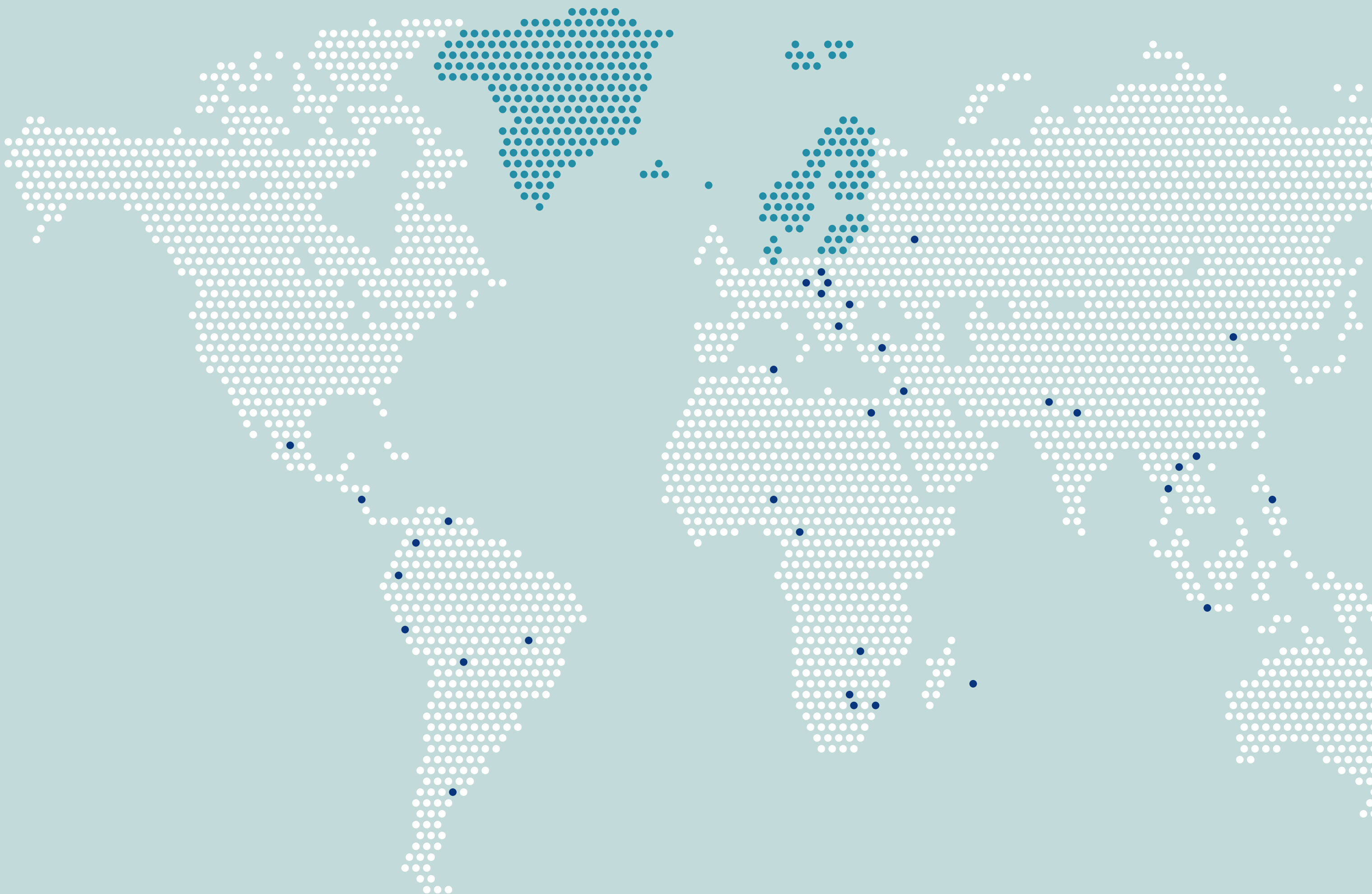
NORDIC INVESTMENT BANK

Annual Report 2005



- Member countries
- Borrower countries

NIB's member countries are Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. NIB finances projects both within and outside the member countries. The map shows the member and borrower countries at year-end 2005. NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavík, Stockholm and Singapore.

CONTENTS

THIS IS NIB

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

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

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

NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. On 31 December 2005, the Bank had 150 employees.

FINANCING INVESTMENTS AND PROJECT EXPORT

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

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

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

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

LENDING IN MEMBER COUNTRIES

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

NIB FINANCES

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

LENDING OUTSIDE MEMBER COUNTRIES

The core of NIB's international lending operations consists of Project Investment Loans. These are long-term loans—up to 20 years—for projects in emerging markets in Africa and the Middle East, Asia, Central and Eastern Europe as well as Latin America. Loans are primarily granted to the borrowing countries' governments or public financial institutions.

Project Investment Loans may also be granted without a government guarantee, particularly to private sector infrastructure investments. The loans are granted for up to half of the project's total cost. Project Investment Loans can be used to finance all types of project costs, including local costs. The loans are granted at market-based interest rates in a currency preferred by the customer. Project Investment Loans have been granted for projects in approximately 40 countries.

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

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

Key figures

(in EUR million)

	2005	2004
Net interest income	169	163
Core earnings	150	147
Profit	165	172
Loans disbursed	2,092	1,348
Loan agreements	2,616	1,657
Loans outstanding	11,717	10,279
Guarantees outstanding	25	25
New debt issues	2,059	1,808
Debts evidenced by certificates	14,456	12,355
Net liquidity	3,101	2,876
Total assets	18,178	16,363
Equity/total assets (%)	10.7	10.9
Profit/average equity (%)	8.9	10.1
Number of employees	150	147

The year 2005 in brief

- three new member countries: Estonia, Latvia and Lithuania
- volume of lending at an all-time high, up 58% year-on-year
- 84 new loan agreements, including 55 in the member countries
- loans outstanding in 37 countries, including 8 member countries
- first NDEP project in Northwest Russia completed, with NIB as lead bank
- framework agreements with Sri Lanka, Serbia and Montenegro, and Ukraine
- fourth USD 1 billion 5-year global benchmark issue
- profit totalling EUR 165 million
- dividends to the member countries totalling EUR 55 million
- Johnny Åkerholm new President and CEO

MISSION AND STRATEGY

MISSION

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

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

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

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

STRATEGY

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

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

PRESIDENT'S STATEMENT

The year 2005 was characterised by high activity and good results for NIB. It was also the first year of enlarged membership, and the Baltic countries participated fully and actively in the governance and operations of the Bank.

High global liquidity was reflected in all the markets where the Bank is active, which made the Bank's efforts to create added value even more demanding. As this ample liquidity is seeking profitable outlets, the differences in return between high and low risk investments have narrowed. In addition, the new member countries have benefited from their membership in the EU, which has both increased their access to different EU funds and improved their risk ratings. As these countries have also achieved good economic growth, private capital is in abundant supply. Moreover, the Bank's Nordic counterparties have continued to enjoy good credit ratings and low interest rates.

Despite this situation, there was a high demand for NIB lending. The Bank expanded its disbursements to counterparties in the member countries from EUR 1.1 billion in 2004 to EUR 1.6 billion and to projects outside the member countries from EUR 0.3 billion in the previous year to EUR 0.5 billion in 2005. This is clearly above the long-term trend, and the loan portfolio of the Bank expanded to EUR 11.7 billion, some 80 per cent of which went to counterparties in the member countries. The rest of the lending was allocated to some 30 non-member countries around the world.

Investment activity in most of the member countries picked up, and while private financial institutions provided the bulk of the necessary financing, NIB contributed by extending longer maturities in areas where this is essential due to the long–term nature of the projects, e.g. in infrastructure and environment.

It should, however, be noted that the expansion in the Baltic countries remained muted, since the good supply of funding to these countries reduced their financing needs. Nonetheless, the Bank succeeded in creating added value by financing infrastructure investments in energy transmission and ports as well as by intensifying cooperation with local banks.

In the non-member countries, activity was particularly high in Poland, Brazil, China and Vietnam. This reflected high demand for international investment projects. The Bank continued to develop contacts with countries where there is a strong business interest in the member countries and which could benefit from external financing. During the year, framework agreements were concluded with Sri Lanka, Serbia and Montenegro, and Ukraine, and the Bank is now in a position to identify projects suitable for financing in all these countries.

Financing environmental improvements in general and environmental projects within the Northern Dimension Environmental Partnership (NDEP) in particular continued to figure high on the Bank's agenda during the year. Construction of the Southwest Wastewater Treatment Plant in St. Petersburg, the first NDEP project led by NIB, was completed and the plant was inaugurated in September. The NDEP concept has proven highly valuable in many ways. It has generated projects which produce substantial reductions in emissions, provided a platform for cooperation with the Russian authorities, and opened up the use of new opportunities and innovative financing mechanisms for Russian infrastructure projects.

The Bank was able to continue to fund itself on favourable terms. As in the previous three years, a one billion US dollar benchmark loan was issued in 2005. The Bank raised most of the funds in the US dollar and the biggest investor base remained institutional investors in Asia.

The Bank has in recent years undertaken particular efforts to renew its risk management systems and its IT infrastructure. These are important for the efficient management of the Bank as well as to ensure that the Bank applies best practices in its activities. An economic capital model was introduced in the beginning of 2005 as a guide to the allocation of the Bank's capital, and it is increasingly used as a part of the Bank's processes. Also the risk rating system was renewed to better reflect recent developments in the market, for example, the requirements of the Basel II framework.

In 2006, NIB will celebrate its 30th anniversary. Over the years, the Bank has demonstrated its success in fulfilling its mission—to contribute to strengthening and developing the economies of its member countries. The anniversary provides a good opportunity to reflect on the future challenges and focus of the Bank, given that financial markets have drastically changed since NIB started its operations. Liquidity cycles will continue to come and go, but more importantly, financial markets have fundamentally changed in the last three decades. They are fully deregulated and operate on a truly global scale. Also, there has been a vast development of instruments which make it possible to trade risk and hence also manage risks much more effectively. As a result, the private financial markets have filled many of the financial gaps that NIB was initially created to do.

Even with these changes in the market, the Bank has a clear role to play. Its position as a highly rated international financial institution provides it with some clear strengths, which can be used to the benefit of the economies and the environment of the member countries. It can, irrespective of the cycles, provide long-term finance at reasonable rates, it can support the increasingly important internationalisation process, and it is strong in cross-border activities. The Bank plays, therefore, a special role when it comes to financing activities where long-term finance is needed and to enhancing the global attractiveness of the Baltic Sea region. Much remains also to be done when it comes to improving the environment in the member countries, in the neighbouring area and globally.

In 2006 the Bank will continue to identify activities where it can create added value. While this will not lead to any dramatic refocusing of its activities, this process is likely to produce a gradual shift to non-member countries, in particular in the neighbouring area. Given ample liquidity and the related appetite on the part of the private sector to take on risks, the Bank's expansion in 2006 is not likely to be as rapid as in previous years.

The Bank has over the years avoided excessive risks, which has made it possible to manage the Bank with a relatively small staff. This basic approach will also hold for the future, but the Bank will, of course, have to constantly assess its supply of products against its opportunities to provide added value. In order to further enhance effectiveness in the Bank, on the one hand, and to further develop the credit process on the other, the Bank is in the process of being reorganised. All business origination will be organised as one function and separated from credit and analysis. The Bank's IT, management of human resources and some other administrative functions will be organised under one function: planning and administration. Three new members of the Management Committee have been appointed to lead these new functions.

I wish to extend my sincere thanks to the personnel of the Bank for a successful year. I would also like to thank all the Bank's stakeholders for your fruitful cooperation and look forward with confidence to a productive period ahead.

Helsinki in March 2006

Johnny Åkerholm

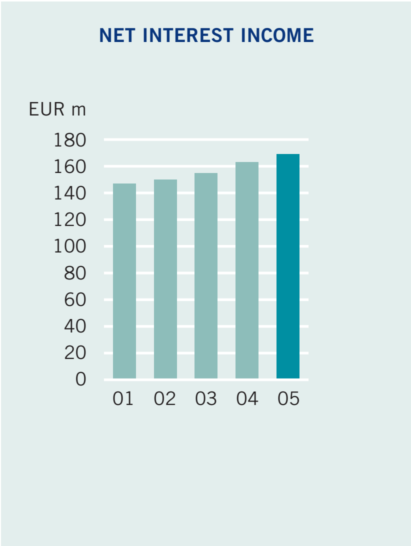
FIVE-YEAR COMPARISON

(Amounts in EUR million)

	2005	2004	2003	2002	2001
PROFIT AND LOSS ACCOUNT					
Net interest income	169	163	155	150	147
Commission income and expenses etc.	9	8	6	7	7
General administrative expenses, depreciation and write-down	-28	-24	-22	-22	-23
Core earnings [1]	**150**	**147**	**139**	**135**	**130**
Adjustments to fair value in trading portfolio	11	20	3	10	3
Credit loss / recovery	-	4	-	-3	-
Adjustment to hedge accounting	5	2	8	-	-3
Profit for the year	**165**	**172**	**151**	**142**	**131**
BALANCE SHEET					
Assets					
Cash and cash equivalents, placements and debt securities	4,984	4,546	4,384	4,304	3,734
Loans outstanding	11,717	10,279	10,522	10,110	10,067
Intangible and tangible assets	42	42	37	36	36
Accrued interests and other assets	1,435	1,495	1,723	1,498	1,187
Total assets	**18,178**	**16,363**	**16,666**	**15,948**	**15,024**
Liabilities and equity					
Amounts owed to credit institutions	568	417	367	381	254
Debts evidenced by certificates	14,456	12,355	13,087	13,150	12,298
Accrued interests and other liabilities	1,209	1,811	1,563	877	1,031
Paid-in capital	419	404	404	404	404
Statutory Reserve	645	645	645	554	529
Credit risk funds	667	550	440	429	362
Payments to the Bank's Statutory Reserve and credit risk funds, receivable	43	-	-	-	-
Other value adjustments	7	9	10	11	14
Profit for the year	165	172	151	142	131
Total liabilites and equity	**18,178**	**16,363**	**16,666**	**15,948**	**15,024**
ACTIVITIES					
Disbursements of loans to					
Member countries [2]	1,574	1,033	1,277	1,268	1,179
Other countries	518	315	564	380	482
Total disbursements of loans	**2,092**	**1,348**	**1,841**	**1,648**	**1,661**
Issued guarantees					
Member countries [2]	-	-	-	-	25
Other countries	-	-	-	-	-
Total guarantees issued	**-**	**-**	**-**	**-**	**25**
Loans outstanding at year-end					
Member countries [2]	9,501	8,192	8,350	7,975	7,748
Other countries	2,216	2,087	2,172	2,135	2,319
Total loans outstanding	**11,717**	**10,279**	**10,522**	**10,110**	**10,067**
Guarantee commitments at year-end					
Member country guarantees [2]	25	25	29	32	33
Other country guarantees	-	-	-	-	-
Total guarantee commitments	**25**	**25**	**29**	**32**	**33**
Annual debts evidenced by certificates (including capitalisations)	2,059	1,808	3,258	3,320	2,099
Number of staff at year-end	150	147	147	144	137

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

[2] Estonia, Latvia and Lithuania became members of the Bank on 1 January 2005. As from that date, they are included in the figures for the member countries.


NET INTEREST INCOME
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180
160
140
120
100
80
60
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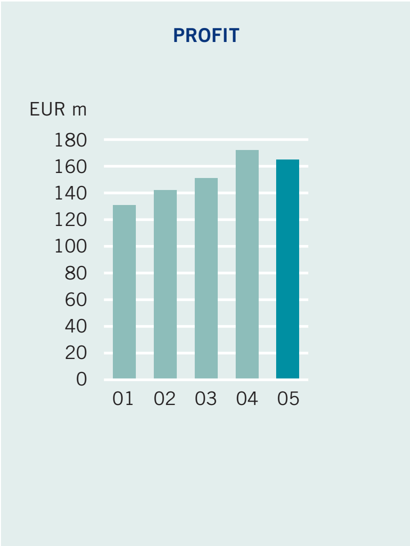
01 02 03 04 05


PROFIT
EUR m
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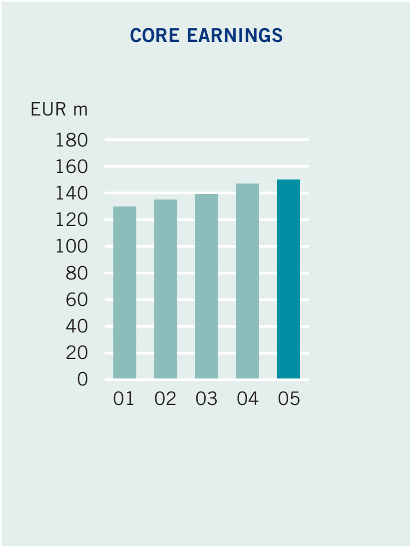
CORE EARNINGS
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160
140
120
100
80
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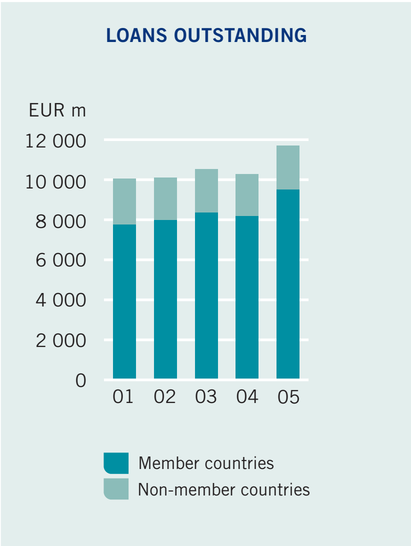
LOANS OUTSTANDING
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8 000
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4 000
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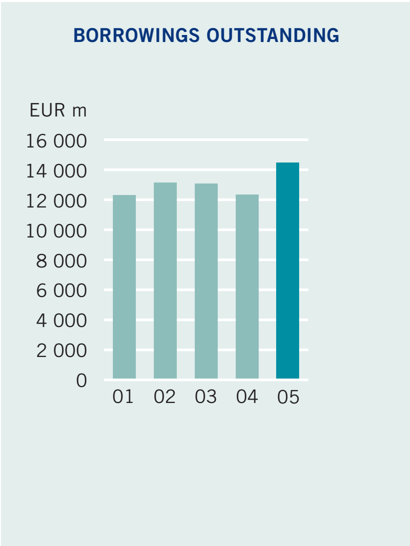
Member countries
Non-member countries


BORROWINGS OUTSTANDING
EUR m
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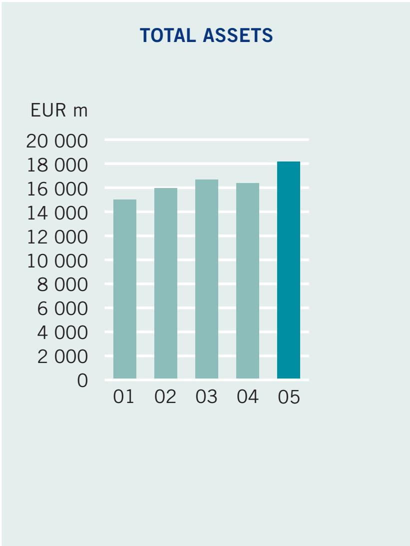
12 000
10 000
8 000
6 000
4 000
2 000
0
01 02 03 04 05


TOTAL ASSETS
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18 000
16 000
14 000
12 000
10 000
8 000
6 000
4 000
2 000
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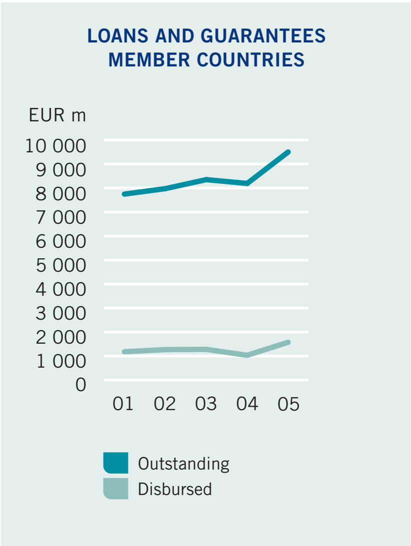
01 02 03 04 05


LOANS AND GUARANTEES
MEMBER COUNTRIES
EUR m
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9 000
8 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
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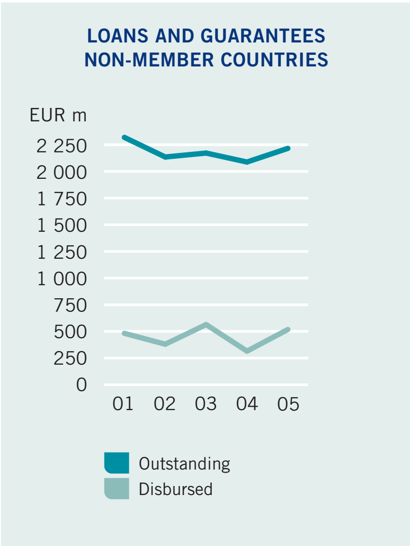
01 02 03 04 05
Outstanding
Disbursed


LOANS AND GUARANTEES
NON-MEMBER COUNTRIES
EUR m
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2 000
1 750
1 500
1 250
1 000
750
500
250
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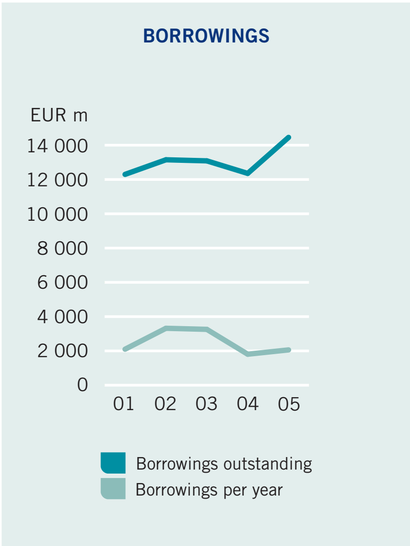
Outstanding
Disbursed


BORROWINGS
EUR m
14 000
12 000
10 000
8 000
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4 000
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0
01 02 03 04 05
Borrowings outstanding
Borrowings per year

ECONOMIC DEVELOPMENT IN MEMBER COUNTRIES

Global growth was in 2005 mainly driven by the United States and China, while growth in Europe and Japan was more modest. In 2006, growth is expected to continue at a rapid pace, although there are several uncertainties. The most significant of these are global imbalances, the price of oil and their impact on the international economy.

Global imbalances remain extraordinarily high in the world economy and pose one of the main potential threats to global growth. In the euro area, growth in GDP stayed at 1.2% in 2005. Economic growth in the United States increased in 2005 to close to 4.5%, and in Japan growth was about 3% in the same period. GDP growth in the OECD countries increased to about 3% in 2005. European economies are estimated to show a more modest recovery, and growth in the euro area is estimated in 2006 at slightly above 2%, while GDP growth in the USA is forecasted at 3.5%. For the OECD countries, an average GDP growth of 2.9% is foreseen for 2006.

Average economic growth in the Bank's member countries slowed to below 3% in 2005 from a level of about 3.3% the year before. GDP growth in the Bank's member countries is estimated at 2.7% in 2006, or roughly the same growth rate as in 2005. In the Baltic countries—Estonia, Latvia and Lithuania—economic growth is driven by an increase in investments at above 10% per year in each of them. In the Nordic countries, the growth picture is more diverse. Private consumption is the main driver of GDP growth in Finland, while in all the other Nordic countries primarily the gross fixed investment has been the source of economic growth.

EU support funds will be important for GDP growth in the Baltic countries. These countries joined the EU in 2004 and have since then been supported in the catching up process towards the average EU income level. This process is supposed to take some time, but the Baltic countries are determined to carry it through as quickly as possible. The economic policies in all three countries are set up with the goal of participation in the Economic and Monetary Union (EMU). The final step in this process is to adopt the euro as the national currency and the European monetary policy. At the earliest this will happen in the beginning of 2007.

NIB's member countries aim at sustainable economic growth.

All the Nordic countries aim at sustainable economic growth. A prerequisite is that the countries at the same time can maintain high employment rates and low and stable inflation levels. To reach these goals, the countries strive to maintain sound public finances and focus strictly on long-term economic policy measures. The demographic development in the Nordic countries will in the coming years change towards an increased share of retired people in relation to the number of actively working people. Public savings, debt reductions and efforts to increase employment are most necessary.

INVESTMENTS

Investment growth in the member countries is expected to slow down in the next few years. The recent high growth rates in the member countries and especially in the Baltic countries will during the next two years become more moderate. However, both Latvia and Lithuania are still expected to show high investment growth rates. This is mainly the result of the favourable economic environment in the area. The effects of the recent EU accession are still significant in the Baltic countries.

Fig. 1

Fig. 2

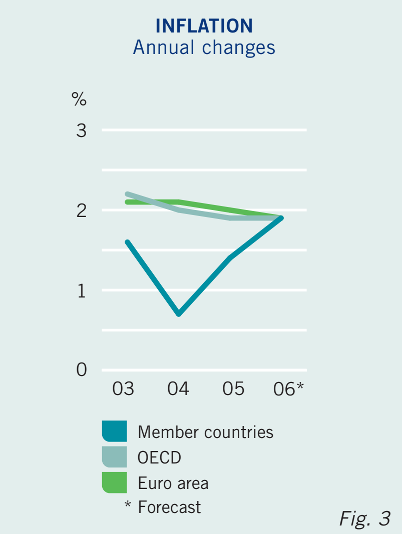


Fig. 3

As a result of the positive economic outlook and low interest rates in Denmark, the contribution from business investments to economic growth is expected to increase in 2006. Business investment in Finland has been weak, particularly in plant and machinery, and is only expected to strengthen gradually. In Iceland, the construction of large energy and aluminium projects will be finalised in 2006–2008. As no decisions have been taken for new projects in Iceland, a steep decline in business and infrastructure investments will be seen in the next few years. In Norway, the high growth rate of investment had already slowed down by the end of 2005. Both in the offshore sector and in mainland Norway, investment will grow at a lower rate in 2006 than in previous years. The upswing in Swedish investment that began in 2004 will continue. High capacity utilisation in industry and favourable financial conditions are driving investment growth. Public investments will also grow during the forecast period.

The investment share in GDP will gradually decline in Estonia, down from an extraordinarily high pre-accession share of above 30%. Expanding gross fixed capital formation in Latvia will affect the growth of GDP. An investment-friendly environment, a stable and positive macroeconomic outlook and support from European Union funds will promote infrastructural development. A rapid expansion of lending to consumers in Lithuania has increased investments. The investments will successively represent a larger part of GDP. The share of gross capital formation is estimated at more than 24% of GDP for 2005.

INFLATION

On the average, the rate of inflation has been on a low level in the member countries, 0.4% in 2004 and 1.4% in 2005. A small increase in the average inflation rate is expected for 2006, but the eight member country average will stay on the same level as the inflation in the OECD area and the euro zone, or an estimated 2% in 2006.

Given Estonia's intention to introduce the euro in 2007, special attention is being paid to compliance with the Maastricht criteria. Inflation remains the main cause for anxiety in all three Baltic countries, especially in Latvia, where rapid price levelling with the rest of the EU has been holding CPI at a 7% rate since summer 2004. Accession to the EU has also pressed consumer prices up in Estonia and Lithuania that ended year 2005 with inflation at 3.6% and 3.0% respectively. For 2006, inflation rates are forecasted at 5.5–5.8% in Latvia, 2.7% in Estonia and 2.3% in Lithuania taking into account all measures that might affect it. Finland's inflation was 1% in 2005, the lowest in the euro zone and almost entirely accounted for by higher energy prices. Higher import prices, especially for intermediate goods, as well as demand pressures, are likely to push inflation up somewhat in 2006. In 2005, the CPI change was slightly above 4% in Iceland, which is above its central bank target rate of 2.5%. Inflationary pressure is forecasted to rise in response to overheating and annual inflation is estimated at roughly the same rate of 4% in 2006. The increase in consumer prices in Sweden of only 0.6% in 2005 was due to slow growth in labour costs reflected in weak demand growth.

ECONOMIC FORECAST

When looking beyond 2006, more moderate economic development is expected in the member countries. On average, the countries are expected to experience economic growth at rates somewhat lower than in 2006, as the present global uncertainties are expected to prevail well into 2007. However, strict adherence to successful economic policies will secure long-term stability in the economic development of the region. This stable situation, both in the member countries and internationally, will for the nearest future serve as a secure platform for the Bank's operations.

Real GDP

(Annual changes in per cent)

	2002	2003	2004	2005	2006*
Denmark	1.0	0.7	2.0	2.8	2.4
Estonia	7.2	6.7	7.8	8.0	6.8
Finland	2.3	2.4	3.6	2.1	3.2
Iceland	-0.6	4.3	6.2	6.0	4.6
Latvia	6.4	7.2	9.8	10.2	8.0
Lithuania	6.8	10.5	7.0	7.3	6.0
Norway	1.0	0.4	2.9	2.5	2.1
Sweden	2.1	1.5	3.5	3.2	2.7
Member countries	1.8	1.5	3.2	3.0	2.8
OECD	1.7	2.1	3.4	2.6	2.8
EU (euro zone)	0.9	0.6	1.8	1.2	2.0

* Forecast

Statistics and forecasts presented here are based on material available from central statistical offices, Ministries of Finance and Economy as well as central banks in the member countries. Other sources used are OECD-Paris and the IMF.

New issues during 2005 reflected the truly global context of NIB's borrowing programme. The Bank's new borrowing increased by 14% as compared to the year before. The liquidity portfolio also showed a steady growth at 8%. The return on the Bank's fixed income portfolio benefited from falling yields in the euro zone.

TREASURY OPERATIONS

NIB has enjoyed the best possible credit rating, AAA/Aaa, with the leading rating agencies, Standard & Poor's and Moody's, since it received its first credit rating in 1982. On this solid basis, the Bank finances its lending activity by borrowing and issuing bonds on global and domestic capital markets.

NIB invests in a fixed income portfolio with a size equal to the Bank's own equity and retains a significant liquidity portfolio. These portfolios are managed in accordance with a strategy aimed at ensuring sufficient liquidity reserves at all times, while at the same time contributing to long-term stable profits for the Bank.

BORROWING FROM CAPITAL MARKETS

NIB is flexible in terms of meeting investors' preferences as to the size, currency, maturity and structure of the bonds it issues. In order to do so and to eliminate market risks that arise as an inherent part of the borrowing programme, the Bank enters into swap transactions in connection with virtually all of its bond issues.

NIB's new borrowing during 2005 increased by 14% year-on-year to a total of EUR 2,059 million, while borrowing outstanding at the end of the year grew by 17% to EUR 14,456 million. The Bank carried out 26 borrowing transactions in seven different currencies and has borrowing outstanding in 19 different currencies.

The borrowing programme is truly global, with bonds being sold all over the world. In 2005, Asian investors bought 54% of the bonds issued, including 24% bought by Japanese investors, while European investors purchased 22% and North American investors 14%. Investors in the Middle East and Africa bought the remaining 10%.

The US dollar was the most important borrowing currency in 2005. Eight transactions totalling USD 1,631 million were carried out, corresponding to EUR 1,268 million, or 62% of the new borrowing for the year. Other important borrowing currencies were the Australian dollar with two transactions, the euro with six transactions and the new Turkish lira with five transactions. Smaller amounts were issued in the Hong Kong dollar, the Slovak koruna and the Japanese yen.

The highlight of the year was NIB's fourth benchmark transaction issued in February 2005. The USD 1,000 million transaction with a five-year maturity achieved a well-balanced geographic investor distribution, with 44% of the issue sold to investors in Asia/Japan, 34% in North America and 22% in Europe, the Middle East and Africa.

Another noteworthy transaction was a USD 500 million issue with a 4-year maturity. The strategic objective for this issue was to broaden the investor base by targeting retail and smaller institutional investors. Many new investors came into the deal especially in Europe, where almost 50% of the bonds were sold. The issue also attracted attention from Asian central banks, some of which had not earlier invested in bonds issued by NIB.

The fourth USD 1,000 million benchmark issue was the highlight of the year.

New borrowings in 2005 primarily carried maturities of three to six years. The average maturity for the new borrowing was 4.8 years during the year compared to 5.9 years in 2004.

LIQUIDITY PORTFOLIO

The liquidity portfolio functions as a warehouse for funds raised from borrowing until they are needed for lending disbursements. The planning of the bor-

BORROWINGS OUTSTANDING
31 Dec 2005

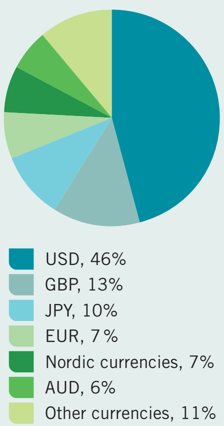


Fig. 1

NEW BORROWINGS
By currency 2005

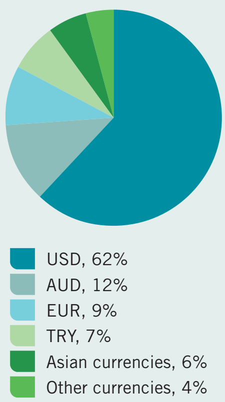


Fig. 2

NET LIQUIDITY
According to IAS

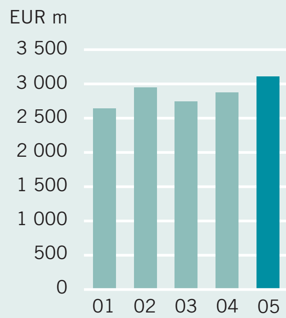


Fig. 3

rowing programme is therefore closely interlinked with the liquidity requirements for different currencies and maturities. The liquidity portfolio also serves as a support for the funding strategy in the sense that an ample level of liquidity makes it possible to avoid borrowing in periods when market conditions are considered unfavourable. The liquidity portfolio also provides a positive contribution to the Bank's net interest income.

The Bank strives continuously to have enough liquidity available to cover its projected liquidity needs for twelve months into the future. At year-end, the Bank's liquidity calculated according to the International Financial Reporting Standards, IFRS, stood at EUR 3,101 million compared to EUR 2,876 million at the end of 2004.

There are strict guidelines for the investment of the liquidity portfolio when it comes to credit and market risks. The portfolio can be invested in money market depositions and Floating or Fixed Rate Notes issued by banks and other counterparties in the financial sector in the OECD area with a sufficiently high creditworthiness, as well as Asset Backed Securities (ABS). For the time being, NIB invests only in ABS issues with the highest long-term credit rating (AAA/Aaa) from at least two credit rating institutions, and only in transactions backed by either credit card receivables or residential mortgage loans. At year-end, 65% of the liquidity was in euros, 32% in US dollars and only 3% in other currencies.

The Bank has an external interest rate trading programme related to the management of its liquidity. The purpose of the programme is to use active trading as a way of increasing return, as well as strengthening and benchmarking the Bank's internal liquidity management and trading competences. At the end of 2005, two asset management firms were managing a total of USD 100 million, corresponding to EUR 85 million.

FIXED INCOME PORTFOLIO

NIB invests an amount corresponding to the size of its equity in a fixed income portfolio denominated in the euro. The purpose of the portfolio is to strengthen the Bank's balance sheet and safeguard a stable return on its equity. At year-end, the size of this portfolio was EUR 1,793 million. The long-term goal is to achieve a yield that corresponds to the return on a portfolio of government bonds in euros with an average duration of about 4.5 years. The return on the portfolio in 2005 was in line with the long-term objective.

The total securities portfolio is divided into the held-to-maturity and marked-to-market portfolios. The marked-to-market portfolio consists of securities which can continuously be bought and sold following the assessment of market developments. The marked-to-market investments are permitted to correspond to a maximum of 35% of equity. At year-end, these placements were equal to 30% of the Bank's equity.

Liquidity and fixed income portfolio management follows strict guidelines.

Long-term yields in the euro zone have fallen over the course of 2005, which has had a positive impact on the return on the portfolio and the Bank's results for 2005 through revaluation gains on securities in the marked-to-market portfolio. On the other hand, lower interest rates reduce the net interest income on the fixed income portfolio over time.

At the end of 2005, the modified duration for the total portfolio was 3.2 years compared to 4.2 years at the end of 2004. The reduction in the modified duration has taken place against a background of very low long-term interest rates and an outlook for higher interest rates.

CAPITAL STRUCTURE

As of 31 December 2005, NIB's authorised capital was EUR 4,141.9 million. At the end of 2005, the paid-in capital amounted to EUR 418.6 million. The remainder of NIB's authorised capital consists of callable capital which is subject to call if the Bank's Board of Directors deems it necessary for the fulfilment of the Bank's debt obligations.

The Bank's Ordinary Lending ceiling corresponds to 250% of the authorised capital and accumulated general reserves. After appropriation of profits from the financial year 2005 in accordance with the proposal made by the Board of Directors, the Ordinary Lending ceiling amounts to EUR 13,411 million.

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

The Project Investment Loan facility (PIL) amounts to EUR 4,000 million. The member countries guarantee the PIL loans up to a total amount of EUR 1,800 million. The Bank, however, will assume 100% of any losses incurred under an individual PIL loan, up to the amount available at any given time in the Special Credit Risk Fund for PIL. Only thereafter would the Bank be able to call the member countries' guarantees.

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

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

NIB's member countries have subscribed to its authorised capital and guaranteed the special loan facilities in proportion to their gross national income. At the end of the year, Sweden accounted for 36.7% of the authorised capital, Denmark's share was 21.3%, Norway had 19.0%, Finland 18.5%, Lithuania 1.6%, Latvia 1.1%, Iceland 0.9% and Estonia 0.7%. For further information, see Note 14 on page 57 in the financial statements.

A closer presentation of the loan facilities, the guarantee structure and guarantee distribution is provided in Note 8 on pages 52-55.

The new member countries shall make their payments of the paid-in portion pursuant to an agreed schedule of payments in three annual instalments during 2005–2007. The first instalment was made on 31 March 2005.

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

In view of the Bank's strong capital base, the quality of its assets, and its status as a multilateral financial institution, the leading international rating agencies, Standard & Poor's and Moody's, have accorded NIB the highest possible credit rating, AAA/Aaa, for long-term obligations and A-1+/P-1, respectively, for short-term obligations. NIB obtained the highest possible credit rating in 1982. Since then, the Bank has continuously been maintaining this credit rating.

As of 2005, lending in the member countries is extended to include, besides the Nordic countries, also Estonia, Latvia and Lithuania. With the enlargement of membership, the Bank increased its commitments in the energy sector.

LENDING IN MEMBER COUNTRIES

Market conditions in 2005 were shaped by growing investment activities and better access to liquidity for the Bank's clients in the member countries. The amount of the loans agreed in the member countries increased by 42% and totalled EUR 1,653 million, and was the largest in the Bank's history. This reflects the steady demand for the Bank's loans that was present during the year. No new guarantees were issued during the year. The breakdown of disbursements by the borrowing group's country of domicile is presented in Figure 1.

Out of all 55 loans agreed, 17 went to new clients—companies and financial intermediaries with which the Bank had no outstanding commitments at the beginning of the year. This accounts for 33% of the value of all loans agreed during the year.

LENDING

The breakdown into sectors for the loans agreed during the year shows that the manufacturing industry, after a certain period of downturn, has won back the position of the largest sector both in terms of the number of loans and of their total value. Similarly to the previous year, in 2005 the energy sector accounted for about a third of the loans. More loans than in 2004 were agreed during the year with the help of loan programmes through financial intermediaries for onlending to small and medium-sized enterprises. This financing method was used especially often in Denmark.

The Bank signed 21 loan agreements with clients in the manufacturing industry for a total of EUR 634 million, which corresponds to 38% of all loans agreed during the year. In the manufacturing industry, most loans were granted to companies in wood, pulp and paper production—primarily for environmental investments—as well as for projects in food and beverage production. For instance, the Bank entered into a loan agreement with the Norwegian group Orkla, which operates in all eight of NIB's member countries. This loan was the largest agreed during the year.

In the energy sector, which accounts for about a third of the loans agreed during the year, loan agreements were signed for a total of EUR 458 million for altogether 12 projects in all member countries. The financing of the energy sector in Estonia was of special importance. A loan was granted to the company Nordic Energy Link for investments in building the first power transmission link between the Baltic and the Nordic energy networks. The project is being implemented in cooperation between power utilities in Lithuania, Latvia, Estonia and Finland. The Bank entered into a loan agreement with the Latvian energy company Latvenergo for further improvements in the company's production, transmission and distribution of energy. This is the Bank's third loan to this company.

Lending to the energy sector continued to be significant, particularly in Finland. The Bank signed a loan agree-

> The amount of the loans agreed in the member countries reached an all-time high.

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

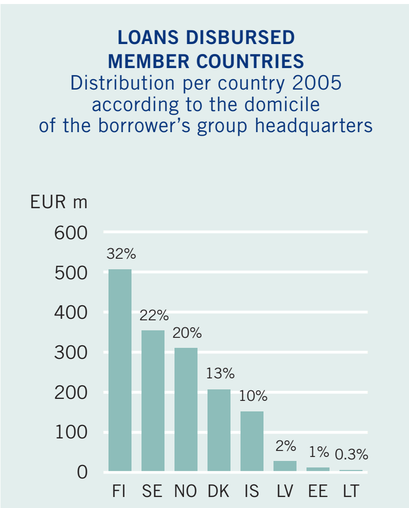


Fig. 1

Fig. 2

ment with Teollisuuden Voima for investments in safety arrangements at the new nuclear power plant in Olkiluoto. A loan to Rauman Voima was agreed with the purpose of financing the construction of a new bio-fuelled power plant and the upgrading of an existing one. In Norway, NIB participated in the financing of investments in a district heating network in Trondheim through a loan to Statkraft. A loan went to Danish KE Varme for investments in building a heating tunnel in Copenhagen.

In Sweden, NIB financed the modernisation of a waste incineration plant in Malmö through a loan to Sydskånes Avfallsaktiebolag. The construction will also increase energy production from industrial and household waste.

The financing of infrastructure continues to comprise a significant share of the Bank's lending. By granting a loan to the road building enterprise Tieyhtiö Ykköstie Oy, NIB participated in the financing of the construction of a 50-kilometre stretch of the motorway linking Helsinki and Turku.

In the transport sector, the Bank continued its operations in the new member countries. A loan to the Klaipėda State Freeport Authority for the construction of port infrastructure will reinforce Lithuania's position within the transport system on the Baltic Sea.

NIB increased onlending to small and medium-sized enterprises.

During the year, NIB signed an agreement on a loan for the development of the telecommunications infrastructure in Iceland with the country's largest telecommunications operator, Iceland Telecom. The investments will lead to the improvements in the quality and the coverage of telecommunications services outside the capital area, as well as the connection between Iceland and other countries.

In trade and services, the Bank entered into a loan agreement with a number of companies, including RIMI Baltic, owned by the Finnish company Kesko, and the Swedish company ICA. The loan is aimed at financing investments in retail networks in Estonia, Latvia and Lithuania.

A list of the loans agreed during 2005 can be found in the section Loans member countries 2005, on page 73.

LOAN PORTFOLIO

The portfolio of loans outstanding increased by 10.4% to a total of EUR 9,963 million during 2005. This loan portfolio includes loans and guarantees outstanding, which total EUR 9,526 million, and loans agreed but not yet disbursed totalling EUR 437 million. Guarantees outstanding amounted to EUR 25 million by year-end. The distribution of the loan portfolio between the member countries experienced minor changes during the year, even after the loans to the three Baltic countries were moved from the Bank's port-

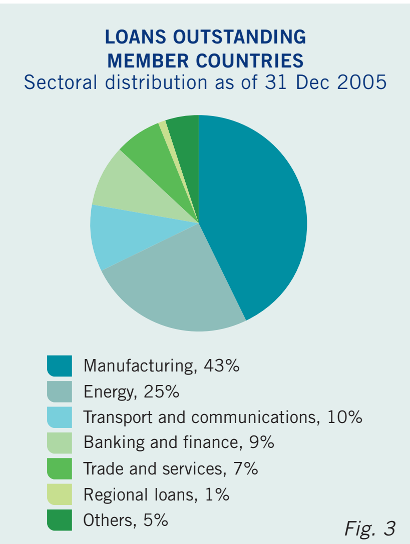


Fig. 3

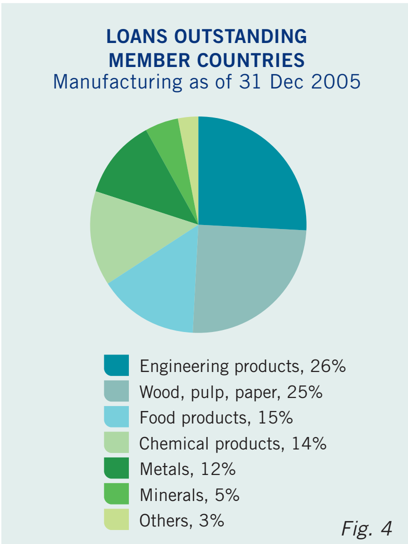


Fig. 4

folio of international loans to the portfolio of loans in the member countries. Figure 2 displays the distribution as of year-end 2005.

The sectoral distribution of the loans outstanding is presented in Figure 3, and categories within the manufacturing industry are specified in Figure 4. The manufacturing industry dominated the portfolio, with 43% of loans outstanding. Engineering, the largest category within the manufacturing industry, accounted for 26% of loans outstanding. The wood, pulp and paper sector also had significant weight, comprising 25% of loans outstanding within the manufacturing industry.

The energy sector also accounts for a substantial share of the loan portfolio. The sector's share in loans outstanding increased at a steady pace and by year-end accounted for 25%. The transport and communications sector comprised 10% of loans outstanding. The trade and services sector saw no changes during 2005 and currently accounts for 7%.

At year-end 2005, NIB had loans outstanding to 39 banks and financial institutions in the member countries granted for the purpose of financing Nordic and Baltic projects of small and medium-sized enterprises. The total amount of these loans amounts to 8% of loans outstanding. In addition, NIB had regional loans outstanding to four counterparties, which corresponds to 1% of loans outstanding.

A third of the new lending went to new clients.

The Bank's ten largest borrowers at the corporation level accounted for approximately 22% of loans outstanding in 2005. The 50 largest borrowers accounted for approximately 61%. The largest single commitment NIB had in the member countries at year-end 2005 totalled EUR 296 million. The amount for the tenth largest commitment stood at EUR 173 million. Together, the ten largest commitments amounted to EUR 2,056 million.

Loans outstanding to or guaranteed by a state or municipality accounted for 5% of the total loan stock.

In addition to loans outstanding and guarantees issued, by year-end 2005 the Bank had a stock of granted, not yet agreed loans with counterparties in the member countries that totalled EUR 550 million.

The quality of the stock of loans outstanding in the Bank's member countries continues to be very good. See also the section Financial guidelines and risk management on page 22.

In this section, Estonia, Latvia and Lithuania are included in the 2004 figures for the member countries.

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

EFFECTIVE SOLUTIONS IN INFRASTRUCTURE DEVELOPMENT

NIB actively contributes to the development of infrastructure, particularly the sector of transport and communications that in 2005 accounted for about 14% of the Bank's loan portfolio.

Two loans were provided for construction of motorways, both developed and implemented as Public Private Partnership (PPP) projects. In Finland, a 50-kilometre stretch will be part of the route between Helsinki and Turku, the country's busiest road for international traffic. A 90-kilometre dual carriageway in northern Poland is the first step in building a direct access for southern Europe to the port of Gdansk on the Baltic Sea.

The PPP model enables building the best possible infrastructure facility in the shortest possible time. In financing, PPP allows relying on loans and makes the project independent of the national budget's constraints. NIB offers attractive financing solutions for all projects in transport and communications—also in the private sector.

Boliden

In non-member countries, NIB places special emphasis on providing long-term financing to support economic growth and environmental improvements. Due to strong demand for the Bank's loans, the loan portfolio increased by more than 40% over the year, while the amount of new loan agreements nearly doubled.

LENDING IN NON-MEMBER COUNTRIES

NIB's lending in countries that are not members of the Bank is aimed at financing projects of mutual interest to the Bank's member countries and the emerging markets and transition countries with which the Bank cooperates. Special emphasis in the lending in non-member countries is placed on supporting economic growth in general and environmental improvements, in particular in the areas adjacent to the Bank's member countries.

Loans are provided directly to individual projects or through loan programmes to financial intermediaries. Loans are granted for projects in both the private and public sectors.

Demand for the Bank's loans in non-member countries was strong during 2005, and the loan portfolio increased in total by more than 40% over the year. The increase in the portfolio was particularly significant in Brazil, China, Poland and Vietnam. The strong increase can to a certain extent be explained by the strengthening of the US dollar, which is still the predominant loan currency in the Bank's lending outside the membership area. The portfolio of loans in non-member countries was, however, also affected by prepayments, which were larger during 2005 than in previous years.

During the year, NIB granted 29 loans in non-member countries, totalling EUR 1,050 million, which exceeds by over 76% the amount of loans granted in 2004, and entered into 29 new loan agreements for a total of EUR 962 million, up by nearly 96% year-on-year. Loan disbursements increased by over 74% to EUR 518 million.

LENDING

NIB's loans in non-member countries are provided mainly for infrastructure investments, especially in the energy sector, with a share of 31%, and in the transport and communications sector, accounting for 28% of loans outstanding. In the transport and communications sector, telecommunications comprise a major share. Manufacturing (including pulp and paper and food products) and healthcare are the third- and fourth-largest sectors, accounting for 20% and 5% respectively of loans outstanding. These two sectors are mainly financed within NIB's loan programmes carried out through financial intermediaries.

The sectoral distribution of loans outstanding in non-member countries is shown in Figure 1.

During 2005, NIB entered into six loan agreements for the financing of investments in mobile telephone networks in the Philippines, Thailand, Romania and Russia. The Bank participated in the financing of transport projects, such as a motorway in Poland

The highest growth in lending was in Brazil, China, Poland and Vietnam.

and a light rail transit system in the Turkish town of Kayseri. In the energy sector, NIB signed loan agreements for the financing of investments in a hydropower plant in Laos and a lignite-fired power plant in Poland. NIB also entered into agreements on three loans to finance investments in pulp and paper plants in Bulgaria and Russia.

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

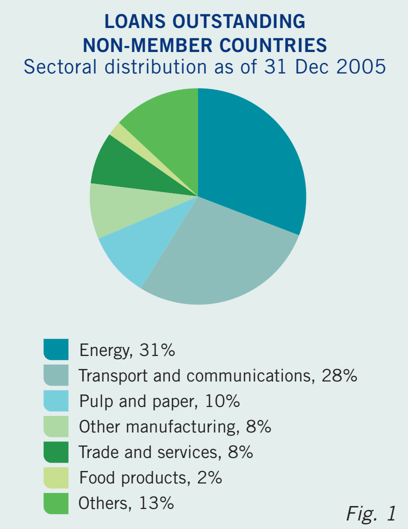


Fig. 1

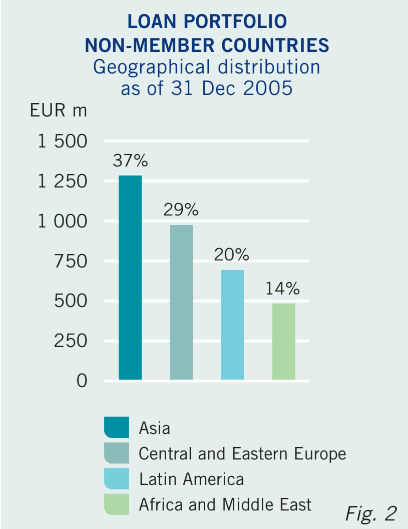


Fig. 2

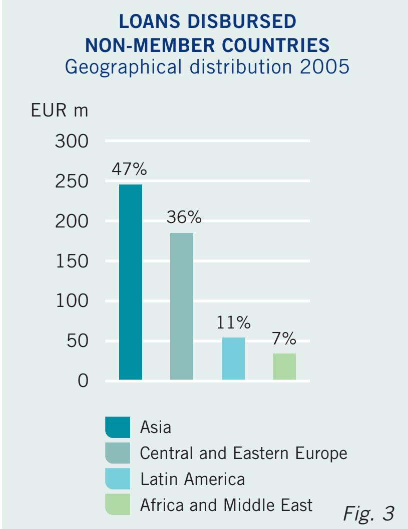


Fig. 3

A list of all the loans agreed in non-member countries in 2005 can be found in the section Loans non-member countries 2005 on page 76.

Loan programmes to financial and other intermediaries account for a large proportion of the Bank's lending outside the membership area. The Bank has active loan programmes with 21 financial intermediaries, mostly state-owned development banks and local commercial banks. Lending through intermediaries also serves as a channel for onlending to finance projects of small and medium-sized enterprises in various countries.

During 2005, eight new loan programmes were agreed, totalling EUR 225 million. Agreements on these loan programmes were signed with financial intermediaries in China, India, Vietnam, the Czech Republic, Hungary and Brazil.

At year-end, outstanding and agreed but not yet disbursed loan programmes increased by 25%, as compared to the previous year, and reached EUR 1,719 million, equalling 50% of the portfolio of loans in non-member countries. The Bank approved 61 new subprojects under the loan programmes in 2005.

With the help of NIB's loan programmes carried out through regional development banks, financing also reaches projects in countries which do not have framework agreements with the Bank. The loan programmes with the Central American development bank CABEI, the Andean development bank CAF and the regional Black Sea Trade and Development Bank provide examples of such access.

Most loans are provided for infrastructure investments, especially in the energy sector.

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

BORROWER COUNTRIES

NIB has established formal cooperation with 37 emerging and transitional economies. Cooperation with these countries is long-term and generally based on framework agreements concluded with each country's Ministry of Finance. The Bank entered into agreements with Sri Lanka, Serbia and Montenegro, and Ukraine during 2005.

The geographical distribution of the portfolio of loans to non-member countries is presented in Figure 2. For the geographical distribution of loans disbursed to non-member countries, see Figure 3.

LOAN PORTFOLIO

At the close of the year, the Bank's portfolio of loans in non-member countries, which comprises loans and guarantees outstanding as well as loans agreed but not yet disbursed, totalled EUR 3,433

NIB FINANCES BRAZIL'S LARGEST OIL PLATFORM

NIB's loan to Petrobras Netherlands BV, a subsidiary of the Brazilian state-owned company Petróleo Brasileiro S.A., finances the construction of a floating oil and gas production platform off the Rio de Janeiro state coast.

The 101 metre high and 125 metre long platform will be the largest in Brazil and one of the largest offshore platforms in the world. The platform will be operated by 200 people. The construction is to be completed in the first half of 2007. The project involves contracts with a number of Norwegian and Danish suppliers that provide engineering, technologies and construction services to the oil-and-gas and petrochemical industry worldwide.

The increase in oil production after launching the new platform will make Brazil an oil exporter for the first time and support growth of the country's trade surplus.

million. Of these, EUR 2,213 million was outstanding and EUR 1,220 million was agreed but not yet disbursed. No guarantees were outstanding at year-end.

The share of loans to the private sector has been increasing in recent years, but at the end of 2005 the main part, or 64%, of the portfolio of loans in non-member countries consisted of loans that went directly to states or had a state guarantee.

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

The Project Investment Loan facility (PIL) is intended for loans to emerging markets and transitional economies and constitutes the core of the Bank's lending in non-member countries. Since 1 July 2004, the PIL ceiling has totalled EUR 4,000 million. Loans outstanding and loans agreed but not yet disbursed under the PIL facility amounted to EUR 2,834 million at year-end 2005. Under the PIL facility, the Bank has further a commitment to issue a guarantee of EUR 32 million.

Loans for projects in EU member countries and, on an ad hoc basis, in other countries of the OECD area, are extended through the Bank's Ordinary Lending facility. Loans outstanding and loans agreed but not yet disbursed under the Ordinary Lending facility in non-member countries totalled EUR 369 million at the end of 2005.

As a supplement to PIL, the Environmental Investment Loan facility (MIL) is intended to promote environmental investments in the regions adjacent to the member countries. The focus is on financing projects in Northwest Russia. The MIL facility totals EUR 300 million. Loans outstanding and loans agreed but not yet disbursed under the MIL facility at year-end totalled EUR 197 million. See the section NIB and the environment on page 26.

The quality of NIB's loans outstanding in non-member countries continued to improve during the year. See the section Financial guidelines and risk management on page 22.

In this section, Estonia, Latvia and Lithuania are not included in the 2004 figures for the lending in non-member countries.

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

ADMINISTRATION OF EXTERNAL FUNDS

The Bank's member countries engage NIB as one of the channels, through which technical assistance is allocated to projects in the neighbouring regions of the member countries.

Finland and Sweden have placed separate funds with NIB for financing consultancy services used for preparation and monitoring of projects identified by NIB and approved by the respective authorities. In 2005, these technical assistance trust funds were as follows:

- **A Finnish technical assistance trust fund** at NIB, intended for potential NIB and/or NEFCO projects, above all in infrastructure, the environment, forestry and forest industries in Central and Eastern Europe, including Russia and Ukraine. The Finnish Government is represented by the Ministry for Foreign Affairs.
- **A Swedish technical assistance trust fund** at NIB, intended for potential NIB projects relating to the environment and energy in Estonia, Latvia, Lithuania, Poland, Northwest Russia and Ukraine. The Swedish Government is represented by Sida.
- **Two special Swedish technical assistance trust funds** at NIB, intended to be used for two environmental projects that the Bank is preparing in Russia: the Southwest Wastewater Treatment Plant in St. Petersburg and Pechenga Nickel on the Kola Peninsula. The Swedish Government is represented by Sida.
- **An allocation from the NDEP support fund** for the Southwest Wastewater Treatment Plant project in St. Petersburg. Its reserves are paid out in their entirety, and the allocation fund was closed at the end of the year.
- **A Swedish technical assistance trust fund** at NIB, intended to be used for common efforts in project preparations in the ten new member states of the EU, its neighbouring countries and other strategic markets. The Swedish Government is represented by the Ministry for Foreign Affairs.
- **A special Swedish technical assistance trust fund** at NIB, intended to be used for two environmental projects that the Bank is preparing in Russia: Kaliningrad water and environmental services rehabilitation project and Murmansk district heating project. The Swedish Government is represented by Sida.

In addition to the trust funds, the Bank is involved in the administration of the assistance granted by Norway to the Pechenga Nickel project on the Kola Peninsula.

NIB's financial guidelines require strict control over all types of risks. The quality of the Bank's portfolios continues to be very high. In 2005, NIB finished upgrading its classification system for measuring counterparty risk and implemented a portfolio credit risk and economic capital model.

FINANCIAL GUIDELINES AND RISK MANAGEMENT

NIB's guidelines for its financial transactions and risk management are characterised by a prudent attitude towards financial risk-taking. The Statutes signed by the member countries and governing NIB's operations require that loans be made on the basis of sound banking principles. The Statutes further call for adequate security for the loans made by the Bank, as well as hedging of the Bank's foreign exchange risks. NIB's use of various financial instruments in its operations demands continual monitoring of its financial operations and risk management.

MARKET RISK

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

FOREIGN EXCHANGE RISK

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

The Bank's loans are made primarily in euros and US dollars. Interest income in US dollars and other currencies is typically not hedged and can cause a certain fluctuation in the Bank's future net income in euro terms. However, any such potential fluctuations in future cash flows would be minor, compared to the Bank's total assets and equity.

INTEREST RATE RISK

The Board of Directors sets maximum limits for the interest rate risk the Bank can take. The interest rate risk—the sensitivity of the Bank's income to changes in interest rates—is calculated by measuring how much an interest rate change of 1 percentage point can affect the net interest income over time (gap analysis). The limits are set both for each individual currency and for the Bank as a whole. The limits are adjusted annually, and are set in relation to the Bank's equity. At present, the total limit is fixed at EUR 34 million, which corresponds to approximately 2% of NIB's equity. Total interest rate exposure at year-end 2005 was approximately EUR 7.4 million, or 22% of the limit.

In addition to using gap analysis, NIB has a limit system designed to ensure efficient management of the maturity profile of the assets and the liabilities on the balance sheet in order to minimise any discrepancies. Large differences in asset and liability maturities can give rise to a refinancing and reinvestment risk. These risks occur when the margin on assets and liabilities changes at the time of the refinancing and reinvestment. The exposure is calculated by measuring how much a 0.1 percentage point change in the margin on an asset or liability can affect the Bank's net interest income over time. The calculation is made in a manner similar to that of the gap analysis mentioned above. The limit is established for NIB as a whole, and is now set at EUR 17 million, which is about 1% of the Bank's equity. NIB's total exposure at year-end was almost 100% of the total limit. In addition to this sensitivity analysis, a EUR 1 billion ceiling has been established to limit the difference in the cash flow between assets and liabilities in the course of any given year. This serves to prevent a large concentration of refinancing or reinvestment needs in the capital markets in a single year.

An amount corresponding to NIB's equity is invested and managed as a separate portfolio. This investment portfolio is not included in the normal calculation of the limits on NIB's interest rate risk and the exposures associated with this risk. A maximum of 35% of these placements can belong to the so-called marked-to-market trading portfolio, which is managed more actively. In order to improve the management of these capital market investments, separate portfolios have been established, serving as benchmarks both for risk and return.

The above-mentioned foreign exchange risk and the gap analysis used for measuring the interest rate risk are supplemented by value-at-risk methodology in order to evaluate the market risks in all of the Bank's financial portfolios.

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

CREDIT AND COUNTERPARTY RISK

NIB maintains a careful attitude towards credit and counterparty risks, which arise in connection to lending and the Bank's treasury operations. The Bank has a unified risk classification system for its various operational areas. Until the end of 2005, the system consisted of 10 classes, where class 1 is the best and class 10 is the worst in terms of risk. The new risk classification system, approved by the Board of Directors in 2005 and implemented in the beginning of 2006, uses 20 classes instead of the previous 10.

The new risk classification system is based on an assessment of the probability that the borrower will default on the loan and an estimate of the loss on the transaction should the borrower default. By combining these two elements one can estimate the expected loss on the transaction. The Bank also has strict rules regarding exposure to individual borrowers and the composition of the portfolio.

During the year, NIB further developed a portfolio credit risk and economic capital model. This tool, comprising both lending and treasury activities, enables the Bank to estimate the capital needed to withstand adverse changes in the creditworthiness of the Bank's counterparties. The new system based on an economic capital approach will serve as an additional tool in measuring the allocation of the Bank's capital. It will also facilitate the optimal allocation of the Bank's capital as regards both the capital backing of individual loans and the backing of the Bank's various portfolios.

Lending

All loans granted by NIB are authorised by the Board of Directors, except for some delegation of credit decision-making power to the Bank's President. A credit decision is based on thorough appraisal and evaluation. All of NIB's lending operations are classified according to risk, based on both the client's creditworthiness and the quality of the security. Figure 1 shows the quality of the loan portfolio broken down by type of security. Continuous follow-up procedures have been established, including frequent evaluation of customers' financial and economic situation.

Treasury operations

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

NIB applies a system for managing derivative financial instruments, particularly swaps. This system permits precise monitoring of the market value for each individual swap and NIB's exposure vis-à-vis its swap counterparties. In addition to the current market value, the potential risk exposure for the agreement entered into is also calculated. The calculation of this potential risk is based on the recommendations of the Basel commission, although NIB is not under any central bank supervision and is thus not obliged to follow the Basel commission recommendations. NIB in fact uses stricter criteria than those required under the BIS regulations.

CREDIT QUALITY

The average quality of the Bank's total credit exposure marginally improved during 2005, and continues to remain at a high level. Two-thirds of the credit exposure was within risk classes 3 through 5 in the Bank's risk classification system at year-end. Figure 2 compares the quality of the Bank's credit risks under the general credit risk classification system at year-end 2004 and year-end 2005.

Lending in member countries

The quality of the loan portfolio in the member countries kept improving during the year. Most of the portfolio, more than 70%, belongs to risk classes 4 and 5,

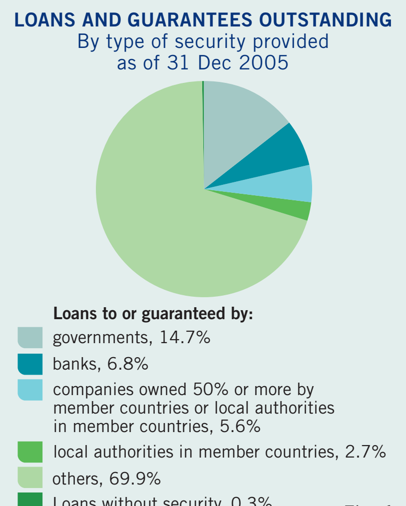


Fig. 1

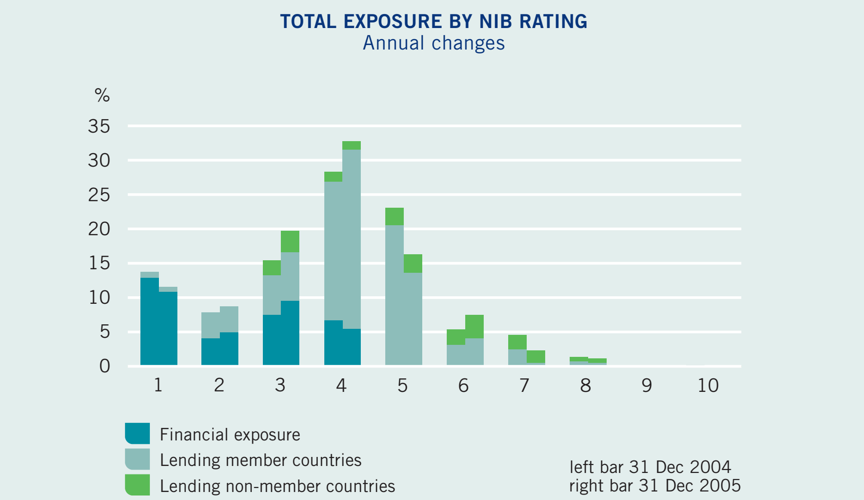


Fig. 2

while the share of the three lowest, that is, the most risky, classes in the portfolio continued to decline and was by year-end under 1%. The lending portfolio in the member countries is still well balanced in terms of geographical distribution, industrial sector distribution and the loans' size distribution.

Lending in non-member countries

The quality of the loan portfolio in non-member countries was also improving during 2005. The share of projects in the better risk classes, namely 3 to 5, remained unchanged. The last few years' decline in the share of the three lowest, that is, the most risky, classes continued, and the share amounted to 5% at year-end (2004:8%).

Financial counterparties

The credit quality of the Bank's financial exposure has maintained a very high level. The share of the three highest risk classes for 2005 is more than 80%.

The Bank as a whole

Taken as a whole, the average credit quality in the Bank's portfolios improved slightly during the year and is still very strong. About 68% of NIB's total exposure consists of exposure in risk classes 3 to 5. The share in the most risky classes, namely 8 to 10, continued to decrease and was 1.2% (1.6%) at year-end.

OPERATIONAL RISKS—INTERNAL CONTROL SYSTEMS

NIB deals with legal risks and other operational risks through an overall system of internal controls. There are clear rules for the assignment of work and responsibilities among and within all of the Bank's departments. Inbuilt automatic and manual control mechanisms are in place in the different departments' operations and administrative routines.

The objectives of the Bank's internal control systems are to secure and develop the long-term financial preconditions for operations, as well as to conduct operations economically and cost-efficiently, in compliance with given rules and regulations. The focus of the internal control is on the management of financial and operational risks.

The internal control systems of the Bank constitute an integral part of each employee's work. These systems cover procedures for monitoring and managing transactions, positions and documentation, with a clear segregation of duties between recording, risk management and transaction-generating functions.

The heads of departments are responsible for the internal control in their respective operations. Furthermore, the Bank's internal audit department actively participates in maintaining and developing internal control. The President and the Board of Directors have the overall responsibility for the internal control systems in the Bank.

INTERNAL AUDIT

The Bank's internal audit is independent from its operations and departments, and is carried out in accordance with international standards issued by the Institute of Internal Auditors. The task of the internal audit is to analyse regularly and evaluate the Bank's internal control systems, operational procedures and other systems.

In this section, Estonia, Latvia and Lithuania are included in the 2004 figures for the lending in member countries.


Stora Enso

NIB makes sure that all projects receiving the Bank's loans comply with environmental criteria. Loans which deal with treating or preventing pollution are considered environmental. In 2005, the Bank granted 26 new environmental loans. Of the total amount of loans disbursed during the year, environmental loans accounted for almost 17%.

NIB AND THE ENVIRONMENT

The Bank's environmental policy is based on the Bank's mission and the environmental strategies of its member countries. The environmental policy has a direct bearing on the financing of projects as regards risk avoidance and promoting environmental investments. Risk avoidance concerns the evaluation of environmental risks and responsibilities in projects considered for financing. The promotion of environmental investments involves projects which directly or indirectly reduce harmful emissions or environmental hazards. The Bank gives priority to environmental investments reducing cross-border pollution in the Nordic and Baltic area and its neighbouring regions. Projects generating positive environmental effects on the Baltic Sea have a special status, and NIB has financed over one hundred such projects.

The environmental investments comprise two types: projects designed to treat pollution and projects aimed at preventing it. Typical pollution treatment investments include wastewater treatment, flue gas purification and waste management. In addition, a large number of projects are for investments in the development and implementation of environment-friendly and pollution-preventing technologies.

AREA OF OPERATION

The Bank has an environmental mandate that gives possibilities to finance projects with vital environmental benefits in different business sectors and countries. On a regional level, for example the Baltic Sea Area, this includes issues such as eutrophication and acidification due to air emissions and wastewater discharges. On a global level, climate change and the emission of greenhouse gases are two important issues and targets set in the Kyoto Protocol are a challenge for most of the Bank's project countries.

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

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

MIL was established in 1996 by a decision of the Nordic Council of Ministers to facilitate the financing of important and prioritised environmental projects in the areas adjacent to the member countries. Since 2003, the MIL facility totals EUR 300 million. At year-end loans outstanding and agreed but not yet disbursed under the MIL facility, totalled EUR 197.4 million.

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

The amount of environmental loans outstanding and disbursed is shown in Figure 1, while Figure 2 presents the sectoral distribution of the environmental loans outstanding.

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

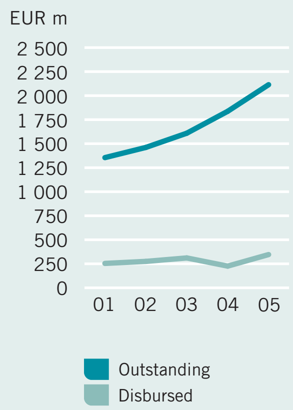


Fig. 1

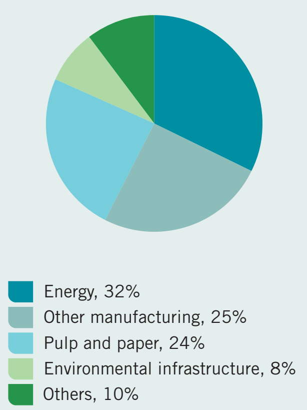


Fig. 2

ENVIRONMENTAL MANAGEMENT

NIB's environmental management system includes procedures for evaluating potential projects. According to the Bank's established environmental procedures, all relevant environmental risks and consequences must be taken into account in the projects it intends to finance. The environmental management system requires that an internal independent environmental review be carried out for every loan application. The review is based on completed environmental impact assessments, environmental audits and other available documents. NIB refrains from financing projects if they are environmentally dubious or if they obviously violate environmental regulations. If a project is considered to be environmentally dubious already in the early stages, it does not proceed further in NIB's credit preparation process.

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

Appraisal and categorisation

All projects NIB finances must comply with the host country's relevant environmental legislation and international environmental conventions and standards as well as have all the necessary environmental permits. The projects must also otherwise fulfil the Bank's criteria for environmental acceptability. A written assessment of a loan application regarding the project's environmental impact is included in the material, on which credit decisions are based.

NIB employs a classification system for projects that is similar to the systems used by other international financial institutions, such as the EBRD and the World Bank Group. Each loan application is classified according to the extent of the project's environmental impact. If the project has the potential for making an extensive environmental impact or if the legislation of the project's host country requires it, the project must undergo a full environmental impact assessment (EIA) and is classified under category A. If the project has the potential for making a moderate environmental impact (category B), it must undergo a partial EIA. Finally, projects that are considered to have an insignificant or not readily measurable environmental impact (category C) are not required to undergo any formal EIA. Loan programmes for SME projects through financial intermediaries are classified in a separate category, FI. During 2005, 17% of the projects were categorised as A, 18% as B, 45% as C, and 20% as FI.

NIB's environmental loans are priced on market terms and have maturities up to 20 years.

Environmental impact assessments are usually carried out by independent consulting firms. Reports are published in the host country of the project as provided in national legislation. In addition, during the EIA process, the public or those groups that are affected by the project are usually consulted. In some cases NIB can demand an EIA even if it is not required by the host country's legislation.

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

In certain cases, NIB requires environmental monitoring of projects. The monitoring is usually carried out by independent environmental experts and may include, for example, the monitoring of water quality in a watercourse or the measurement of discharges from an industrial plant. In rare cases, NIB demands that a project be reformulated in terms of the environment; for example, that an environmental management system be introduced in the borrowing company or that an environmentally hazardous substance be replaced.

Organisation

Environmental activities are to be a natural aspect of our daily activities and the environmental management system is integrated with the organisation's various other management systems. The

NIB's environmental policy

(adopted in October 2001)

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

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

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

Housekeeping

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

ENVIRONMENTAL FINANCING

During 2005, the Bank granted 26 new environmental loans, totalling EUR 336 million. Of the total amount of loans disbursed during the period, almost 17% comprised environmental loans.

Member countries

Important environmental projects in the member countries in 2005 concerned energy efficiency and wind power plants, as well as emission reduction investments in pulp and paper mills. All these projects have a significant positive environmental impact.

Most of the loans in the manufacturing industry and the energy sector were granted during the year for investments that have a positive effect on the environment. Environment-friendly and energy-saving investments in the pulp and paper industry in Finland and Sweden accounted for one third of the loans to the manufacturing industry.

The Bank granted loans for investment in waste incineration plants in Sweden and Norway. The waste incineration schemes used in these projects fully comply with the EU waste hierarchy. It means that only a fraction of the waste remaining after minimisation, reuse, and material recycling is incinerated for energy utilisation. The emission of carbon dioxide from the heat generation in the district heating area will be significantly reduced, when the new waste incineration capacities have been put into operation. Each additional waste incineration capacity of 120,000 tonnes per year allows reducing the annual emission of carbon dioxide by 250,000 tonnes.

A significant part, EUR 61 million, of the Bank's environmental financing is channelled through financial intermediaries to small and medium-sized enterprises. This is an efficient way for NIB to participate in the financing of small renewable energy projects and agricultural nutrient reduction projects.

LENDING IN NON-MEMBER COUNTRIES

NIB also has a significant environmental loan portfolio outside the member countries, including the areas adjacent to the member countries. Environmental investments in the private sector include energy efficiency and cleaner production measures within the pulp and paper industry and the upgrading of the metallurgical industry. The public sector investments are focused on upgrading district heating systems and improved energy efficiency as well as upgrading municipal wastewater systems.

ENVIRONMENTAL LOANS IN SWEDEN AND FINLAND

Financing of environmental investments in the manufacturing industry and the energy sector comprises an important part of NIB's lending operations in the member countries. Projects in Rauma, Finland, and Linköping, Sweden, portray this cluster of activities.

A local energy utility in Rauma invests in a new power plant that will produce electricity, steam for a paper mill and district heating for the city. The power plant will incinerate bark, forest residue, peat, sludge and a small amount of recycled fuel. Modern technologies used in co-combustion comply with emission requirements, while the use of bio fuels will reduce carbon dioxide emissions by 70,000 tonnes a year.

Tekniska Verken i Linköping AB is set to increase production of biogas, the renovation of waste incinerating boilers, as well as district heating projects. The total environmental effect of the investment will reduce the annual emission of sulphur dioxide by 13 tonnes, nitrogen oxides by 14 tonnes, and carbon dioxide by 42,000 tonnes.

A list of NIB's loans agreed in 2005 for the financing of investment projects in the member countries, including environmental investments, can be found on page 73.

In the neighbouring areas, which have high priority in the Bank's environmental lending, there are still a number of major points of pollution both to the air and the water. The energy sector, which is a major source of pollution, is an important part of the Bank's environmental lending. Current environmental investments include desulphurisation plants and flue gas treatment. Investments have also been made in improving energy efficiency.

An important environmental project is the upgrading of the Belchatów power plant in Poland. The investment is aimed at reducing annual emissions of sulphur dioxide by 118,000 tonnes and nitrogen oxides by 16,000 tonnes.

In the Czech-Moravian Guarantee and Development Bank loan programme, 23 subprojects have been identified in 15 municipalities in the Czech Republic, out of which eight are wastewater treatment plants and 15 are sewerage projects. The main goals of these projects are to increase hydraulic capacity, introduce nitrogen and phosphorous removal and to introduce sludge treatment.

NORTHERN DIMENSION

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

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

> NIB is actively involved in international and regional environmental cooperation.

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

In the period from July 2004 to July 2005, NIB chaired the steering group of the NDEP. Currently, the partnership encompasses fifteen large environmental projects that are either in the preparation or implementation stage. NIB is responsible for the preparation and coordination of seven of these projects. Some of the feasibility studies of the NDEP projects are financed by the Finnish Ministry of the Environment and the Swedish International Development Cooperation Agency Sida.

To quantify the environmental benefits of the investments in the Northern Dimension area, including all of the NDEP projects, calculations of the predicted emission reductions have been conducted. Emissions of sulphur dioxide, a source of acid rain, are expected to decrease by 150,000 tonnes annually. For comparison, the annual release of sulphur dioxide from all sources in Sweden is 50,000 tonnes. The reduction of carbon dioxide, a greenhouse gas, is also substantial. The reduction

Environmental projects led, financed and cofinanced by NIB in the Northern Dimension area

Project	Description	Expected environmental effect
Southwest Wastewater Treatment Plant in St. Petersburg (NDEP)	The first project completed within the framework of the NDEP was inaugurated in September 2005. The plant will contribute to improving the quality of water in the Baltic Sea by significantly reducing the wastewater nutrient load from St. Petersburg. NIB acted as lead bank for the financing of the project.	Reduction of discharges to water: – Phosphorus by 370 tonnes/year – Nitrogen by 2,200 tonnes/year – BOD by 14,800 tonnes/year
Direct discharges in St. Petersburg (NDEP)	Elimination of about 400 discharge points to the Neva river remaining after the launch of the Southwest Wastewater Treatment Plant. A feasibility study on elimination of the remaining discharge points is to be completed by early 2006.	Reduction of discharges to water: – Phosphorus by 380 tonnes/year – Nitrogen by 1,880 tonnes/year – BOD by 12,540 tonnes/year

Project	Description	Expected environmental effect
Wastewater treatment in the Leningrad region (NDEP)	Development programme for environmental investments in selected municipalities. NIB's loan for the project amounts to EUR 5.3 million. Other sources of funding, including grants, are NEFCO, the governments of Sweden, Denmark and Finland, as well as the NDEP support fund.	Reduction of discharges to water: – Phosphorus by 50 tonnes/year – Nitrogen by 100 tonnes/year – BOD by 110 tonnes/year
Ladoga Environmental Programme (NDEP)	Industrial rehabilitation initiative, established to address the environmental concerns in the private sector in the Russian part of the catchment area of the Baltic Sea. This area includes the Neva river and the two major lakes, Ladoga and Onega. The aim of the programme is to reduce emissions to air and discharges from the pulp and paper, metallurgical and chemical industries. The Bank has approved loans totalling EUR 37 million for the financing of environmental investments in the pulp and paper industry.	Reduction of discharges to water: – Phosphorus by 110 tonnes/year – Nitrogen by 140 tonnes/year – BOD by 2,600 tonnes/year Reduction of emissions to air: – Sulphur dioxide by 12,200 tonnes/year – Carbon dioxide by 276,800 tonnes/year
Municipal environmental project in Novgorod (NDEP)	Rehabilitation of the city's water, wastewater, solid waste and district heating sectors. Feasibility studies have been financed by Sida through a Swedish trust fund at NIB.	Reduction of emissions to air and water
Solid waste management in the Kaliningrad region (NDEP)	Comprehensive solution aimed at reducing the negative environmental impact of poor waste management practices for the collection, sorting and end deposit of solid waste. In 2005, NIB granted a loan for this project.	Reduction of emissions to air and water
District heating in Murmansk (NDEP)	Rehabilitation of the regional district heating enterprise's production facilities and heating networks. NIB has approved a loan of EUR 15 million for this project.	Reduction of emissions to air: – Sulphur dioxide by 900 tonnes/year – Carbon dioxide by 65,000 tonnes/year
Sludge incineration plant in St. Petersburg (NDEP)	Construction of a sludge incinerator at the city's northern wastewater treatment plant. NIB's loans to the St. Petersburg municipal water utility total USD 13 million.	Reduction of emissions to air: – Sulphur dioxide by 1,700 tonnes/year – Carbon dioxide by 94,600 tonnes/year
Flood barrier in St. Petersburg (NDEP)	Construction of a barrier to protect the city against floods. NIB has approved a loan of USD 40 million to finalise the project guaranteed by the Russian Federation. The project costs are estimated at USD 420 million.	Reduction of emissions to water
Pechenga Nickel on the Kola Peninsula	Rehabilitation of a nickel smelter and a roasting plant run by Norilsk Nickel on the Kola Peninsula. The investment will drastically reduce emissions of sulphur dioxide and heavy metals dust from the plants. NIB is participating with a loan of USD 30 million. NIB is also handling the grant financing provided by Norway and Sweden.	Reduction of emissions to air: – Sulphur dioxide by 136,000 tonnes/year – Carbon dioxide by 214,000 tonnes/year
Water and wastewater treatment in Kaliningrad	Development of water and wastewater services, including potable water and wastewater treatment, as well as institutional development. Since 2001, NIB has had a loan agreement of USD 13 million with the Russian Federation for this project.	Reduction of discharges to water: – Phosphorus by 120 tonnes/year – Nitrogen by 300 tonnes/year – BOD by 7,800 tonnes/year
Loan programmes with Russian intermediaries	Loan programmes for environmental investments in Northwest Russia through two local banks. One, totalling EUR 20 million, was signed with Vneshtorgbank. Another loan programme in the amount of EUR 15 million was signed with Industry & Construction Bank in St. Petersburg.	Reduction of emissions to air and water

of nutrient loads and discharges of oxygen consuming substances to the Gulf of Finland are in the range of 4% to 20% of the annual riverine discharge to the Gulf today.

ENVIRONMENTAL COOPERATION

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

HELCOM

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

HELCOM originally identified 132 hot spots, that is, major emission sources round the Baltic Sea. NIB has granted financing to a number of municipalities and industrial companies with points of discharge in Denmark, Sweden and Finland. NIB's financing of the projects contributed considerably to several of the pollution sources having been deleted from the original list.

Baltic Agenda 21

Within the Council of the Baltic Sea States, NIB is part of an international working group Baltic Agenda 21. Focusing on the regional context of sustainable development, this regional network is set up for the implementation of the globally agreed Agenda 21 and World Summit on Sustainable Development activities.

MFI Environmental Working Group

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

NDEP

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

GLOBAL DEVELOPMENT TRENDS

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

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

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

ANNUAL REPORT 2005

CONTENTS

REPORT OF THE BOARD OF DIRECTORS 2005

The year 2005 was positive for NIB. The financial results were good and new lending expanded at a rapid pace. The Bank's loan disbursements were higher than in any previous year.

The economic development both within and outside the Bank's member countries was consistently favourable; especially the investment performance in NIB's markets was on the rise. Despite ample liquidity in the global economy, NIB's financing was still in high demand.

The Bank's objectives were to concentrate on financing economic activities in areas in which NIB can meet the demand for long-term loans and to finance activities in the business sector in non-member countries. NIB also maintained focus on projects facilitating environmental improvements, particularly in the regions adjacent to the member countries.

Membership in NIB was broadened at the beginning of 2005, when Estonia, Latvia and Lithuania became members of the Bank. A new agreement and new statutes entered into force as of 1 January 2005. A Board of Governors, taking over from the Nordic Council of Ministers as a new governing body for the Bank, was formally appointed as of 1 January.

Johnny Åkerholm took up the position of President and Chief Executive Officer on 1 April. He succeeded Jón Sigurðsson, who had been President and CEO since April 1994.

NIB continues to develop its governance in order to adjust to the constantly changing business environment and requirements. In pursuing this objective, the Bank focuses on achieving best practices in its operations and management. The Bank has implemented its new governance structure, reviewed its organisation and carried out important changes in risk management.

During 2005, the Bank continued to develop its risk management systems and updated the methodologies and tools used for assessing the quality of its debtors and transactions. At the end of the year, the Board approved new scales for risk classification.

FINANCIAL RESULTS

NIB's profits for 2005 were EUR 165 million (2004: EUR 172 million). The lower figure compared to last year is due to lower prosfits from market revaluation of the trading portfolio. The results for 2005 include gains from the trading portfolio of EUR 11 million (20). Net interest income increased during the year as a result of increased average volumes of assets outstanding. Net interest income was EUR 169 million, an increase of EUR 6 million, or 3%, compared to previous year. The Bank's core earnings, i.e. the profit for the year excluding credit losses, the impact of gains and losses on items at fair value, and market value movements on the trading portfolio, totalled EUR 150 million, which is EUR 3 million above the earnings of the year 2004.

New loan agreements clearly exceeded the activity in 2004, and amounted to EUR 2,616 million (1,657). Loans disbursed reached the highest level ever, EUR 2,092 million (1,348). Loans outstanding totalled EUR 11,717 million (10,279). Exchange rate fluctuations caused an increase of EUR 332 million in loans outstanding.

The volume of new debt issues during the year amounted to EUR 2,059 million. NIB launched its fourth global benchmark transaction of USD 1 billion. Borrowings outstanding amounted to EUR 14,456 million at year-end 2005 (12,355).

The quality of the Bank's loan portfolio and its financial counterparties continues to be high. The net effect of credit losses and recoveries was positive at EUR 0.1 million.

Due to the fact that Estonia, Latvia and Lithuania joined NIB as new members on 1 January 2005, the Bank's authorised and subscribed capital rose from EUR 4,000 million to EUR 4,142 million.

The Board proposes that EUR 55 million (55) be paid as dividends to the Bank's owners for the year 2005.

Profit as a proportion of average equity was 8.9% (10.1). The solvency ratio was 10.7% (10.9). The Bank's balance sheet totalling EUR 18,178 million represents an increase of EUR 1,816 million since year-end 2004, mainly due to growth in the loan portfolio.

LENDING *)

Member countries

The year 2005 was characterised by greater demand for NIB's long-term loans, despite a high supply of liquidity in the market. Particularly in the energy sector and in road-construction projects, NIB created added value for its clients by offering long-term financing of large, long-term investments, in line with its role as a provider of complementary financing.

The volume of new lending in the member countries reached an all-time high. NIB entered into 55 loan agreements corresponding to EUR 1,653 million (1,165), and a total of EUR 1,574 million (1,065) was disbursed. Reflecting the good liquidity among the Bank's customers and the downward trend on margins, the amounts received as repayments and prepayments stayed at a fairly high level. Amortisations and prepayments amounted to EUR 740 million.

The portfolio of loans outstanding and guarantees in the member countries amounted to EUR 9,526 million (8,595) at year-end 2005. In addition to the existing portfolio of loans outstanding, the Bank had by year-end 2005 concluded agreements on loans, not yet disbursed, totalling EUR 437 million. Most of these loans have long lead times and can be found mainly in energy and road-construction projects.

The manufacturing industry continues to be the largest sector, accounting for 38% of the amount of loans agreed. Most of the loans to this sector went to cross-border corporate acquisitions, including the largest single disbursement, made to the food industry. Environment-friendly and energy-saving investments in the pulp and paper industry in Finland and Sweden were also significant, accounting for one third of loans to the manufacturing industry.

The energy sector was the second largest, with 28% of loans agreed during the year. Most of the energy-related investments NIB financed during the year have a positive effect on the environment. The Bank agreed on loans for the expansion of and improvements in electricity transmission networks in Estonia, Finland, Latvia and Norway.

Most of the Bank's lending to small and medium-sized enterprises is channelled through financial intermediaries. This efficient way for NIB to participate in the financing of small, mainly energy- and environment-related investments, was especially used in Denmark.

As in previous years, the euro was the most important lending currency, followed by the Swedish krona.

*) In this section, Estonia, Latvia and Lithuania are included in the 2004 figures for the member countries.

Non-member countries

Demand for the Bank's loans in non-member countries was strong during 2005. Loans agreed but not yet disbursed rose to EUR 1,188 million, compared to EUR 717 million at year-end 2004. The Bank entered into 29 international loan agreements: EUR 545 million went to 15 individual projects and EUR 417 million to 14 loan programmes in cooperation with financial and other intermediaries.

Loan disbursements amounted to EUR 518 million (283). The largest borrower regions were Asia, Latin America, and Central and Eastern Europe. Loans outstanding amounted to EUR 2,216 million, compared to EUR 1,709 million at year-end 2004.

On 31 December 2005, NIB had loans outstanding in 29 countries outside the membership area. The cooperation with these countries is long-term and based on agreements made with the countries' governments. As a rule, these agreements enable NIB to participate in the financing of projects in both the public and private sectors. In 2005, new framework agreements were entered into with the Democratic Socialist Republic of Sri Lanka, Serbia and Montenegro, as well as Ukraine.

Lending in non-member countries continues to be dominated by loans to infrastructure investments, especially in the energy, transport and telecommunications sectors. During the year, the Bank had particularly active lending in Poland, China, Vietnam and Brazil.

The euro and the US dollar were the most important currencies for NIB's lending activities in non-member countries.

ENVIRONMENTAL FINANCING

NIB puts particular emphasis on the financing of projects with vital environmental benefits in different business sectors and countries. On a regional level, for example in the Baltic Sea area, this includes issues such as eutrophication and acidification due to air emission and wastewater discharge. On a global level, climate change and the emission of greenhouse gases are important issues. Targets set in the Kyoto Protocol are challenging to most of NIB's countries of operation.

NIB actively promotes investments that directly or indirectly reduce harmful emissions or other environmental hazards. Priority is given to environmental investments that are of importance to the member countries and their neighbouring areas. In 2005, the Bank granted 26 new environmental loans, totalling EUR 336 million. Of the total loans disbursed, 17% comprised environmental loans.

NIB has participated in the financing of a number of environmental projects in the neighbouring areas where the implementation has already begun or is in the final phase. Environmental investments in the private sector include energy efficiency and cleaner production measures in the pulp and paper industry and the upgrading of metallurgical industry. Public sector investments are focused on upgrading district heating systems and improving energy efficiency, as well as upgrading municipal wastewater systems. Important environmental projects in the member countries concerned energy efficiency and wind power plants, as well as emission reduction investments in pulp and paper mills. All these projects have a significant positive environmental impact.

NIB's environmental investments, including projects within the framework of the Northern Dimension Environmental Partnership (NDEP), have shown substantial environmental benefits. The predicted reductions of polluting substances have been quantified and are expected to be substantial following implementation of the projects. The projects comprise a mix of different emission reduction approaches. The NIB-financed projects in Northwest Russia alone are expected to reduce air emissions of sulphur dioxide, a source of acid rain, by 150,000 tons annually. By comparison, the annual release from all sources in Sweden is 50,000 tons. The reduction of carbon dioxide, a greenhouse gas, is also expected to be significant in the area.

In the period from July 2004 to July 2005, NIB chaired the NDEP Steering Group. The aim of the partnership is to coordinate and streamline the financing of environmental projects with cross-border effects in the Northern Dimension Area, that is, the Baltic Sea and Barents regions, as well as Northwest Russia. Fifteen large environmental projects are either in the preparation or implementation stage. NIB is responsible for preparing and coordinating seven of these projects. Some of the feasibility studies of the NDEP projects are cofinanced with the Finnish Ministry of the Environment and the Swedish International Development Cooperation Agency Sida.

The first completed NDEP project was the Southwest Wastewater Treatment Plant in St. Petersburg, inaugurated in September 2005. The new plant will make a major contribution to improving the quality of water in the Baltic Sea as the effluent load of untreated and contaminated wastewater will be reduced significantly. Since 2000, NIB has coordinated the financial structuring of the project and has acted as lead bank for the project financing.

COOPERATION WITH FINANCIAL INSTITUTIONS

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

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

NIB has close cooperation with its three sister organisations within the Nordic Finance Group (the Nordic Development Fund, NDF; the Nordic Environment Finance Corporation, NEFCO; and the Nordic Project Fund, Nopef).

Channelling part of the lending operations through financial intermediaries is an efficient way for NIB to participate in the financing of small and medium-sized enterprises' investments. NIB has agreements with 39 Nordic and Baltic banks and financial institutions which act as intermediaries for lending to small and medium-sized enterprises in the member countries. NIB also cooperates across a broad spectrum of financial intermediaries in most of the non-member countries with which it has cooperation agreements. The current number of financial intermediaries outside the member countries is 20, often comprising state-owned development banks or local commercial banks.

FINANCIAL ACTIVITIES

NIB borrowed EUR 2,059 million (1,808) on the capital markets in 2005 through 26 (18) borrowing transactions in 7 (8) different currencies.

The US dollar was the most important borrowing currency, with seven transactions for a total amount equivalent to EUR 1,268 million, corresponding to 62% of total borrowings. The euro, the new Turkish lira, the Hong Kong dollar, the Australian dollar, the Japanese yen and the Slovak koruna were the other borrowing currencies.

The currency composition of the borrowing is changed by entering into swap agreements with reliable counterparties to reflect the demand for lending disbursements, which are mainly carried out in the euro and the US dollar.

Total borrowings outstanding constituted EUR 14,456 million (12,355) at year-end.

NIB invests an amount corresponding to the size of its equity in a euro-denominated fixed income portfolio. Long-term yields in the euro zone fell over the course of 2005, having a positive impact on the Bank's results for 2005 through revaluation gains on securities in the trading portfolio. On the other hand, lower interest rates reduce the net interest income on the fixed income portfolio over time.

The net liquidity calculated according to IFRS stood at EUR 3,101 million (2,876) at year-end. This was slightly lower than expected mainly due to a strong pick-up in the disbursement of loans towards the end of the year.

RISK MANAGEMENT

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

In 2005, NIB continued the implementation of a new system of portfolio credit risk management, whereby the need to allocate capital for covering the risks of possible credit losses is related to each specific, individual transaction. The methodologies and tools for assessing the quality of the Bank's obligors and transactions were updated during the year. At the end of the year the Board of Directors therefore approved new scales for NIB's risk classification. The existing risk classification system of ten classes was replaced by a system of twenty classes.

The quality of the Bank's portfolios, taken as a whole, continues to be very high. The portfolios are well balanced as regards both geographical and sector distribution, as well as the degree of concentration. At year-end 2005, the quality of the Bank's assets was generally as high as at the beginning of the year.

INTERNAL CONTROL AND INTERNAL AUDIT

The objective of NIB's internal control system is to secure and develop the long-term financial preconditions for operations, and to conduct operations in an economical and cost-efficient way, in compliance with given rules and regulations. The focus of the internal control is on the management of financial and operational risks. The internal control system constitutes an integral part of each employee's work and covers systems and procedures for monitoring and managing transactions, positions and documentation with a clear segregation of duties between recording, risk management and transaction-generating functions.

NIB's internal audit follows international professional standards established by the Institute of Internal Auditors. The task of the internal audit is to regularly analyse and evaluate the Bank's internal control system, operational procedures and other systems. Important focal areas for the internal audit include the efficiency and reliability of the Bank's individual processes and systems, as well as compliance with the Bank's statutes and other directives and regulations.

ADMINISTRATION

At year-end, the number of employees was 150 (147). As a direct result of the membership of Estonia, Latvia and Lithuania in the Bank, the first employees from the Baltic countries were recruited.

From the beginning of 2005, NIB's two official languages are English and Swedish, with English being the predominant corporate language. Following the enlargement of the Bank's membership at the beginning of 2005, English is the principal working language of NIB's managerial and governing bodies.

Due to upcoming retirements and organisational changes, a process of recruiting for senior management positions started in mid-2005. As of the beginning of 2006, three new members were appointed to the Management Committee.

The Board of Governors approved a new code of conduct for the Board of Directors and the President during the year. The code of conduct for the staff is also under review.

The Cooperation Council established a working group to make an equality plan for the Bank. An employee survey was conducted in order to find out if there were any areas that needed special attention. The equality plan will be authorised in 2006.

The Bank continued a large-scale programme of upgrading its core IT capacities. The modernisation programme launched in 2002 aims at renewing the IT systems for commercial lending, treasury back-office operations and accounting. The commercial lending project was completed in 2005.

A committee on fighting corruption was established during 2005. As an international organisation, NIB places particular emphasis on fighting corruption in both its internal and external activities and operations. The guidelines for combating corruption are set in a special resolution adopted by NIB in 2000 and revised in 2004. The resolution also includes efforts to combat money laundering and international terrorism.

OUTLOOK

Demand for NIB's long-term loans in the member countries is expected to be more sluggish in 2006 as a result of high liquidity in the financial markets. While high liquidity is expected to hold back NIB's lending outside the member countries, the pipeline of upcoming loans suggests a certain increase in 2006 as compared to the previous year.

Priority will continue to be given to the financing of projects, in which the Bank provides value added, i.e. meeting the need for long-term financing. Particular emphasis is therefore on environmental projects and infrastructure investments both in the Bank's member and non-member countries.

The future lending strategy of the Bank was an important question on the agenda of the Board of Directors in 2005. This discussion will continue during 2006. The finalised strategy will allow NIB to identify and focus on areas of activities in which the Bank can take full advantage of its strengths.

In order to fund its lending operations, NIB will continue its flexible, global borrowing strategy in 2006, through a combination of global benchmark issues of bonds and smaller issues targeting particular market niches in the global capital markets.

The Bank's operational results in terms of its core profits in 2006 are expected to be similar to 2005. Profits from the revaluation of debt securities in the trading portfolio cannot be expected in 2006.

PROPOSAL BY THE BOARD OF DIRECTORS TO THE BOARD OF GOVERNORS

The Board of Directors' proposal for the allocation of profits for the year 2005 takes into consideration that the Bank's operations are carried out with the objective of achieving a reasonable return on the Bank's paid-in capital and paying a satisfactory dividend to the member countries. The proposal will facilitate the continuing accumulation of the Bank's equity and keep its ratio of equity to total assets at a secure level, both of which are prerequisites for maintaining the Bank's high creditworthiness.

In accordance with Section 11 of the Statutes of the Bank, the profit for 2005 of EUR 165,295,121.82 is allocated as follows:

- EUR 110,295,121.82 is transferred to the General Credit Risk Fund as a part of equity;
- no transfer is made to the Statutory Reserve; and
- EUR 55,000,000.00 is made available for distribution as dividends to the Bank's member countries.

The profit and loss account, balance sheet, changes in equity and cash flow statement, as well as the notes to the financial statements, are to be found on pages 40 through 62.

Helsinki, 9 March 2006

Baldur Guðlaugsson

Lars Kolte

Edmunds Krastiņš

Rolandas Kriščiūnas

Kristina Sarjo

Arild Sundberg

Madis Üürike

Erik Åsbrink

Johnny Åkerholm
President and CEO

PROFIT AND LOSS ACCOUNT 1 JANUARY – 31 DECEMBER

	Note	*2005*	*2004*
		1,000 EUR	*1,000 EUR*
Interest income		**528,799**	447,527
Interest expense		**-360,135**	-284,364
Net interest income	(1), (2)	**168,664**	**163,163**
Commission income and fees received	(3)	**8,634**	7,998
Commission expense and fees paid		**-1,524**	-1,157
Net profit on financial operations	(4)	**17,335**	22,788
Foreign exchange gains and losses		**-105**	87
Operating income		**193,004**	**192,879**
Expenses			
General administrative expenses	(5)	**24,034**	21,395
Depreciation	(10)	**3,794**	2,880
Credit loss / recovery	(6), (8)	**-119**	-3,764
Total expenses		**27,709**	**20,512**
PROFIT FOR THE YEAR		**165,295**	**172,367**

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

BALANCE SHEET AT 31 DECEMBER

		Note	2005 1,000 EUR	2004 1,000 EUR
ASSETS		(1), (18), (19)		
Cash and cash equivalents		(17), (20)	**3,568,561**	3,198,351
Financial placements		(7), (17)		
Placements with credit institutions			**105,867**	89,730
Debt securities			**1,302,595**	1,251,341
Other			**7,052**	6,713
			1,415,514	**1,347,784**
Loans outstanding		(8), (17)	**11,716,596**	10,279,082
Intangible assets		(9)	**7,423**	5,928
Tangible assets		(9)	**34,884**	36,037
Other assets		(11), (17)		
Derivatives			**1,076,046**	1,208,380
Other assets			**2,569**	3,227
			1,078,616	**1,211,607**
Paid-in capital and payments to the Bank's reserves, receivable			**52,274**	-
Accrued interest and fees receivable			**304,566**	283,856
Total assets			**18,178,433**	**16,362,645**
LIABILITIES AND EQUITY		(18), (19)		
Liabilities				
Amounts owed to credit institutions		(17)		
Short-term amounts owed to credit institutions		(20)	**467,985**	322,378
Long-term amounts owed to credit institutions			**100,075**	94,467
			568,060	**416,845**
Debts evidenced by certificates		(12), (17)		
Debt securities issued			**14,205,040**	12,132,371
Other debt			**250,663**	222,267
			14,455,702	**12,354,638**
Other liabilities		(13), (17)		
Derivatives			**934,987**	1,565,235
Other liabilities			**5,283**	4,244
			940,271	**1,569,479**
Accrued interest and fees payable			**268,832**	241,116
Total liabilities			**16,232,865**	**14,582,078**
Equity				
Authorised and subscribed capital	**4,141,903**			
of which callable capital	**-3,723,301**			
Paid-in capital [1]	**418,602**	(14)	**418,602**	404,260
Reserve funds		(15)		
Statutory Reserve			**644,983**	644,983
General Credit Risk Fund			**424,367**	357,000
Special Credit Risk Fund PIL			**238,200**	188,200
Fund, HIPC Programme			**4,300**	4,300
Payments to the Bank's reserves, receivable			**42,713**	-
Other value adjustments			**7,109**	9,457
Profit for the year			**165,295**	172,367
Total equity			**1,945,569**	**1,780,567**
Total liabilities and equity			**18,178,433**	**16,362,645**
Guarantee commitments		(8), (16)	**25,000**	25,000
Collateral and commitments		(16)		

[1] Of paid-in capital, EUR 409,040,590 was received as of 31 December 2005 (December 2004: EUR 404,260,110)

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

CHANGES IN EQUITY

(Amounts in EUR million)

	Paid-in capital	*Statutory Reserve*	*General Credit Risk Fund*	*Special Credit Risk Fund PIL*	*Fund, HIPC Programme*	*Payments to the Bank's Statutory Reserve and credit risk funds*	*Other value adjustments*	*Profit for the year*	**Total**
Equity at 31 December 2003	**404.3**	**645.0**	**337.0**	**98.2**	**4.3**		**9.5**	**151.3**	**1,649.6**
Appropriations between reserve funds			20.0	90.0				-110.0	0.0
Dividend payment								-41.3	-41.3
Available-for-sale portfolio									-
Hedge accounting							-0.1		-0.1
Profit for the year								172.4	172.4
EQUITY AT 31 DECEMBER 2004	**404.3**	**645.0**	**357.0**	**188.2**	**4.3**	**-**	**9.5**	**172.4**	**1,780.6**
Appropriations between reserve funds			67.4	50.0				-117.4	0.0
Paid-in capital	4.8								4.8
Called in authorised and subscribed capital	9.6								9.6
Payments to the Bank's Statutory Reserve and credit risk funds, receivable						42.7			42.7
Dividend payment								-55.0	-55.0
Available-for-sale portfolio									-
Hedge accounting							-2.3		-2.3
Profit for the year								165.3	165.3
EQUITY AT 31 DECEMBER 2005	**418.6**	**645.0**	**424.4**	**238.2**	**4.3**	**42.7**	**7.1**	**165.3**	**1,945.6**

Proposed appropriation of the year's profit	***2005***	*2004*
Appropriation to Statutory Reserve	**-**	-
Appropriations to credit risk reserve funds		
General Credit Risk Fund	**110.3**	67.4
Special Credit Risk Fund PIL	**-**	50.0
Fund, HIPC Programme	**-**	-
Appropriation to dividend payment	**55.0**	55.0
PROFIT FOR THE YEAR	**165.3**	**172.4**

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

CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

	Note	2005 *) 1,000 EUR	2004 *) 1,000 EUR
Cash flows from operating activities	(20)	**186,065**	**177,841**
Cash flows from investing activities			
Lending			
Disbursements of loans		**-2,092,465**	-1,347,779
Repayments of loans		**971,926**	1,408,072
Capitalisations, redenominations, index adjustments etc.		**-1,959**	-485
Exchange rate adjustments		**-331,729**	189,337
Placements and debt securities			
Purchase of debt securities		**-654,211**	-492,460
Sales of debt securities		**595,643**	502,834
Placements with credit institutions		**-14,986**	34,171
Other financial placements		**-339**	1,552
Exchange rate adjustments, etc.		**-1,299**	-701
Other items			
Change in swap receivables		**51,713**	-83,013
Change in other assets		**1,100**	826
Change in tangible and intangible assets		**-4,135**	-7,644
Investing activities, total		**-1,480,741**	**204,709**
Cash flows from financing activities			
Debts evidenced by certificates			
Issues of new debt		**2,059,067**	1,808,339
Redemptions		**-856,316**	-1,764,676
Exchange rate adjustments		**1,060,401**	-485,749
Issuing charges		**-11,680**	-1,525
Other items			
Placements from credit institutions		**5,609**	-19,898
Change in swap payables		**-688,623**	264,618
Change in other liabilities		**1,040**	-10,647
Dividend paid		**-55,000**	-41,334
Paid-in capital		**4,780**	-
Financing activities, total		**1,519,279**	**-250,872**
CHANGE IN NET LIQUIDITY	(20)	**224,603**	**131,678**
Opening balance for net liquidity		**2,875,973**	**2,744,295**
Closing balance for net liquidity		**3,100,576**	**2,875,973**

*) The cash flow statement for 2005 has been changed as follows:
- Changes in accrued interest on swaps are handled per swap contract.
- Changes in swap receivables and payables are handled gross per swap contract.

This is done in order to improve the transparency of the cash flow statement and to facilitate the reconciliation of the cash flows to the balance sheet.
The figures for 2004 have been adjusted accordingly.

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

NOTES TO THE FINANCIAL STATEMENTS

General operating principles

The operations of the Nordic Investment Bank (hereinafter called the Bank or NIB) are governed by an agreement among the governments of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden (hereinafter called the member countries), and the Statutes adopted in conjunction with that agreement.

NIB is a multilateral financial institution that operates in accordance with sound banking principles. NIB finances private and public projects which have high priority with the member countries and the borrowers. NIB finances projects both within and outside the member countries, and 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.

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

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

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

Significant accounting principles

BASIS FOR PREPARING THE FINANCIAL STATEMENTS

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

ASSESSMENTS MADE IN PREPARING THE FINANCIAL STATEMENTS

As part of the process of preparing the financial statements, the Bank's management is required to make certain estimates and assumptions that have an effect on the Bank's profits, its financial position and other information presented in the annual report. These estimates are based on available information and the judgements made by the Bank's management. Actual outcomes may deviate from the assessments made, and such deviations may thus at times be substantial.

FOREIGN CURRENCY TRANSLATION

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

Realised and unrealised exchange rate gains and losses are recognised in the profit and loss account.

The Bank uses the official exchange rates published for the euro by the European Central Bank. See Note 21 on page 62.

CASH AND CASH EQUIVALENTS, NET LIQUIDITY

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

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

FINANCIAL PLACEMENTS

Items recognised as financial placements in the balance sheet include placements with credit institutions and in debt securities, for example, bonds and other debt certificates, as well as certain placements in instruments with equity features. The placements are initially recognised on the settlement date. Their subsequent accounting treatment depends on the purpose of the placements.

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

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

LENDING

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

Ordinary Lending includes loans and guarantees within and outside the member countries, as well as Regional Loans in the Nordic countries. The Bank's Ordinary Lending ceiling corresponds to 250% of its authorised capital and accumulated general reserves and amounts to EUR 13,411 million following the appropriations of the year's profits in accordance with the Board of Directors' proposal.

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

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

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

The Bank's lending transactions are recognised in the balance sheet at the time the funds are transferred to the borrower. Loans are recognised initially at historical cost, which corresponds to the fair value of the transferred funds including transaction costs. Loans outstanding are carried at amortised cost. If the loans are hedged against changes in fair value by using derivative instruments, they are recognised in the balance sheet at fair value, with value changes recognised in the profit and loss account.

CREDIT LOSSES

Receivables are carried at their estimated recoverable amount. Where the collectability of identified loans is in doubt, specific impairment losses are recognised in the profit and loss account. Impairment is defined as the difference between the carrying value of the asset and the net present value of expected future cash flows, determined using the instrument's original effective interest rate where applicable. Impairment losses are measured based on individual assessment of the collectable amount for loans and guarantees. The assessment takes into account any costs of administration or realisation of the security.

On the liabilities side, impairment is recognised in respect of the guarantees NIB has issued. The net cost of any calls made under guarantees and other similar commitments issued by NIB is likewise recognised in the profit and loss account.

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

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

INTANGIBLE ASSETS

Intangible assets mainly consist of investments in software, software licenses and ongoing investments in new IT systems. The investments are carried at historical cost, and are amortised over the assessed useful life of the assets, which is estimated to be between 3 and 5 years. The amortisations are made on a straight-line basis.

TANGIBLE ASSETS

Tangible assets in the balance sheet include land, buildings, office equipment, and other tangible assets owned by the Bank. The assets are recognised at historical cost, less any accumulated depreciation based on their assessed useful life. No depreciations are made for land. The Bank's office building in Helsinki is depreciated on a straight-line basis over a 40-year period. The Bank's other buildings are depreciated over a 30-year period. The depreciation period for office equipment and other tangible assets is determined by assessing the individual item. The depreciation period is usually 3 to 5 years.

WRITE-DOWNS

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

BORROWING

The Bank's borrowing transactions are recognised in the balance sheet at the time the funds are transferred to the Bank. The borrowing transactions are recognised initially at historical cost, which is the fair value of the funds transferred, less transaction costs. Borrowings outstanding are carried at amortised cost. The Bank uses derivative instruments to hedge the fair value of virtually all its borrowing transactions. In these instances, the borrowing transaction is recognised in the balance sheet at fair value, with any changes in value recognised in the profit and loss account.

DERIVATIVE INSTRUMENTS

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

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

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

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

Sometimes a derivative may be a component of a hybrid financial instrument that includes both the derivative and a host contract. Such embedded derivative instruments are part of a structured financing transaction that is hedged against changes in fair value by means of matching swap contracts. In such cases, both the hedged borrowing transaction and the hedging derivative instrument are recognised at fair value with changes in fair value in the profit and loss account.

The hedge accounting is based on a clearly documented relationship between the item hedged and the hedging instrument. When there is a high (negative) correlation between the hedging instrument on the one hand and the value change on the hedged item or the cash flows generated by the hedged item on the other, the hedge is regarded as effective. The hedging relationship is documented at the time the hedge transaction is entered into, and the effectiveness of the hedge is assessed continuously.

FAIR VALUE

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

EQUITY

The Bank's authorised and subscribed capital is EUR 4,141.9 million, of which the paid-in portion is EUR 418.6 million. Payment of the subscribed, non-paid-in portion of authorised capital, i.e., the callable capital, will take place at the request of the Bank's Board of Directors to the extent that the Board deems it necessary for the fulfilment of the Bank's debt obligations.

The Bank's reserves have been built up by means of appropriations from the profits of previous accounting periods, and consist of the Statutory Reserve, as well as funds for credit risks: the General Credit Risk Fund, the Special Credit Risk Fund for PIL, and the Fund for the HIPC Programme (Debt Initiative for Heavily Indebted Poor Countries).

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

The General Credit Risk Fund is designed to cover unidentified exceptional risks in the Bank's operations.

Allocations to the Special Credit Risk Fund for PIL are made primarily to cover the Bank's own risk in respect of credit losses on PIL loans.

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

INTEREST

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

Borrowing costs are recognised as reductions of the borrowing in the balance sheet. They are amortised over the lifetime of the borrowing and included in "Net interest income" in the profit and loss account.

FEES AND COMMISSIONS

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

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

FINANCIAL TRANSACTIONS

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

ADMINISTRATIVE EXPENSES

The Bank provides services to the Nordic Development Fund (NDF) and the Nordic Environment Finance Corporation (NEFCO). Payments received by the Bank for providing services at cost to these organisations are recognised as a reduction in the Bank's administrative expenses.

NIB receives a host country reimbursement from the Finnish Government equal to the tax withheld from the salaries of NIB's employees. This payment reduces the Bank's administrative expenses. It is shown in Note 5 on page 50.

LEASING AGREEMENTS

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

EMPLOYEES' PENSIONS AND INSURANCE

The Bank is responsible for arranging the pension security for its employees. In accordance with the Headquarters Agreement between the Bank and the Finnish Government and as part of the Bank's pension arrangements the Finnish state pension system applies. Contributions to this pension system, which are paid to the Finnish State Pension Fund, are calculated as a percentage of salaries. The Finnish Government determines the basis for the contributions, and the Finnish State Treasury establishes the actual percentage of the contributions.

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

In addition to the applicable local social security systems, NIB has taken out a comprehensive accident, life and health insurance policy for its employees in the form of group insurance.

Risk management

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

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

FOREIGN EXCHANGE RATE RISK

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

INTEREST RATE RISK

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

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

CREDIT RISK

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

The Bank's credit risk is monitored by means of a common, unified risk classification system, in which the Bank's counterparties are divided into credit risk classes on a scale from 1 to 10. The Bank also has rules for credit risk concentrations with regard to individual counterparties, economic sectors, countries, etc. At the end of 2005, the Board approved new scales for the Bank's risk classification. The existing system of ten classes is replaced by a system of 20 classes in 2006.

Note 8 on page 52 provides information regarding the geographical and sectoral distribution of the Bank's loans and guarantees issued, as well as their distribution by type of security.

LIQUIDITY RISK

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

OPERATIONAL RISK

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

Internal audit

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

Segment information

Segment information and currency distribution in the notes are presented in nominal amounts. The adjustment to hedge accounting is presented as a separate item.

Reclassifications

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

NOTES TO THE FINANCIAL STATEMENTS

Notes to the profit and loss account, balance sheet and cash flow statement

(1) SEGMENT INFORMATION

Primary reporting segment—business operations
(Amounts in EUR 1,000)

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

	Lending 2005	*Liquidity 2005*	*Placements in financial investment portfolios 2005*	*Total 2005*	*Lending 2004*	*Liquidity 2004*	*Placements in financial investment portfolios 2004*	*Total 2004*
Net interest income	**77,574**	**20,444**	**70,646**	**168,664**	73,510	19,575	70,078	163,163
Commission income and fees received	**6,509**	**2,125**	**-**	**8,634**	4,329	3,669	-	7,998
Commission expense and fees paid	**-222**	**-1,302**	**-**	**-1,524**	-5	-1,152	-	-1,157
Net profit on financial operations	**1,349**	**7,027**	**8,960**	**17,335**	797	5,831	16,161	22,788
Foreign exchange gains and losses	**-**	**-105**	**-**	**-105**	-	87	-	87
Administrative expenses, depreciations	**-23,719**	**-1,568**	**-2,541**	**-27,827**	-20,657	-1,289	-2,329	-24,276
Credit loss / recovery	**119**	**-**	**-**	**119**	3,764	-	-	3,764
Profit for the year	**61,609**	**26,620**	**77,066**	**165,295**	61,737	26,720	83,910	172,367
Assets	**11,803,415**	**4,429,449**	**1,945,569**	**18,178,433**	10,345,947	4,236,131	1,780,567	16,362,645

Secondary reporting segment—geographical segment
(Amounts in EUR 1,000)

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

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

	***2005* Net interest income**	*2004* Net interest income
Member countries [2)]		
Denmark	**5,571**	5,590
Estonia	**1,124**	1,501
Finland	**15,609**	15,484
Iceland	**3,046**	2,372
Latvia	**1,174**	1,406
Lithuania	**315**	402
Norway	**6,464**	5,725
Sweden	**22,666**	21,370
Total, member countries	**55,969**	**53,849**

	2005 Net interest income	2004 Net interest income
International loans		
Africa	**2,220**	2,188
Asia	**7,369**	6,804
Central and Eastern Europe	**4,350**	4,056
Latin America	**6,406**	5,235
Middle East	**1,260**	1,378
Total, international loans	**21,605**	**19,661**
Total, net interest income from lending	**77,574**	**73,510**

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

2) Up until 1.1.2005, when Estonia, Latvia and Lithuania became members of the Bank, the Bank's member countries consisted of the Nordic countries alone.

(2) INTEREST INCOME AND INTEREST EXPENSE

(Amounts in EUR 1,000)

Interest income	2005	2004
Cash and cash equivalents	**102,841**	77,007
Placements with credit institutions for more than 6 months	**2,305**	2,557
Debt securities of more than 6 months	**59,801**	58,531
Loans outstanding	**363,590**	309,129
Other interest income	**262**	303
Total, interest income	**528,799**	**447,527**
Interest expense		
Short-term amounts owed to credit institutions	**13,229**	6,515
Long-term amounts owed to credit institutions	**2,228**	2,328
Debts evidenced by certificates	**620,167**	610,531
Swap contracts and other interest expenses, net	**-283,398**	-342,380
Borrowing costs	**7,909**	7,370
Total, interest expense	**360,135**	**284,364**

(3) COMMISSION INCOME AND FEES RECEIVED

(Amounts in EUR 1,000)

	2005	2004
Commitment fees	**2,065**	1,803
Loan disbursement fees	**3,256**	1,875
Guarantee commissions	**139**	156
Premiums on prepayments of loans	**3,030**	3,995
Commissions on lending of securities	**143**	169
Total, commission income and fees received	**8,634**	**7,998**

(4) NET PROFIT ON FINANCIAL OPERATIONS

(Amounts in EUR 1,000)

	2005	2004
Debt securities in trading portfolio, realised gains and losses	**19,708**	13,095
Debt securities in trading portfolio, unrealised gains and losses	**-8,927**	7,019
Adjustment to hedge accounting, unrealised gains and losses of fair value hedges	**3,770**	3,927
Changes in fair value of non-hedging derivatives, unrealised gains and losses	**1,049**	-2,005
Repurchase of NIB bonds, other items	**1,736**	752
Total, net profit on financial operations	**17,335**	**22,788**

(5) GENERAL ADMINISTRATIVE EXPENSES

(Amounts in EUR 1,000)

	2005	2004
Personnel costs	**15,870**	14,714
Pension premiums in accordance with the Finnish state pension system	**2,913**	2,549
Other pension premiums	**1,147**	829
Office premises costs	**1,385**	1,353
IT costs	**1,879**	1,966
Other general administrative expenses	**6,495**	5,535
Cost coverage, NDF and NEFCO	**-820**	-938
Cost coverage, rental income and other administrative income	**-601**	-643
Total	**28,268**	**25,365**
Host country reimbursement according to agreement with the Finnish Government	**-4,234**	-3,970
Net	**24,034**	**21,395**

	2005	2004
Remuneration to the auditors		
Audit fee 1)	**125**	131
Other audit-related service fee	**18**	2
Total remuneration	**143**	**132**

1) The cost of issuing comfort letters and certificates in relation to the borrowing operations of the Bank is included in the audit free.

	2005	2004
Average number of employees	**151**	148
Average age of the staff	**43**	44
Average period (years) of employment	**10**	9
Distribution by gender		
All employees		
Females	**74**	73
Males	**76**	74
Management Committee		
Females	**1**	1
Males	**6**	6

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

Compensation for the Board of Directors and the Control Committee is set by the Board of Governors. The compensation consists of fixed remuneration and meeting fees.

The Board of Directors makes decisions concerning the employment and the remuneration of the Bank's Management Committee. The remuneration package for the management includes a fixed base salary and customary fringe benefits (car, mobile phone). The Bank does not pay bonuses based on the results of the Bank.

Compensation for the Chairman and the Members of the Board of Directors, the Control Committee, the President and the Members of the Management Committee is presented in the table below:

(Amounts in EUR)

	2005 Compensation/ Taxable income	2004 Compensation/ Taxable income
Chairman of the Board of Directors	**13,790**	13,956
Members of the Board of Directors	**80,915**	86,351
Control Committee	**23,760**	21,550
President	**600,020** 2)	369,831
Members of the Management Committee	**1,346,747**	1,290,100

2) The figure includes a retirement package of EUR 214,915 for the previous President.

NIB is responsible for arranging the pension security for its employees. The current pension arrangements consist of pension based on the Finnish state pension system (VEL Pension) as basis for the pension benefits and supplementary pension arranged by the employer on a facultative basis as group pension. The supplementary pension insurance is based on a defined contribution plan.

The Bank has entered into arrangements with another financial institution (commercial bank), whereby permanently employed staff members (including the Management Committee) may be granted staff loans in accordance with the Bank's staff regulations. The same interest rates, terms and conditions are applicable to all said employees. The rates are set with reference to the so-called base rate determined from time to time by the Finnish Ministry of Finance. As of 31 December 2005, the total outstanding amount of staff loans to the Management Committee was EUR 65,564.

Rental agreement

NIB operates in its own office building in Helsinki. Of the building's total area of 18,500 m^2, 2,000 m^2 are rented to other parties. The Bank rents an additional office space of 570 m^2 in Helsinki. Furthermore, the Bank rents office space totalling 353 m^2 in the Nordic countries and in Singapore.

(6) CREDIT LOSS / RECOVERY

(Amounts in EUR 1,000)

	2005	*2004*
Credit losses covered by credit losses previously recognised	**947**	-
Credit losses recognised during the year	**-**	702
Reversals of previously recognised credit losses	**-1,066**	-4,466
Credit loss / recovery, net	**-119**	**-3,764**

See also Note 8.

(7) FINANCIAL PLACEMENTS

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

	2005	*2004*
Governments	**425**	519
Public institutions	**78**	12
Other	**799**	720
Total, debt securities	**1,303**	**1,251**

These debt securities are at fixed interest rates.

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

	Book value		*Fair value*	
	2005	*2004*	*2005*	*2004*
Trading portfolio	**273**	304	**273**	304
Held-to-maturity portfolio	**1,030**	947	**1,086**	1,007
Total, debt securities	**1,303**	**1,251**	**1,358**	**1,311**

(8) LOANS OUTSTANDING AND GUARANTEE COMMITMENTS

Loans outstanding were distributed as follows over the Bank's four loan facilities:

(Amounts in EUR million)

	2005	2004
Ordinary Loans		
Investment loans in the member countries	**9,404**	8,446
Investment loans in other countries	**116**	24
Regional loans in the Nordic countries	**60**	64
Adjustment to hedge accounting	**33**	48
Total	**9,613**	**8,583**
Project Investment Loans (PIL)		
Africa	**261**	246
Asia	**839**	632
Central and Eastern Europe	**340**	267
Latin America	**459**	380
Middle East	**116**	111
Adjustment to hedge accounting	**3**	5
Total	**2,017**	**1,640**
Environmental Investment Loans (MIL)	**83**	**44**
Baltic Investment Loans (BIL)	**4**	**12**
Total, loans outstanding	**11,717**	**10,279**

The figure for loans outstanding, EUR 11,717 million, includes medium-term notes (MTN) of EUR 2,167 million (1,826). These are held at cost unless they form a part of a qualifying hedging relationship with a derivative. In a hedge accounting relationship the MTNs are recorded at fair value.

Loans outstanding at floating interest rates amounted to EUR 10,248 million (9,028), while those at fixed interest rates amounted to EUR 1,432 million (1,199). Guarantees issued under Ordinary Lending amounted to EUR 25.0 million (25.0) as of 31 December 2005.

Credit losses

A total of EUR 0.5 million (1.0) has been deducted from the Bank's loans outstanding for impairment losses on loans. This amount was comprised only of impairment losses on Project Investment Loans. The following changes were recognised in the balance sheet in respect of impairment losses:

(Amounts in EUR million)

	2005	2004
Impairment losses as of 1 January	**1.0**	4.8
Impairment losses recognised during the year	**0.5**	0.7
Reversals of previously recognised impairment losses	**-1.1**	-4.5
Exchange rate adjustments	**0.1**	-
Impairment losses as of 31 December	**0.5**	**1.0**

See also Note 6.

The distribution of impairment losses was as follows:
(Amounts in EUR million)

Distribution by loan facility:	2005	2004
Ordinary Loans		
Investment loans in the member countries	**-**	-
Project Investment Loans (PIL)		
Asia	**-**	-
Central and Eastern Europe	**-**	-
Latin America	**0.5**	1.0
Total, impairment losses	**0.5**	**1.0**

As of 31 December 2005, all of the Bank's loans were performing.

As of 31 December 2005, loans agreed but not yet disbursed amounted to the following:

(Amounts in EUR million)

Loans agreed but not yet disbursed	***2005***	*2004*
Ordinary Loans	**690**	432
Project Investment Loans	**820**	632
Environmental Investment Loans	**115**	84
Total, loans agreed but not yet disbursed	**1,625**	**1,147**

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

Currency distribution of loans outstanding

(Nominal amounts, in EUR million)

Currency	*Ordinary Loans*		*PIL loans*		*Total* [1]	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
Nordic currencies	**3,161**	2,835	**1**	2	**3,163**	2,837
EUR	**5,048**	4,461	**335**	238	**5,454**	4,751
USD	**1,249**	1,130	**1,645**	1,358	**2,910**	2,492
Other currencies	**121**	108	**33**	37	**154**	146
Total	**9,580**	**8,535**	**2,014**	**1,636**	**11,680**	**10,226**
Adjustment to hedge accounting	**33**	48	**3**	5	**36**	53
Total, loans outstanding	**9,613**	**8,583**	**2,017**	**1,640**	**11,717**	**10,279**

1) The total amount also includes EUR 83 million (44) in Environmental Investment Loans (MIL) and EUR 4 million (12) in Baltic Investment Loans (BIL).

Sectoral distribution

(Amounts in EUR million)

Loans outstanding as of 31 December	***2005***	***2005***	*2004*	*2004*
Manufacturing	**4,518**	**39%**	4,052	40%
Energy	**3,054**	**26%**	2,540	25%
Transport and communication	**1,590**	**14%**	1,412	14%
Trade and services	**826**	**7%**	760	7%
Banking and finance [2]	**887**	**8%**	746	7%
Regional loans	**60**	**1%**	64	1%
Other	**747**	**6%**	652	6%
Adjustment to hedge accounting	**36**	**0%**	53	0%
Total	**11,717**	**100%**	**10,279**	**100%**

Loans disbursed	***2005***	***2005***	*2004*	*2004*
Manufacturing	**737**	**35%**	410	30%
Energy	**535**	**26%**	320	24%
Transport and communication	**299**	**14%**	245	18%
Trade and services	**157**	**8%**	133	10%
Banking and finance [2]	**229**	**11%**	91	7%
Regional loans	**-**	**0%**	-	0%
Other	**137**	**7%**	147	11%
Total	**2,092**	**100%**	**1,348**	**100%**

2) Including the Bank's financial intermediaries.

Distribution of loans outstanding and guarantees by various types of security

The following table shows loans outstanding, including guarantee commitments distributed by type of security:
(Amounts in EUR million)

As of 31 December 2005	***Amount***	***Total amount***	***Share, in %***
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries	**187**		
Loans to or guaranteed by other countries	**1,534**	**1,721**	**14.7**
Loans to or guaranteed by local authorities in member countries		**319**	**2.7**
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries		**656**	**5.6**
Loans to or guaranteed by banks		**792**	**6.8**
Other loans			
Backed by a lien or other security in property	**389**		
With a guarantee from the parent company and other guarantees	**1,839**		
With a negative pledge clause and other covenants	**5,960**		
Without formal security	**30**	**8,218**	**70.2**
Total		**11,706**	**100.0**
Adjustment to hedge accounting		**36**	
Total, loans outstanding (including guarantees)		**11,742**	

As of 31 December 2004	*Amount*	*Total amount*	*Share, in %*
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries	116		
Loans to or guaranteed by other countries	1,368	1,484	14.5
Loans to or guaranteed by local authorities in member countries		300	2.9
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries		619	6.0
Loans to or guaranteed by banks		669	6.5
Other loans			
Backed by a lien or other security in property	402		
With a guarantee from the parent company and other guarantees	1,772		
With a negative pledge clause and other covenants	4,986		
Without formal security	18	7,178	70.0
Total		**10,251**	**100.0**
Adjustment to hedge accounting		53	
Total, loans outstanding (including guarantees)		**10,304**	

According to the NIB's Statutes, the member countries shall cover the Bank's losses arising from failure of payment in connection with PIL loans up to the following amounts:
(Amounts in EUR 1,000)

		2005		*2004*
Member country	***Amount of guarantee***	***Share, in %***	*Amount of guarantee*	*Share, in %*
Denmark	**377,821**	**21.0**	391,225	21.7
Estonia	**13,139**	**0.7**	-	-
Finland	**344,860**	**19.2**	357,094	19.8
Iceland	**15,586**	**0.9**	16,139	0.9
Latvia	**19,058**	**1.1**	-	-
Lithuania	**29,472**	**1.6**	-	-
Norway	**329,309**	**18.3**	340,991	19.0
Sweden	**670,755**	**37.3**	694,551	38.6
Total	**1,800,000**	**100.0**	**1,800,000**	**100.0**

According to the NIB's Statutes, the member countries shall cover 100% of the Bank's losses arising from failure of payment in connection with MIL loans up to the following amounts:
(Amounts in EUR 1,000)

		2005		2004
Member country	***Amount of guarantee***	***Share, in %***	*Amount of guarantee*	*Share, in %*
Denmark	**70,113**	**23.4**	72,600	24.2
Estonia	**2,190**	**0.7**	-	-
Finland	**51,377**	**17.1**	53,200	17.7
Iceland	**3,187**	**1.1**	3,300	1.1
Latvia	**3,176**	**1.1**	-	-
Lithuania	**4,912**	**1.6**	-	-
Norway	**61,324**	**20.4**	63,500	21.2
Sweden	**103,720**	**34.6**	107,400	35.8
Total	**300,000**	**100.0**	**300,000**	**100.0**

In consequence of the Bank's membership enlargement, the share of each member country in the guarantees for the PIL and MIL facilities changed as of 1 January 2005.

In addition, BIL loans outstanding totalled EUR 4 million (12) and were guaranteed by the Nordic countries at 100%.

(9) INTANGIBLE AND TANGIBLE ASSETS

The Bank's intangible assets amounted to EUR 7.4 million (5.9).

As of 31 December 2005, the historical cost of buildings and land was recognised in the balance sheet, net of depreciation on the buildings in accordance with the depreciation plan, at EUR 29.0 million (29.6). Shares providing ownership rights in connection with employee housing accommodation and other shares and holdings have a balance sheet value of EUR 1.1 million (1.1).

The value of office equipment and other tangible assets is recognised at EUR 4.8 million (5.3).

(10) DEPRECIATIONS

(Amounts in EUR 1,000)

	2005	*2004*
Intangible assets	**1,357**	811
Tangible assets		
Buildings	**670**	670
Office equipment	**1,766**	1,399
Total	**3,794**	**2,880**

(11) OTHER ASSETS

(Amounts in EUR million)
Derivatives are included in "Other assets".

	2005	*2004*
Floating interest rates, nominal amount	**8,870**	6,824
Fixed interest rates, nominal amount	**12,536**	10,539
Total, nominal amount	**21,406**	**17,363**
Netting of nominal amount per derivative	**-20,818**	-16,724
Derivative receivables, net [1)]	**588**	**639**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	**488**	569
Derivative instruments	**1,076**	**1,208**
Other	**3**	3
Total	**1,079**	**1,212**

1) Includes capitalised swap fees.

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

(12) OUTSTANDING DEBTS EVIDENCED BY CERTIFICATES AND SWAPS

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

Currency	*Borrowing*		*Swap contracts payable/receivable*		*Net currency*	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
Nordic currencies	**945**	1,031	**2,284**	1,842	**3,229**	2,873
EUR	**939**	830	**6,048**	5,618	**6,987**	6,448
USD	**6,454**	4,500	**-2,643**	-1,391	**3,811**	3,108
JPY	**1,462**	1,560	**-1,424**	-1,522	**38**	38
GBP	**1,791**	1,827	**-1,771**	-1,810	**20**	17
HKD	**457**	450	**-457**	-450	**-**	-
Other currencies	**1,981**	1,571	**-1,909**	-1,526	**71**	45
Total	**14,028**	**11,769**	**127**	**762**	**14,155**	**12,530**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	**427**	586	**-409**	-548	**18**	38
Swap fees	**-**	-	**141**	143	**141**	143
Total, borrowing outstanding	**14,456**	**12,355**	**-141**	**357**	**14,315**	**12,711**

The table set forth above includes 244 (237) borrowing transactions in the equivalent amount of EUR 9,203 million (8,116) entered into under the Bank's euro medium-term note programme, 4 (4) borrowing transactions in the equivalent amount of EUR 170 million (177) under the Bank's Swedish medium-term note programme, and 4 (3) borrowing transactions in the equivalent amount of EUR 3,391 million (2,202) under the Bank's US medium-term note programme. The Bank has established a USD 600 million commercial paper programme in Europe and another USD 600 million programme in the United States.

Of debt securities issued, the amount of EUR 1,767 million (1,556) is at floating interest rates, while EUR 12,019 million (9,998) is at fixed interest rates. Other borrowing transactions, amounting to EUR 242 million (215), are at fixed interest rates.

(13) OTHER LIABILITIES

(Amounts in EUR million)
Derivatives are included in "Other liabilities".

	2005	*2004*
Floating interest rates, nominal amount	**20,106**	16,919
Fixed interest rates, nominal amount	**1,426**	1,207
Total, nominal amount	**21,532**	**18,126**
Netting of nominal amount per derivative	**-20,676**	-16,582
Derivative payables, net [1)]	**856**	**1,544**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	**79**	21
Derivative instruments	**935**	**1,565**
Other	**5**	4
Total	**940**	**1,569**

1) Includes capitalised swap fees.

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

(14) AUTHORISED CAPITAL—PAID-IN CAPITAL

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

Member country	***2005***	***Share, in %***	*2004*	*Share, in %*
Denmark	**881.1**	**21.3**	881.1	22.0
Estonia	**30.2**	**0.7**	-	-
Finland	**765.8**	**18.5**	765.8	19.2
Iceland	**38.6**	**0.9**	38.6	1.0
Latvia	**43.9**	**1.1**	-	-
Lithuania	**67.8**	**1.6**	-	-
Norway	**793.1**	**19.1**	793.1	19.8
Sweden	**1,521.4**	**36.7**	1,521.4	38.0
Total	**4,141.9**	**100.0**	**4,000.0**	**100.0**

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

Member country	***2005***	***Share, in %***	*2004*	*Share, in %*
Denmark	**89.2**	**21.3**	89.2	22.1
Estonia	**3.1**	**0.7**	-	-
Finland	**74.4**	**17.8**	74.4	18.4
Iceland	**3.9**	**0.9**	3.9	1.0
Latvia	**4.4**	**1.1**	-	-
Lithuania	**6.9**	**1.6**	-	-
Norway	**77.1**	**18.4**	77.1	19.1
Sweden	**159.5**	**38.1**	159.5	39.5
Total	**418.6**	**100.0**	**404.3**	**100.0**

Due to the fact that Estonia, Latvia and Lithuania became members of the Bank on 1 January 2005, the Bank's authorised capital increased to EUR 4,141.9 million as of 1 January 2005 and the paid-in portion of the authorised capital increased to EUR 418.6 million. In consequence of the Bank's membership enlargement, the share of each member country in the authorised capital changed as of 1 January 2005.

The new member countries shall make their payments of the paid-in portion pursuant to an agreed schedule of payments in three annual instalments, the first of which was made on 31 March 2005.

(15) STATUTORY RESERVE AND CREDIT RISK FUNDS

At the end of 2005, the Statutory Reserve amounted to EUR 645.0 million, or 15.6% of the Bank's authorised capital of EUR 4,141.9 million. No appropriations were made to the Statutory Reserve from the profits of the financial year 2004.

The General Credit Risk Fund recognised in "Equity" is built up by means of allocations from prior years' profits. This fund is established to cover unidentified, exceptional credit losses. The Statutory Reserve and the General Credit Risk Fund together constitute the Bank's general reserves. The General Credit Risk Fund amounted to EUR 424.4 million in 2005. The Board of Directors is proposing that EUR 110.3 million be allocated to this fund from the year's profits.

In accordance with its Statutes, the Bank has a Special Credit Risk Fund for the Project Investment Loan facility. This fund is primarily designed to cover the Bank's own risk in respect of this loan facility. In 2005, the fund amounted to EUR 238.2 million. The Bank assumes 100% of any losses under individual PIL loans, up to the amount available at any given time in the Special Credit Risk Fund for PIL. Only after this fund has been fully used, can the Board of Directors call the member countries' guarantees.

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

Taken together, these credit risk funds (General Credit Risk Fund, Special Credit Risk Fund PIL and Fund for the HIPC Programme) amounted to EUR 666.9 million as of 31 December 2005.

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

(16) COLLATERAL AND COMMITMENTS

(Amounts in EUR million)

	2005	2004
Guarantees issued (Note 8)	25	25
Loans agreed but not yet disbursed (Note 8)	1,625	1,147
Borrowing commitments	-	32
Subscription to shares in the European Investment Fund, unpaid portion (NIB sold its shares in the EIF during 2005)	-	4
Securities as collaterals for the repurchase agreements [1]	105	-
Collateral with respect to derivatives exposure		
Collateral received [2]	268	223
Collateral given [1]	-	313

[1] Book value
[2] Fair value

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

(Amounts in EUR million)

	2005			2004		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets						
Cash and cash equivalents	3,569	3,569	-	3,198	3,198	-
Placements with credit institutions	106	106	-	90	90	-
Debt securities	1,303	1,358	55	1,251	1,311	60
Other financial placements	7	8	1	7	7	-
Loans outstanding	11,717	11,713	-4	10,279	10,281	2
Derivatives, net	1,076	1,076	-	1,208	1,208	-
			52			62
Liabilities						
Short-term amounts owed to credit institutions	468	468	-	322	322	-
Long-term amounts owed to credit institutions	100	100	-	94	94	-
Debt securities issued	14,205	14,206	1	12,132	12,135	3
Other debt	251	251	-	222	222	-
Derivatives, net	935	935	-	1,565	1,565	-
			1			3
Net			51			59

(18) MATURITY PROFILE

(Amounts in EUR million)

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

	0–6 months	6–12 months	1–5 years	5–10 years	More than 10 years	Undefined	*Total*
Assets							
Cash and cash equivalents	801	332	1,792	565	77	2	**3,569**
Financial placements							
Placements with credit institutions	48	57	-	-	-	2	**106**
Debt securities	130	-	581	385	204	3	**1,303**
Other	-	-	-	-	-	7	**7**
	177	57	581	385	204	12	**1,416**
Lending							
Loans outstanding	543	606	4,990	4,398	1,144	36	**11,717**
Intangible assets	-	-	-	-	-	7	**7**
Tangible assets	-	-	-	-	-	35	**35**
Other assets							
Derivatives							
Receivables [1]	799	755	5,148	1,972	1,395	488	**10,557**
Payables	-742	-741	-4,921	-1,889	-1,188	-	**-9,481**
	56	14	227	83	208	488	**1,076**
Other assets	-	-	-	-	-	3	**3**
Paid-in capital and payments to the Bank's reserves, receivable	-	-	-	-	-	52	**52**
Accrued interest and fees receivable	-	-	-	-	-	305	**305**
Total assets	**1,578**	**1,008**	**7,590**	**5,431**	**1,633**	**940**	**18,178**

	0–6 months	6–12 months	1–5 years	5–10 years	More than 10 years	Undefined	*Total*
Liabilities and equity							
Liabilities							
Amounts owed to credit institutions							
Short-term	468	-	-	-	-	-	**468**
Long-term	48	52	-	-	-	-	**100**
	516	52	-	-	-	-	**568**
Debts evidenced by certificates	2,152	769	7,894	1,682	1,531	427	**14,456**
Other liabilities							
Derivatives							
Receivables [1]	-2,096	-304	-6,598	-1,164	-1,034	79	**-11,116**
Payables	2,280	338	6,953	1,268	1,212	-	**12,051**
	185	34	355	104	178	79	**935**
Other liabilities	-	-	-	-	-	5	**5**
Accrued interest and fees payable	-	-	-	-	-	269	**269**
Total liabilities	**2,853**	**856**	**8,249**	**1,786**	**1,709**	**781**	**16,233**
Equity	-	-	-	-	-	1,946	**1,946**
Total liabilities and equity	**2,853**	**856**	**8,249**	**1,786**	**1,709**	**2,726**	**18,178**
Net during the period	-1,275	152	-659	3,645	-76	-1,787	**-**
Cumulative net during the period	-1,275	-1,123	-1,782	1,863	1,787	-	**-**

[1] Including swap fees.

(19) AVERAGE BALANCE SHEET

(Amounts in EUR million)

	2005	*2004*
Assets		
Cash and cash equivalents	**3,872**	3,621
Financial placements		
Placements with credit institutions	**102**	128
Debt securities	**1,311**	1,227
Other	**7**	8
	1,420	**1,362**
Lending		
Loans outstanding	**10,974**	10,414
Intangible assets	**6**	4
Tangible assets	**35**	35
Other assets		
Derivatives	**1,162**	1,344
Other assets	**3**	5
	1,165	**1,349**
Paid-in capital and payments to the Bank's reserves, receivable	**20**	-
Accrued interest and fees receivable	**298**	325
Total assets	**17,790**	**17,111**
Liabilities and equity		
Liabilities		
Amounts owed to credit institutions		
Short-term amounts owed to credit institutions	**549**	296
Long-term amounts owed to credit institutions	**104**	126
	653	**422**
Debts evidenced by certificates		
Debt securities issued	**13,640**	13,245
Other debt	**233**	242
	13,873	**13,487**
Other liabilities		
Derivatives	**1,142**	1,205
Other liabilities	**6**	6
	1,147	**1,211**
Accrued interest and fees payable	**259**	283
Total liabilities	**15,932**	**15,404**
Equity	**1,858**	1,707
Total liabilities and equity	**17,790**	**17,111**

The average balance sheet is calculated on a monthly basis.

(20) CASH FLOW STATEMENT

(Amounts in EUR 1,000)

	2005 [1]	2004 [1]
Profit for the year	**165,295**	172,367
Amortisation of issuing charges	**7,909**	7,370
Market value adjustment, trading portfolio	**7,020**	-5,039
Depreciation in value of tangible and intangible assets	**3,794**	2,880
Change in accrued interest and fees (assets)	**-20,710**	46,669
Change in accrued interest and fees (liabilities)	**27,716**	-40,476
Credit loss / recovery	**-119**	-3,764
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	**-4,819**	-1,921
Other adjustments to the year's profit	**-22**	-245
Cash flow from operating activities	**186,065**	**177,841**

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

	2005	2004
Cash and balances with banks	**8,427**	12,706
Short-term placements with credit institutions	**694,750**	505,724
Liquid debt securities at floating interest rates	**2,865,384**	2,679,922
Cash and cash equivalents	**3,568,561**	**3,198,351**
Short-term amounts owed to credit institutions	**-467,985**	-322,378
Net liquidity	**3,100,576**	**2,875,973**
Change in net liquidity	**224,603**	**131,678**

[1] The cash flow statement for 2005 has been changed as follows:
- Changes in accrued interest on swaps are handled per swap contract.
- Changes in swap receivables and payables are handled gross per swap contract.

This is done in order to improve the transparency of the cash flow statement and to facilitate the reconciliation of the cash flows to the balance sheet.
The figures for 2004 have been adjusted accordingly.

(21) EXCHANGE RATES

		EUR rate on 30 Dec 2005	EUR rate on 31 Dec 2004
DKK	Danish Krone	7.4605	7.4388
EEK	Estonian Kroon	15.6466 1)	15.6466 1)
ISK	Icelandic Króna	74.57	83.6
LVL	Latvian Lats	0.6962	0.6979
NOK	Norwegian Krone	7.985	8.2365
SEK	Swedish Krona	9.3885	9.0206
AUD	Australian Dollar	1.6109	1.7459
CAD	Canadian Dollar	1.3725	1.6416
CHF	Swiss Franc	1.5551	1.5429
CZK	Czech Koruna	29.0	30.464
GBP	Pound Sterling	0.6853	0.70505
HKD	Hong Kong Dollar	9.1474	10.5881
JPY	Japanese Yen	138.9	139.65
NZD	New Zealand Dollar	1.727	1.8871
PLN	Polish Zloty	3.86	4.0845
SDR	Special Drawing Right	0.82539 2)	0.88 3)
SGD	Singapore Dollar	1.9628	2.2262
SKK	Slovak Koruna	37.88	38.745
TRY	New Turkish Lira	1.5924	-
TWD	New Taiwan Dollar	38.739 2)	43.34202 3)
USD	United States Dollar	1.1797	1.3621
ZAR	South African Rand	7.4642	7.6897

1) Fixed exchange rate in Currency Board arrangement with regard to the euro.

2) The exchange rate is calculated by using the market rate for USD/relevant currency, as of 30 December 2005, which then provides the EUR/relevant currency rate.

3) The exchange rate is calculated by using the market rate for USD/relevant currency, as of 30 December 2004, which then provides the EUR/relevant currency rate.

AUDITORS' REPORTS

To the Control Committee of the Nordic Investment Bank

In our capacity as auditors appointed by the Control Committee of the Nordic Investment Bank we have audited the financial statements, the accounting records and the administration of the Bank for the year 2005. The Board of Directors and the President are responsible for the accounting documents as well as the administration. Based on our audit, it is our responsibility to express an opinion on the financial statements and the administration of the Bank.

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

In our opinion the financial statements give a true and fair view of the financial position of the Nordic Investment Bank as at 31 December 2005 and of the results of its operations and its cash flows in 2005 in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board. It is also our opinion that the administration of the Board of Directors and the President complied with the Statutes of the Bank.

Helsinki, 10 March 2006

Per-Olof Johansson
Authorised Public Accountant
Ernst & Young, Helsinki

Erik Mamelund
State Authorised Public Accountant
Ernst & Young, Oslo

To the Board of Governors of the Nordic Investment Bank

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

In accordance with section 17 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 2005, we hereby submit the following report.

The Control Committee met during the financial year, as well as after the Bank's financial statements had been prepared. Control and examination measures considered necessary were then performed. The Annual Report of the Bank was examined at a meeting in Helsinki on 10 March 2006. 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 10 March 2006 by the authorised public accountants appointed by the Control Committee.

Following our audit, we note that:

- The Bank's operations during the financial year have been conducted in accordance with the Statutes, and that
- The financial statements give a true and fair view of the financial position of the Bank as at 31 December 2005 and of its results and financing in 2005. The profit and loss account shows a profit of EUR 165,295,121.82 for the financial period.

We recommend to the Board of Governors that:

- The appropriation of the Bank's profits for the financial period, as proposed by the Board of Directors, be approved;
- The profit and loss account and the balance sheet be adopted;
- The proposal by the Board of Directors regarding distribution of dividends to the Bank's owners be approved; and
- The Board of Directors and the President be discharged from liability for the administration of the Bank's operations during the accounting period examined by us.

Helsinki, 10 March 2006

Bill Fransson

Arja Alho | **Meelis Atonen** | **Sigita Burbienė**

Valdis Dombrovskis | **Trond Helleland** | **Per Kaalund**

Dace Nulle | **Steingrímur J. Sigfússon** | **Tuve Skånberg**

CORPORATE GOVERNANCE

NIB is governed by its constituent documents, namely the Agreement among its member countries, dated 11 February 2004 (hereinafter the 2004 Agreement), the Statutes as of the same date, and the Headquarters Agreement concluded between the Government of Finland and the Bank in 1999.

The Preamble of the 2004 Agreement establishes that NIB is the member countries' common international financial institution, having the same status as other legal persons conducting similar operations within and outside the member countries. Article 1 stipulates that NIB has the status of an international legal person with full legal capacity. The constituent documents further define the immunities and privileges of the Bank and its personnel.

The 2004 Agreement and Statutes set out the structure for the governance of the Bank. As an international organisation, NIB is as such not legally bound by national legislation nor is it subject to supervision by any national authorities but is expected to respect the laws of the host country and its other member countries, as well as all other countries in which the Bank carries out activities.

GENERAL PRINCIPLES

Taking into account the expectations and the limitations implied by the status and legal framework of the Bank as an international financial institution, the Bank aims at best practices in the field of good governance. The Bank defines transparency, predictability, accountability, responsibility and disclosure as general principles enhancing and furthering good governance.

DECISION-MAKING BODIES

Board of Governors

The Board of Governors is composed of eight Governors. The eight Governors are designated by each member country respectively from among the ministers in its government. The Board of Governors appoints a Chairman for one year according to a rotation scheme adopted by them. The Governor for Denmark is currently serving as Chairman.

According to the Agreement and Statutes, the Board of Governors is the supreme decision-making body vested with powers to amend the Statutes; decide upon increases or decreases of the authorised capital stock; approve the annual report of the Board of Directors and the audited financial statements of the Bank; appoint the Chairman and Deputy Chairman of the Control Committee; decide upon the interpretation and application of the provisions of the Agreement and the Statutes; and decide upon procedures for withdrawals of membership and the liquidation of the Bank.

The Board of Governors annually reviews the remuneration of the Board of Directors and the Control Committee. The decisions of the Board of Governors shall be unanimous. The work of the Board of Governors is governed by its rules of procedure. The Board of Governors holds an annual meeting and such other meetings as deemed appropriate. The Board of Governors held its annual meeting on 19 May 2005.

Board of Directors

The Board of Directors consists of eight Directors appointed by each member country. Each Director has one Alternate. The Directors and their Alternates are appointed by the respective member country for a maximum term of four years at a time. The Board of Directors appoints a Chairman and a Deputy Chairman from among the Directors to serve for a period of two years in accordance with the rotation scheme approved by the Board of Governors.

Except for the powers vested in the Board of Governors, all the powers are vested in the Board of Directors. The Board of Directors performs, inter alia, the following tasks: adopting policy decisions concerning the operations of the Bank; appointing the President; approving the financing and guarantee transactions proposed by the President; authorising the President under annual general authorisations to carry out borrowings and associated treasury activities; approving the annual budget and presenting the annual report and the accounts to the Board of Governors; and deciding upon staff policy and staff regulations as well as other administrative matters outside the scope of the daily operations. The Board of Directors can delegate its powers to the President to the extent it considers appropriate.

Each Director has one vote and seven Directors or Alternates entitled to vote constitute a quorum. Five affirmative votes form a decision.

The work of the Board of Directors is governed by its rules of procedure. There are currently no committees established within the Board of Directors. The Chairman and Deputy Chairman work closely with the President in between the board meetings. The Board meets approximately eight times a year. Decisions can be made according to a written procedure.

The members of the Board are bound by a code of conduct with the general purpose of further enhancing best practices in relation to the governance of the Bank. The code of conduct is intended to provide guidance for avoiding situations of conflict and, in general, to uphold proper conduct. For this purpose, the Directors sign a written statement of positions held in other institutions or companies and of their financial interests.

The members of the Board of Directors receive an annual remuneration and an attendee allowance for the meetings of the Board. Expenses for travel and accommodation incurred by the members in carrying out their official duties are covered and a daily allowance is granted in accordance with the travel policy of the Bank. The Board of Governors determines annually the amount of the remuneration and attendee allowance. For further information, see Note 5 in the financial statements on page 50.

President

The President is appointed by the Board of Directors for a term of five years at a time. The President may not be a member of the Board of Directors, but he is present at the board meetings.

The President is considered the legal representative of the Bank and is responsible for the conduct of current operations of the Bank. The President shall follow the instructions and guidelines established by the Board of Directors. In accordance with its delegation powers, the Board of Directors has authorised the President to carry out borrowings and associated treasury activities and to take certain lending decisions. The President is assisted in his work by the Management Committee, the Credit Committee and the Finance Committee.

The Management Committee consists of the President and six senior officers whose appointment to the Committee is confirmed by the Board of Directors. The Management Committee is the forum for addressing policy and management issues; it has the overall responsibility for risk management. The Committee meets regularly once or twice a month and in addition as needed. The meetings are chaired by the President, who reaches decisions after consulting with the members of the Committee.

The Credit Committee includes the President and six senior officers appointed to the Committee by the Board of Directors. The Credit Committee is chaired by the President or in his absence by one of its members. The Committee meets regularly once a week. The Committee is responsible for the preparation of and the decision-making on matters related to the lending operations of the Bank. The President exercises his delegated decision-making powers concerning lending operations through the Credit Committee.

The Finance Committee is an advisory body to the President concerning treasury and risk management operations. The Committee monitors the market risk, the funding activities and treasury portfolio management of the Bank. The Committee includes the President and four members, and convenes once a month.

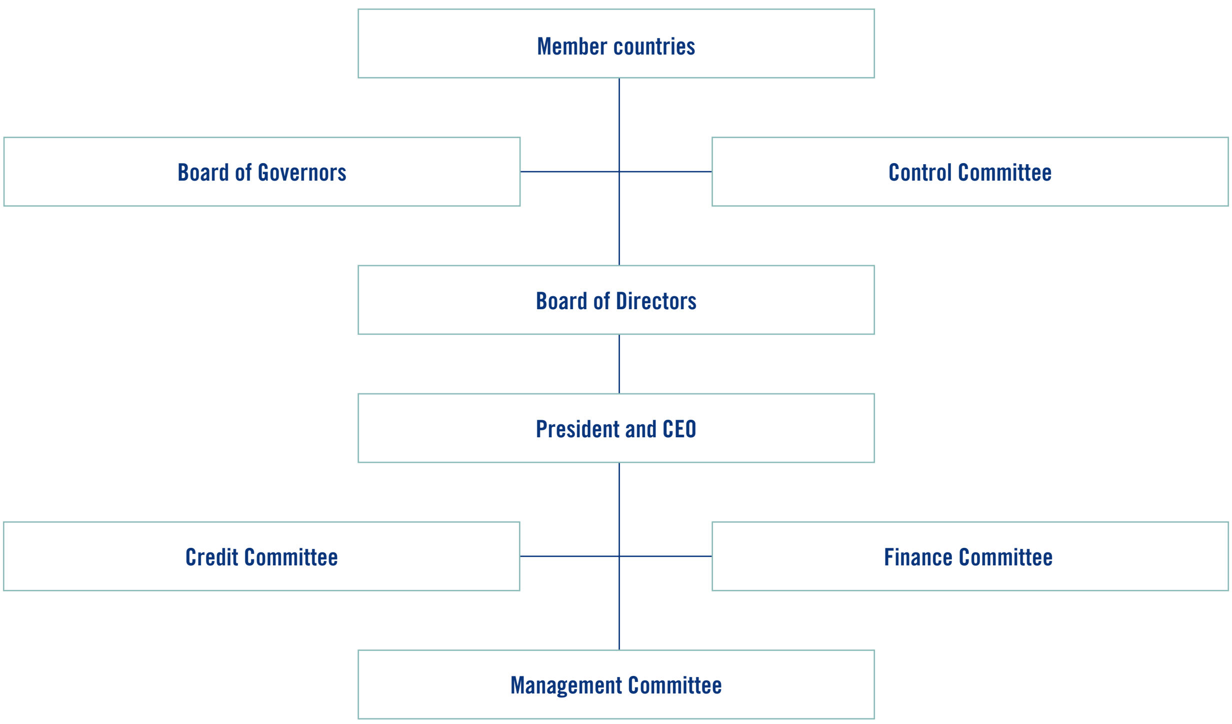
The President of the Bank is bound by a code of conduct and he signs a statement concerning any perquisite positions in other institutions and his financial interests. The perquisite positions shall be approved by the Board of Directors.

The President's employment terms, including remuneration, are determined by the Board of Directors. The Board of Directors also approves the remuneration of the members of the Management and Credit Committees. For further information, see Note 5 in the financial statements on page 50.

SUPERVISORY BODY

The Bank's supervisory body, the Control Committee, consists of ten members. The Nordic Council and the Parliaments of Estonia, Latvia and Lithuania appoint eight members to the Committee, with one member representing each member country. Furthermore,

Governance of NIB



two members are appointed by the Board of Governors to serve as Chairman and Deputy Chairman. According to the rotation principle, the members are appointed for a term of up to two years at a time.

The Control Committee is responsible for the audit of the Bank and supervises that the operations of the Bank are conducted in accordance with the Statutes. Decisions of the Committee are taken unanimously concerning the financial statements and the annual auditors' report. The report is delivered by the Committee to the Board of Governors. Apart from the financial statements and the annual auditors' report, all decisions of the Committee shall require the assent of the majority of its members. The work of the Control Committee is governed by its rules of procedure. The members of the Committee are bound by a code of conduct.

The Control Committee appoints two professional external auditors every year for the purpose of assisting the Committee in carrying out the work and responsibilities of the Committee. The professional auditors carry out the audit of the Bank as commissioned by the Committee. The Committee monitors that the coordination between the internal and professional auditors is arranged efficiently, in order to ensure that the combined audit resources adequately cover the various areas of control. The Committee may also instruct the professional auditors to carry out examinations of other specific matters. The Committee shall pay particular attention to the professional auditors' ability to perform their tasks independently. The professional auditors report directly to the Control Committee. One of the auditors is appointed from the Bank's host country and one from another member country. In 2005–2006, the two auditors are from Ernst & Young in Helsinki and Oslo.

The members of the Control Committee receive an annual remuneration and an attendee allowance for the meetings of the Committee. Expenses for travel and accommodation incurred by the members in carrying out their official duties are covered and a daily allowance granted in accordance with the travel policy of the Bank. The Board of Governors determines annually the amount of the remuneration and attendee allowance. The remuneration of the professional auditors is determined by the Control Committee upon a suggestion prepared by the Bank. For further information on the remuneration of members of the Control Committee and the Auditors, see Note 5 in the financial statements on page 50.

The Control Committee met twice during the year 2005.

INTERNAL CONTROL AND INTERNAL AUDIT

The objective of NIB's internal control system is twofold. On the one hand, the aim is to secure and develop the long-term financial preconditions for operations, and on the other hand the aim is to conduct operations in an economical and cost-efficient way, in compliance with given rules and regulations. The internal control is focused on the management of financial and operational risks.

The internal control system constitutes an integral part of each employee's work and covers systems and procedures for monitoring and managing transactions, positions and documentation with a clear segregation of duties between recording, risk management and transaction-generating functions. The heads of the different departments are responsible for the internal control in their respective operations. The President and the Board of Directors have the overall responsibility for the internal control system.

NIB's internal audit follows international professional standards established by the Institute of Internal Auditors. The task of the internal audit is to regularly analyse and evaluate the Bank's internal control system, operational procedures and other systems and make recommendations to the management. The internal audit of the Bank reports functionally to the Control Committee and the Board of Directors of the Bank and administratively to the President. The Board of Directors approves the annual plan of the internal audit.

POLICIES AND GUIDELINES

In addition to the constituent documents of the Bank, NIB's activities are governed also by a number of policies, guidelines and instructions adopted by the Board of Directors or the President of the Bank, such as: Mission and Strategy, Financial Policies and Guidelines, General Guidelines for Procurement, NIB's Environmental Policy, and Resolution on Fighting Corruption. More information can be found elsewhere in the Annual Report, as well as on the Bank's website at www.nib.int.

BOARD OF GOVERNORS

DENMARK
Bendt Bendtsen
Minister for Economic and Business Affairs

ESTONIA
Aivar Sõerd
Minister of Finance

FINLAND
Ulla-Maj Wideroos
Coordinate Minister for Finance

ICELAND
Árni M. Mathiesen
Minister of Finance

LATVIA
Oskars Spurdziņš
Minister of Finance

LITHUANIA
Zigmantas Balčytis
Minister of Finance

NORWAY
Kristin Halvorsen
Minister of Finance

SWEDEN
Pär Nuder
Minister of Finance

CONTROL COMMITTEE

CHAIRMAN
Bill Fransson
Director, Sweden

DEPUTY CHAIRMAN
Dace Nulle
Director, State Audit Office, Latvia

DENMARK
Per Kaalund
Member of Parliament

ESTONIA
Meelis Atonen
Member of Parliament

FINLAND
Arja Alho
Member of Parliament

ICELAND
Steingrímur J. Sigfússon
Member of Parliament

LATVIA
Valdis Dombrovskis
Member of the European Parliament

LITHUANIA
Sigita Burbienė
former Member of Parliament

NORWAY
Trond Helleland
Member of Parliament

SWEDEN
Tuve Skånberg
Member of Parliament

AUDITORS APPOINTED BY THE CONTROL COMMITTEE

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

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

BOARD OF DIRECTORS

DENMARK

Lars Kolte
Managing Director,
Danish Export Credit Agency

Alternate
Sigmund Lubanski
(from 18 August 2005), Head of Office, Ministry of Economic and Business Affairs

Per Torstensen
(from 1 April until 17 August 2005), Deputy Permanent Secretary Business Affairs, Ministry of Economic and Business Affairs

Kåre Klein Emtoft
(until 31 March 2005), Chief of Division, Ministry of Economic and Business Affairs

ESTONIA

Madis Üürike
Advisor, Ministry of Finance

Alternate
Ülle Mathiesen
Head of State Treasury Department, Ministry of Finance

FINLAND

Kristina Sarjo
Financial Counsellor,
Ministry of Finance

Alternate
Risto Paaermaa
(from 1 September 2005), Deputy Director General, Ministry of Trade and Industry

Bo Göran Eriksson
(until 31 August 2005), Director General, Ministry of Trade and Industry

ICELAND

Baldur Guðlaugsson
(from 1 June 2005), Chairman of the Board, Permanent Secretary, Ministry of Finance

Bolli Thór Bollason
(until 31 May 2005), Chairman of the Board, Permanent Secretary, Prime Minister's Office

Alternate
Ólafur Hjálmarsson
(from 1 April 2006), Director General, Ministry of Finance

Ragnheiður E. Árnadóttir
(from 1 June 2005 until 31 March 2006), Political Adviser to the Minister, Ministry for Foreign Affairs

Baldur Guðlaugsson
(until 31 May 2005), Permanent Secretary, Ministry of Finance

LATVIA

Edmunds Krastiņš
Counsellor to the Minister of Finance, Ministry of Finance

Alternate
Nikolajs Sigurds Bulmanis
Advisory Board Member, Latvian Guarantee Agency

LITHUANIA

Rolandas Kriščiūnas
Under Secretary, Ministry of Finance

Alternate
Vilma Mačerauskienė
Head of Financial Institutions Division, Financial Markets Department, Ministry of Finance

NORWAY

Arild Sundberg
Deputy Chairman of the Board, Assistant Director, NAV Interim

Alternate
Eli Telhaug
Director General, Ministry of Finance

SWEDEN

Erik Åsbrink
Former Minister of Finance

Alternate
Ulrika Barklund Larsson
Director, Ministry of Finance

From left: Kristina Sarjo, Baldur Guðlaugsson, Lars Kolte, Arild Sundberg, Erik Åsbrink, Madis Üürike, Edmunds Krastiņš

MANAGEMENT COMMITTEE

Nils E. Emilsson, Hilde Kjelsberg, Carl Löwenhielm, Gunnar Okk, Johan Wallin, Torben Nielsen, Siv Hellén, Erkki Karmila, Johnny Åkerholm and Juha Kotajoki.

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

Nils E. Emilsson
Executive Vice President from 1 April 2006. Head of Lending. Bachelor of Science, the United States International University; MBA, California State University.

Torben Nielsen
Executive Vice President since December 2005. CFO and Treasurer since 2004. Diploma in Finance, Copenhagen Business School; Leadership programme, INSEAD.

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

Hilde Kjelsberg
Senior Vice President from 7 February 2006. Head of Credit and Analysis from April 2006. M.Sc. (Business), Norwegian School of Economics and Business Administration.

Juha Kotajoki
Senior Vice President since 1996. Head of the Risk Management Department. Responsible for Accounting and for Financial Administration and Planning. B.A., University of Turku.

Gunnar Okk
Senior Vice President from 16 January 2006. Head of Planning and Administration from February 2006. Responsible for Personnel and Office, as well as IT. Master of Science, Tallinn University of Technology.

MEMBERS IN 2005:

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

Erkki Karmila
Executive Vice President since 1993. Head of the International Lending Department until 31 March 2006. Licentiate in Law, University of Turku; Master of Laws, Harvard.

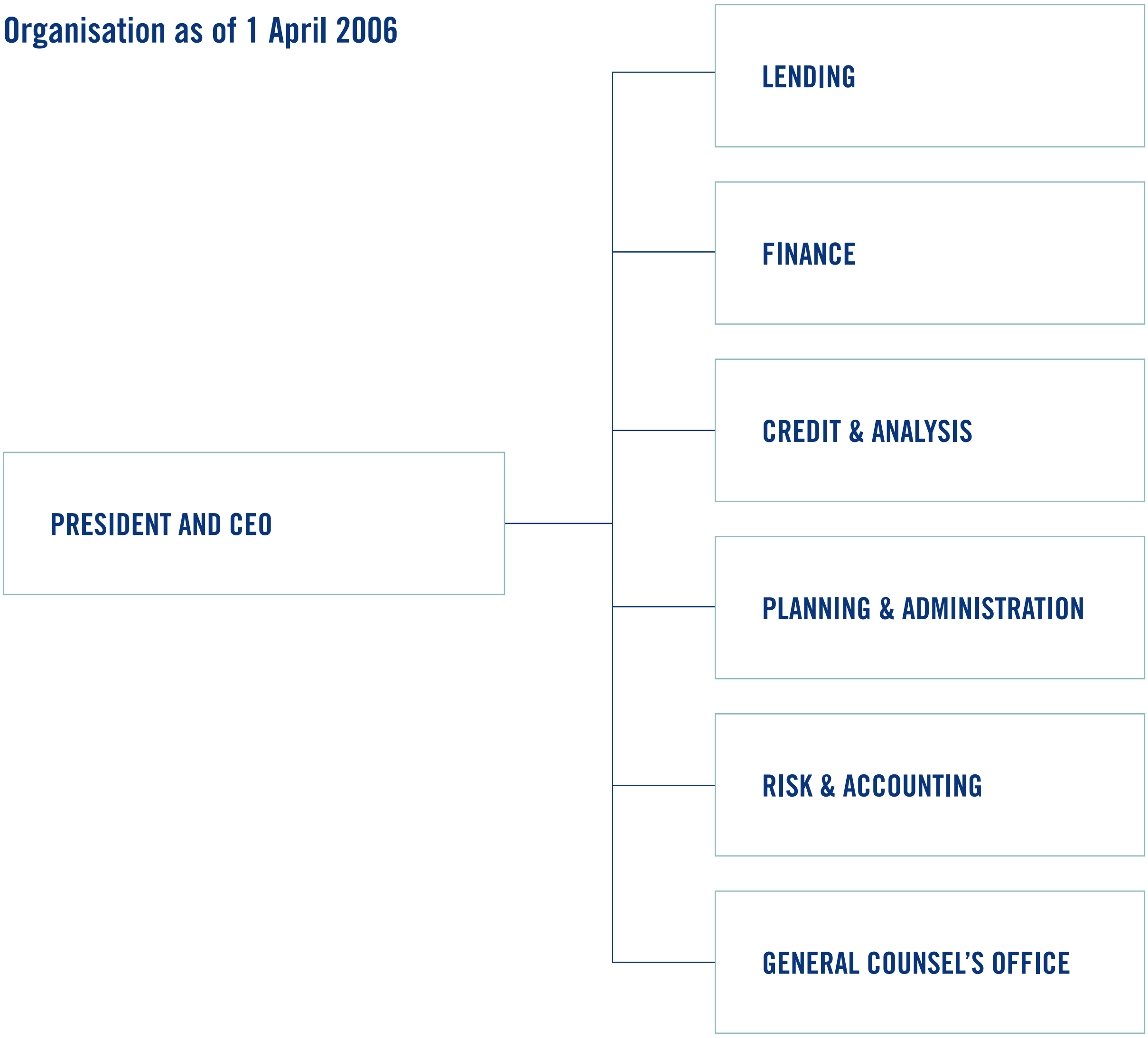
Carl Löwenhielm
Executive Vice President since 1996. Head of the Nordic Lending Department until 31 March 2006. MBA, Stockholm School of Economics.

Oddvar Sten Rønsen
Senior Vice President since 1993. Head of the Appraisal Department until 31 August 2005. B.A. (Econ.) Hon., Manchester University; M. Sc., Warwick University Graduate Business School, England.

Johan Wallin
Vice President. In NIB since 1987. Interim Head of the Appraisal Department September 2005–March 2006. M.Sc. Econ., Swedish School of Economics, Helsinki.

ORGANISATION

Organisation as of 1 April 2006



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

HUMAN RESOURCES

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

The total number of employees at the end of 2005 was 150, comprising 74 women and 76 men. The average age of the employees was 43.4, and the average length of service was 9.8 years. The age structure of the Bank's staff as of 31 December 2005 is shown in Figure 1 below. NIB will face a number of retirements, including staff at the senior management level. In summer 2005 a process was introduced to recruit new staff into the Bank's management. Three new employees who also serve as members of NIB's management committee were appointed at the beginning of 2006.

Since the beginning of 2005, NIB's two official languages are English and Swedish. Following the enlargement of the Bank's membership, English has become the principal operational language of NIB's managerial and policy-making bodies. English is also the main working language of the staff as a whole. The transition to English in the Bank's administration has taken place gradually, in part through the translation of documents and instructions.

As part of the Bank's efforts to keep pace with changes in the business environment, its employees participated during the year in several development and IT-related projects. The Bank also continued to update its core IT system. All NIB employees were affected by the updating of the PC environment.

Employees took part in external training, such as courses and seminars on current themes related to their particular work duties, as well as in individual training programmes. The internal training activities during the year focused, to a large extent, on language and communication issues. Courses were organised for the Bank's employees on, for example, presentation and negotiation skills as well as financial terminology. Language tuition was provided in more than ten different languages and involved about 120 persons. As a result of the updating of the Bank's PC enviroment, special computer courses were arranged for Bank employees.

The average number of training days during the year per person was 5.9, compared to 6.5 the year before. This figure includes both in-house courses and external training.

Aiming to make its external and internal communication more effective, the Bank worked actively during the year to promote the uniform usage of languages and to create a standard professional vocabulary for various areas of its activity.

The Bank's Cooperation Council is entrusted with the task of developing working conditions and streamlining the interaction between employer and employees. The Council dealt with, among other things, pension issues, flexitime, questions related to the ombudsman, as well as equality issues in the Bank. The Council set up a working group to prepare an equality plan for NIB. A survey of the personnel was carried out in order to lay the basis for continuing work on this issue. The equality plan, which includes goals and actions aimed at improving and promoting equality in the Bank, shall be adopted during 2006.

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

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

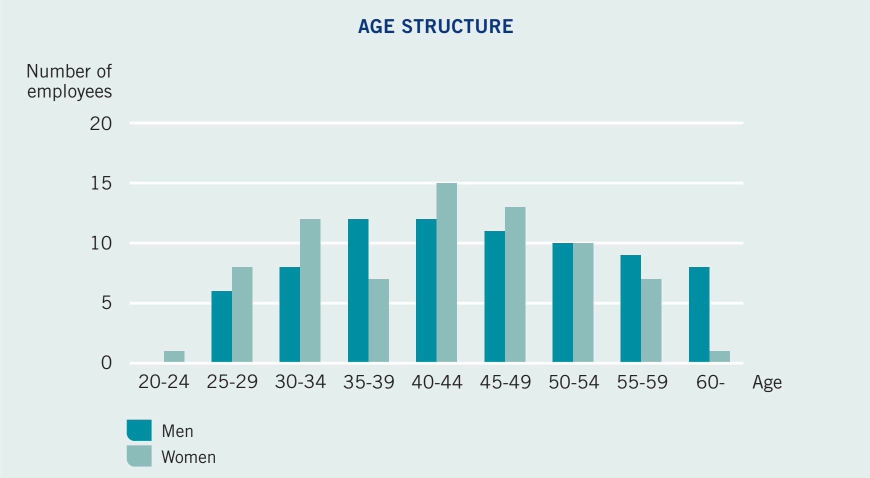


Fig. 1

LONG-TERM BORROWING 2005

Currency	*Amount million*	*Amount EUR million*	*Issue price*	*Coupon rate %*		*Maturity year*	*Leading/Arranging Bank*
PUBLIC ISSUES							
TRY	50	29	100.500%	13.50%		2007	Royal Bank of Canada Europe Ltd
USD	1,000	754	99.995%	3.875%		2010	BNP Paribas/Citigroup and HSBC
TRY	50	29	99.900%	12.500%		2009	JP Morgan Securities Ltd
SKK	1,750	46	100.000%	FRN	1)	2009	Merrill Lynch International
HKD	500	53	100.000%	3.770%		2010	BNP Paribas
HKD	200	21	100.000%	3.825%		2010	The Hongkong and Shanghai Banking Corporation Limited
TRY	50	31	96.750%	11.000%		2009	Dresdner Bank AG, London Branch
USD	37	20	65.900%	0.000%	3) 5)	2008	Barclays Bank Plc
TRY	50	30	100.705%	12.500%		2009	The Toronto-Dominion Bank
USD	500	410	101.260%	4.250%		2009	Royal Bank of Canada Europe Ltd and The Toronto-Dominion Bank
USD	14	8	69.500%	0.000%	3) 5)	2008	Barclays Bank Plc
EUR	50	50	100.000%	FRN	1) 6)	2025	Merrill Lynch International
TRY	30	19	98.000%	10.000%		2009	Dresdner Bank AG, London Branch
OTHER BORROWINGS							
USD	100	23	30.197%	0.000%	2) 3)	2025	Daiwa Securities SMBC Europe Ltd
JPY	1,400	10	100.000%	PRDC	2) 4)	2035	Nomura International Plc
AUD	375	227	99.980%	5.090%		2007	Nomura International Plc
USD	25	19	100.000%		5)	2015	Deutsche Bank AG, London
USD	100	24	31.180%	0.000%	2) 3)	2025	Morgan Stanley & Co. International Ltd
EUR	30	30	100.000%	FRN	1) 6)	2015	Shinkin International Ltd
USD	10	8	100.000%		2) 7)	2036	Goldman Sachs International
HKD	300	32	100.000%	3.700%		2009	HSBC Bank Ltd
EUR	30	30	100.000%	FRN	1) 6)	2010	Dresdner Bank AG, London Branch
EUR	30	30	100.000%	FRN	1) 6)	2010	Dresdner Bank AG, London Branch
EUR	20	20	100.000%	FRN	1) 6)	2010	Dresdner Bank AG, London Branch
EUR	15	15	100.000%	4.200%	2)	2045	Nordea Bank Finland Plc
AUD	20	13	100.000%	5.130%		2009	Mizuho International Plc

1) Floating rate
2) Callable
3) Zero coupon
4) Linked to AUD/JPY rate
5) Linked to BRL/USD rate
6) Linked to EUR swap rate
7) Linked to JPY/USD rate

LOANS MEMBER COUNTRIES 2005

AGREED LOANS BY SECTOR

The list only includes customers who have consented to publication.

MANUFACTURING INDUSTRY

Sector/Customer	*Project*
Food and drink industries	
Danish Crown AmbA, Denmark	Acquisition of shares in the Finnish slaughterhouse HK Ruokatalo and a majority holding in Polish Sokolow. The transaction is aimed at gaining a foothold on the East European market and streamlining the concern's cost structure.
Ingman Group Oy Ab, Finland	Acquisitions of Swedish Carlshamn's ice-cream operations and Estonian Pajunen, as well as further investments in Ingman's own production unit in Lithuania. The project furthermore strengthens the company's positions as the region's leading supplier of ice-cream products.
Orkla ASA, Norway	Acquisition of the remaining 80% of the shares in the Nordic region's leading snacks producer, Finnish Åland-based Chips Abp. The acquisition fits well into Orkla's strategic areas with strong brand names in consumer goods in the Nordic and Baltic countries.
Wood, pulp and paper	
Billerud AB, Sweden	Energy investments in turbines, bark boilers and new electricity supply, which will lead to reduction of costs at the company's three pulp and paper mills. The project will have positive environmental effects.
Holmen AB, Sweden	Financing of environmental improvements at the company's plant Iggesunds Bruk. The main benefits from the investments are reduced loads of pollutants to the water recipients and reduced atmospheric emissions.
Myllykoski Corporation, Finland	Environmental investments with the purpose of modernising the company's paper production facilities in Anjalankoski, Finland. The project includes improvements of the local wastewater treatment plant and change of bleaching technology.
Myllykoski Corporation, Finland	Upgrading of the production process at the group's plant in Plattling, Germany. The investment will lead to cost reductions and further enhance the quality of output.
Stora Enso Oyj, Finland	Investments in the group's board producing plant at a sawmill in Skoghall, Sweden. The project is aimed at modernising the production and increasing cost efficiency. It also includes rebuilding of power generation facilities and launch of a bio fuel boiler, which will have a significant positive environmental effect.
Chemicals and oil products	
Kemira Oyj, Finland	Acquisition of Verdugt BV, a Dutch specialty chemicals producer, and Finnish Chemicals Oy, a leading Nordic producer of chemicals for the pulp and paper industry.
Neste Oil Corporation, Finland	Investment in the Porvoo refinery in order to increase production capacity of sulphur-free diesel fuel. The project is also aimed at more efficient use of natural resources when heavier crude oil is refined to clean fuel.
Metals	
Norðurál ehf., Iceland	Expansion of the company's aluminium smelter in Iceland. It is expected that the smelter's larger production capacity alone will ultimately lead to a 5% increase of the value of the entire Icelandic export.
Oy Ovako Ab, Finland	Investment in expanding the group's production capacities at the Imatra steel works, Finland, and develop production of rings and tubes in Hofors, Sweden. The project will also help to reduce dust emissions, cut energy consumption and improve disposal of waste.
Engineering	
Scania CV AB, Sweden	Investment in R&D activities for future engine platforms.
Wärtsilä Corporation, Finland	Acquisition of the marine engine service business Deutz AG in Germany. The deal is in line with Wärtsilä's focus on the service market for ships engines.
Consumer goods	
Fiskars Corporation, Finland	Investment in the enterprise's resource planning system. The project supports a common business model and shared services within the group and improves sales information systems.

Electronics

Elcoteq SE, Finland	New production facilities in India and Brazil. The expansions are in line with the company's internationalisation strategy and will add production capacity in the areas of fast economic growth.

Packaging

Huhtamäki Oyj, Finland	Strengthening of the group's R&D activities aimed at creating new plastic packaging products and manufacturing technologies.

ENERGY, GAS AND WATER SUPPLY

Fingrid Oyj, Finland	Investment in the national electric power transmission grid. The project is aimed at improving the infrastructure and the capacity of the grid.
Hafslund ASA, Norway	Investments in the regional electricity transmission network and upgrading of power plants.
KE Varme A/S, Denmark	Construction of a heating tunnel in Copenhagen in order to secure future heating supplies to the city's inhabitants.
Latvenergo AS, Latvia	Rehabilitation of the power transmission and distribution network in Latvia, modernisation of a heat and power plant, as well as other efficiency investments in power production utilities.
Nordic Energy Link AS, Estonia	Construction of a 100-kilometre transmission link between the Baltic and the Nordic countries across the Gulf of Finland. The project will provide connection of the Baltic regional electricity system to the Nordic electricity network NORDEL.
Nova Naturgas AB, Sweden	Investment in the extension of a natural gas supply pipeline system in southern Sweden. The project is necessary to increase supplies of fuel to gas-consuming industrial producers in the region. The investment will lead to reduced emission of CO_2.
Rauman Voima Oy, Finland	Construction of a bio-fuelled plant for the needs of a local paper mill and a local district heating utility in Rauma, Finland. The company will also acquire and upgrade an existing power plant in the town. For the environment, the project will lead to lower air emissions and improved resource utilisation.
Statkraft AS, Norway	Expansion of the waste incineration and district heating system in Trondheim, providing more capacity for district heating and a more efficient disposal of household waste in the area. Construction of a new hydropower plant on the Nidelva river to replace outdated technologies.
Sydskånes Avfallsaktiebolag SYSAV, Sweden	Investment in a waste combustion plant in Malmö, Sweden. Increase of the plant's capacity will boost energy output and reduce emission to air and water.
Tekniska Verken i Linköping AB, Sweden	Projects regarding energy production and distribution in the Linköping area, Sweden. Investment in boilers at a waste incineration plant, as well as in local production and distribution of district heating, which leads to reduction of oxides emission. Increase in production of biogas for vehicles also contributes to substantial environmental improvements.
Teollisuuden Voima Oy, Finland	Safety-enhancing investment in the new nuclear power plant in Olkiluoto, Finland. The safety-related solutions developed for this project exceed those used on the existing power plants in Europe. Some of these solutions are unique.

CONSTRUCTION

Tieyhtiö Ykköstie Oy, Finland	Design, construction and operation of a 50-kilometre public-private partnership motorway section of European Road E18 in Finland. E18 is part of the "Nordic Triangle", an EU-prioritised project, which connects the Nordic region to Northwest Russia.

TRADE AND SERVICES

Kesko Corporation, Finland	Acquisition of shares in Norgros AS, the market leader in the Norwegian hardware and building materials retail.
RIMI Baltic AB, Sweden	Investments in the development of the retailer's operations in the Baltic countries. The company is a 50/50 joint venture of Finnish Kesko and Swedish ICA.
Töcksfors Shopping Center AB, Sweden	New shopping mall close to the Swedish-Norwegian border. The mall will generate new jobs in the area.

TRANSPORT AND COMMUNICATIONS

Olíudreifing ehf, Iceland	Development of the infrastructure for oil distribution due to the tightening of the national safety and environment regulations based on EU directives. The project includes a vapour recovery system, colouring of gas oil and the renovation of depots.
SE Klaipėda State Seaport Authority, Lithuania	Development of the port infrastructure in Klaipėda, Lithuania. The project includes reconstruction and expansion of quays and dredging of sea bottom in the harbour.
Iceland Telecom, Iceland	Development of the telecommunications infrastructure in Iceland. The improvements will be made in rural areas outside the capital, as well as in linking Iceland to the rest of the world.

INFORMATION TECHNOLOGIES

Tietoenator Corporation, Finland	Acquisitions of Ki Consulting & Solutions AB, a Swedish IT and telecommunications consultancy, and S.E.S.A. AG, a leading R&D services provider for telecommunications industry in Germany.

BANKING AND FINANCE

Etne Sparebank, Norway	Onlending for financing of SME projects, primarily in environmental improvements and energy investments, in Etne, western Norway.
Forstædernes Bank A/S, Denmark	Financing of SME projects, mainly concerning energy and environmental investments in the Nordic countries and the neighbouring areas.
Max Bank A/S, Denmark	Financing of SME investments in energy, environment and other sectors.
Morsø Sparekasse, Denmark	Financing of SME projects with focus on environmental improvements in the agricultural sector and energy investments, especially wind power.
Municipality Credit Iceland, Iceland	Onlending to municipalities for the financing of projects within NIB's eligibility criteria.
OMX AB, Sweden	Acquisition of the Copenhagen Stock Exchange. The merger will help to ensure faster integration of the Nordic and Baltic security markets.
Ringkjøbing Landbobank A/S, Denmark	Financing of SME projects, mainly concerning energy and environmental investments.
Roskilde Bank A/S, Denmark	Financing of projects implemented by Danish SMEs within environmental investments, energy and cross-border cooperation.
AS Sampo Pank, Estonia	Loan programme for the financing of investments in SMEs in Estonia. The onlending is earmarked for manufacturing and service industries, as well as export-oriented companies.
Šiaulių Bankas AB, Lithuania	Loan programme for SME projects in Lithuania with focus on manufacturing and service industries, as well as export-oriented companies.
Sparbank Vest A/S, Denmark	Financing of SMEs in Denmark and Greenland. The loan finances mainly energy and environmental projects, as well as cross-border investments.
Sparisjóður Reykjavíkur og Nágrennis, Iceland	Onlending to Icelandic SMEs for financing of various projects.
Totens Sparbank, Norway	Onlending for financing of SME projects in the Toten area in Oppland county, Norway.

LOANS NON-MEMBER COUNTRIES 2005

LOANS AGREED BY REGION

Africa and Middle East		
Turkey	Kayseri Metropolitan Municipality	Loan for financing of a light rail transit system
Asia		
China	People's Republic of China	General loan programme
China	People's Republic of China	Loan programme for investments in the health sector
China	People's Republic of China	General loan programme
India	Gateway Terminals India PVT. Limited	Loan for financing of investments in a port container terminal
India	Srei Infrastructure Finance Limited	General loan programme
Laos	Nam Theun 2 Power Company Limited	Loan for financing of a hydropower plant
Philippines	Smart Communications, Inc.	Loan for financing of investments in mobile telephone networks
Thailand	Total Access Communications Public Company Limited	Loan for financing of investments in mobile telephone networks
Vietnam	Socialist Republic of Vietnam	Loan for financing of investments in a cement plant
Vietnam	Socialist Republic of Vietnam	Loan programme for financing of investments within the coal sector
Central and Eastern Europe		
Bulgaria	Svilosa AD	Loan for financing of investments in a pulp plant
Czech Republic	Czech-Moravian Guarantee and Development Bank	General loan programme
Hungary	Central-European International Bank Limited	Loan for financing of investments in the bank's office building and the expansion of its office network
Hungary	Hungarian Development Bank Limited	General loan programme
Poland	BOT Elektrownia Belchatóv S.A.	Loan for financing of investments in a power plant
Poland	Gdańsk Transport Company S.A.	Loan for financing of a dual carriage motorway
Romania	Mobifon S.A.	Loan for financing of investments in mobile telephone networks
Russia	OJSC Kondoponga Pulp and Paper Mill	Loan for financing of investments in a pulp and paper plant
Russia	PJSC Leningrad Region Communal Systems	Loan for financing of investments in water supply and services in the Leningrad region
Russia	Mobile Telesystems Finance S.A.	Loan for financing of investments in mobile telephone networks
Russia	OJSC Segezhskiy CBK	Loan for financing of investments in a paper and pulp plant
Russia	OJSC Vimpel-Communications	Two loans for financing of investments in mobile telephone networks
Russia	Russian Federation	Loan for financing of a flood protection barrier in St. Peterburg
Latin America		
Brazil	Banco Nacional de Desenvolvimento Econômico e Social - BNDES	General loan programme
Brazil	Petrobras Netherlands B.V.	Loan for financing of oil and gas production platform
Brazil	UNIBANCO-União de Bancos Brasileiros S.A.	General loan programme

ABBREVIATIONS

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

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