ANNUAL REVIEW 2011

NORDIC INVESTMENT BANK

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This is a summary of NIB's Annual Report 2011. The complete report, including the Financial Statements, is available at annual.nib.int/2011.

1976–2011: 35 years of lending with a vision

1975–1976
Beginning of the Bank

NIB's management committee in 1977. From the left: Peter Laurson, Finland; Svend Kræmer, Denmark; Petter Skouen, Norway; Erik Rindal, Norway; Siv Hellén, Finland; Bert Lindström (Managing Director), Sweden; and Annikki Saarela, Finland. Photo: Leif Weckström

The decision to establish NIB was made in 1975, and the Bank was officially established on 1 June 1976.

There was a lack of capital at the time, the financial markets were regulated and cross-border investments—and the financing of them—were more complicated than today. In addition, huge investments were expected in the wake of the oil crisis.

From the start, NIB has been focused on mandate-driven business with competitiveness in the member region as the underlying driver. NIB's main product has always been to provide long-term loans.

The 1970s
Clear vision and role

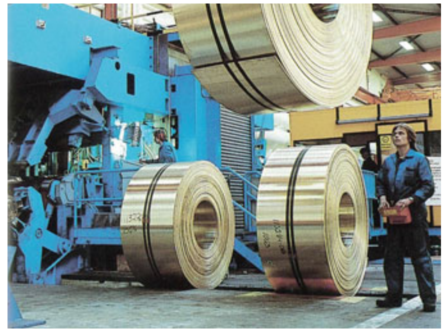
NIB's first loan application came from Icelandic Alloys in 1976. The partly state-owned company was building a plant with an output capacity of 50,000 tonnes of ferruginous quartz, used in steel manufacturing. The credit granted by NIB totalled USD 38.6 million.

As an IFI, NIB in some respects has a privileged position, which reduces risk in the Bank's operations.

"Since the commercial banks mostly provide short-term financing while NIB grants long-term loans, we supplement each other rather than compete. In order to avoid competition, NIB abstains from making loans where the size and type of loan makes it clear that it should be taken care of by the regular credit institutions. On the other hand, NIB cannot demand that an applicant must have been rejected by other credit institutions before turning to the Bank."

The Bank's first chairman, Hermod Skånland, on NIB and commercial banks, 28 October 1976.

The 1980s
Growth and expanded horizons



During the mid-1980s NIB's largest credit at that time, upwards of SEK 350 million, went to Finnish Outokumpu Oy for a major cross-border takeover: the acquisition of the Swedish company Gränges Metallverken.

Standard & Poor's and Moody's gave the Bank its first credit ratings in 1982. The ratings were triple-A, the highest possible, and the top ratings have been kept ever since.

An important step in NIB's development was the creation of the Project Investment Loan Facility that started in 1982. The facility is partly guaranteed by the member countries.

The Project Investment Loan Facility supported Nordic project export through long-term loans that were a complement to other financial sources. The target was emerging markets and countries behind the Iron Curtain.

The 1990s
Environmental focus

A direct rail link between Stockholm Central Station and Arlanda International Airport was one of NIB's largest infrastructural projects of the 1990s. NIB's share of the credit to A-train AB was SEK 500 million. Photo: Niklas Alm

In the early 1990s, the economic situation in the Nordic region was dire and NIB's counter-cyclical role was underscored.

During the period, NIB also began to focus more strongly on environmental matters. The Bank, a trailblazer in environmental lending, created the Environmental Lending Facility.

The new millennium
New members

In 2005, NIB signed a loan agreement totalling EUR 53 million with Nordic Energy Link–a joint venture of five companies from the three Baltic countries and Finland–to finance Estlink-1, the first-ever power connection between the Baltic region and the rest of the EU. Photo: ABB

Upon the regained independence of the Baltic States, NIB began cooperation with them and the Baltic Investment Loan Facility was introduced.

After close cooperation with the Baltic States since the beginning of the 1990s, they became full-fledged members of the Bank in 2005. English was introduced as an official language at the Bank, and the Board of Governors formally replaced the Nordic Council of Ministers.

2011
NIB at 35

In 2011, NIB signed its biggest loan agreement to date, EUR 240 million, with Danish DONG Energy for constructing the new offshore wind farm in the Kattegat between Jutland and the island of Anholt. Photo: DONG Energy

NIB promotes the sustainable growth of its member countries by providing long-term complementary financing to projects that strengthen competitiveness and enhance the environment. NIB's strong mandate makes the Bank a significant financier.

NIB offers competitive long-term loans and guarantees to its clients in the public and private sectors, and NIB's advantage in the future lies in its ability to provide long-term finance.

Approximately 80% of all loans are granted to projects within the member countries, but the Bank also finances projects in the neighbouring region and other selected focus countries.

This is NIB

Highlights 2011

- **Loans agreed totalled €2.6 billion**
- **NIB's largest-ever single loan signed: €240 million for renewable energy**
- **The Bank borrowed €2.9 billion through 43 capital market bond transactions**

Prospects 2012

- **Lending activity and mandate fulfilment to continue at a high level**
- **Maintain NIB's position as a highly recognised IFI benchmark issuer**

NIB in brief

The Nordic Investment Bank is owned by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. NIB was established in the mid-1970s.

The Bank finances projects that strengthen competitiveness and enhance the environment. NIB offers competitive long-term loans and guarantees to its clients in the public and private sectors.

Projects generating a strong fulfilment of NIB's competitiveness and environment mandate are particularly found in the following sectors: energy; environment; transport, logistics and communications; and innovation. In addition, NIB finances mandate-related projects in manufacturing, mining and services.

Projects can involve large investments by the corporate sector or investments by small and medium-sized enterprises, targeted in cooperation with financial intermediaries.

Most of NIB's lending is directed towards its member countries, but it also finances projects in the neighbouring region and in other selected focus countries where a mutual interest has been identified.

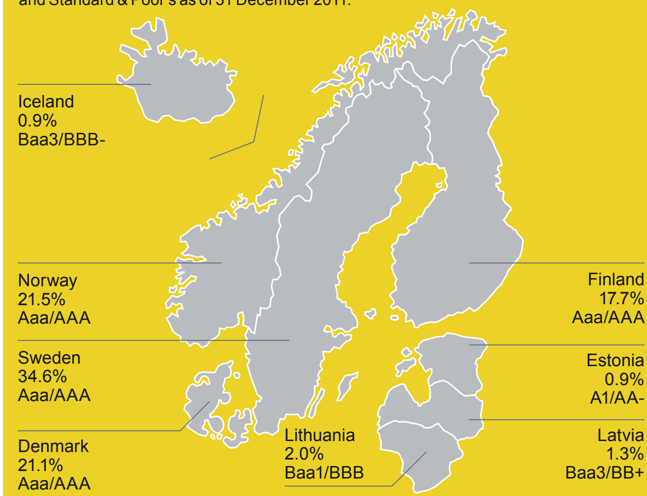
NIB's strengths:

- stability and reliability
- experience in financing cross-border investments
- capacity to manage risks
- high credit ratings, due to its high asset quality, strong balance sheet and ownership
- stable supply of long-term financing
- ability to structure complex financing with other IFIs and public/private sector lenders.

When the Bank considers projects for financing, it analyses not only their impact on competitiveness and the environment, but also their broader, indirect effects on the economy and society. The projects are viewed from a sustainable growth perspective to ensure adequate resources for future growth.

NIB acquires the funds for its lending by borrowing on the international capital markets. The Bank's bonds enjoy the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's. The Bank employs about 180 people in its headquarters in Helsinki.

Member countries
Share of authorised capital and ratings by credit agencies Moody's and Standard & Poor's as of 31 December 2011.



President's review

Looking back at the final year of his presidency, Johnny Åkerholm reflects on the outcome of 2011, considers NIB's performance in relation to the current financial and economic environment, and hints at what the Bank could expect in the future.

"In a turbulent financial market we maintained our solid funding base and expanded our lending activity,"

Johnny Åkerholm, President and CEO.

In a few words, could you give a general overview of today's NIB?

NIB is the international financial institution of the Nordic and Baltic countries. We seek to enhance competitiveness of our member countries and support the environment by providing long-term finance to projects in the public and private sectors. Most of NIB's lending is directed towards its member countries, but the Bank also finances projects in the neighbouring region and in other selected focus countries.

How would you evaluate NIB's performance in 2011?

The expansion of the Bank has been in line with its long-term targets and capacity. During 2011, new loan agreements grew from EUR 1.8 to EUR 2.6 billion. A similar upward trend was seen in loan disbursements, which grew from EUR 1.3 billion to EUR 1.9 billion. We have funded ourselves at reasonable prices, contained impairments and been able to avoid any major problems in a very turbulent financial market.

What does it mean that NIB is "mandate driven"?

An institution like NIB is not established to generate a maximum rate of return on capital as is the case with private financial institutions. The target for this kind of an institution is to fill gaps in the functioning of the market and to finance activities which figure high on the political and economic policy agenda, but which for one reason or another fall outside the remit of the private sector. Our mandate identifies the type of activities that NIB is expected to finance—competitiveness and the environment. In this way we do not compete with the private sector but rather act as a complement.

Why is sustainability important to NIB's success?

NIB is a long-term lender and sustainability is a long-term aspect. Environmental, economical and social analysis is an integrated part of the Bank's risk assessment and environmental and social issues are integrated parts of business—for NIB as well as for the customers.

NIB has a reputation of being reliable. In what way is the Bank reliable?

Our reliability is basically reflected in the fact that NIB is able to provide finance in difficult times. This is the result of the Bank's high creditworthiness, which makes it possible for NIB to provide a safe haven in times of financial distress. The advantage of this has been well manifested during the last few years. And of course, we would also like to think that we are seen as reliable partners and predictable in our activities.

How would you summarise the economic and financial developments in 2011?

The year started on a rather optimistic note, but the mood turned distinctly sourer as the year progressed. This basically reflected the inability to solve acute problems in the US and the euro area.

Financial institutions found themselves in a situation where the part of their portfolio which they had considered risk-free, that is the sovereign bonds, caused them a lot of valuation losses and threatened to even create credit losses.

What was NIB's reaction to the crisis?

NIB was not negatively affected by these developments. Our position on the funding market remained strong, and demand for our loans, if anything, increased. On the basis of the capital increase which we booked early in the year, we could respond to this in a typical NIB way: with cautious expansion.

We have also prepared the Bank to support refinancing if need be. In December last year, NIB decided to temporarily increase its lending activities in response to the effects of the financial crisis in its member countries. A new lending facility, the NIB Refinancing Facility, of EUR 500 million was created for this purpose.

What is the outlook for 2012 and beyond?

There are reasons to believe that economic growth will remain subdued in the industrialised world. This will hit investment activity in general and environmental investments in particular.

The uncertainty in the financial markets will continue even if there is no reason to expect an outright crash. In these uncertain times the demand for funding from NIB will continue and we stand ready to respond to this demand.

NIB's advantage lies in its ability to provide long-term finance. This will also remain a long-term advantage, as the envisaged regulatory changes such as Basel III will inhibit the supply of long-term funds and create a problem for institutions which do not have direct access to the capital market. This will open up a gap in the market which NIB can help to fill.

Could you say a few words about the main landmarks of your presidency?

In the last few years, the Bank has made excellent progress in focusing its activities and enhancing risk management. To enhance the Bank's overall contribution, we have concentrated on activities with high mandate compliance. In addition, we have sharpened the focus of our activities in non-member countries, allowing us to build up expertise in the countries where we are active. The importance of well-functioning risk management has been clearly demonstrated during the financial turbulence of the last few years.

» **For the President's video statement, go to annual.nib.int/2011.**

Capital structure

As of 31 December 2011, NIB's authorised capital was EUR 6,141.9 million. The paid-in capital at the end of the year 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 the appropriation of profits from the financial year 2011 in accordance with the proposal made by the Board of Directors, the Ordinary Lending ceiling amounts to EUR 19,460 million.

In addition to Ordinary Lending, NIB has two active 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 second special facility, 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.

NIB's member countries have subscribed to its authorised capital and guaranteed the special loan facilities in proportion to their gross national income. The countries' share of the authorised capital after the capital increase is shown on the map of member countries.

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 ratings, 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 maintained this credit rating.

A more detailed presentation of the loan facilities, the guarantee structure and the guarantee distribution is provided in Note 8 in the electronic Financial Report available at annual.nib.int/2011.

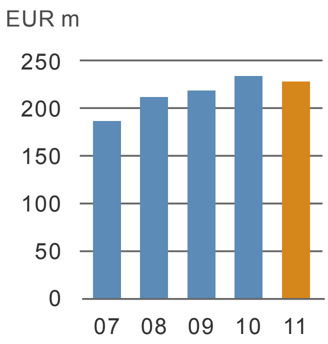
Five-year comparison

AMOUNTS IN EUR MILLION	2011	2010	2009	2008	2007
STATEMENT OF COMPREHENSIVE INCOME					
Net interest income	**228**	234	219	212	187
Commission income and expense etc.	**19**	20	9	11	6
General administrative expenses, depreciation and write-downs	**-37**	-36	-36	-35	-32
Core earnings [1]	**211**	217	192	189	161
Realised and unrealised gains/losses of financial assets held at fair value	**9**	27	137	-352	-82
Impairment of loans and bonds held at amortised cost	**-24**	-38	-43	-79	-
Adjustment to hedge accounting	**-2**	5	38	-39	-10
Profit/loss for the year	**194**	211	324	-281	69
STATEMENT OF FINANCIAL POSITION					
Assets					
Cash and cash equivalents, placements and debt securities	**6,788**	7,957	6,738	7,375	6,177
Loans outstanding	**14,153**	13,771	13,763	13,063	12,291
Intangible and tangible assets	**35**	37	40	42	44
Accrued interest and other assets	**2,826**	3,133	1,883	2,141	1,461
Total assets	**23,802**	24,898	22,423	22,620	19,973
Liabilities and equity					
Amounts owed to credit institutions and repurchase agreements	**1,597**	1,275	653	1,218	546
Debts evidenced by certificates	**18,433**	19,944	17,998	17,549	15,023
Accrued interest and other liabilities	**1,315**	1,417	1,722	2,123	2,367
Paid-in capital	**419**	419	419	419	419
Statutory Reserve	**684**	683	671	657	646
Credit risk funds	**1,158**	947	623	904	860
Payments to the Bank's Statutory Reserve and credit risk funds, receivable	**3**	5	18	32	43
Other value adjustments	**-**	-3	-3	-	1
Profit/loss for the year	**194**	211	324	-281	69
Total liabilities and equity	**23,802**	24,898	22,423	22,620	19,973
ACTIVITIES					
Disbursements of loans to					
Member countries	**1,593**	927	1,584	1,876	1,761
Other countries	**353**	348	370	611	630
Total	**1,946**	1,274	1,954	2,486	2,390
Guarantees issued					
Member countries	**-**	-	-	-	-
Other countries	**-**	-	-	-	-
Total	**-**	-	-	-	-
Loans outstanding at year-end					
Member countries	**11,264**	11,010	10,888	10,142	9,873
Other countries	**2,889**	2,761	2,874	2,920	2,417
Total	**14,153**	13,771	13,763	13,063	12,291
Guarantee commitments at year-end					
Member country guarantees	**4**	8	12	17	25
Other country guarantees	**-**	-	-	-	-
Total	**4**	8	12	17	25
New debt issues (including capitalisations)	**2,887**	4,120	4,137	4,681	4,288
Number of staff (at year-end)	**178**	171	178	170	158

[1] Core earnings consist of the profit before adjustments to hedge accounting, realised and unrealised gains/losses of financial assets held at fair value, credit losses and reversals thereof and impairments of bonds held at amortised cost.

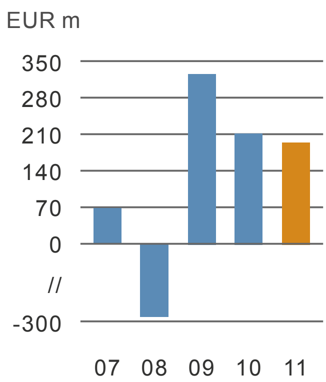
Net interest income

fig.1



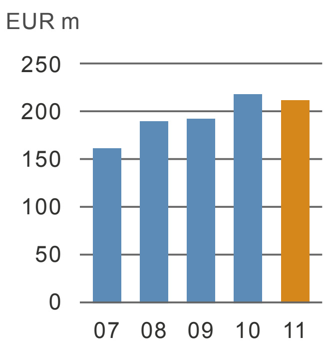
Profit/loss

fig.2



Core earnings*

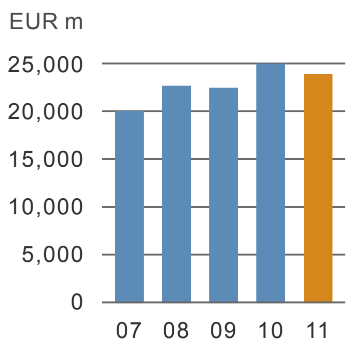
fig.3



* Core earnings consist of the profit before adjustments to hedge accounting, realised and unrealised gains/losses of financial assets held at fair value, credit losses and reversals thereof and impairments of bonds held at amortised cost.

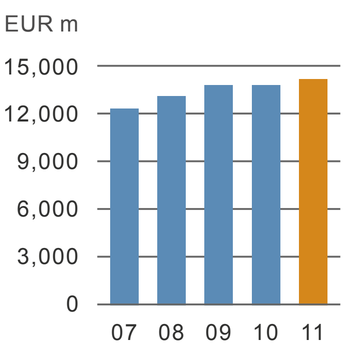
Total assets

fig.4



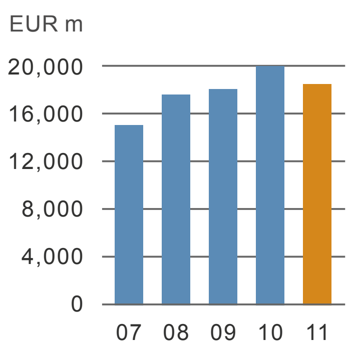
Loans outstanding

fig.5



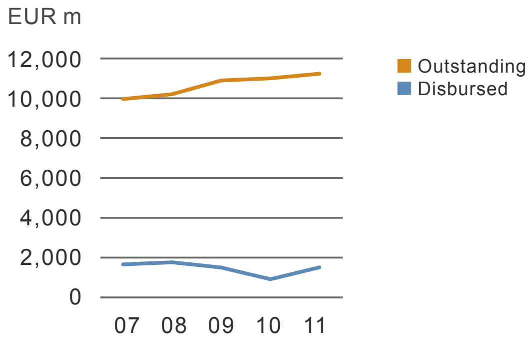
Borrowings outstanding

fig.6



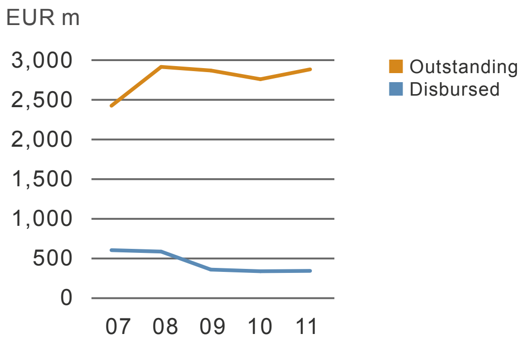
Loans in member countries

fig.7



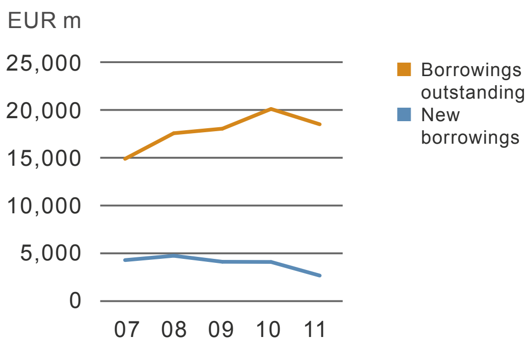
Loans in non-member countries

fig.8



Borrowings

fig.9



University of Helsinki, Finland

In June 2011, NIB and the Finnish University of Helsinki Funds signed a EUR 27 million loan agreement for financing the construction of Finland's largest academic library.

Photo: Nina Näsman

Mandate, Mission and Impact

Highlights 2011
- **Highest mandate fulfilment ever**
- **Revision of the Environmental Policy and Guidelines**

Prospects 2012
- **Maintain mandate fulfilment at a high level**
- **Implement the revised Sustainability Policy and Guidelines**

Mandate fulfilment

To receive NIB financing, a project must fulfil the Bank's mandate in at least one of two ways: contribute to strengthening the competitiveness of the member country economies or enhance the environment.

In 2011, mandate fulfilment for agreed lending rose markedly from the previous year, reaching an all-time high of 87%. Excluding lending not related to projects and unallocated credit lines, mandate fulfilment reached 94%. That is, on a competitiveness or environmental assessment scale, nearly all lending was rated at the high end of NIB's quality and impact scale. Notably, the share of lending rated at the top end or 'excellent' also increased, from 28% in 2010 to 35% in 2011.

About 70% of agreed lending scored 'good' or 'excellent' on the competitiveness mandate and most of it was based in the energy and transportation sectors. Infrastructure investments, productivity-enhancing corporate capital investments, new entries into—or improved access to—emerging markets, and support for R&D are all important channels

"Our lending to projects that support the environment and our owners' competitiveness makes an even stronger impact during financially challenging times,"

Pascal Gauthier, Head of Country and Competitiveness Analysis.

through which NIB lending helps strengthen member country competitiveness.

The projects that received a high mandate fulfilment on the environmental side were mainly in the energy sector (e.g., renewable energy projects, transmission projects allowing for more renewable energy to be supplied to the grid and energy efficiency investments), the public transport sector (e.g., rail and public transport infrastructure projects), as well as projects focusing on sustainable building solutions.

Along with NIB's increased capital base in 2010 came a commitment to achieve a high mandate fulfilment in all lending. In many ways, NIB met its mandate targets in 2011. Going forward, we are dedicated to maintaining the benchmark levels achieved in 2011.

Strengthening competitiveness

The most direct way for NIB to strengthen the economic competitiveness of its member area is to finance projects that boost the efficiency of companies. The first question we ask our customers when evaluating their projects is to what extent they contribute to improving their efficiency or productivity.

The framework used for evaluating the competitiveness impact considers effects that emerge at both the company level and on a broader scale. More emphasis is placed on factors that determine the economic competitiveness of the member countries. NIB distinguishes between internal factors that businesses can directly influence and external factors of the business environment.

The Nordic and Baltic countries typically rank well among peers in international rankings of competitiveness. Yet competitiveness is a moving target. Other economies are not standing still and many are undergoing major structural reforms that will enhance their ability to compete. More than ever, in 2011 NIB contributed to advancing the Nordic–Baltic competitive edge by financing sizeable investments in infrastructure (energy, transportation, logistics, and telecommunications), innovation and R&D, and productivity-enhancing purchases of machinery, equipment, and IT for manufacturers and service providers.

Enhancing the environment

The second of the two key eligibility criteria for lending is enhancing the environment. This means that NIB provides loans and guarantees for projects that improve the environmental status of our member countries.

To achieve a positive environmental impact rating the project must be in compliance with NIB's Environmental Policy and Guidelines as well as relevant national legislation. A direct positive environmental net impact requires a quantitative assessment.

Defining and limiting the scope or boundaries for the analysis is the first step in assessing mandate fulfilment. For every project, we assess the following:

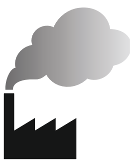
- peer group performance
- best available improvement
- absolute positive environmental impact.

The environmental impact is measured on a six-degree scale, including a negative rating which is not applicable for competitiveness. Similarly to the assessment of competitiveness impact, the environmental assessment covers both the potential impact as well as the implementation risk of the project.

Environmental lending

Environmental activities are inherent to NIB's daily activities and the environmental management system is integrated into the Bank's overall management systems. The Bank's environmental analysts and loan officers work together to identify and manage environmental loans.

Environmental opportunities in projects include resource efficiency, waste minimisation, recycling and cleaner pro-

Substance	Estimated reductions, 2009	Estimated reductions, 2010	Estimated reductions, 2011	Explanation and comparison of substance
CO_2 or CO_2 equivalents. 	240,000 tonnes per year (t/a).	490,000 tonnes per year.	933,000 tonnes per year.	• The most common of the greenhouse gases. Yearly CO_2 emissions in Finland are approximately 70 million tonnes. • NIB's share of reduced CO_2 emissions in 2011 equals emissions from almost 2 million people flying from Helsinki to New York.*
Phosphorous, Nitrogen and Biological Oxygen Demand (BOD5). Emissions to water. 	• 65 t/a phosphorus, 82 t/a nitrogen and 545 t/a BOD5 quantified. • One project with positive impacts agreed on, but quantifiable data is lacking. • One project leads to a decrease in suspended solids.	No agreed projects.	Two loan programmes with financial intermediaries having positive impacts, but quantifiable data is lacking.	• Runoff from wastewater and farmland increases the nutrient load in watercourses and oceans, as well as contributes to oxygen depletion. A major reason for the deteriorating state of the Baltic Sea. • One person produces approximately two grammes of phosphorous per day.*
SO_2 and NO_x.Emissions to air. 	• 230 t/a NO_x and 580 t/a SO_2 quantified. • Three projects with positive impacts agreed on, but quantifiable data is lacking. • One project leads to a reduction in dust, dioxin and heavy metal emissions. Four other projects lead to decrease in particles.	70 t/a NO_x. One project leads to a reduction in dust, dioxin and heavy metal emissions.	• To be determined. • Five projects with positive impacts agreed on, but quantifiable data is lacking.	• Airborne emissions created through the burning of fossil fuels reach the ground through acid precipitation. • Yearly emissions of NO_x and SO_2 in Finland are approximately 153,000 and 60,000 tonnes respectively.*

*Sources: Finnair, Finnish Environmental Institute.

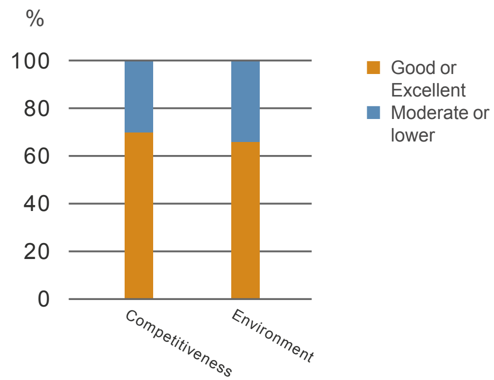
duction. Projects mitigating climate change are emphasised in particular and the Bank finances reduction of greenhouse gases, improvement of energy efficiency and promotion of added renewable energy capacity. Furthermore, research and development and adaptation to climate change are crucial for sustainable development.

NIB impacts the environment mainly through financing, so impacts are largely indirect. The table above includes data on the positive ecological impacts of the Bank's financing.

NIB reports the share of emission reductions that results from the Bank's contribution to a project's financing. The estimated emission reductions of long-term loan programmes are concluded retrospectively.

Agreed loans 2011
By mandate rating

fig.10



Lending

Highlights 2011

- **Loans agreed totalled €2.6 billion**
- **CLEERE facility increased to €3 billion. By year-end €2.9 billion was allocated**
- **Offshore wind project receives NIB's largest-ever single loan**
- **Refinancing Facility established to support member country companies in refinancing debt falling due in 2012**

Prospects 2012

- **Mandate fulfilment to continue at a high level**
- **Utilisation of the Refinancing Facility will depend on the development of credit availability supply in the financial markets**

Lending activity

In 2011, new loans approved by NIB's Board of Directors amounted to EUR 2.2 billion whereas agreed loans increased substantially, reaching EUR 2.6 billion. Disbursements also increased and reached EUR 1.9 billion.

The key driver for NIB's lending activities is fulfilment of the Bank's mandate: to support the competitiveness of its member countries and improve the environmental situation. NIB is a financier of specific investment projects only and all potential loans are assessed for their mandate contribution, with only those achieving a sufficiently high score in the internal mandate rating being accepted.

Projects that comply with the Bank's mandate are above all found in the following sectors: environment; energy; transport, logistics and communications; and innovation. The share of lending to these sectors accounted for 87% of loans agreed and 89% of loans disbursed in 2011. The Bank, however, also provides financing to other sectors of the economy. Loans were made for projects in manufacturing and the service sector as well as through lending programmes with financial intermediaries.

Economic uncertainty re-emerged once again in 2011, affecting many business sectors as well as the supply of credit. The number of work-out cases in the Bank's portfolio was nevertheless reduced, even if some new cases did arise during the year. Loan losses were moderate and the amount of impaired loans decreased.

The amount of loans outstanding increased to EUR 14,153 million by 31 December 2011. The amount of guarantees outstanding was EUR 4 million.

BASE and CLEERE

Under Ordinary Lending NIB has two special lending facilities that target the Bank's priority areas. The Climate Change, Energy Efficiency and Renewable Energy Facility (CLEERE) was increased in 2011 to EUR 3 billion, an increase of EUR 1 billion. This followed the rapid utilisation of the first two tranches of the facility. New loans were made under the facility, targeting climate change mitigation and adaptation, primarily in the energy sector but also in industry and transport. At the end of 2011, EUR 2.9 billion had already been allocated under the facility.

Allocations also continued under the EUR 500 million Baltic Sea Environment Financing Facility (BASE), which supports the implementation of HELCOM's Baltic Sea Action Plan. Loans under this facility finance measures that help to restore the ecological health of the Baltic Sea. At the end of 2011, EUR 222 million had been allocated under the facility. Loans under both facilities are made in the ordinary course of business in accordance with the Bank's lending policies.

The Bank continued to play an active role in the Northern Dimension Environmental Partnership (NDEP), taking over the rotating chairmanship of the Steering Group. The aim of the NDEP partnership is to coordinate and streamline the financing of environmental projects with cross-border effects in the Baltic Sea region, the Barents region and Northwest Russia, with projects receiving grants from the NDEP support fund. NIB approved new loans for investments in wastewater treatment in Russia and Belarus.

The new Northern Dimension Partnership on Transport and Logistics started its activities with its secretariat being hosted by NIB. The purpose of the partnership is to facilitate cooperation on and implementation of regional transport infrastructure and logistics projects. A list of priority projects is under preparation.

NIB also continued to participate in other areas of international and regional cooperation. The EU Strategy for the Baltic Sea Region, now in its second year of implementation, provides a framework for cooperation in the fields of environment, energy and transport. NIB supports the realisation of the strategy by making long-term loan financing available for investment projects that meet the Bank's lending criteria.

The implementation of public-private partnership (PPP) projects with financing from NIB continued, with new projects under development. A new loan was agreed in 2011 for a transport infrastructure project. The demand for PPP projects is expected to grow because of constrained public finances. NIB also engages in projects with a project-financing structure, in which the revenues generated by the operation of the project form the basis for the repayment of the loan.

Countries of operation

In line with the Bank's operational framework and plan, the major part of new lending in 2011 was carried out in the member countries, with 82% of the new lending. During the year, the Bank signed 37 new loan agreements in the member countries with a total value of EUR 2,130 million. No new guarantees were issued. Disbursements of loans amounted to EUR 1,593 million, which expanded NIB's loans outstanding in the member countries to EUR 11,264 million at year-end. Loans agreed but not yet disbursed in the member countries amounted to EUR 976 million at the end of the year.

Finland accounted for the largest part, 37%, of the new lending in the member countries in 2011, followed by Norway with 26% and Sweden with 20%.

Outside the member region, NIB finances projects of mutual interest to the Bank's member countries and the countries of operation. Loans are granted under the Project Investment Loan Facility (PIL) and the Environmental Loan Facility (MIL) but also to some extent within the Bank's ordinary lending. The Bank focuses its operations on a limited group of countries where it sees good opportunities to achieve strong mandate fulfilment and maintain a long-term presence.

In 2011, the Bank signed ten new loan agreements in eight non-member countries in Europe and Eurasia, Asia, Latin America and Africa. The total value of the new loans agreed during the year amounted to EUR 478 million. The largest recipients were India and Russia. No new guarantees were issued during the year. Disbursements of loans amounted to EUR 353 million, after which NIB's loans outstanding in non-member countries stood at EUR 2,889 million at year-end. Loans agreed but not yet disbursed amounted to EUR 752 million at the end of the year.

"Demand for financing rose in 2011 and we were able to respond by providing more loans,"

Lars Selenius, Senior Director, Area Head.

Sectors

In the Bank's reporting, the distribution of loans is presented according to sectors. Many projects relate to several sectors, particularly renewable energy, R&D and transport projects, which often represent both the environment and the other mentioned sectors (energy; transport, logistics and communications; and innovation). In order to fairly reflect the Bank's involvement in the different sectors, the share of each relevant sector is presented as its weighted portion of the total amount. The list of agreed loans in the inside back cover indicates this overlap of sectors in the individual project.

Environment

As described in more detail in the Mandate, Mission and Impact chapter, the Bank carries out a thorough assessment of all its loans. These assessments serve as safeguard procedures but also help to identify projects that generate positive net environmental effects which fulfil the environmental mandate.

New lending in the environmental sector totalled EUR 810 million, or 31% of all loans agreed in 2011. A major part of the agreed environmental loans were simultaneously related to other sectors, as the projects represent investments in the fields of energy, transport, innovation, manufacturing and services.

The projects financed by the Bank in this field primarily relate to investments in renewable energy, particularly wind power and hydropower generation. Other financed projects comprise sustainable municipal transport, waste-to-energy and improved energy efficiency in buildings. Investments in cleaner technology and R&D were also targeted. In addition the Bank provided loans to banks for on-lending to finance smaller-scale environmental projects.

Energy

The energy sector is characterised by continuous high investment needs in order to secure supply and environmental sustainability. These challenges exist in all the Bank's member countries and other countries of operation. NIB has adopted a sector lending strategy to guide its activities in this field.

In 2011, the total share of energy loans was EUR 691 million, or 26% of all loans agreed during the year.

The major loans were provided for investments in upgrading electricity transmission and distribution systems. New power plant investments were also supported. As mentioned above, energy sector-related loans included projects for renewable energy and other environmentally significant projects.

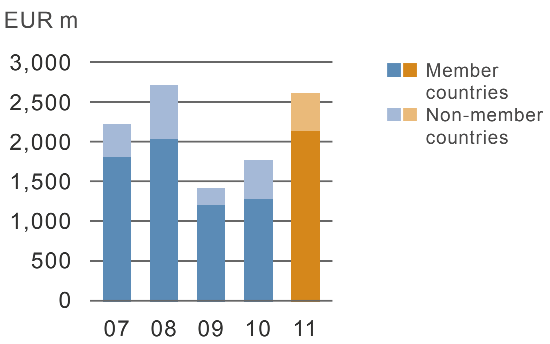
Transport, logistics and communications

Effective transport, logistics and communications are cornerstones for competitive economies. The environmental impact of this sector is increasingly recognised as a challenge. NIB has adopted a sector lending strategy to provide guidance for the activities in this area.

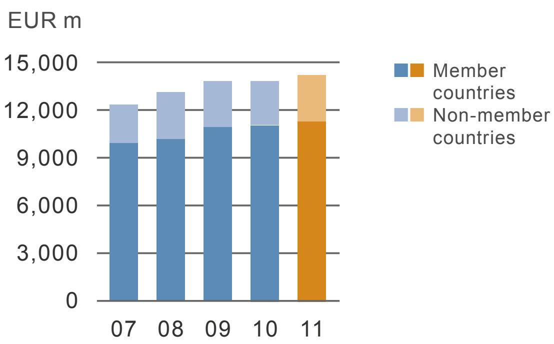
In 2011, 30% of all loans agreed pertained to projects in the transport, logistics and communications sector, totalling EUR 770 million, with most of it being directed to transport infrastructure.

The projects in this sector include investments in airport, port and road construction as well as municipal infrastructure. One new loan was also provided for the extension of new generation broadband and mobile phone systems.

Loans agreed fig. 11



Loans outstanding fig. 12



Innovation

This sector comprises various activities related to innovation processes. As NIB only provides senior loans on market terms, the participation of the Bank is limited to projects that are able to carry loan financing. R&D projects form the predominant part of the Bank's portfolio in this sector, but investments in environments that enable innovation are also targeted.

In 2011, total lending was EUR 33 million for projects related to technology development, equalling 1% of all loans agreed during the year.

Other business sectors

The Bank actively looks for projects that comply with its mandate across all sectors of the economy. For example, investments by the manufacturing industry are essential to safeguarding and enhancing the competitiveness of member country enterprises. The service industry again is the predominant sector in the post-industrial economies.

In 2011, loans totalling EUR 93 million, or 4% of all loans agreed, were registered as pertaining to manufacturing and mining and services respectively. The projects include corporate acquisitions as well as investments in production facilities in order to increase capacity or improve manufacturing processes.

Financial intermediaries

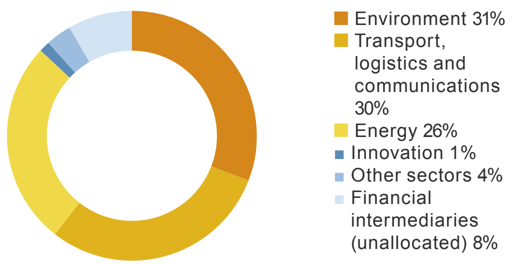
A way to reach customers that the Bank cannot approach directly, primarily smaller enterprises and projects, is to provide financing through loan programmes mediated by financial institutions. Increasingly such programmes are predetermined for special purposes complying with NIB's mandate. If, however, the end-use has not been defined in advance, NIB classifies the loan as a financial intermediary transaction until the purpose of the sub-loans becomes known, when the corresponding amount is registered in the respective sector (e.g., environment).

Five of the loan programmes agreed with financial intermediaries in 2011 were wholly or partly unallocated, with sub-loans waiting to be assigned to projects fulfilling NIB's criteria. The total amount for this category is EUR 211 million, equivalent to 8% of all loans agreed.

Two new loan programmes were concluded with other IFIs. NIB cooperates with such institutions in order to reach out to projects in countries where NIB is not directly active. Loan programmes were also established with financial institutions in six non-member countries and three member countries.

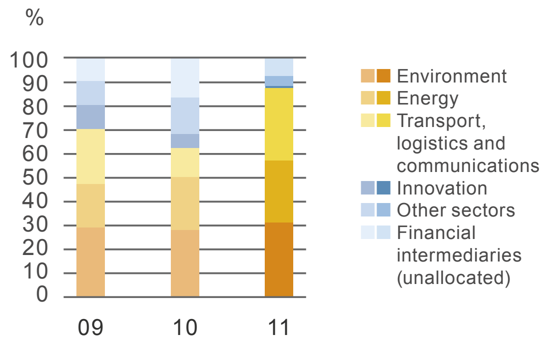
Loans agreed 2011
By sectors

fig.13



Sector distribution
Loans agreed as a share of total loans

fig. 14



DONG Energy, Denmark

In September 2011, NIB provided a loan of EUR 240 million (DKK 1.8 billion) to Danish DONG Energy for the construction of a new offshore wind farm in the Kattegat. Of the total loan amount, 38% is financed by NIB Environmental Bonds.

Photo: DONG Energy

Treasury

Highlights 2011

- **Funding costs after financial swaps turned out to be the best in NIB's history**
- **Liquidity warehousing more challenging in 2011**
- **Strong performance by the Bank's Own Capital Portfolio**
- **First NIB Environmental Bonds issued**

Prospects 2012

- **Funding Strategy to maintain NIB's position as a highly recognised IFI benchmark issuer**
- **Revise the Liquidity Policy**
- **2012 the year of collateral—from collateral management to collateralised deposits**
- **Customised benchmark for the Bank's Own Capital Portfolio**

Capital markets

In 2011, NIB borrowed EUR 2.9 billion through 43 capital market bond transactions spanning 11 different currencies. At year-end, outstanding debt totalled EUR 18,433 million in 18 currencies.

It is the Bank's funding strategy to be the leading IFI benchmark issuer, maintain a global investor base and keep borrowing diversified into different currencies and markets.

The Bank undertook one global USD benchmark in 2011. The benchmark, which was priced in January, was a five-year USD 1 billion public issue. The issue was priced in line with the Bank's peer group 5 basis points over the similar five-year USD World Bank transaction.

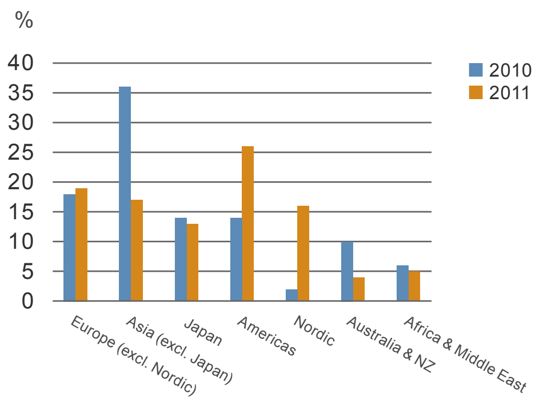
Turbulence in the financial markets especially in the latter part of 2011 had only little impact on NIB's funding programme. Funding costs after financial swaps turned out to be the best in NIB's history.

The majority of NIB's 2011 funding was placed with investors located in Europe (including the Nordic countries) and accounted for 35%. Asia (including Japan) accounted for 30% and the Americas for 26%, while the remainder was placed with investors in Australia and New Zealand, Africa and the Middle East.

Central banks/official institutions represented the biggest investor type with 26%, pension and insurance com-

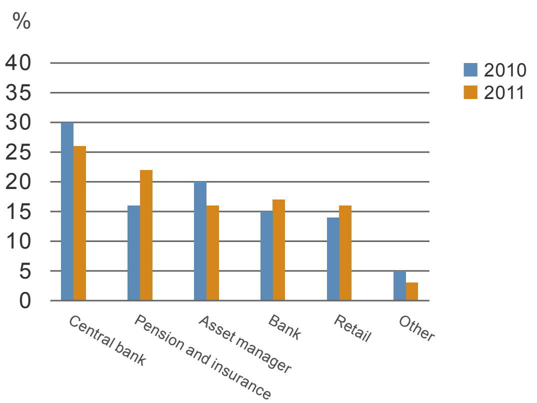
New borrowings
Geographical distribution

fig.15



New borrowings
Investor distribution

fig.16



panies accounted for 22%, while asset managers, banks and the retail sector accounted for around 15% respectively.

The currency distribution was diversified with USD and GBP being the two largest funding currencies, as shown in fig. 17.

NIB is a frequent issuer in the New Zealand Kauri market. In May, NIB tapped its outstanding NZD 2015 Kauri issue by a further 100 million, now totalling NZD 400 million. In September, NIB launched a new 10-year, 125 million NZD Kauri issue. NIB's outstanding Kauri volume is now NZD 675 million, consisting of three Kauri bond issues.

In the Nordic currencies, NIB managed to issue both short- and long-dated transactions. The longest dated transaction in NOK was 15 years and the longest dated transaction in SEK was 20 years. In total, NIB had five transactions in NOK totalling NOK 2.9 billion and two transactions in SEK totalling SEK 2 billion.

In October, NIB announced the issuance of NIB Environmental Bonds allowing investors to provide funds for the Bank's environmental lending. The first NIB Environmental Bond targeting the Japanese retail investor market was launched in ZAR and swapped back into EUR. Through this new issue, investors have the possibility to support NIB's environmental lending. The first project earmarked for these funds was an offshore wind park in Denmark.

NIB continued to meet investors globally, updating them on developments and securing sufficient credit lines available for investment in NIB bonds. The investor relations activities include bilateral meetings, seminars arranged by intermediary banks, conferences, as well as dialogue with the capital market press.

Asset Liability Management

The Bank's net operational liquidity totalled EUR 2,673 million by the end of 2011, of which holdings in liquid securities totalled EUR 2,274 million. Gross liquidity amounted to EUR 4,168 million as short-term liabilities, including money market loans and received cash as collateral, stood at EUR 1,495 million at year-end.

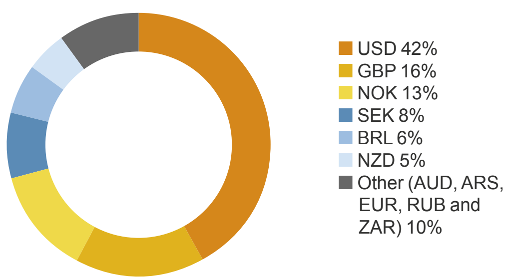
The Bank's liquidity was primarily held in euro and US dollar, while a minor portion was held in Nordic and other currencies.

It is the Bank's target to ensure a sufficient level of liquidity to be able to continue disbursing new loans and fulfil all payment obligations for one year forward, without necessitating additional funding. The Bank maintained sufficient liquidity during the year, while reducing the gross liquidity by EUR 1,176 million compared to 2010. In 2011, the Bank repaid three maturing USD benchmark issues totalling an amount of USD 3,250 million.

Warehousing liquidity became more challenging in the latter part of 2011. The money market was affected by the growing sovereign debt crisis in the euro area and financial institutions lacked trust in lending to each other. As a result, the liquidity portfolio allocations were changed

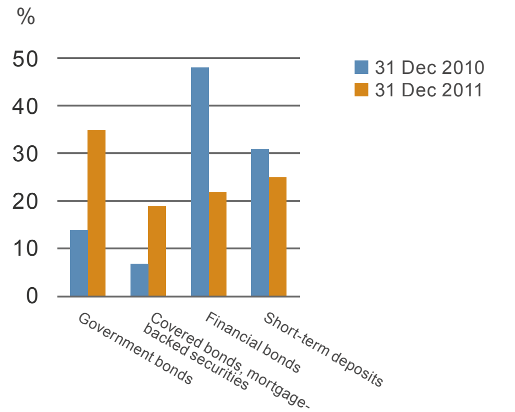
New borrowings
Currency distribution 2011

fig.17



Liquidity
Distribution by instrument

fig. 18



as investments in senior unsecured financial bonds were reduced by 25% in favour of government bonds which increased 21% and covered bonds which increased 12%. The majority part of the liquidity is warehoused in securities issued by Nordic and North European governments and financial institutions. The valuation of the securities in the liquidity portfolios also contributed in 2011 with a positive result.

"Despite high market volatility, we borrowed at very favourable levels,"

Angela Brusas, Funding Manager.

Own Capital Management

NIB's Own Capital Portfolio is invested in highly rated fixed-income securities denominated in euro and is not counted as part of the Bank's net operational liquidity. The objective of the portfolio is to contribute to stable income by generating an interest income from safe, medium- to long-term investments. The net interest income from the portfolio, EUR 78 million, stands to approximately a third of NIB's total net interest income in 2011.

At year-end, the portfolio's nominal value amounted to EUR 2,294 million. During the year the duration of the portfolio has been kept lower than the benchmark duration of 4.5 years and was at year-end 4.1 years.

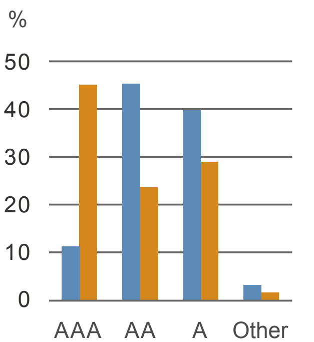
The Own Capital Portfolio return for 2011 was 4.85% and outperformed the benchmark return of 2.55%. The sovereign debt crisis affected the benchmark return because of the index allocation to the periphery countries compared to the lower Own Capital Portfolio allocation to these countries.

During the year, the allocation to the core European government bonds was increased further and this investment policy has supported the maintenance of the high ratings of the securities in the portfolio.

An alternative to the duration-adjusted J.P.Morgan EMU Government Investment Grade Bond Index, which has been used as a benchmark for the previous eight years, was evaluated in 2011. A customised benchmark that better reflects the investment universe for this portfolio will be implemented in the beginning of 2012.

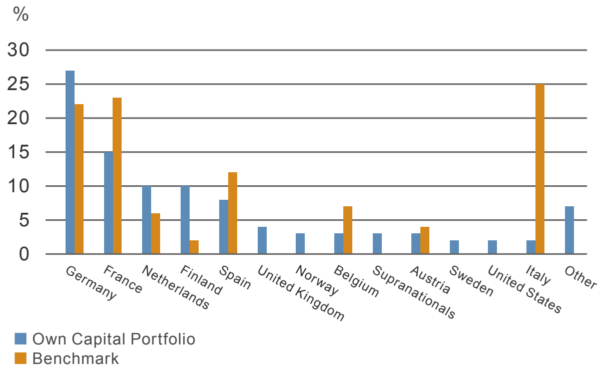
NIB uses external managers for fixed income trading with the objective of increasing returns and diversifying risks. Two out of three external managers had positive returns for the year and overall the performance was positive for the sixth consecutive year. The internal interest rate portfolio with similar guidelines as those used for the external managers had a negative annual return for the first time.

Liquidity fig. 19
Rating* distribution by instrument



* NIB's internal rating.

Own Capital Portfolio and benchmark fig. 20
Country distribution of securities as of 31 Dec 2011



Management Committee

Johnny Åkerholm
(1948)
President and CEO since 2005.
Lic.Pol.Sc., University of Helsinki;
M.Sc.Econ., Swedish School of Economics and Business Administration, Helsinki.

Hilde Kjelsberg
(1963)
Vice-President, Head of Credit and Analysis.
Joined NIB in 2006.
M.Sc., Norwegian School of Economics and Business Administration;
AFF Management programme for young leaders.

Harro Pitkänen
(1953)
Acting Head of Lending
Joined NIB in 1983.
Master of Law, University of Helsinki.

Lars Eibeholm
(1964)
Vice-President, Head of Treasury and CFO.
Joined NIB in 2007.
HD-Master's Degree in Finance and Credit, Copenhagen Business School.

Juha Kotajoki
(1959)
Vice-President, Head of Risk and Accounting.
Joined NIB in 1986.
B.A., University of Turku.

Gunnar Okk
(1960)
Vice-President, Head of Planning and Administration.
Joined NIB in 2006.
M.Sc., Tallinn University of Technology.

Heikki Cantell
(1959)
General Counsel, Head of Legal Department.
Joined NIB in 2007.
LLM, University of Helsinki;
Postgraduate degree in Commercial Law, University of Paris II.

Human resources

Highlights 2011

- **Shared values revisited and reflected on**
- **New Host Country Agreement**
- **Credit School concept introduced**

Prospects 2012

- **Follow-up to 2011 Job Satisfaction Survey**
- **Transition to e-salary**
- **Appointment of new Ombudsman**

As in previous years, the development of the Bank's employees was the main focus for the activities in the HR Unit. In particular, in-house training was emphasised through new training concepts such as Credit School. In other areas, HR and the Bank's employees reflected on the Bank's shared values and how best to communicate them. The overall results of the Job Satisfaction Survey were very good.

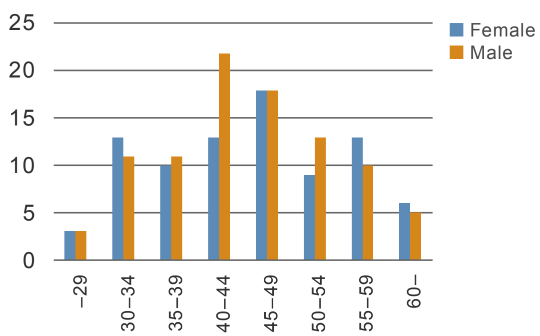
Values

NIB has always had a strong and distinct organisational culture with clear values. The existing culture influences how we work, interact and cooperate, as well as how the organisation is seen by the outside world. Values provide a common basis for the organisation, determine what it stands for, and distinguish it from other organisations. The fact that the Bank is publicly owned, and answerable to eight different countries, calls for very high standards of integrity, openness and accountability.

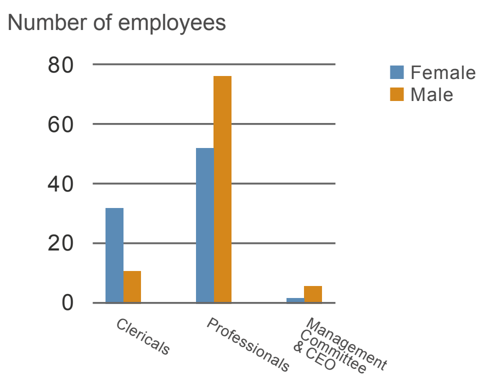
Staff

NIB's employees are staff members in an international organisation. Based on the Bank's legal status, the labour laws or other legislation of the host country Finland or any other member country do not automatically apply to the em-

Staff structure by age group and gender fig. 21
As of 31 Dec 2011



Staff by category and gender fig. 22
As of 31 Dec 2011



"NIB encourages development and offers employees opportunities to grow professionally by taking part in targeted training,"

Marja Olkinuora, Senior HRD Specialist.

ployees. There are some exceptions, particularly with regard to taxation, social security and pensions.

NIB's employees are both professionally and culturally diverse. Currently, NIB employs people from all of the Bank's member countries as well as from outside the membership area. The majority of the employees have a university-level education.

Most NIB staff members are employed on a full-time basis and have permanent employment contracts. At the end of 2011, NIB had 178 employees in permanent positions, comprising 85 women and 93 men, representing 13 nationalities. In addition, 7 persons worked in temporary positions, resulting in a total of 181 employees on average during the year. The exit turnover for staff in permanent positions was 5%, as 9 employees left the Bank in 2011. The average age of NIB's employees in permanent positions was 45 years, and the average length of service was 11 years.

When recruiting, NIB emphasises professional qualifications and experience. In 2011, the Bank hired four women and six men for permanent positions. The new employees originated from Canada, Finland, Germany, Latvia and Sweden.

For more information on NIB's employees, see Note 5 in the electronic Financial Report (annual.nib.int/2011).

Initiative of the Year

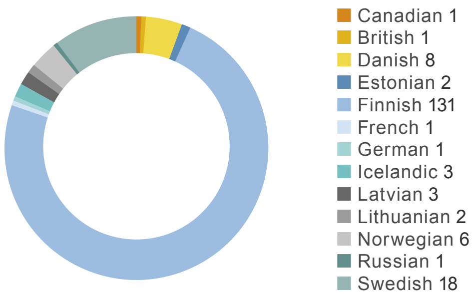
In 2011, NIB's Initiative of the Year award was presented for the first time, with the award going to the NIB Credit School. According to the Cooperation Council, whose members acted as the jury for the award, the winning initiative supports NIB's operational goals and the Bank's mandate, as well as improves working processes within the Bank. The concept was introduced as part of NIB's in-house training.

Training and development

NIB encourages professional development, offering staff members opportunities to grow professionally in a variety of ways. In 2011, the main focus was on in-house training. As in previous years, the staff's performance and career devel-

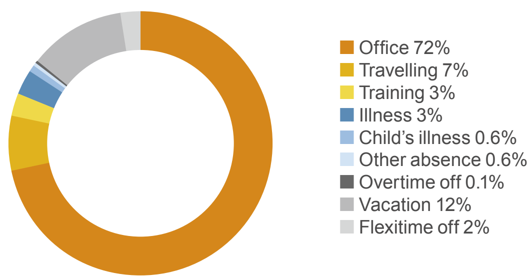
Nationality of employees
As of 31 Dec 2011

fig. 23



Working days 2011

fig.24



The sum of the percentage shares may not total 100% due to rounding.

opment was reviewed in the annual Personal Appraisal and Development Discussions (PADD).

Credit School

The Credit School concept, a coordinated approach to training in subjects directly related to NIB's credit process, was launched in 2011. The Credit School is divided into different levels based on which group the training is targeted at. During this first year, ten training sessions at different levels of the Credit School were arranged. Most of the staff participated in at least one of the sessions. The total number of participants in one or more session was 215.

Leadership training

Leadership training continued with new sessions. A range of subjects were covered on themes such as "Essential Coaching and Delegation Skills", "High Performance, Shared Values and Leadership Leverage" and "Positive Influencing Skills".

Job Satisfaction Survey

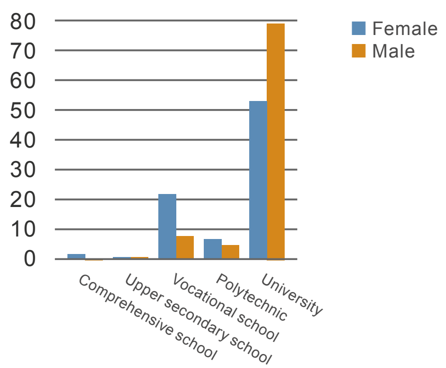
The Job Satisfaction Survey was conducted in the autumn. The overall survey results were even better than two years ago. The excellent results for immediate supervisors are particularly worth mentioning. These show that the leadership training has been productive. Although the results of the survey were very good, there is always room for improvement.

The induction process has been developed and documented, and the process description is now easily accessible on the Bank's intranet. As part of the leadership training, the role of the immediate supervisor in the induction process has been emphasised. The new process is smoother and enables new employees to quickly become contributing members of the working community.

Internal training also included sessions on NIB's Code of Conduct ("Living up to our values and standards"), language training in 11 languages and IT training in various Microsoft Office programmes.

The average number of training days per employee in 2011 was 7 days, compared to 5.8 days in 2010.

Staff by educational background and gender fig.25
As of 31 Dec 2011
Number of employees



Report of the Board of Directors 2011

At the beginning of 2011, the world economy showed some signs of picking up. However, towards the end of the year the outlook deteriorated significantly. The sovereign debt crisis deepened further, adversely affecting the confidence in the financial markets. Both the real economy and financial intermediation were negatively affected. Within this globally volatile context, the Nordic-Baltic region posted a relatively healthy economic performance.

In February 2011, the decision of the Board of Governors to increase the Bank's capital base by EUR 2 billion came into force. After the increase, the Bank's authorised capital totals EUR 6,142 million. With the additional capital, the 35-year-old NIB is well equipped to finance projects which contribute to enhancing the competitiveness and environment of the region.

Accordingly, NIB continued to build up the lending pipeline of projects fulfilling the Bank's mandate. Demand for loans from IFIs such as NIB was good although increased uncertainty and worsened economic outlook had a negative effect on investments. During 2011, signings of new loan agreements reached EUR 2,608 million, compared to EUR 1,763 million in 2010. A similar upward trend was seen in loan disbursements. Of all loans NIB agreed to during this period, approximately 90% went to projects of high mandate fulfilment, mainly within the sectors of energy, environment and transport.

Turbulence in the financial markets, especially in the latter part of 2011, had only little impact on NIB's funding programme. Investors were seeking stability and NIB raised almost EUR 3 billion at favourable costs.

The Bank's profit for the period amounted to EUR 194 million (2010: EUR 211 million).

Strategic focus

During the financial crisis, NIB has focused on financing projects within its mandate. This was also emphasised in the context of the decision to increase the Bank's capital, which entered into force in February 2011, after all member countries had completed their national procedures. Against the background of constrained public finances, NIB was actively encouraged to provide its financing and to complement other financing sources to support the competitiveness and environment in the Baltic Sea region.

Within the field of environment and energy, the Board took some additional steps. NIB's Climate Change, Energy Efficiency and Renewable Energy (CLEERE) lending facility was further extended to EUR 3 billion in June 2011. The Bank launched the facility in early 2008 and had by the end of 2011 nearly committed the whole amount to projects aimed at promoting renewable energy, energy efficiency and other measures of abating and adapting to climate change. It is estimated that NIB's share of projects agreed with customers in 2011 will reduce CO_2 emissions by 933,700 tonnes per year.

In response to the effects of the financial crisis in its member countries, the Board of Directors also decided in December 2011 to step up its lending activities in 2012. A new lending facility, the NIB Refinancing Facility (NRF), of EUR 500 million, was created for this purpose. Loans, which are aimed at member country borrowers, would be granted within the mandate and risk framework of the Bank. Loans under the facility will be made on normal terms but the maturities can be shorter, starting from three years and up. Loans would be targeted at counterparties which have refinancing needs for projects that comply with NIB's mandate.

The progress continued to be slower in the field of financing Baltic Sea projects. Less than half of the Baltic Sea Environment (BASE) lending facility of EUR 500 million was committed by the end of 2011. The BSAP fund managed by NIB and the Nordic Environment Finance Corporation (NEFCO) helped several new projects to be identified.

The environmental approach was complemented by a new product on the funding side, NIB Environmental Bonds, which was launched in October. Through this new product, investors have the possibility to support NIB's environmental lending. Projects funded through these bonds aim at either reducing emissions to the air by promoting energy efficiency, renewable energy, public transport solutions, recycling or reducing discharges to water by improving wastewater treatment and cutting down pollutant runoff from agriculture. The net proceeds of the issue are held in a separate portfolio pending disbursement to eligible projects. The first project earmarked for these funds was an offshore wind park in Denmark.

A business strategy for transport, logistics and communications was established. The new approach will help identify opportunities to finance qualified projects. In identifying eligible projects, NIB aims to support regional cooperation under the umbrella of the recently established Northern Dimension Partnership on Transport and Logistics (NDPTL) as well as the EU Strategy for the Baltic Sea region, including the development of trans-European transport.

As an important institutional step, a secretariat for the partnership was set up within NIB in Helsinki and its activities started in February 2011. The Secretariat has a staff of a director and two assistants. The Secretariat provides administrative and technical support to the Steering Committee and High Level Meetings in their task of monitoring the implementation of the partnership.

The revised Host Country Agreement (HCA) entered into force in January 2011.

Jesper Olesen acted as Chairman of the Board.

In January 2012, the Board of Directors of the Nordic Investment Bank appointed Henrik Normann (Denmark) as President and Chief Executive Officer of the Bank. Mr Normann will take up his appointment on 1 April 2012. He will succeed Mr Johnny Åkerholm (Finland), who has been President and CEO of NIB since April 2005.

Key figures

(in EUR million)	2011	2010	2009
Net interest income	**228**	234	219
Profit/loss on financial operations	**8**	39	178
Loan impairments	**12**	38	43
Profit/loss	**194**	211	324
Equity	**2,456**	2,262	2,050
Total assets	**23,802**	24,898	22,423
Solvency ratio (equity/total assets %)	**10.3%**	9.1%	9.1%

Activities

In 2011, NIB continued to build its lending pipeline, resulting in an increase of new loan agreements. All in all, the Bank signed 47 loan agreements during 2011 for a total of EUR 2,608 million, a clear jump compared to EUR 1,763 million during the same period the previous year. The disbursement of loans rose to EUR 1,946 million, compared to EUR 1,274 million during the same period in 2010. The outcome was broadly in line with the business plan for 2011 with new loan agreements slightly exceeding the target and disbursement somewhat below the target.

Of all loan agreements, 87% went to projects of high mandate fulfilment in terms of competitiveness and environment. As in previous years, the sectors of power generation and supply, renewable energy and development of modern transport infrastructure dominated NIB's lending. In addition, it is expected that a large portion of the still unallocated loans to financial intermediaries will eventually be allocated to high mandate projects.

NIB defines loans to projects with significant direct or indirect positive environmental impacts as environmental loans. In net terms, environment-related lending accounted for 31% of agreed loans in 2011. Key areas of operation were renewable energy (including wind energy and hydro power), combined heat and power plants, waste to energy, energy efficiency and wastewater treatment.

Energy investments accounted for 26% of the loans agreed during the year. The energy sector's main focus is on energy efficiency, energy networks and sustainable and sufficient generation capacity. In 2011, NIB financed substantial projects in electricity transmission and distribution networks. An important milestone was the signing of a loan for construction of a 170-kilometre electricity interconnection between Estonia and Finland.

Within transport, logistics and communication, NIB targets road constructions, railways, airports, broadband and mobile phone networks. All these areas featured in new loan agreements which were 30% of the total new lending. Effective transport, logistics and communications are essential for ensuring competitiveness. Many projects also have significant environmental benefits.

In the innovation sector, NIB was active in financing research and development activities. One example in this category was the financing of the largest academic library in Finland.

NIB was also actively seeking high mandate compliance in other sectors such as manufacturing, mining or services. In addition, NIB makes loans available to financial intermediaries which in turn finance smaller projects in the SME sector.

In total, 82% of the lending was targeted inside the membership area.

NIB continued to closely monitor the Bank's loan portfolio in order to identify and mitigate possible problems among existing borrowers.

Stable results, a strong balance sheet and high confidence in the owner countries supported NIB's standing in the financial market in 2011. In the volatile environment, investors continued to support NIB's funding programme, seeking a safe harbour in the Nordic countries. As a result, the Bank maintained its favourable funding costs throughout 2011. NIB borrowed a total of EUR 2.9 billion in 11 different currencies through 43 transactions which was broadly in line with the plan.The average maturity was 5.3 years. The long average maturity was achieved by issuing 15–20 year transactions in NOK and SEK and a NZD 10-year transaction. The funding cost was very favourable, and after financial swaps one of the lowest in the Bank's history.

It is the Bank's target to ensure a sufficient level of liquidity to be able to continue disbursing new loans and fulfil all payment obligations for one year forward, without necessitating additional funding. This target was reached in 2011.

Financial results

NIB's net interest income amounted to EUR 228 million, which is broadly in line with the outcome of EUR 234 million in 2010.

The profit for the period amounted to EUR 194 million (2010: 211 million), of which net profit on financial operations accounted for EUR 8 million (2010: 39 million).

The administrative expenses for the period amounted to EUR 33 million. Loan impairment charges (net impairment charges) made during the period amounted to EUR 12 million (2010: 38 million).

The Bank's statement of financial position total at the end of the period was EUR 24 billion (EUR 25 billion 2010). Loans outstanding increased to slightly more than EUR 14 billion.

Risk management

Overall, the quality of the Bank's portfolios remained high in 2011, despite the continued weakness of the economic environment and the problems encountered by some counterparties. The share of the weakest risk classes remained stable during the year. The quality of loans in member countries remained sound. The quality of the loan portfolio in non-member countries was also largely unchanged in 2011. The credit quality of the treasury portfolio improved during the year. As regards both the geographical and sectoral distribution, as well as the degree of concentration in terms of exposure to individual counterparties, the portfolio distribution is fairly unchanged compared to the previous years. At year-end 2011, the member countries accounted for 76% of the lending exposure and 39% of the treasury exposure.

The Bank continued to emphasise follow-up measures on its customers and counterparties during 2011.

Outlook

NIB assumes that the supply of long-term financing will remain constrained due to increased uncertainty in the financial markets. Investment activity will be weak but NIB's customers will face significant refinancing needs. NIB will look at possibilities to support borrowers in the Nordic–Baltic area within its mandate and risk framework. This activity will be facilitated by continued good access to funding.

Lending

(In EUR million unless otherwise specified)	**2011**	2010	2009
Energy	**691**	383	253
Environment	**810**	498	415
Transport, logistics and communication	**770**	216	327
Innovation	**33**	102	139
Financial intermediaries	**211**	308	144
Others	**93**	257	140
Loans agreed, total	**2,608**	**1,763**	**1,417**
Member countries	**2,130**	1,284	1,201
Non-member countries	**478**	479	216
Number of loan agreements, total	**47**	**39**	**40**
Member countries	**37**	28	33
Non-member countries	**10**	11	7
Loans outstanding and guarantees	**14,157**	**13,780**	**13,775**
Member countries	**11,268**	11,019	10,901
Non-member countries	**2,889**	2,761	2,874
Repayments and prepayments	**1,835**	**1,807**	**1,343**

The statistics based on agreed loans includes loan programs which will be allocated to focus sectors only after the amounts have been disbursed.

Financial activities

(In EUR million unless otherwise specified)	**2011**	2010	2009
New debt issues	**2,887**	4,120	4,137
Debts evidenced by certificates at year-end	**18,433**	19,944	17,998
Number of borrowing transactions	**43**	65	71
Number of borrowing currencies	**11**	11	10

Proposal by the Board of Directors to the Board of Governors

The Board of Directors' proposal with regard to the financial results for the year 2011 takes into account the need to keep the Bank's ratio of equity to total assets at a secure level, which is a prerequisite for maintaining the Bank's high creditworthiness.

In accordance with section 11 of the Statutes of the Bank, the profit for 2011
of EUR 194,036,624.80 is to be allocated as follows:

- EUR 194,036,624.80 is transferred to the General Credit Risk Fund as a part of equity;
- no transfer is made to the Special Credit Risk Fund for Project Investment Loans;
- no transfer is made to the Statutory Reserve. The Statutory Reserve amounts to
- EUR 683,685,337.72 or 11.1% of the Bank's authorised capital stock as of 31 December 2011; and
- no dividends be made available to the Bank's member countries.

Read more in the statement of comprehensive income, statement of financial position, changes in equity and cash flow statement, as well as in the notes to the financial statements.

Helsinki, 1 March 2012

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Rolandas Kriščiūnas

Madis Üürike

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Þorsteinn Þorsteinsson

Kaspars Āboliņš

Heidi Heggenes

Erik Åsbrink

Johnny Åkerholm
President and CEO

Landsvirkjun, Iceland

In March 2011, a USD 70 million (EUR 52.5 million) loan was provided to Icelandic Landsvirkjun for the financing of a new hydropower project in Budarhals in southern Iceland. The new hydropower plant will have the capacity to produce 585 GWh of electric power annually.

Photo: Bragi Josefsson

Loans agreed 2011

Borrower	Project	Sector
Danish Crown A/S (Denmark)	Investments into fire prevention programmes in Danish Crown's factories, as well as an upgrade of the company's meat processing factory in Blans, Denmark.	**Manufacturing and mining**
YIT Oyj (Finland)	Acquisition of German Caverion Gmbh, which offers building maintenance and operation services in central Europe.	**Services and other**
The Bank of Greenland (Denmark)	Loan programme to finance the Bank of Greenland's environmental loan facility for energy efficiency measures in private households.	**Environment, Energy**
Nedbank Limited (South Africa)	Onlending for infrastructure and energy projects with an environmental benefit in southern Africa.	**Environment, Transport, logistics and communications**
Landsvirkjun (Iceland)	Construction of a new hydropower plant in southern Iceland.	**Energy**
Skanska Financial Services AB (Sweden)	Investments in office buildings, built according to the Leadership in Energy and Environmental Design (LEED) and EU GreenBuilding certifications.	**Environment, Energy**
Infrastructure Development Finance Company Ltd (India)	Onlending to infrastructure projects that comply with NIB's mandate.	**Transport, logistics and communications**
Gabrielsberget Syd Vind AB (Sweden)	Wind farm project with a total capacity of 46 MW in the province of Västerbotten in northern Sweden.	**Environment, Energy**
Neste Oil Corporation (Finland)	R&D projects aimed at extending the range of raw materials that Neste Oil uses for the production of renewable diesel.	**Environment, Innovation, Energy**
Aircel Limited (India)	Development of 3G mobile communications and broadband wireless access networks in India.	**Transport, logistics and communications**
Länsimetro Oy (Finland)	Financing the building of the metro line from Helsinki to Espoo.	**Environment, Transport, logistics and communications**
Fortum Oyj (Finland)	Construction of a waste-fuelled combined heat and power plant in Klaipeda, Lithuania.	**Energy, Environment**
Skandinaviska Enskilda Banken AB (Sweden)	Investment loan for financing part of the purchase price of 18 trains to be leased to Swedish rail company AB Transitio.	**Environment, Transport, logistics and communications**
VTB Bank (Russia)	Onlending to projects primarily within the sectors of energy efficiency, transport and logistics with the emphasis on projects located in Northwest Russia.	**Financial intermediary**
Gabrielsberget Nord Vind AB (Sweden)	Wind farm project with a total capacity of 46 MW in the province of Västerbotten in northern Sweden.	**Environment, Energy**

Borrower	Project	Sector
Bank Ochrony Srodowiska (Poland)	Environmental loan programme for projects promoting renewable energy solutions, energy-efficiency measures and wastewater treatment systems.	**Environment, Energy**
Turun Seudun Vesi Oy (Finland)	Financing an artificial recharge aquifer project for water supply in the Turku region in Finland.	**Transport, logistics and communications**
Black Sea Trade and Development Bank (International)	Onlending to projects that mostly serve the purpose of reducing greenhouse gas emissions in the BSTDB's member countries.	**Environment, Energy, Transport, logistics and communications, Financial intermediary**
SEB Leasing Oy (Finland)	Acquisition of construction equipment to be leased to Porvoon Energia Oy for a combined heat and power plant in south-east Finland.	**Environment, Energy**
The University of Helsinki Funds (Finland)	Financing of Finland's largest academic library in Helsinki city centre.	**Environment, Innovation**
Pohjola Bank plc (Finland)	Onlending to housing companies, SMEs and large corporations for projects in the areas of energy efficiency and wastewater treatment.	**Environment, Energy**
Oulun Energia Oy (Finland)	Acquisition of equipment to be leased from SEB Leasing Oy for the construction of a new waste incineration plant.	**Environment**
Lantmännen ekonomisk förening (Sweden)	Financing for increased production at an ethyl alcohol plant in Norrköping in order to meet the growing demand for ethanol as a replacement for gasoline.	**Environment, Energy**
Nortura SA (Norway)	Construction of a new slaughterhouse in central Norway, which will replace older slaughterhouses and help reduce energy and water consumption.	**Environment**
SEB Leasing Oy (Finland)	Financing the acquisition of equipment to be leased to Turun Seudun Vesi Oy for an artificial recharge aquifer project in the Turku region in Finland.	**Transport, logistics and communications**
Gazprombank (Open Joint-stock Company) (Russia)	Onlending to energy-efficiency projects in Russia.	**Environment, Energy, Financial intermediary**
Bonnier AB (Sweden)	Investments in new and modern newsprint machinery for Bonnier Group's printing plant near Stockholm.	**Environment**
YES Bank Limited (India)	Loan programme for financing projects within various sectors fulfilling NIB's mandate.	**Financial intermediary**
Cargotec Corporation (Finland)	Acquisition of terminal operating system provider Navis.	**Transport, logistics and communications**

Borrower	Project	Sector
Akershus Energi AS (Norway)	Upgrade of two hydroelectrical power plants and one district heating plant in Akershus county.	**Environment, Energy**
DONG Energy A/S (Denmark)	Financing the construction of the Anholt offshore wind farm in Denmark.	**Environment, Energy**
City of Vilnius (Lithuania)	Municipal investment programme, including road building projects, energy efficiency and municipal transport fleet renewal projects.	**Environment, Energy, Transport, logistics and communications**
Sparebanken Vest AS (Norway)	Loan programme to finance the construction of new hydropower projects and the upgrading of existing hydropower plants.	**Environment, Energy**
Avinor AS (Norway)	Construction of the new Terminal 2 at Oslo Airport Gardermoen.	**Transport, logistics and communications**
Statnett SF (Norway)	Construction of a new subsea cable, Skagerrak 4, between Norway and Denmark and an upgrade of the existing subsea cable crossing the Oslofjord.	**Environment, Energy**
Inter-American Investment Corporation (International)	Loan programme for financing projects of mutual interest complying with NIB's mandate.	**Environment, Energy**
Municipality of Gävle (Sweden)	Financing of infrastructure projects in the Port of Gävle.	**Transport, logistics and communications**
Tieyhtiö Valtatie 7 Oy (Finland)	Financing the E18 Koskenkylä–Kotka Motorway PPP project.	**Transport, logistics and communications**
Fingrid Oyj (Finland)	Construction of a 170-kilometre electricity interconnection between Estonia and Finland, Estlink-2.	**Energy**
Power Grid Corporation of India Ltd. (India)	Construction of a 1,900-kilometre high-voltage direct current (HVDC) bi-pole line and HVDC terminals through transfer from hydropower stations in northeast India to the areas of the country experiencing a power deficit, in particular the northern and western regions.	**Energy**
Thy-Mors Energi Elnet A/S (Denmark)	Investments in the electricity distribution network to improve operating security.	**Energy**
Østfold Energi (Norway)	Financing investments in renewable energy production such as wind energy, hydropower and district heating.	**Environment, Energy**
Elisa Corporation (Finland)	Expansion of 3G broadband networks in smaller towns and rural areas of Finland.	**Transport, logistics and communications**

The list is in chronological order.

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