Nordic Investment Bank

ANNUAL REPORT 2008

NORDIC INVESTMENT BANK

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Foreword

The Nordic Investment Bank is an international financial institution, owned by eight member countries: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. NIB grants long-term financing in and outside the member countries.

During the Bank's 33rd year of operations, NIB participated in the financing of 53 new investment projects around the world. All of the new loans are listed on pages 28–30. In addition, some of the projects are described in greater detail on the interleaves between the chapters or as case examples in the Mission and Lending chapters.

Photo: Dong Energy

CASE

Where the wind blows

Danish DONG Energy is building the world's largest offshore wind turbine park, Horns Rev II. The park is situated 40 kilometres off the west coast of Denmark in the North Sea. Read more about the project on page 20.

NIB in brief

The Nordic Investment Bank (NIB) is the common international financial institution of its eight member countries. NIB was established in the mid-1970s by the five Nordic countries—Denmark, Finland, Iceland, Norway and Sweden—to promote their economic growth and cooperation. In 2005, Estonia, Latvia and Lithuania also became members of the Bank. NIB provides long-term loans and guarantees on competitive market terms for both public and private projects in and outside its member countries.

Focal points 2008:

- High demand for NIB loans
- Lending at all-time high
- New environmental facilities BASE and CLEERE in use
- 57 per cent of loans in focus sectors
- New debt issuance amounted to EUR 4,681 million
- Financial crisis affected valuations of treasury portfolio

Mission. NIB promotes the sustainable growth of its member countries by providing long-term complementary financing, based on sound banking principles, to projects that strengthen competitiveness and enhance the environment.

Strategy. NIB promotes competitiveness and supports the environment by providing financing in the form of loans and guarantees for activities in which NIB can add value and complement other financing sources. The Bank has four particular focus areas:

- energy;
- environment;
- transport, logistics and communications;
- innovation.

In addition, NIB finances projects in manufacturing, mining and services. The projects can involve large investments by the corporate sector or investments by small and medium-sized enterprises, targeted in cooperation with financial intermediaries.

While maintaining emphasis on its activities in the member countries, the Bank aims at the continued expansion of financing in the neighbouring region and in other countries where a mutual interest has been identified. NIB carries out this strategy by proactively applying the Bank's relative strengths, which are its:

- status as an international financial institution, which facilitates the financing of cross-border activities and strengthens its capacity to manage risks;
- stability and reliability in good and bad times;
- high credit rating, which emanates from high asset quality, a strong balance sheet and ownership, and enables a stable supply of long-term financing;
- experience in complex financing structures in cooperation with other international financial institutions and public and private sector lenders; and
- professional and highly motivated staff.

NIB's stakeholders. As an international financial institution (IFI), the Bank takes into account the interests of a variety of stakeholders. The figure on next page presents NIB's key stakeholders: customers, investors, financing partners, owners, staff, and groups related to the environment and society. The Bank is committed to maintaining an open dialogue with its stakeholders. Information about the Bank's governance, mission, policies and activities is available on its renewed website, www.nib.int.

NIB's activities. NIB offers long-term loans and guarantees on competitive market terms to its clients in the private

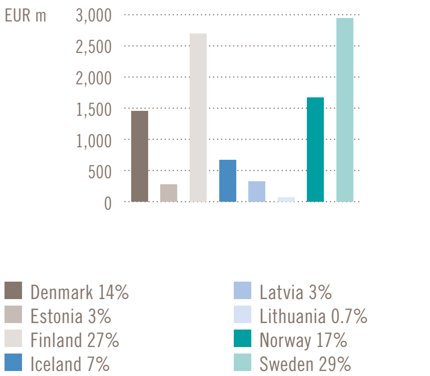
Key figures

(In EUR million unless otherwise specified)	2008	2007
Net interest income	212	187
Core earnings	189	161
Profit/loss	-281	69
Loans disbursed	2,486	2,390
Loan agreements	2,707	2,214
Loans outstanding	13,063	12,291
Guarantee commitments	17	25
New debt issues	4,681	4,288
Debts evidenced by certificates	17,549	15,023
Net liquidity	3,638	4,039
Total assets	22,620	19,973
Equity/total assets (%)	7.6%	10.2%
Number of employees (persons)	170 persons	158 persons

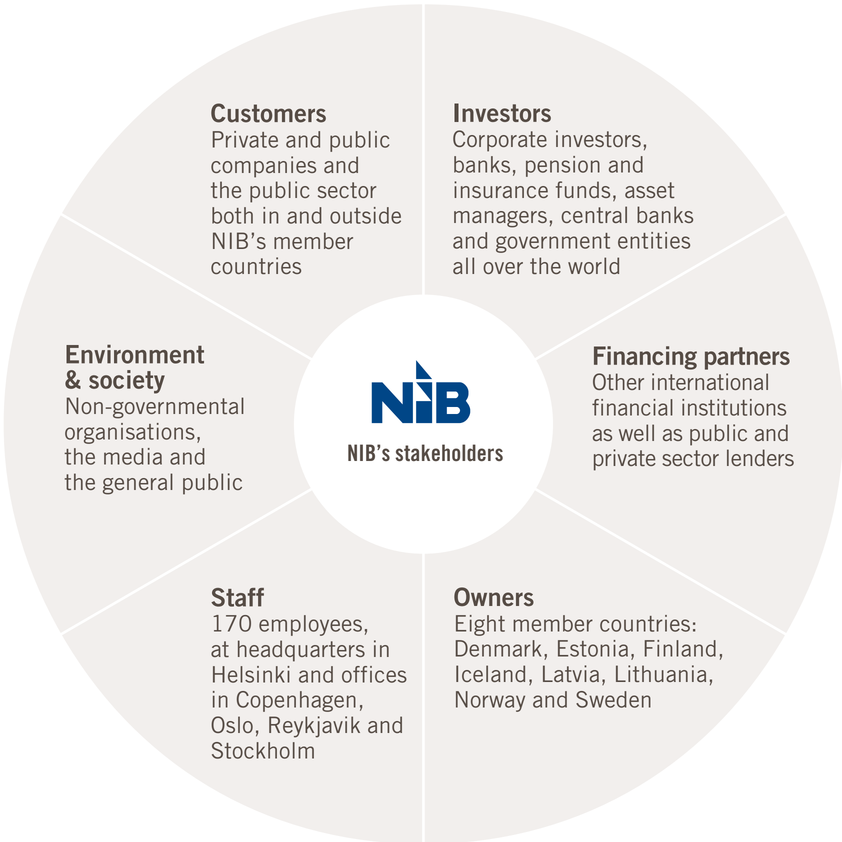
Loans outstanding in member countries

fig. 1

As of 31 Dec 2008



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



and public sectors. NIB operates in accordance with sound banking principles. The operations are governed by an international agreement among the member countries and related statutes.

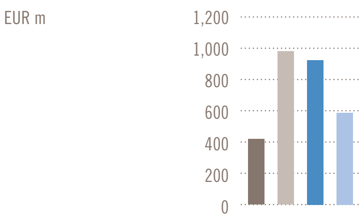
The Bank finances projects both in and outside its member countries. Loans are granted for up to half of the project's total cost.

All projects considered for financing are analysed with regard to their consequences for competitiveness and the environment. In assessing the overall competitiveness impact of a project, the effects that reach beyond the company involved in the project are viewed as even more important than the direct, commercial effects. Projects that score well on the competitiveness scale often belong to one of NIB's focus areas: environment; energy; transport, logistics and communications; and innovation. The Bank considers environmental aspects to include not only ecological but also social dimensions of projects. The sustainable growth perspective looks ahead to ensure that there are resources for growth in the future.

Most of NIB's financing is directed towards its member countries. In 2008, this accounted for approximately 75 per cent of the total lending stock. Outside the member countries, NIB focuses on countries and areas in which it has a good opportunity to fulfil its mandate of enhancing competitiveness and the environment and where it is able to maintain a long-term, continuous presence.

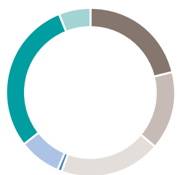
NIB acquires the funds for its lending by borrowing on the international capital markets. NIB's bonds enjoy the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's.

Loans outstanding in non-member countries fig. 2
As of 31 Dec 2008



- Africa and Middle East 14%
- Asia 34%
- Europe and Eurasia 32%
- Latin America 20%

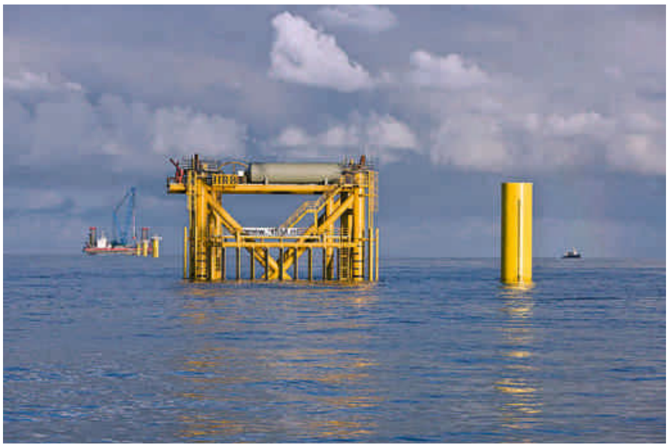
Loans agreed 2008 fig. 3
By focus sectors



- Environment 21%
- Energy 15%
- Transport, logistics and communication 19%
- Innovations 1%
- Financial intermediaries 8%
- Manufacturing and mining 29%
- Services and other 6%

Borrowings outstanding fig. 4
Currency distribution as of 31 Dec 2008

- USD 56%
- JPY 12%
- GBP 11%
- AUD 6%
- EUR 4%
- NZD 3%
- HKD 2%
- NOK 2%
- CAD 1%
- TRY 1%
- TWD 1%
- Other 1%



Photos: Dong Energy, Tallinn Airport and NIB.

Read more about the projects on pages 20 and 37.

NIB and sustainability

NIB is a sustainable lender. The Bank promotes long-term investments that strengthen competitiveness and enhance the environment. Being a sustainable lender also involves promoting corporate responsibility issues, including good governance, to improve the predictability, transparency and accountability of its actions. Promoting these issues is also expected of the Bank's customers and partners.

Taking environmental and social aspects into account is part of good business and leads to sustainable development. NIB believes that this approach enhances the client's competitive advantage and that economic growth and a healthy environment go hand in hand. For example, the Bank invests in its clients' R&D in more energy-efficient techniques, which both reduce the impact on the environment as well as give the company in question a competitive advantage. The Bank also focuses on industrial and infrastructure investments in clean technology and renewable energy. Through the mandate rating process, the impact on competitiveness and the environment is tested for every project the Bank considers for financing.

The impact on competitiveness and the environment is tested through mandate rating

On a regional level, NIB is focusing on environmental issues affecting the Baltic Sea, resulting from air emissions and wastewater discharges. On a global level, NIB sees combating climate change through the reduction of emissions and minimising transboundary pollutants as important issues. In support of this focus, two new environmental lending facilities were introduced during the year, one focusing on the Baltic Sea and the other on climate change mitigation. The facilities have been successful during their first year in operation, which clearly demonstrates the growing demand for sustainable investments in society.

Another important target for the Bank's lending is the SME sector. The Bank reaches projects in this sector through financial intermediaries. This sector is vital in sustainable development and the Bank has also been able to promote female entrepreneurship through this type of financing.

NIB is committed to ensuring that the projects it finances are operated in a manner consistent with the requirements of relevant EU environmental principles, legislation and practices. This is done to support the use of Best Available Techniques (BAT) and to avoid the inefficient use of resources.

The Bank is constantly improving and extending its dialogue with its stakeholders. NIB can reach the general public through its disclosure policy and its environmental policy. The Bank also maintains close cooperation with other IFIs. NIB has, for example, signed the European Principles for the Environment together with other IFIs as well as endorsed their Uniform Framework for Preventing and Combating Fraud and Corruption. NIB has arranged seminars in cooperation with the business community and furthermore established a business advisory group consisting of external professionals to act as a sounding board and discussion platform for new activities.

NIB is also committed to acting as a good corporate citizen. This means constant improvement to achieve best practices in the daily activities of the staff. With a relatively small staff, it is crucial that the Bank has a working environment that attends to the staff's health and well-being and keeps the staff motivated. In addition, the Bank and its staff must follow the internal environmental guidelines and policies and set an example by maintaining the highest ethical standards. The Bank's anti-corruption policy, integrity due diligence process, code of conduct, compensation policy and job satisfaction survey are a few of the policies and actions supporting these efforts.

A visible part of NIB's sustainability work is the Global Reporting Initiative (GRI). In order to improve transparency and accountability, NIB has decided to include GRI's sustainability reporting framework as an integral part of the Bank's annual reporting. This is NIB's second annual report published in accordance with the GRI principles. The GRI index table (pages 43–46) includes information on where in the report the relevant information can be found.

NIB is constantly improving and extending its dialogue with its stakeholders

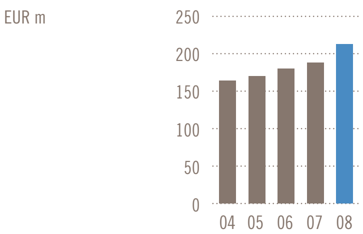
Working towards sustainability calls for flexibility in meeting new challenges. For example, it is important to note that globalisation and climate change will affect different groups and societies, men and women, in different ways. NIB will continue to inform its stakeholders of its activities addressing economic, environmental and social issues, but also its efforts to better understand the risks and opportunities inherent in promoting sustainability and further improve its performance on these issues. In this way, the Bank can better achieve its goals and continue to build on its role as a sustainable lender.

Five-year comparison

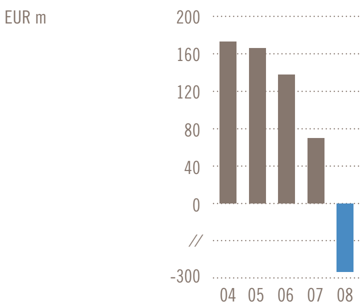
Amounts in EUR million	2008	2007	2006	2005	2004
INCOME STATEMENT					
Net interest income	212	187	179	169	163
Commission income and expense etc.	11	6	7	9	8
General administrative expenses, depreciation and write-downs	-35	-32	-32	-28	-24
Core earnings [1]	**189**	**161**	**154**	**150**	**147**
Adjustments to fair value in trading portfolio	-352	-82	-10	11	20
Impairment of loans	-79	-	-	-	4
Adjustment to hedge accounting	-39	-10	-7	5	2
Profit/loss for the year	**-281**	**69**	**137**	**165**	**172**
BALANCE SHEET					
Assets					
Cash and cash equivalents, placements and debt securities	7,375	6,177	5,268	4,984	4,546
Loans outstanding	13,063	12,291	11,534	11,717	10,279
Intangible and tangible assets	42	44	43	42	42
Accrued interest and other assets	2,141	1,461	1,143	1,435	1,495
Total assets	**22,620**	**19,973**	**17,988**	**18,178**	**16,363**
Liabilities and equity					
Amounts owed to credit institutions and repurchase agreements	1,218	546	620	568	417
Debts evidenced by certificates	17,549	15,023	13,622	14,456	12,355
Accrued interests and other liabilities	2,123	2,367	1,726	1,209	1,811
Paid-in capital	419	419	419	419	404
Statutory Reserve	657	646	645	645	645
Credit risk funds	904	860	773	667	550
Payments to the Bank's Statutory Reserve and credit risk funds, receivable	32	43	43	43	-
Other value adjustments	-	1	4	7	9
Profit/loss for the year	-281	69	137	165	172
Total liabilites and equity	**22,620**	**19,973**	**17,988**	**18,178**	**16,363**
ACTIVITIES					
Disbursements of loans to					
Member countries [2]	1,876	1,761	991	1,574	1,033
Other countries	611	630	614	518	315
Total disbursements of loans	**2,486**	**2,390**	**1,605**	**2,092**	**1,348**
Guarantees issued to					
Member countries [2]	-	-	-	-	-
Other countries	-	-	-	-	-
Total guarantees issued	**-**	**-**	**-**	**-**	**-**
Loans outstanding at year-end					
Member countries [2]	10,142	9,873	9,206	9,501	8,192
Other countries	2,920	2,417	2,328	2,216	2,087
Total loans outstanding	**13,063**	**12,291**	**11,534**	**11,717**	**10,279**
Guarantee commitments at year-end					
Member country guarantees [2]	17	25	25	25	25
Other country guarantees	-	-	-	-	-
Total guarantee commitments	**17**	**25**	**25**	**25**	**25**
New debt issues (including capitalisations)	4,681	4,288	2,689	2,059	1,808
Number of staff (at year-end)	170	158	160	150	147

1) Core earnings consist of the profit before adjustments to hedge accounting, fair value adjustments made to the trading portfolio and impairment of loans and reversals of these.
2) Estonia, Latvia and Lithuania became members of the Bank on 1 January 2005. As from that date, they are included in the figures for the member countries.

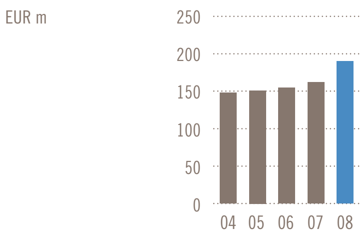
Net interest income fig. 5



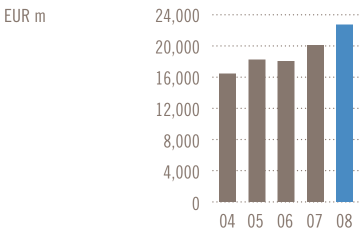
Profit/loss fig. 6



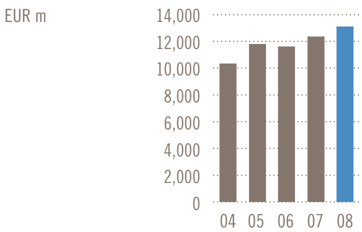
Core earnings [1] fig. 7



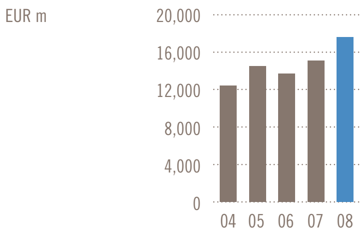
Total assets fig. 8



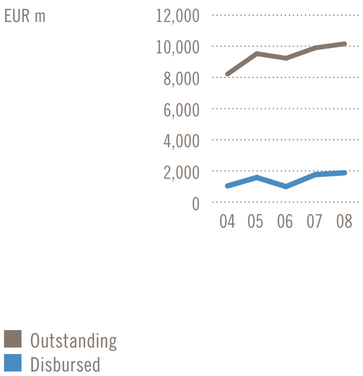
Loans outstanding fig. 9



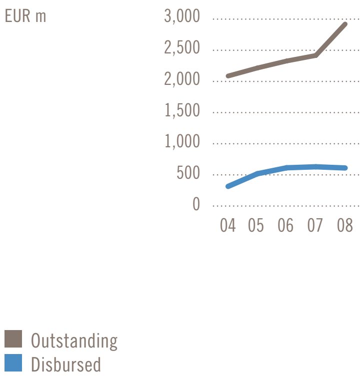
Borrowings outstanding fig. 10



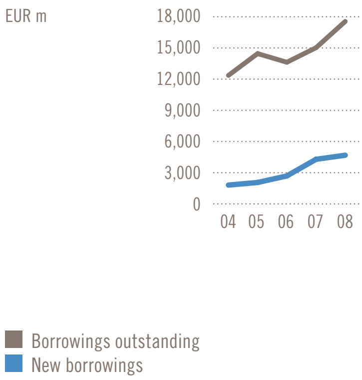
Loans in member countries fig. 11



Loans in non-member countries fig. 12

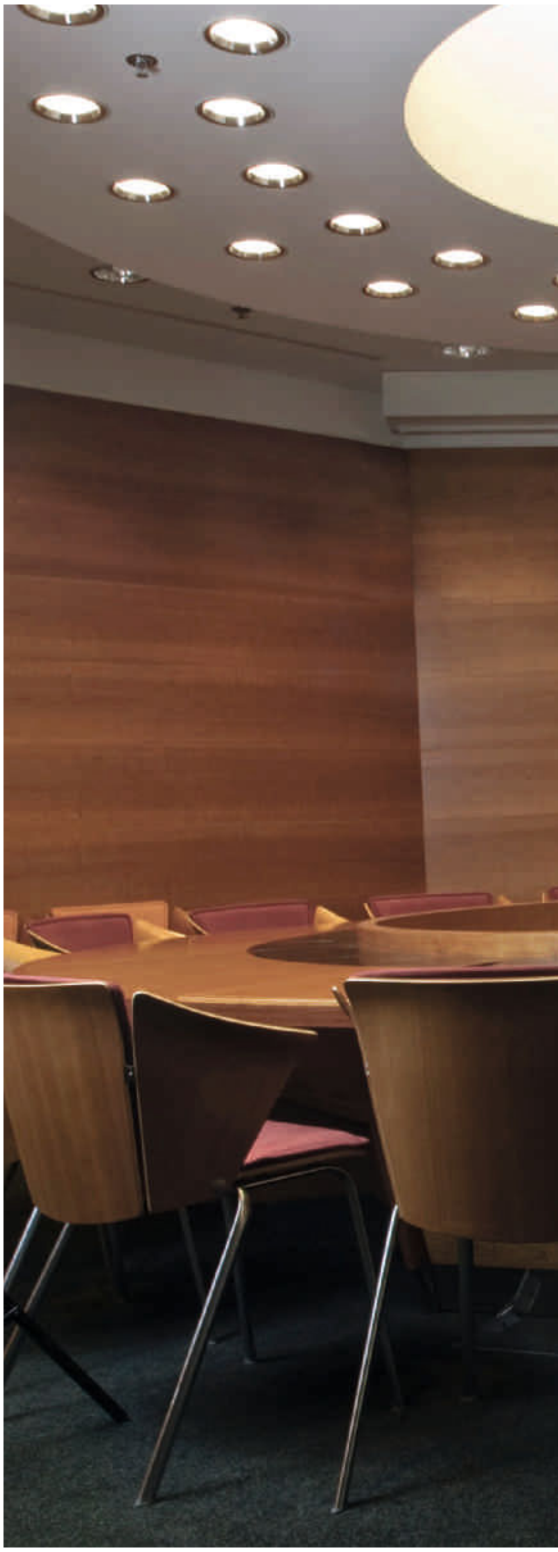


Borrowings fig. 13



1) Core earnings consist of the profit before adjustments to hedge accounting, fair value adjustments made to the trading portfolio and impairment of loans and reversals of these.

President's statement



The turbulence which started in the financial markets in the summer of 2007 intensified during 2008. The real economy was on a global scale increasingly influenced by the malfunctioning of the financial markets, and the year ended in a widespread recession. NIB's member countries were also affected, and Iceland and Latvia turned to the International Monetary Fund for external finance.

The economic crisis influenced NIB in different ways. On the one hand, the demand for NIB's financing increased strongly, and the demand for NIB's bonds remained good throughout the year. As a result, NIB experienced its largest expansion ever, and profitability from these activities increased steadily. The Bank was also able to allocate an increasing share of its lending to its focus sectors, which amounted to almost 60 per cent of the agreed loans during the year.

Environmental challenges have to be tackled in a cross-border context

On the other hand, NIB's large liquidity portfolio suffered from fair-value adjustments as the credit spreads widened across the board. While most of these do not constitute final losses, NIB's claims on Lehman Brothers and failed Icelandic banks have not been recoverable thus far. Also, provisioning for credit losses increased during the year, particularly in Iceland.

Demand seems to have remained strong into 2009. The same is true for the bonds issued by NIB, even if the interest rates are influenced by rapidly increasing sovereign borrowing and the large supply of state-guaranteed bonds. Hence, the Bank's funding costs are, in line with other supranational institutions, less favourable than in previous years. Moreover, the uncertainty still prevailing in the financial markets has led to a concentration of activities to the shorter maturities.

NIB will in these circumstances adapt its activities to the available financial and human resources. Three principles will guide the allocation of loans: mandate compliance, risk and return. Mandate assessment tools have been developed during the past two years and lending proposals are evaluated as to their contribution to strengthening competitiveness and/or enhancing the environment. The same is also true for the Bank's activities in the non-member area, which will be focused with a view to achieving even better mandate fulfilment and increasing the Bank's contribution to the stakeholders.

It is apparent that in times of economic and financial stress, priorities change. Hence, there is a clear risk that activities which are high on the political agenda, like investments in the environment and renewable energy, are held back. The latter is also influenced by the fall in energy prices, which has greatly reduced the economic attractiveness and increased the risks related to investments in renewable energy.

NIB can in these circumstances make a contribution on both fronts. The lending facilities established in 2008, BASE for the financing of environmental investments and the protection of the Baltic Sea, and CLEERE for the financing of energy savings and renewable energy, serve these purposes.

The activities under these facilities highlight, as do the Bank's operations at large, the importance of regional cooperation. One field where it is well-recognised that the challenges have to be tackled in a cross-border context is the environment, as pollution does not recognise political borders. And indeed, we currently see many examples of endeavours to enhance international cooperation to reduce the burden of pollution. Improving the marine environment is a common undertaking in which all parties, whether coastal states or part of the wider, inland catchment area, should be involved. For NIB the immediate neighbouring environment encompasses the Baltic Sea, the North Sea and the Arctic area, and the Bank is paying increasing attention to these questions in its activities.

Another environmental priority, with broader geographical implications, is the process to bring nations together in the fight against climate change, and the inevitable adaptation to the consequences of global warming. The member region of the Bank has significant interests at stake, as climate change is particu-

larly visible in the North and the sensitive Arctic environment is at risk of being severely affected. The forthcoming UN Climate Change Conference in Copenhagen in December 2009 will hopefully be a milestone in this process. For its part, NIB promotes concrete actions that provide solutions, through research and development, the introduction of new technologies, as well as investment in more efficient and less polluting production processes and energy and transport systems.

Regional cooperation is also important in relation to competitiveness. Geopolitical changes and economic development in recent decades have brought a renewed focus on the potential of the Baltic Sea region. As is frequently noted, the Baltic Sea is again a uniting factor, although not in the same physical sense as in earlier times with more limited means of communication. Although interrupted by the international economic crisis of today, the region has experienced comparatively high growth, which in part is attributable to growing integration and economic interaction. By taking further advantage of the opportunities for regional coordination in areas such as energy, transport, logistics and communication but also education, research and development, the Baltic Sea region has a good basis for faring well in the future. NIB has long-standing experience in assessing and financing projects in these fields. With its active presence in the whole region, the Bank is well positioned to continue playing its part in catalysing regional integration.

Against this background, it is a very welcome sign that the regional cooperation in the northern part of Europe is prominently on the agenda of a wide range of stakeholders. The EU Baltic Sea Strategy, expected to be launched in 2009, will provide an important road map with its anticipated emphasis on competitiveness, accessibility, the environment and safety issues. The Northern Dimension provides its partners with a forum for concrete cooperation in fields such as the environment and transport. The regional cooperation councils and many organisations do their share in furthering inter-regional collaboration. NIB's home turf is continuously developing and the Bank intends to stay proactively involved in this process.

I wish to thank the staff and other stakeholders for their efforts and cooperation during the past year and look forward to successful cooperation in the coming year.

Helsinki, March 2009

Johnny Åkerholm
President and CEO

Economic background

The world economy entered a significant downturn and several member country economies experienced or were close to a recession. Global financial markets came to a virtual halt not seen in decades, and the process of deleveraging in the financial sector intensified on the back of decreasing risk appetite. Against this background, government bond yields declined while borrowing costs for the corporate sector rose considerably.

The cooling of economic activity that started in 2007 accelerated in 2008 when the world's major economies entered into a simultaneous and very sharp economic downturn. A deepening of the financial market crisis and large corrections in property prices contributed to slowing economic growth also in most of NIB's member countries, with several economies entering or being close to entering a recession.

The group of countries that had relied on bank-related or portfolio inflows to finance large current account deficits were hit the hardest as external financing dried up. In the Nordic-Baltic region, several economies faced such difficulties. Some governments had to intervene to prevent banks from failing and in a few cases also had to seek support from the international financial community. Iceland in particular has been in dire straits as the exchange rate depreciated, multiplying the large and foreign-currency-denominated debt of the corporate sector.

Conditions in global financial markets deteriorated during the year

Conditions in global financial markets became increasingly difficult during the year. By autumn, events sped up as uncertainty about the strength of banks' balance sheets rose dramatically and confidence among market participants collapsed. The strain spread quickly from mainly financial sector companies to non-financial sector companies, and to emerging market economies that had previously fared relatively well.

Uncertainty and a dramatic fall in the appetite for risk led to a flight among investors across the globe to safer assets in the form of government bonds, pushing down yields. Meanwhile corporate sector funding became increasingly costly. At one point, money markets as well as credit and interbank markets came to a virtual halt. Following rapid responses from the authorities, including interest rate cuts and measures supporting the functioning of the financial sector, the situation became slightly less critical toward the end of the year.

The drying up of liquidity reflected the ongoing process of deleveraging in the financial sector. This process was intensified and broadened by a series of bankruptcies, mergers and public interventions which resulted in a reshaping of the financial sector across Europe and the United States. In most countries, banks continued to tighten their lending standards and rationed their credit vis à vis the corporate sector and households. As lending is one of the main links between the financial sector and the real economy, this produced increasingly strong headwinds for global economic activity.

In addition to the direct impact of the financial crisis, economic activity to an increasing extent was held back by falling confidence among firms and households. As the financial crisis became more severe, companies and households came to expect a prolonged period of meagre profit and job growth. As a result, they cut back on investment and consumption.

Weaker economic activity in turn contributed to a significant drop in inflation towards the end of the year in most of the countries where NIB is active. During the first half of the year, however, inflation was on a rising trend. In many member countries, long-term high inflation rates were registered, largely driven by rising food and commodity prices. Energy prices in particular soared before reversing sharply towards the end of the year. The decline in price pressures towards year-end could possibly be one of the few bright spots in the otherwise sombre economic environment in 2008.

CASE

Building Europe's new north-south axis

A new dual-carriage motorway, A1, crossing Poland from the Baltic Sea harbour city of Gdansk to the border with the Czech Republic, promises to become Europe's new north-south transport corridor. Read more about the project on page 15.

Photo: GTC

Our mission: competitiveness and the environment

The mission of the Nordic Investment Bank is to promote the sustainable growth of its member countries by providing long-term complementary financing, based on sound banking principles, to projects that strengthen competitiveness and enhance the environment. By fulfilling this mission, NIB provides added value to all its stakeholders.

In 2008 the Bank started to develop a framework for formally assessing the fulfilment of this mission. The aim of the new framework is to improve the measurement of NIB's performance over time and to facilitate the communication of NIB's results to its owners, clients and staff. An initial report on the mission fulfilment will be published to the stakeholders when finalised. An assessment also provides a new tool for prioritising lending projects. Finally, assessing our activities' mission fulfilment aligns the Bank's work with that of several other international financial institutions.

The mission, or mandate, assessment will focus on gauging the potential impact of a project on the competitiveness of NIB's member country economies and on the environment. A potentially positive impact on either competitiveness or the environment or on both is a necessary condition for the Bank to extend financing. In order to get a proper measure of the expected competitiveness impact of a project, an assessment will also be made of the risk that the full potential will not be realised.

Positive impact on competitiveness and/or the environment is needed for NIB to extend financing

NIB's financing is limited to specific investment projects; it is not intended for the general financing of a company. The mandate assessment will aim at comparing the expected level of a company's competitiveness, and the quality of the environment, after the project to a no-project situation. Therefore, the assessment requires a very clearly defined project.

Measuring competitiveness impact. Competitiveness can be interpreted in many ways. After careful consideration NIB has decided to focus on the microeconomic competitiveness of our member-country economies. The main reason is that macroeconomic factors generally fall outside NIB's sphere of influence. The projects that the Bank finances normally have a direct effect that is limited to the microeconomic level. In a separate section of this Report we discuss the definition of competitiveness in greater detail.

Photo: Moventas

The Bank will aim at measuring both direct and indirect effects that a project has on competitiveness. Direct effects normally stem from business decisions by the company involved in the project. The project may, for example, lead to an upgrade of the company's physical capital or of its human capital, it could improve the company's access to suppliers or markets or include the development of new business practices. A project may also have a direct impact on the wider business community or region. An example would be an investment that lowers transportation costs for all companies active in a region or a project that has positive effects on a cluster of companies, existing or new ones.

NIB focuses on the microeconomic competitiveness of member-country economies

A project may also have indirect effects on competitiveness. These often occur through spill-over effects or externalities, which reach beyond the company involved in the project. Such effects include demonstration effects, meaning that a project can lead the way by showing other companies what is feasible and profitable, thereby inviting replication. Companies are normally quick to replicate technologies, ideas and business practices. Another example of an indirect effect is increased competitive pressures, which stimulate or force other companies to raise their competitiveness.

In assessing a project's overall effect on competitiveness, NIB will attach higher importance to these indirect effects and to possible direct effects on the wider business community. Whether the impact is direct or indirect has limited importance for the overall effect on the competitiveness of the economy. However, by putting a high premium on such effects that are of immediate benefit to the competitiveness of the wider economy, NIB can provide value-added beyond what commercial banks do.

Measuring environmental impact. The environment mandate includes projects that have a direct positive net environmental impact or an indirect positive environmental net impact (for example, renewable energy projects). Another area is research and development projects leading to environmental benefits. NIB prioritises environmental investments reducing cross-border pollution in the member countries and in their neighbouring regions. The member countries are also influenced by environmental impacts originating outside their immediate neighbouring countries, such as transboundary pollution, emissions of greenhouse gases leading to climate change and the spreading of persistent organic pollution.

A direct positive environmental net impact requires a quantitative assessment of environmental benefits, e.g., reduced emissions to air or water. Indirect effects are related to research and development projects, spill-over effects (externalities) on other companies, setting a new level of industry benchmark, etc. Each project is assessed within its peer group of industry. This means that the best performer in one sector could, in terms of quantitative environmental benefits, have a less positive impact than the worst performer in another industry sector. For instance, the revamping of an existing commercial building to achieve world-class energy efficiency cannot be measured against a marginal efficiency gain in an existing thermal power station even if the absolute savings in kWh are most probably higher for the latter. The mandate assessment covers both the potential environmental impact as well as the implementation risk of the project: that the environmental impact will not be realised.

More information on the mandate assessment can be found on www.nib.int.

CASE

Building Europe's new north-south axis

Amber One is a new dual-carriage motorway that will cross Poland from the harbour city of Gdansk on the country's Baltic Sea coast to the border with the Czech Republic. NIB financed the first 90-kilometre length of the motorway launched in October 2008 and in mid-December signed a loan agreement with the Gdansk Transport Company (GTC) for financing a new 62-kilometre section of the road.

With Gdansk growing into one of the major logistics hubs in the Baltic Sea region, A1 promises to become Europe's new principal north-south transport corridor, essential for trade between the Bank's member countries and regions in the south of Europe.

The project is being implemented as a Public Private Partnership (PPP). Poland's government has granted a concession lasting until 2039 to GTC, which is a special-purpose company with Swedish Skanska Infrastructure Development as a major shareholder.

NIB's long-term financing for the implementation of both phases of the motorway totals EUR 290 million.

NIB and competitiveness

Trying to define competitiveness. To define economic competitiveness in a single or in an uncontroversial way is not easily done. A commonly used definition is that competitiveness is what gives a country the ability to achieve a higher level of wealth and prosperity. This in turn is normally defined as a higher level of gross domestic product per capita, or gross domestic income if one wants to include incomes from business done abroad.

A multitude of factors affect a country's competitiveness

It is commonly argued, however, that prosperity and per capita incomes do not necessarily correspond. To the extent that higher incomes are achieved through more intensive use of a given number of workers, this implies less leisure per worker which could be counted as a loss of welfare. Therefore, productivity, measured for example by output per hour worked per person, could be a more correct measure. In the short run, a multitude of factors affect a country's competitiveness. In the long run, however, it has proven to be the case that competitiveness is mainly determined by the value added a country can provide with its human and physical capital in producing goods and services, that is, by productivity.

Competitiveness on a national level is a dynamic process. Unlike competitiveness on a corporate level, it is by no means a zero-sum game. The reasoning is that in the long run, if one economy improves its competitiveness, it is normally to the benefit of other countries too. Higher incomes in one economy can raise the overall demand in the global economy.

Making the definition practically applicable. In order to make the term competitiveness more operational for its activities, NIB is working from the assumption that an economy is an aggregation of many producing units, including companies. An economy is, therefore, unlikely to become more competitive unless its companies strengthen their competitiveness, or in other words raise their productivity. Another reason for focusing on the company level, or on microeconomic competitiveness rather than macroeconomic competitiveness, is that the Bank has limited ability to affect the macroeconomic environment.

There is a growing academic literature on microeconomic competitiveness, discussing what makes firms more efficient or more productive. Some of the literature distinguishes between internal factors that the company itself can directly influence, and external factors, which comprise the business environment where the company is active. Internal factors include the company's strategies and the quality of its operations as well as its corporate governance structures. External factors that determine a company's productivity include the quality of infrastructure and administrative institutions and the extent of competitive pressures in the companies' market. It also includes well functioning financial markets, enabling companies to finance long-term investments.

To sum up, the Bank aims at providing value-added by strengthening the competitiveness of our member country economies. When doing so, we focus on projects that improve the efficiency and productivity of our region's companies. This is how we can best contribute to raising the prosperity and welfare of our member countries.

CASE

Favourable winds

Photo: Moventas

Wind energy is plentiful, renewable and clean. Globally, wind power generation increased more than fivefold between 2000 and 2007. Industry experts predict that if the pace of this growth continues, by 2050 the answer to one third of the world's electricity needs may be found blowing in the wind.

Finnish Moventas is one of the world's leading suppliers of mechanical power transmission equipment for the energy and process industries.

During 2008, NIB provided EUR 50 million in loans to Moventas Oy for two wind turbine gear manufacturing facilities in Jyväskylä in central Finland. The new capacity doubles Moventas's wind turbine production.

NIB and the environment

NIB believes that taking environmental aspects—including ecological as well as social issues—into account is part of good business and that economic growth and a healthy environment go hand in hand.

Focal points 2008:

- Implementation of the revised environmental policy
- The BASE & CLEERE environmental lending facilities successfully launched
- First annual report including GRI reporting guidelines published
- Environmental mandate assessment introduced for projects
- The EPE sourcebook launched as a cooperative effort of the signatory IFIs

NIB contributes to sustainability through its approach to financing projects. The Bank's mission statement stresses that NIB is to provide long-term financing for projects that strengthen competitiveness and enhance the environment. All projects which NIB considers for financing undergo an environmental analysis. According to this analysis, the projects are classified depending on their estimated positive, neutral or negative environmental impact. NIB defines the term "environment" in its broadest sense, including not only ecological aspects but also social aspects.

Like all NIB loans, environmental loans are provided on market terms and do not include any form of subsidies. Environmental loans can have a longer than usual maturity. NIB has environmental loans outstanding in all the geographical areas where it has operations. For the financing of environmental projects in the member countries' neighbouring areas, NIB has at its disposal a separate Environmental Investment Loan facility (MIL), guaranteed by the Bank's member countries.

On a regional level, for example in the Baltic Sea area and its drainage basin, NIB focuses on issues such as eutrophication and acidification resulting from air emissions and wastewater discharges. On a global level, NIB sees combating climate change through the reduction of emissions of greenhouse gases as an important issue.

Environmental aspects are a natural part of daily activities at NIB. The environmental management system is integrated into the Bank's other management systems. NIB has also strengthened its environmental organisation: four analysts work full-time on environ-

Table of emission reductions from NIB-financed environmental projects in 2008

SUBSTANCE	ESTIMATED REDUCTIONS 2008	ESTIMATED REDUCTIONS 2007	ESTIMATED REDUCTIONS 2006	EXPLANATION AND COMPARISON OF SUBSTANCE
CO_2 or CO_2 equivalents	1,009,000 t/a	900,000 t/a	755,000 t/a	The most common of the greenhouse gases. The average annual level of CO_2 emissions per inhabitant in the EU was 10.4 t/a in 2007. Driving 10,000 km by car emits approx. 1 tonne of CO_2.
Phosphorous and Nitrogen (emissions to water)	To be determined. 2 projects with positive impacts agreed, but quantifiable data is pending.	80 t/a phosphorous and 140 t/a nitrogen	No agreed projects in 2006	Runoff from wastewater and farmland increases the nutrient load in watercourses and oceans. One person produces two grams of phosphorous/day.
SO_2 and NO_x (emissions to air)	To be determined. 2 projects with positive impacts agreed, but quantifiable data is pending.	No agreed projects in 2007	18,700 t/a NO_x and 117,700 t/a SO_2	Airborne emissions created through the burning of fossil fuels reach the ground through acid precipitation. Sweden's annual emissions of SO_2 were approx. 33,000 t/a in 2007. Driving 10,000 km by car emits approx. 0.2 kg of NO_x.

mental assessments and the development of environmental projects. The Bank's loan officers are also actively involved in the identification and management of environmental loans.

Environmental aspects are a natural part of daily activities

New environmental lending facilities, BASE and CLEERE. In February 2008, NIB launched two new environmental lending facilities. The Baltic Sea Environment financing facility, BASE, has a framework of EUR 500 million. The framework of the Climate Change, Energy Efficiency and Renewable Energy facility, CLEERE, has been set at EUR 1 billion. NIB is well positioned to tackle these projects as its projects have a global reach and the Bank is operating in the whole area of the Baltic Sea drainage basin. For more information on these two facilities and projects financed during 2008 that fall under these facilities, please refer to page 23 of the Lending chapter.

NIB's environmental policy. NIB revised its environmental policy and guidelines in 2007. The policy and guidelines entered into force from the beginning of 2008 and were integrated into the lending process during the year. The environmental policy presents the environmental principles which NIB follows. It was revised in order to better communicate NIB's standing on environmental issues in relation to the Bank's mission and strategy adopted in 2006, as well as to harmonise the policy with the principles of other international financial institutions. The clearer and more precise environmental policy was adopted to support NIB's environmental operations and give added value to the Bank's customers.

Dialogue with stakeholders. NIB aims at keeping an open dialogue with its stakeholders. As part of the revised environmental policy, NIB publishes summaries of all category A projects (projects with the potential for large environmental impacts) for a 30-day period on its website before any final decision on the projects is taken by NIB. Comments received during the public disclosure period are taken into consideration in the project appraisal. During the year, NIB also participated in several environmental conferences, thus providing a platform for interacting with various stakeholder groups. NIB is also an active participant in the BSAP (Baltic Sea Action Plan) implementation group, focusing on identifying viable projects for the preservation of the Baltic Sea.

Appraisal of projects. NIB carries out an environmental analysis on all loan applications. The objective is to ensure that all relevant environmental impacts, risks, liabilities and costs have been taken into account in projects financed by the Bank. Furthermore, the purpose is to determine if the client is capable of complying with, or needs to take any actions in order to comply with, the Bank's environmental requirements. Future environmental and economic problems can be avoided or minimised if environmental

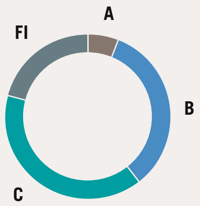
Environmental cooperation

NIB seeks business partners who share its vision and commitment to sustainable development.

ORGANISATION OR PRINCIPLE	NATURE OF ACTIVITY	FOCUS OF ACTION	TYPE OF WORK OR RESULT
Northern Dimension Environmental Partnership (NDEP)	Active partner	Environmental problems of the Baltic Sea and Barents regions & Northwest Russia	Promotion of sustainable solutions in wastewater treatment, solid waste management, energy supply or treatment of nuclear waste
Baltic Marine Environment Protection Commission aka Helsinki Commission (HELCOM)	Active partner	Marine environment of the Baltic Sea	Identification and prioritisation of safety and environmental projects for the preservation of the Baltic Sea
Council of the Baltic Sea States; Baltic Agenda 21	Part of a working group	Baltic Sea-related cooperation issues	Participation in seminars and workshops
Environmental Working Group of multilateral financial institutions	Active partner	Harmonisation of policy guidelines and working procedures between IFIs	Promotion of sound, coordinated and effective approaches to environmental issues
The European Principles for the Environment (EPE)	Signatory, with EIB, EBRD, CEB and NEFCO	EU environmental legislation, principles and standards	In 2008: launch of a sourcebook on EU environmental law

Environmental appraisals

NIB employs a categorisation system for projects that is similar to the systems used by other international financial institutions, such as the EBRD and the World Bank Group. The loan applications are categorised into four different groups, according to their potential environmental impact.



Category A

(6% of total number of loans agreed in 2008)

- The project has the potential for making an extensive environmental impact.
- The project must undergo a full EIA.
- From 2008 onwards the project needs to be publicly available on NIB's website for a period of 30 days before a final decision on financing is taken by NIB.
- Example of a category A project: the A1 motorway in Poland, the case described on page 15.

Category B

(34% of total number of loans agreed in 2008)

- The project has the potential for making a moderate environmental impact.
- The project must undergo a partial EIA.
- Example of a category B project: the offshore wind farm Horns Rev II, the case described on page 20.

Category C

(40% of total number of loans agreed in 2008)

- The project is considered to have an insignificant or not readily measurable environmental impact.
- The project is not required to undergo any formal EIA.
- Example of a category C project: Moventas investments in a new factory to produce gearboxes for windmills, the case described on page 16.

Category FI

(21% of total number of loans agreed in 2008)

- Lending in this category comprises loan programmes realised through financial intermediaries worldwide and through governments in emerging markets.
- The onlending intermediary's environmental review capacity is assessed.
- Example of FI lending: loans to Aktia and Sampo, the case described on this same page.

Environmental impact assessment. Environmental impact assessments (EIA) are usually carried out by independent consulting firms. The EIA is to include the following: executive summary; project description; policy, legal and administrative framework; baseline data; environmental impacts; analysis of alternatives; mitigation measures; and a monitoring and management plan. In addition, during the EIA process, the public or those groups that are affected by the project are to be consulted. In some cases NIB can demand an EIA even if it is not required by the host country's legislation.

Environmental audit. Environmental audits are conducted in conjunction with company acquisitions or in projects where possible environmental liabilities have been identified. An environmental audit is required for projects in which there is an obvious risk of the project sponsor incurring environmental liability in the form of remediation costs relating to environmental damage, such as contaminated soil or polluted groundwater.

Monitoring. NIB requires environmental monitoring of projects in certain cases. In accordance with its revised environmental policy, all category A projects will be monitored, as well as other projects with an identified need for follow-up. The monitoring is carried out either by personnel from NIB's environmental unit or by independent environmental experts. The monitoring may include the monitoring of water quality in a watercourse or the measurement of discharges from an industrial plant.

CASE

Happier holiday homes in Finland

Photo: Leif Fredriksson

With a loan from NIB, Aktia Savings Bank is financing environmental loans to private households, farms, and small and medium-sized companies for improvements in wastewater treatment, housing insulation and fertiliser handling. A similar loan has also been granted to Sampo Bank.

The treatment of wastewater in holiday homes is a burning issue. A big part of the nitrogen and phosphorous discharges from Finland originates from diffuse emissions, such as untreated wastewater from rural residential areas and agriculture. According to Finnish law, all households that are not connected to municipal wastewater treatment systems must, by 2014, clean their wastewater on site.

The discharge of nitrogen and phosphorous is considered to be one of the biggest reasons for the eutrophication of the Baltic Sea. The ecological health of the Baltic Sea and actions with regard to climate change are high priorities in the Bank's operations.

The loans to Aktia and Sampo are being drawn from NIB's BASE and CLEERE lending facilities, set up in February 2008.

CASE

Where the wind blows

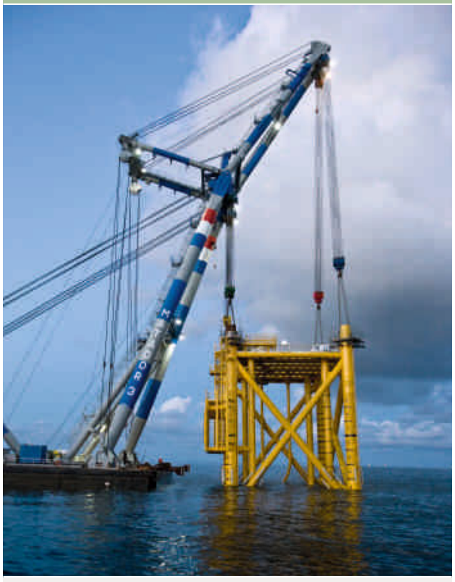


Photo: Dong Energy

Upon completion, Horns Rev II off the west coast of Denmark in the North Sea will be the world's largest offshore wind turbine park.

The 91-turbine wind park is being constructed by DONG Energy, the leading integrated gas, electricity and heat utility company in Denmark. Horns Rev II's production capacity is estimated at 800 GWh per year, which equals the consumption of 200,000 households.

An accommodation platform is one of the novelties being implemented at Horns Rev II. This platform will help streamline the maintenance of offshore wind turbines.

Horns Rev II is a result of the Danish government's efforts to increase the share of renewables in energy production. Energy and the environment are both focus areas for NIB's endeavours. The Bank has provided EUR 160 million to finance DONG Energy's project.

In recent years, NIB has been very active in financing wind energy projects in Denmark. Horns Rev I, which has already been completed, received a EUR 40 million loan from NIB. Another example is the Nysted Havvindmøllepark off the southern coast, for which NIB contributed EUR 50 million.

issues are taken into account already in the early stages of a project. NIB refrains from financing projects that are questionable from an environmental point of view or if they do not comply with national environmental legislation or international environmental agreements.

Summaries of category A projects are published on NIB's website

In addition to ecological issues, NIB also examines, to an increasing extent, the social aspects of projects, and verifies that the investments are in line with good international practice and World Bank standards. Social aspects include: worker health and safety provisions, actions to prevent forced labour, child labour, involuntary resettlement, and discrimination at the workplace, as well as the project's impact on local communities.

NIB's environmental analysis is based on environmental impact assessments, environmental audits, other available and relevant documentation and site visits when applicable. The scope of the analysis depends on the potential environmental impact of the project. Detailed information on NIB's environmental appraisals can be found in the previous page.

NIB employs a categorisation system for projects that is similar to the systems used by other international financial institutions, such as the EBRD and the World Bank Group. The loan applications are categorised into four different groups, according to their potential environmental impact.

Projects, or parts of a project, in any of the four categories may be defined by NIB as environmental investments.

NIB's direct environmental impact. NIB's direct environmental impact through its daily operations is much smaller than the indirect impact deriving from the projects NIB finances. The Bank, however, emphasises environmentally and socially sound practices in its daily operations. As regards housekeeping, NIB complies with the requirements of current EU environmental legislation and in many respects goes beyond what legislation requires. The Bank has internal environmental guidelines for office practices, facilities management and procurement. NIB has not received any fines or been in non-compliance with environmental laws or regulations.

The district cooling system was taken into operation in July 2008 at the headquarters. During the year an estimated 98% of the paper and newspapers used at the Bank was recycled. The volume of NIB employee travel, in the course of their work during 2008, was 5,583,000 km, which equals approximately 35,000 km/employee.

NIB's direct environmental impact

	2006	2007	2008	CHANGE FROM PREVIOUS YEAR
Electricity (MWh)	na	1,900	1,778	-6%
District heating (MWh)	1,763	1,957	1,738	-11%
District heating (kWh/m²)	95	105	93	-11%
District cooling (MWh)	-	-	18.3	
Water (m³)	na	1,850	1,863	1%
Paper (tonne)	11	12	11	-8%
Newspaper (tonne)	5.5	5.5	5.5	0%
Business travel, air (km)	na	5,674,030	5,583,132	-1.6%

CASE

Latvenergo upgrades power generation capacities

Upgrading generation capacities will help Latvian Latvenergo acquire the leverage to stabilise the energy market in the country. Read more about the project on page 23.

Photo: Latvenergo

Lending

Lending continued to grow in 2008 and disbursements reached an all-time high of EUR 2,486 million. In line with the Bank's strategy, the majority of new loans were agreed in its focus sectors: the environment; energy; transport, logistics and communications; and innovation. The severe crisis in the financial markets accelerated the growth in demand for loans from NIB but the downturn in many economies also resulted in more borrowers encountering difficulties.

Focal points 2008:

- 53 loans agreed
- Disbursements at an all-time high
- Focus sectors emphasised in lending activities
- A/B loan introduced as new instrument for co-financing

NIB provides long-term complementary financing to its borrowers in the public and private sectors in and outside the member countries. In accordance with the Bank's mandate, loans are provided for projects that strengthen competitiveness and improve the environment. The assessment of the mandate contribution of projects was developed further through the introduction of a mandate rating process.

The Bank has identified some sectors that in particular contribute to the fulfilment of the Bank's mandate: environment; energy; transport, logistics and communications; and innovation. A substantial part of the Bank's lending has previously been channelled to projects in these sectors, but today they are defined as a key objective for the lending activities. Accordingly, in 2008 increased attention was paid to operations in these sectors. In order to reflect their importance, the Bank has also changed its reporting standards and the distribution of loans is reported according to these and other sectors. Some projects overlap sectors, mainly renewable energy projects that pertain to both the environment and energy. In order to avoid double accounting, the Bank has decided to report as part of the environment sector all loans that are defined as environmental loans, fully or to the extent that the loan is categorised as environmental. For loans provided through financial intermediaries, the sub-loans are reported in the relevant sectors once they are allocated by the intermediary.

The total amount of new loans agreed between NIB and its clients during the year (referred to as loans agreed or new lending further in the text) was EUR 2,707 million, 57% of which was directed towards projects in the focus sectors. The Bank aims to further increase the share of lending in these sectors over time.

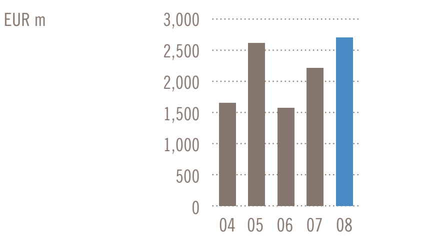
Alongside activities in these focus areas, the Bank continued lending to projects in the manufacturing and service sectors as well providing financing through financial intermediaries in order to reach out to smaller enterprises and projects.

During 2008 the global financial crisis accelerated with increasingly severe effects on the non-financial sectors, pushing economies around the world into recession. The Bank's member countries were also hit by this downturn and in particular Iceland and Latvia were affected. This caused a growing number of the Bank's clients to encounter difficulties.

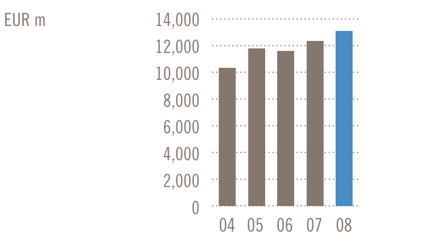
On the other hand, the constrained liquidity in the financial markets led to a strong increase in the demand for loans from NIB. In line with the longer-term trend, around four fifths of the new loans were agreed for the financing of projects in the member countries of the Bank. In spite of an all-time high level of disbursements of approximately EUR 2,500 million, the Bank was not able to meet the demand and, in order to keep its growth in lending assets on the long-term curve directed by the Bank's capital base, a substantial amount of disbursements was postponed to 2009.

Consequently, the Bank's portfolio of loans outstanding as well as loans agreed but not yet disbursed increased. The amount of loans outstanding increased compared to year-end 2007 as expected

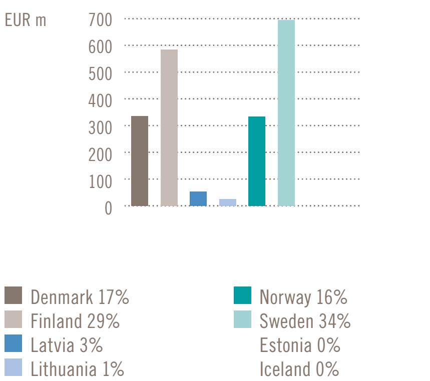
Loans agreed fig. 14



Loans outstanding fig. 15



Loans agreed in member countries 2008 fig. 16



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

and totalled EUR 13,063 million by 31 December 2008. The amount of guarantees was EUR 17 million.

The Bank introduced a new lending product in 2008, as the first so-called A/B loan was concluded for a telecommunications project in Brazil. This mechanism, pioneered by other international financial institutions, involves co-financing with a group of commercial banks. NIB provides a loan from its own resources (the A loan) and on the other hand acts as lender of record for a loan fully funded by the commercial banks (the B loan). In this way, the co-lending banks gain the benefit of NIB's status as an international financial institution, which is reflected in the terms on which the B loan is extended, thus providing the borrower with better conditions than would otherwise have been obtained. NIB intends to follow up on the successful launch of this mechanism by arranging similar transactions for other projects.

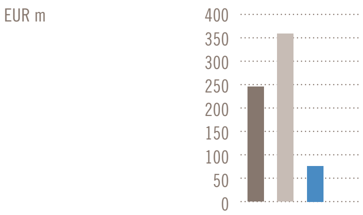
New lending facilities for environment and energy. The Bank also established two special lending facilities targeting priority sectors. The EUR 500 million Baltic Sea Environment Financing Facility (BASE) was established to support the implementation of the Baltic Sea Action Plan adopted by HELCOM. Loans under the facility, supplementing financing through national budgets and EU structural and cohesion funds, are made to support the financing of measures that help to restore the ecological health of the Baltic Sea by reducing pollution. During the year EUR 47 million was allocated under the facility. The lending facility Climate Change, Energy Efficiency and Renewable Energy (CLEERE) with an envelope of EUR 1,000 million was set up for the financing of projects that address climate change mitigation and adaptation, primarily in the energy sector. Lending under this facility had a vigorous start and more than 50% or EUR 548 million had already been allocated by the end of 2008. Loans under both facilities are made in the ordinary course of business in accordance with the Bank's lending policies.

During the year, NIB also continued to participate in other ways in international and regional environmental cooperation. The Bank played an active role in the Northern Dimension Environmental Partnership (NDEP) and held the rotating chair until mid-2008. Important milestones were the replenishment of the NDEP Support Fund and the allocation of an NDEP grant for the completion of wastewater treatment investments in St. Petersburg in line with the aim of the partnership, which 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.

In order to support the further development of the emissions trading market, which is an important mechanism for bringing about cost-effective action to reduce the emission of greenhouse gases, NIB also decided in 2008 to participate in an innovative Post-2012 Carbon Fund aimed at stimulating action beyond the current five-year commitment period under the Kyoto Protocol. The fund, in which NIB is participating alongside EIB and the national development financing institutions KfW, ICO and CDC, was established to promote greenhouse gas mitigation projects by monetising the value of post-2012 emission reductions, thus increasing the portion of the total project financing that is generated through carbon financing.

For a number of years, the Bank has provided funding through mezzanine funds as a fund-of-funds lender under a test facility. In 2008 the mezzanine financing policy was reviewed and the mezzanine facility was turned into a permanent part of the Bank's offering within a revolving framework of EUR 150 million. At the same time,

Loans agreed in non-member countries 2008 fig. 17



Asia 36%
Europe and Eurasia 53%
Latin America 11%
Africa and Middle East 0%

CASE

Latvenergo upgrades power generation capacities

A three-year investment programme established by Latvian Latvenergo is aimed at increasing the efficiency of the country's main power generation capacities. It includes two combined heat and power (CHP) plants in Riga and the hydropower plant cascade on the river Daugava.

To improve energy efficiency and supply quality, Latvenergo also plans to replace 760 kilometres of overhead distribution lines with underground cables. The investment programme is also aimed at cutting NOx emissions from a CHP plant and reducing the risk of harmful substance leakage from transformer stations.

Upgrading the capacities will help the company acquire the leverage to stabilise the energy market in Latvia, which to a large extent depends on an external power supply.

A long-term loan from NIB to the Latvian state-owned electricity company amounted to EUR 50 million. A part of this loan is being provided in the framework of NIB's Climate Change, Energy Efficiency and Renewable Energy loan facility, CLEERE.

the prerequisites for these interventions were updated, including closer specification of the requirements placed on fund managers.

NIB financed investments reducing transport bottlenecks

In the infrastructure field, the Bank participated in a number of Public Private Partnership (PPP) projects, the largest one being a highway project in Poland. This was in line with the Bank's efforts to provide financing for regionally important transport infrastructure investments. PPPs, if well-structured, provide an effective mechanism for harnessing private sector competence and funding capacity in support of infrastructure and utility investments. The Bank also engages in projects with a project-financing structure, in which the revenues generated by the operation of the project form the sole basis for the repayment of the loan.

In 2008 a decision was made by the Northern Dimension partners: the EU, Iceland, Norway and Russia, to set up a new Transport and Logistics Partnership, which will focus on regional transport infrastructure and logistics projects as well as horizontal measures. The aim is to remove bottlenecks and constraints in order to provide for an effective flow of goods and people in the northern European region. NIB has actively participated in the preparatory process and will continue to support concrete steps to launch the new partnership starting in 2010.

Countries. As in previous years, most of the new lending in 2008 (approximately 75%), was carried out in the member countries. During the year the Bank signed 40 new loan agreements in the member countries with a total value amounting to EUR 2,027 million. No new guarantees were issued. Disbursements of loans amounted to EUR 1,876 million, which expanded NIB's loans outstanding in the member countries to EUR 10,142 million at year-end. Loans agreed but not yet disbursed amounted to EUR 574 million at the end of the year.

Sweden accounted for the largest part, or 34%, of the new lending in the member countries in 2008, followed by Finland with 29%.

Outside the member region, NIB finances projects of mutual interest to the Bank's member countries and the countries in which NIB financing is carried out. Loans are granted within the Bank's ordinary lending, under the Project Investment Loan Facility (PIL) and within the Environmental Loan Facility (MIL). During 2008 the Bank initiated a review of its policy for lending outside the member region. The aim of this revision, which was approved in the beginning of 2009, is to increase the focus of NIB's operations by further enhancing its cooperation with a smaller group of countries in which it is perceived that there are good opportunities to achieve strong mandate fulfilment (with priority being given to the Bank's focus sectors) and to maintain a long-term, continuous presence.

In 2008, the Bank signed thirteen new loan agreements in eight non-member countries in Europe and Eurasia, Asia and Latin America. The total value of the new loans agreed during the year amounted to EUR 680 million. The largest recipients were Poland, Russia and China. No new guarantees were issued during the year. Disbursements of loans amounted to EUR 611 million, which expanded NIB's loans outstanding in non-member countries to EUR 2,920 million at year-end. Loans agreed but not yet disbursed amounted to EUR 845 million at the end of the year.

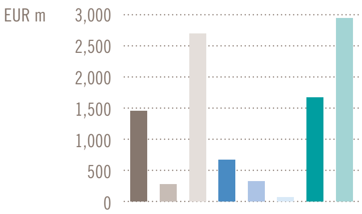
The distribution of lending is summarised in Figures 14–22.

A list of all loans agreed during 2008 can be found on pages 28–30.

Lending activities in specific sectors. The key activities in the sectors where the Bank is active are presented below. It should be noted that many projects are registered in several sectors, with the loan amount being divided according to the content of the project.

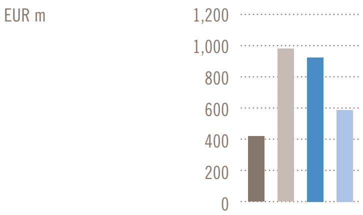
Environment. As described in greater detail in the chapter Mission (pages 13–20), the Bank carries out a thorough assessment of all its loans, not only in order to apply appropriate safeguard procedures but also to identify projects that contribute to the Bank's environment mandate by generating positive net environmental effects. Projects may

Loans outstanding in member countries fig. 18
As of 31 Dec 2008



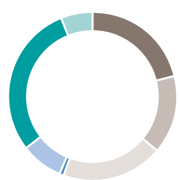
Denmark 14%
Estonia 3%
Finland 27%
Iceland 7%
Latvia 3%
Lithuania 0.7%
Norway 17%
Sweden 29%

Loans outstanding in non-member countries fig. 19
As of 31 Dec 2008



Africa and Middle East 14%
Asia 34%
Europe and Eurasia 32%
Latin America 20%

Loans agreed 2008 fig. 20
By focus sectors



Environment 21%
Energy 15%
Transport, logistics and communication 19%
Innovations 1%
Financial intermediaries 8%
Manufacturing and mining 29%
Services and other 6%

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

represent end-of-pipe solutions where emissions are reduced through appropriate treatment facilities, but increasingly it is a matter of introducing cleaner technologies and better management of resource flows. Many projects have indirect positive environmental effects, the most prominent group being related to renewable energy, which by replacing fossil fuels brings about emission reductions (see the table on page 17). These projects, in the borderland between environment and energy, are categorised as environmental loans in NIB's statistics (fully or to such an extent that the project generates positive environmental effects).

New lending in this sector in 2008 comprised 18 agreed loans, representing an aggregate of EUR 566 million, or 20.9% of all loans agreed. The environment was thus the largest of the focus sectors; however, two thirds of the volume of agreed environmental loans were energy-related, while the remaining one third was related to other projects enhancing the environment or to research and development activities. The projects financed by the Bank include two large wind farms, one being the largest offshore windfarm presently being constructed, as well as production of equipment for wind turbines and components for photovoltaic power production. Other environmental projects financed during the year include investments in enhancing hydropower production, increasing wastewater treatment capacity and research and development on more energy-saving industrial equipment. The Bank also provided loans to two Finnish banks for on-lending to private households, farms, and small and medium-sized companies for improvements in wastewater treatment, housing insulation and fertiliser handling.

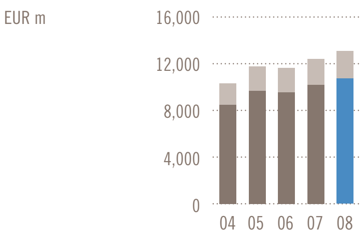
Renewable energy. The International Energy Agency defines renewable energy as follows: "Renewable energy is derived from natural processes that are replenished constantly. In its various forms, it derives directly from the sun, or from heat generated deep within the earth. Included in the definition is electricity and heat generated from solar, wind, ocean, hydropower, biomass, geothermal resources, and biofuels and hydrogen derived from renewable resources."

Renewable energy systems are made up of a range of different technologies. Some technologies are already mature and economically competitive (e.g. geothermal and hydropower), others need additional research and development to become competitive without subsidies. At present renewable energy sources supply about 18% of current electricity energy and the potential for increase is large. In rural and remote areas in developing countries, where the transmission and distribution of energy generated from fossil fuels can be difficult and expensive, producing renewable energy locally can offer a viable alternative.

The implementation and development of renewable energy systems and technologies is a clear focus area for NIB. All the Nordic and Baltic countries stress the importance of this issue.

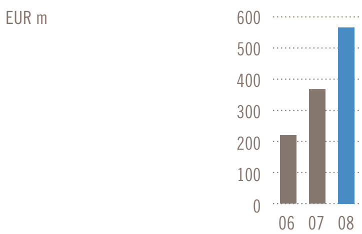
Environmental loans outstanding fig. 21

As a share of total loans



Environmental loans
Other loans

Environmental loans agreed fig. 22



CASE

Solar-grade energy saver

Photo: Orkla Elkem / Nicolas Tourrenc

Elkem Solar AS, a subsidiary of Norwegian Orkla, has developed a new technology to produce solar-grade silicon. Compared to the existing methods, the new know-how helps save energy, thus lowering production costs as well as air and water emissions.

A new plant which is now being completed by Elkem in Norwegian Kristiansand will produce annually approximately 6,000 tonnes of high-grade silicon metal for the solar cell industry. NIB has provided a EUR 145 million loan to finance this project.

Elkem's investment promotes both the competitiveness of the Norwegian economy and enhances the environment. The new technology puts the company at the cutting edge of the solar energy market, which is expected to expand as the need for clean energy becomes increasingly important.

CASE

Financing R&D investments

Photo: SKF

NIB provided a EUR 80 million loan to finance Swedish AB SKF's investments in increasing the efficiency of current production processes and developing new products.

SKF's product R&D focuses on the reduction of friction and wear, the selection of materials, calculation models as well as the integration of mechanical engineering with electronics and intelligent computer control. Process-manufacturing R&D develops advanced manufacturing processes, the simulation of new manufacturing processes and the reduction of variations and waste in manufacturing.

Founded in 1907, AB SKF is a global supplier of products, solutions, and services focusing on friction and motion management, including bearings, seals, mechatronics and lubricants.

The most important renewable energy sources with regard to their energy potential in the Nordic countries are: biomass (usually with a combined heat and power output), wind power (both land-based and offshore), geothermal power and hydro power. Hydro power development in the Nordic countries is mainly focused on increasing the efficiency of existing plants.

Loans reported according to new sector distribution

Energy. Cost-effective, safe and sustainable energy production and distribution is crucial for the competitiveness of economies. Long-term investments are needed and NIB has since the start of its operations been actively involved in financing the sector. Today the combined challenges of climate change, volatile prices for energy bearers and the growing interdependence of energy systems are calling for concerted action in the wider Baltic Sea region.

In 2008 the Bank approved 13 loans in the energy sector, in addition to those registered as pertaining to the environment sector, targeting energy production, energy efficiency or transmission and distribution. These represent in total EUR 416 million, or 15.4% of all loans agreed during 2008. Approximately one half of these loans relate to energy production, with the remainder being distributed equally between energy efficiency on the one hand and transmission and distribution on the other.

The projects financed by the Bank in the energy sector include investments in combined heat and power generation, both on the basis of natural gas and other fuels, and the modernisation of industrial captive power production. Other projects relate to the improvement of electricity distribution networks, district heating systems and safety measures in nuclear power production.

Transport, logistics and communications. Effective transport, logistics and communications form another cornerstone of the competitiveness of the Bank's member region. Measures are needed locally and nationally as well as pan-regionally in order to secure economic, safe and sustainable solutions in this sector. Investments, particularly in infrastructure such as roads and railways, are of a highly long-term nature and the mobilisation of long-term capital is therefore a vital prerequisite for such investments to materialise, rendering it a natural field of activity for the Bank. Modern communications solutions, including mobile phone and broadband systems, are another important area in which NIB plays an active role as a financier.

In 2008 the Bank approved 9 loans for projects in the transport, logistics and communications sector, aggregating EUR 527 million, or 19.5% of all loans agreed. Of this volume, a quarter was directed to communications projects and the remainder to transport and logistics.

The projects in this sector include a wide range of investments, including highway construction as a part of a north-south transport corridor, the establishment of logistics centres, the laying of a fibre optic telecommunications cable, mobile phone systems and aircraft acquisitions.

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 such projects that are able to carry loan financing. Research and development projects form the predominant part of the Bank's portfolio in this sector. A special area is mezzanine financing, which the Bank provides through funds that finance projects mainly in the SME sector. Through the loans to mezzanine funds, NIB supports the development of this important segment of the capital market in the member countries and can provide finance to companies and projects that would not otherwise be targeted by the Bank's ordinary senior lending.

In 2008 this sector received one direct loan, for a project related to technology development, totalling EUR 40 million, or 1.5% of all loans agreed. In addition, two loan investments were made through mezzanine funds, totalling EUR 35 million.

Financial intermediaries. A long-standing modality developed to reach customers that the Bank with its limited resources cannot approach directly, primarily smaller enterprises and projects, is to provide financing through loan programmes mediated by financial institutions. As long as the funds are held by the financial intermediary and the sub-loans to the end borrowers have not been identified, NIB classifies the loan as a financial intermediary transaction. When the purpose of a sub-loan becomes known, the corresponding amount is transferred to the respective sector (for example the environment).

Seven of the loan programmes agreed with financial intermediaries in 2008 were wholly or partly unallocated loans waiting to be assigned to sub-projects fulfilling NIB's criteria. The total amount remaining in this category is EUR 208 million, equivalent to 7.7% of all loans agreed. Two new loan programmes concluded with the Ministry of Finance of China, one multi-sector and one for projects in rural areas, represent more than half of this total.

Manufacturing and mining. This sector has traditionally played an important part in NIB's lending and continues to do so. Although many loans to manufacturing and mining enterprises are, fully or in part, classified as environmental or other focus sector loans, a substantial portion of these projects do not pertain to the focus sectors. Nevertheless, many of them do involve investments of vital importance to safeguarding and enhancing the competitiveness of member country industries and thus contribute to fulfilling the Bank's mandate.

In 2008 a total of 14 loans, totalling EUR 795 million or 29.4% of all loans agreed, were concluded for projects in manufacturing and mining, rendering this the single largest sector in NIB lending. The projects include corporate acquisitions, in most cases related to the continued internationalisation of member-country companies, as well as investments in production and other facilities in order to increase capacity or improve manufacturing processes and distribution systems.

Services and other business sectors. Another sector, similar in its rationale to the manufacturing and mining sector, is categorised as "services and other", capturing such activities that do not fall into any of the other categories. In 2008 this group comprised 5 loans amounting to EUR 154 million, or 5.7% of loans agreed. The projects were related to real estate investments and customer financing.

Administration of external funds

NIB's member countries and the Northern Dimension Environmental Partnership (NDEP) engage NIB as one of the channels through which technical assistance is allocated to projects in the regions adjacent to the member countries.

NIB administers presently seven trust funds. Three of them are general consultant trust funds, while the other four are intended for specific projects:

- A Finnish technical assistance trust fund for potential NIB and NEFCO projects, above all in infrastructure, the environment, forestry and forest industries in Central and Eastern Europe, including Russia and Ukraine. The Finnish Government is represented by the Ministry for Foreign Affairs.
- Three Swedish technical assistance trust funds for project preparation and implementation in four environmental projects in Russia: the Pechenga Nickel project on the Kola Peninsula; the rehabilitation of water and environmental services in Kaliningrad and district heating in Murmansk; and the closure of direct discharges of untreated wastewater in St. Petersburg. The Swedish Government is represented by Sida.
- A Swedish technical assistance trust fund for joint project preparation and implementation in the EU's ten new member states, its neighbouring countries and other strategic markets. The Swedish Government is represented by the Ministry for Foreign Affairs.
- A Swedish technical assistance trust fund for the development, monitoring and supervision of potential projects in the field of municipal development in Eastern European countries qualifying as recipients of Official Development Aid. The Swedish Government is represented by Sida.
- A technical assistance support trust fund allocated by NDEP and set up in cooperation with NIB, to support project preparation and the implementation of a Leningrad Oblast water project with the overall objective of rehabilitating water distribution and wastewater treatment in the towns of Pikalevo and Tikhvin.

In addition to the trust funds, the Bank is involved in the administration of the assistance granted by the Norwegian Ministry of the Environment to the Pechenga Nickel project on the Kola Peninsula for the reduction of sulphur dioxide emissions from the nickel smelter.

Loans agreed 2008

BORROWER	PROJECT	SECTOR
Agder Energi AS, Norway	Investments in the production and distribution of electricity, the development of bioenergy-based power production and the expansion of the regional thermal energy distribution grid in southern Norway.	**Energy; Environment**
Ahlstrom Corporation, Finland	Acquisition of a controlling stake in a specialty paper mill in Jacarei, Brazil.	**Manufacturing and mining**
Aktia Pankki Oyj, Finland	Onlending to private households, farms and small and medium-sized enterprises in order to finance small-scale environmental projects.	**Environment**
Atlas Copco AB, Sweden	Financing Atlas Copco Group's customer finance exposure, which is a key factor in increasing export sales and, therefore, strengthening the company's competitiveness.	**Services and other**
ZAO Atlas Copco, Russia	Financing of new premises in Moscow, Russia.	**Services and other**
Banco Itaú BBA S.A., Brazil	Loan programme aimed at financing small and medium-sized enterprises' projects involving NIB member country companies in Brazil.	**Transport, logistics and communications**
State corporation Bank for Development and Foreign Economic Affairs, Russia	Construction of a gas-fuelled heat and power plant for securing the power supply to the city of Moscow.	**Energy**
Boliden AB, Sweden	Expansion of the Aitik copper mine in northern Sweden. The investment project includes the construction of a new concentrator that will double the annual ore production capacity to 36 million tonnes.	**Manufacturing and mining**
Carlsberg Breweries A/S, Denmark	Acquisition of the British brewery company Scottish and Newcastle's (S&N) share of the beer producer Baltic Beverages Holding and S&N's operations in France, Greece, China and Vietnam.	**Manufacturing and mining**
People's Republic of China	NIB's 12th General Loan Programme to finance projects of mutual interest in various sectors of the country's economy.	**Financial intermediary**
People's Republic of China	NIB's 3rd Rural Area Loan Programme to finance projects of mutual interest in various sectors in rural areas of China.	**Financial intermediary**
Citycon Oyj, Finland	Development of a shopping centre in Stockholm, Sweden	**Energy; Services**
Danish Crown Livsmedel AB, Denmark	Acquisition of slaughterhouses and meat processing plants run by Swedish KLS Livsmedel Ekonomisk Förening and Ugglarps Group and the construction of a new facility for meat processing and packaging in Sweden.	**Manufacturing and mining**
DIBA Bank A/S, Denmark	Onlending for projects of small and medium-sized enterprises in southern and central Zealand as well as on the island of Bornholm.	**Financial intermediary; Environment**
Djurslands Bank A/S, Denmark	Onlending to small and medium-sized enterprise projects for the construction of new production facilities, expanding windmill farms, acquiring new trucks for haulage contractors and establishing district heating facilities for clients in Denmark.	**Financial intermediary**
DONG Energy A/S, Denmark	Financing of the Horns Rev II windmill farm off the west coast of Denmark in the North Sea.	**Environment**
E.ON Sverige AB, Sweden	Financing the Rødsand II wind farm in Denmark.	**Environment**
Electrolux AB, Sweden	Investments in four new plants in Poland. The investments cover four product groups: dryers, dishwashers, washing machines and cookers.	**Manufacturing and mining**
Elisa Oyj, Finland	Investment programme aimed at building up and expanding the 3G mobile telecommunications network and increasing the capacity of the fixed-line broadband network.	**Transport, logistics and communications**

Focus Area

BORROWER	PROJECT	SECTOR
Eqvitec Mezzanine Fund III, Finland	Investment into the Eqvitec Mezzanine Fund III for onlending as mezzanine loans to Nordic small and medium-sized enterprises primarily in the technology, industrial product and services sectors.	**Innovations**
Finnair Oyj, Finland	Acquisition of an Airbus 340-300 E aircraft, as part of an investment programme for expanding the fleet.	**Transport, logistics and communications**
Fiskars Corporation, Finland	Acquisition of the Finnish houseware design company Iittala Group Oy Ab, which will form a new European operation unit within the corporation and include certain parts of Fiskars' own houseware division.	**Manufacturing and mining**
Gdansk Transport Company S.A., Poland	Construction of the A1 motorway in Poland. A1 is part of Trans-European Corridor No 6, important for Scandinavian countries in improving transport connections to central and southern Europe.	**Transport, logistics and communications**
Husqvarna AB, Sweden	Acquisition of the outdoor products operations within Komatsu Zenoah of Japan. Production is based in Japan and China.	**Manufacturing and mining**
IKEA Capital B.V., Netherlands	Investments in five new and relocated IKEA stores in Sweden.	**Services and other**
Industrial Union of Donbass, Ukraine	Installation of a combined cycle gas turbine for a power plant at the Alchevsk steelworks in Ukraine. The turbine will generate electricity by using gases which are by-products of the steel production. As a result, the steelworks will be almost self-sufficient in electricity supply.	**Environment**
International Bank of Azerbaijan, Azerbaijan (The loan is not effective until NIB has entered into a framework agreement with the Republic of Azerbaijan)	Loan programme for financing projects of mutual interest to Azerbaijan and NIB's member countries.	**Financial intermediary**
Kemira International Finance B.V., Netherlands	Construction of a chemical plant at the site of Finnish Botnia's pulp mill in Fray Bentos, Uruguay. Kemira is applying the best technology available, its own process know-how as well as Finnish and Swedish engineering and design to make the new plant fully compliant with EU environmental requirements.	**Manufacturing and mining**
Keravan Lämpövoima Oy, Finland	Construction of a new multi-fuelled, combined heat and power plant in the town of Kerava, southern Finland. Once in operation in late 2009, the new plant will help reduce the import of gas for fuelling the existing power plant in the town.	**Energy**
Latvenergo A/S, Latvia	Modernisation of the company's generating capacity, in particular hydropower plants on the river Daugava, as well as rehabilitation and energy efficiency investments in transmission and distribution networks.	**Energy; Environment**
Lenenergo, Russia	Modernisation of Lenenergo's electricity distribution network in St. Petersburg and the Leningrad Oblast.	**Energy**
Moventas Oy, Finland	Investment in a new wind turbine gear manufacturing facility in Jyväskylä in central Finland. The facility, due to be completed in late 2008, will double Moventas's wind turbine and industrial gear production capacity.	**Energy; Environment**
Nordic Mezzanine Group, Finland	Investment into the Nordic Mezzanine Fund III for onlending as mezzanine loans primarily to Nordic small and medium-sized enterprises.	**Innovations**
NTPC Limited, India	Equipment supplies for power plants necessary for the increase of the generation capacity of the company.	**Energy**
Oi (Telemar Norte Leste S.A.), Brazil	A/B loan for financing the expansion of the company's 2G and 3G mobile networks in the São Paulo region of Brazil.	**Transport, logistics and communications**
Orkla ASA, Norway	Financing of a high-grade silicon metal factory for the solar cell industry. The new production process consumes significantly less energy than traditional methods, lowering production costs as well as air and water emissions.	**Manufacturing and mining; Environment**

>>>

Focus Area

Loans agreed 2008, continued

BORROWER	PROJECT	SECTOR
Outokumpu Oyj, Finland	Investments in the group's stainless steel plant in Avesta, Sweden. The investment will help increase the annual finished product output capacity of the plant from the current 250,000 tonnes to some 650,000 tonnes. This will allow boosting the share of high-value-added products in the group's sales.	Manufacturing and mining
Posten Norge AS, Norway	Construction of a new central post terminal on the outskirts of the capital city Oslo. The project is part of the overall strategy to increase the efficiency of the post handling in Norway.	Transport, logistics and communications
Rettig Group, Finland	Expansion of the company's indoor climate comfort goods and equipment manufacturing facilities in Poland and Ireland.	Manufacturing and mining
AB Rytų Skirstomieji Tinklai, Lithuania	Investment programme, including the construction and the reconstruction of transformer substations and distribution points in the electricity distribution network in eastern Lithuania, including Vilnius.	Energy
Sampo Pankki Oyj, Finland	Onlending to private households, farms and small and medium-sized enterprises in order to finance small-scale environmental projects.	Environment
AB SKF, Sweden	Financing the company's investments in research and development, including the development of new products and increasing the efficiency of production processes.	Innovations; Environment
AB SKF, Sweden	Construction of a greenfield factory for the manufacture of large-sized bearings in India.	Manufacturing and mining
SN Aboitiz Power Benguet, Philippines	Acquisition and rehabilitation of the Ambuklao and Binga hydropower plants in the Philippines.	Energy; Environment
Sparebanken Øst, Norway	Onlending for infrastructure development as well as small and medium-sized enterprise projects in southeastern Norway.	Financial intermediary
JSC The State Export-Import Bank of Ukraine, Ukraine	Loan programme for financing, in particular, environmental projects in the field of energy efficiency, promoting the reduction of harmful emissions affecting NIB's member countries.	Environment
Svenska Cellulosa Aktiebolaget SCA, Sweden	Investments in a new recovery boiler in Obbola, Umeå, and the expansion of an integrated pulp mill in Ortviken, Sundsvall.	Manufacturing and mining; Environment
Tele Greenland A/S, Greenland	Establishing a 4,500-kilometre two-leg marine fibre optic cable connecting Greenland with Iceland and Canada. The cable will safeguard the necessary telecommunications capacity between Greenland and the rest of the world for the next 25 years.	Transport, logistics and communications
Teollisuuden Voima Oy, Finland	Upgrade of turbines and enhancement of safety and efficiency at the Olkiluoto nuclear power plant's two reactors. The project includes retrofitting low-pressure steam turbines, renewing sea water pumps and replacing inner isolation valves in the main steam pipes.	Energy
Vattenfall Treasury AB, Sweden	Upgrade of Vattenfall's hydropower plants in 2006–2013. A major part of the task involves reducing the environmental impact of Vattenfall's operations and utilising water resources more efficiently. The investments are mainly focused on the replacement of turbines, generators and transformers.	Environment; Energy
UAB Vilniaus vandenys, Lithuania	Construction of a sludge treatment facility at a wastewater treatment plant in Vilnius, the capital of Lithuania. The facility will produce biogas to be utilised in a combined heat and power plant, and granules for use in covering landfill areas, as fertiliser, or as fuel for incineration plants.	Environment
Vimpelcom, Russia	Development of the company's GSM infrastructure in Russia and other CIS countries.	Transport, logistics and communications
Wärtsilä Corporation, Finland	Construction of a new spare parts distribution centre in the Netherlands. Centralising the spare parts logistics will help Wärtsilä strengthen its international customer service.	Transport, logistics and communications

Focus Area

CASE

Solar silicon production takes off in Norway

A new plant which is now being completed by Elkem Solar AS, a subsidiary of the Orkla international industrial group, in Norwegian Kristiansand will produce annually approximately 5,000 tonnes of high-grade silicon metal for the solar cell industry. NIB has provided a EUR 145 million loan to finance this project. Read more on page 25.

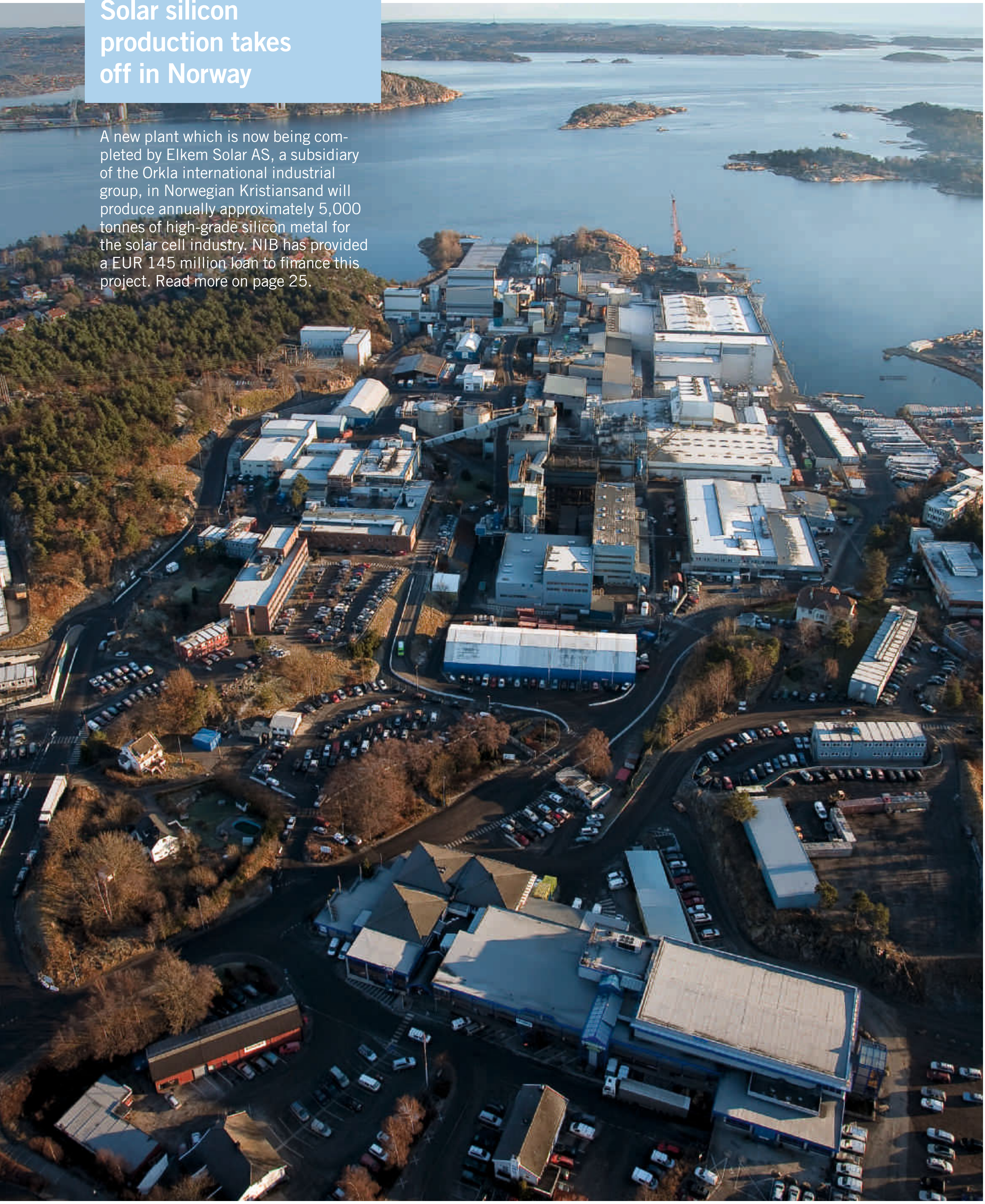


Photo: Orkla

Capital markets

NIB enjoys the highest possible credit rating, AAA/Aaa, from the international rating agencies Standard & Poor's and Moody's and on this basis, NIB continues to raise competitive borrowing in the global capital markets to fund its lending activities.

Focal points 2008:

- Strong demand for NIB bonds continued
- New borrowing reached record high of EUR 4,681 million
- Three global US dollar benchmark bonds were issued within the year
- Widened credit spreads affected the valuation of the treasury portfolios negatively

The year 2008 was challenging for borrowing, liquidity and portfolio management activities, as they continued to be affected by the escalating financial crisis. In the first part of the year, NIB enjoyed strong demand for its bond issues, reflecting a flight to quality with central banks leading the way. In the latter half of the year, NIB faced increasing competition in the global capital markets with the introduction of government-guaranteed bank issues from major European banks, which eroded demand for issues from supranational banks like NIB and resulted in a significant spread widening. Funding of the Bank's business activities was carried out at good funding margins, in line with the peer group. The Bank placed emphasis on its liquidity management during 2008.

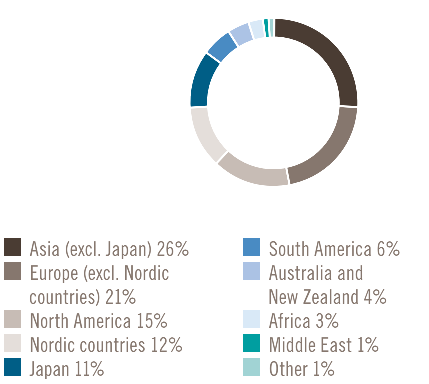
Borrowing. The Bank borrowed a record EUR 4.7 billion on the global capital markets in 59 transactions in 13 currencies. At the end of the year, the Bank's borrowing outstanding amounted to EUR 17,549 million, divided among 19 currencies. Large benchmark issues were complemented with smaller public and private placements in various sizes.

For the first time, NIB issued three global US dollar benchmark issues within one year. The first benchmark was issued in January, amounting to USD 1.25 billion (EUR 841 million) and having a maturity of 3 years. In May, the second benchmark was issued, amounting to USD 1 billion (EUR 645 million) with a 5-year maturity. The last benchmark of the year was issued in November, totalling USD 1 billion (EUR 786 million) with a 3-year maturity. All the issues were met with good investor demand and were followed by good performance in the secondary market. In addition to the large benchmark transactions, the Bank issued in September a USD 500 million (EUR 345 million) 5-year bond targeting retail investors in Europe.

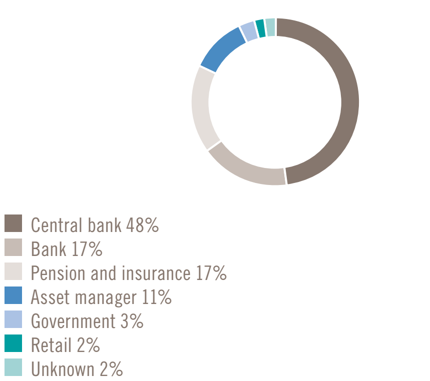
The majority of NIB's investors in 2008 were located in Europe (33%) and the Americas (21%), while Asian investors remained another large investor group (37%). Central banks (48%) were still the biggest type of investor, but other investor types like commercial banks as well as pension and insurance companies have been increasingly seeing the value of NIB issues (see Figure 24).

The Bank aims to issue bonds on the main global capital markets and be perceived as a strong Nordic bond issuer. The Bank's currency distribution showed less diversification last year, with the US dollar accounting for 70% of all new borrowing, while the pound sterling accounted for 14%, and only 1% of

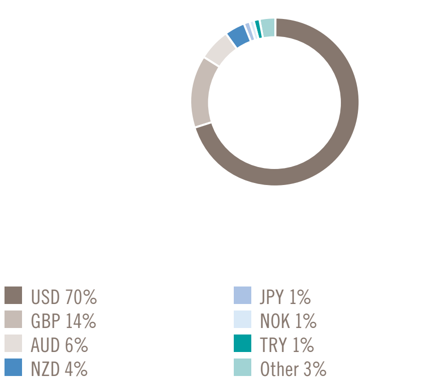
New borrowings fig. 23
Geographical distribution 2008



New borrowings fig. 24
Investor distribution 2008



New borrowings fig. 25
Currency distribution 2008



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

new borrowing was in Japanese yen (see Figure 25).

Outstanding borrowing in the US dollar grew to 56%, while outstanding borrowing in pound sterling accounted for 11% of total borrowing. The outstanding borrowing in Japanese yen amounted to 12%, while borrowing in euro was only 4% (see Figure 26).

The average maturity of new borrowing was shorter (3.6 years) compared to earlier years and was below the Bank's target. The financial turmoil caused investors to prefer shorter maturities and to make their investments in the US dollar, resulting in a shorter average duration and lesser currency diversification in the Bank's borrowing.

On the other hand, NIB responded to increased investor demand for callable zero coupon notes by issuing 13 notes in 2008. NIB also entered exotic markets by issuing two rare synthetic Argentinian peso notes and one Russian rouble zero coupon note. After some years of absence, NIB returned to the South African capital market with one bond issue in ZAR.

In 2008, the global banking community and other market participants elected NIB's funding team as the best in the category: "Best funding team Supranational/Agency with a funding requirement of less than EUR 20 billion".

The prestigious award was given by the financial magazine EuroWeek.

NIB's long-term borrowing in 2008 is presented in chronological order on page 36.

Liquidity and portfolio management. During the year the Bank's liquidity increased by EUR 1,198 million to total EUR 7,375 million. The increase includes an increase in cash and cash equivalents of EUR 227 million to total EUR 4,858 million and an increase of investment securities of EUR 919 million to total EUR 2,502 million.

The Bank emphasised enhancing liquidity last year. The increase in cash and cash equivalents includes an increase in short-term money market placements of 1,300 million to total EUR 2,487 million and a fall in cash equivalent securities of EUR 1,016 million to total EUR 2,276 million (see Figure 27).

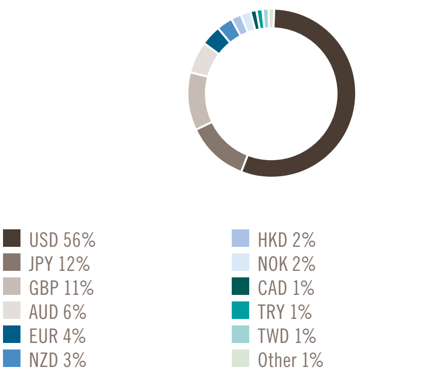
The major explanation for the fall in cash equivalent securities was caused by a reclassification of specific financial assets. The financial crisis had an enormous effect on market liquidity in tradeable securities; especially the market for European residential mortgage-backed securities was adversely affected. This led the Bank to reclassify EUR 637 million of high-rated residential mortgage-backed securities (see Figure 27) from the liquidity portfolio to the held-to-maturity portfolio under reference to the IASB's amended rules. The reclassified securities have for that reason been re-booked from cash equivalent securities to investment securities. The reclassification implied additional borrowing.

NIB enjoyed strong demand for its bond issues

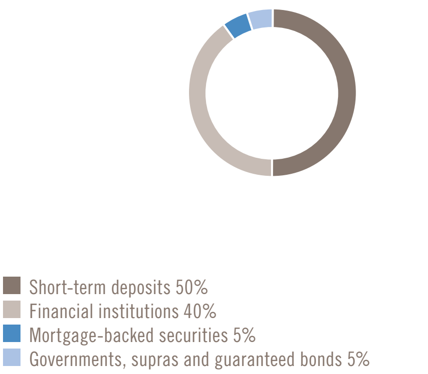
The investments in the own capital portfolio are in fixed-rated securities denominated in euro with the objective of generating a satisfactory return comparable to a euro-denominated government bond benchmark index (see Figure 30). At the end of 2008, the portfolio amounted to EUR 1,938 million and was booked under investment securities. The increase in the Bank's investment securities is a result of the reclassification and new investments.

Due to the high volatility in the financial markets, NIB's investment strategy was changed in 2008. The active management of the portfolio was reduced and the held-to-maturity part was increased from 65% to more than 90%. In addition, the overall quality of the portfolio was strengthened and re-investments were only made in core

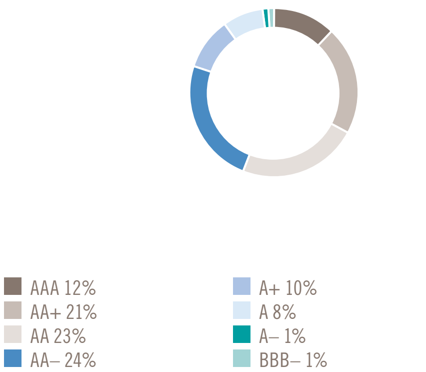
Borrowings outstanding fig. 26
Currency distribution as of 31 Dec 2008



Liquidity fig. 27
Distribution by security as of 31 Dec 2008



Liquidity fig. 28
Distribution by rating of security as of 31 Dec 2008



euro zone government bonds. The duration of the portfolio was increased to be in line with the benchmark.

In 2008 NIB's investment strategy was changed and the held-to-maturity portfolio was increased

NIB uses external managers for interest rate trading with the objective of increasing returns through risk diversification. The external managers are authorised to take positions corresponding to a total amount of USD 200 million in unfunded balance instruments. At year-end, all managers had a positive return and the overall result was very satisfactory.

Despite higher core earnings, NIB recorded a financial loss for 2008. The loss emerged from negative valuations in the treasury portfolio, the effects of the hedge accounting and increased impairments affecting the loan book.

Most of the valuation losses in the treasury portfolio were caused by the widening in credit spreads in the financial markets. While the majority of the valuations are unrealised losses, the Bank also has exposures to Icelandic banks and to the defaulted Lehman Brothers Holdings Inc., for which the recovery rates are uncertain.

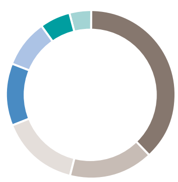
The default of Lehman Brothers in September 2008 resulted in a valuation loss totalling EUR 51 million arising from NIB's exposure to Lehman Brothers bonds and swaps. The failure of the Icelandic financial system has resulted in a valuation loss arising from swap exposures and direct treasury exposure to Icelandic banks amounting to EUR 78 million.

The sharp decline in short-term interest rates in the last months of 2008 resulted in a negative adjustment to fair value hedge accounting under IAS 39 amounting to EUR 38.8 million. These are unrealised valuation losses, which are expected to be recouped during the first half of 2009. The negative adjustment to hedge accounting was counterweighted by a fair value adjustment to unhedged commercial loans amounting to EUR 46 million.

Future prospects. NIB will continue to seek the diversification of its borrowing by supporting existing markets and exploiting new markets and investors. In addition, the Bank aims at increasing the duration of its borrowing to be able to continue to deliver long-term financing to its customers. The objectives for the treasury portfolios are to secure sufficient liquidity and to contribute stable earnings from the Bank's own capital portfolio and active managed investments.

Liquidity fig. 29

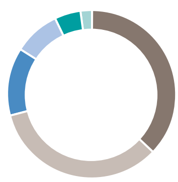
Country distribution of spread-to-maturity portfolio as of 31 Dec 2008



- United Kingdom/Rating AAA 38%
- Spain/Rating AAA 16%
- Australia/Rating AAA 15%
- Portugal/Rating AAA 12%
- Netherlands/Rating AAA 9%
- Ireland/Rating AAA 6%
- Italy/Rating AAA 4%

Own capital fig. 30

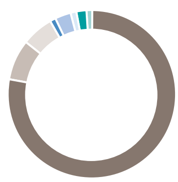
Portfolio sector distribution as of 31 Dec 2008



- Covered bonds 37%
- Government bonds 34%
- Supras, local goverments and agencies 13%
- Cash 9%
- Financials 5%
- Other 2%

Own capital fig. 31

Portfolio distribution by security as of 31 Dec 2008



- AAA 78%
- AA+ 8%
- AA 6%
- AA– 1%
- A+ 3%
- A 1%
- A– 2%
- BBB– 1%

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

Capital structure

As of 31 December 2008, NIB's authorised capital was EUR 4,141.9 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 allocation of the result from the financial year 2008 in accordance with the proposal made by the Board of Directors, the Ordinary Lending ceiling amounts to EUR 12,928 million.

NIB continues to have AAA/Aaa credit rating

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.

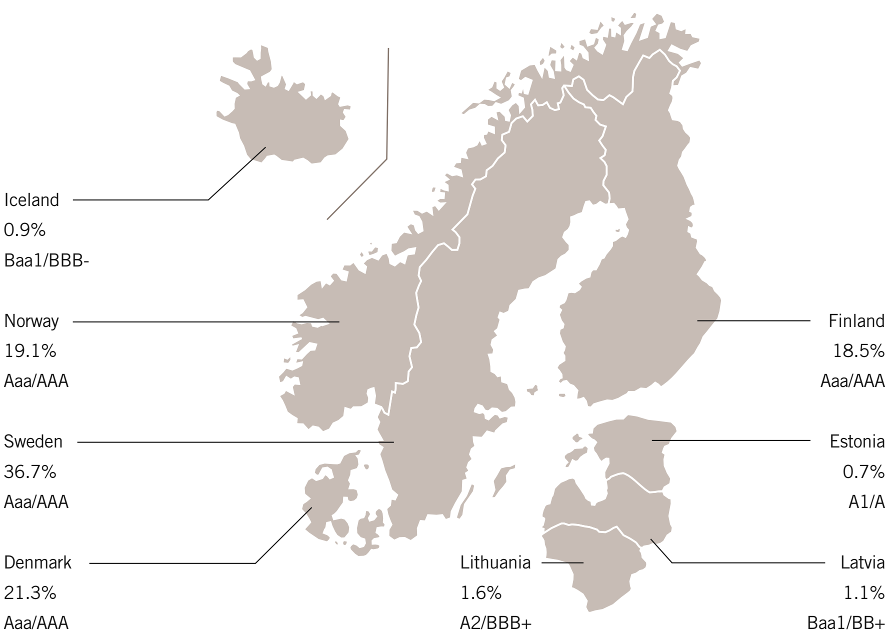
NIB's member countries have subscribed to its authorised capital and guaranteed the special loan facilities in proportion to their gross national income. The countries' share of the authorised capital at the end of 2008 is shown on the map of member countries. For further information, see Note 14.

A more detailed presentation of the loan facilities, the guarantee structure and the guarantee distribution is provided in Note 8.

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

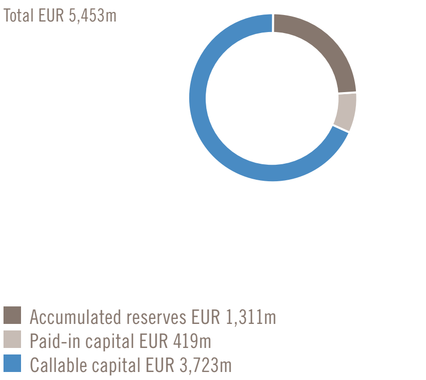
Member countries fig. 32

Share of authorised capital, ratings by leading credit rating agencies Moody's and Standard & Poor's as of March 2009.

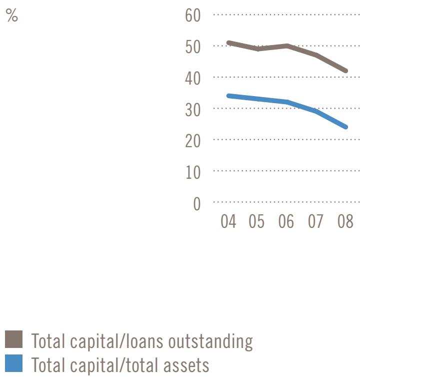


Capital base fig. 33

As of 31 Dec 2008



Capital ratios fig. 34



New long-term borrowing 2008

Currency	Amount million	Amount EUR million	Issue date	Maturity date	Issue price	Coupon rate/structure
USD	20	14	29.12.2008	29.12.2038	100.000%	0.000%
USD	109	14	29.12.2008	29.12.2038	18.374%	0.000%
USD	30	22	29.12.2008	29.12.2038	100.000%	0.000%
SEK	136	9	22.12.2008	11.01.2018	73.964%	0.000%
SEK	80	6	22.12.2008	13.01.2017	76.528%	0.000%
RUB	1,888	9	09.12.2008	10.12.2018	19.000%	FX-linked
USD	1,000	786	28.11.2008	15.12.2011	99.766%	2.375%
USD	20	16	26.11.2008	26.11.2038	100.000%	0.000%
USD	20	16	24.11.2008	24.11.2038	100.000%	0.000%
USD	20	16	20.11.2008	20.11.2038	100.000%	0.000%
USD	100	79	10.11.2008	10.01.2011	100.000%	FRN
TRY	330	28	14.10.2008	14.10.2022	16.985%	0.000%
NOK	68	8	14.10.2008	14.04.2009	101.050%	8.500%
JPY	500	3	16.09.2008	16.09.2038	100.000%	PRDC
USD	500	350	11.09.2008	11.09.2013	101.295%	3.500%
JPY	1,000	7	09.09.2008	09.09.2038	100.000%	PRDC
USD	10	7	28.08.2008	28.08.2038	100.000%	0.000%
ARS	46	10	27.08.2008	27.08.2013	100.000%	FX-linked
CHF	8	5	20.08.2008	20.08.2010	101.202%	FRN
USD	8	5	20.08.2008	20.08.2010	100.921%	FRN
GBP	5	6	20.08.2008	20.08.2010	101.210%	FRN
EUR	8	8	20.08.2008	20.08.2010	101.273%	FRN
ARS	30	7	15.08.2008	15.08.2011	100.000%	FX-linked
USD	30	20	08.08.2008	08.08.2038	100.000%	0.000%
USD	30	20	06.08.2008	06.08.2038	100.000%	0.000%
USD	30	20	06.08.2008	06.08.2038	100.000%	0.000%
USD	230	26	02.07.2008	02.07.2036	17.885%	0.000%
NOK	100	12	30.06.2008	30.06.2010	100.000%	6.230%
JPY	1,000	6	27.06.2008	23.03.2038	100.000%	Trigger PRDC
USD	10	6	24.06.2008	24.06.2038	100.000%	0.000%
JPY	500	3	18.06.2008	28.06.2018	100.000%	FX-linked
JPY	900	5	29.05.2008	29.05.2023	100.000%	PRDC
USD	1,000	645	14.05.2008	17.06.2013	99.569%	3.625%
GBP	100	127	08.05.2008	07.12.2012	99.895%	4.875%
USD	10	6	02.05.2008	02.05.2038	100.000%	0.000%
JPY	1,900	12	14.04.2008	09.04.2018	100.000%	FX-linked
USD	100	64	14.04.2008	14.04.2009	100.000%	2.010%
NOK	100	13	07.04.2008	30.07.2010	98.194%	4.625%
GBP	100	126	28.03.2008	07.12.2011	101.257%	4.875%
NZD	70	35	25.03.2008	15.04.2015	99.026%	7.500%
NZD	30	15	25.03.2008	15.04.2015	99.026%	7.500%
AUD	200	115	19.03.2008	18.01.2011	95.599%	5.375%
USD	100	63	19.03.2008	19.03.2009	100.000%	2.000%
GBP	100	126	13.03.2008	07.12.2012	100.876%	4.875%
JPY	500	3	13.03.2008	12.03.2028	100.000%	PRDC
JPY	500	3	12.03.2008	12.03.2038	100.000%	Trigger PRDC
USD	280	27	05.03.2008	05.03.2038	15.034%	0.000%
ZAR	110	9	03.03.2008	25.02.2010	100.000%	9.650%
GBP	200	261	29.02.2008	07.12.2012	99.939%	4.875%
USD	44	29	25.02.2008	25.02.2038	100.000%	TARN
USD	100	67	30.01.2008	30.01.2009	100.000%	2.920%
JPY	1,000	6	29.01.2008	23.01.2018	100.000%	FX-linked
JPY	1,000	6	29.01.2008	29.01.2038	100.000%	TARN
AUD	300	180	22.01.2008	18.01.2011	94.943%	5.375%
USD	1,250	840	18.01.2008	15.02.2011	99.841%	3.125%
USD	100	67	11.01.2008	11.01.2009	100.000%	FRN
USD	100	67	10.01.2008	10.01.2011	100.000%	Callable fixed coupon
JPY	1,000	6	08.01.2008	08.01.2038	100.000%	Equity linked
NZD	250	132	03.01.2008	13.09.2010	98.796%	7.750%

CASE

Modernised gateway to Estonia

In September 2008, the capital of Estonia, Tallinn, opened its international airport after an extensive renovation. The modernised gateway will make the country even more attractive to business and as a leisure destination. NIB provided a EUR 32 million loan in cooperation with SEB Eesti.

Photo: Tallinn Airport

Human resources

NIB is committed to the development and well-being of its employees and emphasises the importance of dedicated employees for the Bank's performance. NIB's main objectives as an employer are the promotion of a balanced diversity among the staff, equal treatment of all staff members and prevention of discrimination. The Bank also recognises that the competing demands of work and private life are a challenge and supports the employee's commitment to fulfilling the Bank's mandate.

Focal points 2008:

- NIB Way—Leadership and Cultural Development Programme launched
- Introduction of the SMART values
- Development of the Compensation Policy framework

Staffing and recruiting. NIB's operations as an international financial institution (IFI) call for a professionally and culturally diversified staff. Thus NIB aims to attract and retain talented staff that possess the competencies and skills needed for effectively implementing its strategy.

NIB recruits highly qualified staff with broad experience, mainly from the member countries, but also outside the membership area. In recruitment the main emphasis is put on professional qualifications and the experience of the person concerned. Diversity in every respect among the employees is essential for the business. In 2008 NIB recruited alltogether 22 women and men to permanent positions. The new employees originated from Finland, the United Kingdom, Iceland, Latvia, Lithuania and Sweden.

The majority of NIB's staff members are employed on a full-time basis and have permanent employment contracts. At the end of 2008, NIB had 170 employees in permanent positions, comprising 82 women and 88 men representing 11 nationalities. In addition, 11 persons worked in temporary positions, resulting in a total of 175.8 employees on average during the year. The exit turnover was 3.6%, as 6 employees left the Bank during 2008. The average age of NIB's employees in permanent positions was 43.4 years, and the average length of service was 9.6 years.

HR Development. The job satisfaction survey conducted at the end of 2007 showed that the Bank has been concentrating on the right development issues, e.g., the revision of the Bank's compensation policy as well as the development of training programmes in order to improve work processes and the interaction and communication between management and staff.

The main focus of HR development in 2008 was a comprehensive training programme—the NIB Leadership and Culture Development Programme, the NIB Way—for the entire staff

NIB has 170 employees in permanent positions, comprising 82 women and 88 men representing 11 nationalities including the members of the Management Committee. The main topics of the programme were leadership and cultural awareness. The aim was to create and enhance an integrated and uniform NIB culture. An essential element of the programme was introducing the new "SMART" values, which were created in a Management Committee workshop in the beginning of the year. The SMART values: Supportive, Multicultural, Active, Responsive and Target-oriented, were developed with a view to creating a common base for the fulfilment of the Bank's mission and strategy as well as its business and financial targets.

A wide range of training opportunities were offered

The training programme, which started with an all-day session for the entire staff, continued with both leadership and employeeship modules. The main subjects dealt with in the leadership programme were business understanding and leadership skills, as well as the networking possibilities these kinds of programmes offer. In the employeeship programme, the emphasis was put on the employee's responsibility, his/her own role as an active employee and how all employees contribute to reaching the Bank's goals. In both programmes, Expectation Management was dealt with. During 2008 all employees attended some part of the training programme according to their position. The NIB Way programme is continuing in 2009, concentrating on the business planning process and the SMART values.

A series of interdepartmental workshops were arranged in summer 2008 with the purpose of discussing "transaction teams", which consist of representatives from different departments responsible for the processing of lending transactions undertaken by the Bank. The workshops resulted in a decision to clearly document the transaction team workflow. The final workflow was designed in discussions in smaller groups with all units involved in the processing of the transactions. The outcome was included in the Lending Handbook, which is available for the staff on the Bank's intranet.

In addition to the training programme and workshops, NIB offered its personnel a wide range of internal and external training opportunities. The average number of training days per employee in 2008 remained on the same high level as in 2007, that is, 6.4 days. External courses and seminars focused on areas such as credit analysis, risk management, accounting and wind power knowledge. Several in-house seminars, courses and workshops focusing on integrity due diligence, project finance, team development, and NIB's new intranet were arranged in 2008. More than 280 employees in total participated in such training. The internal activities also included language and ICT training.

Compensation. In the beginning of 2008 the revised principles of the Compensation Policy were adopted by the Board of Directors. The new Compensation Policy establishes the main elements of NIB's total compensation as well as compares NIB to the relevant reference groups in the financial market.

The revision of the principles was the first step in the implementation of a new compensation process in NIB. The work to develop the process and the Compensation Policy framework continued during the year. The aim of the work is to gradually increase the part of the compensation that is linked to the individual performance of employees. The revised compensation process will be linked to the Job Evalu-

ation and Performance Management process introduced in the Bank in 2007.

Compensation will be based on the work profile (job evaluation grades), competencies and performance of the job holder. Goals and objectives are set out in individual work plans based on NIB's business plan. The individual work plan is followed up by continuous monitoring of and feedback on the employee's progress towards the agreed objectives.

The revised Compensation Policy and the new compensation process is to be implemented in NIB in 2009.

Modes of cooperation. The main body for promoting cooperation within NIB is the Cooperation Council, which consists of representatives of both the employees and the employer. The aim of the Council is to develop working conditions and improve interaction. The work of the Council makes cooperation between the employer and the employees more effective and the staff's opinions are better taken into consideration in the decision-making process, while leaving NIB's management with the ultimate decision-making power.

A working group with a mandate from the Cooperation Council has started the work of developing the Bank's Equality Plan. The present Equality Plan prioritises four areas: equal opportunities for promotion, recruitment and rotation; equal pay; attitudes towards gender issues; and the prevention of sexual harassment.

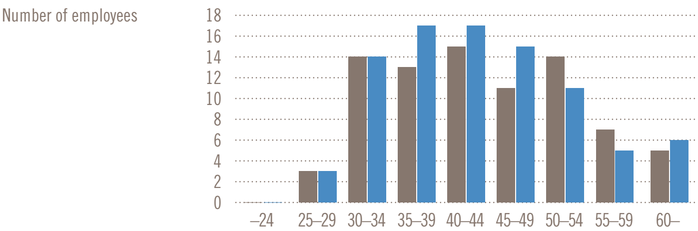
The main focus has been put so far on issues connected to gender equality; other forms of equality (e.g. based on nationality, age or sexual orientation) will also be considered in the revised plan. Future Equality Plans will include assessing the effectiveness of measures adopted to promote equality.

Health, well-being and safety. NIB endeavours to create a safe and healthy working environment for its employees and to prevent sickness and accidents at work. The Bank has an Occupational Safety Commission representing both the employees and the employer which supervises occupational safety, hygiene and ergonomics in the workplace. The Commission consists of an occupational safety manager, an occupational safety agent and a deputy agent. The Occupational Safety Commission operates as a part of the Cooperation Council.

In addition to occupational health care, private health care and medical services are available to the employees based on a health insurance policy taken out by NIB. Preventive health care and

The personnel structure by age group and gender fig. 35

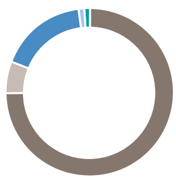
As of 31 Dec 2008



Female
Male

Educational background fig. 36

Staff's level of education as of 31 Dec 2008



University 75%
Polytechnic 6%
Vocational School 17%
Upper secondary school 1%
Comprehensive school 1%

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

measures ensuring occupational safety and ergonomics are emphasised in securing the physical well-being of the personnel. Various fitness activities are subsidised as a part of preventive health care.

Employees have the status of staff members in an international organisation

Social and cultural activities organised by NIB's Staff Activity Club enhance workplace satisfaction and encourage employee networking, which is especially important for employees coming to work at NIB from outside the host country.

All employees are automatically members of the Staff Activity Club. In addition to traditional parties and trips, in 2008 the Activity Club also arranged various kinds of cultural and sports events.

Code of conduct. The activities of the Bank's employees are governed by a code of conduct. The employees are expected to carry out their tasks to the best of their ability, in compliance with the instructions issued by the Bank and in conformity with NIB's objectives and best interests. The employees should aim at meeting the highest ethical standards in their work, consistent with the values of integrity, impartiality, loyalty, accountability and discretion. The staff should strive to avoid even the appearance of impropriety in their conduct.

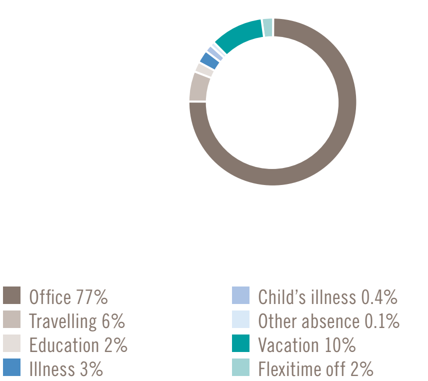
Facts about NIB's staff. NIB's employees have the status of staff members in an international organisation. Based on NIB's legal status, the host country's, i.e., Finland's, or any other member countries' labour law or other legislation does not as a rule apply to the employees automatically. There are some exceptions, in particular as regards taxation, social security and pensions. Consequently, NIB has established its own regulations for the staff, which have been approved by the Board of Directors. The regulations are available on NIB's website www.nib.int.

The employees pay taxes on their income from NIB according to applicable national legislation and benefit from social security and pension insurance based on their residence. The employees enjoy immunity from legal process in the Bank's member countries as regards acts performed in their official capacity.

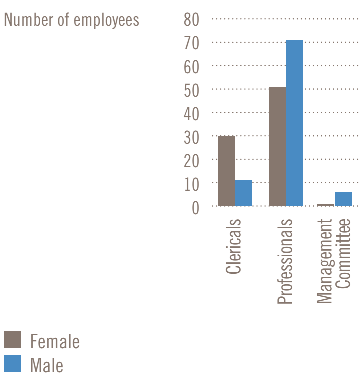
As NIB is not subject to the jurisdiction of national courts, the Bank has set up arbitration rules for potential employment-related disputes.

NIB has an Ombudsman whom the employees can consult and who also can act as mediator in employment-related disputes.

Working days 2008 fig. 37



Staff by category and gender fig. 38
As of 31 Dec 2008



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

Global Reporting Initiative

GRI reporting indicators

The Global Reporting Initiative (GRI) is the world's most widely used sustainability reporting framework. The guidelines are for voluntary use by organisations to report on economic, environmental and social aspects of their operations. NIB published its first annual report in accordance with the GRI framework in 2008. The table below compares NIB's Annual Report 2008 with GRI's G3 guidelines and the associated indicators in the financial services sector supplement.

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4.12	Participation in externally developed initiatives	18
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EC6	Policy, practices, and proportion of spending on local suppliers	-
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EN1	Materials used by weight or volume (internal)	20
EN2	Percentage of materials used that are recycled input materials (internal)	20 (partially)
EN3	Direct energy consumption (internal)	20
EN4	Indirect energy consumption (internal)	20
EN5	Energy saved due to conservation and efficiency improvements (internal)	20
EN6	Initiatives and results for energy-efficient or renewable energy-based products (internal)	-
EN7	Initiatives to reduce indirect energy consumption (internal)	20 (partially)
EN8	Total water withdrawal by source (internal)	20
EN9	Water sources significantly affected by withdrawal of water (internal)	not appl.
EN10	Recycled and reused water (internal)	not appl.
EN11	Location and size of land managed in, or adjacent to sensitive areas (internal)	not appl.
EN12	Impacts of activities, products, and services on biodiversity in sensitive areas	-
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EN21	Total water discharge (internal)	20
EN22	Waste by type and disposal method (internal)	20 (partially)
EN23	Number and volume of significant spills (internal)	not appl.
EN24	Waste deemed hazardous under the terms of the Basel Convention (internal)	-
EN25	Influence of waste water on the environment (internal)	not appl.
EN26	Initiatives to mitigate environmental impacts of products and services	10-11, 17-20
EN27	Reclaimed products and packaging materials (internal)	not appl.
EN28	Monetary fines and non-compliance with environmental laws and regulations (internal)	20
EN29	Environmental impacts of transport and travel (internal)	20
EN30	Environmental protection expenditures and investments	25 (partially)

	SOCIAL	
LA1	Total workforce by employment type, contract, and region (internal)	38, 41
LA2	Employee turnover (internal)	38 (partially)
LA3	Benefits provided only to full-time employees (internal)	SR, note 5 (partially)
LA4	Percentage of employees covered by collective bargaining agreements	-
LA5	Minimum notice period(s) regarding significant operational changes (internal)	not appl.
LA6	% of workforce represented in health and safety committees (internal)	41
LA7	Rates of injury, accidents, occupational diseases, lost days, and absenteeism (internal)	42 (partially)
LA8	Education, training and risk-control programmes regarding serious diseases (internal)	41
LA9	Trade union agreements on health and safety topics (internal)	not appl.
LA10	Hours of training per employee by employee category (internal)	40, 42
LA11	Programmes for skills management and lifelong learning (internal)	38-40
LA12	Regular performance and career development reviews (internal)	40-41
LA13	Composition of governance bodies and employees according to gender, age, etc. (internal)	41, 52-53
LA14	Salary levels of men to women (internal)	-
	Social performance: human rights	
HR1	Human rights screening in investments	17-20, EP
HR2	Human rights screening of suppliers (internal)	-
HR3	Employee training on policies and procedures on human rights (internal)	-
HR4	Number of incidents of discrimination and actions taken (internal)	-
HR5	Actions taken to secure freedom of association	SR
HR6	Measures taken to prevent child labour	EP
HR7	Measures taken to contribute to the elimination of forced or compulsory labour	EP
HR8	Training of security personnel concerning aspects of human rights (internal)	not appl.
HR9	Violation of rights of indigenous people and actions taken	-
	Social performance: society	
SO1	Policy to assess and manage the impacts of operations on communities	EP
SO2	Business units analysed for risks related to corruption	7, 50
SO3	Anti-corruption training (internal)	40, 50
SO4	Actions taken in response to incidents of corruption	50
SO5	Public policy positions and lobbying (internal)	not appl.
SO6	Contributions to political parties, politicians and related institutions (internal)	not appl.
SO7	Legal actions for anti-competitive behaviour	not appl.
SO8	Monetary fines and sanctions for non-compliance with laws and regulations	-
	Social performance: product responsibility	
PR1	Responsibility for the life cycle impacts of products and services on health and safety	-
PR2	Incidents of non-compliance concerning health and safety impacts	-
PR3	Obligations to publish product information	not appl.
PR4	Breaches against product and service information and labeling	not appl.
PR5	Practices related to customer satisfaction	-
PR6	Programmes for adherence to laws and standards related to marketing	-
PR7	Incidents of non-compliance with marketing communications	-
PR8	Breaches of customer privacy and losses of customer data	-
PR9	Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	-

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GRI financial services supplement		Page in Annual Report
FS1	Policies with specific environmental and social components applied to business lines.	EP, 17-20
FS2	Procedures for assessing and screening environmental and social risks in business lines.	EP, 17-20
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	EP
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	17-18
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	7, 17-20, EP
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	4-5
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	-
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	24-25, 28-30, B&C
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	-
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	18
FS11	Percentage of assets subject to positive and negative environmental or social screening.	18 (partially)
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	-
FS13	Access points in low-populated or economically disadvantaged areas by type.	-
FS14	Initiatives to improve access to financial services for disadvantaged people.	-
FS15	Policies for the fair design and sale of financial products and services.	-
FS16	Initiatives to enhance financial literacy by type of beneficiary.	-

-	not currently covered by the Bank's reporting
B&C	information available on the BASE & CLEERE webpages under www.nib.int
EP	NIB's environmental policy, available on the Bank's website, www.nib.int
internal	all indicators take into consideration both in-house effects as well as the effect of NIB's lending activities, unless specified to only include in-house effects (marked with "internal")
not appl.	not applicable with banks in general or due to NIB's status as an International Financial Institution
Note X	refers to a specific note in the Financial Report 2008, pages 55–96
partially	the indicator is partially treated in the Report
SR	NIB Staff Regulations, available on the Bank's website www.nib.int

Corporate governance

NIB promotes transparency, predictability, accountability, responsibility and disclosure as general principles enhancing and furthering good governance.

NIB was established in 1975 by the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. In 2005, the membership of the Bank was enlarged when the three Baltic countries: Estonia, Latvia and Lithuania, joined the Bank as new members.

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

The constituent documents establish that NIB is the member countries' common international financial institution, having the same status as other legal persons conducting similar operations within and outside the member countries. Furthermore, the constituent documents stipulate that NIB has the status of an international legal person with full legal capacity, define the immunities and privileges of the Bank and its personnel and set out the structure for the governance of the Bank. As an international organisation, NIB is as such not legally bound by national legislation nor is it subject to supervision by any national authorities. Notwithstanding the foregoing, the Bank is expected to respect the laws of the host country and its other member countries, as well as all other countries in which it carries out activities, and the Bank aims at best practices in the field of corporate governance.

In addition to the constituent documents of the Bank, NIB's activities are governed by a number of policies, guidelines and instructions adopted by the Board of Directors or the President of the Bank. More information can be found elsewhere in the Annual Report, as well as on the Bank's website at www.nib.int.

Board of Governors. According to the Agreement and Statutes, the Board of Governors is the supreme decision-making body vested with exclusive powers to make ultimate decisions concerning: amendment of the Statutes; increases or decreases of the authorised capital stock; approval of the annual Report of the Board of Directors and the audited financial statements of the Bank; appointment of the Chairman and Deputy Chairman of the Control Committee; interpretation and application of the provisions of the Agreement and the Statutes; procedures for withdrawals of membership and the liquidation of the Bank. The Board of Governors annually reviews the remuneration of the Board of Directors and the Control Committee. The Board of Governors approves the Code of Conduct of the Board of Directors and the President.

The Board of Governors noted the progress NIB has made to strengthen its role in the Baltic Sea region

The Board of Governors is composed of eight Governors. The eight Governors are designated by each member country respectively from among the ministers in its government. The Board of Governors appoints a Chairman for one year according to the rotation scheme adopted by it. The Governor for Norway is serving as Chair until 1 June 2009.

The decisions of the Board of Governors shall be unanimous. The work of the Board of Governors is governed by its adopted rules of procedure. The Board of Governors holds an annual meeting and such other meetings as deemed appropriate. The Board of Governors held its annual meeting on 9 April 2008. In the annual meeting, the Board of Governors noted the progress the Bank has made to strengthen its role in the Baltic Sea region and supported the Bank's request for funds from the member countries for project preparation. The Governors encouraged more active interaction with the European Commission and promised their support for the Bank's efforts in this regard. The Board also asked the Bank to study the possibility of increasing its focus on several key sectors: environment; energy; transport, logistics and communications; and innovations.

The Bank's Governors are listed on page 52.

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

The Board of Directors consists of eight Directors, each of whom has one Alternate. The Directors and their Alternates are appointed by the respective member country for a maximum term of four years at a time. The Board of Directors appoints a Chairman and a Deputy Chairman from among the Directors to serve for a period of two years in accordance with the rotation scheme adopted by the Board of Governors. The Estonian Board Member, Madis Üürike, was appointed Chairman of the Board of Directors for the period 1 June 2008 to 31 May 2010 and the Danish Board Member, Jesper Olesen, was appointed Deputy Chairman for the same period.

The Board of Directors can delegate its powers to the President

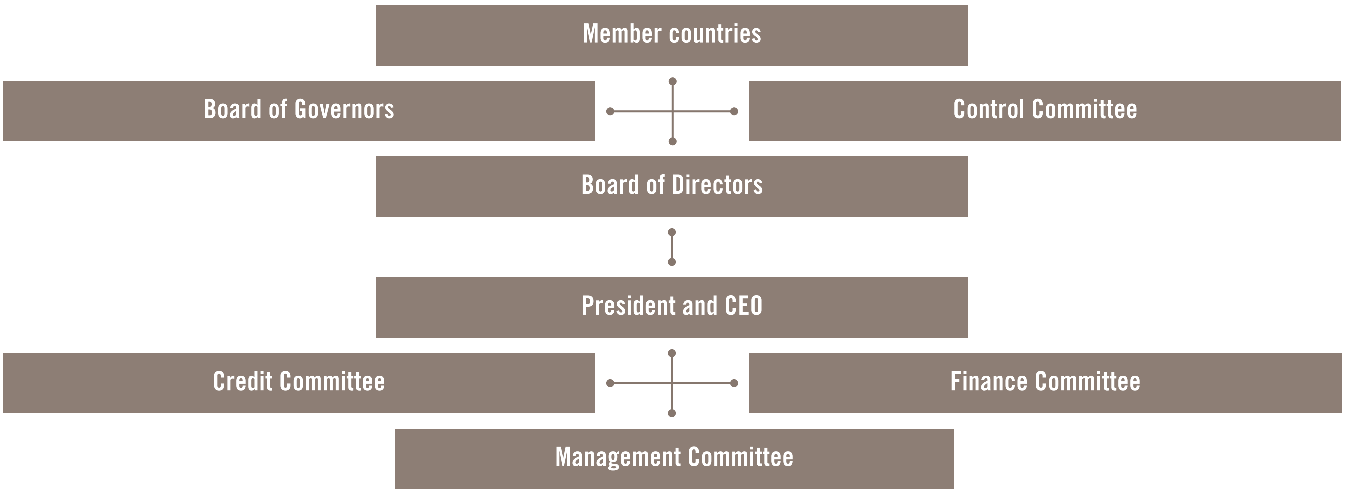
Each Director has one vote and seven Directors or Alternates entitled to vote constitute a quorum. A position supported by at least five Directors or Alternates entitled to vote shall become the decision of the Board of Directors.

The work of the Board of Directors is governed by its rules of procedure. Alternates are entitled to attend all Board meetings but can vote only in the absence of the Director. There are currently no formal committees established within the Board of Directors. The Chairman and Deputy Chairman work closely with the President in between the Board meetings. The Board meets approximately eight times a year. Decisions can be made according to a written procedure.

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

The Board of Governors determines annually the amount of the remuneration and attendee allowance for the Board of Directors. For further information, see Note 5.

The Board of Directors met 8 times during the year 2008. The Board



discussed the financial crisis and its effects and approved two new environmental loan programmes, one for the Baltic Sea (BASE) and one with a focus on climate change (CLEERE). Furthermore, the Board approved a new Compensation Policy, a new Operational Risk Management Policy and discussed a revised Liquidity Policy.

The members of the Board of Directors are listed on page 53.

President. The President is considered the legal representative of the Bank and is responsible for the conduct of the current operations of the Bank. The President is appointed by the Board of Directors for a term of five years at a time. The President may not be a member of the Board of Directors, but is present at its meetings. The President shall follow the instructions and guidelines established by the Board of Directors. The President shall ensure that the Board of Directors gets objective, full and relevant information so that the Board can make well-founded decisions and be kept informed of the progress of the Bank's business operations, if needed also between Board meetings. In accordance with its delegation powers, the Board of Directors has authorised the President to carry out borrowing and associated treasury activities and to make certain lending decisions.

The President is assisted in his work by the Management Committee, the Credit Committee and the Finance Committee.

The Management Committee is the forum for addressing policy and management issues; it has the overall responsibility for risk management. The Management Committee consists of the President and six senior officers whose appointment to the Committee is confirmed by the Board of Directors. The Committee meets approximately twice a month. The meetings are chaired by the President, who makes decisions after consulting with the members of the Committee. The Management Committee met 26 times in 2008.

The Credit Committee is responsible for the preparation of and the decision-making on matters related to the lending operations of the Bank. The President exercises his delegated decision-making powers concerning lending operations through the Credit Committee. The Committee includes the President and six senior officers appointed to the Committee by the Board of Directors. Currently, the Credit Committee has the same members as the Bank's Management Committee. The Credit Committee is chaired by the President or in his absence by one of its members. The Committee meets once a week and in addition as needed. The Credit Committee met 55 times during 2008.

The Finance Committee is an advisory body to the President and monitors the market risk, liquidity risk and credit risk related to the Bank's treasury operations. The Committee includes the President and four members, and convenes once a month. The Finance Committee met 12 times during 2008.

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

The President's employment terms, including remuneration, are determined by the Board of Directors. For further information, see Note 5.

The President and the members of the Management Committee are presented on page 54.

Control Committee. The Bank's supervisory body, the Control Committee, is responsible for the audit of the Bank and supervises that the operations of the Bank are conducted in accordance with the Statutes. The Control Committee delivers its audit report to the Board of Governors.

The Control Committee consists of ten members. The Nordic Council and the Parliaments of Estonia, Latvia and Lithuania appoint eight members to the Committee, with one member representing each member country. The members are appointed for a term of up to two years at a time. Furthermore, two members are appointed by the Board of Governors to serve as Chairman and Deputy Chairman according to the rotation scheme adopted by the Board of Governors. The Chairman and Deputy Chairman attend at least two of the meetings of the Board of Directors per year and they also receive the minutes of the Board meetings. The Board of Governors appointed Darius Matusevičius from Lithuania to act as Chairman for the period 1 June 2008 to 31 May 2009 and Torsten Gersfelt from Denmark to serve as Deputy Chairman for the same period.

Decisions of the Committee require the assent of the majority of its members except for decisions concerning the financial statements and the audit report, which shall be unanimous.

The work of the Control Committee is governed by its rules of procedure and its members are bound by a code of conduct.

The Control Committee is responsible for the audit of the Bank

The Control Committee appoints two professional external auditors every year for the purpose of assisting the Committee in carrying out its work and responsibilities. The professional auditors carry out the audit of the Bank in accordance with the International Standards on Auditing as issued by the International Federation of Accountants and as commissioned by the Committee. The Committee monitors that the coordination between the professional auditors and the Bank's internal auditors is arranged efficiently, in order to ensure that the combined audit resources adequately cover the various areas of control. The Committee may also instruct the professional auditors to carry out examinations of other specific matters. The Committee shall pay particular attention to the professional auditors' ability to perform their tasks independently. The professional auditors report directly to the Control Committee.

One of the professional auditors is appointed from the Bank's host country and one from another member country. According to the rules of procedure, the election of the professional auditors shall be subject to review at regular intervals. Following a tender procedure carried out during 2007, the Control Committee decided to select two auditors from KPMG, one from Helsinki and the other from Copenhagen, to assist in carrying out the audit of the Bank from the financial year 2008 onward.

The principles of remuneration of the professional auditors are determined by the Control Committee. The Board of Governors determines annually the amount of the remuneration and attendee allowance for the Control Committee.

For further information on the remuneration of the members of the Control Committee and the auditors, see Note 5.

The Control Committee met twice during 2008. In addition to the normal reporting presented to the Control Committee, the Committee focused on the effects on the Bank of the financial crisis, on the implementation of the mandate rating framework and on the establishment of the Compliance function. For the composition of the Control Committee, see page 52.

Compliance. To support the existing internal control systems, risk management and above all integrity in the Bank's operations, an independent compliance function for the Bank was established in 2008. The Compliance function is headed by the Chief Compliance Officer reporting directly to the President. The Compliance function engages in matters relating to following rules, laws and regulations applicable to the Bank, as well as to observing proper standards of market conduct and good governance. Particular emphasis is put on integrity matters, managing conflicts of interest and dealing with the prevention and combating of fraud and corruption. The mandate of the Compliance function also covers part of the Bank's sustainability work.

The Chief Compliance Officer is heading the Bank's Committee on Fighting Corruption, which has the task of issuing recommendations on preventive action as well as handling cases of alleged corruption. Furthermore, the Compliance function is responsible for advising and training the staff on integrity issues in particular in relation to the Code of Conduct for the staff, which is subject to annual review.

NIB's integrity due diligence guidelines and procedures were formalised during the year

The work on integrity matters takes into consideration the recommendations of other major IFIs set forth in their Uniform Framework for Preventing and Combating Fraud and Corruption which NIB formally endorsed in 2008. Under the guidance of the Compliance function, the Bank's integrity due diligence guidelines and procedures were formalised during the year as part of the credit process.

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

The internal control system constitutes an integral part of each employee's work and covers systems and procedures for monitoring and managing transactions, the Bank's exposure and documentation. The main principle for organising work flows is to segregate business-generating functions from recording and monitoring functions. The heads of the different departments are responsible for the internal control in their respective operations. The President and the Board of Directors have the overall responsibility for the internal control system. In 2008 the work on revising the operational risk policy and improving operational risk management was finalised. The focus has been on mapping and modelling the Bank's process flows and integrated controls and on adapting the Bank's operational risk management to Basel II requirements. Responsibility for developing the operational risk framework and for monitoring its implementation resides within the independent risk management unit of the Bank.

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

For further information on risk management, see the financial guidelines, pages 68–72.

Organisation chart

As of March 2009. For updates and details about NIB's personnel, please visit www.nib.int.

President & CEO

Lending
- Area I: Denmark, Iceland, Norway
- Area II: Estonia, Finland, Latvia, Lithuania, Sweden
- Area III: Europe & Eurasia
- Area IV: Africa, Asia, Latin America, Middle East
- Project & Structured Finance
- Client & Country Management
- Business Development Control

Treasury
- Funding & Investor Relations
- Asset & Liability Management
- Management of Own Capital
- Financial Analysis & Control

Credit & Analysis
- Credit
- Country & Bank Analysis
- Corporate Analysis
- Project Analysis
- Environment
- Mandate

Risk & Accounting
- Risk Management
- Financial Administration & Operational Risk
- Accounting & Financial Planning

Legal
- Institutional & Administrative Affairs
- Lending Operations
- Treasury Operations

Planning & Administration
- Human Resources
- Information & Communication Technology (ICT)
- Office Services & Travel Management
- Real Estate & Facilities
- Business & Resource Planning
- Central Records Services

Communications

Compliance

Internal Audit

Board of Governors

As of 31 December 2008

Denmark	*Estonia*	*Finland*	*Iceland*
Lene Espersen Minister for Economic and Business Affairs	**Ivari Padar** Minister of Finance	**Mari Kiviniemi** Minister of Public Administration and Local Government	**Árni M. Mathiesen** Minister of Finance
Latvia	*Lithuania*	*Norway*	*Sweden*
Atis Slakteris Minister of Finance	**Algirdas Šemeta** Minister of Finance	**Kristin Halvorsen** Minister of Finance	**Anders Borg** Minister of Finance

Control Committee

Chairman

Darius Matusevičius
(from 1 June 2008)
Director, Finance Control Methodology Department, Ministry of Finance
Lithuania

Alexander G. Eðvardsson
(until 31 May 2008)
State Authorised Public Accountant,
KPMG Endurskoðun h.f.
Iceland

Deputy Chairman

Torsten Gersfelt
(from 1 August 2008)
Cand. polit.
Denmark

Darius Matusevičius
(until 31 May 2008)
Director, Finance Control Methodology Department, Ministry of Finance
Lithuania

Denmark	*Estonia*	*Finland*	*Iceland*
Per Kaalund Former Member of Parliament	**Jürgen Ligi** Member of Parliament	**Tuula Peltonen** Member of Parliament	**Ragnheiður Ríkharðsdóttir** Member of Parliament
Latvia	*Lithuania*	*Norway*	*Sweden*
Viesturs Silenieks Adviser to the Chairman of the Saeima	**Sigita Burbienė** Referent, Seimas of the Republic of Lithuania	**Kari Lise Holmberg** Member of Parliament	**Johan Linander** Member of Parliament

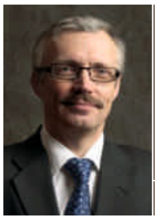
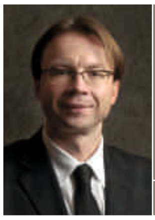
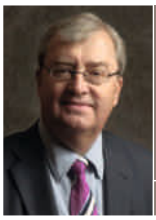
Auditors appointed by the Control Committee

Sixten Nyman
Authorised Public Accountant
KPMG Finland

Per Gunslev
State Authorised Public Accountant
KPMG Denmark

Board of Directors

The Board of Directors met eight times during 2008. The attendance at meetings is listed below. For duties of the Board of Directors, see page 48.

	*Estonia* **Madis Üürike** *Chairman of the Board (from 1.6.2008)* *Deputy Chairman of the Board* *(Until 31.5.2008)* Advisor, Ministry of Finance 8 MEETINGS	*Alternate* **Ülle Mathiesen** Head of the State Treasury Department Ministry of Finance 5 MEETINGS		
	*Denmark* **Jesper Olesen** *Deputy Chairman of the Board* *(from 1.6.2008)* Deputy Permanent Secretary Ministry of Economic and Business Affairs 4 MEETINGS	*Alternate* **Sigmund Lubanski** Head of Office Ministry of Economic and Business Affairs 5 MEETINGS	*Director (until 31.5.2008)* **Lars Kolte** Director 2 MEETINGS	
	*Finland* **Kristina Sarjo** Financial Counsellor Ministry of Finance 8 MEETINGS	*Alternate* **Risto Paaermaa** Director Ministry of Employment and the Economy 5 MEETINGS		
	*Iceland* **Þorsteinn Þorsteinsson** *(from 1.1.2009)* Financial Consultant	*Alternate (from 1.1.2009)* **Sigurður Þórðarson** Former State Auditor	*Director (20.10–31.12.2008)* *Alternate (until 19.10.2008)* **Jón Magnússon** Director Ministry of Justice 5 MEETINGS	*Director (until 19.10.2008)* **Ólafur Hjálmarsson** Director General Hagstofa Islands (Statistics Iceland) 3 MEETINGS
	*Latvia* **Edmunds Krastiņš** Counsellor to the Minister of Finance Ministry of Finance 7 MEETINGS	*Alternate (from 1.6.2008)* **Kaspars Āboliņš** Treasurer Treasury of the Republic of Latvia 4 MEETINGS	*Alternate (until 31.5.2008)* **Nikolajs Sigurds Bulmanis** Advisory Board Member Latvian Guarantee Agency 3 MEETINGS	
	*Lithuania* **Rolandas Kriščiūnas** Undersecretary Ministry of Finance 7 MEETINGS	*Alternate* **Jurgita Uzieliene** Head of Department Ministry of Finance 6 MEETINGS		
	*Norway* **Arild Sundberg** Director General City of Oslo 7 MEETINGS	*Alternate (from 1.6.2008)* **Heidi Heggenes** Director General Ministry of Finance 5 MEETINGS	*Alternate (until 31.5.2008)* **Eli Telhaug** Deputy Secretary General Ministry of Education and Research 0 MEETINGS	
	*Sweden* **Erik Åsbrink** Former Minister of Finance 8 MEETINGS	*Alternate (from 29.1.2009)* **Anna Björnermark** Deputy Director Ministry of Finance	*Alternate (until 28.1.2009)* **Tomas Danestad** Senior Adviser Ministry of Finance 4 MEETINGS	*Alternate (until 31.5.2008)* **Åke Törnqvist** Director Ministry of Finance 2 MEETINGS

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.

Nils E. Emilsson (1950)
First Vice-President, Head of Lending. Joined NIB in 2006.
B.Sc., United States International University;
MBA, California State University.

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

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

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.

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.

Financial report 2008

Report of the Board of Directors 2008

The year 2008 was challenging for the financial sector globally and for NIB's member countries. Towards the end of the year, the financial distress escalated further and started to increasingly affect the real economy globally and in the Nordic-Baltic region.

In these circumstances, NIB experienced high demand for its loans, which resulted in significant growth of its lending activities. Reflecting market developments, the lending margins increased during the year, and net interest income for 2008 was therefore well above the outcome of 2007. Core earnings[1)] amounted to EUR 189 million, which was also significantly higher than in the previous year. At the same time, some borrowers entered into difficulties, and NIB made for the first time in a number of years provisioning for credit losses.

The financial crisis affected the value of NIB's treasury portfolio negatively during the year and NIB recorded a financial loss of EUR 281 million for 2008. The major part of the valuations are unrealised losses or in other forms which are expected to be regained; but the Bank also has exposures to Icelandic banks and to the defaulted Lehman Brothers Holdings Inc., for which the recovery rates are uncertain.

Strategic focus

During the year, NIB's operations were guided by its strategy to finance projects that support competitiveness and the environment. Increasing emphasis was put on focus sectors. The crisis highlighted the fact that IFIs play an important role in providing financing during difficult times in accordance with their mandates when other sources become restricted. Accordingly, 57 per cent of the Bank's loans agreed in 2008 were in the key areas of: energy; the environment; transport, logistics and communications; and innovation.

In line with this strategic focus, the Board of Directors approved two new environmental lending facilities, which were launched in February 2008. The Baltic Sea Environment Financing Facility, BASE, has a framework of EUR 500 million and is intended for financing the implementation of the Baltic Sea Action Plan adopted by the Baltic Marine Environmental Protection Commission—HELCOM with the purpose of restoring the ecological status of the Baltic marine environment by 2021. The framework of the Climate Change, Energy Efficiency and Renewable Energy Facility, CLEERE, has been set at EUR 1 billion and focuses on financing projects within renewable energy (hydro, wind, biomass, geothermal and solar power) and the more effective use of energy, as well as projects using cleaner production technologies that reduce greenhouse gas emissions. By the end of the year, the Bank had loans agreed totalling EUR 47 million under BASE and EUR 548 million under CLEERE.

The Board of Directors discussed on several occasions how NIB could further focus its activities in order to enhance its value added. The Board of Directors agreed in principle to increase NIB's focus not only in terms of the types of activities but also in terms of geographical areas. However, the Board agreed to revert to the matter at the beginning of 2009.

NIB's strategy was further implemented by introducing mandate rating in credit assessments. A revised environmental policy was introduced at the beginning of the year according to an earlier decision by the Board of Directors. Three projects with potentially extensive environmental impacts (category A projects) were disclosed publicly as part of the new due diligence process.

The chairmanship of the Board of Directors rotates among the member countries every two years. Arild Sundberg ended his two-year term on 1 June 2008, when Madis Üürike took over the chairmanship.

Activities

As a consequence of increased demand, NIB's lending grew significantly during the year. The disbursement of loans rose to EUR 2,486 million, compared to EUR 2,390 million in 2007 and EUR 1,605 million in 2006. Loans agreed increased to EUR 2,707 million, compared to EUR 2,214 million during the previous year.

Environment-related lending accounted for 20.9 per cent of agreed loans, with projects related to renewable energy such as wind power and bioenergy. NIB financing was also channelled through intermediaries in small-scale environmental lending to households, farms and small and medium-sized enterprises.

Energy-related lending concentrated on the rehabilitation and upgrading of hydropower plants, transmission and distribution networks as well as new energy-efficient production processes. The financing of energy investments accounted for 15.4 per cent of the loans agreed during the year.

Table 1
KEY FIGURES

(In EUR million unless otherwise specified)	2008	2007	2006
Net interest income	212	187	179
Profit/loss on financial operations	-387	-90	-14
Loan impairments	79	-	-
Core earnings	189	161	154
Profit/loss	-281	69	137
Equity	1,730	2,037	2,021
Total assets	22,620	19,973	17,988
Solvency ratio (equity/total assets %)	7.6	10.2	11.2

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

Transport, logistics and communications accounted for 19.5 per cent of agreed loans in 2008. NIB participated, for example, in financing the expansion of telecommunication networks, increases in the efficiency of mail handling and the building of roads.

In the field of innovation, NIB invested in two new mezzanine funds and provided loans for investments in research and development, increasing the efficiency of production processes and the development of new products.

Manufacturing and service industries accounted for 29.4 per cent of agreed loans, including the financing of competitiveness-enhancing investments and acquisitions in various sectors.

In terms of geography, almost 80 per cent of the lending was in the membership area. Of non-members, the most important counterparties were China and Poland.

NIB member countries and the Northern Dimension Environmental Partnership (NDEP) engage NIB as one of the channels through which technical assistance is allocated to projects close to member countries. During 2008 NIB administered eight trust funds out of which one was closed at the end of the year. Three are general consultant trust funds, while the other four are intended for specific projects. Five funds originate from Sweden, one from Finland and one is an NDEP support fund. In addition, the Bank is involved in the administration of the assistance granted by Norway to the Pechenga Nickel project on the Kola Peninsula.

The Bank's debt issuance amounted to EUR 4,681 million. During the year, NIB issued three USD global benchmark bonds amounting to a total of USD 3,250 million. All issues met with good demand and were followed by strong performance in the secondary market. The large benchmark issues were complemented with over forty smaller public issues and private placements. Developments in the financial markets increased funding costs in general, also for NIB and other supranationals towards the end of the year, but NIB maintained its good access to the funding market.

Developments in the financial markets posed challenges for the Bank's liquidity management. NIB increased the amount of its liquidity in cash to strengthen the Bank's liquidity situation generally. At year-end, net liquidity amounted to EUR 3,638 million.

Valuations of the securities in the treasury portfolio have suffered in the current situation, in which it has been increasingly difficult to determine the fair value of the assets. The Bank decided in October 2008 to reclassify, with reference to IASB's amended rules, EUR 715 million of its assets to a held-to-maturity portfolio as of 1 September 2008. During the year the Bank also worked on a revision of its liquidity policy.

Financial results

NIB's net interest income in 2008 amounted to EUR 212 million, which corresponds to an increase of EUR 25 million compared to 2007. The administrative expenses for the year amounted to EUR 30 million. NIB's operational results for 2008 in terms of core earnings increased to EUR 189 million, compared to EUR 161 million in 2007.

Nevertheless, NIB encountered a loss of EUR 281 million, which arises from losses on financial operations of EUR 387 million and impairments towards the loan book of EUR 79 million.

NIB has a long-term target to, in addition to the own capital, retain an amount of liquidity which covers at least the expected net cash requirements for one year. These funds are invested in different financial instruments in order to

Table 2
LENDING ACTIVITIES

(In EUR million unless otherwise specified)	2008	2007	2006
Energy	**416**		
Environment	**566**		
Transport, logistics and communications	**527**		
Innovation	**40**		
Financial intermediaries	208		
Manufacturing and mining	795		
Services and other	154		
Loans agreed, total	**2,707**	**2,214**	**1,575**
Member countries	2,027	1,810	994
Non-member countries	680	404	581
Number of loan agreements, total	**53**	**57**	**64**
Member countries	40	45	41
Non-member countries	13	12	23
Loans outstanding and guarantees	**13,079**	**12,316**	**11,559**
Member countries	10,160	9,898	9,231
Non-member countries	2,920	2,417	2,328
Repayments and prepayments	**1,467**	**1,282**	**1,478**

New sectoral division of lending activities introduced in 2008.

Table 3
FINANCIAL ACTIVITIES

(In EUR million unless otherwise specified)	2008	2007	2006
New debt issues	4,681	4,288	2,689
Number of borrowing transactions	59	69	66
Number of borrowing currencies	13	10	11
Debts evidenced by certificates at year-end	17,549	15,023	13,622
Net liquidity at year-end	3,638	4,039	3,224

place funds safely, spread the risks and add to the Bank's profitability. Over many years, this strategy has provided a return well above the risk-free rate.

However, when the financial crisis emerged in the summer of 2007, this led to negative fair-value adjustments of these funds. Widened credit spreads in the financial sector affected the value of assets that were marked-to-market. NIB decided to keep the instruments in the Bank's portfolios unless the credit risk increased materially and the risk of default was deemed high. As a consequence, the major part of the negative valuations are unrealised losses. Of the EUR 387 million loss on financial operations in 2008, EUR 137 million corresponds to unrealised valuation changes. EUR 47 million corresponds to a reclassification of assets from the trading portfolio into the held-to-maturity portfolio and will be regained through net interest income barring any credit losses. All of these reclassified assets are rated AAA by at least one of the rating agencies. Without the reclassification, the result at year-end would have been EUR 54 million more negative.

The net loss stemming from hedge accounting amounts to EUR 39 million. This was due to a decrease in short-term interest rates at the end of 2008, thus affecting negatively the value of the Bank's swaps on which the Bank is paying floating rates. The Bank's floating rate loans have a corresponding positive value, but the valuation of floating rate loans was not at year-end part of the Bank's hedge accounting process and could not be accounted for in the Bank's results. But the effects will come back when the swaps are reprised during 2009.

The Bank had a treasury exposure to Lehman Brothers Holdings Inc. amounting to EUR 57 million and to Icelandic banks amounting to EUR 81 million. EUR 132 million of the fair value adjustments are related to these assets, on which the counterparty has defaulted and for which the recovery is uncertain.

The realised loss in the treasury portfolio for 2008 amounts to EUR 36 million. Altogether, the unrealised losses amount to EUR 223 million (unrealised valuation changes, the shift to the held-to-maturity portfolio and the effect of hedge accounting), to which some EUR 57 million in unrealised losses from 2007 should be added. In total, approximately EUR 280 million is expected to be recovered in the coming years.

The severe crisis in financial markets increased demand for NIB loans but the downturn in the economies also resulted in more borrowers encountering difficulties. In particular, the economic crisis in Iceland has had a negative effect. In total, loan impairment charges amount to EUR 79 million. EUR 64 million of this is related to Icelandic customers, including Icelandic banks in the amount of EUR 53.5 million. The lending exposure towards Iceland is EUR 729 million.

The Bank's balance sheet total at the end of the year was EUR 23 billion, up from EUR 20 billion at the end of 2007. Loans outstanding increased by 6.3 per cent to EUR 13 billion compared with year-end 2007.

Risk management

Overall the quality of the Bank's portfolios continued to be high in 2008, despite some weakening of the general credit quality and a clear increase in the share of the weakest risk classes. The portfolios were well-balanced as regards both the geographical and sectoral distribution, as well as the degree of concentration in terms of exposure to individual counterparties.

During 2008, emphasis was put on the follow-up of the Bank's customers and counterparties. The rating tools and methods applied in the Bank's risk management process are validated periodically.

Administration

Due to the challenging financial and economic conditions, the need for monitoring increased during the year. As an important step towards intensified follow-up, a "work-out" unit was established within the Lending Department.

The NIB Leadership and Culture Development Programme was implemented at all levels of the organisation during the year. The aim is to develop leadership at the Bank and to anchor common values in the institution.

The establishment of a Legal Department bringing together all the legal staff in the various departments was completed as planned and the internal structuring, positioning and division of responsibilities in the new department are being fine-tuned.

The Compliance function to promote and implement good governance practices was formally established at the beginning of the year as planned.

In line with the Bank's new communication policy, revamped online communication tools were launched in October and external communication with stakeholders in member countries was intensified.

Outlook

The escalated financial crisis affected the global economy severely during the autumn. This was reflected in all NIB's member countries. Given the continuous problems in the financial sector, demand for the Bank's loans is expected to remain strong. However, there are limits in terms of capital as to how much NIB can expand its activities. Having a high potential for fulfilling NIB's mandate of enhancing competitiveness and the environment will remain very important when the Bank considers projects for financing.

NIB continues to have good access to the funding markets and is expected to continue its flexible global borrowing strategy in 2009. In the first two months of the year, valuations of financial assets and hedge accounting have had a positive effect on NIB's results.

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 2008 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, it is proposed that:

- the loss for 2008 of EUR 281,273,211.42 be allocated to the General Credit Risk Fund;
- no transfer be made to the Special Credit Risk Fund for Project Investment Loans;
- no transfer be made to the Statutory Reserve. The Statutory Reserve amounts to EUR 656,770,026.79, or 15.9% of the Bank's authorised capital stock; and
- no dividends be made available to the Bank's member countries.

The income statement, balance sheet, changes in equity and cash flow statement, as well as the notes to the financial statements, are to be found on pages 60 through 95.

Helsinki, 6 March 2009

Madis Üürike

Jesper Olesen

Rolandas Kriščiūnas

Edmunds Krastiņš

Arild Sundberg

Þorsteinn Þorsteinsson

Kristina Sarjo

Erik Åsbrink

Johnny Åkerholm,
President and CEO

Income statement 1 January–31 December

EUR 1,000	Note	2008	2007
Interest income		979,236	856,280
Interest expense		-766,845	-669,155
Net interest income	(1), (2), (22)	**212,391**	**187,125**
Commission income and fees received	(3)	9,567	6,135
Commission expense and fees paid		-2,310	-2,425
Net profit/loss on financial operations	(4)	-386,923	-89,719
Foreign exchange gains and losses		-142	-361
Operating income		**-167,417**	**100,755**
Expenses			
General administrative expenses	(5), (22)	30,346	27,507
Depreciation	(9), (10)	4,360	4,529
Impairment of loans	(6), (8)	79,150	-
Total expenses		**113,856**	**32,036**
PROFIT/LOSS FOR THE YEAR		**-281,273**	**68,719**

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

Balance sheet at 31 December

EUR 1,000		Note	2008	2007
ASSETS		(1), (18), (19), (20), (21)		
Cash and cash equivalents		(17), (23)	4,776,821	4,493,285
Financial placements		(7), (17)		
Placements with credit institutions			82,013	93,432
Debt securities			2,502,333	1,582,750
Other			14,157	7,043
			2,598,503	**1,683,225**
Loans outstanding		(8), (17)	13,062,568	12,290,768
Intangible assets		(9)	6,816	6,740
Tangible assets, property and equipment		(9)	35,107	36,767
Other assets		(11), (17)		
Derivatives			1,734,353	1,049,725
Other assets		(22)	8,123	1,596
			1,742,476	**1,051,321**
Paid-in capital and payments to the Bank's reserves, receivable			31,556	42,713
Accrued interest and fees receivable			366,590	368,422
TOTAL ASSETS			**22,620,436**	**19,973,242**
LIABILITIES AND EQUITY		(1), (18), (19), (20), (21)		
Liabilities				
Amounts owed to credit institutions		(17), (22)		
Short-term amounts owed to credit institutions		(23)	1,092,809	454,498
Long-term amounts owed to credit institutions			79,107	91,674
			1,171,917	**546,172**
Repurchase agreements			45,900	-
Debts evidenced by certificates		(12), (17)		
Debt securities issued			17,320,259	14,829,821
Other debt			229,122	192,979
			17,549,380	**15,022,800**
Other liabilities		(13), (17)		
Derivatives			1,785,185	1,999,356
Other liabilities			5,204	4,496
			1,790,389	**2,003,852**
Accrued interest and fees payable			332,907	363,468
Total liabilities			**20,890,493**	**17,936,292**
Equity				
Authorised and subscribed capital	4,141,903			
of which callable capital	-3,723,301			
Paid-in capital	418,602	(14)	418,602	418,602
Reserve funds		(15)		
Statutory Reserve			656,770	645,612
General Credit Risk Fund			622,131	622,131
Special Credit Risk Fund PIL			281,919	238,200
Payments to the Bank's reserves, receivable			31,556	42,713
Other value adjustments			239	973
Profit/loss for the year			-281,273	68,719
Total equity			**1,729,943**	**2,036,950**
TOTAL LIABILITIES AND EQUITY			**22,620,436**	**19,973,242**
Guarantee commitments		(8), (16)	16,667	25,000
Collateral and commitments		(16)		

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

Changes in equity

EUR 1,000	Paid-in capital	Statutory Reserve	General Credit Risk Fund	Special Credit Risk Fund PIL	Fund, HIPC Programme	Payments to the Bank's Statutory Reserve and Credit Risk funds	Appropriation to dividend payment	Other value adjustments	Profit/loss for the year	Total
EQUITY AT 31 DECEMBER 2006	**418,602**	**644,983**	**534,662**	**238,200**	**629**	**42,713**	**0**	**3,592**	**137,469**	**2,020,850**
Appropriations between reserve funds		629	87,469		-629		50,000		-137,469	0
Paid-in capital	4,780									4,780
Called-in authorised and subscribed capital	-4,780									-4,780
Payments to the Bank's Statutory Reserve and credit risk funds, receivable										0
Dividend payment							-50,000			-50,000
Profit/loss for the year									68,719	68,719
Available-for-sale portfolio								-1,023		-1,023
Cash flow hedge accounting								-1,596		-1,596
Total income and expense for the year	0	0	0	0	0	0	0	-2,619	68,719	66,101
EQUITY AT 31 DECEMBER 2007	**418,602**	**645,612**	**622,131**	**238,200**	**0**	**42,713**	**0**	**973**	**68,719**	**2,036,950**
Appropriations between reserve funds				43,719			25,000		-68,719	0
Paid-in capital										0
Called-in authorised and subscribed capital										0
Payments to the Bank's Statutory Reserve and credit risk funds, receivable		11,158				-11,158				0
Dividend payment							-25,000			-25,000
Profit/loss for the year									-281,273	-281,273
Available-for-sale portfolio								867		867
Cash flow hedge accounting								-1,601		-1,601
Total income and expense for the year	0	0	0	0	0	0	0	-734	-281,273	-282,007
EQUITY AT 31 DECEMBER 2008	**418,602**	**656,770**	**622,131**	**281,919**	**0**	**31,556**	**0**	**239**	**-281,273**	**1,729,943**

	2008	**2007**
Proposed appropriation of the year's profit/loss		
Appropriation to Statutory Reserve	-	-
Appropriations to credit risk reserve funds		
General Credit Risk Fund	-281,273	-
Special Credit Risk Fund PIL	-	43,719
Fund, HIPC Programme	-	-
Appropriation to dividend payment	-	25,000
PROFIT/LOSS FOR THE YEAR	**-281,273**	**68,719**

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

Cash flow statement 1 January–31 December

EUR 1,000	Jan–Dec 2008	Jan–Dec 2007
Cash flows from operating activities		
Profit/loss from operating activities	**-281,273**	**68,719**
Adjustments		
Amortisation of issuing charges	9,175	10,840
Market value adjustment, trading portfolio	7,402	7,381
Impairment on accrued interest and matured financial assets	7,459	-
Debt securities moved from trading to held-to-maturity portfolio	46,829	-
Depreciation and write-down in value of tangible and intangible assets	4,360	4,529
Change in accrued interest and fees (assets)	-554	-36,427
Change in accrued interest and fees (liabilities)	-30,561	57,489
Impairment of loans	79,150	-
Adjustment to hedge accounting	38,809	10,319
Other adjustments to the year's profit/loss	-34	-35
Adjustments, total	**162,035**	**54,097**
Lending		
Disbursements of loans	-2,486,401	-2,390,392
Repayments of loans	1,467,170	1,281,546
Capitalisations, redenominations, index adjustments etc.	-1,838	-338
Exchange rate adjustments	255,290	331,656
Lending, total	**-765,779**	**-777,527**
Cash flows from operating activities, total	**-885,017**	**-654,711**
Cash flows from investing activities		
Placements and debt securities		
Purchase of debt securities [1]	-1,814,602	-458,493
Sold and matured debt securities [1]	855,700	285,238
Placements with credit institutions	11,419	-2,010
Other financial placements	-6,247	-931
Exchange rate adjustments etc.	752	-3
Placements and debt securities, total	**-952,978**	**-176,200**
Other items		
Acquisition of intangible assets	-2,023	-1,799
Acquisition of tangible assets	-753	-3,262
Change in other assets	-11,633	9,948
Other items, total	**-14,408**	**4,886**
Cash flows from investing activities, total	**-967,386**	**-171,314**
Cash flows from financing activities		
Debts evidenced by certificates		
Issues of new debt [2]	4,695,020	4,278,931
Redemptions	-2,570,663	-1,958,157
Exchange rate adjustments	-216,503	-1,063,724
Debts evidenced by certificates, total	**1,907,854**	**1,257,050**
Other items		
Long-term placements from credit institutions	-12,567	1,412
Change in swap receivables	-357,189	-222,019
Change in swap payables	-73,234	649,743
Change in other liabilities	708	165
Dividend paid	-25,000	-50,000
Paid-in capital and reserves	11,158	4,780
Other items, total	**-456,125**	**384,081**
Cash flows from financing activities, total	**1,451,729**	**1,641,131**
CHANGE IN NET LIQUIDITY	**-400,675**	**815,106**
Opening balance for net liquidity	**4,038,787**	**3,223,681**
Closing balance for net liquidity	**3,638,112**	**4,038,787**
Additional information to the statement of cash flows		
Interest income received	981,068	892,707
Interest expense paid	-797,406	-611,666

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

The cash flow statement has been prepared using the indirect method and the items of cash flows cannot be directly concluded from the balance sheets.

1) Reclassification of debt securities from trading portfolio to held-to-maturity is included in these items.

2) Including issuing charges EUR -14,278 thousand (2007: -9,256).

Notes to the financial statements

ACCOUNTING POLICIES

General operating principles

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

NIB is a multilateral financial institution that operates in accordance with sound banking principles. NIB finances private and public projects which have high priority with the member countries and the borrowers. NIB finances projects both in and outside the member countries, and offers its clients long-term loans and guarantees on competitive market terms.

NIB acquires the funds to finance its lending by borrowing on international capital markets.

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

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

The headquarters of the Bank are located at Fabianinkatu 34 in Helsinki, Finland.

Significant accounting principles

Basis for preparing the financial statements

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

Significant accounting judgements and estimates

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

The Bank uses various valuation models and techniques to estimate fair values of assets and liabilities. There are significant uncertainties related to these estimates in particular when they involve modelling complex financial instruments, such as derivative instruments used for hedging activities related to both borrowing and lending. The estimates are highly dependent on market data, such as the level of interest rates, currency rates and other factors. The uncertainties related to these estimates are reflected mainly in the balance sheet. NIB undertakes continuous development in order to improve the basis for the fair value estimates, both with regard to modelling and market data. Changes in estimates resulting from refinements in assumptions and methodologies are reflected in the period in which the enhancements are first applied.

Recognition and derecognition of financial instruments

Financial instruments are recognised in the balance sheet on a settlement date basis.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

Foreign currency translation

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

Realised and unrealised exchange rate gains and losses are recognised in the income statement.

The Bank uses the official exchange rates published for the euro by the European Central Bank. See Note 24.

Cash and cash equivalents, net liquidity

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

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

Financial placements

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

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

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

Lending

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

Ordinary Lending includes loans and guarantees within and outside the member countries. The Bank's Ordinary Lending ceiling corresponds to 250% of its authorised capital and accumulated general reserves and amounts to EUR 12,928 million following the allocations of the year's losses in accordance with the Board of Directors' proposal.

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

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

The Bank's lending transactions are recognised in the balance sheet at the time the funds are transferred to the borrower. Loans are recognised initially at historical cost, which corresponds to the fair value of the transferred funds including transaction costs. Loans outstanding are carried at amortised cost. If the loans are hedged against changes in fair value by using derivative instruments, they are recognised in the balance sheet at fair value, with value changes recognised in the income statement. Changes in fair value are generally caused by changes in market interest rates.

Impairment of loans and receivables

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

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

In the event that payments in respect of an ordinary loan are more than 90 days overdue, all of the borrower's loans are deemed to be non-performing and consequently the need for impairment is assessed and recognised.

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

Intangible assets

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

Tangible assets

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

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

Borrowing
The Bank's borrowing transactions are recognised in the balance sheet at the time the funds are transferred to the Bank. The borrowing transactions are recognised initially at a cost that comprises the fair value of the funds transferred, less transaction costs. The Bank uses derivative instruments to hedge the fair value of virtually all its borrowing transactions. In these instances, the borrowing transaction is subsequently recognised in the balance sheet at fair value, with any changes in value recognised in the income statement.

Securities delivered under repurchase agreements are not derecognised from the balance sheet. Cash received under repurchase agreements is recognised in the balance sheet as "Repurchase agreements".

Derivative instruments and hedge accounting
The Bank's derivative instruments are initially recognised on a trade-date basis at fair value in the balance sheet as "Other assets" or "Other liabilities".

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

At the time the IAS 39 standard concerning hedge accounting was adopted, the Bank had a portfolio of floating rate assets, which had been converted to fixed rates using derivative contracts (swaps). This portfolio was designated as a cash flow hedge, but this specific type of hedging is no longer used for new transactions. In general, the Bank does not have an ongoing programme for entering into cash flow hedging, although it may choose to do so at any given point in time.

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

In order to protect NIB from market risks that arise as an inherent part of its borrowing and lending activities, the Bank enters into swap transactions. The net effect of the swap hedging is to convert the borrowing and lending transactions to floating rates. This hedging activity is an integral part of the Bank's business process and is designed as a fair value hedge.

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

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

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

Determination of fair value
The fair value of financial instruments, including derivative instruments that are traded in a liquid market, is the bid or offered closing price at balance sheet date. Many of NIB's financial instruments are not traded in a liquid market, like the Bank's borrowing transactions with embedded derivative instruments. These are measured at fair value using different valuation models and techniques. This process involves determining future expected cash flows, which can then be discounted to the balance sheet date. The estimation of future cash flows for these instruments is subject to assumptions on market data and in some cases, in particular where options are involved, even on the behaviour of the Bank's counterparties. The fair value estimate may therefore be subject to large variations and may not be realisable in the market. Under different market assumptions the values could also differ substantially.

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

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

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

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

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

Interest

The Bank's net interest income includes accrued interest on loans as well as accruals of the premium or discount value of financial instruments. Net interest income also includes swap fees and borrowing costs.

Fees and commissions

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

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

Financial transactions

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

Administrative expenses

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

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

Leasing agreements

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

Employee pensions and insurance

The Bank is responsible for arranging pension security for its employees. In accordance with the Headquarters Agreement between the Bank and the Finnish Government and as part of the Bank's pension arrangements, the Bank has decided to apply the Finnish state pension system. Contributions to this pension system, which are paid to the Finnish State Pension Fund, are calculated as a percentage of salaries. The Finnish Government determines the basis for the contributions, and the Finnish State Treasury establishes the actual percentage of the contributions. See Note 5.

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

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

Segment information

Segment information and currency distribution in the notes are presented in nominal amounts. The adjustment to hedge accounting is presented as a separate item (except for Note 1, the primary reporting segment).

Reclassifications

Following the amendment to IAS 39 issued in October 2008, permitting the reclassification of financial assets in certain restricted circumstances, the Bank decided to reclassify EUR 715 million of its trading portfolio assets into the held-to-maturity portfolio. This amendment has been applied retrospectively to commence on 1 September 2008. The reclassification has resulted in the cessation of fair value accounting for those assets previously designated as held for trading. The fair values of the assets at the date of reclassification became their new amortised cost and those assets will subsequently be accounted for on that measurement basis. The reclassified cost will be amortised over the instrument's expected remaining lifetime through interest income using the effective interest method. See Note 7.

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

International Financial Reporting Standards and Interpretations

New standards and interpretations 2009

The following standards, interpretations or their revisions are effective for the annual period beginning 1 January 2009.

- IFRS 1 First-time Adoption of International Financial Reporting Standards—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
- IFRS 2 Share-based Payment—Vesting Conditions and Cancellations (Amendment)
- IFRS 8 Operating Segments
- IAS 1 Presentation of Financial Statements (Revised)
- IAS 23 Borrowing Costs (Revised)
- IAS 27 Consolidated and Separate Financial Statements—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements—Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The view of the Bank's management is that the introduction of the above IFRIC interpretations and IFRS standards will have no material effect on NIB's financial statements information or accounting policies.

FINANCIAL GUIDELINES AND RISK MANAGEMENT

NIB assumes a conservative approach to risk-taking. The Bank's constituent documents require that loans be made in accordance with sound banking principles, that adequate security be obtained for the loans and that the Bank protect itself against the risk of exchange rate losses. The main risks: credit risk, market risk, liquidity risk and operational risk, are managed carefully with risk management closely integrated into the Bank's business processes. As a multilateral financial institution, NIB is not subject to any national or international banking regulations. However, the Bank's risk management procedures are reviewed and refined on an ongoing basis in order to comply in substance with what the Bank identifies as the relevant market standards, recommendations and best practices.

Key risk responsibilities

The Board of Directors defines the overall risk profile of the Bank by approving its financial policies and guidelines, maximum limits for exposure as well as individual loans. The business functions, Lending and Treasury, are responsible for managing the risks assumed through their operations and for ensuring that an adequate return for the risks taken is achieved. Risk Management, Credit and Analysis and Internal Audit are independent from the departments carrying out the Bank's business activities. Risk Management has the overall responsibility for identifying, assessing, monitoring and reporting all types of risk inherent in the Bank's operations. Credit and Analysis is responsible for assessing and monitoring credit risk in the Bank's lending operations and it oversees that credit proposals are in compliance with established limits and policies. Internal Audit provides an independent evaluation of the control and risk management processes. Based on regular reporting from the relevant departments, three committees comprising members of the senior management supervise the Bank's aggregate risk-taking so that it is consistent with its financial resources and risk profile and that risk and return are balanced and appropriate under prevailing market conditions. The Management Committee has the overall responsibility for risk management, including operational risk. The risk management duties of the Credit Committee are focused on credit risk in the Bank's lending operations and the Finance Committee deals with market risk and liquidity risk as well as credit risk related to the Bank's treasury operations.

Credit risk

Credit risk is NIB's main financial risk. Credit risk is the risk that the Bank's borrowers and other counterparties fail to fulfil their contractual obligations and that any collateral provided does not cover the Bank's claims. Following from NIB's mandate and financial structure, most of the credit risk arises in the lending operations. Credit decisions are primarily made by the Board of Directors, with some delegation of credit approval authority to the President for execution in the Credit Committee. The Bank's credit policy forms the basis for all its lending operations. The credit policy aims at maintaining the Bank's high quality loan portfolio and ensuring proper risk diversification as well as enhancing the Bank's mission and strategy. The credit policy sets the basic criteria for acceptable risks and identifies risk areas that require special attention.

The Bank is also exposed to credit risk in its treasury activities, where credit risk derives from the financial assets and derivative instruments that the Bank uses for investing its liquidity and managing currency and interest rate risks as well as other market risks related to structured funding transactions.

Credit risk management

The Bank's credit risk management is based on an internal credit risk rating system, a limit system based on the credit risk ratings and on a model for the calculation of economic capital for the management of portfolio-level credit risk. A primary element of the credit approval process is a detailed risk assessment, which also involves a risk-versus-return analysis. The risk assessment concludes with a classification of the risk of the counterparty and the transaction, expressed in terms of a counterparty risk rating and a transaction risk class.

Credit risk ratings. The Bank assesses the creditworthiness of all counterparties that create credit risk exposure. Based on the assessment, a credit risk rating is assigned to each counterparty. The rating process is carried out through functions independent of the business-originating departments.

The Bank's rating system is based on a quantitative and a qualitative model for estimating the probability of default (PD) of a counterparty and the loss given default (LGD) on a transaction. The PD is assessed using a rating tool comprising quantitative and qualitative factors. Based on the PD, the counterparty is assigned a rating class on a scale from 1 to 20, with class 1 referring to the lowest probability of default and class 20 to the highest probability of default. In addition, two classes of default are applied. The first one indicates impairment and the second a non-performing status. Each transaction is also assigned a risk class reflecting the expected loss. The expected loss is the combined effect of the PD of the counterparty and the Bank's estimate of the portion of the Bank's claim that would not be recoverable if the counterparty defaults. The non-recoverable portion, i.e. the loss given default (LGD), is determined based on benchmark values for unsecured transactions and by using a security rating tool for secured transactions. The risk classes range from 1 to 20, such that risk class 1 refers to the lowest expected loss and class 20 to the highest expected loss. The counterparty ratings and the transaction risk classes form the basis for setting exposure limits, for the risk-based pricing of loans as well as for monitoring and reporting the Bank's credit quality.

Credit limits. NIB applies a limit system in which maximum exposure to a counterparty is determined based on the probability of default and the expected loss. The limits are aligned to the Bank's equity and to the counterparty's equity. To reduce large risk concentrations to groups of borrowers and industry sectors, the Bank applies separate portfolio-level limits (country and sector limits). The Board of Directors sets the limits for maximum exposure.

Measurement of credit risk exposure. For loans and capital market investments, credit exposure is measured in terms of gross nominal amounts, without recognising the availability of collateral or other credit enhancement. Exposure to each counterparty is measured on a consolidated group level, i.e. individual counterparties that are linked to one another by ownership or other group affiliation, are considered as one counterparty.

The credit risk exposure of swaps is measured as the current market value plus an allowance for potential increases in exposure over the transaction's lifetime (often referred to as potential exposure). The add-on for potential exposure reflects the fact that significant fluctuations in the swap's value may occur over time. As a rule, NIB enters into the International Swaps and Derivatives Association (ISDA) contract with swap counterparties. This allows the netting of the obligations arising under all of the derivative contracts covered by the ISDA agreement in case of insolvency and, thus, results in one single net claim on, or payable to, the counterparty. Netting is applied for the measurement of the Bank's credit exposure only in cases when it is deemed to be legally enforceable in the relevant jurisdiction and against a counterparty. The gross total market value of swaps at year-end 2008 amounted to EUR 1,705 million, compared to a value of EUR 733 million after applying netting (year-end 2007: EUR 1,000 million and EUR 425 million, respectively).

To further reduce the credit risk in derivatives, NIB enters into credit support agreements with its major swap counterparties. This provides risk mitigation, as the swap transactions are regularly marked-to-market and the party being the net obligor is requested to post collateral. The Bank strives to use one-way credit support agreements, under which the Bank does not have to post collateral. When credit support agreements are in place, NIB does not apply add-ons in the exposure calculation.

Economic capital. Economic capital refers to the amount of capital that the Bank needs in order to be able to absorb severe unexpected losses, with a defined level of certainty. As a multilateral financial institution, the Bank is not subject to regulatory capital requirements. However, the Bank uses standards proposed by the Basel II Capital Accord as a benchmark for its risk management and economic capital framework. The Bank's policy is to hold a level of capital required to maintain the AAA/Aaa rating.

The overall purpose of the Bank's economic capital framework is to incorporate risk awareness throughout the business decision process. The economic capital model provides an aggregated view of the Bank's risk position at a certain point in time, it allows capital to be allocated for the purpose of the risk-based pricing of loans and it is used for measuring the Bank's risk-adjusted performance.

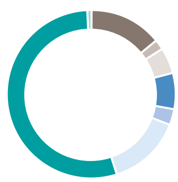
The Bank estimates its economic capital requirement for each of the main risks: credit risk, market risk and operational risk. When allocating economic capital for credit risk, the model uses the PD and LGD values arrived at in the internal rating process and it recognises correlations between assets in various sectors and geographical regions. When estimating the total economic capital requirement, the model recognises correlations between the different types of risk (credit risk, market risk and operational risk).

Credit quality

Overall, the quality of the Bank's aggregate credit exposure remained at a high level in 2008. Figure 39, "Loans outstanding and guarantees", shows the distribution of the Bank's lending exposure by type of security as of year-end 2008. Figure 40, "Total exposure by NIB rating", compares the quality of the Bank's credit risks based on the credit risk classification system at year-end 2007 and 2008. Aggregate credit exposure includes

Loans outstanding and guarantees fig. 39

Distribution by type of security as of 31 Dec 2008

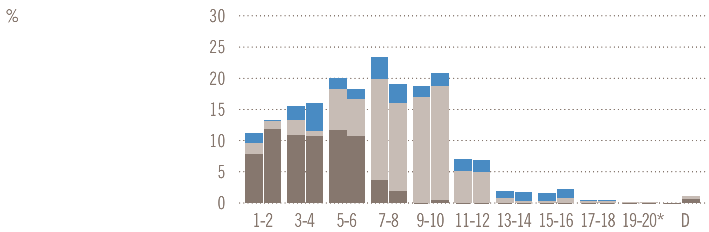


Loans to or guaranteed by:
- governments 14%
- local authorities in member countries 2%
- companies owned 50% or more by member countries or local authorities in member countries 5%
- banks 7%

Other loans:
- backed by a lien or other security in property 3%
- with a guarantee from the parent company and other guarantees 14%
- with a negative pledge clause and other covenants 55%
- without formal security 0.1%

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

Total exposure by NIB rating fig. 40



Treasury exposure
Lending member countries
Lending non-member countries

left bar: 31 Dec 2007
right bar: 31 Dec 2008

* The risk classes range from 1 (highest credit quality) to 20 (lowest credit quality). D indicates default.

lending and treasury exposure. Lending exposure refers to loans outstanding and loans agreed but not yet disbursed.

Lending in member countries. The quality of the loans granted in the member countries remained primarily sound. Most of the portfolio—close to 81%—was located in the risk classes 5 to 10, which was in line with the distribution of the portfolio in 2007. Loans in the four weakest risk classes increased to 0.9% of the portfolio from 0.6% the year before. At year-end 2008 loans in the default category accounted for 0.9% of total lending in the member countries (2007: 0%). With the exception of one loan, these were exposures to Iceland.

Lending in non-member countries. The quality of the loan portfolio comprising non-member countries was slightly weaker in 2008 than the year before. Close to 69% of the portfolio comprised loans in the risk classes 1 to 10 (2007: 71%). The exposure to the four weakest credit risk classes remained low, amounting to 1.2% at year-end 2008 (2007: 1.4%). The default category accounted for 0.4% of total lending to non-member countries (2007: 0%).

Treasury counterparties. The credit quality of the counterparties in the Bank's treasury operations remained, predominantly, at a high level. The exposure to the top four classes accounted for 62% of the total exposure (2007: 55%). Due to the failure of Lehman Brothers Inc. and the major Icelandic banks, 1.7% of the exposure to financial counterparties fell into the default category in 2008 (2007: 0%).

Bank level. On an aggregate level, the Bank's credit quality weakened slightly during the year but continues to be strong. At year-end 2008 slightly more than 29% (2007: 27%) of the credit exposure was in the classes with the lowest risk (1 to 4) and around 58% (2007: 62%) was in the risk classes 5 to 10. The exposure to the classes with the highest risk (17 to 20) was a moderate 0.6%, which was at the same level as the year before. At year-end 2008 exposures in the default category accounted for 1.1% of the aggregate credit exposure (2007: 0%). The Bank's credit exposure continued to be fairly well balanced in respect of the geographical and industrial sector distribution as well as regarding the distribution of the exposure by size.

Market risk

Market risk includes, ***inter alia,*** the risk that losses incur as a result of fluctuations in exchange rates and interest rates. NIB's exposure to exchange rate risk occurs when translating assets and liabilities denominated in foreign currencies into the functional currency, the euro. The Bank funds its operations by borrowing in the international capital markets and often provides loans in currencies other than those borrowed, which unhedged would create currency mismatches in assets and liabilities. Furthermore, the funds borrowed often have other interest rate structures than those applied in the loans provided to the Bank's customers. By using derivative instruments, NIB seeks to reduce its exposure to exchange rate risk and interest rate risk created in the normal course of business. The residual risk must be within strictly defined limits. Such limits are kept very narrow to accommodate the Statutes, which stipulate that the Bank is not allowed to bear foreign exchange risks that could affect its financial position and net income, other than to a marginal extent.

Exchange rate risk

Exchange rate risk is the impact of unanticipated changes in foreign exchange rates on the Bank's assets and liabilities and on net interest income. The Bank measures and manages exchange rate risk in terms of the net nominal value of all assets and liabilities per currency on a daily basis (translation risk). The Board of Directors sets the limits for acceptable currency positions, i.e. the difference between assets and liabilities in a specific currency. The overnight exposure to any one currency may not exceed the equivalent of EUR 4 million. The currency positions are monitored against the established limits on a daily basis and reported regularly to the Finance Committee.

The Bank does not hedge future net interest income in foreign currency. Loans are provided primarily in euros and US dollars and there is a possibility that interest income in US dollars may cause some fluctuation in the Bank's future net income in euro terms. However, at present the Bank expects that any such potential fluctuations in the future cash flows from its current portfolio would be minor in relation to the Bank's total assets and equity.

Interest rate risk

Interest rate risk is the impact that fluctuations in market interest rates can have on the value of the Bank's interest-bearing assets and liabilities and on its net interest income. The Bank applies a set of limits and various tools to measure and manage interest rate risk. Maximum exposure limits are set by the Board of Directors. Compliance with these limits is monitored on a daily basis and reported regularly to the Finance Committee.

GAP analysis measures interest rate risk as the sensitivity of the Bank's interest income to a 1% change in interest rates. A gross total limit is defined for the acceptable interest rate risk, with separate sub-limits for each individual currency. The limits are set in relation to the Bank's equity and they are adjusted annually. At year-end 2008, the gross total limit was EUR 40 million, which corresponds to approximately 2% of NIB's equity. Total interest rate risk was approximately EUR 5.8 million, or 14.5 % of the limit (2007: EUR 6.6 million and 16.5%, respectively).

Risk emanating from differences in the maturity profile of assets and liabilities is managed by monitoring against limits established for refinancing and reinvestment risk. Refinancing risk arises when long-term assets are financed with short-term liabilities. Reinvestment risk occurs when short-term assets are financed with long-term liabilities. Refinancing and reinvestment risk are measured by means of a sensitivity analysis. The analysis captures the impact on the Bank's net interest income over time of a 0.1% change in the margin on an asset or liability. The limits for refinancing and reinvestment risk are set in relation to the Bank's equity. They are reviewed annually and approved by the Board of Directors. At year-end 2008 the maximum limit for refinancing and reinvestment risk was EUR 20 million, which is approximately 1% of NIB's equity. In addition, a EUR 2,000 million ceiling is applied to limit the difference in the cash flow from assets and liabilities in the course of any given year. This serves to prevent a large concentration of refinancing or reinvestment needs in the capital markets in one single year.

At year-end 2008 the total exposure under the EUR 20 million limit for refinancing and reinvestment risk was EUR 21.2 million (year-end 2007: EUR 18.3 million). The breach of the limit was caused partly by the growth in the Bank's balance sheet but the turmoil in the financial markets also had an impact. In the latter half of 2008 long-term funding became very expensive and difficult to access. This resulted in some maturity mismatches between funds raised and lending already committed. The Bank has taken action in order to rectify the situation. An increase in the limit for refinancing and reinvestment risk to 1.5% of the Bank's equity, i.e. EUR 26 million, has been approved by the Board of Directors. Once markets stabilise, the Bank aims to diversify its funding into the longer maturities.

NIB invests an amount corresponding to the size of its equity in a fixed income portfolio denominated in euro. In 2008 the Bank changed its portfolio structure. Previously, a maximum of 35% of the equity could be invested on a marked-to-market basis, while the balance had to be invested on a held-to-maturity basis. In the new structure, all of the Bank's own capital is invested in a held-to-maturity portfolio. Although the held-to-maturity portfolio is not marked-to-market, the Bank is monitoring the embedded market risk in the portfolio by means of Value-at-Risk (VaR). VaR estimates the potential future loss (in terms of market value) that will not be exceeded in a defined period of time and with a defined confidence level. For measuring value-at-risk, the Bank applies both a parametric method and the Monte Carlo method. Under the Monte Carlo method, simulations are made to estimate the sensitivity of the portfolio and the individual transactions to changes in the yield curve and exchange rates. The model is based on a 95% confidence level and a holding period of 1 day. At year-end 2008 the VaR of the held-to-maturity portfolio was EUR 11.4 million compared to EUR 9.7 million at inception on 30 September 2008.

The Bank also manages its own capital portfolio by means of modified duration. Modified duration measures how much the price of a security or portfolio of securities will change for a given change in interest rates. Generally, the shorter the duration, the less interest rate-sensitive the security. The current limit for the maximum modified duration of the own capital portfolio is set at 5.5 years.

NIB's exposure to credit spread changes is monitored by calculating the impact of a 0.01% change in credit spreads on the value of the bonds held in the Bank's marked-to-market portfolios. At year-end 2008, this exposure was EUR 0.47 million (year-end 2007: EUR 1.2 million). The reduced exposure to credit spread changes is primarily explained by the reclassification of securities from the trading portfolio to the held-to-maturity portfolio in October 2008.

Liquidity risk

Liquidity risk management safeguards the ability of the Bank to meet all payment obligations when they become due. NIB's policy is to maintain a liquidity corresponding to its net liquidity requirements for 12 months. The liquid assets consist of receivables from banks and high-quality securities denominated primarily in euros and US dollars. In response to the current market disruptions, the Bank has initiated a review of its liquidity policy focusing, ***inter alia***, on the composition of its stock of liquid assets.

An important element of the liquidity risk management is also the Bank's aim to diversify its funding sources, for example, in terms of investor type and geographical region. The Treasury Department is responsible for managing the liquidity. Status reports are submitted to the Finance Committee on a regular basis.

Operational risks—internal control

Operational risk can be broadly defined as any risk which is neither credit risk, market risk, strategic risk nor compliance risk. The Bank defines operational risk more precisely as the risk of direct or indirect losses or damaged reputation due to failure attributable to technology, employees, processes, procedures or physical arrangements, including external events and legal risks.

The Bank's status as an international organisation with immunities and privileges granted to the Bank and its personnel, and the fact that the Bank is neither bound by nor under the supervision of any national laws as such, results in a specific need to address potential risks by adopting an extensive set of guidelines, regulations, rules and instructions governing the activities of the Bank and its staff. NIB is presently revising and updating its operational risk management to be congruent with the aims of the Basel II framework. A new operational risk policy was adopted in 2008. Furthermore, the Bank is preparing a comprehensive and consistent framework for the implementation of an effective operational risk management and measurement process throughout the Bank.

NIB's operational risk management focuses on proactive measures in order to ensure business continuity, the accuracy of information used internally and reported externally, as well as a competent and well-informed staff and its adherence to established rules and procedures. Furthermore, security arrangements to protect the physical and ICT infrastructure of the Bank are an integral part of its operational risk management. The Bank attempts to mitigate operational risks by following strict rules for the assignment of duties and responsibilities among and within the business and support functions and by following a system of internal control and supervision. The main principle for organising work flows is to segregate business-generating functions from recording and monitoring functions. An important factor in operational risk mitigation is also the continuous development and upgrading of strategic information and communication systems.

Internal Audit is an independent function commissioned by the Board of Directors. The main responsibility of Internal Audit is to evaluate the controls, risk management and governance processes in the Bank. The Head of Internal Audit reports regularly to the Board of Directors and to the Control Committee and keeps the President regularly informed. The annual internal audit activity plan is approved by the Board of Directors. The internal audit activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Notes to the income statement, balance sheet and cash flow statement

(1) SEGMENT INFORMATION

Primary reporting segment—business operations
The segment reporting in NIB is based on internal business areas. The segment results in this note are reported in the same form in which they are reported to the management.

In its segment reporting, NIB divides its operations into two major segments: lending and financial operations. NIB offers long-term loans and guarantees on competitive market terms to its clients in the private and public sectors. Financial operations consist of the management of liquidity and placement of funds in financial investment portfolios.

	Lending	Liquidity	Placements in financial investment portfolios	Total	Lending	Liquidity	Placements in financial investment portfolios	Total
(Amounts in EUR 1,000)	**2008**	**2008**	**2008**	**2008**	**2007**	**2007**	**2007**	**2007**
Net interest income	**92,670**	**28,917**	**90,804**	**212,391**	**83,308**	**19,790**	**84,026**	**187,125**
Commission income and fees received	7,430	2,136	-	9,567	5,829	306	-	6,135
Commission expense and fees paid	-	-2,310	-	-2,310	-	-2,425	-	-2,425
Net profit on financial operations	-	-380,545	-6,377	-386,923	2,311	-68,882	-23,147	-89,719
Foreign exchange gains and losses	-	-142	-	-142	-	-361	-	-361
Administrative expenses	-27,172	-674	-2,499	-30,346	-24,168	-904	-2,435	-27,507
Depreciation	-2,791	-1,098	-471	-4,360	-2,899	-1,141	-489	-4,529
Impairment of loans	-79,150	-	-	-79,150	-	-	-	-
Profit/loss for the year	**-9,013**	**-353,716**	**81,457**	**-281,273**	**64,381**	**-53,617**	**57,954**	**68,719**
Assets	**13,202,121**	**7,688,372**	**1,729,943**	**22,620,436**	**12,421,919**	**5,514,373**	**2,036,950**	**19,973,242**
Liabilities and equity	**13,202,121**	**7,688,372**	**1,729,943**	**22,620,436**	**12,421,919**	**5,514,373**	**2,036,950**	**19,973,242**

Secondary reporting segment—geographical segment
The table below is based on the region where the borrowers reside, according to the domicile of the borrower's group headquarters.

(Amounts in EUR 1,000)	**2008 Net interest income**	**2007 Net interest income**
Member countries		
Denmark	7,341	6,046
Estonia	1,153	976
Finland	16,439	15,267
Iceland	3,629	3,816
Latvia	1,217	1,000
Lithuania	276	243
Norway	9,494	7,875
Sweden	23,158	22,004
Total, member countries	**62,708**	**57,228**
Non-member countries		
Africa	2,072	2,026
Asia	8,351	7,578
Europe and Eurasia	10,869	8,011
Latin America	7,407	7,129
Middle East	1,262	1,336
Total, non-member countries	**29,962**	**26,080**
Total, net interest income from lending	**92,670**	**83,308**

Due to rounding, the total of individual items may differ from the reported sum.

(2) INTEREST INCOME AND INTEREST EXPENSE

(Amounts in EUR 1,000)	2008	2007
Interest income		
Cash and cash equivalents	214,866	197,167
Placements with credit institutions for more than 6 months	3,824	3,726
Debt securities of more than 6 months	82,643	65,998
Loans outstanding	677,379	589,079
Other interest income	523	310
Total, interest income [1)]	**979,236**	**856,280**
Interest expense		
Short-term amounts owed to credit institutions	17,513	12,235
Long-term amounts owed to credit institutions	3,706	3,593
Short-term repurchase agreements	326	8,394
Debts evidenced by certificates	875,141	737,017
Swap contracts and other interest expenses, net	-129,842	-92,085
Total, interest expense [2)]	766,845	669,155

1) Including interest income of financial assets recognised at amortised cost: EUR 807,489 thousand (684,823).
2) Including interest expense of financial liabilities recognised at amortised cost: EUR 766,215 thousand (660,761).

(3) COMMISSION INCOME AND FEES RECEIVED

(Amounts in EUR 1,000)	2008	2007
Commitment fees	1,274	1,547
Loan disbursement fees	5,590	3,445
Guarantee commissions	140	139
Premiums on prepayments of loans	2,276	697
Commissions on lending of securities	287	306
Total, commission income and fees received	**9,567**	**6,135**

(4) NET PROFIT/LOSS ON FINANCIAL OPERATIONS

(Amounts in EUR 1,000)	2008	2007
Bonds in trading portfolio, realised gains and losses	-3,740	-4,162
Floating Rate Notes in trading portfolio, realised gains and losses	-30,537	1,158
Derivatives in trading portfolio, realised gains and losses	-1,886	-3,561
Financial instruments in trading portfolio, realised gains and losses, total	**-36,164**	**-6,565**
Bonds in trading portfolio, unrealised gains and losses	545	-6,893
Floating Rate Notes in trading portfolio, unrealised gains and losses	-166,357	-71,038
Derivatives in trading portfolio, unrealised gains and losses	-17,943	2,305
Financial instruments in trading portfolio, unrealised gains and losses, total	**-183,756**	**-75,626**
Adjustment in fair value of hedged loans	85,137	-21,023
Adjustment in fair value of derivatives hedging loans	-83,464	22,650
Adjustment in fair value of hedged debts evidenced by certificates	-609,552	-133,394
Adjustment in fair value of derivatives hedging debts evidenced by certificates	569,071	123,511
Other [1)]	-	-382
Adjustment to hedge accounting, unrealised gains and losses of fair value hedges, total	**-38,809**	**-8,638**
Changes in fair value of non-hedging derivatives, unrealised gains and losses [2)]	-	-1,681
Negative changes in fair value not expected to be recovered	-132,380	-
Repurchase of NIB bonds, other items	4,185	2,791
Total, net profit/loss on financial operations	**-386,923**	**-89,719**

1) In 2007 this consisted of "Adjustment in fair value of asset swaps". In 2008 this item was moved to "Derivatives in trading portfolio, unrealised gains and losses".
2) In 2008 "Changes in fair value of non-hedging derivatives, unrealised gains and losses" was included in "Derivatives in trading portfolio, unrealised gains and losses".

(5) GENERAL ADMINISTRATIVE EXPENSES

(Amounts in EUR 1,000)	2008	2007
Staff costs	20,311	18,512
Wages and salaries	15,962	14,235
Social security costs	458	444
Other staff costs	3,891	3,833
Pension premiums in accordance with the Finnish state pension system	3,788	3,423
Other pension premiums	1,202	1,084
Office premises costs	1,567	1,996
IT costs	2,546	2,295
Other general administrative expenses	7,553	6,844
Cost coverage, NDF and NEFCO	-702	-786
Cost coverage, rental income and other administrative income	-541	-887
Total	**35,725**	**32,479**
Host country reimbursement according to agreement with the Finnish Government	-5,379	-4,972
Net	**30,346**	**27,507**
Remuneration to the auditors		
Audit fee [1)]	213	273
Other audit-related service fee	101	1
Total remuneration	**314**	**274**

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

	2008	2007
Average number of employees	165	156
Average age of the employees	43	44
Average period (years) of employment	10	10
Distribution by gender at year-end		
All employees		
Females	82	79
Males	88	79
Management Committee (including the President)		
Females	1	1
Males	6	6
Professional staff		
Females	51	41
Males	71	56
Clerical staff		
Females	30	37
Males	11	17

Compensation for the Board of Directors, the Control Committee, the President and the Management Committee
Compensation for the Board of Directors (BoD) and the Control Committee (CC) is set by the Board of Governors (BoG). The compensation consists of a fixed annual remuneration and an attendee allowance. The members of the BoD and the CC are also entitled to the reimbursement of travel and accommodation expenses and a daily allowance in accordance with the Bank's travel policy.

The BoD makes decisions concerning the employment and the remuneration of the President. The President is appointed on a fixed-term contract for five years at a time. While the BoD decides on the principles for the remuneration of the members of the Management Committee (MC), the President decides upon the employment and specific remuneration of the MC. The members of the MC are normally employed for an indefinite period of time. The period of notice varies from three to six months. The remuneration package for the members of the MC includes a fixed base salary and customary taxable benefits, which are in principle the same for all staff on the managerial level. In addition to this remuneration package, the members of the MC enjoy other benefits common to all staff (health care, supplementary group pension, staff loans and insurance coverage). The Bank pays performance bonuses up to three month's salary for excellent and extraordinary performance within a total of 2.0% of the estimated total staff salary costs for the previous year. All personnel are eligible for bonus awards.

Compensation for BoD, the CC, the President and the MC is presented in the table below:

(Amounts in EUR)	2008 Compensation/ Taxable income	2007 Compensation/ Taxable income
Board of Directors		
Chairman		
annual remuneration	13,045	12,495
attendee allowance	1,903	1,409
Other Directors and Alternates (15 persons)		
annual remuneration	74,214	71,865
attendee allowance	13,422	11,360
Control Committee		
Chairman		
annual remuneration	4,305	4,207
attendee allowance	422	545
Other members (10 persons)		
annual remuneration	15,513	15,645
attendee allowance	2,124	4,392
President	453,432	424,609
Members of the Management Committee (6 persons)	1,665,629	1,460,826

Pension obligations
NIB is responsible for arranging the pension security for its employees. The current pension arrangement consists of pensions based on the Finnish state pension system (VaEL Pension) as the basis for the pension benefits. The VaEL Pension is calculated on the basis of the employee's annual taxable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2008 was 18.45% of the taxable income. The employee's pension contribution was either 4.1% or 5.2%, depending on the employee's age. NIB pays this contribution for the permanent staff and it is taxed as a benefit for the employee.

In addition to the VaEL Pension, the Bank has taken out a supplementary group pension insurance policy for all its permanently employed staff, including the President. This pension insurance is based on the principle of a defined contribution. The insurance premium, 6.5%, is calculated on the basis of the employee's taxable income and paid until the age of 63.

Pension premiums paid for the President amounted to EUR 214,631 of which EUR 107,395 comprised supplementary pension premiums. The corresponding figures for the MC were EUR 560,941 and EUR 181,634.

Staff loans
Staff loans can be granted to permanently employed staff members who have been employed by the Bank for a period of at least one year. The President is granted staff loans subject to a recommendation from the BoD, and the members of the MC are granted staff loans subject to a recommendation from the President. The staff loans are granted by a commercial bank, subject to a recommendation from NIB. Staff loans are granted for the financing of, for example, a permanent residence, other accommodation and motor vehicles.

The total loan amount cannot exceed the amount equivalent to the employee's base salary for twenty months, the maximum loan amount being EUR 100,000. The employee pays interest on the loan in accordance with the official base rate established by the Ministry of Finance in Finland (4.75% in July–December 2008). The same interest rates, terms and conditions are applicable to all the employees of the Bank, including the President and MC members.

As of 31 December 2008, there were no staff loans to the MC outstanding (EUR 29,577).

Additional benefits to expatriates
Professional staff (including Management Committee members) who move to Finland for the sole purpose of taking up employment in the Bank, are entitled to certain expatriate benefits, such as an expatriate allowance and a spouse allowance. In addition, NIB assists the expatriate, e.g., in finding accommodation, usually by renting a house or a flat in its own name. The staff member reimburses the Bank a part of the rent, which equals at least the tax value of the accommodation benefit established annually by the Finnish National Board of Taxes.

Rental agreement
NIB owns its headquarters office building in Helsinki. The building's total area is 18,500 m². The Bank rents office space totalling 1,723 m² adjacent to its main office building. Furthermore, the Bank rents office space totalling 353 m² in the Nordic countries and in Beijing. A total of 2,050 m² is rented to other parties.

(6) IMPAIRMENT OF LOANS

(Amounts in EUR 1,000)	2008	2007
Impairment covered by previously recognised impairment	-	-
Impairment recognised during the year	79,150	-
Reversals of previously recognised impairment	-	-
Impairment of loans, net	**79,150**	**-**

See also Note 8.

(7) FINANCIAL PLACEMENTS

The debt securities were issued by the following counterparties:

(Amounts in EUR million)	2008	2007
Governments	724	396
Public institutions	95	84
Other	1,684	1,103
Total, debt securities	**2,502**	**1,583**

The distribution of the Bank's debt security portfolios was as follows:

	Book value		Fair value	
(Amounts in EUR million)	2008	2007	2008	2007
Trading portfolio	**185**	373	**185**	373
Held-to-maturity portfolio	**2,317**	1,210	**2,287**	1,181
Total, debt securities	**2,502**	**1,583**	**2,472**	**1,554**

Of these debt securities, EUR 1,923 (1,583) million is at fixed interest rates and EUR 579 (0) million at floating interest rates.

Reclassified securities
The Bank reclassified financial assets out of the held for trading portfolio to the held-to-maturity portfolio because these assets are no longer held for the purpose of being sold in the near term. At the same time, assets recognised among cash and cash equivalents became financial placements and are not included in net liquidity. All the reclassifications took place at the fair value at the date of reclassification. The reclassified cost will be amortised over the instrument's expected remaining lifetime through interest income using the effective interest method. One of the financial effects of the reclassification was that interest income increased by EUR 1.6 million. The losses from the fair values that would have been recognised in the income statement if they had not been reclassified were EUR -54 million at 31 December 2008.

	Portfolio volume Held for trading 1.9.2008		Reclassified to Held-to-maturity 1.9.2008			
(Amounts in EUR million unless otherwise specified)	Book value	Fair value	Book value	Fair value	% Fair value	1.9.2008 Effect on P/L
Debt securities	326	315	129	120	38%	-8
Cash equivalents	3,369	3,236	634	595	18%	-39
	3,696	**3,551**	**762**	**715**	**20%**	**-47**

(8) LOANS OUTSTANDING AND GUARANTEE COMMITMENTS

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

(Amounts in EUR million)	2008	2007
Ordinary Loans		
Investment loans in the member countries	10,092	9,882
Investment loans in other countries	354	294
Regional loans in the Nordic countries	13	17
Adjustment to hedge accounting	48	-31
Total	**10,505**	**10,161**
Project Investment Loans (PIL)		
Africa	265	235
Asia	953	772
Europe and Eurasia	520	444
Latin America	587	478
Middle East	114	111
Adjustment to hedge accounting	2	-5
Total	**2,440**	**2,034**
Environmental Investment Loans (MIL)	118	95
Total, loans outstanding	**13,063**	**12,291**

The figure for loans outstanding, EUR 13,063 million (12,291), includes medium-term notes (MTN) of EUR 2,153 million (2,342). These are held at amortised cost unless they form a part of a qualifying hedging relationship with a derivative. In a hedge accounting relationship, the MTNs are recognised at fair value.

Loans outstanding at floating interest rates amounted to EUR 11,770 million (10,990), while those at fixed interest rates amounted to EUR 1,243 million (1,336). The nominal amount of the guarantee commitments under Ordinary Lending totalled EUR 16.7 million (25.0) as of 31 December 2008.

Impairment of loans
A total of EUR 79.4 million (0.3) has been deducted from the Bank's loans outstanding for impairment losses of loans. The following changes were recognised in the balance sheet in respect of impairment losses:

(Amounts in EUR million)	2008	2007
Impairment losses as of 1 January	0.3	0.4
Impairment losses recognised during the year	79.2	-
Reversals of previously recognised impairment losses	-	-
Loan losses covered by provisions previously made	-	-
Exchange rate adjustments, impairment accrued	-	-0.1
Impairment losses as of 31 December	**79.4**	**0.3**

See also Note 6.

The distribution of impairment losses was as follows:

(Amounts in EUR million)	2008	2007
Distribution by loan facility		
Ordinary Loans	74.0	-
Project Investment Loans (PIL)	-	-
Africa	-	-
Asia	-	-
Europe and Eurasia	5.2	-
Latin America	0.3	0.3
Middle East	-	-
Total, impairment losses	**79.4**	**0.3**

As of 31 December 2008, all of the Bank's loans were performing.

As of 31 December 2008, loans agreed but not yet disbursed amounted to the following:

(Amounts in EUR million)	2008	2007
Loans agreed but not yet disbursed		
Ordinary Loans	801	577
Project Investment Loans	578	616
Environmental Investment Loans	40	6
Total, loans agreed but not yet disbursed	**1,419**	**1,200**

Currency distribution of loans outstanding

	Ordinary loans		PIL Loans		Total [1]	
(Nominal amounts, in EUR million)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Currency						
Nordic currencies	3,188	3,419	-	-	3,188	3,419
EUR	6,199	5,671	699	571	6,965	6,316
USD	910	958	1,713	1,440	2,673	2,420
Other currencies	161	144	26	28	187	172
Total	**10,457**	**10,192**	**2,438**	**2,039**	**13,013**	**12,326**
Adjustment to hedge accounting	48	-31	2	-5	50	-36
Total, loans outstanding	**10,505**	**10,161**	**2,440**	**2,034**	**13,063**	**12,291**

1) The total amount also includes EUR 118 million (95) in Environmental Investment Loans (MIL).

Sectoral distribution

(Amounts in EUR million)	**2008**	**2008 Share, in %**	**2007**	**2007 Share, in %**
Loans outstanding as of 31 December				
Manufacturing	4,576	35%	4,607	37%
Energy	3,757	29%	3,297	27%
Transport and communications	1,809	14%	1,666	14%
Trade and services	1,007	8%	842	7%
Banking and finance [2]	838	6%	999	8%
Regional loans	13	0%	17	0%
Other	1,013	8%	898	7%
Adjustment to hedge accounting	50	0%	-36	0%
Total	**13,063**	**100%**	**12,291**	**100%**
Loans disbursed				
Manufacturing	746	30%	1,027	43%
Energy	689	28%	600	25%
Transport and communications	428	17%	237	10%
Trade and services	309	12%	192	8%
Banking and finance [2]	94	4%	175	7%
Regional loans	-	0%	-	0%
Other	220	9%	160	7%
Total	**2,486**	**100%**	**2,390**	**100%**

2) Including the Bank's financial intermediaries.

Distribution of loans outstanding and guarantees by various types of security
The following table shows loans outstanding, including guarantee commitments, distributed by type of security:

(Amounts in EUR million)	**Amount**	**Total amount**	**Share, in %**
As of 31 December 2008			
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries	224		
Loans to or guaranteed by other countries	1,563	1,787	13.7%
Loans to or guaranteed by local authorities in member countries		257	2.0%
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries		652	5.0%
Loans to or guaranteed by banks		917	7.0%
Other loans			
Backed by a lien or other security in property	417		
With a guarantee from the parent company and other guarantees	1,773		
With a negative pledge clause and other covenants	7,212		
Without formal security	15	9,417	72.3%
Total		**13,030**	**100.0%**
Adjustment to hedge accounting		**50**	
Total, loans outstanding (including guarantees)		**13,079**	

The amounts set forth above for loans agreed but not yet disbursed include loans in considerable amounts, where certain conditions, primarily interest rate conditions, may not yet have been finally approved.

(Amounts in EUR million)	Amount	Total amount	Share, in %
As of 31 December 2007			
Loans to or guaranteed by governments			
Loans to or guaranteed by member countries	204		
Loans to or guaranteed by other countries	1,456	1,660	13.5
Loans to or guaranteed by local authorities in member countries		273	2.2
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries		578	4.7
Loans to or guaranteed by banks		980	7.9
Other loans			
Backed by a lien or other security in property	371		
With a guarantee from the parent company and other guarantees	1,854		
With a negative pledge clause and other covenants	6,620		
Without formal security	16	8,862	71.7
Total		**12,351**	**100.0**
Adjustment to hedge accounting		-36	
Total, loans outstanding (including guarantees)		**12,316**	

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

(Amounts in EUR 1,000)	2008 Amount of guarantee	2008 Share, in %	2007 Amount of guarantee	2007 Share, in %
Member country				
Denmark	377,821	21.0	377,821	21.0
Estonia	13,139	0.7	13,139	0.7
Finland	344,860	19.2	344,860	19.2
Iceland	15,586	0.9	15,586	0.9
Latvia	19,058	1.1	19,058	1.1
Lithuania	29,472	1.6	29,472	1.6
Norway	329,309	18.3	329,309	18.3
Sweden	670,755	37.3	670,755	37.3
Total	**1,800,000**	**100.0**	**1,800,000**	**100.0**

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

(Amounts in EUR 1,000)	2008 Amount of guarantee	2008 Share, in %	2007 Amount of guarantee	2007 Share, in %
Member country				
Denmark	70,113	23.4	70,113	23.4
Estonia	2,190	0.7	2,190	0.7
Finland	51,377	17.1	51,377	17.1
Iceland	3,187	1.1	3,187	1.1
Latvia	3,176	1.1	3,176	1.1
Lithuania	4,912	1.6	4,912	1.6
Norway	61,324	20.4	61,324	20.4
Sweden	103,720	34.6	103,720	34.6
Total	**300,000**	**100.0**	**300,000**	**100.0**

(9) INTANGIBLE ASSETS, TANGIBLE ASSETS (PROPERTY AND EQUIPMENT)

The Bank's intangible assets amounted to EUR 6.8 million (6.7).

2008 (Amounts in EUR 1,000)	Computer software development costs, total
Intangible assets	
Acquisition value at the beginning of the year	13,392
Acquisitions during the year	2,023
Sales/disposals during the year	-
Acquisition value at the end of the year	**15,415**
Accumulated amortisation at the beginning of the year	6,652
Amortisation according to plan for the year	1,947
Accumulated amortisation on sales/disposals during the year	-
Accumulated amortisation at the end of the year	**8,599**
Net book value	**6,816**

As of 31 December 2008, the historical cost of buildings and land was recognised in the balance sheet (net of depreciation on the buildings in accordance with the depreciation plan) at EUR 27.0 million (27.6).

The value of office equipment and other tangible assets is recognised at EUR 8.1 million (9.1).

2008 (Amounts in EUR 1,000)	Buildings	Office equipment and other tangible assets	Total
Tangible assets			
Acquisition value at the beginning of the year	33,704	15,237	48,941
Acquisitions during the year	36	775	810
Sales/disposals during the year	-	-281	-281
Acquisition value at the end of the year	**33,739**	**15,731**	**49,471**
Accumulated depreciation at the beginning of the year	6,069	6,105	12,174
Depreciation according to plan for the year	670	1,743	2,414
Accumulated depreciation on sales/disposals during the year	-	-224	-224
Accumulated depreciation at the end of the year	**6,739**	**7,625**	**14,364**
Net book value	**27,001**	**8,106**	**35,107**

On each balance sheet date, the Bank's assets are assessed to determine whether there is any indication of an asset's impairment. As of 31 December 2008, there were no indications of impairment of the intangible or tangible assets.

2007 (Amounts in EUR 1,000)	Computer software development costs, total
Intangible assets	
Acquisition value at the beginning of the year	11,593
Acquisitions during the year	1,799
Sales/disposals during the year	-
Acquisition value at the end of the year	**13,392**
Accumulated amortisation at the beginning of the year	4,251
Amortisation according to plan for the year	2,401
Accumulated amortisation on sales/disposals during the year	-
Accumulated amortisation at the end of the year	**6,652**
Net book value	**6,740**

2007 (Amounts in EUR 1,000)	Buildings	Office equipment and other tangible assets	Total
Tangible assets			
Acquisition value at the beginning of the year	33,704	12,099	45,803
Acquisitions during the year	-	3,316	3,316
Sales/disposals during the year	-	-178	-178
Acquisition value at the end of the year	**33,704**	**15,237**	**48,941**
Accumulated depreciation at the beginning of the year	5,398	4,771	10,170
Depreciation according to plan for the year	670	1,458	2,128
Accumulated depreciation on sales/disposals during the year	-	-124	-124
Accumulated depreciation at the end of the year	**6,069**	**6,105**	**12,174**
Net book value	**27,635**	**9,132**	**36,767**

(10) DEPRECIATION

(Amounts in EUR 1,000)	2008	2007
Intangible assets	1,947	2,401
Tangible assets	2,414	2,128
Buildings	670	670
Office equipment	1,743	1,458
Total	**4,360**	**4,529**

(11) OTHER ASSETS

Derivatives are included in “Other assets”.

(Amounts in EUR million)	2008	2007
Interest rate swaps 1)	9,913	9,842
Currency swaps 2)	16,307	14,468
Total, nominal amount	**26,221**	**24,310**
Netting of nominal amount per derivative	-25,117	-23,563
Derivative receivables, net	**1,104**	**747**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	630	303
Derivative instruments	**1,734**	**1,050**
Other	8	2
Total	**1,742**	**1,051**

1) Interest rate swaps at floating interest rates EUR 2,557 million (2,377) and fixed interest rates EUR 7,357 million (7,465).
2) Currency swaps at floating interest rates EUR 9,235 million (8,278) and fixed interest rates EUR 7,072 million (6,191).

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

(12) DEBTS EVIDENCED BY CERTIFICATES AND SWAPS

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

	Borrowing		Swap contracts payable/receivable		Net currency	
(Amounts in EUR million)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Currency						
Nordic currencies	292	688	2,908	2,745	3,201	3,433
EUR	723	676	9,487	7,760	10,209	8,436
USD	9,476	6,862	-5,607	-2,969	3,869	3,893
JPY	2,027	1,547	-1,965	-1,512	62	34
GBP	1,788	2,026	-1,767	-2,005	21	21
HKD	245	263	-245	-264	-	-
Other currencies	2,289	2,861	-2,158	-2,774	131	87
Total	**16,841**	**14,924**	**652**	**981**	**17,493**	**15,905**
Adjustments to hedge accounting and changes in fair value of non-hedging derivatives	709	99	-601	-130	108	-31
Swap fees	-	-	-4	98	-4	98
Total, borrowings outstanding	**17,549**	**15,023**	**47**	**950**	**17,597**	**15,972**

The table set forth above includes 293 (276) borrowing transactions in the equivalent amount of EUR 8,193 million (8,268) entered into under the Bank's euro medium-term note programme, 0 (1) borrowing transactions in the equivalent amount of EUR 0 million (53) under the Bank's Swedish medium-term note programme, 12 (10) borrowing transactions in the equivalent amount of EUR 6,899 million (7,235) under the Bank's US medium-term note programmes and 10 (5) borrowing transactions in the equivalent amount of EUR 1,050 million (597) under the Bank's Australian medium-term note programme. The Bank has established a USD 2,000 million commercial paper programme in Europe and another USD 600 million programme in the United States.

Of debt securities issued, the amount of EUR 2,331 million (1,590) is at floating interest rates, while EUR 14,284 million (13,139) is at fixed interest rates. Of the other borrowing transactions, the amount of EUR 88 million (-) is at floating interest rates, while EUR 138 million (194), is at fixed interest rates.

(13) OTHER LIABILITIES

Derivatives are included in "Other liabilities".

(Amounts in EUR million)	**2008**	**2007**
Interest rate swaps [1)]	9,855	9,812
Currency swaps [2)]	17,013	15,475
Total, nominal amount	**26,868**	**25,287**
Netting of nominal amount per derivative	-25,112	-23,461
Derivative payables, net	**1,756**	**1,826**
Adjustment to hedge accounting and changes in fair value of non-hedging derivatives	29	173
Derivative instruments	**1,785**	**1,999**
Other	5	4
Total	**1,790**	**2,004**

1) Interest rate swaps at floating interest rates EUR 8,820 million (8,684) and fixed interest rates EUR 1,035 million (1,128).
2) Currency swaps at floating interest rates EUR 16,756 million (15,153) and fixed interest rates EUR 257 million (323).

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

(14) AUTHORISED CAPITAL—PAID-IN CAPITAL

The member countries' portions of authorised capital are as follows:

(Amounts in EUR million)	2008	Share, in %	2007	Share, in %
Member country				
Denmark	881.1	21.3	881.1	21.3
Estonia	30.2	0.7	30.2	0.7
Finland	765.8	18.5	765.8	18.5
Iceland	38.6	0.9	38.6	0.9
Latvia	43.9	1.1	43.9	1.1
Lithuania	67.8	1.6	67.8	1.6
Norway	793.1	19.1	793.1	19.1
Sweden	1,521.4	36.7	1,521.4	36.7
Total	**4,141.9**	**100.0**	**4,141.9**	**100.0**

The member countries' portions of paid-in capital are as follows:

(Amounts in EUR million)	2008	Share, in %	2007	Share, in %
Member country				
Denmark	89.2	21.3	89.2	21.3
Estonia	3.1	0.7	3.1	0.7
Finland	74.4	17.8	74.4	17.8
Iceland	3.9	0.9	3.9	0.9
Latvia	4.4	1.1	4.4	1.1
Lithuania	6.9	1.6	6.9	1.6
Norway	77.1	18.4	77.1	18.4
Sweden	159.5	38.1	159.5	38.1
Total	**418.6**	**100.0**	**418.6**	**100.0**

The new member countries have made their payments of the paid-in portion pursuant to an agreed schedule of payments in three annual instalments, the last of which was made on 31 March 2007.

(15) STATUTORY RESERVE AND CREDIT RISK FUNDS

At the end of 2008, the Statutory Reserve amounted to EUR 656.8 million, or 15.9% of the Bank's authorised capital of EUR 4,141.9 million.

The General Credit Risk Fund recognised in "Equity" is built up by means of allocations from prior years' profits. This fund is established to cover unidentified, exceptional credit losses. The Statutory Reserve and the General Credit Risk Fund together constitute the Bank's general reserves. The General Credit Risk Fund amounted to EUR 622.1 million in 2008.

In accordance with its Statutes, the Bank has a Special Credit Risk Fund for the Project Investment Loan facility. This fund is primarily designed to cover the Bank's own risk in respect of this loan facility, and is guaranteed by the member countries. In 2008, the fund amounted to EUR 281.9 million. The Bank assumes 100% of any losses under individual PIL loans, up to the amount available at any given time in the Special Credit Risk Fund for PIL. Only after this fund has been fully used, can the Board of Directors call the member country guarantees.

Taken together, these credit risk funds (General Credit Risk Fund and Special Credit Risk Fund PIL) amounted to EUR 904.0 million as of 31 December 2008.

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

(16) COLLATERAL AND COMMITMENTS

(Amounts in EUR million)	2008	2007
Guarantees issued at nominal amount (Note 8)	17	25
Loans agreed but not yet disbursed (Note 8)	1,419	1,200
Borrowing commitments	-	275
Collateral provided for staff loans	-	-
Securities as collateral for repurchase agreements 1)	43	-
Callable commitments in financial placements	62	19
Collateral with respect to derivatives exposure		
Collateral received 2)	619	250
Collateral given 1)	-	-

1) Book value
2) Fair value

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

(Amounts in EUR million)	2008 Carrying amount	2008 Fair value	2008 Difference	2007 Carrying amount	2007 Fair value	2007 Difference
Assets						
Cash accounts with banks [1]	6	6	-	4	4	-
Cash equivalents at fair value through profit or loss [2]	2,283	2,283	-	3,286	3,286	-
Other cash and cash equivalents, held-to-maturity [2]	2,487	2,489	2	1,203	1,203	-
Cash and cash equivalents, total	**4,777**	**4,779**	**2**	**4,493**	**4,493**	**-**
Placements with credit institutions [1]	82	83	1	93	93	-
Debt securities at fair value through profit or loss, held for trading [2]	185	185	-	373	373	-
Other debt securities, held-to-maturity [2]	2,317	2,287	-30	1,210	1,181	-29
Debt securities, total	**2,502**	**2,472**	**-30**	**1,583**	**1,554**	**-29**
Other financial placements available for sale [2]	14	14	-	7	7	-
Hedged loans outstanding in fair value hedging relationships [1]	1,286	1,286	-	1,288	1,288	-
Loans outstanding, other [1]	11,777	11,823	46	11,003	11,007	5
Loans outstanding, total	**13,063**	**13,109**	**46**	**12,291**	**12,296**	**5**
Hedging derivatives at fair value [1]	1,383	1,383	-	1,032	1,032	-
Other derivatives at fair value [1]	352	352	-	17	17	-
Derivatives at fair value, total	**1,734**	**1,734**	**-**	**1,050**	**1,050**	**-**
			19			**-24**
Liabilities						
Short-term amounts owed to credit institutions [1]	1,093	1,094	1	454	454	-
Long-term amounts owed to credit institutions [1]	79	80	1	92	92	-
Repurchase agreements [1]	46	46	-	-	-	-
Hedged debt securities issued in fair value hedging relationships [1]	17,169	17,169	-	14,821	14,821	-
Other debt securities issued [1]	152	151	-1	9	6	3
Debt securities issued, total	**17,320**	**17,319**	**-1**	**14,830**	**14,827**	**3**
Hedged other debt in fair value relationships [1]	229	229	-	193	193	-
Hedging derivatives at fair value [1]	1,134	1,134	-	663	663	-
Other derivatives at fair value [1]	651	651	-	1,341	1,341	-
Derivatives at fair value, total	**1,785**	**1,785**	**-**	**2,004**	**2,004**	**-**
			1			**3**
Net			**20**			**-21**

1) The fair value is determined using valuation techniques with observable market inputs.
2) The fair value is determined according to market quotes.

(18) MATURITY PROFILE

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

2008 (Amounts in EUR million)	Up to and including 3 months	Over 3 months and up to and including 6 months	Over 6 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years and up to and including 10 years	Over 10 years	Undefined	Total
Assets								
Cash and cash equivalents	2,548	200	428	1,842	73	-	-314	4,777
Financial placements								
Placements with credit institutions	23	17	40	-	-	-	2	82
Investment securities	66	9	79	1,164	777	408	-2	2,502
Other	-	-	-	-	-	-	14	14
	89	**26**	**120**	**1,164**	**777**	**408**	**15**	**2,599**
Loans outstanding	261	385	644	5,629	4,949	1,226	-30	13,063
Intangible assets	-	-	-	-	-	-	7	7
Tangible assets	-	-	-	-	-	-	35	35
Other assets								
Derivatives								
Receivables	1,312	1,031	982	9,251	3,497	1,423	630	18,126
Payables	-1,161	-994	-923	-8,975	-3,096	-1,243	-	-16,392
	151	**37**	**60**	**276**	**401**	**180**	**630**	**1,734**
Other assets	-	-	-	-	-	-	8	8
Paid-in capital and payments to the Bank's reserves, receivable	-	-	-	-	-	-	32	32
Accrued interest and fees receivable	-	-	-	-	-	-	367	367
Total assets	**3,048**	**648**	**1,251**	**8,911**	**6,200**	**1,814**	**749**	**22,620**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term	1,085	8	-	-	-	-	-	1,093
Long-term	23	17	39	-	-	-	-	79
	1,108	**25**	**39**	**-**	**-**	**-**	**-**	**1,172**
Repurchase agreements	-	46	-	-	-	-	-	46
Debts evidenced by certificates	1,716	1,185	1,620	9,244	2,327	750	709	17,549
Other liabilities								
Derivatives								
Receivables	-269	-782	-794	-4,910	-1,324	-650	-	-8,729
Payables	336	964	964	5,769	1,588	857	36	10,514
	68	**181**	**170**	**858**	**265**	**207**	**36**	**1,785**
Other liabilities	-	-	-	-	-	-	5	5
Accrued interest and fees receivable	-	-	-	-	-	-	333	333
Total liabilities	**2,891**	**1,437**	**1,829**	**10,102**	**2,591**	**957**	**1,083**	**20,890**
Equity	-	-	-	-	-	-	1,730	1,730
Total liabilities and equity	**2,891**	**1,437**	**1,829**	**10,102**	**2,591**	**957**	**2,813**	**22,620**
Net during the period	157	-789	-578	-1,191	3,609	856	-2,064	-
Cumulative net during the period	157	-632	-1,209	-2,401	1,208	2,064	-	-

2007 (Amounts in EUR million)	Up to and including 3 months	Over 3 months and up to and including 6 months	Over 6 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years and up to and including 10 years	Over 10 years	Undefined	Total
Assets								
Cash and cash equivalents	1,100	317	206	2,316	559	68	-71	4,493
Financial placements								
Placements with credit institutions	-	-	34	58	-	-	2	93
Investment securities	123	26	58	513	562	312	-11	1,583
Other	-	-	-	-	-	-	7	7
	123	**26**	**92**	**571**	**562**	**312**	**-2**	**1,683**
Loans outstanding	258	246	670	5,359	4,684	1,110	-36	12,291
Intangible assets	-	-	-	-	-	-	7	7
Tangible assets	-	-	-	-	-	-	37	37
Other assets								
Derivatives								
Receivables	813	668	541	4,157	2,030	908	303	9,421
Payables	-772	-567	-514	-3,959	-1,773	-786	-	-8,371
	42	**101**	**27**	**198**	**258**	**122**	**303**	**1,050**
Other assets	-	-	-	-	-	-	2	2
Paid-in capital and payments to the Bank's reserves, receivable	-	-	-	-	-	-	43	43
Accrued interest and fees receivable	-	-	-	-	-	-	368	368
Total assets	**1,522**	**689**	**994**	**8,444**	**6,062**	**1,612**	**650**	**19,973**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term	454	-	-	-	-	-	-	454
Long-term	-	-	34	58	-	-	-	92
	454	**-**	**34**	**58**	**-**	**-**	**-**	**546**
Repurchase agreements	-	-	-	-	-	-	-	-
Debts evidenced by certificates	1,107	1,332	838	8,289	2,427	930	99	15,023
Other liabilities								
Derivatives								
Receivables	-531	-1,235	-1,065	-8,816	-2,839	-608	178	-14,916
Payables	623	1,434	1,197	9,668	3,241	754	-	16,916
	92	**199**	**132**	**851**	**401**	**146**	**178**	**1,999**
Other liabilities	-	-	-	-	-	-	4	4
Accrued interest and fees receivable	-	-	-	-	-	-	363	363
Total liabilities	**1,654**	**1,532**	**1,004**	**9,198**	**2,828**	**1,076**	**645**	**17,936**
Equity	-	-	-	-	-	-	2,037	2,037
Total liabilities and equity	**1,654**	**1,532**	**1,004**	**9,198**	**2,828**	**1,076**	**2,682**	**19,973**
Net during the period	-132	-843	-10	-754	3,234	536	-2,031	-
Cumulative net during the period	-132	-974	-984	-1,738	1,495	2,031	-	-

(19) INTEREST RATE RISK

Interest rate risk is the impact that fluctuations in market interest rates can have on the value of the Bank's interest-bearing assets and liabilities and on the interest income recognised in the income statement. The table below provides information on the extent of the Bank's interest rate exposure. The assets and liabilities are grouped into buckets defined by their time to maturity or the date of the interest rate adjustment. The difference, or gap, between assets and liabilities in each time bucket makes the Bank sensitive to interest rate fluctuations. See also Financial Guidelines and Risk Management, Market Risk.

2008 **(Amounts in EUR million)**	**Up to and including 3 months**	**Over 3 months and up to and including 6 months**	**Over 6 months and up to and including 1 year**	**Over 1 year and up to and including 5 years**	**Over 5 years and up to and including 10 years**	**Over 10 years**	**Undefined**	**Total**
Assets								
Cash and cash equivalents	5,019	72	-	-	-	-	-314	4,777
Financial placements								
Placements with credit institutions	23	17	40	-	-	-	2	82
Investment securities	645	9	21	886	535	408	-2	2,502
Other	-	-	-	-	-	-	14	14
	668	**26**	**61**	**886**	**535**	**408**	**15**	**2,599**
Loans outstanding	4,808	6,712	484	329	487	192	50	13,063
Intangible assets	-	-	-	-	-	-	7	7
Tangible assets	-	-	-	-	-	-	35	35
Other assets								
Derivatives								
Receivables [1]	7,755	5,761	1,388	8,816	2,094	410	627	26,851
Other assets	-	-	-	-	-	-	8	8
Paid-in capital and payments to the Bank's reserves, receivable	-	-	-	-	-	-	32	32
Accrued interest and fees receivable	-	-	-	-	-	-	367	367
Total assets	**18,250**	**12,571**	**1,933**	**10,031**	**3,116**	**1,010**	**825**	**47,737**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term	1,085	8	-	-	-	-	-	1,093
Long-term	23	17	39	-	-	-	-	79
	1,108	**25**	**39**	**-**	**-**	**-**	**-**	**1,172**
Repurchase agreements	-	46	-	-	-	-	-	46
Debts evidenced by certificates	2,438	1,701	1,388	8,813	2,091	409	709	17,549
Other liabilities								
Derivatives								
Payables [1]	15,252	10,420	114	293	466	323	33	26,901
Other liabilities	-	-	-	-	-	-	5	5
Accrued interest and fees payable	-	-	-	-	-	-	333	333
Total liabilities	**18,798**	**12,192**	**1,541**	**9,106**	**2,557**	**733**	**1,080**	**46,007**
Equity	-	-	-	-	-	-	1,730	1,730
Total liabilities and equity	**18,798**	**12,192**	**1,541**	**9,106**	**2,557**	**733**	**2,810**	**47,737**
Net during the period	-549	380	392	925	559	278	-1,985	-
Cumulative net during the period	-549	-169	223	1,148	1,707	1,985	-	-

1) Swaps are not netted.

2007 (Amounts in EUR million)	Up to and including 3 months	Over 3 months and up to and including 6 months	Over 6 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years and up to and including 10 years	Over 10 years	Undefined	Total
Assets								
Cash and cash equivalents	4,297	268	-	-	-	-	-71	4,493
Financial placements								
Placements with credit institutions	-	-	34	58	-	-	2	93
Investment securities	123	26	58	513	562	312	-11	1,583
Other	-	-	-	-	-	-	7	7
	123	**26**	**92**	**571**	**562**	**312**	**-2**	**1,683**
Loans outstanding	4,292	6,690	190	516	494	145	-36	12,291
Intangible assets	-	-	-	-	-	-	7	7
Tangible assets	-	-	-	-	-	-	37	37
Other assets								
Derivatives								
Receivables [1]	6,130	6,621	781	7,886	2,246	549	303	24,515
Other assets	-	-	-	-	-	-	2	2
Paid-in capital and payments to the Bank's reserves, receivable	-	-	-	-	-	-	43	43
Accrued interest and fees receivable	-	-	-	-	-	-	368	368
Total assets	**14,841**	**13,604**	**1,063**	**8,972**	**3,302**	**1,006**	**650**	**43,438** [1]
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term	454	-	-	-	-	-	-	454
Long-term	-	-	34	58	-	-	-	92
	454	**-**	**34**	**58**	**-**	**-**	**-**	**546**
Repurchase agreements	-	-	-	-	-	-	-	-
Debts evidenced by certificates	1,885	1,695	781	7,772	2,248	544	99	15,023
Other liabilities								
Derivatives								
Payables [1]	12,394	11,586	110	530	500	168	178	25,465
Other liabilities	-	-	-	-	-	-	4	4
Accrued interest and fees payable	-	-	-	-	-	-	363	363
Total liabilities	**14,733**	**13,281**	**925**	**8,360**	**2,748**	**711**	**645**	**41,402**
Equity	-	-	-	-	-	-	2,037	2,037
Total liabilities and equity	**14,733**	**13,281**	**925**	**8,360**	**2,748**	**711**	**2,682**	**43,438** [1]
Net during the period	109	323	138	612	554	295	-2,031	-
Cumulative net during the period	109	432	570	1,182	1,736	2,031	-	-

1) Swaps are not netted.

(20) CURRENCY RISK

NIB's operations are mostly in euros and US dollars. The table below shows the net of assets and liabilities of the major currencies. See also Financial Guidelines and Risk Management, Market Risk.

Net currency position as of 31 December 2008:

(Amounts in EUR million)	EUR	USD	GBP	JPY	SEK	Other currencies	Fair value adjustments and swap netting	Total
Assets								
Cash and cash equivalents	3,522	1,206	20	-	12	18	-	4,777
Financial placements								
Placements with credit institutions	82	-	-	-	-	-	-	82
Debt securities	2,371	131	-	-	-	-	-	2,502
Other financial placements	14	-	-	-	-	-	-	14
	2,468	**131**	**-**	**-**	**-**	**-**	**-**	**2,599**
Loans outstanding	6,965	2,673	2	54	1,755	1,563	50	13,063
Intangible assets	7	-	-	-	-	-	-	7
Tangible assets	35	-	-	-	-	-	-	35
Other assets								
Derivatives	-9,487	5,607	1,767	1,965	-1,753	1,255	2,379	1,734
Other assets	7	1	-	-	-	-	-	8
	-9,479	**5,608**	**1,767**	**1,965**	**-1,753**	**1,255**	**2,379**	**1,742**
Paid-in capital and payments to the Bank's reserves, receivable	32	-	-	-	-	-	-	32
Accrued interest and fees receivable	167	155	30	34	19	85	-123	367
Total assets	**3,716**	**9,773**	**1,819**	**2,054**	**32**	**2,921**	**2,306**	**22,620**
Liabilities and equity								
Liabilities								
Amounts owed to credit institutions								
Short-term amounts owed to credit institutions	941	134	-	-	-	17	-	1,093
Long-term amounts owed to credit institutions	79	-	-	-	-	-	-	79
	1,020	**134**	**-**	**-**	**-**	**17**	**-**	**1,172**
Repurchase agreements	46	-	-	-	-	-	-	46
Debts evidenced by certificates								
Debt securities issued	688	9,404	1,788	1,908	15	2,812	705	17,320
Other debt	35	72	-	119	-	-	3	229
	723	**9,476**	**1,788**	**2,027**	**15**	**2,812**	**709**	**17,549**
Other liabilities								
Derivatives	-	-	-	-	-	-	1,785	1,785
Other liabilities	5	-	-	-	-	-	-	5
	5	**-**	**-**	**-**	**-**	**-**	**1,785**	**1,790**
Accrued interest and fees payable	132	160	30	34	16	83	-123	333
Total liabilities	**1,926**	**9,770**	**1,818**	**2,061**	**31**	**2,912**	**2,371**	**20,890**
Equity	**2,011**	**-**	**-**	**-**	**-**	**-**	**-**	**2,011**
Total liabilities and equity	**3,937**	**9,770**	**1,818**	**2,061**	**31**	**2,912**	**2,371**	**22,902**
Net of assets and liabilities as of 31 Dec 2008	**-221**	**2**	**-**	**-7**	**1**	**9**	**-65**	**-281**

Net currency position as of 31 December 2007:

(Amounts in EUR million)	EUR	USD	GBP	JPY	SEK	Other currencies	Fair value adjustments and swap netting	Total
Assets								
Cash and cash equivalents	2,844	1,586	21	-	-	42	-	4,493
Financial placements								
Placements with credit institutions	93	-	-	-	-	-	-	93
Debt securities	1,582	-	-	-	-	1	-	1,583
Other	7	-	-	-	-	-	-	7
	1,682	**-**	**-**	**-**	**-**	**1**	**-**	**1,683**
Loans outstanding	6,316	2,420	6	49	1,907	1,629	-36	12,291
Intangible assets	7	-	-	-	-	-	-	7
Tangible assets	37	-	-	-	-	-	-	37
Other assets								
Derivatives	-7,760	2,969	2,005	1,512	-1,856	2,153	2,026	1,050
Other assets	2	-	4	-	-	-	-5	2
	-7,758	**2,969**	**2,009**	**1,512**	**-1,856**	**2,153**	**2,021**	**1,051**
Paid-in capital and payments to the Bank's reserves, receivable	43	-	-	-	-	-	-	43
Accrued interest and fees receivable	156	232	41	36	19	108	-223	368
Total assets	**3,325**	**7,206**	**2,078**	**1,597**	**71**	**3,933**	**1,763**	**19,973**
Liabilities and equity								
Amounts owed to credit institutions								
Short-term amounts owed to credit institutions	399	-	-	14	-	42	-	454
Long-term amounts owed to credit institutions	92	-	-	-	-	-	-	92
	491	**-**	**-**	**14**	**-**	**42**	**-**	**546**
Repurchase agreements	-	-	-	-	-	-	-	-
Debts evidenced by certificates								
Debt securities issued	641	6,794	2,026	1,456	53	3,760	100	14,830
Other debt	35	68	-	91	-	-	-1	193
	676	**6,862**	**2,026**	**1,547**	**53**	**3,760**	**99**	**15,023**
Other liabilities								
Derivatives	-	-	-	-	-	-	1,999	1,999
Other liabilities	8	72	10	1	-	17	-103	4
	8	**72**	**10**	**1**	**-**	**17**	**1,896**	**2,004**
Accrued interest and fees payable	116	269	42	36	16	107	-223	363
Total liabilities	**1,290**	**7,203**	**2,078**	**1,597**	**69**	**3,926**	**1,772**	**17,936**
Equity	**1,967**	**-**	**-**	**-**	**-**	**-**	**2**	**1,968**
Total liabilities and equity	**3,257**	**7,203**	**2,078**	**1,597**	**69**	**3,926**	**1,774**	**19,905**
Net of assets and liabilities as of 31 Dec 2007	**68**	**3**	**-1**	**-**	**1**	**7**	**-11**	**69**

(21) AVERAGE BALANCE SHEET

(Amounts in EUR million)	2008	2007
Assets		
Cash and cash equivalents	4,589	4,168
Financial placements		
Placements with credit institutions	82	94
Debt securities	1,888	1,519
Other	11	8
	1,981	**1,621**
Loans outstanding	12,870	11,920
Intangible assets	7	7
Tangible assets	36	37
Other assets		
Derivatives	1,127	832
Other assets	4	4
	1,130	**836**
Paid-in capital and payments to the Bank's reserves, receivable	37	44
Accrued interest and fees receivable	382	345
Total assets	**21,032**	**18,977**
Liabilities and equity		
Liabilities		
Amounts owed to credit institutions		
Short-term amounts owed to credit institutions	477	333
Long-term amounts owed to credit institutions	80	93
	557	**426**
Repurchase agreements	12	205
Debts evidenced by certificates		
Debt securities issued	15,888	14,129
Other debt	202	210
	16,090	**14,339**
Other liabilities		
Derivatives	2,039	1,637
Other liabilities (incl. exchange rate adjustments)	7	6
	2,046	**1,643**
Accrued interest and fees payable	346	312
Total liabilities	**19,051**	**16,926**
Equity	1,981	2,051
Total liabilities and equity	**21,032**	**18,977**

The average balance sheet is calculated on a monthly basis.

(22) RELATED PARTY DISCLOSURES

The Bank provides services to and enters into transactions with the Nordic Development Fund (NDF) and the Nordic Environment Finance Corporation (NEFCO), which have for the most part the same owners as NIB. The following table shows the outstanding balance of amounts owed to NDF and NEFCO and the interest paid during the year. The interest paid to these institutions is at normal commercial rates. Information regarding key personnel is presented in Note 5.

(Amounts in EUR 1,000)	Interest from related parties	Interest to related parties	Amounts owed by related parties as of 31 Dec	Amounts owed to related parties as of 31 Dec
2008	-	7,516	95	156,417
2007	-	6,101	228	145,758

Rental income (NDF, NEFCO)

(Amounts in EUR 1,000)	NDF	NEFCO
2008	110	148
2007	55	90

(23) CASH FLOW STATEMENT

Specification of the change in net liquidity on 31 December:

(Amounts in EUR 1,000)	2008	2007
Cash and balances with banks [1)]	13,265	13,077
Short-term placements with credit institutions	2,487,134	1,187,733
Liquid debt securities at floating interest rates	2,276,422	3,292,475
Cash and cash equivalents	**4,776,821**	**4,493,285**
Short-term amounts owed to credit institutions	-1,092,809	-454,498
Short-term repurchase agreements	-45,900	
Net liquidity	**3,638,112**	**4,038,786**
Change in net liquidity	**-400,675**	**815,106**

1) Including EUR 823 thousand (2,176) initial margin requirement for futures on 31 December.

(24) EXCHANGE RATES

		EUR rate on 31 Dec 2008	EUR rate on 31 Dec 2007
DKK	Danish Krone	7.4506	7.4583
EEK	Estonian Kroon	15.6466 [1)]	15.6466 [1)]
ISK	Icelandic Króna	290.0 [4)]	91.90
LVL	Latvian Lats	0.7083	0.6964
NOK	Norwegian Krone	9.7500	7.958
SEK	Swedish Krona	10.87	9.4415
AUD	Australian Dollar	2.0274	1.6757
CAD	Canadian Dollar	1.6998	1.4449
CHF	Swiss Franc	1.4850	1.6547
CZK	Czech Koruna	26.875	26.628
GBP	Pound Sterling	0.95250	0.73335
HKD	Hong Kong Dollar	10.7858	11.4800
JPY	Japanese Yen	126.14	164.93
MXN	Mexican Peso	19.2333 [2)]	16.0778 [3)]
NZD	New Zealand Dollar	2.4191	1.9024
PLN	Polish Zloty	4.1535	3.5935
RUB	Russian Rouble	41.2830	35.986
SDR	Special Drawing Right	0.90354 [2)]	0.931563 [3)]
SGD	Singapore Dollar	2.0040	2.1163
SKK	Slovak Koruna	30.126	33.583
TRY	New Turkish Lira	2.1488	1.717
TWD	New Taiwan Dollar	45.66864 [2)]	47.73431 [3)]
USD	United States Dollar	1.3917	1.4721
ZAR	South African Rand	13.0667	10.0298

1) Fixed exchange rate in Currency Board arrangement with regard to the euro.
2) The exchange rate is calculated by using the market rate for USD/relevant currency, as of 31 December 2008, which then provides the EUR/relevant currency rate.
3) The exchange rate is calculated by using the market rate for USD/relevant currency, as of 31 December 2007, which then provides the EUR/relevant currency rate.
4) Latest rate for ISK: 3 December 2008.

25) POST-BALANCE SHEET EVENTS

There have been no material post-balance sheet events that would require disclosure or adjustment to these financial statements. On 5 March 2009, the Board of Directors reviewed and signed the financial statements. These financial statements will be submitted for approval to the Annual Meeting of the Board of Governors to be held on 26 May 2009.

Auditors' reports

INDEPENDENT AUDITORS' REPORT TO THE CONTROL COMMITTEE OF THE NORDIC INVESTMENT BANK

In our capacity as auditors appointed by the Control Committee of the Nordic Investment Bank we have audited the accompanying financial statements of the Bank, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' and the President's responsibility for the financial statements

The Board of Directors and the President are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Nordic Investment Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the other requirements

In accordance with the Terms of Engagement our audit also included a review of whether the Board of Directors' and the President's administration have complied with the Statutes of the Bank. It is our opinion that the administration of the Board of Directors and the President complied with the Statutes of the Bank.

Helsinki, 6 March 2009

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TO THE BOARD OF GOVERNORS OF THE NORDIC INVESTMENT BANK

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

In accordance with section 17 of the Statutes of the Nordic Investment Bank, we have been appointed to ensure that the operations of the Bank are conducted in accordance with its Statutes and to be responsible for the audit of the Bank's accounts. Having completed our assignment for the year 2008, we hereby submit the following report.

The Control Committee met during the fiscal year as well as after the Bank's Financial Statements had been prepared, and the Committee performed the control and examination measures considered necessary. The Annual Report of the Bank was examined at a meeting in Helsinki on 6 March 2009. In carrying out its tasks, the Control Committee received such information and carried out such examination measures as it deemed necessary to assess the Bank's position in regard to its risks. We have also received the Independent Auditors' Report, submitted on 6 March 2009 by the authorised public accountants appointed by the Control Committee.

Following our audit, we consider that:

- The Bank's operations during the financial year have been conducted in accordance with the Statutes, and that
- The Financial Statements give a true and fair view of the financial position of the Bank as at 31 December 2008 and of its results and financing in 2008. The Income Statement shows a loss of EUR 281,273,211.42 for the financial period. However, it should be noted that the Bank's Financial Statements for 2008 are subject to extraordinary uncertainty because
- the fair value of many financial assets is very difficult to assess in present market conditions, which is also reflected in the substantial amount of unrealized losses that the Bank's Management expects to be largely recouped later, and
- it remains to be seen to what extent the lending portfolio of the Bank may be further impaired by the challenging business climate facing some of its borrowers.

We recommend to the Board of Governors that:

- The allocation of the Bank's loss for the financial period, as proposed by the Board of Directors, be approved;
- The Income Statement and the Balance Sheet be adopted;
- The proposal by the Board of Directors that no dividends be made available to the Bank's owners for 2008 be approved; and
- The Board of Directors and the President be discharged from liability for the administration of the Bank's operations during the accounting period examined by us.

In the opinion of the Control Committee, no dividends should be made available in the following years until the loss for 2008 has been recovered.

Helsinki, 6 March 2009

Darius Matusevičius
Sigita Burbienė
Torsten Gersfelt
Kari Lise Holmberg
Per Kaalund
Jürgen Ligi
Johan Linander
Tuula Peltonen
Ragnheiður Ríkharðsdóttir
Viesturs Sileniks

Abbreviations

BASE	The Baltic Sea Environment financing facility
bn	billion(s)
BSAP	Baltic Sea Action Plan
CEB	Council of Europe Development Bank
CLEERE	The Climate Change, Energy Efficiency and Renewable Energy lending facility
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EPE	European Principles for the Environment
GRI	Global Reporting Initiative
HELCOM	The Helsinki Commission
HIPC	Programme for the most indebted countries in the world (Heavily Indebted Poor Countries)
IFI	International financial institution
IAS 39	Standard for the accounting of financial instruments. Under IAS 39 all derivatives are recognised on the balance sheet and a greater number of financial instruments on the balance sheet are carried at fair value.
m	million(s)
MIL	Environmental Investment Loan facility. Loans granted by NIB for the financing of environmental projects in the neighbouring areas of the member countries.
NDEP	Northern Dimension Environmental Partnership
NDF	Nordic Development Fund
NEFCO	Nordic Environment Finance Corporation
LGD	Loss given default
PD	Probability of default
PIL	Project Investment Loan facility. Loans intended for emerging markets and transition economies and constituting the core of NIB's lending in non-member countries.
Sida	Swedish International Development Cooperation Agency
VaR	Value-at-risk

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Financial information

NIB's Annual Report, including financial results and information on the sustainability development for the previous year, is published annually. The report covers the period 1 January to 31 December.

Financial information is published three times a year on NIB's website at www.nib.int. Key figures, news and statements are also available. On the website readers can order reports and register to receive press releases by e-mail. NIB's reports can be ordered free of charge.

Reports and publications can also be ordered from NIB's Communications Unit
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