bank's PIL countries for financing of smaller-scale projects.

The main focus of activities and the Bank's strategy have been presented in the appended Mission and Strategy document (p. 39).

Lending activities will proceed along the lines underlying the member countries' decision to reinforce the Bank's capital, the aim of which is to provide scope for moderate, goal-oriented growth during the next five or six years. The Bank will focus its lending on concrete projects which further the member countries' priorities within and outside the Nordic area, on the basis of its approved mission and strategy.

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

The Board's proposal for the allocation of profits for the year takes into consideration that the Bank's operations are conducted with a view to achieving a reasonable return on the Bank's equity capital and a satisfactory dividend to the shareholders. The proposal will facilitate a continuing build-up of the Bank's equity and keep its financial solidity at a comfortable 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 of ECU 115,035,201.37 be allocated as follows:

- That ECU 51,035,201.37 be transferred to the Statutory Reserve. Subsequent to such transfer, the Reserve will then amount to ECU 518,751,349.08 or 18.5% of the Bank's authorized capital of ECU 2,808,554,858.00.
- That ECU 15,000,000 be transferred to the Credit Risk Reserve as a part of equity capital.
- That ECU 14,000,000 be transferred, pursuant to paragraph 6A of the Bank's Statutes, to the Loan Loss Reserve for Project Investment Loans.
- That ECU 35,000,000 be available for distribution as dividends to the owners.

The Bank's equity subsequent to allocations as stated above will be composed as follows (in ECU):

- Paid-in capital	304,260,110.00
- Statutory Reserve	518,751,349.08
- Credit Risk Reserve	235,000,000.00
- Loan Loss Reserve (PIL)	46,000,000.00
- Appropriation to dividend payment	35,000,000.00
Total equity as of December 31, 1998	1,139,011,459.08

The provisions as set forth above are reflected in the accounts. The Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows and the Notes to the Financial Statements are to be found on pages 40-59.

Helsinki, February 11, 1999

Ib Katznelson

Bo Marking

Arild Sundberg

Lars Tybjerg

Sven-Olof Johansson

Thorsteinn Ólafsson

Eli Telhaug

Bo-Göran Eriksson

Guðmundur Magnússon

Seppo Suokko

Jón Sigurðsson

MISSION & STRATEGY

MISSION

The Nordic Investment Bank was established as the Nordic countries' joint international financial institution in order to strengthen and develop Nordic cooperation further. Its primary purpose is to promote the growth of the Nordic economies by means of long-term financing of projects in the private as well as the public sectors.

Loans and guarantees are granted on commercial banking terms within and outside the Nordic countries for projects, which are of mutual interest for the Nordic countries, and for the borrower country. The bank operates on the basis of sound banking principles, and strives to create added value for its clients by providing loans, which supplement other financing sources. At the same time, NIB's mandate is to achieve an adequate and stable return on the capital the owners have invested in the bank.

Within the Nordic countries, NIB participates in the financing of cross-border investments as well as industrial projects which affect more than one Nordic country. The bank participates in the financing of projects, which improve infrastructure in the Nordic countries, secure energy supplies, or support specific research and development. Priority is given to projects, which improve the environment.

In the emerging markets outside the Nordic countries, the bank finances projects of mutual interest for the borrower countries and the Nordic countries. The Baltic Sea and Barents Sea regions are priority areas for the bank's operations. The bank grants loans to projects, which support economic development in the areas adjacent to the Nordic region, particularly environmental improvement projects. Within the framework of the Nordic finance group in Helsinki, NIB strives to develop further the group's joint financing competence.

STRATEGY

NIB endeavors to fulfill the goals of its owners and to meet the needs of its clients, in accordance with its mission statement, by:

• Acting as a catalyst for Nordic industrial cooperation by financing new investments, infrastructure projects and structural improvements, particularly cross-border investments;

• Participating in the financing of foreign direct investment in the Nordic countries and of Nordic companies' investments outside the Nordic countries;

• Participating, in its capacity as a multilateral financial institution, in the financing of projects in the emerging markets outside the Nordic countries thus promoting the globalization of Nordic industry, and thereby fostering cooperation between companies in the developing and transition countries and Nordic companies;

• Contributing with financing to the economic transformation and development in the areas adjacent to the Nordic region;

• Playing an important role in the financing of environmental improvement investments in the Nordic countries and in the Baltic Sea and Barents Sea regions;

• Cooperating with and supplementing other Nordic or international lenders. The financing of small- and medium-sized companies' investments is an important focal point of this cooperation;

• Developing the expertise of its staff and fostering competence generally within the bank's areas of operations;

• Striving to maintain the highest possible credit rating, in order to be able to supplement other Nordic lending institutions with long-term loans on favorable 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.

PROFIT AND LOSS ACCOUNT JANUARY 1 – DECEMBER 31

	Note	1998 1,000 ECU	1997 1,000 ECU
Interest income	(1)	574,951	518,097
Interest expense	(1)	-438,429	-387,210
Net interest income		***136,522***	***130,887***
Amortization of issuing charges		-10,593	-9,497
Fee and commission income	(2)	3,176	3,743
Fee and commission expense		-1,284	-989
Net profit on financial operations	(3)	5,319	869
Foreign exchange profit/loss	(4)	-423	573
Operating income		***132,717***	***125,586***
EXPENSES			
General administrative expenses	(5)	13,764	15,118
Depreciation		2,510	1,847
Provision for possible losses on loans, reversals (-)	(6),(8),(10)	1,408	-5,634
Total expenses		***17,682***	***11,331***
Profit for the year		***115,035***	***114,255***
ALLOCATION OF THE YEAR'S PROFIT			
Appropriation to credit risk reserve		15,000	35,000
Appropriation to loan loss reserve (PIL)		14,000	7,000
Appropriation to dividend payment		35,000	35,000
Appropriation to statutory reserve		51,035	37,255

	Note	1998 1,000 ECU	1997 1,000 ECU
ASSETS			
Cash and balances with banks		3,773	4,259
Placements and debt securities	(7)(19)		
Placements with credit institutions		1,966,494	1,398,392
Debt securities		976,738	946,764
Loans outstanding	(8)	7,568,380	7,178,699
Intangible assets			
Issuing charges		45,606	34,484
Tangible assets	(9)	44,855	42,686
Other assets	(10)	54,696	49,761
Accrued interest and fees receivable		461,629	431,130
		11,122,171	**10,086,175**

		Note	1998 1,000 ECU	1997 1,000 ECU
LIABILITIES AND EQUITY				
Liabilities				
Amounts owed to credit institutions		(12)	286,213	213,367
Debts evidenced by certificates		(13)(19)		
Debt securities in issue			8,810,663	7,536,806
Other debt			248,494	299,276
Other liabilities		(14)	77,363	70,113
Exchangerate adjustment of currency contracts		(11)	144,032	524,910
Accrued interest and fees payable			416 395	382,727
Total liabilities			***9,983,160***	***9,027,199***
Equity				
Authorized and subscibed capital	2 808 555	(15)		
of which callable capital	-2 504 295			
Paid-in capital	304 260		304,260	304,260
Statutory reserve		(16)	518,751	467,716
Credit risk reserve		(17)	235,000	220,000
Loan loss reserve (PIL)		(17)	46,000	32,000
Appropriation to dividend payment			35,000	35,000
Total equity		***(18)***	***1,139,011***	***1,058,976***
			11,122,171	**10,086,175**
Guarantee commitments		(8)	28,964	30,025
Off-balance sheet commitments		(20)		

STATEMENT OF CASH FLOWS JANUARY 1 – DECEMBER 31

	Note	1998 1,000 ECU	1997 1,000 ECU
CASH FLOWS FROM OPERATING ACTIVITIES	**(21)**	**131,932**	**125,227**
CASH FLOWS FROM INVESTING ACTIVITIES			
Lending			
Disbursement of loans		-1,343,783	-1,626,230
Repayments		686,865	520,969
Exchangerate adjustments		265,830	-271,696
Placements and debt securities			
Purchase of long-term debt securities		-352,310	-180,702
Sales of long-term debt securities		394,858	134,164
Other placements		-356	-14,721
Exchangerate adjustments etc.		4,286	-11,527
Other items			
Increase in other assets		-4,730	10,135
Increase in tangible assets		-4,679	-3,686
Investing activities, total		***-354,019***	***-1,443,295***
CASH FLOW FROM FINANCING ACTIVITIES			
Debt evidenced by certificates			
Issues of new debt		2,411,281	1,696,348
Redemptions		-1,218,208	-822,090
Exchange rate adjustments		-53,940	196,248
Issuing charges		-21,715	-10,414
Other items			
Placements from credit institutions		-539	24,111
Exchange rate adjustment of currency contracts		-380,878	288,247
Changes in other liabilities		7,250	-2,504
Dividend paid		-35,000	-35,000
Financing activities, total		***708,252***	***1,334,947***
Change in cash and cash equivalents	***(21)***	***486,164***	***16,878***

General Operating Principles

The operations of the Nordic Investment Bank are governed by an agreement of December 4, 1975, among the governments of Denmark, Finland, Iceland, Norway and Sweden, and the Statutes adopted in conjunction with that agreement. In November 1997, the Nordic Council of Ministers decided to confirm and further strengthen the Bank's status as a multilateral institution as well as its legal status. An amended agreement concerning the Bank was signed in Oslo on October 23, 1998. This amended agreement will become effective subsequent to Parliamentary debate and ratification by the member countries.

The purpose of the Bank is to make loans and issue guarantees in accordance with sound banking principles and taking into account socioeconomic considerations, to carry into effect investment projects of interest to the Nordic countries and other countries, which receive such loans and guarantees.

The Bank has the legal status of an international juridical person, with full legal capacity.

In the member countries, the Bank is exempt from payment restrictions and credit policy measures.

The new agreement contains provisions concerning the Bank's immunity and the exemption of the Bank's assets and income from all taxation.

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

Accounting Principles and Additional Information

DRAWING UP OF THE ACCOUNTS

The Bank's Financial Statements are prepared in accordance with the principles of the International Accounting Standards (IAS), as issued by the International Accounting Standards Committee (IASC).

ECU – EUROPEAN CURRENCY UNIT

In accordance with paragraph 9 of the Bank's Statutes, effective March 1, 1993, the Bank's accounts are kept in ECU. Under paragraph 2 of the Bank's Statutes, the ECU is defined in accordance with the ECU that is used by the institutions of the European Community. The Bank has chosen to follow the ECU rates set by the EU Commission. Any changes in the Bank's definition of ECU will be decided upon by the Bank's Board of Directors.

The European Currency Unit (ECU) is the official currency basket of the European Monetary System (EMS). Since September 21,1989, one ECU consists of the number of national currency units set forth below.

	Number of units in national currency	Share expressed in % 12/31/98	12/31/97
DEM - Germany	0.6242	32	32
FRF - France	1.332	20	20
GBP - Great Britain	0.08784	13	13
NLG - Netherlands	0.2198	10	10
BEL - Belgium	3.301	8	8
ITL - Italy	151.8	8	8
ESP - Spain	6.885	4	4
DKK - Denmark	0.1976	3	3
IEP - Ireland	0.008552	1	1
PTE - Portugal	1.393	1	1
GRD - Greece	1.44	0	0
LUF - Luxembourg	0.13	0	0

The value of one ECU is the sum of the amounts of national currency units set forth in the table above.

The Bank's Board of Directors has decided that the Bank's accounts will be kept in euro, and that the Bank's capital will be denominated in euro, effective January 1, 1999. On that date, ecu was replaced by euro in the ratio of 1:1.

In its accounting, the Bank utilizes the official exchange rate published for ECU by the EU Commission.

		ECU rate on 12/31/98	12/31/97
DKK	Danish krone	7.44878	7.52797
FIM	Finnish markka	5.94573	5.98726
ISK	Icelandic krona	81.2993	79.7021
NOK	Norwegian krone	8.87140	8.11376
SEK	Swedish krona	9.48803	8.73234
ATS	Austrian shilling	13.7603	13.9020
AUD	Australian dollar	1.89932	1.69098
BEL	Belgian franc	40.3399	40.7675
CAD	Canadian dollar	1.80613	1.58256
CHF	Swiss franc	1.60778	1.60553
CZK	Czech koruna	35.1939	38.0269
DEM	German mark	1.95583	1.97632
EEK	Estonian kroon	15.5631	15.8091 **
ESP	Spanish peseta	166.386	167.388
FRF	French franc	6.55957	6.61214
GBP	British pound	0.705455	0.666755
GRD	Greec drachma	329.689	312.039
HKD	Hong Kong dollar	9.03917 **	8.55217 **
IEP	Irish pound	0.787564	0.771961
ITL	Italian lira	1936.27	1942.03
JPY	Japanese yen	132.800	143.680
LUF	Luxembourg franc	40.3399	40.7675
LVL	Latvian lat	0.66312 **	n/a
NLG	Dutch guilder	2.20371	2.22742
NZD	New Zealand dollar	2.20892	1.89434
PLN	Polish zloty	4.08947	3.91915
PTE	Portuguese escudo	200.482	202.137
SDR	Special drawing right	0.833316 *	0.818390
TWD	Taiwan dollar	37.5990 **	36.05632 **
USD	US-dollar	1.16675	1.10421
ZAR	South African rand	6.84883	5.37310

* Rate on Dec. 30.

** The exchange rate is calculated in such manner that the market rate for USD/relevant currency provides the ECU/currency rate.

FOREIGN CURRENCY TRANSLATION

All assets and liabilities denominated in currencies other than ECU are translated into ECU at the exchange rate prevailing on the date the books were closed. Income and expenditure recorded in currencies other than ECU are converted on a monthly basis to ECU in accordance with the ECU exchange rate at the end of the month. Exchange rate differences are shown in the Profit and Loss Account. As of the closing of the books, monetary assets and liabilities were valued at the ECU rate quoted by the Commission of the European Union (EU). Non-monetary assets are recorded in the accounts at the ECU rate prevailing on the date of their acquisition.

AUTHORIZED CAPITAL

The Bank's authorized capital amounts to ECU 2,809 million. The paid-in portion of the Bank's authorized capital amounts to ECU 304 million as of December 31, 1998 (ECU 304 million). The payment of the remainder of the subscribed capital will take place upon request by the Bank's Board of Directors to the extent that the Board finds such action necessary in order to meet the Bank's liabilities.

At its June 1998 meeting, the Nordic Council of Ministers decided to increase the Bank's authorized capital from ECU 2,809 million to ECU 4,000 million. Of the ECU 1,191 million increase, ECU 100 million will consist of paid-in capital. Thus, ECU 70 million will be transferred from the Bank's Statutory Reserve during 1999, and ECU 30 million will be paid in by the member countries in equal annual installments over a three-year period. The increase, which is approved by the Parliaments of the Nordic countries, becomes effective January 1, 1999.

RESERVES

The Bank's general reserves have been built up by means of allocations from the profits of previous accounting periods, and consist of the Statutory Reserve, a Credit Risk Reserve, and a Loan Loss Reserve for the Project Investment Loan facility.

The transfer from the Bank's profits into the Statutory Reserve continues until the Reserve equals 10 per cent of the Bank's authorized capital, or ECU 281 million. Thereafter, the Bank's Board of Directors can propose that the Bank's surplus be allocated to the Bank's reserves or paid out in the form of dividends.

The Bank's transfers to the general Credit Risk Reserve are in respect of unidentified, exceptional risks in the Bank's operations.

In accordance with paragraph 6A of the Statutes, the Bank has a separate Loan Loss Reserve for Project Investment Loans. This reserve is in respect of unidentified, exceptional risks in the Bank's Project Investment Loan operations, to cover the Bank's own share of the risk.

LENDING

Loans outstanding are recorded in the accounts net of credit losses on loans and provisions for possible losses on loans. Through 1997, loan amortization payments that have fallen due under the terms of a particular loan agreement are recorded under "Other assets". From 1998, the amount owing under loans outstanding is recorded on a cash basis. The change is not significant for comparing figures with previous years or for assessing the Bank's position.

Ordinary Lending

Ordinary lending includes Investment Loans within and outside the Nordic countries as well as Regional Loans in the Nordic countries. The Bank's ordinary lending ceiling amounts to 2.5 times its authorized capital, or a total of ECU 7,021 million.

In accordance with §6 of the Bank's Statutes, when the decision of the Nordic Council of Ministers to increase the Bank's authorized capital from ECU 2,809 million to ECU 4,000 million becomes effective at the commencement of 1999, the Bank's ceiling for ordinary lending and guarantees will be raised simultaneously, from ECU 7,021 million to ECU 10,000 million.

The Project Investment Loan Facility (PIL Loans)

Project Investment Loans are made to creditworthy developing countries as well as to countries in Central and Eastern Europe to finance projects of Nordic interest.

As from January 5, 1995, within the framework of the Project Investment Loan facility, the Bank can extend loans and guarantees up to a total amount corresponding to ECU 2,000 million. The member countries guarantee 90% of the Bank's project investment loans and project investment guarantees, up to a total guarantee amount of ECU 1,800 million.

At its June 1998 meeting, the Nordic Council of Ministers decided to increase the ceiling for the Project Investment Loan facility from ECU 2,000 million to ECU 3,300 million. The member countries' total potential guarantee liability of ECU 1,800 million remains unchanged. Within the framework of the Bank's total potential guarantee liability, the member countries guarantee a maximum of 90% of the amount of each individual project investment loan. The increase in the project investment loan ceiling becomes effective on January 1, 1999.

Baltic Investment Loans (BIL Loans)

The Bank may grant loans and issue guarantees for investments in the Baltic countries within a lending facility with a ceiling of ECU 60 million. The member countries guarantee 100% of this lending facility. The guarantors' total liability increased from ECU 50 million in 1997 to ECU 60 million in 1998. The Bank's ability to authorize this type of loan and issue this type of guarantee will terminate on Dec. 31, 1999, regardless of whether the full amount of the facility has been utilized as of that date.

Environmental Investment Loans (MIL Loans)

Since 1997, the Bank has been authorized to grant special Environmental Investment Loans (MIL) and Environmental Investment Guarantees (MIG) up to a total amount of ECU 100 million for the financing of environmental protection projects in the neighboring areas of the Nordic countries. The loans, and the guarantees for loans from other financiers, are provided as part of the general Nordic environmental strategy to invest in projects having Nordic interest. NIB's member countries guarantee 100% of this loan and guarantee facility.

LOAN LOSSES AND PROVISION FOR POSSIBLE LOSSES ON LOANS

Charges are taken on the Profit and Loss Account both in respect of actual loan losses to the extent they are not covered by loss provisions already made for such loans, and by provisions in respect of assessed possible losses on identified transactions. The concept of assessed possible losses on identified transactions also includes provisions made in respect of specific transactions where the existence of a certain risk of loss has been identified. Amounts recovered for which charges were already taken are credited to the Profit and Loss Account.

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 in non-accrual status. Once a loan has been placed in non-accrual status, the Bank stops recording accrued interest on all the borrower's loans as income on the Profit and Loss Account. All accrued, but unpaid, interest in respect of the borrower in question that had been recorded as income is then deducted from the interest income in the Bank's accounts. Before, or at the latest when a claim is deemed to be in non-accrual status, the Bank makes an estimate as to how large the possible or actual loan loss will be. The amount written down is based on an evaluation of the borrower's remaining ability to pay, and an evaluation of the worth of the security provided for the loan or loans in question. In so doing, the Bank takes into account any costs associated with administering or selling such security.

For payments, which are more than 180 days overdue in respect of Project Investment Loans, the Bank places all loans to the borrower in question in non-accrual status. Ten per cent of accrued, but unpaid, interest is deducted from the Bank's interest income. The remaining 90% of the Bank's interest claim is posted in the accounts as an outstanding claim guaranteed by the Bank's member countries. The Bank has a 10% share of the risk in respect of the outstanding amount of principal, interest, and fees. The amount of this risk is assessed according to the same methods used in assessing the risk on ordinary loans. The remaining 90% is posted in the accounts as a claim guaranteed by the Bank's member countries.

The reserves which appear as separate items under "Equity" on the Balance Sheet, and which are funded by means of appropriations from the accounting period's profits, as well as profits from earlier years, are meant to cover exceptional, and as yet unidentified, credit losses. Such reserves constitute a part of the Bank's general reserves.

DEBT SECURITIES

The Bank's holdings of debt securities are divided into two portfolios. The first is a trading portfolio of securities, which is primarily financed with short-term borrowings. The second is an investment portfolio of securities acquired in order to lock in a stable long-term yield on the Bank's assets, or to hedge the Bank's interest rate risk.

The book value of the securities is calculated on the basis of historical cost. The historical cost has been adjusted by amortizing the difference between historical cost and face value as interest over the remaining maturity of the paper.

The investment portfolio is recorded at book value. Through 1997, each security in the trading portfolio was recorded at the lower of adjusted historical cost and market value on the date the accounts were closed. Beginning with 1998, the trading portfolio is recorded at market value. The change of measurement standard in the accounting principle used to record the trading portfolio does not have any significant affect for purposes of comparing figures with earlier years. Marking to market of the trading portfolio means that changes in the level of interest in capital markets will immediately effect the Bank's Profit and Loss Account and Balance Sheet figures.

INTANGIBLE ASSETS

Issuing charges incurred in respect of the Bank's long-term borrowings are capitalized in the Balance Sheet. Issuing charges are written off on the Profit and Loss Account over the period of the borrowings as amortized issuing costs. Annually recurrent cost which arise as a result of the Bank's borrowing and lending transactions are recorded directly in the Profit and Loss Account as fee and commission expense.

TANGIBLE ASSETS

The "Tangible assets" item on the Balance Sheet includes buildings, land, shares and other evidence of ownership, as well as inventory and other movable property owned by the Bank.

The land owned by the Bank is recorded at historical cost, and is not depreciated.

The Bank's office building in Helsinki is recorded at historical cost minus annual linear depreciations taken over a 40-year period.

Shares providing ownership rights in connection with employee housing accommodation and other similar shares and evidence of ownership are recorded at historical cost.

Assets subject to wear and tear are recorded at historical cost minus depreciation recorded in the accounts. Equipment and other movable property are recorded at historical cost and depreciated in accordance with a depreciation plan over the estimated economic life of the asset, usually 3-5 years.

INTEREST

Interest income and interest expense accrued up to the date the books were closed are recorded in the Profit and Loss Account, with the exception of interest on loans that have been placed in non-accrual status. For the latter, only interest actually paid is recorded as income. The difference between the premium or discount value vis-à-vis the par value on borrowing and lending transactions is recorded as interest and amortized over the lifetime of the transaction. Income and costs on forward and swap contracts are amortized over the transaction's lifetime and recorded as interest. Net interest income includes penalty and late payment interest income and expense, as well as certain amortized income and costs in connection with the restructuring of financial transactions (see notes 1, 10, and 14).

FEE AND COMMISSION EXPENSE

Annually recurrent costs arising as a result of the Bank's borrowing, investment, and payment transactions are recorded as fee and commission expense.

Payment for legal and consultancy services arising in connection with the monitoring of claims in non-accrual status are recorded under this item.

RESULT OF FINANCIAL OPERATIONS

The Bank evaluates its assets at their historical cost. This original book value is depreciated to reflect any permanent decrease in the assets' value. Up to and including 1997, the Lower-of-Cost or Market value principle was used for evaluating placements of securities in the trading portfolio. From 1998, the Bank switched to the use of market value in evaluating its trading portfolio. In certain cases the Bank departs from the realization concept convention in such a way that the realized result of changing certain components in the hedging portfolio is recorded in the Balance Sheet, and then transferred to the Profit and Loss Account over time. The income entries are made over the life of the original transaction. The individual deviations from the realization concept convention are described in further detail in notes 10 and 14.

GENERAL ADMINISTRATIVE EXPENSES AND PENSION LIABILITY

Since June 1996, the Bank's operations have been carried out in office premises which the Bank previously rented but now owns. Rental payments are recorded under the "General administrative expenses" item.

The Bank provides services to the Nordic Development Fund and the Nordic Environmental Finance Corporation. The amount of the Bank's general administrative expenses is reduced by reimbursements for the Bank's costs in providing services to these organizations.

The Bank's pension liability is completely covered. The employees' basic pension is secured through the Finnish state pension system. In accordance with the Nordic Council of Ministers' decision on November 10, 1997 regarding the Bank's legal status, the Bank, as reflected in its accounts for fiscal 1997, has reimbursed the Finnish government for the amount of pension fees outstanding under its employees' pension arrangement for the years 1993-1997. Beginning with 1998, the Bank is making payments to the Finnish state for its pension liability, on behalf of its employees, in accordance with the Finnish pension scheme regulations.

In accordance with the above-mentioned decision of the Nordic Council of Ministers, the Finnish government will make a headquarters reimbursement to the Bank in an amount equal to the tax levied on the wages of the Bank's employees. The host-country reimbursement, which the Bank will receive for the first time in 1998, is described in further detail in Note 5 to the accounts.

When the new agreement concerning the Bank takes effect, the Bank and its property will be exempt, retroactively to January 1, 1998, from all taxes and tax-equivalent fees. These exemptions will be further clarified.

DERIVATIVE INSTRUMENTS

The Bank utilizes standardized exchange-traded as well as non-standardized over-the-counter derivative instruments in connection with its borrowing, lending, and placement operations. It does so primarily in order to protect itself against the effects of unfavorable fluctuations in interest rates and foreign exchange rates. By utilizing such instruments, the Bank assumes the credit risk of counterparts to varying extents, depending on interest rate and/or foreign exchange rate developments. Structured bond issues and their related hedge transactions may take place in markets with varying, and at times, low degrees of liquidity. When the Bank engages in this type of transaction, it places particular importance on ascertaining that the structured borrowing transactions and their related hedge transactions are matched.

The Bank utilizes the following derivative instruments: forward contracts, swaps, options, futures and forward rate agreements.

The Bank's counterparty risk management is administered within a system of limits established with regard to the counterparts' creditworthiness.

Derivative instruments are generally valued in the same way as the item the instrument is designed to hedge. Only the net value of forward contracts and currency swap contracts is recorded on the Balance Sheet under the item "Exchange rate adjustment of currency contracts". Income and expense in connection with forward and swap contracts are amortized and recorded as interest up to the date of maturity.

Option premiums paid are amortized over the lifetime of the option contract, while option premiums received are recorded as income when the option is exercised or expires. Option premiums recorded in the Profit and Loss Account are included in the item "Net profit on financial operations". Futures and forward rate agreement transactions are also included in this item.

CONCENTRATIONS OF RISK

Exchange rate risk: In accordance with paragraph 7e) of the Bank's Statutes, the Bank shall to the extent it is practically possible, protect itself against the risk of exchange rate losses. Assets and liabilities in currencies other than the ECU are translated into ECU in accordance with the official rates quoted by the EU Commission. The Bank does not have any exposure to exchange rate risk in its Balance Sheet that could affect its balance sheet and profits for fiscal 1998 to anything more than a purely marginal extent. The Bank's future interest rate spread income has a USD component that is not insignificant, and the Bank's administrative costs are primarily in FIM.

Effective from the beginning of 1999, FIM will be a denomination of the euro at a fixed exchange rate that cannot be changed. Depending on the development of the exchange rate between the US dollar and the euro, the Bank's future income in terms of the euro could be subject to a smaller degree of fluctuation, even though the Bank's Balance Sheet does not contain any foreign exchange risk.

Interest rate risk: Variations in interest rate levels have only a marginal effect on the Bank's current interest income from its lending portfolio and liquid asset placements, because the agreements that regulate both interest income and interest expenditure are continuously matched.

Most of the Bank's long-term placements that are financed with the Bank's equity capital have fixed interest rates. At year-end, their average modified duration was 3.8 years (4.2). As the long-term placements mature and are reinvested, their yield could be affected by variations in the level of interest rates.

Credit risk: Note 8 provides information regarding the geographical distribution of the Bank's loans and the guarantees it has issued, as well as their distribution by type of security. The Bank's credit risk exposure in respect of placements and swap contracts is described in notes 7 and 20.

ASSESSMENT OF FINANCIAL INSTRUMENTS

Financial instruments are accounted for in the Balance Sheet and Profit and Loss Account in accordance with the principles and at the values that have been described above. In the Notes to the Financial Statements, the Bank provides the market value and the lower of the market and book value for its debt securities portfolio. The Bank also provides its assessment of its risk in respect of swap counterparts that may fail to pay amounts owed under swap contracts in the future. The Bank utilizes an active risk minimization policy in its operational activities.

The Bank believes that providing the fair value of each type of financial instrument on the date the books were closed does not constitute significant additional information regarding the Bank's profits and balance sheet. For the same reason, there is no significant additional knowledge to be gained from information on financial assets recorded at a value higher than fair value, nor liabilities recorded at a value lower than fair value.

Notes to the Financial Statements

(1) INTEREST INCOME AND INTEREST EXPENSE

Interest income and interest expense consist of the following items (amounts in ECU 1,000):

Interest income	**1998**	**1997**
Interest income on placements with credit institutions	101,479	93,036
Interest income on debt securities	64,763	62,437
Interest income on loans outstanding	408,626	362,523
Other interest income	83	102
Total interest income	***574,951***	***518,097***

Interest expense	**1998**	**1997**
Interest expense on amounts owed to credit institutions	13,377	12,807
Interest expense on debts evidenced by certificates	546,572	493,479
Interest on swap contracts and other interest expenses, net	-121,520	-119,076
Total interest expense	***438,429***	***387,210***

(2) FEE AND COMMISSION INCOME

Income from fees and commissions is composed of the following items (amounts in ECU 1,000):

	1998	**1997**
Commitment fees	1,448	1,725
Loan disbursement fees	922	1,007
Guarantee commissions	242	239
Premiums on prepayment of loans	367	686
Commissions on lending of securities	153	41
Other	44	45
Total	***3,176***	***3,743***

(3) NET PROFIT ON FINANCIAL OPERATIONS

The profit from financial operations is broken down as follows (amounts in ECU 1,000):

	1998	**1997**
Debt securities in trading folio	2,543	-1
Debt securities in investment portfolio	449	61
Other financial instruments	2,327	809
Total	***5,319***	***869***

(4) FOREIGN EXCHANGE PROFIT/ LOSS

According to paragraph 7e) of the Bank's Statutes, the Bank shall, to the extent it is practically possible, protect itself against the risk of exchange rate losses. The Bank translates into ECU its assets and liabilities that are denominated in currencies other than ECU according to the official rates quoted by the EU Commission. The Bank is not exposed to any exchange rate risks of any significance for the Bank's balance sheet and profits for fiscal year 1998.

(5) GENERAL ADMINISTRATIVE EXPENSES

Coverage of costs for services to the Nordic Development Fund (NDF), Nordic Environmental Finance Corporation (NEFCO), the Baltic Investment Program (BIP) and trust funds administered by the Bank amount to ECU 1.0 million, compared with ECU 1.0 million in 1997.

General administrative expenses, in ECU 1,000:	**1998**	**1997**
Salaries, social insurance, and other personnel costs	9,777	9,198
Pension premiums in accordance with the Finnish state pension system	1,851	1,116
Other pension premiums	117	192
Host-country reimbursement according to agreement with the Finnish state	-2,490	-
Offices premises costs	1,000	1,413
Other general administrative expenses	5,151	4,619
Cost coverage received	-1,642	-1,421
Total, in ECU	***13,764***	***15,118***
Average exchange rate during the year (ECU/FIM)	5.99	5.90
Average number of employees	121.3	114.5

As shown in the Profit and Loss Account, administrative costs amount to ECU 13.8 million, compared with ECU 15.1 million in 1997. Administrative costs have remained virtually unchanged in 1998 at ECU 14.4 million, compared with ECU 14.3 million in 1997, if one takes two pension-related items into consideration. The first is that administrative expenses in 1997 included an ECU 0.8 million retroactive portion of pension coverage premiums. The second is that in 1998 the accounts included ECU 0.6 million in net income for pension coverage outlays and host-country reimbursement.

(6) PROVISION FOR POSSIBLE LOSSES ON LOANS AND LOSSES ON LOANS

Provisions for possible loan losses in the Profit and Loss Account (amounts in ECU 1,000):

	1998	**1997**
Increase in provisions	1,750	-
Revesals of previous provisions	-342	-5,634
Total	***1,408***	***-5,634***

See also note 8

(7) PLACEMENTS AND DEBT SECURITIES

The Bank had the following placements and debt securities as of the date the books were closed (amounts in millions of ECU):

	1998	**1997**
Placements with credit institutions	1,966	1,398
Debt securities	977	947
Total, placements and debt securities	***2,943***	***2,345***

The maturity profile of placements and debt securities was as follows (amounts in millions of ECU):

Period	**1998**	**1997**
Up to 3 months	1,800	1,065
3 – 6 months	353	444
6 – 12 months	37	108
1 – 5 years	405	414
More than 5 years	348	314
Total, placements and debt securities	***2,943***	***2,345***

All placements with credit institutions are at fixed interest rates. Of total debt securities, ECU 324 million (233) are at floating interest rates, while ECU 653 million (714) are at fixed interest rates.
The debt securities were issued by the following counterparts (amounts in millions of ECU):

	1998	1997
Governments	535	537
Public institutions	118	114
Other	324	296
Total, debt securities	***977***	***947***

As at the Balance Sheet date, the Bank's debt securities had the following distributions with respect to type of portfolio: (amounts in millions of ECU)

	Book value		Market value	
	1998	1997	1998	1997
Trading portfolio	118	6	118	6
Investment portfolio	859	941	938	992
Total	***977***	***947***	***1 056***	***998***

Market value for debt securities in the investment portfolio with maturities that do not exceed 6 months has been taken at the face value of the securities.

The total value of the two portfolios, when each item is valued at the lower of market or book value, mounted to ECU 976 million as of December 31, 1998, compared with ECU 947 in 1997.

(8) LOANS AND GUARANTEES OUTSTANDING

Specification of loans outstanding and guarantees

Loans outstanding are recorded on a net basis after deduction for losses on loans and provisions for possible losses on loans. Loan amortization payments that have fallen due are recorded under "Other assets".

The Balance Sheet value for loans outstanding, divided into the three loan categories and by region, amounts to the following (amounts in millions of ECU):

		1998		1997
Ordinary loan				
Investment loans in the Nordic countries		6,083		5,818
Regional loans in the Nordic countries		139		152
Investment loans outside the Nordic countries		65		79
Total, ordinary lending		***6,288***		***6,049***
Project Investment Loans				
Africa	86		93	
Asia	742		695	
The Baltic Countries	12		-	
Central and Eastern Europe	141		118	
Latin America	142		111	
Middle East	131	1,254	91	1,108
Baltic Investment Loans		27		22
Total		***7,568***		***7,179***

In addition, as of December 31, 1998, the Bank had issued a total of ECU 28.9 million (30.0) in guarantees.

Provisions for possible losses on loans:
A total of ECU 4.2 million (2.9) has been deducted from the Bank's loans outstanding for provisions in respect of possible losses on loans. ECU 2.4 million (2.9) is for Project Investment Loans. The following changes were recorded in the Balance Sheet in respect of provisions for possible loan losses (amounts in millions of ECU):

	1998	1997
Provisions on January 1	2.9	8.4
Provisions made during the year for possible loan losses	1.8	-
Reversals of previous provisions for possible loan losses	-0.4	-5.5
Exchange rate adjustments	-0.1	-
Provisions on December 31	***4.2***	***2.9***

See also note 6.

The ECU 4.2 million (2.9) amount in provisions for possible losses on loans is distributed as follows (amounts in millions of ECU):

Distribution by lending facility:		1998		1997
Ordinary loans in the Nordic countries		1.8		-
Project Investment Loans				
Africa	1.3		1.5	
In Eastern and Central Europe	1.1	2.4	1.4	2.9
Total provisions		***4.2***		***2.9***

For loans outstanding that have been deemed to involve a certain degree of loan loss risk, the Bank has made provisions in the manner described above. The provisions made in respect of Project Investment Loans were made in an amount corresponding to the Bank's own share of the risk. The remainder of loans outstanding net of loss provisions have security, which, on the basis of data available for making such judgments as of the date the books were closed, are sufficient.

As of Dec. 31, 1998, the Bank had one loan outstanding in non-accrual status in the amount of ECU 3.4 million within Ordinary Lending in the Nordic countries. On Dec. 31, 1997, the Bank had no loans outstanding in non-accrual status.

Loans agreed but not yet disbursed
As of the date the books were closed, loans agreed but not yet disbursed were the following (amounts in millions of ECU):

	1998	1997
Loans agreed but not yet disbursed		
Ordinary loans	683	794
Project Investment Loans	449	609
Baltic Investment Loans	11	20
Environmental Investment Loans	56	20
Total, loans agreed but not yet disbursed	***1,199***	***1,443***

The amounts set forth above for loans agreed but not yet disbursed include loans and loan programs for considerable amounts, where certain conditions, primarily interest rate conditions, may not yet have received final approval.

Maturity profile of lending

The amortization payments on loans outstanding, according to the loan agreements, have the following maturity profile as of December 31 (amounts in millions of ECU):

Period	Ordinary loans		PIL-loans		Total*	
	1998	1997	1998	1997	1998	1997
Up to 3 months	291	178	24	23	316	202
3 – 6 months	109	176	16	17	127	194
6 – 12 months	256	188	44	44	302	233
1 – 2 years	533	687	107	84	648	776
2 – 3 years	640	557	119	93	765	654
3 – 4 years	1,043	589	116	95	1,162	687
4 – 5 years	925	1,073	110	96	1,037	1,171
5 – 10 years	2,258	2,309	449	397	2,710	2,709
10 – 15 years	166	223	230	221	397	445
15 – 20 years	60	57	38	38	98	95
20 – 25 years	6	12	-	-	6	12
Total, loans outstanding	***6,288***	***6,049***	***1,254***	***1,108***	***7,568***	***7,179***

*) The total amount also includes ECU 27 million (22) in Baltic Investment Loans.

In general borrowers can under the terms of the relevant agreements, repay their loans on interest adjustment dates. The following table sets forth amortizations on outstanding loans as of December 31, if all the loans were to be repaid on the nest interest adjustment dates fixed under the relevant loan agreements (amounts in millions of ECU):

Period	Ordinary loans		PIL-loans		Total*	
	1998	1997	1998	1997	1998	1997
Up to 3 months	415	306	28	97	444	404
3 – 6 months	294	346	31	28	326	375
6 – 12 months	427	322	78	62	507	385
1 – 2 years	838	1,156	226	131	1,071	1,292
2 – 3 years	1,065	762	145	190	1,216	956
3 – 4 years	1,027	853	128	113	1,158	970
4 – 5 years	628	932	219	88	848	1,021
5 – 10 years	1,576	1,365	350	372	1,930	1,741
10 – 15 years	19	6	49	27	68	34
15 – 20 years	-	1	1	-	1	1
Total, loans outstanding	***6,288***	***6,049***	***1,254***	***1,108***	***7,568***	***7,179***

*) The total amount also includes ECU 27 million (22) in Baltic Investment Loans.

Loans outstanding at floating interest rates amount to ECU 5,692 million (5,360), while those at fixed interest rates amount to ECU 1,876 million (1,819).

Currency distribution of loans outstanding

The currency distribution of loans outstanding as of December 31 was as follows (amounts in millions of ECU):

Currency	Ordinary loans		PIL-loans		Total*	
	1998	1997	1998	1997	1998	1997
DKK	483	429	8	10	491	439
FIM	1,138	1,187	-	-	1,138	1,187
ISK	77	79	-	-	77	79
NOK	267	315	-	-	267	315
SEK	1,430	1,254	-	-	1,430	1,254
BEL	6	7	-	-	6	7
CHF	67	63	23	28	90	91
DEM	282	273	59	46	350	327
ECU	160	113	14	3	174	116
ESP	-	42	-	-	-	42
FRF	95	75	12	8	106	84
GBP	39	50	-	-	39	50
ITL	41	21	-	-	41	21
JPY	33	34	2	4	35	39
NLG	55	36	-	-	55	36
USD	2,114	2,070	1,136	1,008	3,268	3,092
Total, loans outstanding	***6,288***	***6,049***	***1,254***	***1,108***	***7,568***	***7,179***

*) The total amount also includes ECU 27 million (22) in Baltic Investment Loans.

Distribution of outstanding loans and guarantees by various types of security

The following table shows the amount of loans outstanding, including outstanding guarantee undertakings, distributed by type of security (amounts in millions of ECU):

As of December 31, 1998		Amount	Share, in%
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries		1,521	20
Loans to or guaranteed by other countries		109	1
Loans to or guaranteed by local authorities in member countries		506	7
Loans to or guaranteed by companies owned 50 % or more by member countries or local authorities in member countries		921	12
Loans to or guaranteed by banks		225	3
Other loans			
Backed by a lien or other security in property	541		
With a negative pledge clause and other covenants	2,536		
With a guarantee from the parent company and other guarantees	1,239	4,316	57
Total, loans and guarantees outstanding		***7,597***	***100***

As of December 31, 97		Amount	Share, in%
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries		1,447	20
Loans to or guaranteed by other countries		100	1
Loans to or guaranteed by local authorities in member countries		580	8
Loans to or guaranteed by companies owned 50 % or more by member countries or local authorities in member countries		963	14
Loans to or guaranteed by banks		224	3
Other loans			
Backed by a lien or other security in property	511		
With negative pledge and other covenants	2,155		
With a guarantee from the parent company and other guarantees	1,230	3,895	54
Total, loans and guarantees outstanding		***7,209***	***100***

MEMBER COUNTRIES' GUARANTEES FOR LOANS OUTSTANDING

Guarantees for Project Investment Loans (PIL Loans) and Project Investment Guarantees

Loans or guarantees granted by the Bank as Project Investment Loans or Project Investment Guarantees are guaranteed by the member countries up to a maximum of 90%.

Payment under this guarantee takes place at the request of the Board of Directors, as provided for under an agreement between the Bank and each individual member country.

Beginning with 1995, the Bank's lending and guarantee ceiling for PIL loans has been ECU 2,000 million. The member countries guarantee the Bank's Project Investment Loans and Project Investment Guarantees up to the following amounts (amounts in ECU 1,000):

		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***

Guarantees for loans authorized and guarantees for investments in the Baltic states (BIL loans)

Loans or guarantees for loans which the Bank grants for investments in the Baltic countries are provided as special investment loans or investment guarantees with a total ceiling of ECU 60 million. The member countries cover 100% of any losses the Bank may incur under such loans and guarantees, with their potential liability gradually increasing over time. At the end of 1996, the guarantors' total potential exposure was ECU 40 million, and rose on January 1, 1997 to ECU 50 million and on January 1, 1998 to ECU 60 million. The Bank's ability to authorize this type of loan and issue this type of guarantee for loans will cease on December 31, 1999, regardless of whether the ceiling is fully utilized on that date.

As of Dec. 31, 1998, the member countries' liability is distributed as follows (amounts in ECU 1,000):

		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***

Guarantees for special Environmental Investment Loans (MIL loans) and Environmental Investment Loan Guarantees (MIG)

Beginning with 1997, the Bank was authorized to grant special Environmental Investment Loans (MIL) and Environmental Investment Guarantees (MIG) up to a total amount of ECU 100 million for the financing of environmental protection projects in the neighboring areas of the Nordic countries. The loans, and the guarantees for loans from other financiers, are provided as part of the general Nordic environmental strategy to invest in projects having Nordic interest. NIB's member countries guarantee of 100% of this loan and guarantee facility.

As of Dec. 31, 1998, the member countries' liability is distributed as follows (amounts in ECU 1,000):

		Share, in %
Denmark	24 000	24.0
Finland	16 600	16.6
Iceland	1 100	1.1
Norway	19 500	19.5
Sweden	38 800	38.8
Total	***100,000***	***100.0***

(9) TANGIBLE ASSETS

The Bank has subscribed to ECU 15 million in share capital of the European Investment Fund (EIF) in Luxembourg. The amount is equal to 0.75% of the Fund's total share capital. As of Dec. 31, 1998, the Bank has paid in the ECU 3.0 million (3.0) portion agreed upon, corresponding to 20% of the subscribed share capital.

In June 1996, the Bank bought the office building in downtown Helsinki in which it had rented space since May 1993. Until December 1998, the building and the lot belonged to the real estate company Kiinteistö Oy Fabianinkatu 34, which the Bank has owned since the purchase of the shares in the company. Subsequent to December 1998 the real estate company was liquidated and the Bank took over the building and the lot. As of the close of books, the historical cost for the shares in the company and the lot was recorded in the Balance Sheet, net of depreciation on the building in accordance with the depreciation plan, at ECU 33.4 million (34.7).

Shares providing ownership rights in connection with employee housing accommodation and other similar shares and holdings have a balance sheet value of ECU 1.2 million (1.0).

The value of inventory and other movable assets is recorded at ECU 7.3 million (4.0).

(10) OTHER ASSETS

The total amount of ECU 54.7 million (49.8) is composed of the following:

ECU 14.1 million (15.8) consists of capitalized swap expenditures that are amortized as a cost over the lifetime of the relevant swap contract. These and the capitalized issuing charges have corresponding items in "Other liabilities" (note 14).

ECU 32.1 million (28.6) consists of capitalized amounts associated with interest rate swaps. The corresponding item is under borrowings.

ECU 1.5 million (2.0) consists of the following: In 1994 and in 1998, the Bank recorded on the Balance Sheet the amounts that constitute the difference between the book value and the sales price of securities which were acquired and held in order to hedge the Bank's borrowing against interest rate risk. At the time of sale, the amounts received were disbursed for lending operations. Since the lending was made at a correspondingly higher interest rate, the above-mentioned amount recorded in the Balance Sheet is charged against interest income until the maturity date of the loans, which occurs simultaneously with the maturity of the borrowing.

ECU 6.9 million (3.4) consists of other items, including loans to the Bank's personnel.

(11) EXCHANGE RATE ADJUSTMENT OF CURRENCY CONTRACTS

The amount of principal of currency swaps is valued at the ECU rate on the date of the Balance Sheet and recorded net in the Balance Sheet under the item "Exchange rate adjustment of currency contracts". The amount includes long-term contracts in the amount of ECU -151 million (-520) and short-term contracts in the net amount of ECU 7 million (-5). See note 20 regarding credit risk exposure under swap contracts.

(12) AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to banks had the following maturity profile at year-end (amounts in millions of ECU):

	1998	1997
Up to 3 months	244	163
3 – 6 months	26	30
6 – 12 months	16	20
Total	***286***	***213***

All amounts owed to credit institutions are borrowed at fixed interest rates.

(13) DEBTS EVIDENCED BY CERTIFICATES AND ASSOCIATED CURRENCY SWAPS

At year-end, the Bank's borrowings evidenced by certificates are distributed among the following currencies shown in the table below. The table also describes the distribution of borrowings by currency on an after-swap basis (amounts in millions of ECU):

	Borrowing		Currency swap contracts Payable/receivable (-)		Net currency	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**
DKK	633	522	-123	-67	510	455
FIM	443	440	675	649	1,118	1,088
ISK	-	-	82	81	82	81
NOK	142	68	198	260	339	328
SEK	957	672	724	802	1,681	1,474
AUD	29	32	-23	-9	6	24
BEL	-	-	6	7	6	7
CAD	56	348	-55	-285	-	63
CHF	126	189	-55	-97	71	92
CZK	57	39	-57	-39	-	-
DEM	546	542	-82	-105	464	436
ECU	104	103	38	-234	141	-131
ESP	267	386	-264	-323	3	63
FRF	139	48	-70	-9	70	39
GBP	286	187	-236	-169	50	18
GRD	30	-	-30	-	-	-
HKD	967	550	-966	-550	1	1
ITL	488	472	-442	-447	46	25
JPY	1,790	1,699	-1,602	-1,536	188	163
LUF	201	200	-198	-196	3	4
NLG	-	-	37	15	37	15
NZD	32	37	-32	-37	-	-
PLN	42	-	-42	-	-	-
PTE	75	74	-75	-74	-	-
TWD	262	111	-266	-111	-4	-
USD	1,361	1,107	3,035	3,005	4,396	4,112
ZAR	26	10	-25	-10	1	-
Total	***9,059***	***7,836***	***151***	***520***	***9,210***	***8,356***

See note 20 regarding credit risk exposure under swaps.

The table above includes 139 (91) borrowing transactions in the equivalent amount of ECU 5,686 million (3,853), entered into under the Bank's Euro Medium-Term Note program, 2 (2) borrowing transactions valued at ECU 18 million (17) under the Bank's Medium-Term Note program in the United States, as well as 2 (1) transactions in the value of ECU 108 million (22) under the Commercial Paper programs. The Bank has established a USD 600 million Commercial Paper program in Europe and another USD 600 million program in the United States. The Bank's borrowings have the following maturity profile (amounts in ECU million on maturity date):

Period	**1998**	**1997**
Up to 3 months	639.7	325.7
3 – 6 months	223.5	445.2
6 – 12 months	348.4	307.0
1 – 2 years	1,312.2	843.1
2 – 3 years	1,228.2	1,222.9
3 – 4 years	957.3	1,228.0
4 – 5 years	1,027.8	796.0
5 – 10 years	3,045.5	2,516.2
10 – 15 years	162.3	90.5
15 – 25 years	112.8	94.5
More than 25 years	39.5	9.7
Total	***9,097.2***	***7,878.8***

Of debt securities in issue, ECU 1,761 million (1006) have been purchased at floating interest rates, while ECU 7,050 million (6,531) are at fixed interest rates. Other borrowing transactions at floating interest rates amount to ECU 0 million (69), while ECU 248 million (230) are at fixed interest rates.

As of the date the Balance Sheet was drawn up, the Bank had entered into agreements for future borrowing of ECU 41.7 million (99.6) in the form of 4 (2) borrowing transactions having an average maturity of 16.9 years (10.6). The currency denominations of these agreements were JPY and GBP in 1998, and JPY and ITL in 1997.

(14) OTHER LIABILITIES

A total of ECU 77.4 million (70.1) are posted as ”Other liabilities”, consisting of the following:

Prior to the changeover of the Bank’s capital and accounting currency to ECU, several swap contracts entered into in respect of placement of the Bank’s then SDR-denominated equity were terminated in 1992 and in the beginning of 1993. The profit made in this connection is recorded as income and distributed over the original lifetime of each terminated swap agreement. As of December 31, 1998, there were ECU 2.7 million (4.1) in profits not yet recorded as income. The amortized amount of such deferred profit is included in ”Net interest income” in the amount of ECU 1.4 million (2.3).

As of the EMU on January 1, 1999, the Bank made an exception to the realization concept in connection with changes in the placements of its equity from placements denominated in the ECU’s component currencies to placements denominated in ECU. The ECU 4.7 million and ECU 5.3 million in discounted interest income that stemmed from this change in placements in 1996 and 1995, respectively, was capitalized in the Bank’s Balance Sheet. This income is amortized over the period until the original transactions fall due, between 1999 and 2002. This distribution overtime has resulted in ECU 2.7 million (2.7) being recorded in the Profit and Loss Account under ”Net interest income”, with the remaining capitalized interest income recorded on the Balance Sheet at ECU 2.5 million (5.2). The transactions in 1996 were the last changes the Bank made in connection with changes in the placement of its equity from placements denominated in the ECU’s component currencies to placements denominated in ECU.

In the 1995 Balance Sheet, the Bank recorded ECU 3.0 million as compensation in respect of the refinancing of four lending transaction. This compensation is amortized as income up to the year 2003. During 1998, ECU 0.4 million (0.4) was recorded in the Profit and Loss Account under ”Net interest income”, following which ECU 1.6 million (2.0) in capitalized interest income remains recorded in the Balance Sheet.

In 1998, the Bank canceled two interest rate swap contracts, which constituted an interest rate hedge between the interest paid on Bank’s borrowing and the rates at which borrowed funds were placed. The cancellation enabled the Bank to refinance some lending operations with a lesser degree of counterparty risk. The contract cancellations entailed the receipt of income, which was recorded in the Balance Sheet. Amortization of this income covers the interest rate difference between the borrowing and lending operations in question, through the maturity dates of those operations. As of the date the books were closed, the income recorded in the Balance Sheet, which was derived from the swap contract cancellations, amounted to ECU 3.0 million.

Recorded under ”Other liabilities” is income from swaps in the amount of ECU 57.5 million (51.2), which is amortized and recorded as income over the remaining lifetime of the relevant swap agreements. Corresponding items are included in ”Other assets” (note 10) and capitalized ”Issuing charges” on the Balance Sheet.

The remainder is other deferred income and appropriations.

(15) AUTHORIZED CAPITAL; PAID-IN CAPITAL

The member countries have subscribed to the following amounts of the Bank's authorized capital (amounts in millions of ECU):

	1998	Share, in %
Denmark	585,6	20.8
Finland	556,1	19.8
Iceland	26,7	1.0
Norway	534,6	19.0
Sweden	1,105,6	39.4
Total	***2,808,6***	***100.0***

The paid-in portion of the Bank's authorized capital amounted to ECU 304.3 million (304.3).

(16) STATUTORY RESERVE

The Bank's profit is transferred to a Statutory Reserve until the amount equals 10 per cent of the Bank's authorized capital, or ECU 281 million.

At year-end 1997, the Statutory Reserve amounted to ECU 467.7 million. The Board of Directors is proposing that ECU 51.0 million of the profit from fiscal year 1998 be allocated to the Statutory Reserve. In the event that the Nordic Council of Ministers decides in favor of the proposal, the Statutory Reserve will amount to ECU 518.8 million after the allocation, or 18.5% of the Bank's authorized capital.

(17) CREDIT RISK RESERVES

General operations

The Bank has a credit risk reserve for non-identified risks that constitutes part of its general reserves. At the end of 1997, the Credit Risk Reserve amounted to ECU 220.0 million.

The Board of Directors is proposing to allocate ECU 15.0 million to the Credit Risk Reserve. This reserve will subsequently amount to ECU 235.0 million, as shown on the Balance Sheet.

The Project Investment Loan Facility — PIL

As provided for in paragraph 6A of the Statutes, the Bank has a separate Loan Loss Reserve in respect of non-identified, exceptional risks in the Bank's Project Investment Loan activities, to cover the Bank's own share of the risk. That reserve amounted to ECU 32.0 million in 1997.

ECU 14.0 million was allocated from fiscal 1998's profits to the Loan Loss Reserve for the Project Investment Loan facility. Following the allocation, the Loan Loss Reserve amounts to a total of ECU 46.0 million.

(18) CHANGES IN THE COMPOSITION OF EQUITY CAPITAL

(amounts in ECU million)

	1997	Change	1998
Paid-in Capital	304	-	304
Statutory Reserve	468	51	519
Credit Risk Reserve	220	15	235
Loan Loss Reserve (PIL)	32	14	46
Appropriation to dividend payment 1997	35	-35	-
Appropriation to dividend payment 1998	-	35	35
Total	***1,059***	***80***	***1,139***

(19) DEFEASANCE (REMOVED FROM THE BALANCE SHEET)

In 1989, the Bank set aside DEM 385 million of its issue of DEM 500 million 6 3/4% Deutsche Mark Bearer Bonds 1989/1999 by means of an irrevocable agreement to place first-class interest-bearing securities in escrow. These securities' principal payments and interest completely cover all principal and interest payments on the bond issue. Both the borrowing operation and the securities placed in escrow have been removed from the Balance Sheet at a nominal value of ECU 197 million by means of in-substance defeasance. Of the original borrowing, ECU 197 million (= DEM 385 million) remained outstanding as of December 31, 1998.

(20) OFF-BALANCE SHEET COMMITMENTS

As of December 31, the Bank had the following commitments off the Balance Sheet (amounts in ECU million):

	1998	1997
Guarantees issued (note 8)	29	30
Loans agreed but not disbursed (note 8)	1,199	1,443
Borrowing commitments	42	100
Forward contracts, net	7	-5
Principal owed to the Bank under swaps (nominal amount)	12,002	10,932
Principal owing by the Bank under swaps (nominal amount)	-12,152	-11,454
Shares subscribed to, unpaid portion	12	12
In-Substance Defeasance (not 19)	197	195

The Bank has a number of options entered into in connection with structured borrowing and swap transactions, which completely match each other. The Bank has also issued an immaterially small non-commercial loan guarantee and an immaterially small indemnity guarantee.

The following table sets forth the nominal amounts of principal in respect of outstanding swap contracts at the year-end exchange rates (amounts in millions of ECU):

	1998	1997
Principal owed to the Bank under currency swaps	6,443	5,981
Principal owing by the Bank under currency swaps	-6,594	-6,501
Currency swaps – net	***-151***	***-520***
Principal owed to the Bank under forward currency swaps	44	107
Principal owing by the Bank under forward currency swaps	-43	-109
Interest rate swaps – nominal amount	+/-5,414	+/- 4,790
Forward interest rate swaps – nominal amount	+/-101	+/-54
Total, nominal principal amount owed to the Bank under swap agreements	***12,002***	***10,932***
Total, nominal principal amount owing by the Bank under swap agreements	***-12,152***	***-11,454***

The swap amounts set forth above only indicate the nominal scope of the swap transactions. The Bank's total credit risk exposure due to any payments that may not be made in the future, owed to the Bank by swap counterparts, is calculated as of December 31, 1998 at a total amount of ECU 1,008 million (591). This amount corresponds to the total estimated cost of entering into new swaps to replace any swaps under which the Bank might suffer a loss in the event a swap counterpart should fail to make the relevant payments. These costs are calculated in accordance with prevailing market quotations (amounts in millions of ECU).

	Floating interest		**Fixed interest**		**Total**	
Nominal amount owed to the Bank under:	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
Currency swaps	1,938	1,673	4,505	4,308	6,443	5,981
Interest swaps	1,791	1,739	3,623	3,051	5,414	4,790
Total	***3,729***	***3,412***	***8,128***	***7,359***	***11,857***	***10,771***
Nominal amount owing by the Bank:						
Currency swaps	6,220	5,935	374	566	6,594	6,501
Interest rate swaps	4,023	3,316	1,391	1,474	5,414	4,790
Total	***10,243***	***9,251***	***1,765***	***2,040***	***12,008***	***11,291***

(21) STATEMENT OF CASH FLOWS

Specification of cash flows from operating activities
(amounts in thousands of ECU):

	1998	**1997**
Profit for the year	115,035	114,255
Amortization of issuing charges	10,593	9,497
Market value adjustment, trading portfolio	-783	-
Depreciation	2,510	1,847
Change in accrued interest and fees (assets)	-30,499	-5,663
Change in accrued interest and fees (liabilities)	33,668	10,925
Provision for possible losses on loans, reversals (-)	1,408	-5,634
Cash flow from operating activities	***131,932***	***125,227***

Specification of the change in cash and cash equivalents on Dec. 31
(amounts in thousands of ECU):

	1998	**1997**
Cash and balances with banks	3,773	4,259
Placements with credit institutions at less than 6 months	1,920,544	1,352,326
Debt securities at less than 6 months	324,225	248,467
Liquid assets	2,248,542	1,605,052
Amounts owed to credit institutions at 6 months or less	-346,601	-189,275
Cash and cash equivalents (net)	***1,901,941***	***1,415,777***
Change in net cash and cash equivalents	***486,164***	***16,878***

The concept of net liquidity (cash and cash equivalents) contains the net amount of monetary assets, placements and liabilities with original maturities at 6 months or less calculated from the time of purchase, as well as placements in liquid debt securities at floating interest rates irrespective of original maturity. This definition is in better accord with the Bank's actual net liquid asset position.

TO THE CONTROL COMMITTEE OF THE NORDIC INVESTMENT BANK

We have audited the accounting and the financial statements as well as the administration of the Nordic Investment Bank for the year ended December 31, 1998. The financial statements, which include the Report of the Board of Directors, the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, and notes to the Financial Statements have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and on the administration of the Bank.

We conducted our audit in accordance with International Standards on Auditing (ISA) as issued by IFAC. Those standards require that we plan and perform the audit in order to obtain reasonable assurance that the financial statements are free from any misstatement of significance for the assessment of the result as well as the financial position of the Bank. In this respect our audit also includes assessing the accounting principles being used and significant estimates made by the management as well as evaluating the overall financial statement presentation. In our audit of the administration of the Bank we have examined whether the Board of Directors and the President have legally complied with the statutes of the Bank.

The financial statements have been prepared observing the principles as defined in International Accounting Standards (IAS). In our opinion the financial statements give a true and fair view of the financial position of the Bank as at December 31, 1998 and of its result and financing during 1998.

During our audit we have found no reason for remark relating to the administration of the Bank by the Board of Directors and the President.

Helsinki, February 12, 1999

Krister Hamberg	**Ole M. Klette**
Authorized Public Accountant	Authorized Public Accountant
KPMG, Helsinki	KPMG, Oslo

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 § 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 1998, 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 where then performed. The Annual Report of the Bank was examined at a meeting in Helsinki on February 11 and 12, 1999. 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 February 12, 1999, by the authorized 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 December 31, 1998 and of its results and financing in 1998. The Profit and Loss Account shows a profit of ECU 115,035,201.37 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 it appears in the Balance Sheet, 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, February 12, 1999

Bill Fransson

Markus Aaltonen	**Siv Friðleifsdóttir**	**Ingvar Garðarsson**
Per Olof Håkansson	**Kaj Ikast**	**Per Kaalund**
Lauri Metsämäki	**Bjarne Mørk-Eidem**	**Anders Talleraas**

The figures presented here detail use of the Technical Assisstance Fund and Equity Investment Fund which the Nordic Investment Bank has been asked to administer under the Nordic countries' Baltic Investment Programme, BIP. The use of funds has been audited.

Technical Assistance Fund

PROFIT AND LOSS ACCOUNT JAN. 1 – DEC. 31 (IN ECU)	1998	1997
Interest income	24,333.17	6,568.47
Interest expense	-	-2,649.09
Administrative expenses	-475,771.91	-810,641.85
Fund used in fiscal year	**-451,438.74**	**-806,722.47**

BALANCE SHEET AT DEC. 31 (IN ECU)		
Assets		
Cash and balances with banks	23,406.75	25,141.13
Placements with credit institutions	504,096.14	-
Tangible assets	18,150.57	14,924.09
Other assets	168.03	57.41
	545,821.49	**40,122.63**
LIABILITIES AND EQUITY		
Liabilities		
Other assets	42,141.60	-
Equity		
Paid-in capital		
Denmark	1,810,000.00	1,590,400.00
Finland	1,659,496.00	1,507,610.00
Iceland	85,750.00	75,685.00
Norway	1,548,750.00	1,370,325.00
Sweden	3,146,000.00	2,790,980.00
	8,249,996.00	**7,335,000.00**
Used funds:		
Used during previous fiscal periods	-7,294,877.37	-6,488,154.90
Used during fiscal year	-451,438.74	-806,722.47
Total used funds	**-7,746,316.11**	**-7,294,877.37**
	545,821.49	**40,122.63**

Equity Investment Fund

PROFIT AND LOSS ACCOUNT JAN 1. - DEC. 31 (IN ECU)	1998	1997
Interest income	119,366.34	19,083.83
Interest expense	-116,421.47	
Administrative expense	-2,532.83	-60,993.94
Capital decrease in fiscal year	**412.04**	**-41,910.11**

BALANCE SHEET AT DEC 31. (IN ECU)		
Assets		
Cash and balance with banks	194.48	7,627.35
Placement with credit institutions	1,995,003.15	464,175.26
Accured interest	4,078.67	454.89
Share investments	5,473,393.24	2,000,000.00
	7,472,669.54	**2,472,257.50**
Equity		
Paid-in capital		
Denmark	1,800,000.00	600,000.00
Finland	1,245,000.00	415,000.00
Iceland	82,500.00	27,500.00
Norway	1,462,500.00	487,500.00
Sweden	2,910,000.00	970,000.00
	7,500,000.00	**2,500,000.00**
Used funds:		
Used during previous fiscal periods	-27,742.50	14,167.61
Used during fiscal year	412.04	-41,910.11
	7,472,669.54	**2,472,257.50**

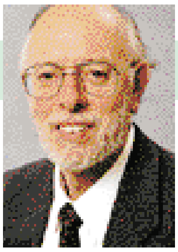
THE BOARD OF DIRECTORS

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 which involve lending, borrowing, and administrative questions.

The Board consists of ten members. Each member country appoints two Board members for a maximum period of four years. Two alternates are likewise appointed. The positions of Chairman and Deputy Chairman rotate among the member government representatives for two-year periods.

The Board of Directors usually meets ten times a year.

Denmark



Ib Katznelson
Deputy Secretary, Ministry of Economic Affairs (Chairman of the Board)

Lars Tybjerg
Managing Director, Financial Administration Agency

Alternates:
Jakob Esper Larsen
ambassador
Hans Denkov
Assistant Director, Danmarks Nationalbank

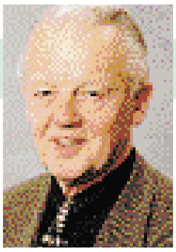
Finland

Bo Göran Eriksson
Director General, Ministry of Trade and Industry (Deputy Chairman of the Board)

Seppo Suokko
Deputy Director General, Ministry of Finance

Alternates:
Tytti Noras
Legal Counsellor, Ministry of Finance
Risto Paaermaa
Deputy Director General, Ministry of Trade and Industry

Iceland



Guðmundur Magnússon
Professor, University of Iceland

Thorsteinn Ólafsson
Chairman of the Board, Icelandic Investment Bank

Alternates:
Árni Magnússon
Special Assistant to the Minister, Ministry of Trade and Industry
Steingrímur A. Arason
Director General, The Government Student Loan Fund

Norway

Eli Telhaug
Deputy Director General, Ministry of Finance

Arild Sundberg
Director General, National Insurance Administration

Alternates:
Kari Gjesteby
Executive Director Wing III, Bank of Norway
Knut Andersen
Assistant Director General, Ministry of Finance

Sweden

Sven-Olof Johansson
Director General, Ministry of Finance

Bo Marking
Senior Advisor, Swedish Export Credit Corporation

Alternates:
Jan Landahl
Deputy Auditor General, The Swedish National Audit Office
Lena Rooth
Manager, International Financial Services, Swedish Trade Council

THE CONTROL COMMITTEE

Denmark

Kaj Ikast	Former Minister, Member of Parliament
Per Kaalund	Member of Parliament

Finland

Markus Aaltonen	Member of Parliament, Chairman of the Foreign Affairs Committee
Lauri Metsämäki	Member of Parliament, Chairman of State Auditors

Iceland

Siv Friðleifsdóttir	Member of Parliament
Ingvar Garðarsson	Authorized Public Accountant, Netverk Ltd

Norway

Bjarne Mørk-Eidem	Auditor General
Anders Talleraas	Civil engineer, Tallikon AS

Sweden

Bill Fransson	Managing Director, Täby Race Course (Chairman of the Control Committee 1998/99)
Per Olof Håkansson	Constructional engineer, former Member of Parliament

AUDITORS APPOINTED BY THE CONTROL COMMITTEE:

Krister Hamberg	Authorized Public Accountant, KPMG Wideri Oy Ab, Finland
Ole M Klette	Authorized Public Accountant, KPMG as, Norway

SECRETARY TO THE CONTROL COMMITTEE :

Guy Reinikainen	Authorized Public Accountant, KPMG Wideri Oy Ab, Finland

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, and provides an annual Auditors' Report to the Nordic Council of Ministers.

The Control Committee consists of ten members, who are appointed for a maximum period of two years. One representative for each Nordic country is appointed by the Nordic Council of Ministers and one by the Nordic Council.

The Control Committee usually meets twice yearly, in connection with the drawing up of the Bank's interim and annual financial statements.

THE MANAGEMENT COMMITTEE

Jón Sigurðsson (IS)
President and CEO
Joined NIB in 1994.
B.A., Stockholm University; M.Sc.Econ., London School of Economics and Political Science.

Carl Löwenhielm (S)
Executive Vice President
Head of the Nordic Lending Department. Joined NIB in 1996. MBA, Stockholm School of Economics.

Erkki Karmila (FIN)
Executive Vice President
Head of the International Lending Department. Joined NIB in 1993. Licenciate in Law, University of Turku; Master of Laws, Harvard University.

Bo Heide-Ottosen (DK)
Executive Vice President
Chief Financial Officer and Treasurer. Head of the Finance Department. Joined NIB in 1997.
Cand.oecon, University of Århus; SEP, Stanford University.

Siv Hellén (FIN)
Senior Vice President
General Counsel. Joined NIB in 1977.
LL.M., Helsinki University; eMBA, Helsinki School of Economics and Business Administration.

Oddvar Sten Rønsen (N)
Senior Vice President
Head of the Appraisal Department. Joined NIB in 1993.
B.A. (Econ.) Hon., Manchester University; M.Sc., Warwick University Graduate Business School, England.

Juha Kotajoki (FIN)
Senior Vice President
Head of the Risk Management Department. Joined NIB in 1986.
B.A., University of Turku.

ALTERNATE

Eivind Dingstad (N)
Senior Vice President
Senior Vice President at the International Lending Department. Joined NIB in 1987. B.A. (Econ.), Oslo School of Business Administration.

ADMINISTRATION (AS OF MARCH 1, 1999)

President and CEO	Jón Sigurðsson (IS)	
	Heidi Syrjänen (FIN)	Secretary to the President and CEO
Nordic lending	Carl Löwenhielm (S)	Executive Vice President
Denmark	Søren Kjær Mortensen (DK)	Vice President, Regional Manager
	Theodór Agnar Bjarnason (IS)	Deputy Regional Manager
Finland	Lars Selenius (FIN)	Vice President, Regional Manager
	Seppo Rinkineva (FIN)	Deputy Regional Manager
Iceland	Thór Sigfússon (IS)	Regional Manager
Norway	Lars R. Fuglesang (N)	Vice President, Regional Manager
	Kristin Vidhammer (N)	Deputy Regional Manager
Sweden	Lars Norén (S)	Vice President, Regional Manager
	Bengt Farneman (S)	Deputy Regional Manager
Credit Unit	Kenneth Grönholm (FIN)	Manager
	Carina Salminen (FIN)	Corporate Analyst
Nordic Legal Matters	Klaus Vilner (DK)	Vice President
	Ann Damström (FIN)	Senior Counsel
International lending	Erkki Karmila (FIN)	Executive Vice President
	Eivind Dingstad (N)	Senior Vice President
Asia	Jørgen D. Ilsøe (DK) (based in Singapore)	Vice President, Regional Manager
	Ulf Westergård (S)	Senior Manager
Latin America, Africa, Middle East	Lars-Åke Olsson (S)	Vice President, Regional Manager
	Marjo Harri (FIN)	Deputy Regional Manager
Central and Eastern Europe	Martin Relander (FIN)	Vice President, Regional Manager
	Dag G. Andresen (N)	Deputy Regional Manager
Baltic Countries	Lauri Johnson (S)	Regional Manager
	Yngve Söderlund (FIN)	Senior Manager
Private Sector Financing	Tarja Kylänpää (FIN)	Vice President
	Asko Heilala (FIN)	Senior Manager
	Eva Sandström (FIN)	Loan Officer
Project Administration	Liisa Niemelä (FIN)	Manager
International Legal Matters	Klaus Stubkjær (DK)	Vice President
	Ebbe Thalin (S)	Vice President
	Mirja Koskimäki (FIN)	Counsel

Finance

	Bo Heide-Ottosen (DK)	Executive Vice President, CFO and Treasurer
	Torben Nielsen (DK)	Vice President
	Britt-Marie Olin (FIN)	Financial Controller
Funding	Kari Kukka (FIN)	Vice President, Head of Funding
	Ulrik Ross (DK)	Funding Officer
Cash Management	Birgitta Lipponen (FIN)	Manager
	Anne Okko (FIN)	Senior Dealer
	Samu Slotte (FIN)	Dealer
Portfolio Management	Patrik Wainio (FIN)	Senior Dealer
	Jón Thorsteinsson (IS)	Financial Analyst
	Arne Dybdahl (N)	Financial Analyst
Financial Legal Matters	Sten Holmberg (S)	Vice President
	Åse Nilsson (S)	Vice President, Legal Adviser
	Pernelle Skytte (DK)	Counsel

Supporting departments

Accounting	Bengt Hongell (FIN)	Chief Accountant
	Stina Kontro (FIN)	Manager, Bank Accounting
	Johan Öhman (FIN)	Manager, Administrative Accounting
Appraisal Department	Oddvar Sten Rønsen (N)	Senior Vice President
	Ann Charlotte Berglund (FIN)	Senior Project Analyst
	John Richard Hansen (N)	Project Analyst (environment)
	Tord Holmström (S)	Senior Project Analyst
	Vidar Omholt (N)	Senior Project Analyst
	Roland Randefeldt (S)	Senior Project Analyst (environment)
	Johan Wallin (FIN)	Senior Analyst
Budgeting and Financial Planning	Johan Smeds (FIN)	Head of Budgeting and Financial Planning
	Christian Duncker (FIN)	Budget Economist
Finance and Loan Administration	Christer Björklund (S)	Vice President
	Lena Moksi (FIN)	Manager, Finance Administration
General Counsel's Office	Siv Hellén (FIN)	Senior Vice President, General Counsel
	Christina Stenvall (FIN)	Counsel
	Jonas Lång (FIN)	Counsel
	Catarina Doepel (FIN)	Secretary to the Board
Information and Public Relations	Christian Söderström (FIN)	Manager
	Jamima Löfström (FIN)	Information Officer
Information Technology	Pertti Vahermaa (FIN)	Manager, Data Administration
Internal Auditing	Martin Gardberg (FIN)	Internal Auditor
Personnel and Office	Christer Boije (FIN)	Vice President
	Carola Lehesmaa (FIN)	Manager, Personnel Administration
	Sagitta Lindberg-Kari (FIN)	Manager, Salary Adminstration
	Ralf Nystén (FIN)	Manager, Property Administration
Risk Management Department	Juha Kotajoki (FIN)	Senior Vice President
	Susanne Fagerstolt (FIN)	Bank Analyst
	Sigurður Ingólfsson (IS)	Risk Analyst
	Jari Lievonen (FIN)	Risk Analyst

NORDIC LOANS AGREED ON AND DISBURSED IN 1998

Sector / Customer	Project	Disbursed ECU million	% of total disbursements
MANUFACTURING INDUSTRY		**464.0**	**44.1 %**
Food		**7.5**	**0.7 %**
Grandi hf	Investment in fishmeal factory.		
Scan Farmek ek.för.	Program of rationalization and efficiency improvement at production facilities.		
Wood, pulp and paper		**22.1**	**2.1 %**
ABB Credit Oy / Sunila Oy	Investment in digester at pulp mill.		
AB SCA Finans	R&D in the body care, packaging and graphic paper sectors.		
Chemicals		**89.6**	**8.5 %**
Faxe Paper Pigments (Denmark) A/S	US-owned company acquiring shares in Danish company and moving European office to Denmark.		
Borealis A/S	Ethylene production capacity increase at Stenungsund, Sweden.		
Rosti A/S	Acquisition of and investments in Swedish company.		
Norsk Hydro ASA	Company acquisitions and enlargement of existing facilities in Sweden and Denmark.		
Minerals		**20.4**	**1.9 %**
FLS International A/S	Energy-saving, environmentally related investment in fixed assets.		
PLM AB	Company acquisition in Denmark.		
Metals		**105.9**	**10.1 %**
Outokumpu Oyj	Alteration and enlargement of zinc plant at Kokkola, Finland.		
Rautaruukki Oyj	Modernization and alteration of continuous casting plan at Raahe, Finland.		
Icelandic Alloys Ltd	Investment in a third smelting furnace for production of ferrosilicium.		
SSAB Swedish Steel AB	Capacity-boosting investments in manufacture of niche products.		
Boliden Treasury AB (publ)	Investment in copper smelter at Rönnskär, Sweden.		
Engineering		**213.6**	**20.3 %**
Fiskars Corporation	Capacity-enlarging investments in Finland and Denmark.		
Cummins Wärtsilä SAS	Investment in R&D and production of diesel engines.		
Partek Corporation	Acquisition of shares in a Swedish company.		
Villavent AS	Investment in new main facility for the Norwegian operation.		
AB Electrolux (publ)	Production facility investments in Denmark, Norway and Finland.		
Scania CV AB (publ)	Investments in R&D concerning alternative fuels etc.		
Autoliv AB (publ)	Development of systems for personal safety in cars.		
Sundry		**4.8**	**0.5 %**
Color Print A/S	Investment in production facilities and in the establishment of a sales company in Sweden.		
Kerko Sport Ltd	Investment in machine line-up, control and information systems in the Nordic units.		
ENERGY AND MINERAL EXTRACTION		**95.6**	**9.1 %**
Dansk Olie- og Gasproduktion A/S	Enlargement of three oil fields in the Danish sector of the North Sea.		
Nordvestsjællands Energiforsyning a.m.b.a, NVE	Investment in two natural-gas-fired CHPs.		
Dansk Naturgas A/S	Natural gas storage facility at Stenlille.		
Urbaanituuli Oy	Investment in coastal wind farm outside Pori, Finland.		
Municipality of Reykjavík	Investment in geothermal power station at Nessjavellir.		
Hitaveita Suðurnesja	Investment in geothermal energy sources as Svartsengi, Iceland.		
RARIK	Alternation and improvement of Iceland's national grid.		
TRADE AND SERVICES		**72.7**	**6.9 %**
Jyväskylän Seudun Puhdistamo Oy	Modernization and development of purification capacity at the wastewater processing plant.		
Norsk Hydro ASA	Company acquisition and enlargement of existing facilities in Sweden and Denmark.		
Narvesen ASA	Company acquisition in Sweden.		
Norsk Avfallshandtering AS (NOAH)	Investment in facility for organic specialized waste.		
Gate Gourmet Norge AS	Investment in production facility at Gardermoen Airport, Oslo.		
Kappala Association	Modernization and development of the Kappala wastewater process plant, Sweden.		
El-Giganten Sverige Grossist AB	Investment in central warehouse for the Nordic area, located in Jönköping, Sweden.		
Municipality of Karlstad	Investment in new airport.		

Sector / Customer	*Project*	*Disbursed ECU million*	*% of total disbursements*
TRANSPORT AND COMMUNICATION		**273.6**	**26.0 %**
Transport		**170.0**	**16.1 %**
Port of Aarhus	Investment in new container terminal.		
FLS International A/S	Enlargement and streamlining of transport and distribution system in the Nordic area.		
Dansk Olierør A/S	Credit line for upgrading oil transport capacity.		
Maersk Air A/S	Purchase of Boeing 737 - 700 and Boeing 737 - 500 aircraft.		
Tieyhtiö Nelostie Oy	Rebuilding of motorway section between Järvenpää - Lahti, Finland.		
Flugleiðir hf / Icelandair	Purchase of Boeing 757 - 200 aircraft as part of a larger investment programme.		
Braathens ASA	Purchase of Boeing 737 - 700 aircraft.		
Handelsbanken Finans AB (publ) / Nordwaggon AB	Leasing of Rautaruukki/Transtech's multipurpose goods wagons to Nordwaggon.		
ABB Credit Finans AB / Nordwaggon AB	Leasing of Rautaruukki/Transtech's multipurpose goods wagons to Nordwaggon.		
Östergötland County Public Transport	Investment in local rail transport in the south-east of Sweden.		
Communication		**103.6**	**9.8 %**
Sonera Group plc	Modernization of the permanent telecommunications network in Finland with uniform digital technology.		
Føroya Tele	Digitalization of the permanent telephone network and establishment of a mobile telephone network in the Faeroes.		
Teracom AB	Investment in nationwide digital radio and television network.		
Sweden Post AB (publ)	Investment in a new mail distribution system.		
Nordiska Satellitaktiebolaget	Satellite for distribution and transmission of television and radio broadcasts and data communication.		
BANKING AND FINANCE		**140.5**	**13.3 %**
Banking		**34.6**	**3.3 %**
Íslandsbanki hf	Credit line for onlending to businesses and local authorities in Iceland.		
Landsbanki Íslands hf	Credit line for SME project in Iceland.		
Búnadarbanki Íslands hf	Credit line for onlending to projects in Iceland's SME sector.		
Sparbanken Gripen	Financing of onlending to SMEs.		
Other financing		**105.9**	**10.1 %**
FIH A/S-Finance for Danish Industry	Onlending for energy, environment and R&D projects.		
Lánasjóður sveitarfélaga	Credit line for onlending towards Icelandic local authority investments.		
Investor AB (publ)	Onlending for R&D environmental improvements.		
REGIONAL LOANS		**6.8**	**0.6 %**
Government of Åland	Onlending to projects in the tourist, fisheries and marine transport sectors.		
Byggðastofnun	Regional loan for onlending to businesses and local authorities in Iceland.		
TOTAL 1998		**1,053.2**	**100.0 %**

A more detailed description of the loan projects will be found on pages 21-25.

Loans agreed on but not disbursed are included in the list of customers but have not been quantified.

INTERNATIONAL LOAN AGREEMENTS IN 1998

Borrower/Project	*Amount (corresponding to millions of ECU)*	
PROJECT INVESTMENT LOANS		
Estonia		
Eesti Post A.S.	5,3 million	Financing of a distribution center for the Estonian Post Office.
Philippines		
National Power Corporation	23,2 million	Loan to finance repairs of underwater cables as part of a World Bank project for energy supply using geothermal power.
Poland		
Polkomtel S.A.	35,4 million	Loan for enlargement of the Polish mobile telephone network, with Danish ownership participation.
Romania		
Compania Nationala de Electricitate S.A. (CONEL)	13,6 million	Loan to the national electricity corporation for upgrading two CHPs in north-eastern Romania.
Czech Republic		
CEZ A.S.	46,1 million	A credit line to the CEZ power corporation to finance environmental and efficiency-related improvements.
Tunisia		
Tunisie Telecom	27,1 million	A credit frame to finance Telecom projects for permanent and mobile lines.
Turkey		
Republic of Turkey	9,0 million	Additional finance for an enlarged underground railway project in the city of Izmir.
Turkcell Iletisim Hizmetleri A.S.	22,6 million	Loan to finance a nationwide GSM network in Turkey with a Finnish proprietary interest.
Vietnam		
Republic of Vietnam	18,1 million	A credit line for industrial and infrastructural projects of mutual interest for Vietnam and the Nordic countries.
BALTIC INVESTMENT LOANS		
Estonia		
Haapsalu Uksetehas A.S.	0,7 million	Loan to joinery factory for production of doors and windows.
ENVIRONMENTAL INVESTMENT LOANS		
Lithuania		
Republic of Lithuania	20,0 million	A credit frame for local government and public priority environmental investments.
Russia		
State Unitary Enterprise Vodokanal St Petersburg	15,7 million	Wastewater processing project in St Petersburg, jointly financed with the EBRD and NEFCO.
TOTAL 1998	**236,8 MILLION**	

LONG TERM BORROWING 1998

Currency	Amount (million)	Amount ECU (million)	Issue price	Coupon rate %		Maturity/Year	Leading/Arranging Bank
PUBLIC SYNDICATED BOND ISSUES							
ITL	150 000	77	100.9080 %		1)	2009	Citibank N.A./ JP Morgan Securities Ltd/ Banco Commercial Italiano
DKK	750	99	102.2480 %	5.5000 %		2008	Generale Bank
SEK	500	58	101.5000 %	5.5000 %		2004	Unibank A/S
USD	500	459	101.2510 %	5.8750 %		2008	Salomon Smith Barney
CZK	500	14	102.2500 %	13.8750 %		2004	Wood Commerz a.s.
PLN	75	20	101.0000 %	17.7500 %	2)	2002	Lehman Brothers International (Europe)
ZAR	500	92	21.6000 %	0.0000 %		2010	RBC DS Global Markets
GRD	10 000	29	101.0000 %	7.5000 %		2001	EFG Eurobank S.A.
TWD	6 000	159	97.1154 %	6.0800 %		2002	Citibank N.A.
NOK	425	48	101.6000 %	5.5000 %		2005	Unibank A/S
GBP	200	286	100.8850 %	5.7500 %		2008	Royal Bank of Canada
OTHER LISTED BORROWINGS							
HKD	200	24	100.0000 %	13.0000 %		1999	Morgan Stanley & Co International Limited
FRF	600	90	100.0000 %		4)	2008	Société Générale
SEK	500	54	97.7390 %	5.2000 %		2008	Svenska Handelsbanken
SEK	1 000	109	97.9460 %	4.9000 %		2007	Svenska Handelsbanken
SEK	200	22	100.0000 %	4.8500 %		2003	Skandinaviska Enskilda Banken
SEK	500	54	98.8250 %	4.8000 %		2005	Svenska Handelsbanken
SEK	500	54	97.6560 %	4.7500 %		2007	Svenska Handelsbanken
SEK	500	54	99.8940 %	5.1500 %		2007	Skandinaviska Enskilda Banken
SEK	100	11	98.0540 %	4.9000 %		2007	Svenska Handelsbanken
SEK	40	4	99.0880 %	5.2000 %		2003	Svenska Handelsbanken
SEK	100	11	100.0000 %	5.1600 %		2003	Merita-Nordbanken

1) Fixed/Reverse Dual Currency
2) Linked to PLN/DEM rate
3) Reverse Dual Currency
4) Linked to 10 year swap rate and 10 year treasury rate
5) Zero coupon
6) Linked to JPY/USD rate
7) Prime Lending Rate

INTERNATIONAL LOAN AGREEMENTS IN 1998

OTHER BORROWINGS

Currency	Amount (million)	Amount ECU (million)	Issue price	Coupon rate %		Maturity/Year	Leading/Arranging Bank
HKD	85	10	100.0000 %	13.0000 %		1999	JP Morgan Securities Ltd
JPY	10 000	73	100.0000 %	4.0650 %		1998	Goldman Sachs International
HKD	50	6	100.0000 %	8.4500 %		2002	JP Morgan Securities Ltd
HKD	50	6	100.0000 %	8.6000 %		2003	JP Morgan Securities Ltd
JPY	3 000	20	100.0000 %	6.3600 %		2000	ABN Amro Bank
JPY	1 000	7	100.4000 %		3)	2013	Nikko Europe PLC
HKD	50	6	100.0000 %	8.9400 %		2003	J.P. Morgan Securities Ltd
HKD	50	6	100.0000 %	8.9400 %		2003	J.P. Morgan Securities Ltd
HKD	200	23	100.1250 %	8.5000 %		2000	DKB Asia Ltd
PLN	95	25	100.0000 %	21.0000 %	2)	1999	Morgan Stanley Bank AG
HKD	1 000	117	100.0000 %	9.2000 %		2003	HSBC Markets Ltd
HKD	50	6	100.0000 %	9.9200 %		2003	J.P. Morgan Securities Ltd
HKD	100	12	100.0000 %	10.1500 %		1999	J.P. Morgan Securities Ltd
HKD	50	6	100.0000 %	10.0200 %		2000	J.P. Morgan Securities Ltd
HKD	50	6	100.0000 %	10.0700 %		2001	J.P. Morgan Securities Ltd
HKD	400	47	100.0000 %	9.4800 %		1999	Société Générale
JPY	3 000	20	100.0000 %		3)	2008	Merrill Lynch Inc.
HKD	100	12	100.0000 %	10.3000 %		1999	Deutsche Bank AG
HKD	200	23	100.0000 %	10.3000 %		1999	Merill Lynch International
HKD	50	6	100.0000 %	10.5000 %		2008	Deutsche Bank AG
HKD	100	12	100.0000 %	11.0500 %		2000	J.P. Morgan Securities Ltd
HKD	50	6	100.0000 %	12.0800 %		1999	J.P. Morgan Securities Ltd
HKD	75	9	100.0000 %	11.2000 %		2000	J.P. Morgan Securities Ltd
HKD	50	6	100.0000 %	12.1200 %		2000	J.P. Morgan Securities Ltd
HKD	150	17	100.0000 %	10.8000 %		1999	Deutsche Morgan Grenfell
HKD	110	13	100.0000 %	10.2500 %		1999	Deutsche Bank AG
HKD	200	23	100.0000 %	9.7300 %		1999	BNP Oakreed
HKD	102	5	37.8301 %	0.0000 %	5)	2008	Deutsche Bank AG
HKD	50	6	100.0000 %	10.4500 %		2000	J.P. Morgan Securities Ltd
HKD	100	12	100.0000 %	10.0000 %		1999	Deutsche Morgan Grenfell
JPY	4 000	25	100.0000 %		3)	2028	Merrill Lynch Inc.
HKD	75	9	100.0000 %	10.0000 %		2003	BNP Oakreed
HKD	300	35	99.9900 %	10.4700 %		1999	Société Générale/Hang Seng Bank
HKD	200	23	100.1000 %	11.0000 %		1999	Warburg Dillion Read
SEK	200	22	99.7838 %	5.0000 %		2003	ABN Amro Bank
JPY	2 000	13	100.4000 %		6)	2018	Daiwa Europe Ltd
HKD	100	11	100.0000 %		7)	1999	Deutsche Bank AG
NOK	100	11	100.0000 %	5.9700 %		2003	CIBC Wood Gundy plc
NOK	168	19	103.6800 %	9.0000 %		2000	Unibank A/S

1) Fixed/Reverse Dual Currency
2) Linked to PLN/DEM rate
3) Reverse Dual Currency
4) Linked to 10 year swap rate and 10 year treasury rate
5) Zero coupon
6) Linked to JPY/USD rate
7) Prime Lending Rate

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