

*Adopted by the Board of Directors of the Nordic Investment Bank
on 8 December 2022 with entry into force as of 15 December 2022.*

LIQUIDITY POLICY



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Introduction

This document sets out the policy of the Nordic Investment Bank (“the Bank” or “NIB”) towards managing liquidity. The Policy defines the Bank’s objectives for managing liquidity risk, sets conditions for the calculation of the minimum size of the Liquidity Buffer¹ and the funding needed to support an adequate Liquidity Buffer.

In the preparation of the Liquidity Policy, the Bank has taken note of the recommendations given by:

- the Basel Committee on Banking Supervision;
- the Capital Requirements Directive (CRD 4) and Capital Requirements Regulation (CRR) of the European Union;
- ratings agencies’ methodologies for rating supranational organisations.

The Policy shall be seen in conjunction with the Bank’s Financial Policies, which set out the counterparty and market risk limit framework for the Treasury operations.

The Policy is composed as follows. Section 1 provides an overview of NIB’s business model from the viewpoint of liquidity management. Section 2 specifies NIB’s governance related to liquidity management, Section 3 defines liquidity risk and Section 4 defines the Bank’s liquidity risk tolerance. Section 5 describes the Bank’s stress testing approach for measuring liquidity risk and Section 6 describes NIB’s practices for managing liquidity risk. Section 7 specifies the procedures for the activation of the contingency plan, and Section 8 describes requirements for liquidity risk reporting.

1 The Bank’s business model

NIB finances projects that enhance competitiveness and the environment of the Nordic and Baltic countries. The Bank provides long-term loans and guarantees on market based conditions to both private and public entities.

NIB finances its activities by issuing bonds on the international capital markets and through equity. The Bank issues debt globally and has established long-term and short-term borrowing programs in several jurisdictions. The funding base is diversified across currencies, maturities and geographic areas. For the time being, NIB’s bonds enjoy the highest possible credit rating from Standard and Poor’s and Moody’s. The Bank is not allowed to take deposits from the public.

NIB provides long-term loans in multiple currencies. The Bank protects itself against foreign exchange rate risks by using derivatives. Derivatives are also actively used to reduce interest rate risk exposures.

As a rule, NIB enters into International Swaps and Derivatives Association (“ISDA”) contracts with swap counterparties. This provides for a netting of the obligations arising under all of the derivative contracts covered by the ISDA agreement in case of insolvency and, thus, results in a single net claim on, or payable to, the counterparty. To further reduce the credit risk associated with its derivatives exposure, NIB enters into Credit Support Agreements (CSA). This provides risk mitigation, as the swap transactions are regularly marked to market and exposures exceeding agreed thresholds are collateralised. NIB may be required to post collateral to counterparties with whom the Bank has established bilateral CSA agreements.

¹ The *Liquidity Buffer* consists of cash, unencumbered bonds and money market securities as well as deposits.

The Bank's equity consists of paid-in capital from the shareholders and retained earnings. NIB's owners have also provided sizeable callable capital. The Board of Directors can call on the callable capital to the extent it is deemed necessary for the fulfilment of the Bank's debt obligations. All authorised capital is denominated in EUR.

The Bank's business model entails liquidity risk mainly through maturity mismatches between the Bank's assets (loans and Treasury's investments) and liabilities (funding and equity). To mitigate the liquidity risk, the Bank maintains a Liquidity Buffer. In addition to risk mitigation, the objective of the Liquidity Buffer is to generate stable earnings for the Bank.

2 Liquidity risk governance

The Policy is approved by the Board of Directors and regularly reviewed to ensure that it is aligned with the Bank's business plan, economic and financial position or any other significant changes which affect the Bank. The Board of Directors receives regular reports on the liquidity and funding situation of the Bank.

The President ensures that the Policy is effectively implemented and is responsible for establishing prudent liquidity risk management and risk control procedures.

The Bank has formulated a contingency plan which will be activated in case the Bank's liquidity situation is no longer satisfactory. The President will inform the Board about the activation of the contingency plan.

The President is authorised to approve the stress testing methodology in accordance with requirements set out in Section 0.

3 Liquidity risk

Liquidity risk is defined as the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due. Liquidity risk is categorised into two risk types:

- *Funding liquidity risk* appears when the Bank cannot fulfil its payment obligations because of an inability to obtain new funding.
- *Market liquidity risk* appears when the Bank is unable to sell or transform its Liquidity Buffer into cash without significant losses

4 Liquidity risk tolerance

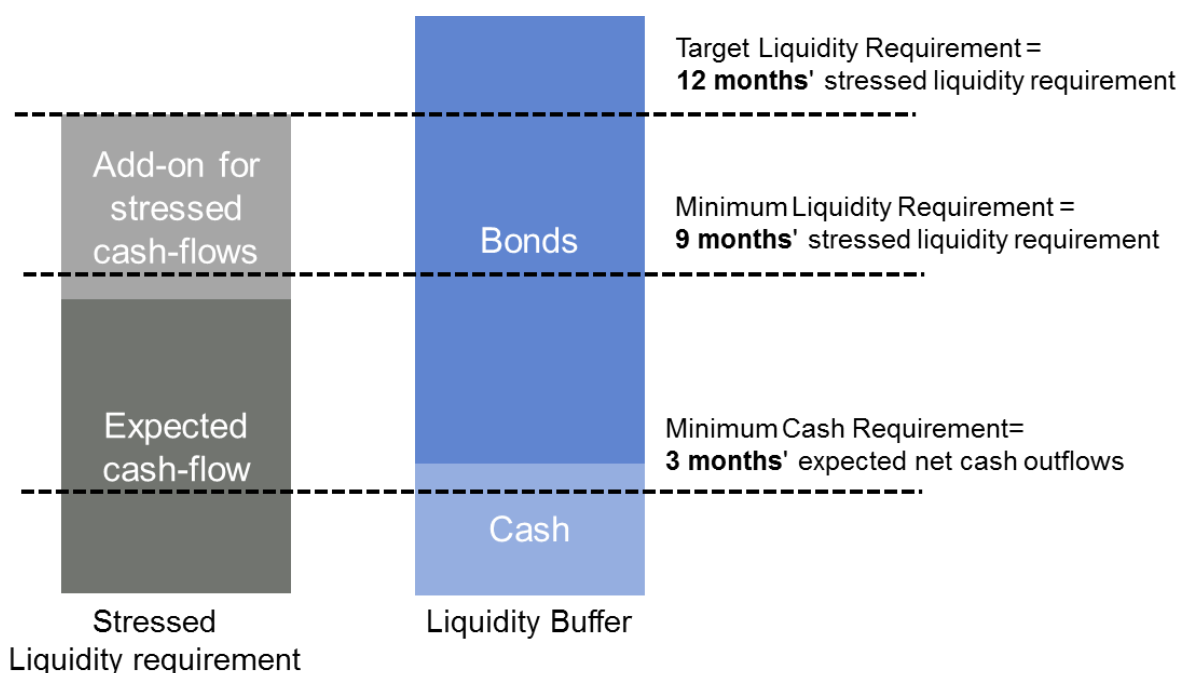
The key metric NIB uses to measure and limit liquidity risk is the *survival horizon*. The survival horizon measures the time the Bank is able to fulfil all its payment obligations stemming from ongoing business operations under a severe stress scenario.

The Bank's target survival horizon is twelve months and the survival horizon shall always exceed nine months.

The Bank uses stress testing to calculate the liquidity requirements corresponding to different survival horizons. Figure 1 illustrates the relationship between the Bank's Liquidity Buffer and the stressed liquidity requirements corresponding to a survival horizon of nine months (*Minimum Liquidity Requirement*) and to a survival horizon of 12 months (*Target Liquidity Requirement*). When the size of the Liquidity Buffer equals the Target Liquidity Requirement, the Bank is able to fulfil all its payment obligations and continue its business operations without disruptions for the forthcoming twelve months under a stress scenario as described in Section 0.

To secure the fulfilment of short-term payment obligations, such as borrowing repayments and new loan disbursements, it is required that the forthcoming three months' expected net cash outflows can be met with maturing investments from the Liquidity Buffer.

Figure 1. Stressed liquidity requirements and the size of the Liquidity Buffer



In addition, the Bank's liquidity position should be strong enough to:

- support and secure the highest possible credit rating from Standard and Poor's and Moody's;
- fulfil the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements as specified in the Capital Requirements Regulation of the European Union.

5 Measuring liquidity risk

5.1 Stress testing

Stress testing is based on the Bank's expected cash in- and outflows during the twelve-month horizon. The Target Liquidity Requirement is then calculated by applying the stress scenario on the expected cash in- and outflows and the Liquidity Buffer. The stress test captures both market-wide and idiosyncratic risk effects.

5.2 Specification of the stress scenario

The stress scenario is defined by specifying the shock assumptions for cash in- and outflows as follows

Existing loan portfolio and disbursements of new loans

The stress scenario assumes a rapid deterioration of the economic environment, causing disruptions in the expected cash inflows from the Bank's loan portfolio. It is assumed that all loans are paid back at their final maturities (no prepayments). In addition, the scenario captures elevated repayment risk from low-rated counterparties and credit concentration risk related to expected repayments from large counterparties. The demand for new lending transactions is expected to remain at the planned level.

Funding redemptions and new funding transactions

The wholesale funding market is assumed to become completely inaccessible for new funding transactions and all callable funding transactions are assumed to be terminated at the earliest possible date.

Valuation of the derivatives portfolio and contingent collateral requirements

Adverse changes in the level of foreign exchange rates and interest rates lead to an increase in the collateral requirements for the Bank's derivative transactions. As an additional idiosyncratic stress effect, the Bank's credit rating is assumed to deteriorate, resulting in additional collateral requirements.

Assets held in the Bank's Liquidity Buffer

Valuation haircuts for the assets held in the Bank's Liquidity Buffer are calculated based on a steep increase in the level of credit spreads.

Other cash flows

Remaining cash flows are assumed to be received or paid out according to their contractual specifications.

6 Management of liquidity risk

To mitigate the *funding liquidity risk*, the Bank has established a high-quality Liquidity Buffer which can be used to meet payment obligations while continuing normal banking activities without obtaining new funding. The Bank additionally ensures that its funding is diversified and that the maturity profile does not create significant gaps.

The *market liquidity risk* is mitigated by having a Liquidity Buffer consisting of high-quality financial assets that under stressed market conditions maintain its market value. The Bank has at present no direct access to central bank repo facilities.

6.1 Liquidity Buffer

As already mentioned, the *Liquidity Buffer* consists of cash, unencumbered bonds and money market securities as well as deposits.

The Liquidity Buffer is mainly invested in EUR, USD and the Nordic currencies. In addition, other currencies will be used if it is deemed necessary for fulfilling upcoming payment obligations.

The Bank shall be able to fulfil the expected net cash outflows of the forthcoming three months with maturing investments from the Liquidity Buffer.

These investments are mainly short-term money market investments and accounts deposited in high-rated banks, reverse repos with high-rated, fixed-income instruments received as collateral, and fixed-income instruments with shorter maturity than three months.

The rest of the Liquidity Buffer can be invested in fixed-income instruments such as government bonds, public sector bonds, covered bonds, mortgage bonds and senior unsecured bonds issued by financial institutions (banks).

6.1.1 Asset quality

All investments in the Liquidity Buffer are limited by the market risk and credit risk frameworks set out in the Bank's Financial Policies. To ensure that the buffer maintains its market value and liquidity under severe market conditions, the following limits have been set to control the asset quality of the Liquidity Buffer.

- A minimum limit for the proportion of High Quality Liquid Assets².
- A minimum limit for the proportion of assets eligible as repo collateral in one or several Central Banks.
- A minimum limit for the proportion of assets belonging to the EL1 to EL4 rating categories.³

These limits are defined in an Appendix to the Financial Policies and approved by the Board of Directors.

To ensure adequate diversification of the investments across countries, the Bank has set country limits for maximum exposure the Treasury can have in individual countries. Besides these limits, the Treasury has internal guidelines ensuring that bond investments are marked to market on a daily basis and regarding minimum issue sizes of new bond issues.

6.2 Funding

6.2.1 Funding strategy

The Bank raises funds in different currencies, instruments, maturities and geographic markets. Overreliance on a single or very few investors or markets will be avoided.

NIB acts as a regular benchmark issuer with the aim of securing stable and broad market access to ensure that investors maintain credit lines available for new investments. If possible, the Bank

² Criteria for High Quality Liquid Assets are defined in the capital requirement regulation of the European Union.

³ Internal Rating Categories EL 1 – EL 4 correspondent to S&P ratings AAA–AA and Moody's Aaa–Aa3

will aim to establish a yield curve with several outstanding issues in selected markets to create liquidity and more investor demand. Both public issues and private placements are complementary and diverse funding sources for the Bank. Furthermore, the Bank aims to ensure access to short-term funding by regularly issuing short-term debt.

The Bank takes no foreign exchange rate risks on new funding transactions. New funding transactions are mainly swapped to EUR, USD or the Nordic kroners — SEK, NOK and DKK — if proceeds are not used directly to fund disbursements of new loans.

The maturity profile of new funding should not create any significant gaps between the Bank's loan maturity profile and the borrowing.

In accordance with the target of a twelve-month survival horizon, the Bank's funding plan is based on the projected Target Liquidity Requirement and the size of the Liquidity Buffer. The funding plan is updated regularly throughout the year to reflect changes in the size of the Target Liquidity Requirement.

6.2.2 Funding authorisation

On a yearly basis the Bank provides the Board of Directors with a suggestion for the funding authorisation for the coming calendar year. The Board of Directors authorises the President of the Bank to raise funds up to a specified limit for the upcoming year. The President transfers the funding authorisation to the Head of Treasury.

7 Contingency plan

The Bank has defined an internal contingency plan in order to define relevant actions and responsibilities should the bank encounter a serious liquidity crisis. The activation of the contingency plan should be considered if the survival horizon drops below nine months, there is a crisis situation of a bank-specific nature or a significant general market disruption occurs.

The Head of Treasury informs the President and the Executive Committee about the funding and liquidity situation. The President decides on the activation of the contingency plan and subsequently informs the Board of Directors.

8 Reporting

The Board of Directors receives reporting on the Bank's liquidity and funding situation in all its regular meetings.

The reporting contains information about:

- the survival horizon and information on the results of stress testing;
- market and counterparty risks embedded in the Liquidity Buffer;
- the size, asset composition and performance of the Liquidity Buffer;
- the development of market prices of selected outstanding of NIB's bonds;
- investor, currency, maturity and instrument distribution of new funding.

Furthermore, reporting on the liquidity and funding position are done in all Asset, Liability and Risk committee meetings.