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NIB RESPONSE BOND FRAMEWORK

Framework for undertaking of NIB Response Bond issuance - the underlying rationale and methodology for loan selection, and the governance of bond issuance, proceeds management and reporting.

Version 1.0 30 March 2020

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Background for issuing Response Bonds

The Nordic Investment Bank [“NIB” or “the Bank”] is an International Financial Institution, located in Helsinki, Finland. The Bank was established by the five Nordic countries in 1975 to overcome investment barriers and attract commercial lending.

In 2005, the three Baltic countries joined NIB on equal footing with the original members. NIB’s mission is to finance projects that improve productivity and benefit the environment of the Nordic and Baltic countries. NIB provides sustainable, long-term financing to customers in both the private and public sectors on market terms to complement commercial lending.

The Bank offers corporate and sovereign loans, loans to municipalities, loans to public-private partnerships, loan programmes, investments in green bonds, project & structure finance and lending outside the member countries.

In extraordinary times, extraordinary efforts are needed

NIB can also have a stabilising role during economic crises. [As called upon by our Nordic and Baltic owner countries](#), NIB loans will be made available to member countries and sustainable businesses, which are facing economic consequences due to the coronavirus COVID-19 pandemic.

The NIB Response Bonds will finance eligible projects that aim to alleviate the social and economic consequences of the pandemic in the Bank’s member countries and eventually support the recovery process of the countries.

This document lays the framework for the issuance of NIB Response Bonds, including disclosure on the Project Selection Process, Use of Proceeds, Management of Proceeds, and Reporting. The bonds issued under this framework fulfil a short-term real economy crisis mitigation response and target a broad population group. The framework has not obtained a Second Party Opinion. Despite playing an important role in societies’ response to the crisis, the framework should not be considered compliant with the Social Bond Principles.

The bonds issued under this framework are funding loan transactions, the proceeds of which are used for selected, eligible loans to be financed by NIB, and the bonds follow all financial, risk and liquidity policies and guidance under which the Bank normal operates.

1 Process for Project Evaluation and Selection

NIB's owners have invited the Bank to support its member countries in this crisis, not only during the pandemic, but also in the recovery process. NIB will increase its lending to such effect, and NIB Response Bonds are dedicated to finance such loans. Eligible loans will mainly promote the efficient operation of healthcare systems as well as financial support and labour market solutions to alleviate the social consequences and frictions the pandemic generates to supply chains.

NIB's Sustainability & Mandate unit's (SUM) standard assessment for new projects focuses on evaluating the extent to which a project considered for financing contributes to strengthening the member countries' productivity and benefits the environment.

For loans allocated under the NIB Response Bond framework, SUM will not conduct the standard assessment. Instead, SUM will ensure that loans eligible for funding by the NIB Response Bonds are used to finance projects aimed at alleviating negative socio-economic consequences of the COVID-19 pandemic in NIB's member countries. Effectively, the project evaluation and selection will be conducted with a focus on COVID-19 mitigation drivers.

All loan proposals are as part of the regular credit process taken to the Credit Committee, which is responsible for approving recommended NIB Response loans as being eligible.

2 Target Group

NIB Response Bonds aim to alleviate the social and economic consequences of the pandemic in the Bank's member countries and eventually support the recovery process of the countries.

Loans financed by NIB Response Bonds should support the provision of products and services contributing to health conditions and maintaining living standard for groups challenged by the COVID-19 virus. Loans will benefit people of all ages and socioeconomic groups in the member countries, such as by preventing unemployment and sickness as well as by supporting child- and elderly care.

3 Use of Proceeds

The proceeds of NIB Response Bonds will be used for financing eligible projects in the following categories:

1) Lending to public sector

- a. Financing of temporary and permanent measures to increase capacity in healthcare services
- b. Financing of a temporary increase in social security expenditures, including, but not limited to, unemployment, sickness, child- and elderly care benefits
- c. Financing of government or government-related institutions' expenditures aimed at supporting member country companies in temporary need of subsidisation due to supply or demand side disruptions in their operations in order to protect viable companies

2) Lending to financial sector

- a. Financing of financial institutions' extraordinary measures to provide funding for small and medium-sizes enterprises and mid-cap corporates that are negatively affected by the pandemic

3) Lending to real economy sector

- a. Financing of large companies in the medical equipment and healthcare sector facing an increasing demand for equipment or services related to the pandemic
- b. Financing of companies in the infrastructure sector that are in need of funding due to supply or demand side disruptions in their operations

In addition to the eligible categories listed above, the following general criteria for loan identification and selection apply:

- That the proceeds are used to finance projects in NIB's member countries
- That the loan is not used for activities on NIB's Exclusion List¹
- That NIB has access to reliable data for reporting on allocation of proceeds and impact to the extent possible

¹ Exclusion list can be found in [NIB's Sustainability Policy and Guidelines](#)

3.1 Compliance

Evaluation of the compliance of the loans with these criteria before disbursement is of great importance, not least in order to reduce reputational risks. Therefore, NIB will request insight into available reporting from authorities, and will only consider projects that have acceptable follow-up reporting on their performance with regard to above criteria.

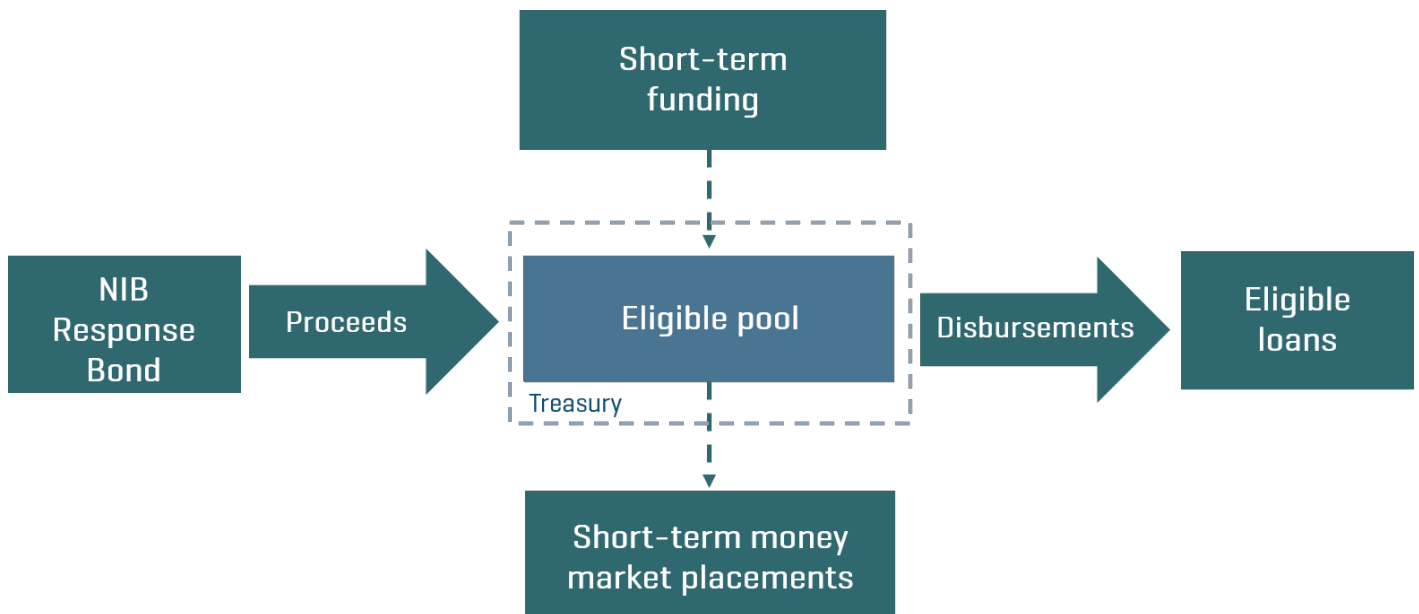
3.2 Legal

NIB Response Bonds can be issued under any of NIB's debt issuance programs or as standalone issues. The offering materials for issuances of NIB Response Bonds will indicate that the proceeds are to be used for financing selected loans, which are considered eligible in accordance with criteria set out in this framework. NIB Response Bonds will constitute direct and unsecured obligations of NIB ranking pari passu without any preference among themselves and equally with all other unsecured indebtedness (other than subordinated indebtedness) of NIB from time to time outstanding.

4 Management of proceeds

Separation of flow of funds of NIB Response Bonds and use of proceeds from NIB's general funding is a fundamental principle. Therefore, monitoring and documentation of flow of funds from the NIB Response Bonds to disbursement is important.

Bond proceeds are allocated to a separate portfolio. Mismatches in the timeliness of funding and disbursements are managed within NIB's short-term asset and liability management according to NIB's liquidity policy. Ultimately, however, a straight link between proceeds and disbursements to eligible loan is established.



As per the above illustration, NIB issues NIB Response Bonds and channels the proceeds to a separate Pool until loans are disbursed to eligible projects.

4.1 Funding profile

The net proceeds of NIB Response Bonds or an amount equal to these net proceeds will be used for eligible loans. Ideally, the size and maturity of a NIB Response Bonds corresponds to those of the loans receiving the proceeds; mismatches are, however, expected to occur, and are managed by Treasury.

4.2 Re-financing

Should the NIB Response Bonds have a shorter maturity than the associated eligible loans, NIB has the possibility to either again assign funds from additional NIB Response Bonds or to refinance out of the Bank's general liquidity pool.

4.3 Increases and buy-backs

NIB Response Bonds can be increased, as long as proceeds are used for financing eligible loans. Partial or whole buy-backs of NIB Response Bonds are possible to support NIB's funding programme. Buybacks can also be financed from the Bank's general liquidity.

4.4 Coupon payments

Coupon payments of NIB Response Bonds are not directly linked to any associated Response Bond-loan interest payments, as the interest payment periods, cash flow distribution and maturities may not match. Thus, coupons are paid out of the general liquidity pool at NIB's sole discretion.

4.5 Redemption

Since there can be mismatches in timeliness between financed loans and NIB Response Bonds and there is no credit link between bond and loan, the final redemption payment of a NIB Response Bonds is not necessarily sourced from cash flows out of the loan, but can be financed out of NIB's general liquidity pool.

4.6 Liquidity warehousing

For liquidity warehousing purposes, the NIB Response Bonds proceeds can be pooled and are invested in accordance with NIB's liquidity policy. Warehousing currencies can be EUR, USD and the Nordic currencies.

NIB monitors and documents nominal amounts, calculated in EUR, when accounting for NIB Response Bonds proceeds and disbursements.

Interest paid or received under bonds, loans and warehousing will be excluded from the calculation and monitoring for the reasons mentioned in sections 4.4 and 4.5.

4.7 Loan repayment

If a loan is repaid early, the proceeds will either go back into NIB Response Bonds pool to be reused for eligible loans, or become part of the Bank's general liquidity pool.

4.8 Proceeds exceeding eligible expenditures

Should the proceeds from the NIB Response Bonds exceed the Bank's lending to finance eligible expenditures specified in section 3 "Use of Proceeds", the Bank commits to use the remaining funds to finance healthcare projects that meet the criteria specified in NIB's Mandate Rating Framework.

5 Project monitoring and Reporting

The assessment of the eligibility of the proposed projects is conducted ex-ante according to eligibility criteria set out in section 3 “Use of Proceeds”. The selection process also involves setting monitoring indicators. The proceeds are to be used in compliance with the exclusion list in [NIB’s Sustainability Policy and Guidelines](#), and provisions entitling NIB to monitor projects are incorporated into the loan agreement. The Bank expects clients to comply with the provisions in the loan agreements regarding information on the use of proceeds and the predefined indicators.

Upon completion of financed projects and activities, NIB commits to follow up on the allocation of funds across eligible categories and assess COVID-19 mitigation impact outcomes. Reporting will be made available publicly and on an annual basis. If during the follow up, SUM observes that a loan has not fulfilled the initial intention of the funds and eligibility criteria, the unit will bring this to the attention of the Bank’s Credit Committee. The Credit Committee’s responsibility is to approve any recommendations, including removing a specific loan from the eligible pool of loans.

NIB uses qualitative and quantitative performance indicators whenever feasible and discloses the key underlying methodology used.

Examples of performance indicators that may be part of the reporting:

Lending to public sector

- Increase capacity in healthcare services
- Number of individuals reached with healthcare

Lending to financial sector

- Loans to micro enterprises and/or SMEs [value and number of loans]
- Number of employments maintained

Lending to real economy sector

- Medical equipment and healthcare benefits [units]
- Number of important infrastructure operations maintained and people served

6 Credit rating

Payment of the principal of and interest on NIB Response Bonds is made solely on the credit standing of NIB as a single institution, and is not directly linked to the performance of the projects that receive the proceeds. Consequently, the bonds are expected to carry the same credit ratings as all other outstanding bonds issued by NIB.



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