

## Annual Report 2002





#### The reindeer

This year's Annual report illustrations take as their theme the reindeer (*Rangifer tarandus*), which is widespread in the Nordic area, with Finland, Sweden and Norway accounting for one third of an estimated world population of two million. Iceland and Greenland have a few thousand reindeer of Norwegian origin. The reindeer was introduced in Iceland in the 18th century and in Greenland in the 20th.

The male weighs between 90 and 160 kg, the female between 65 and 90. The reindeer is usually greyish-brown in colour, and both sexes have antlers. The calves are born in spring, during May or June. In winter the reindeer feeds on lichen and on grass and sedge, while its summer diet consists mainly of herbs and leaves.

The reindeer is descended from the wild mountain reindeer (*Rangifer tarandus tarandus*), which is to be found in the southern parts of Norway and on the Kola Peninsula. Reindeer and wild mountain reindeer are similar in both appearance and behaviour.



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## THIS IS NIB

The Nordic Investment Bank (NIB) finances private and public projects, which have high priority with the Nordic countries and the borrowers. NIB finances projects both within and outside the Nordic countries.

NIB is a multilateral financial institution owned by the five Nordic countries. The Bank operates in accordance with commercially sound banking principles. The member countries appoint representatives to the Bank's Board of Directors and to its Control Committee.

The Bank's operations are controlled by an agreement between the Nordic countries as well as the Statutes connected with this agreement.

NIB offers its clients long-term loans and guarantees on competitive market terms. NIB acquires the funds to finance its lending by borrowing on the international capital markets. NIB's bonds enjoy the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's.

NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. At year-end 2002 the Bank had 144 employees, recruited from all the five Nordic countries.

### NIB'S FINANCING POSSIBILITIES

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

finances various international projects in emerging markets as well as within the OECD area. The Bank grants loans to projects that support economic development in the Nordic countries' neighbouring areas as well as to investments of mutual interest for the Nordic countries and the borrowing country in various parts of the world.

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

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

### NORDIC LOANS

#### Investment loans

NIB offers medium- and long-term investment loans with maturities of 5 to 15 years. The loans are granted in various currencies at fixed or floating market-based interest rates, for up to half of the project's total cost.

NIB finances projects in:

- the manufacturing sector, including investments in facilities and machinery,
- infrastructure, including transportation, telecommunications, energy, water supply, sewerage and waste management,
- environmental improvement, both in the private and the public sector,
- research and development,
- cross-border investments, such as mergers and corporate acquisitions,
- foreign investments in the Nordic countries.

#### Regional loans

Regional loans are granted to national, regional credit institutions for the further development of business in priority regions.

### INTERNATIONAL LOANS

The core of NIB's international lending operations consists of project investment

loans. These are long-term loans—up to 20 years—for projects in emerging markets in Asia, the Middle East, Central and Eastern Europe, Latin America as well as Africa. Project investment loans are usually granted on a sovereign basis but may also be granted without a government guarantee, particularly to private sector infrastructure investments. The loans are granted for up to half of the project's total cost. Project investment loans can be utilised to finance all types of project costs, including local costs. The loans are granted at market-based interest rates in a currency preferred by the customer. Project investment loans have been granted for projects in more than 40 countries.

NIB can also provide loans to Nordic companies' investments, including joint ventures and corporate acquisitions, within the OECD area and in the Baltic countries.

### The neighbouring areas

NIB gives priority to the financing of public and private infrastructure and industrial investments in the neighbouring areas to the Nordic region. Further, NIB participates in the financing of projects in the Baltic countries through investment loans to companies which are investing in the Baltic countries.

NIB is authorised to grant special environmental investment loans to public and private sector environmental projects in the neighbouring areas to the Nordic region, i.e. to Poland, the Kaliningrad area, Estonia, Latvia, Lithuania and northwest Russia (St. Petersburg, the Leningrad area, the Karelian Republic and the Barents region). The projects are to help in reducing environmental degradation, and thereby also in reducing cross-border pollution. The environmental investment loans are granted on the basis of commercial banking terms to governments, governmental authorities, institutions and companies.

## Key Figures (in EUR million)

	2002	2001
Net interest income	150	147
Core earnings	135	130
Profit	142	131
Loans disbursed	1,648	1,661
Guarantees issued	-	25
Loan agreements	1,807	1,795
Loans outstanding	10,110	10,067
Guarantees outstanding	32	33
New debt issues	3,320	2,099
Debts evidenced by certificates	13,150	12,298
Net liquidity	2,947	2,641
Total assets	15,948	15,024
Equity/total assets (%)	9.7	9.6
Number of employees	144	137

## The year 2002 in brief

- good results, continued positive, stable trend
- profit EUR 142 million, net interest income EUR 150 million
- dividend for the year to NIB's owners EUR 40.3 million
- increased loan disbursements in the Nordic countries
- new lending totals EUR 1,648 million
- high quality of loan portfolio sustained
- increased share of environmentally friendly energy investments
- focus on environmental projects, especially within the Northern Dimension Environmental Partnership, NDEP, together with the EU Commission and other international finance institutions

## MISSION AND STRATEGY

### MISSION

The Nordic Investment Bank was established as the Nordic countries' joint international financial institution in order to strengthen and develop Nordic cooperation further. Its primary purpose is to promote the growth of the Nordic economies by means of long-term financing of projects in the private as well as the public sectors.

Loans and guarantees are granted on commercial banking terms within and outside the Nordic countries for projects, which are of mutual interest for the Nordic countries, and for the borrower country. The Bank operates on the basis of sound banking principles, and strives to create added value for its clients by providing loans which supplement other financing sources. At the same time, NIB's mandate is to achieve an adequate and stable return on the capital the owners have invested in the Bank.

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

In the emerging markets outside the Nordic countries, the Bank finances projects of mutual interest for the borrower countries and the Nordic countries. The Baltic Sea and Barents Sea regions are priority areas for the Bank's operations. The bank grants loans to projects which support economic development in the areas adjacent to the Nordic region, particularly environmental improvement projects. Within the framework of the Nordic finance group in Helsinki, NIB strives to develop further the group's joint financing competence.

### STRATEGY

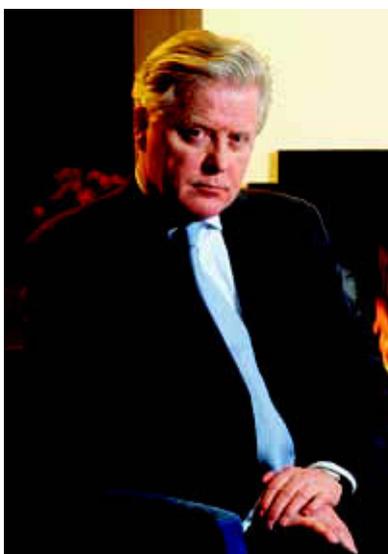
NIB endeavours to fulfil the goals of its owners and to meet the needs of its clients, in accordance with its mission statement, by:

- Acting as a catalyst for Nordic industrial cooperation by financing new investments, infrastructure projects and structural improvements, particularly cross-border investments;
- Participating in the financing of foreign direct investment in the Nordic countries and of Nordic companies' investments outside the Nordic countries;
- Participating, in its capacity as a multilateral financial institution, in the financing of projects in the emerging

markets outside the Nordic countries thus promoting the globalisation of Nordic industry, and thereby fostering cooperation between companies in the developing and transition countries and Nordic companies;

- Contributing with financing to the economic transformation and development in the areas adjacent to the Nordic region;
- Playing an important role in the financing of environmental improvement investments in the Nordic countries and in the Baltic Sea and Barents Sea regions;
- Cooperating with and supplementing other Nordic or international lenders. The financing of small and medium-sized companies' investments is an important focal point of this cooperation;
- Developing the expertise of its staff and fostering competence generally within the Bank's areas of operations;
- Striving to maintain the highest possible credit rating in order to be able to supplement other Nordic lending institutions with long-term loans on favourable terms. For this purpose, which is central to the Bank's operational concept, the Bank aims to be at the cutting edge in terms of financial risk management and cost effectiveness.

## PRESIDENT'S STATEMENT



The Nordic Investment Bank's main purpose is to promote sustainable economic development in the Nordic area and the neighbouring regions, in accordance with the priorities of the Nordic countries. The Bank's most important instrument for this task is long-term financing of cross-border investments, infrastructure projects and projects with a positive environmental impact. In its financing NIB attaches great importance to cooperation with Nordic and international banks.

During 2002 the Bank was able to combine promotion of these overarching objectives with a good return on the equity provided by the Bank's owners. The Bank showed a EUR 142 million profit in 2002, compared with EUR 131 million in 2001. NIB's 2002 profits represent a 9.5% yield on equity, or 5% higher than the 5-year euro rate in swap contracts, which can be used as a risk-free benchmark. By this yardstick, the profit for the year is fully in line with the good and stable profits which the Bank has shown without interruption ever since the mid-1990s. The quality of the Bank's loan portfolios and its financial assets remains very good on the whole, despite the global economic downturn during 2001–2002.

The Board of Directors has proposed that EUR 40,3 million be paid as divi-

dend to the Bank's owners, the Nordic countries, for fiscal year 2002.

It is gratifying that new lending in 2002 could be maintained on a level with the preceding year, despite the low level of investment activity generally. Loans disbursed totalled EUR 1,648 million and new loans agreed EUR 1,807 million. Disbursements of new loans within the Nordic area rose by 7.5% to EUR 1,268 million. These developments demonstrate the importance of NIB's countercyclical role during an economic downturn.

Energy and environmental investments characterised the Bank's financing in the Nordic countries during 2002. In these fields NIB can provide added value through the long-term finance that is needed for long-term investments. The same applies to cross-border investments in the manufacturing industry, the Bank's principal lending sector in the Nordic countries. NIB is increasingly relying on local banks and financial institutions as intermediaries for its lending to small and medium sized enterprises (SMEs).

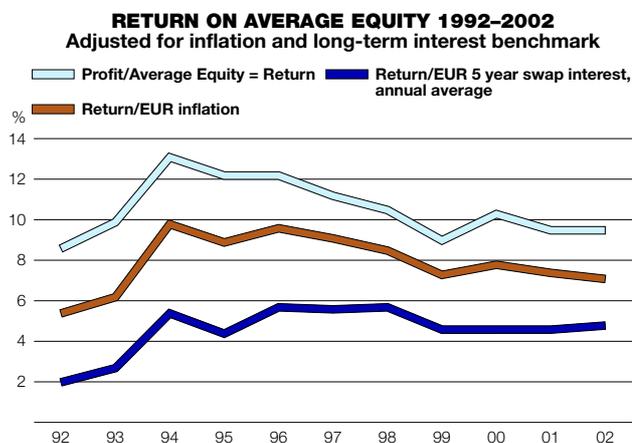
NIB's international operations are increasingly concentrated on the Nordic countries' neighbouring areas in the Baltic countries, Poland, and northwest Russia. International disbursements for the year totalled EUR 379 million, mostly comprising loans for infrastructure investments in energy, transport, telecommunications and water and sewerage. Lending to the Baltic countries rose steeply during the year.

Loans outstanding at year-end totalled EUR 10 billion, whereof EUR 8 billion in the Nordic countries. In the years ahead, the proportion of loans outside the Nordic countries is likely to grow as a consequence of the internationalisation of business. Nonetheless, NIB's operations within the Nordic countries will remain the Bank's principal task in its mission of promoting growth in the Nordic countries through cross-border industrial integration and long-term financing of infrastructure investments.

Environmental investment figures prominently in the Bank's lending, and

environmental aspects are an important element in the assessment of projects for financing. At the end of 2002 the Bank had environmental loans outstanding amounting to EUR 1.5 billion. The lion's share, EUR 1.2 billion, refers to projects in the Nordic countries. In keeping with its owners' expressed wishes, NIB's participation in environmental financing in the neighbouring area has high priority. This is why the decision by the Nordic Ministers of Finance and Economy during 2002 to raise the ceiling for environmental loans to the neighbouring regions (MIL) from EUR 100 million to EUR 300 million with special guarantees was both welcome and important. The new lending ceiling entered into force at the beginning of 2003 and is an important prerequisite for realising environmental projects of special urgency in northwest Russia.

In the environmental context, 2002 was an eventful year for NIB. Among other things it saw the finalisation of the operational structure of the NDEP, Northern Dimension Environmental Partnership, initiated by the Bank at the beginning of 2001 together with Sweden as presiding country of the European Union and in consultation with Finland and the EBRD. The NDEP is headed by a Steering group which includes representatives of the European Commission, Russia, the World Bank, the EIB, EBRD and NIB. The Steering group, which for its first year of operation was chaired by NIB, drew up an investment programme for priority NDEP projects. This programme includes 12 projects with an estimated investment cost of some EUR 1.3 billion. The Steering group also appoints the financial institution, which is to be the lead bank for each individual project. NIB is lead bank for six NDEP projects. In addition, the Steering group drew up an investment programme of EUR 0.5 billion for nuclear waste management projects on the Kola Peninsula. Realisation of this nuclear waste management programme hinges on ratification of an international agreement, Multilateral Nuclear Environmental Programme in the



Russian Federation, MNEPR, which has long been under negotiation with Russia. The MNEPR is intended to govern questions of liability and taxation issues connected with assistance for reducing the environmental hazards of nuclear waste.

The purpose of the NDEP is to coordinate, streamline and deepen cooperation between the European Commission, the international financial institutions and, above all, Russia, for the solution of urgent environmental problems within the EU's Northern Dimension. The NDEP's first year of operations ended at the beginning of July 2002 with a pledging conference in Brussels where bilateral donors and the European Commission met to create an NDEP support fund. Pledges were made during the conference for a total of EUR 110 million, and a further EUR 12.5 million has been pledged subsequently.

The NDEP window for traditional environmental projects is above all concerned with promoting major environmental investments aimed at achieving sustainable solutions in wastewater treatment, waste management and energy supply. All three of these sectors are major sources of cross-border pollution.

The Southwestern wastewater treatment plant in St. Petersburg is the NDEP project led by NIB which has made most headway, but progress has also been achieved in the Bank's projects in Murmansk, Novgorod, Leningrad Oblast and

Kaliningrad. The Southwestern wastewater treatment plant in St. Petersburg is currently the most important single investment which can be made to protect the marine environment of the Baltic Sea. NIB is contributing a loan of EUR 45 million. The loan agreement was signed in St. Petersburg in March 2003. The total cost of the project is of the order of EUR 190 million.

The Baltic Sea and Barents regions have priority where NIB activities outside the Nordic countries are concerned, but other countries of Central and Eastern Europe, together with the emerging economies of Asia, are also important for NIB's lending. NIB's lending is guided by the goal of promoting Nordic project exports by financing investments of mutual interest to the Nordic countries and the borrower countries.

Eight of the transitional countries of Central and Eastern Europe are expected to join the EU in the spring of 2004. This will doubtless influence the focus of NIB's future activities. In the years that lie ahead, NIB intends to strengthen its cooperation with the candidate countries, especially with Estonia, Latvia, Lithuania and Poland. The Bank's owners have strongly emphasised the importance of outward-oriented operations in order to support the internationalisation of Nordic industry, which in turn is an important source of economic growth. The Bank is reviewing the framework in which the development of

its international lending can be most appropriately and efficiently continued.

NIB finances its lending operations by borrowing on the international capital markets. In 2002 the bank issued bonds on the capital markets of America, Asia and Europe in an amount of EUR 3.3 billion, in 12 different currencies. Repayment of previously issued bonds amounted to EUR 1.8 billion. Outstanding borrowings at year-end totalled EUR 13.2 billion. Since the beginning of the 1980s, NIB has maintained its AAA/Aaa credit rating, thanks to the economic strength of its owner countries, the good quality of its loan portfolio, its effective risk management and its satisfactory level of profits. Because of its good credit rating, NIB can provide prioritised projects with competitive long-term financing as a complement to the financing of the Nordic banking community. The support of NIB's owner countries for the Bank's operations, and NIB's status as a multilateral finance institution, are of the utmost importance in this connection.

The positive development of NIB's operations and the stable level of its profits for many years provide a good basis for its future growth. In order to continue being an effective instrument of Nordic priorities, the Bank must be able to adapt its focus and structure to changing circumstances in the economic surroundings of the Nordic countries. This is a challenge to the Bank and its staff. NIB has the skill and dedication of its personnel to thank for the good results achieved and the strong financial position enjoyed. These results can be expected to endure, even though the instability of the world's money markets at present complicates reliable estimates of developments in the very nearest future.

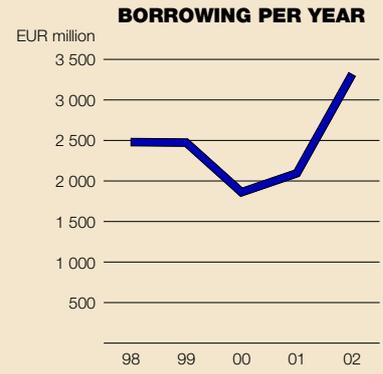
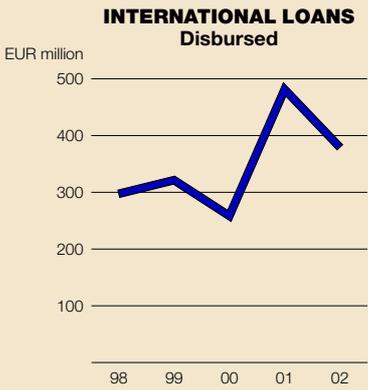
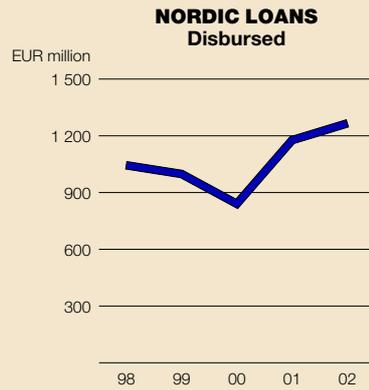
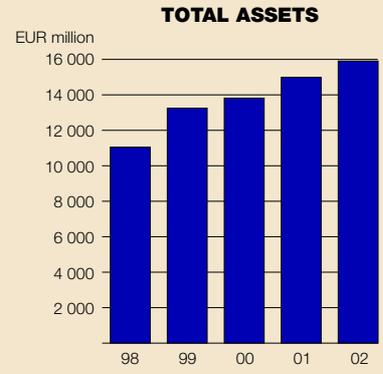
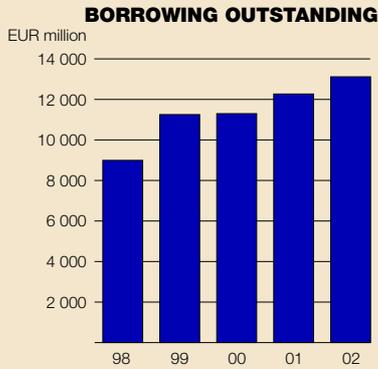
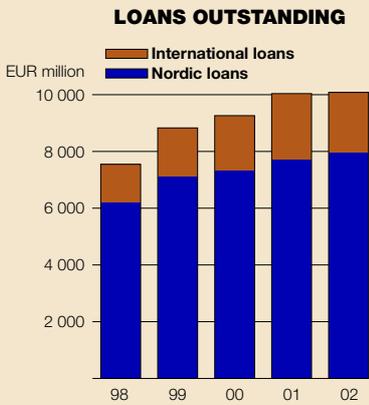
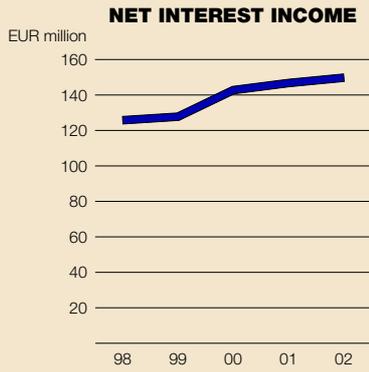
Helsinki, March 2003

  
Jón Sigurðsson

## FIVE-YEAR COMPARISON (IN EUR MILLION)

	2002	2001	2000	1999	1998
<b>PROFIT AND LOSS ACCOUNT</b>					
Net interest income	150	147	143	128	126
Commission income and expenses etc.	7	7	6	4	4
General administrative expenses, depreciation and write-down	-22	-23	-20	-17	-16
<b>Core earnings <sup>1)</sup></b>	<b>135</b>	<b>130</b>	<b>128</b>	<b>115</b>	<b>113</b>
Adjustments to fair value in trading portfolio	10	3	4	-7	3
Provisions for possible losses on loans	-3	-	-2	-2	-1
Adjustment to hedge accounting	-	-3	-	-	-
<b>Profit for the year</b>	<b>142</b>	<b>131</b>	<b>130</b>	<b>106</b>	<b>115</b>
<b>BALANCE SHEET</b>					
<b>Assets</b>					
Cash and cash equivalents, placements and debt securities	4,304	3,734	3,922	3,747	2,950
Loans outstanding	10,110	10,067	9,288	8,854	7,568
Intangible and tangible assets	36	36	40	41	42
Accrued interests and other assets	1,498	1,187	600	638	516
<b>Total assets</b>	<b>15,948</b>	<b>15,024</b>	<b>13,850</b>	<b>13,281</b>	<b>11,077</b>
<b>Liabilities and equity</b>					
Amounts owed to credit institutions	381	254	228	228	286
Debts evidenced by certificates	13,150	12,298	11,326	11,280	9,014
Accrued interests and other liabilities	877	1,031	970	552	638
Paid-in capital	404	404	394	384	304
Statutory reserve	554	529	469	449	468
Credit risk reserve	429	362	332	281	252
Other value adjustments	11	14	-	-	-
Profit for the year	142	131	130	106	115
<b>Total liabilities and equity</b>	<b>15,948</b>	<b>15,024</b>	<b>13,850</b>	<b>13,281</b>	<b>11,077</b>
<b>ACTIVITIES</b>					
<b>Disbursements of</b>					
Nordic loans	1,268	1,179	842	1,000	1,046
International loans	380	482	259	322	298
<b>Total</b>	<b>1,648</b>	<b>1,661</b>	<b>1,101</b>	<b>1,322</b>	<b>1,344</b>
<b>Issued guarantees</b>					
Nordic guarantees	-	25	-	-	8
International guarantees	-	-	3	-	1
<b>Total</b>	<b>-</b>	<b>25</b>	<b>3</b>	<b>-</b>	<b>9</b>
<b>Outstanding at year-end</b>					
Nordic loans	7,975	7,748	7,357	7,141	6,222
International loans	2,135	2,319	1,931	1,713	1,346
<b>Total</b>	<b>10,110</b>	<b>10,067</b>	<b>9,288</b>	<b>8,854</b>	<b>7,568</b>
<b>Guarantee commitments at year-end</b>					
Nordic guarantees	32	33	8	9	9
International guarantees	-	-	25	22	20
<b>Total</b>	<b>32</b>	<b>33</b>	<b>33</b>	<b>31</b>	<b>29</b>
<b>Annual debts evidenced by certificates</b> (including capitalisations)					
	3,320	2,099	1,865	2,478	2,484
<b>Number of staff (at year-end)</b>					
	144	137	129	131	123

<sup>1)</sup> Core earnings consist of the profit before adjustments to hedge accounting, fair value adjustments made to the trading portfolio and provisions made for possible loan losses and reversals of these.



## THE NORDIC ECONOMY

The uncertain economic situation is expected to continue during the first half of 2003, and an upturn can hardly be expected before the end of the year. The world political situation and uncertain developments in raw material markets will have to be put on a positive

track before there can be any prospect of a turnaround of global economic development. International prospects are rated poor in the short term, while economic development in the medium term is anticipated to be more positive.

### GOOD STARTING POINT FOR THE NORDIC COUNTRIES

The economically successful years of the second half of the 1990s in the Nordic countries gave them a good starting position at the onset of the international downturn in 2001. Nordic economic growth has for some years kept pace with average growth in the EU and OECD area. Nordic GDP rose by 1.5% in 2002, with economic growth averaging about 0.9% in the EU and about 1.5% in the OECD. For 2003, GDP growth is predicted to average about 2.0% in the Nordic countries, about 1.9% in the EU and about 2.2% in the OECD area.

The similar economic policies pursued in many respects by the Nordic countries have for several years proved to pay dividends in the form of a stable domestic economy with satisfactory fiscal surpluses and good progress in the external trade and current account. The growth of domestic demand has lately been the driving force of Nordic economic growth, and is assumed to remain so in 2003. Internationally, however, world trade is forecast to take an upward turn not later than the second half of 2003, which will benefit the external trade of the Nordic countries.

The employment situation in the Nordic area is relatively good. Finland alone still has a high level of unemployment. Average inflation in the Nordic countries is on a satisfactory level.

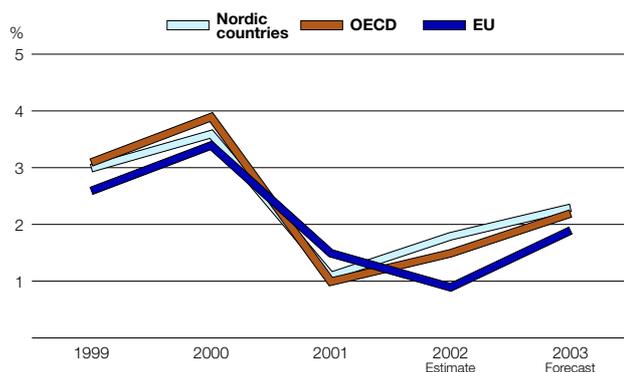
### LOW INTEREST RATES

International interest rates in 2002 were the lowest for almost half a century. The stimulus measures taken by the US Federal Reserve and the European Central Bank to activate the capital markets have had only a limited impact on economic developments. With the weakening of the American economy, the dollar exchange rate has also taken a downward turn.

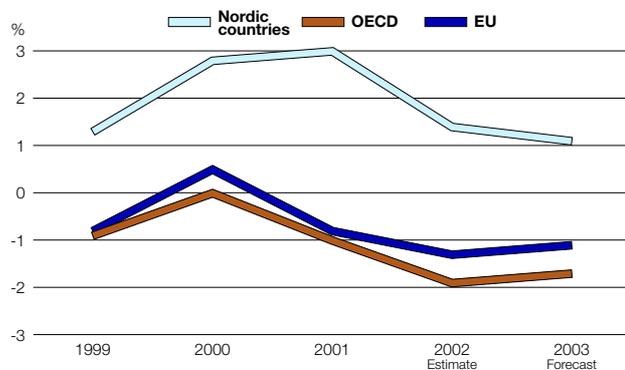
### NEIGHBOURING REGIONS IMPORTANT

The neighbouring regions to the Nordic countries, i.e. Estonia, Latvia, Lithuania and Poland together with northwest

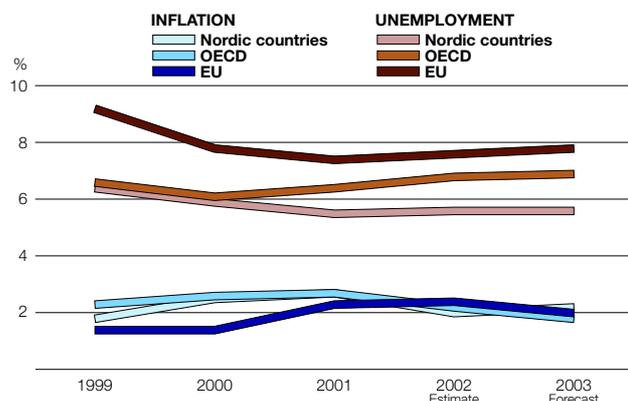
**GROSS DOMESTIC PRODUCT**  
Annual changes



**GENERAL PUBLIC FINANCES**  
Net balance as a per cent of GDP



**INFLATION AND UNEMPLOYMENT**



Russia, including Kaliningrad, are all experiencing good economic growth. They have been less affected than the industrialised countries by the weakness of international trade. The Russian economy, dependent as it is on exports of raw materials to the industrialised countries, has strengthened in recent years by favourable raw material prices. However, progress remains slow in Russia's manufacturing industry and infrastructure. In the Baltic Sea region, intensive preparations are under way for EU membership. The three Baltic states have achieved an economic structure and stability which meet the requirements for EU membership. The Polish economy is suffering as a result of poor economic development in Germany and is presenting somewhat slower economic growth than the other countries in the neighbouring regions. The expansion of the EU in 2004 can mean several new challenges and expectations for the

Nordic countries as well, above all in the form of growing trade competition, but also increased opportunities for Nordic enterprise.

#### PRIVATE CONSUMPTION DENMARK'S DRIVING FORCE

Denmark's economic policy is based on four cornerstones: the Danish krona is pegged to the euro, public sector debt and interest expenditure are to be reduced during the current decade, a lasting increase in employment is to be maintained, and inflation and interest rates are to be kept down to a low level. This economic policy has not been without its successes. Public sector finances show a surplus equalling more than 2% of GDP, a level that Denmark is expected to be able to maintain for the next few years. GDP growth is set to reach 2% in 2003. Private consumption is the main driving force of Danish economic growth, but a favourable upturn

in industrial investments is expected in 2003 and for some years to come.

#### STEADY GROWTH IN FINLAND

In 2002, Finland showed relatively good economic progress, albeit with a slight resurgence of unemployment. Following the European Central Bank's target, inflation is forecast at below 2%. Economic growth in 2003 is anticipated to build on a substantial growth of domestic demand. Foreign trade is assumed to provide only about a third of GDP. GDP growth is forecast at about 2.3% for 2003 and slightly more in the following years. The fiscal balance shows a steady surplus of roughly 3% of GDP.

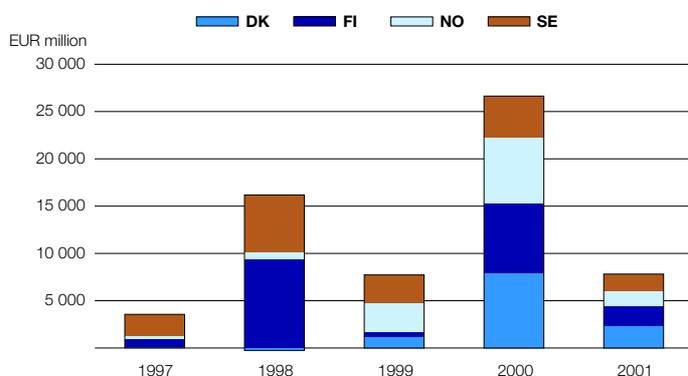
#### GOOD OUTLOOK FOR ICELAND

The GDP in Iceland stayed unchanged in 2002. This was mainly due to a dip in domestic consumption, but the decline in total output was restrained by export growth of about 5%. The outlook for the Icelandic economy in 2003 and the following years is relatively bright. Domestic demand is assumed to take an upward turn while export growth is expected to remain on its present level. GDP growth for 2003 is forecast at about 2%. Investment activity has varied in recent years. Higher economic growth is to be expected for the next few years, even though the situation can change rapidly following investment decisions on a number of big infrastructure projects.

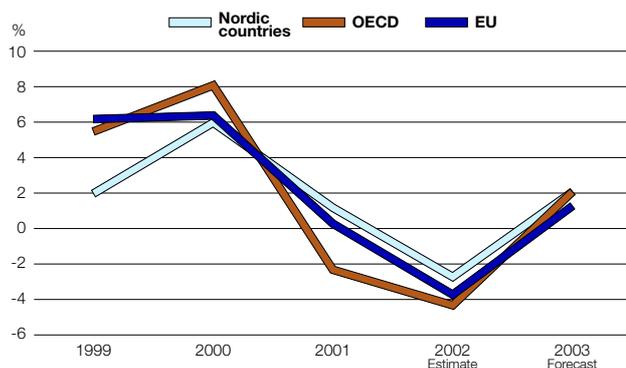
#### WEAKENING OF NORWEGIAN COMPETITIVE CAPACITY

Norway's economic prospects are affected by an increase in wage levels and a strong currency. Private income growth is presumed to bring growth in domestic consumption, while on the other hand the strong krone will impair the country's competitive position in export markets. For mainland Norway this means a slow growth of total output, appr. 0.7% for 2003, with domestic private consumption as the main driving force of economic development. The investment outlook is still weak, and gross investments for the country as a whole are expected to decrease by about 0.3% in 2003. Mainland industrial investments are anticipated to be

**INTRA-NORDIC FOREIGN DIRECT INVESTMENTS**  
Net flows to individual countries from other Nordic countries



**BUSINESS INVESTMENTS**  
Annual changes



reduced under the influence of the international downturn. The Norwegian GDP is expected to remain unchanged in 2003, while the country can look forward to slightly better economic growth in 2004.

### DOMESTIC DEMAND DRIVING FORCE IN SWEDEN

Sweden's slow economic growth in 2002 was due mainly to a heavy reduction of exports. GDP rose by about 1.8%, in spite of tax reductions and a satisfactory level of employment having contributed towards good growth of private consumption. GDP growth in 2003 is put at appr. 2.5%, underpinned mainly by growth in domestic demand. Private consumption is assumed to grow at the same rate as in the previous year and an upward turn is expected in housing investments but to some extent also in industrial investments.

### INVESTMENT OUTLOOK

Gross fixed investments are forecast to rise by appr. 2.5% on average in the Nordic area during 2003, an improvement on the slow growth that the region experienced in 2001 and 2002. Most investments, however, are anticipated to be in housing construction. Investment decisions are traditionally dependent on the international economic situation, especially in the main export markets, i.e. Germany, the UK and the USA. Industrial capacity in the past two years has been more than sufficient to meet the low level of demand, but Nordic industry is well prepared for quick investment decisions if additional production capacity or investments in new

areas of production should prove necessary. Given the present low level of capacity use, no upturn of business investment is anticipated during 2003. The dawning international economic upturn is assumed to generate only minor investment needs for the immediate future, and the presumption is that business investment growth will be relatively slight in most of the Nordic countries.

Due to the restrictive policies applied in most of the Nordic countries, public sector investment growth has been purely marginal, but some growth can be expected in 2003 as a part of stimulus packages for the economy as a whole. This is particularly noticeable in Norway. Swedish public sector investment is presumed to increase slightly.

Foreign direct investments (FDI) in the Nordic area are maintained at a relatively high level. The volume of FDI in 2001 was slightly down on the preceding year, which had seen heavy cross-border investments, above all in Sweden, Finland and Denmark. The long-term trend towards a steady growth of intra-FDI in the region is assumed to continue, however. In addition to a good development of cross-border investments in the Nordic countries, positive progress in Nordic direct investments in the Baltic countries continues.

Foreign direct investments, both in the Nordic countries and in the neighbouring regions, have focused mainly on industry, though structural development in the Baltic countries in certain years has led to a predominance of cross-border investment in the financial sector. The financial sectors of the Nordic countries have been actively involved in

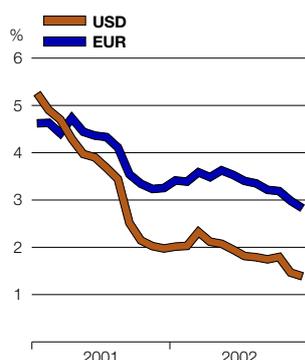
building up an efficient and stable financial sector in the Baltic countries.

### NORDIC AREA IMPORTANT FOR NEIGHBOURING REGIONS

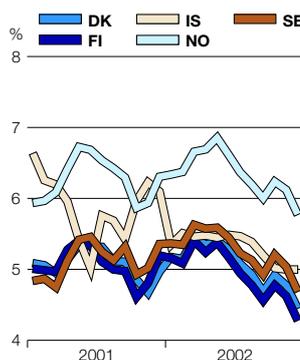
In December 2002 the EU resolved that Estonia, Latvia, Lithuania and Poland could become members in May 2004. The accession of the individual countries will hinge on separate national decisions. After becoming members, they will be given transitional arrangements of different kinds for the further harmonisation of their laws and regulations with EU directives. The position of the Nordic countries as a fringe area of the EU will after the enlargement be less pronounced. For some considerable time now the Nordic countries have played an important role as catalyst for the development of the countries of the neighbouring regions from centrally controlled and planned economies to internationally open market economies. Structural and economic development in the neighbouring regions during the past decade has been highly successful. This is reflected, for example, by the growth in their infrastructure. They now have an efficient, market-oriented industrial structure with greater stability in the business sector and a structurally sound financial sector.

At the beginning of the 1990s, the Baltic countries had an uncontrolled, unstructured and overpopulated financial sector. Following restructuring measures, the Baltic banking sector has achieved a high level of concentration, with two of the three largest banks in the Baltic countries accounting for virtually 90% of bank lending. This is a

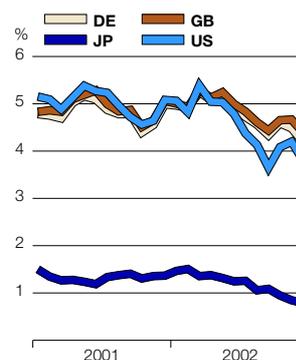
6 MONTH USD AND EUR INTEREST RATES



NORDIC INTEREST RATES  
10 year government bonds



INTERNATIONAL INTEREST RATES  
10 year government bonds



considerably higher level of concentration than in the Nordic countries, where the three largest banks in each country account for somewhat less than 80% of total lending in the sector.

Several of the Nordic banks are present in the Baltic countries. This is important for the development of economic relations between the neighbouring regions and the Nordic countries. Interest on the part of Nordic industry to establish businesses in the three Baltic states has increased parallel to the growth of Nordic presence in the banking sectors in the Baltic countries.

### **EXPECTATIONS FOR AN UPTURN**

The slow, erratic recovery of the global economy is in many ways reminiscent of previous upturn periods. Expectations of a rapid economic recovery were set too high at the beginning of 2002. The slower recovery occurring above all in the USA and Europe has prompted more cautious optimism among international forecasting institutes regarding 2003 and 2004. The prospects of better economic growth in the USA and EU are relatively limited for the first half of 2003, but the positive effects of monetary policy are expected to become more noticeable during the second half of 2003 and in 2004. Growth in world trade is forecast

to take a definite upward turn—5.1% and 6.2% respectively—in 2003 and 2004. The strongest economic growth for the next few years is anticipated in Asia and Africa, while a slightly slower growth rate is anticipated in Latin America and the industrial world. Average GDP growth in the OECD countries is expected to be about 2.2% in 2003 and about 3% in 2004. Lagging economic growth in France and Germany is assumed to limit average EU growth in 2003 to about 1.9%. A slightly stronger economic upturn is to be anticipated in 2004, the GDP growth in the EU averaging about 2.7%.

Even with a distinct growth of world trade and an anticipated international economic upturn in 2003 and 2004, GDP growth in the Nordic countries is expected to average only 2.0% for 2003, accelerating slightly to about 2.5% in 2004. The highest rate of GDP growth in 2004, about 3.5%, is expected in Iceland. Finland's GDP is forecast to grow by some 2.5% in 2004, Denmark's and Sweden's by between 2.5% and 3%. Norwegian economic growth for 2004 is put at about 1.7%.

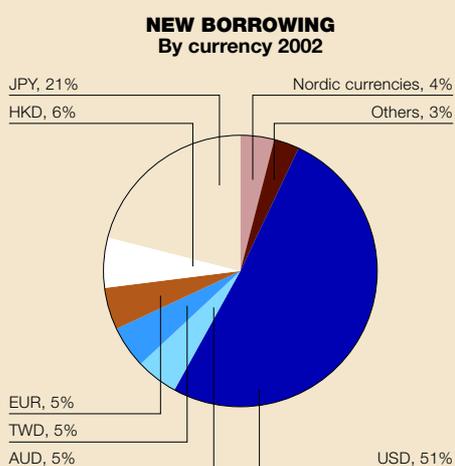
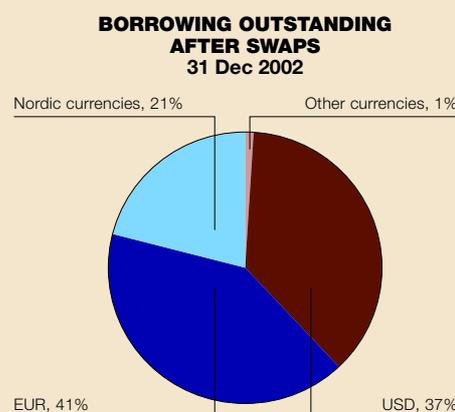
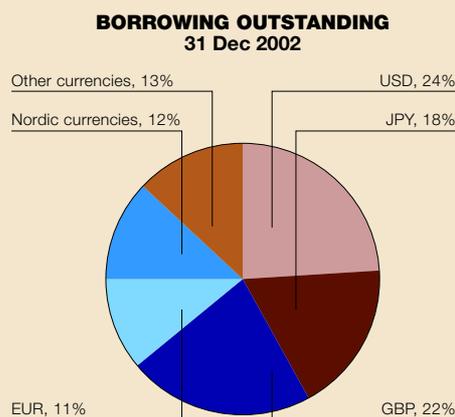
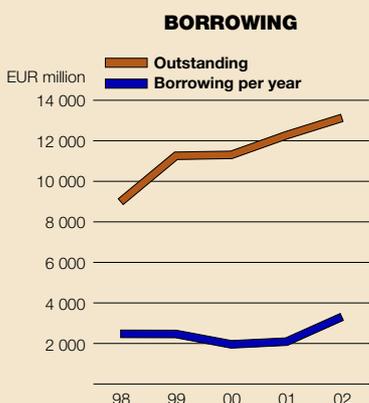
### **NORDIC AREA IMPORTANT CATALYST IN EU**

Economically the Nordic countries occupy a strong position both in the EU

and internationally. For long periods in the recent past their economic growth has exceeded the EU and OECD averages. During the second half of the 1990s, Nordic business and the Nordic financial sector successfully contributed towards the economic transformation of the Baltic states into market economies. Parallel to positive economic development and the anticipated growth of structural stability in Russia, it is expected that the Nordic contribution to Russia's economic transformation can also be increased. Nordic investments in the neighbouring regions will continue for a considerable time ahead to play an important role in economic development in the Baltic region. Nordic cooperation is thus destined to be of importance in the EU/EEA context as a catalyst of the ongoing transitional process in the neighbouring regions.

*Statistics and forecasts are based on material available from the Nordic central statistical offices, the Ministries of Finance and Economy of the Nordic countries, and central banks, OECD Paris and the IMF.*

## FUNDING AND PORTFOLIO MANAGEMENT



The Bank finances its lending activities by borrowing and issuing bonds on various global and domestic capital markets. The Bank has enjoyed the best possible credit rating, AAA/Aaa, with the leading rating agencies, Standard & Poor's and Moody's Investor Service, since it was first given a credit rating in 1982. The Bank carries out its borrowing in accordance with a global strategy designed to meet its investors' needs for investments with the highest possible credit rating. At the same time, the Bank attempts to meet its investors' various preferences as regards currency, maturity, and the use of structured financing by taking a flexible approach well attuned to the market. This financing strategy means that the structure of the Bank's borrowings varies from year to year. In order to eliminate the market risks that arise as an inherent part of borrowing, and in order to adjust its funding operations to the needs of its lending operations, NIB enters into swap arrangements in connection with virtually all of its bond issues.

The Bank is investing its equity (paid-in capital and reserves) and liquidity in accordance with a strategy whose aim is to make sure that there are sufficient liquidity reserves available at all times, and to ensure that the Bank's profits will be stable over the long term.

### LONG- AND MEDIUM-TERM BORROWING

The financing need for 2002 was somewhat greater than the financing need during the last few years. In parallel to NIB's increased need for financing, there was an increased demand from the investors for highly liquid bonds. In order to meet this demand, the bank carried out its largest transaction ever in the form of a global bond issue of USD 1 billion, maturing in January 2006.

The year 2002 was also noteworthy for its large demand from Japanese investors, who not only wanted transactions in Japanese yen but also showed interest in other currencies. The Bank

also carried out transactions in several Nordic currencies, namely, in Swedish kronor, Norwegian kroner, and Icelandic kronur. The transaction in Icelandic kronur was NIB's first issue in the domestic Icelandic capital market.

The Bank's borrowing operations during 2002 amounted to a total of EUR 3,320 million (2001: 2,099), and the amount of borrowings outstanding at the end of the year amounted to EUR 13,150 million (12,298). NIB carried out 83 (46) borrowing transactions distributed over 12 (9) different currencies in 2002.

### US dollar

The US dollar was the Bank's most important borrowing currency during the year. In 2002 NIB carried out 14 US dollar transactions for a total of USD 1,738 million, which corresponded to 51% of the amount of NIB's borrowing for the year. In 2002 the Bank carried out its first global benchmark issue of USD 1 billion, which also was the Bank's largest bond issue ever. The transaction is registered with the Securities and Exchange Commission in the USA. About 45% of the transaction went to investors in North America, 33% to Asia, and 22% to investors in Europe and the Middle East. The size of the transaction and its global format made it interesting for investors who had not previously invested in the Bank's bonds. This transaction allowed the investors to diversify their existing portfolios of liquid bonds with high credit ratings.

### Asian currencies

Borrowings in the Asian capital markets represented a total of 31% of NIB's new borrowing volume for 2002. The Japanese capital market has continued to be an important financing source for NIB. During the year, 51 Japanese yen transactions were executed, corresponding to EUR 697 million.

The borrowing in Japanese yen accounted for 21% of the year's new

*Value adjustments according to IAS 39 are not included in segment information and currency distribution in this section.*

borrowing volume. Most of the transactions during 2002 still consisted of borrowings with long maturities, but with the possibility of early redemption of the bonds after a few years. In addition to transactions in Japanese yen, Japanese investors also bought bonds in other currencies (USD 491 million, EUR 165 million, and AUD 264 million). A large part of the transactions were aimed at private Japanese investors—so-called Uridashi transactions. Japanese investors have participated in 38% of NIB's total borrowing during 2002.

One borrowing transaction was carried out in Taiwanese dollars, for TWD 5 billion, corresponding to EUR 160 million. The transaction consisted of 7 tranches with maturities of between 3 and 6 years. The role of the Hong Kong dollar as a borrowing currency declined; during the year only two borrowing transactions were carried out, for a total value of EUR 185 million.

#### European currencies

Borrowings in European currencies constituted 10 % of the Bank's total borrowings in fiscal 2002.

NIB launched four bond issues in euros for a total of EUR 165 million, which were sold to private Japanese investors. During the year a bond issue was also launched in Swedish kronor for SEK 400 million, corresponding to EUR 44 million; one in Norwegian kroner for NOK 400 million, corresponding to EUR 55 million; and one in Icelandic kronur, for ISK 3 billion, corresponding to EUR 35 million. In addition, one bond was issued in Polish zloty for PLN 100 million, corresponding to EUR 25 million.

#### Other currencies

In 2002 the Bank launched five bond issues in Australian dollars, in the amount of AUD 264 million, corresponding to EUR 154 million, which were sold to private Japanese investors; one bond issue in Canadian dollars for CAD 50 million, corresponding to EUR 37 million; and one in South African rands, for ZAR 150 million, corresponding to EUR 16 million.

#### Currency distribution of NIB's outstanding borrowings

The share of the Japanese yen in the Bank's total outstanding borrowing portfolio decreased in 2002, from 19% to 18%, despite the fact that 21% of all borrowing during the year was carried out in Japanese yen. The reason for this is that the Japanese yen has weakened considerably. The share of the Nordic currencies dropped from 14% to 12%. The share of the US dollar rose from 14% to 24%, while the share of the British pound declined from 24% to 22%, and the share of the euro declined from 12% to 11%. The share of all other currencies of NIB's total outstanding borrowings dropped from 17% to 13% during the year. The Bank has outstanding borrowings in 18 different currencies.

#### Currency distribution after swaps

By dealing with reliable counterparties, the Bank uses the swap market to a considerable degree as part of its borrowing strategy in order to match its funding operations to the currency, maturity, and interest rate type that corresponds to its lending activities.

The after-swap distribution of new borrowings in year 2002 was as follows: US dollar 86%, euro 11%, and Swedish kronor 3%. The reason for the high after-swap percentage of the US dollar is that the dollar swap market has been the most advantageous for the Bank's new bond issues. During the year, the Bank has swapped some of these dollars into other currencies that meet the demands of the Bank's clients.

The after-swap distribution of total borrowings at year-end 2002 was as fol-

lows: euro 41%, US dollar 37%, Nordic currencies 21%, and other currencies 1%.

#### Maturity profile of new borrowings

The table set forth below shows the maturity profile for new borrowings in the years 2002 and 2001. New borrowings in 2002 primarily carried maturities of less than 5 years. The average maturity for borrowing transactions in 2002 was 4.6 years, compared with 10.3 years in 2001.

The differences in the maturities are due to the fact that in 2001 NIB issued bonds with long maturities in British pounds aimed at British institutional investors, while 2002 was noteworthy for its three-year global benchmark bond issue as well as bond issues with shorter maturities aimed at Japanese investors.

#### Structured transactions

Some bond investors prefer to enter into structured borrowing transactions in which the interest rate and repayment can be tied to, for example, interest rate, exchange rate or share index. NIB's purpose in entering such transactions is to satisfy bond investors' demand for flexibility, also in relation to this type of tailor-made transaction. The Bank uses swap transactions to hedge against the market risk involved in the structure of this type of borrowing. NIB has a well-trained staff and highly developed risk management processes which enable the Bank to handle these transactions in a secure manner.

As was the case in 2001, a relatively large part of the Bank's funding needs for 2002 were met through the use of structured borrowing transactions. There

	Amount in EUR million		Percentage		Number of transactions	
	2002	2001	2002	2001	2002	2001
1-3 years	723	477	22	23	50	22
3-5 years	1,719	574	52	27	17	9
5-7 years	274	181	8	9	4	4
7-10 years	450	94	13	4	7	3
10 years and longer	154	773	5	37	5	8
<b>Total</b>	<b>3,320</b>	<b>2,099</b>	<b>100</b>	<b>100</b>	<b>83</b>	<b>46</b>

is a large demand for this type of transaction, particularly among Japanese investors. In 2002, structured transactions accounted for 32% of the year's financing operations, compared with 37% in the year 2001.

### Bond repurchases

The Bank has taken a positive attitude towards negotiating for the repurchase or restructuring of its outstanding bonds. In 2002, NIB repurchased EUR 130 million of its outstanding bonds, compared with EUR 272 million in 2001.

### Borrowing programmes

During the year the Bank changed its US medium-term note programme, which was originally established in 1993, to a global programme. At the same time, the programme ceiling was raised from USD 600 million to USD 3,000 million. The Bank can issue bonds in various currencies under the programme, which is registered with the Securities and Exchange Commission in the USA. Links to clearing systems outside the USA (Euroclear and Clearstream) make it possible to issue global bonds, and it was under this programme that the Bank made its first global benchmark issue of USD 1,000 million.

In 1992 the Bank established a medium-term note borrowing programme for its borrowing on the Euro-market. The ceiling for this programme was raised in February 2002 from EUR 10,000 million to EUR 15,000 million. In 2002, 79 transactions in a total amount of EUR 2,078 million were car-

ried out under the programme, compared with 44 transactions in a total amount of EUR 1,830 million in 2001. At the end of 2002, the Bank had bonds corresponding to EUR 8,877 million outstanding under the programme.

The Bank also has a medium-term note borrowing programme on the Australian market. The size of the programme is AUD 2,000 million. No notes have been issued under this programme thus far. The Bank also has a medium-term note programme on the Swedish capital market. The programme is in the amount of SEK 8,000 million. The amount outstanding under the programme at year-end was SEK 2,140 million.

### SHORT-TERM BORROWING

NIB's lending is primarily financed with long-term borrowing. NIB also has access to short-term funds through its short-term borrowing programmes and the interbank market, which NIB can avail itself of to satisfy liquidity requirements.

NIB has a commercial paper programme both in the United States and in the Euromarket, with a USD 600 million borrowing ceiling in each of these markets. There was no need to issue notes under these programmes in 2002, however, and NIB had no borrowings outstanding under the commercial paper programmes at year-end.

The Bank did, however, use the interbank market for short-term funding in fiscal 2002, and EUR 381 million was outstanding at year-end, compared with

EUR 254 million at the end of the year 2001.

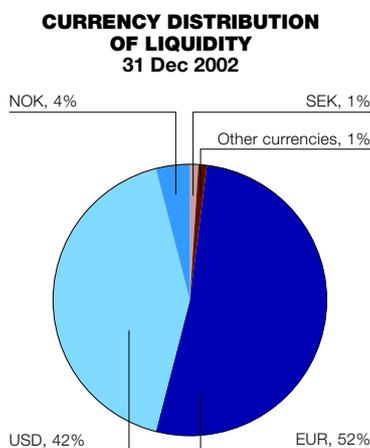
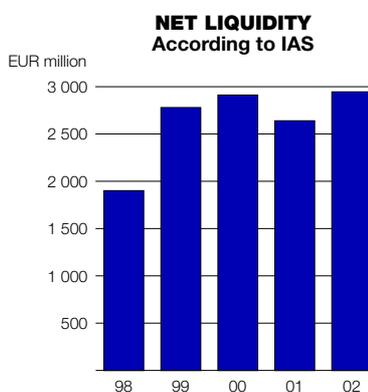
### PORTFOLIO AND LIQUIDITY MANAGEMENT

A crucial part of the Bank's financing strategy is that it is supported by a sufficiently ample level of liquidity, which makes it possible to avoid borrowing in periods when market conditions are unfavourable. In addition, the credit rating agencies place a great deal of importance on the Bank having a high level of liquidity when they assess the Bank's credit rating. In addition, earnings on liquid assets provide a positive contribution to the Bank's net interest income. In general, NIB strives to achieve a level of net liquidity that corresponds to its liquidity needs for twelve months into the future. Using the method of calculation set forth in IAS, the Bank's net liquidity amounted to EUR 2,947 million at year-end, compared with EUR 2,641 million at the end of the year 2001.

The currency distribution of the Bank's liquidity has traditionally been dominated by US dollars, in order to meet the demand from the Bank's borrowing clients. In 2002, on the other hand, the euro has been the dominant lending currency, and that is expected to continue. This is also reflected in the currency distribution of the Bank's liquidity at year-end: EUR 52%, USD 42%, NOK 4%, SEK 1%, and other currencies 1%. The Nordic currencies only account for a small part of NIB's liquidity due to less demand for those currencies on the part of NIB's clients.

NIB places its liquidity assets in the form of, for example, money market instruments and floating rate notes (FRN). Investments in FRN's concern bonds issued by banks and counterparties within the financial sector in the OECD area with a sufficiently high creditworthiness and Asset Backed Securities (ABS). For the time being, NIB only invests in ABS issues with the highest long-term credit rating (AAA/Aaa) from at least two credit rating institutions, backed by credit card receivables and residential mortgage loans.

The Bank has established a programme for external management of a small part of its liquidity assets. NIB's



purpose in using external asset management in this manner is to achieve a higher yield on its liquidity, and to strengthen the development of its own internal liquidity management. During 2002, the contract with one of the original two asset management firms was terminated. At the end of 2002, the Bank remained with one external asset management firm, with a portfolio of USD 52 million (100).

### **PAID-IN CAPITAL AND RESERVES**

NIB strives to achieve a stable return on its equity. The Bank invests an amount corresponding to its equity in a separate portfolio of interest-bearing securities. The return on these placements is an important contributor to NIB's total profits. At year-end, the size of this portfolio was EUR 1,464 million.

For accounting purposes, these placements are divided into two securi-

ties portfolios: the held-to-maturity portfolio, consisting of securities which are anticipated to be held until maturity, and the marked-to-market portfolio, consisting of securities which are marked to market and which can be bought and sold continuously, based on the assessment of market developments. The marked-to-market portfolio is permitted to correspond to a maximum of 35% of equity. At year-end, that portfolio constituted 35 % of NIB's equity.

Interest rate risk limits have been established for these portfolios, which are expressed as a combination of modified duration and value-at-risk limits. The modified duration for the total portfolio was 3.1 years at year-end 2002, compared with 3.4 years at year-end 2001.

### **DERIVATIVES**

The Bank uses interest rate swaps and currency swaps in order to hedge against

market risks and to match its borrowing operations with the currency, maturity and type of interest rate in which its lending operations are carried out. The Bank also uses swaps and other derivative instruments, primarily futures and forward contracts, to manage its general interest rate and exchange rate risks.

During fiscal 2002, the Bank carried out a total of 131 swap transactions, compared with 99 in 2001. In 2002 interest rate swaps were entered into with a face value of EUR 2,007 million (755). Interest rate swaps outstanding at year-end amounted to a face value of EUR 6,146 million (5,432). Currency swaps totalling EUR 3,363 million (3,414) were carried out. The amount under currency swaps outstanding owed to NIB at year-end amounted to a face value of EUR 10,710 million (10,390), and currency swaps outstanding owing by NIB amounted to a face value of EUR 11,031 million (10,927).

## **NIB's CAPITAL**

As of 1999 the Bank's authorised capital amounts to EUR 4,000 million. Paid-in capital amounted to EUR 404 million on 31 December 2002. The remainder of the Bank's authorised capital consists of callable capital, which is subject to call if the Bank deems it necessary for the fulfilment of its debt obligations.

The Bank's ordinary lending ceiling amounts to 2.5 times its authorised capital and its accumulated, general reserves. After allocating profits from fiscal year 2002 according to the proposal made by the Bank's Board of Directors, the ordinary lending ceiling amounts to EUR 12,455 million.

In addition, NIB has separate lending ceilings of EUR 3,300 million for the Project Investment Loan facility (PIL), EUR 60 million for loans to the Baltic

countries under the Baltic Investment Loan facility (BIL) and EUR 300 million for an Environmental Investment Loan facility (MIL), which is earmarked to finance environmental protection investments in the neighbouring areas of the Nordic countries.

The PIL, BIL and MIL facilities are backed by special guarantees from the Bank's member countries. These countries guarantee 90% of each loan under the PIL facility up to a sum of EUR 1,800 million, and 100% of each loan under the BIL and MIL facilities. NIB's mandate to grant loans under the BIL facility ceased at year-end 1999. An increase of the MIL ceiling from EUR 100 million to EUR 300 million was approved during 2002 and came into force 1 January 2003.

NIB's member countries have subscribed to its authorised capital and guaranteed the special loan facilities in proportion to their gross national products. Sweden has 38% of the authorised capital, Denmark 22%, Norway 20% and Finland 19%. Iceland's share is 1%.

In view of the Bank's capital base, the quality of its assets, and its status as a multilateral financial institution, the leading 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 was given the highest possible credit rating in 1982, and has retained that rating since then.

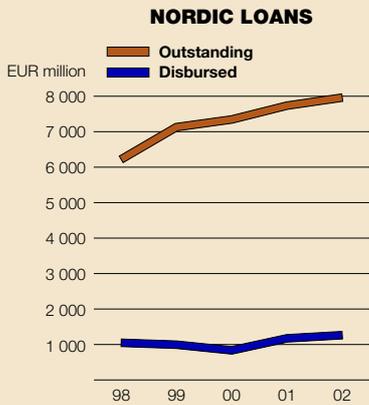


Fig. 1

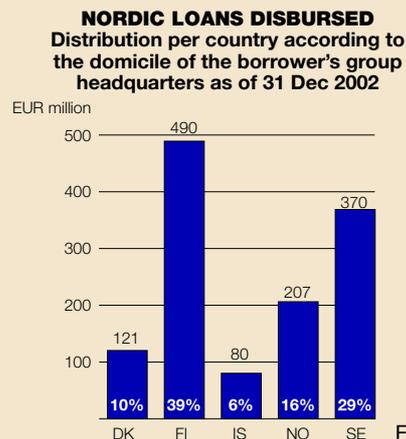


Fig. 2

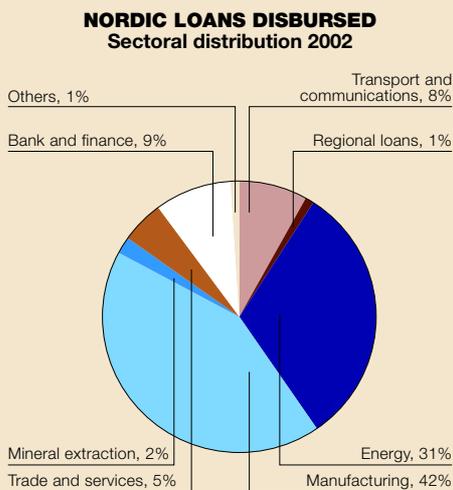


Fig. 3

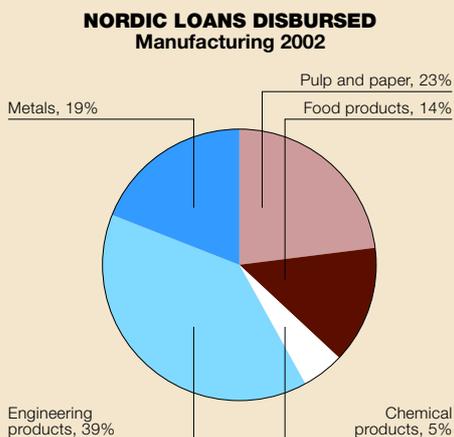


Fig. 4

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

## NORDIC LENDING

The demand for the Bank's loans in the Nordic area was good in 2002, considering the prevailing weakening trend in the Nordic economies and an increasing uncertainty in the market. Market conditions made it possible for NIB to provide borrowers with added value at margins satisfactory to the Bank. As a financier that complements commercial banks, the Bank can offer long-term financing in a situation when the offering of competitive financing solutions is decreasing. There is also a trend towards an increase in demand for NIB loans from companies that in previous years have obtained financing on capital markets under their own management.

During the year Nordic loans outstanding increased by 3% and disbursements to Nordic borrowers totalled EUR 1,268 million (2001: 1,179). No new guarantees were issued (EUR 25 million). Fig. 2 shows the breakdown of disbursements by the borrowing group's country of registration.

### MANUFACTURING INDUSTRY STILL BIGGEST

Manufacturing industry clearly dominates the year's disbursements when the loan portfolio is divided according to the borrower's branch (see fig. 3). This sector's share was EUR 529 million, or 42% of new loans in 2002, an increase of 1 percentage point in comparison with 2001. The largest relative increase in the manufacturing industry, 18 percentage points, occurred in the wood, paper and pulp sector with environment-related loans to Myllykoski and Myllykoski Paper in Finland and to Billerud in Sweden. The SCA Group was granted a loan for the acquisition of M-real's corrugated paperboard operations. In addition, the share of loans in the food industry increased. Included in the disbursements were loans to Huhtamäki for investments in Poland, to Atria for the acquisition of convenience food operations in Sweden and to V&S Group for a company acquisition in Denmark, as well as to Aarhus Oliefabrik for energy and environmental

improvement investments. Lending to the engineering industry was on the same level as the previous year. The largest disbursements were to Scania for environmental investments in its paint shops, to Wärtsilä and Instrumentarium for company acquisitions as well as to Elekta for research and development.

A specification of the manufacturing sector is shown in fig. 4.

The energy sector accounted for the largest increase for the second year in a row. The sector's share rose from 23% to 31% of disbursements and loans totalling approximately EUR 400 million were granted to energy projects in all the Nordic countries. NIB participated in the financing of investments in electricity production, distribution networks and district heating. In Norway, where lending to the energy sector constitutes three fourths of the total annual lending, five energy loans were disbursed; the largest loans to Bergenshalvøens Kommunale Kraftselskap, Lyse Energi and Agder Energi. Two energy loans were disbursed in Denmark; one to Vestas Wind Systems for developing windmills and another to SEAS Distribution for replacing overhead power lines with ground cables. One of the loans NIB granted in Iceland was to RARIK for renewal of high voltage cables and substitution of high voltage power lines to high voltage cables, as well as to Norðurorka to finance drilling operations for warm water and pipe-laying. In Finland, seven loans were granted to projects in the energy sector, of which the largest were Alholmens Kraft's investments in the world's largest biofuelled power station and WisaPower's investments in a power station that runs on cooking liquor from a pulp mill. The largest loan in value terms was disbursed for Vattenfall's acquisition of an electricity distribution company in Poland.

The lending volume for the mineral extraction sector was halved from EUR 68 million in the previous year to EUR 31 million in 2002.

A list of loans disbursed and agreed during the period is found on pp. 76–77.

*Value adjustments according to IAS 39 are not included in segment information and currency distribution in this section.*

## INCREASE IN LOANS FOR INFRASTRUCTURE

The loans disbursed have also been divided into the following categories of investment: cross-border, environmental, research and development, as well as infrastructure investments. Investments in infrastructure, above all in energy production, increased from 30% of new lending in 2001 to 33% in 2002. With disbursements totalling EUR 420 million (358), lending for infrastructure was somewhat higher than disbursements to cross-border investments, which totalled EUR 354 million (434), or 28% (37) of the year's disbursements. EUR 175 million of disbursements referred to investments in the Nordic countries and EUR 178 million to investments outside the Nordic area. Environmental components of between 25% and 100% of the total lending amount were included in 15 of the 76 loans disbursed. Direct environmental investments have increased in value by one third, from EUR 164 million in 2001 to EUR 220 million in 2002, amounting to an increase from 14% to 17% of new lending. Disbursements to research and development in the amount of EUR 106 million were on the same level as the previous year.

About 40% of the year's disbursements went to customers with whom the bank did not have a commitment outstanding at the beginning of the year; in value terms, this was equivalent to 47% of disbursements. The clientele is further widened by also taking into account the financing to small and medium sized enterprises (SME) to which NIB contributes through its cooperation with other banks and financial institutions.

In addition to the loans disbursed, loans amounting to EUR 61 million were agreed on during the year.

The euro is the most commonly used lending currency, with a share of 62% (60) of disbursements for the year. The share of disbursements in both Swedish kronor and Danish kroner, after an increase in 2001, decreased once again and accounted for 14% (16) and 5% (9) of disbursements respectively, while the share of disbursements in Norwegian kroner increased from 2% to 5%. The US dollar's share of disbursements fell from 12% to 11%.

Floating interest rates were applied to 94% (93) of the loans disbursed during the year.

The average maturity of loan disbursements during the year was 9.2 years.

## LOANS OUTSTANDING

The total loans outstanding increased during 2002 by 3%, from EUR 7,748 million to EUR 7,975 million (see fig. 1). Excluding exchange rate fluctuations, the increase was 6%. Guarantees outstanding at year-end totalled EUR 32 million (33). The portfolio breakdown per country is much the same as for the previous year. The breakdown by total amounts outstanding is presented in fig. 5.

The Icelandic loans average EUR 6 million. The corresponding figures for Finland are EUR 14 million, for Denmark EUR 16 million and for Sweden EUR 23 million. The highest average loan amount, EUR 25 million, is for Norway.

The manufacturing sector has a dominant share, and with a total of EUR 3,850 million in loans outstanding, accounts for 49% of the total amount of Nordic credits. The corresponding figures for 2001 were EUR 3,772 million and 49%. The engineering industry, with a total of EUR 1,194 million (1,099) in outstanding loans, is the largest category in the manufacturing sector, followed by the wood, pulp and paper sector with outstanding loans totalling EUR 913 million (924). The share of engineering products is 31% and paper goods manufacturing 24% of total loans outstanding for the manufacturing sector. A specification of the manufacturing industry is presented in fig. 7.

Loans outstanding to the chemical industry decreased by EUR 45 million to EUR 460 million, i.e. 12% of the manufacturing industry total. Figures for the food sector, metal goods manufacturing, minerals extraction, and others are on the whole unchanged.

Electricity, gas, heat and water supply are also important sectors, with a total of EUR 1,502 million (1,266) outstanding, which is an increase from 16% to 19% of total lending. Transport and communications, at appr. EUR 961 million, or 12%, also retains a constant share of loans outstanding. Trade and services account for 6% (10) of total lending.

At the end of 2002 the Bank had

## NORDIC LOANS OUTSTANDING Distribution per country according to the domicile of the borrower's group headquarters as of 31 Dec 2002



Fig. 5

## NORDIC LOANS OUTSTANDING Sectoral distribution as of 31 Dec 2002

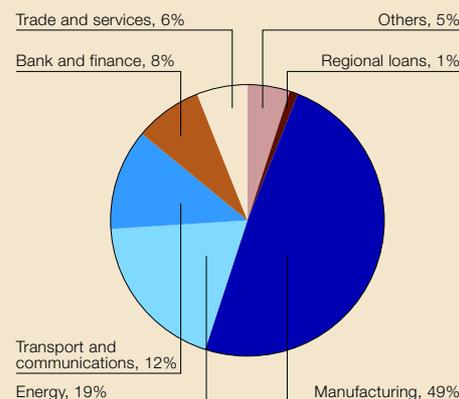


Fig. 6

## NORDIC LOANS OUTSTANDING Manufacturing as of 31 Dec 2002

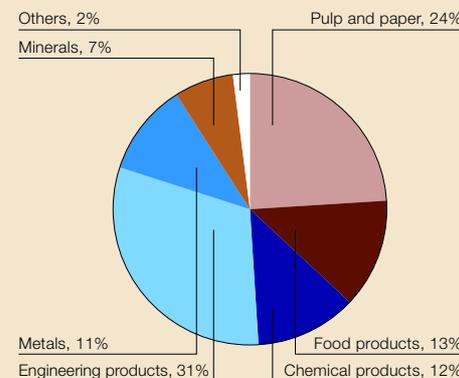


Fig. 7

## NORDIC LOANS OUTSTANDING Accumulated group exposure as of 31 Dec 2002

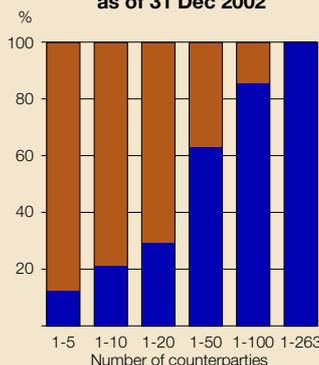


Fig. 8

credit lines with 35 (30) Nordic banks and financial institutions totalling EUR 569 million (509), equalling 7% (7) of total lending, for financing Nordic projects in the SME sector. In addition, NIB has regional loans outstanding with 4 (4) counterparties, equalling EUR 100 million (133) or 1% (2) of the loans outstanding. The sector breakdown of loans outstanding is shown in fig. 6.

The share of major individual exposures in relation to total lending has decreased marginally. The Bank's 10 largest borrowers at group level account for some 21% (23) of total lending and the 50 largest for 66% (63).

NIB's largest exposure, EUR 252 million, corresponds to about 16% of the Bank's equity at year-end. The corresponding figures for the tenth largest exposure at group level are EUR 135 million, or 9% of equity. Together the 10 largest exposures account for EUR 1,691 million in lending (1,751), equalling about 110% of the Bank's equity. A breakdown by size of exposure is presented in fig. 8.

The proportion of loans outstanding to or guaranteed by governments or local authorities is 7% (8) of total lending.

In accordance with NIB's classification of risk, the Nordic loans are divided into risk categories 1 to 10 with reference to the risk of losses. This classification is based on a combination of counterparty risk and security received. A more exact description of risk classification and the risk profile of the portfolio is presented on pp. 36–37.

The quality of the loan portfolio remains very good. At year-end there was only one loan in non-accrual status, with a total of EUR 3.7 million outstanding. In the previous annual accounts, a loan loss reserve of EUR 3.5 million was made for this exposure. In 2002 provisions were made totalling EUR 2 million for possible loan losses for an additional exposure.

In addition to the existing total of loans outstanding and guarantees issued, the Bank has concluded agreements on loans, yet to be disbursed, totalling EUR 174 million (264) and has granted further loans amounting to EUR 270 million (596).

## Projects and borrowers

During 2002 a total of 63 (61) new loans were disbursed and a further 4 (4) agreed. The projects and borrowers are briefly presented below, grouped according to principal type of Nordic interest, i.e. cross-border investments, infrastructure investments, environmental investments, research and development (R&D) investments, regional loans and lending (directly or through intermediaries) to SMEs.

### LOANS DISBURSED

#### CROSS-BORDER INVESTMENTS AND DELIVERIES

Financing of cross-border company acquisitions, new company establishments and supplies remains an important object of the Bank's lending activity.

##### Alteams Oy

Alteams is one of Scandinavia's biggest suppliers of aluminium and magnesium castings. The company upgrades recycled metal into products and components for wireless communication and other purposes. Alteams is acquiring the Swedish company Stilexo Industri AB, which is active in the same field.

##### Atria Oyj

Atria is one of Finland's leading meat processing companies. The product range comprises meat products and convenience foods. The company is acquiring the pre-made meals business of the Swedish Spira Group. Synergies are anticipated in administration, buying, production and marketing.

##### AvestaPolarit Oyj Abp

AvestaPolarit is one of the world's biggest producers of stainless steel, with production facilities in Finland, Sweden, the UK and the USA. The NIB loan refers to an extensive investment in the company's cold rolling mill in Tornio, Finland. The investment will enhance

the plant's productivity and raise its cold rolling capacity.

##### Finnlines Plc

Finnlines Plc is the parent company of a Finnish shipping combine specialising in cargo liner services in the Baltic Sea and North Sea. Finnlines has acquired the Swedish company Rederi AB Nordö-Link, which operates ro-ro liner services between Malmö and Travemünde. The acquisition strengthens Finnlines' position as a leading cargo company in the Baltic Sea.

##### Fortum Oil and Gas Oy

Fortum Oil and Gas is part of the Finnish energy group Fortum Corporation, with prospecting, extraction and refining of oil among its operations. The NIB loan refers to the company's acquisition of two fortified all-weather oil tankers plying between North Sea oil fields and refineries in Finland.

##### Hexagon AB

Hexagon is an international engineering technology group active in automation, engineering and metrology. The group is strengthening its three business areas by acquiring six Nordic and Baltic companies, of which the largest is the Danish hydraulics company Berendsen PMC.

##### Huhtamäki Oyj

Finnish Huhtamäki produces cardboard and plastic consumer packaging and is one of the leading European groups in its field. The company is investing in production facilities in Katowice, Poland, where an existing factory is being modernised and a new factory built on the same campus.

##### IKEA Capital B.V.

IKEA Capital B.V. is a Dutch finance company responsible for central borrowing and lending to the national IKEA companies. NIB's loan refers to investments in a new store in Vantaa, Finland, and enlargement of the store in south Stockholm. The investments will serve to increase continuous deliveries of furniture and components in the Nordic area.

### **Imatra Steel Oy Ab**

Imatra Steel produces special steel that is upgraded to steel products for the automotive and engineering industries. The company is modernising its Imatra heavy rolling mill in the southeast of Finland. This mill is more efficient than the old one and will make it possible to broaden the product range. Capital goods are supplied from Sweden, among other countries.

Another loan disbursed to Imatra Steel during the year referred to the acquisition of a Scottish company producing forged components for the automotive industry. The company acquires supplies components to the European motor industry.

### **Instrumentarium Corporation**

Instrumentarium is a leading international technology enterprise in the health care sector with two main business areas: anaesthesia and critical care as well as medical equipment. Instrumentarium is acquiring the American company Spacelabs Medical Inc., which supplies emergency care monitors and medical equipment for the health care sector.

### **Lantbrukarnas Ekonomi AB**

Lantbrukarnas Ekonomi manages activities within the Federation of Swedish Farmers. The Federation is the interest organisation representing Swedish farmers, and is co-owner of various food enterprises in Sweden, Finland and the neighbouring regions to the Nordic area. NIB's loan to Lantbrukarnas Ekonomi refers to the Federation's investments in Finland, the Baltic countries and Poland.

### **The Maersk Company Limited**

The Maersk Company Limited is a UK-registered shipping company and part of the Danish A.P. Møller Group. The Maersk Company Limited is one of the biggest shipping lines in the UK, with a fleet of 44 vessels in service and several more on order. NIB's loan refers to the company's purchase of a ship from Norway for delivering supplies and goods to and from offshore drilling rigs.

### **Marel hf**

Icelandic Marel is one of the world's biggest manufacturers of production equipment and technology for fish and meat processing. NIB's loan refers to Marel's investments in new premises for offices, production, warehousing and R&D. Deliveries of capital goods are being made from the other Nordic countries.

### **Metso Corporation**

The Metso Corporation is a worldwide supplier of processes, equipment and systems for the paper and pulp industry, automation and flow systems solutions as well as stone and mineral processing systems. Metso's Karlstad subsidiary in Sweden is carrying out an investment programme partly with a view to productivity improvements.

### **Nokian Renkaat Oyj**

Finnish Nokian Renkaat is the Nordic area's biggest tyre manufacturer, producing summer and winter tyres for cars, bicycles and special purpose heavy vehicles. The company is acquiring the Swedish dealer Däckaffären 2000 AB, which has 13 retail outlets throughout Sweden.

### **NVP Systemair AS**

NVP Systemair is a Norwegian company forming part of the Swedish Systemair Group. The company manufactures and sells ventilation, air cooling and air handling products. The NIB loan refers to the company's acquisition of a property in Norway and also to investments in an industrial property in Estonia and a manufacturing and warehouse facility in Poland.

### **Preem Petroleum AB**

Preem Petroleum is Sweden's largest oil company. It operates two oil refineries, and products include gasoline, gas, naphtha, diesel and light and heavy fuel oils. The company is making environmental investments in its refineries to meet new EU stipulations concerning gasoline and diesel. It is also investing in a propene production facility at its largest refinery, in Lysekil.

### **Ramirent Plc**

Finnish Ramirent is a company which leases machinery and plant to construction, installation and other companies and to private customers. Ramirent is also active through subsidiaries in the Baltic countries, Poland, Russia and Hungary. It is expanding by acquiring the Norwegian Bautas AS company, which has operations in Sweden and Poland as well as in Norway.

### **Oy Rettig Ab**

Rettig is a Finnish family-owned group active in heating production, shipping and property development. The group is acquiring Austrian Vogel & Noot Wärmetechnik AG, manufacturers of panel and special radiators. The acquisition strengthens the group's market position in Europe and underpins production at Rettig's facilities in Sweden and Finland.

### **Sapa AB**

Sapa manufactures highly upgraded aluminium-based products for the construction, transport and engineering industries. The company is investing in a rolling mill at Finspång, Sweden. The investments will have both a positive environmental impact and a capacity-enhancing effect, augmenting continuous deliveries from other Nordic countries

### **SCA Coordination Center N.V.**

SCA Coordination Center is a subsidiary of Svenska Cellulosa Aktiebolaget (SCA), Sweden's biggest forest industry enterprise. SCA is further strengthening its presence in the European packaging industry and acquiring Finnish M-real's corrugated cardboard operation, with 13 production units in Finland, Denmark, Estonia, Lithuania, Russia and Greece.

### **Suominen Corporation**

Suominen Corporation is a Polish subsidiary of the Finnish Suominen Yhtymä Group, which operates in three product areas, i.e. nonwovens, flexible packaging and webbing products. The end products are delivered, for example, to the health care, food manufacturing and transport sectors. The NIB loan refers to invest-

ments by the group to raise output capacity at its Polish factory.

#### **Vattenfall Treasury AB**

Vattenfall Treasury is the Vattenfall Group's internal bank and is also responsible for the group's borrowing and liquidity. Vattenfall's vision is to be a leading European energy enterprise. Today Vattenfall produces electricity and delivers energy to several million customers in the Nordic area and northern Europe. The biggest power customers are industrial undertakings and energy enterprises. NIB's loan will serve to finance the group's acquisition of a power distribution company in Poland.

#### **Vestas Wind Systems A/S**

Danish Vestas Wind Systems A/S is the world's biggest producer of wind turbines. Its main activities are the development, production and sale of wind turbines and service activity. The NIB loan refers to the financing of continuous deliveries from Nordic subcontractors, as well as wind turbine R&D.

#### **Bifröst, School of Business**

The Bifröst School of Business is located in the west of Iceland, about a 100 km from Reykjavik. It is the only university in Iceland specialising in commercial studies. Next to the old school building, which dates from the mid-20th century, a new building of about 1,200 sq. m. is being put up and will house an auditorium and small classrooms, plus the school office. Capital good deliveries are being made from the other Nordic countries.

#### **V&S Group**

V&S Group is a global alcoholic drinks enterprise operating in Europe and the USA. NIB's loan refers to the acquisition of De Danske Spritfabrikker A/S.

#### **Wärtsilä Corporation**

Finnish Wärtsilä is an engineering group and one of the world's largest producers of diesel and gas-powered engines for marine and power production use. Wärtsilä is acquiring the British John Crane Lips Group, which produces

marine propulsion systems. The group has extensive Nordic activities: a factory in Norway, and service and assembly operations in Denmark and Sweden.

### **INFRASTRUCTURE INVESTMENTS**

Throughout its history, the Bank has attached great importance to financing infrastructure projects. One-third of the year's lending went to projects in this category.

#### **Agder Energi AS**

Agder Energi is the parent company of a group producing, distributing and selling energy in the south of Norway. The company also engages in research into electrical power and alternative forms of energy. NIB's loan will finance the company's investment in distribution networks, power production and district heating.

#### **Oy Alholmens Kraft Ab**

Alholmens Kraft produces electricity for its owners and district heating for the residents of Jakobstad, on the west coast of Finland, as well as process steam and heating for UPM-Kymmene's Jakobstad factories. NIB's loan refers to the financing of a new, biofuelled power plant, the biggest of its kind in the world.

#### **Bergenshalvøens Kommunale Kraftverk AS**

Bergenshalvøens Kommunale Kraftverk is the parent company of a group producing, distributing and selling electrical power. The company operates in the western region of Norway. NIB's loan refers to investments by the company in electricity production, networks and district heating.

#### **Keflavik Airport**

Keflavik Airport is a state-owned Icelandic limited company which operates the airport outside Reykjavik. The NIB-loan refers to the company's investment in a new 16,000 sq. m. terminal building necessitated by Iceland joining the Schengen Treaty.

#### **Järvi-Suomen Voima Oy**

Järvi-Suomen Voima was formed to build and operate two biofuelled power plants in the east of Finland. The NIB loan refers to the construction of the power plants, which are to produce basic energy next to Schauman Wood Oy's mills in Savonlinna and Ristiina. The plants will be fuelled with wood-based by-products from the mills.

#### **Kemijoki**

Kemijoki is a hydro-power company owning and operating hydro-power stations on the Kemi River in Finnish Lapland. The company operates 16 hydro-power stations on the Kemi River, two on the Kymi River and two on the Lieksa River. NIB's loan refers to Kemijoki's investment in a new power generation facility on the Kitinen River.

#### **Copenhagen Airports A/S**

Copenhagen Airports' main activity is the running of two Danish airports, namely Kastrup outside Copenhagen and Tune near Roskilde. As a consequence of Denmark joining the Schengen Treaty, part of Kastrup Airport will be converted into passport control and police facilities.

#### **Lyse Energi AS**

Lyse Energi is a Norwegian company producing, distributing and selling energy. The NIB loan refers to the company's investments in the power distribution network to upgrade and strengthen capacity, and also to the expansion of a gas distribution network.

#### **Norðurorka**

The Municipality of Akureyri, in the north of Iceland, is the country's fourth largest. Norðurorka, the municipality's water and power company, supplies water, heat and electricity to the municipality and outlying communities. NIB's loan concerns financing of drilling operations for hot water and pipe-laying.

#### **Reykjavik Energy**

Reykjavik Energy supplies the Municipality of Reykjavik and neighbouring municipalities with electricity,

heat and water. Sources of supply include the geothermal springs at Nesjavellir. The NIB loan serves to finance investments in electricity and water supply.

#### **Østfold Energi AS**

Østfold Energi energy group, operating in the southeast of Norway, produces, sells and distributes hydro-power. NIB's loan finances investments in production facilities and refuse incineration plants.

#### **PVO-Innopower Oy**

PVO-Innopower is a new enterprise formed for the purpose of planning, constructing and operating wind power plants in the west of Finland. The NIB loan will finance the construction of eight wind power plants on Finland's west coast.

#### **RARIK (Icelandic State Electricity)**

RARIK, an independent institution reporting to the Icelandic Ministry of Industry, operates power generation plants, maintains transmission lines and sells and distributes electric power. NIB's loan refers to RARIK's investments in power distribution, including the renewal of high voltage cables and the substitution of overhead power lines for ground cables.

#### **The Municipality of Reykjavik**

The Municipality of Reykjavik is investing in the municipal harbour, Sundahöfn, which is Iceland's main freight terminal, handling about 66% of incoming cargoes.

#### **SEAS Distribution A.m.b.a.**

SEAS Distribution is the parent company of the SEAS Group, distributing power to end customers in the south of Zealand, Denmark. The company is replacing about 2,000 km of its overhead power lines with ground cables in order to safeguard power supplies, reduce grid losses and disruptions in the event of rough weather and enhance the quality of the visual environment.

#### **Viken Fjernvarme AS**

Viken Fjernvarme is a district heating

company formed to expand district heating coverage in Oslo, as an important means of improving the city's air quality. The NIB loan refers to the company's investments in further expansion of the district heating network, heating centrals and customer agencies in Oslo.

#### **Wisapower Oy**

Wisapower is a power company owned by one of Finland's biggest energy producers, Pohjolan Voima. Wisapower is investing in a new power generation plant to produce basic energy for UPM-Kymmene's Jakobstad pulp mill. The power plant runs on cooking liquor from the pulp mill. The investment is of great environmental significance, serving among other things to reduce atmospheric emissions of sulphur and particles.

### **ENVIRONMENTAL INVESTMENTS**

Investments in projects with positive environmental impact is one of the main areas of NIB's lending operations. Many of the projects presented under other headings also have a strong environmental bias.

#### **Aarhus Oliefabrik A/S**

Danish Aarhus Oliefabrik produces vegetable oils and speciality fats for the food industry and oil chemicals for the cosmetics and pharmaceutical industries. The NIB loan refers to the company's energy conservation and anti-pollution investments in its vegetable oil production facilities.

#### **Billerud AB**

Billerud manufactures and sells packaging paper in the form of kraft paper, containerboard as well as market pulp at three facilities in Sweden. NIB's loan refers to the company's environmental investments at two plants, namely commissioning of a new recovery boiler and a new evaporation plant. The investments will improve energy efficiency and reduce atmospheric emissions of sulphurous gases and discharges of oxygen-demanding substances and nutrient salts into water.

#### **Myllykoski Corporation**

Finnish Myllykoski is an international forest-industry group mainly producing newsprint and coated and uncoated SC (super-calendared) grades of paper. The NIB loan refers to Myllykoski's investments in a de-inking plant in connection with construction of a new papermill in Germany. The investments will have a considerable positive environmental impact.

#### **Myllykoski Paper Oy**

Myllykoski Paper Oy is a papermill producing coated and uncoated SC paper. The company is owned by the Finnish forest-industry groups Myllykoski Corporation and M-real Corporation. Myllykoski Paper has made investments with considerable positive environmental impact by building a new, environmentally friendly barking plant and enlarging the pre-existing biological water treatment plant adjoining the papermill.

#### **Scania CV AB**

Scania CV is a subsidiary of Scania AB and among other things the group's internal bank. Scania is one of the world's biggest manufacturers of heavy trucks and buses. The company also produces industrial and marine engines. Investments are now being made in new paint shops in three facilities in Sweden. These investments will have substantial positive environmental impact, including atmospheric emission and effluent reductions.

#### **SSAB Swedish Steel AB**

SSAB is a specialist steel company in the commercial steel sector, mainly manufacturing steel sheet and steel plate products. The company is making investments with a positive environmental impact in its Luleå coke plant. These will reduce emissions of harmful substances and improve efficiency.

#### **UPM-Kymmene Corporation**

UPM-Kymmene is one of the world's leading forest-industry groups, focusing on paper products, converted products, and wood products. The group is making

investments in its Finnish facilities which will considerably improve their environmental performance, e.g. by reducing atmospheric emissions and discharges of effluent.

## **RESEARCH AND DEVELOPMENT**

Lending to R&D-related projects has continued, though to a limited extent.

### **Elekta AB**

The Swedish Elekta Group is an international medical technology enterprise producing systems and clinical solutions for the treatment of cancer and tumours and vascular disorders of the brain, as well as diseases of the central nervous system like Parkinson's disease and epilepsy. The NIB loan relates to the company's R&D of radiosurgery and radiotherapy products.

### **Haldex AB**

Haldex is an innovator in vehicle technology, marketing proprietary systems and components for trucks, cars and industrial vehicles worldwide. The company has invested heavily in product development over the years, and NIB's loan, the third in succession, refers to R&D investments in the product areas of four-wheel drive systems for light vehicles and disc brakes for heavy vehicles.

### **KONE Corporation**

The Kone Group is one of the world's leading producers of lifts and escalators,

production and global service being its main business areas. The NIB loan refers to the company's R&D activity to further develop the elevator technology eliminating the need for a separate machine room. The plan is for this technology to be applied throughout the elevator product range.

## **REGIONAL LOANS AND LOANS TO FINANCIAL INTERMEDIARIES**

In accordance with the Bank's strategy, NIB cooperates with and complements other Nordic and international financiers. Lending to SMEs forms an important part of these operations. During the year, this kind of lending has mainly been arranged via financial intermediaries, i.e. banks and regional institutes.

### **Aktia Savings Bank Plc**

Aktia Savings Bank is a Finnish bank operating mainly in the coastal areas of Finland and in Finland's main growth centres. The NIB loan will finance onlending to SMEs with Nordic operations and for municipal infrastructure and environment projects.

### **Byggðastofnun (Regional Development Institute)**

Byggðastofnun is an independent institute for the promotion of regional development in Iceland. Its activities mainly comprise lending to businesses and municipalities in exposed regions. The NIB credit is a regional loan, to finance onlending by the Institute.

### **Lánasjóður Sveitarfélaga (The Local Authorities' Loan Fund)**

The Local Authorities' Loan Fund is an institution owned by all the Icelandic municipalities. Its purpose is to advance credits to Icelandic municipalities for long-term investment finance. NIB's loan refers to the fund's onlending to projects of Nordic interest.

### **Ringkjøbing Landbobank A/S**

Ringkjøbing Landbobank is a regional bank in the west of Jutland, Denmark. NIB's loan refers to the financing of onlending to SME projects of Nordic interest, mainly investments in wind turbines and agricultural investments with positive environmental impact.

### **Sparbanken Finn**

Sparbanken Finn was founded in 1833 and carries on regional banking business in Skåne, Sweden. The NIB loan refers to the financing of onlending to SME projects of Nordic interest.

### **Sparebanken Møre**

Sparebanken Møre serves the County of Møre and Romsdal in the west of Norway. The county has 240,000 residents, including 150,000 in the municipalities where the bank is represented. NIB's loan refers to the financing of onlending to SME projects of Nordic interest.

## INTERNATIONAL LENDING

NIB's international lending is aimed at financing projects of mutual interest to the Nordic countries and the more than 30 emerging and transition countries with which the Bank cooperates.

The continued downturn in the world economic situation was reflected in the Bank's international lending in 2002 as generally somewhat lower demand for its loans. Nonetheless, the level of activity was high and in quantitative terms reached the same level of agreed loans during the year as in 2001. In addition, more loans were granted in comparison with the previous year.

In terms of value, however, the volumetric development of new lending was weaker than previously. A higher level of amortisation and above all the weakening of the US dollar against the euro by 16% during the year led to a de facto decline in the loan portfolio. Over 80% of the international loans are denominated in US dollars, which is why fluctuations in the exchange rate to the euro, the Bank's accounting currency, has a direct effect on the volume figures.

During the year 39 (2001:29) international loans were granted, totalling EUR 825 million (847) and agreements concerning 23 (23) new loans were entered into, totalling EUR 518 million (617). Loan disbursements in 2002 totalled EUR 380 million (482) and one guarantee was issued in the amount of EUR 37 million (0).

### LOAN PORTFOLIO

At year-end the Bank's international loan portfolio totalled EUR 3,055 million (3,207), whereof EUR 2,135 million (2,319) were outstanding and EUR 920 million (894) were agreed but not disbursed. No guarantees were outstanding at year-end (0).

The international loan portfolio consists of loans entered under the Bank's lending facilities, as briefly described below.

The Project Investment Loan facility (PIL) provides credits for emerging markets and transitional economies and

constitutes the main thrust of the Bank's international lending. Loans outstanding and loans agreed but not disbursed under the PIL facility totalled EUR 2,910 million (3,122) at year-end.

The Environmental Investment Loan facility (MIL) was set up in 1996, to supplement the PIL facility and to promote environmental investments in the neighbouring regions to the Nordic countries. The MIL originally totalled EUR 100 million. A proposal to raise the MIL ceiling to EUR 300 million was approved by the Nordic Council of Ministers in 2002 and the increase came into effect 1 January 2003. The expanded MIL ceiling will continue to be focused on projects in the Baltic countries, Poland and northwest Russia. It may also be used, however, to finance projects in Ukraine and Belarus. Loans outstanding and loans agreed but not disbursed under the MIL facility at year-end totalled EUR 49 million (56).

The Baltic Investment Loan facility (BIL) was set up in 1992 and concluded at the end of 1999.

Loans outstanding and loans agreed but not disbursed under BIL at year-end totalled EUR 21 million (29). Lending to the Baltic countries today is channelled through NIB's other lending facilities, depending on the project concerned.

In addition, the Bank has the possibility through its ordinary lending facility of participating, ad hoc, in the financing of projects elsewhere in the OECD area; the facility has also been used to a certain extent for lending to the Baltic countries. International loans outstanding and loans agreed but not disbursed under this facility totalled EUR 75 million (0) at year-end.

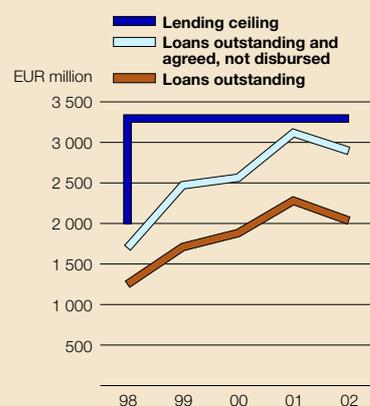
### LENDING

International loans take the form of direct loans to individual projects or funding channelled through loan programmes to financial intermediaries. The Bank has operative credit programmes with more than 30 intermediaries, most

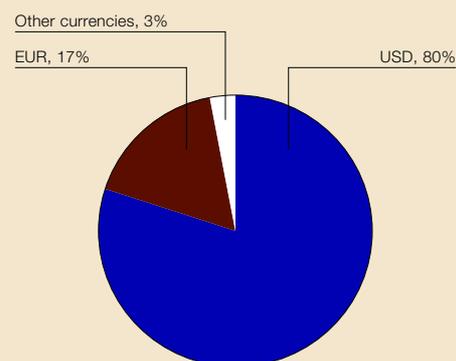
## INTERNATIONAL LOANS AND GUARANTEES



## PROJECT INVESTMENT LOANS

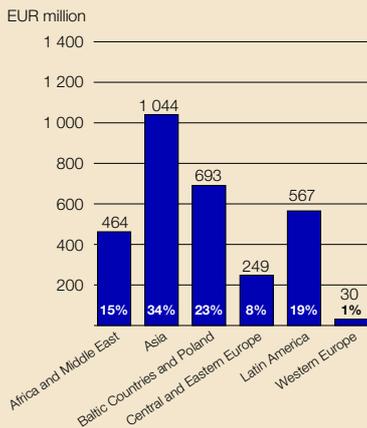


## INTERNATIONAL LOANS OUTSTANDING By currency as of 31 Dec 2002

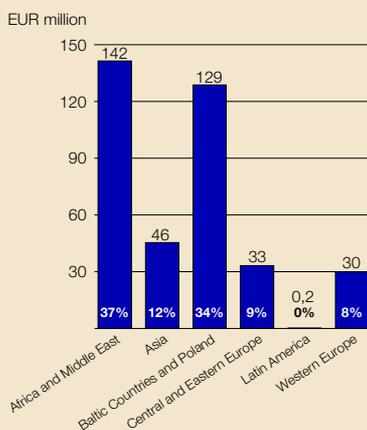


*Value adjustments according to IAS 39 are not included in segment information and currency distribution in this section.*

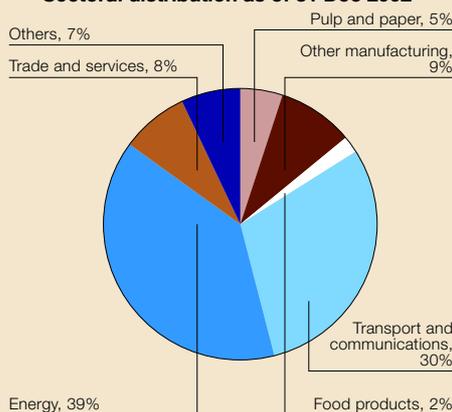
**INTERNATIONAL LOAN PORTFOLIO**  
Geographical distribution  
as of 31 Dec 2002



**INTERNATIONAL LOANS DISBURSED**  
Geographical distribution  
as of 31 Dec 2002



**INTERNATIONAL LOANS OUTSTANDING**  
Sectoral distribution as of 31 Dec 2002



of which are either state-owned development banks or local commercial banks. Lending through intermediaries serves above all to finance projects in the SME sector.

The lending programmes account for a large proportion of the Bank's international loans. At the end of 2002, outstanding agreed but not disbursed lending programmes reached EUR 1,572 million (1,648), equalling 53% (51) of the loan portfolio. The Bank approved 71 new projects (51) under the lending programmes in 2002, and allocations under the programmes totalled EUR 187 million (230).

The share of loans to the private sector has increased in recent years, but at year-end the majority, or 68% (73), of the international loans, were granted directly to states or with a state guarantee.

Despite the continued uncertainty in the world economy, the quality of the international loan portfolio was maintained during the year. In recent years the share of NIB loans with a low (poor) risk classification began to decrease and continued to do so in 2002, while the share of loans with a higher, i.e. better, risk classification increased slightly. At year-end there were loans in non-accrual status within PIL with a total of EUR 21.6 million outstanding. A more detailed description of the risk classification and the risk profile of the portfolio is presented on pp. 36-37.

**BORROWER COUNTRIES**

NIB cooperates directly with 36 emerging and transitional economies. Cooperation with these countries is long-term and generally based on agreements concluded with each country's Ministry of Finance. The Bank's international lending is divided among the following regions: Africa and the Middle East, Asia, the Baltic countries and Poland, the rest of Central and Eastern Europe, and Latin America.

Cooperation within the scope of lending programmes for financing projects in the member countries of the regional development banks means that projects in countries that are not among the borrower countries proper can gain access to the Bank's financing activities. The Bank's loan programme in Latin America with the Central American Development Bank (CABEI) and the

Andean countries' development bank, CAF, provide examples of such access. In addition, a part of the Bank's other financial intermediaries, for example in South Africa, finance projects outside their main countries of activity.

**AFRICA AND THE MIDDLE EAST**

The Bank's loan portfolio in Africa and the Middle East reached EUR 464 million (457) at year-end. A cooperation agreement with Morocco was signed during the year.

An agreement on a loan programme of USD 50 million was signed with the Tunisian state-owned telephone company Tunisie Telecom for financing investments in the country's fixed and mobile telecommunication networks. The loan programme is the second signed with the company and is guaranteed by the Tunisian state.

The expansion of a previous loan to the Hashemite Kingdom of Jordan for financing further investments in air safety at the airports in the capital Amman and in the city of Aqaba was also agreed on during the year. The loan increases the Bank's involvement in the project by an additional NOK 6 million, bringing it to a total of NOK 22 million.

Another loan programme was signed with the Infrastructure Finance Corporation (INCA) in South Africa in the amount of USD 10 million. Cooperation with INCA is above all concerned with municipal investments in the country. Still another loan programme was signed with the South African Rand Merchant Bank for USD 20 million. The loan is aimed at financing projects in South Africa and other sub-Saharan countries where the Rand Merchant Bank is active.

An agreement was also signed with Egypt concerning a loan of USD 12 million for modernising the cement production of the Assuit Cement Company.

Cameroon is covered by a debt relief programme for the most Heavily Indebted Poor Countries (HIPC) in the world. The Bank's loan to Cameroon is being serviced as agreed, but an additional EUR 0.3 million is being reserved by the Bank in its 2002 annual accounts for covering its share of the HIPC programme, bringing the Bank's reserve for Cameroon to a total of EUR 4.3 million.

## ASIA

NIB's loan portfolio in Asia totalled EUR 1,044 million (1,309) at year-end.

An agreement on a loan of USD 20 million was signed with Vietnam, giving the Bank an opportunity to participate in financing projects in the country's energy sector.

Another agreement was signed on a loan of USD 30 million to the Thai telephone operator Total Access Communications for financing investments in the company's mobile telephone network in Thailand.

During the year a letter of intent was also signed with the Philippine government with the aim of increasing financial cooperation concerning important development projects in the country.

## BALTIC COUNTRIES AND POLAND

The Bank's loan portfolio in the Baltic countries and Poland totalled EUR 693 million (578) at year-end.

A loan agreement in the amount of EUR 60 million was signed with the state-owned energy company Eesti Energia in Estonia for financing some of the company's investment needs in the period 2002–2006. The project is cofinanced with KfW. A loan agreement of EUR 40 million was signed with the state-owned port company Tallinna Sadam to finance investments in port infrastructure.

A loan agreement of USD 36.5 million was entered into with the Latvian state-owned energy company Latvenergo to finance, for example, reconstruction of the transmission and distribution network in the country. The project is cofinanced with the EIB. A loan agreement in the amount of EUR 10.7 million was signed with the Norwegian-owned project company Linstow Varner for the development and expansion of a shopping centre in Riga. The project is cofinanced with the IFC.

An agreement was concluded on a loan programme to finance SME investments in Latvia: with the Mortgage and Land Bank of Latvia in the amount of

EUR 10 million and with Vereinsbank Riga in the amount of EUR 7 million.

The Bank entered into an agreement with the Lithuanian state on a loan programme of EUR 10 million to finance energy efficiency improvements in public buildings. A loan was signed with the port authority of Klaipeda to finance investments in the port's infrastructure. The loan totals EUR 4.3 million and is guaranteed by the Lithuanian state.

As a continuation of its previous loan programme to promote entrepreneurship among women in the Baltic countries, the Bank signed an agreement on a new loan programme with Sampo Pank in Estonia and with Sampo Bankas in Lithuania of EUR 1 million each, and with Šiaulių Bankas in Lithuania in the amount of EUR 0.5 million.

NIB signed an agreement on a loan programme of USD 10 million with Bank Ochrony Srodowiska. The loan is intended for financing SME investments as well as municipal and regional environmental investments.

## CENTRAL AND EASTERN EUROPE

The Bank's loan portfolio in the rest of Central and Eastern Europe totalled EUR 249 million (326) at year-end.

An agreement on a supplementary loan of USD 12 million was signed during the year with the Romanian telephone operator MobiFon. This, the Bank's second loan to the company, will be used to finance the ongoing build-up of the country's mobile telephone network.

NIB's activities in Central and Eastern Europe, in northwest Russia and in the framework of the Northern Dimension Environmental Partnership (NDEP) are described in more detail in the section on the neighbouring areas on pp. 28–30.

## LATIN AMERICA

The Bank's loan portfolio in Latin America totalled EUR 567 million (535) at year-end.

An agreement on a loan programme of USD 100 million was entered into during 2002 with the Brazilian development bank, Banco Nacional de Desenvolvimento Econômico e Social – BNDES. The loan, which is the first NIB loan to Brazil, is guaranteed by the Brazilian state and will finance above all industrial projects in the country. In addition, an agreement on a loan of USD 30 million was signed with the Brazilian telephone operator Tele Norte Leste Participações to finance the company's investments in the mobile telephone network in Brazil.

## OTHER COUNTRIES

During the year a loan agreement of USD 30 million was signed with the French telephone operator Orange to finance the company's ongoing investments in the French mobile telephone network.

## SECTOR BREAKDOWN

The Bank's international loans are primarily granted for infrastructure investments, above all in the energy and transport sectors. The energy sector accounts for almost 40% of loans outstanding and the transport sector for slightly less than 30%. Telecommunications continues to comprise the major part of the transport sector, even if a certain decline in the demand for new loans in telecommunications could be seen during the year.

Loans outstanding in the manufacturing industry amount to slightly less than 20%, a large share of which have been financed through the Bank's loan programmes with financial intermediaries around the world.

A list of loans agreed during the period is found on p. 78.

## THE NEIGHBOURING AREAS

The neighbouring areas to the Nordic countries, comprising the Baltic countries, Poland and northwest Russia, including Kaliningrad, are of strategic importance to the Bank. According to its mission and strategy, NIB shall financially support economic transition and development in these regions.

In 2002 the Bank's activities in the neighbouring regions were further intensified regarding the preparation of new projects, concluded agreements and the number of disbursements. Present projects in the Baltic countries and Poland concern above all investments in infrastructure, energy and the environment as well as an increase in cooperation with financial intermediaries within the framework of loan programmes. NIB's project activities in northwest Russia are focused on larger environmental investments.

### BALTIC COUNTRIES AND POLAND

Needs for infrastructure investments continue to be large in the Baltic countries and Poland and the countries' expected accession to the EU in 2004 will highlight this further. The Bank aims to continue its support for these investments. NIB concentrates above all on investments in the energy and transport sector as well as investments in the social and municipal sector. Many of these investments will be implemented by the public sector, but also by private management, since an increasing privatisation of the countries' infrastructure can be expected.

Loan programmes with banks and other intermediaries play an important role in NIB's activities in financing SME investments. During 2002, the Bank's opportunities to participate in onlending grew by further increasing the number of intermediaries with which it works. The local intermediaries naturally have closer daily contact with local companies and can assist them in the preparation and implementation of investments. The Bank has loan programmes with 13 intermediaries in the Baltic countries and Poland, with agreed programmes totalling EUR 244 million. During the

year the Bank approved 50 projects and allocated loans of EUR 24 million to these projects.

### Loan programmes for environmental projects

In the neighbouring regions NIB has actively supported the development of national institutions that act as intermediaries for projects concerning the environment.

In Estonia NIB channels its environmental loan programme through the Estonian Environmental Investment Centre, EIC. In 2002 the Bank approved eight environmental loans to EIC totalling EUR 6 million for investments above all in municipal wastewater treatment plants.

In Latvia NIB channels its loan programme through the Latvian Development Agency, LDA. In 2002 the Bank approved loans in Latvia totalling EUR 10 million to 13 smaller district heating plants, as well as to five other projects concerning energy efficiency and solid waste management. The Latvian investments are intended for the installation of modern insulated district heating pipes, replacement of worn-out furnaces, fuel conversion from fossil fuels to biofuels and the construction of new, up-to-date furnaces with high efficiency and low levels of discharge. Altogether 37 loans totalling EUR 19 million have been approved under the programme.

In Lithuania loans are channelled through the Public Institution Central Project Management Agency, CPMA. A loan of EUR 20 million was approved for environmental investments in five municipal wastewater treatment plants and for three other projects in the energy sector and in solid waste management.

In Poland NIB approved eight environmental loans totalling EUR 4 million to an intermediary bank, Bank BISE (Bank of Socio-Economic Initiatives). Most of the loans are for improvements in municipal wastewater treatment. Under the programme 11 loans totalling EUR 5 million have been approved.

In 2002 the Bank also concluded an agreement with a new intermediary in Poland, Bank Ochrony Srodowiska, con-

cerning a loan facility that will be partly allocated for municipal and regional environmental projects.

### NORTHWEST RUSSIA

The Bank is responsible for six projects within the environmental partnership NDEP. Preparations for the Southwestern wastewater treatment plant in St. Petersburg have made the most progress. A brief overview of the projects and status at year-end are provided below.

### Southwestern wastewater treatment plant in St. Petersburg

In St. Petersburg preparations are being made for the completion of construction of the city's southwestern wastewater treatment plant. When completed, it will treat wastewater from about 700,000 residents living in the southwestern parts of the city. At present, untreated wastewater is discharged into the Gulf of Finland. The Bank has granted a loan of EUR 45 million to the Russian project company Nordvod. The total project costs are estimated at EUR 190 million. According to the plans, the project will also be financed with loans from the EBRD, EIB, Finnfund and Swedfund, together with share capital and subordinated loans from NEFCO, the construction companies NCC, Skanska and YIT, and the city's water company Vodokanal. Bilateral assistance funds from Finland, Sweden and the EU as well as grant financing from the NDEP fund is planned to total over EUR 50 million.

A tripartite agreement, which regulates the division of responsibility among the city of St. Petersburg, Vodokanal and Nordvod, was signed at the end of 2002. The loan agreements were signed in the beginning of 2003 and the treatment plant is estimated to be completed in 2005.

### Other effluents in St. Petersburg

Even after the completion of the Southwestern wastewater treatment plant, a quarter of the city's wastewater will still be discharged, untreated, into the Neva river from more than 400 dif-

ferent discharge spots which are not connected to the sewerage network. There is capacity in existing treatment plants to treat this sewerage. NIB has been mandated to lead a study with the objective to eliminate the remaining discharge spots.

#### **District heating in Murmansk**

In Murmansk the upgrading of a third of the city's district heating network in the Leninskij district is under preparation. In the first stage of the project, investments are expected to total EUR 15–20 million. Feasibility studies will be carried out in 2003.

#### **Municipal environmental project in Novgorod**

NIB has been mandated by the City of

Novgorod to structure and lead a project comprising investments in the upgrading and restoration of the city's water and sewerage, district heating and solid waste management systems.

#### **Solid waste management in Kaliningrad Oblast**

NIB has been mandated by the Kaliningrad region to lead a comprehensive solid waste management project. The purpose of the project will be to develop a regional solid waste management strategy, which includes collection, separation, storing and disposal of waste, thereby reducing discharges into the groundwater. A preliminary study has been carried out.

#### **Wastewater treatment in Leningrad Oblast**

In the Leningrad region an environmen-

tal investment programme is being prepared for water and wastewater management, initially in four cities: Gatchina, Pikalevo, Tikhvin and Kirovsk. The plan is that the project will be financed through donor funds, loans and local funding. The aim is to expand the programme to include eleven cities, covering solid waste as well as district heating. The costs of the first phase of the programme are estimated at EUR 24.8 million.

#### **OTHER PROJECTS IN NORTHWEST RUSSIA**

In addition to projects under the NDEP, the Bank is also preparing other projects in northwest Russia. Three of them are being implemented and two are under preparation. The projects are outlined briefly below.

#### **NORTHERN DIMENSION ENVIRONMENTAL PARTNERSHIP**

The Bank plays an active role in the Northern Dimension Environmental Partnership (NDEP), which was established in 2001. The aim of the NDEP is to coordinate and make more effective financing of environmental investments with cross-border effects in the Baltic Sea and Barents regions, above all in northwest Russia, including the enclave Kaliningrad. Several international finance institutions work together in the partnership: NIB, EBRD, EIB, and the World Bank, as well as the EU Commission and the Russian Federation.

The partnership focuses on solving urgent environmental problems within the EU's Northern Dimension by promoting projects that lead to sustainable solutions in wastewater treatment, solid waste management and energy supply, as well as nuclear waste. Projects are financed with a combination of long-term loans, assistance and local funds.

NDEP's activities are directed by a Steering group, which prioritises projects and appoints a lead bank for each project. Permanent members of the Steering group are the EBRD, EIB, NIB, the World Bank, the European Commission and Russia. The Steering group was led by NIB from its first year

of activity until mid-2002, after which the EBRD took over the chairmanship.

In July 2002 the first pledging conference was held in Brussels with bilateral assistance donors and the EU Commission in order to establish a support fund for the NDEP. The Fund was established for collecting grant funding and was activated when the conference participants made commitments totalling EUR 110 million, of which EUR 48 million is earmarked for traditional environmental projects and EUR 62 million for nuclear projects. After the conference commitments for a further EUR 12.5 million have been made. Thus the fund has at its disposal over EUR 122.5 million. The resources can be used to finance NDEP projects, combined with long-term loans from the international finance institutions and local resources.

The NDEP encompasses at the moment 12 projects in northwest Russia with an estimated investment need of around EUR 1.3 billion. NIB is leading the financing as well as the work in structuring and developing six of the projects. The project led by NIB that has made the most progress is the South-western wastewater treatment plant in

St. Petersburg. The other five led by NIB are environmental projects in Murmansk, Novgorod, Kaliningrad, Leningrad Oblast and direct discharge of untreated sewage into the Neva River.

The NDEP also includes a window for nuclear waste projects with the objective to solve the problems of accumulated radioactive waste on the Kola Peninsula. Current questions concerning nuclear waste are dealt with by the Steering group, which is preparing a programme for projects in the Barents region, among others. These measures may come to include investments in dismantling, freight and intermediate storage, and the construction of intermediate storage facilities for radioactive waste and material that has come into contact with the waste.

A special project organisation has been created within the Bank in order to ensure sufficient resources for the preparation of environmental projects in the neighbouring regions and especially in the framework of the Northern Dimension Environmental Partnership. The new lending unit's activities commenced 1 January 2002.

### **Water supply in Sestroretsk**

A project to improve the water supply and wastewater treatment in Sestroretsk is part of the development programme for the St. Petersburg water company Vodokanal. The costs of the project total EUR 23.7 million and it is cofinanced with Sida and the Finnish Ministry of the Environment. NIB signed a loan of EUR 7.7 million in 2000 that is allocated entirely to wastewater treatment and water supply in the Sestroretsk region. The project is being carried out in parallel with the bilaterally financed institutional development programme for the Vodokanal company.

### **Water treatment in Kaliningrad**

Since 2001 NIB has had a loan agreement of USD 13 million with the Russian Federation to finance an investment programme with Kaliningrad's water company Vodokanal concerning drinking water, wastewater treatment and institutional development. The financed project's costs total USD 65

million and it is being cofinanced with EBRD. Aid financing of the project totals over USD 20 million of which Sida accounts for USD 16 million and the Danish Environmental Protection Agency, DEPA and NEFCO for the remaining shares.

### **Pechenga Nickel on the Kola Peninsula**

During 2001 NIB signed a loan agreement in the amount of USD 30 million with the Kola Mining Company, which is part of the Norilsk Nickel Group. The loan is intended for the modernisation of the company's smelters and pellet roasting plants in Nickel and in Zapolyarny on the Kola Peninsula. The project's total costs are USD 93.5 million. Assistance has been given by Norway in the amount of NOK 270 million and Sweden in the amount of SEK 32 million. The Norilsk Nickel Group's own contribution is approximately USD 30 million. The assistance to the project is allocated through NIB. Project implementation has begun during the year.

### **Storm barrier in St. Petersburg**

During 2002 the Bank granted a loan of USD 40 million in order to bring to completion the construction of a storm barrier in St. Petersburg. The project is cofinanced with, among others, the EBRD and EIB and is aimed at preventing the difficult and costly floods that hit the city at regular intervals. The project costs are expected to reach approximately USD 420 million. The Russian Federation will guarantee the planned loan financing and will undertake to allocate budget resources in order to reach full financing of the project.

### **Loan programmes with Russian intermediaries**

Discussions were begun during the year on establishing a loan programme with a Russian intermediary bank. The loan programme is primarily intended for financing environmental investments in northwest Russia.

#### **ADMINISTRATION OF EXTERNAL FUNDS**

The Bank's member countries engage NIB as one of the channels through which development aid is allocated to projects in the neighbouring regions of the Nordic countries. In one project in Russia (Pechenga Nickel), involving both loan and grant financing, NIB has undertaken to administer grants from Norway and Sweden.

In addition, Finland and Sweden have placed separate funds with NIB for financing consultancy services used for preparation and monitoring of projects identified by NIB and approved by the respective authorities. In 2002 these Technical Assistance Trust Funds were as follows:

- **A Finnish technical assistance**

**trust fund at NIB**, intended for potential NIB and/or NEFCO projects, above all in infrastructure, the environment, forestry and forest industries in Central and Eastern Europe, including Russia and Ukraine. The Finnish Government is represented by its Ministry for Foreign Affairs.

- **Two Swedish technical assistance trust funds at NIB**, intended for potential NIB projects relating to the environment and energy in Eastern Europe (Estonia, Latvia, Lithuania, Poland and northwest Russia, and for one of the funds also Ukraine). The Swedish Government is represented by Sida.

- **Two special Swedish technical assistance trust funds at NIB**, intended to be used for two environmental projects that the Bank is preparing in Russia: the Southwestern wastewater treatment plant in St. Petersburg and Pechenga Nickel on the Kola Peninsula. The Swedish Government is represented by Sida.
- **A Finnish technical assistance trust fund at NIB**, intended to support and facilitate the financing of SMEs in Lithuania that involve women entrepreneurs. The Finnish Government is represented by its Ministry for Foreign Affairs. The fund was established in cooperation with CEB.



## NIB AND THE ENVIRONMENT

Financing environmental investments is an important part of NIB's lending. Environmental aspects are a key criterion in the assessment of projects which the Bank considers financing. By expressly environmental projects the Bank means projects undertaken with a view to reducing harmful emissions, reducing consumption of resources or otherwise alleviating environmental impact.

The Bank calculates or estimates the proportion of environmental components in individual projects, and this indicates how much of a loan can be classified as an environmental loan. The environmental share or components of a loan can vary from 25% to 100%. In order for NIB to identify a loan as environmental, the environmental components must be at least 25%.

### POSITIVE DISCRIMINATION FOR ENVIRONMENTAL LOANS

The Bank's loans are given special treatment as environmental loans when the environmental improvements resulting from a project are judged especially important for the Nordic area or the neighbouring regions. The environmental value added by environmental loans justifies special treatment, for example longer maturities. As most emissions are transboundary, the Bank's requirement of mutual interest is deemed satisfied even if an environmental investment is confined to one Nordic country or the neighbouring regions.

NIB's environmental loans are defined in accordance with the guidelines laid down by EuroStat, the Statistical Office of the European Communities, for the definition of environmental protection expenditure, which is divided into two main categories, namely pollution treatment investments and pollution prevention investments respectively. NIB can finance investments in both categories. About half the Bank's environmental loan portfolio is concerned with pollution reduction and half with pollution prevention.

Environmental investments for pollution reduction which the Bank has helped to finance have concerned wastewater treatment, waste management and flue gas treatment projects. Loans for wastewater treatment and waste management have been granted both for municipal projects and to industrial undertakings.

Pollution prevention investments which NIB has financed comprise recycling, bio-fuelled power plants, wind power and industrial investments in new, eco-efficient production technology.

The Bank can grant long-term environmental loans for up to 25 years, e.g. for municipal wastewater treatment plants. The intention is for the borrower to be able to adapt repayment to the operation's cash flow. Long-term credits also make it possible to avoid unduly abrupt increases in tariffs to end-consumers, whose affordability in the majority of transitional economies and emerging markets may be limited.

### INCREASED COMMITMENTS

During 2002 the Bank took part in the financing of several environmental improvement projects in the Nordic countries, in the neighbouring areas and in other parts of the world. NIB has pursued an active environmental policy through environmental projects of various kinds in all these regions. NIB can finance environmental investments both in enterprise and in the public sector.

At year-end NIB had a total of 206 (2001: 193) environmental loans outstanding. The environmental loan exposure totalled EUR 1.5 billion (1.4), corresponding to 14% (13) of the Bank's total loans and guarantees outstanding. During the period 1988–2002 the Bank has granted environmental loans totalling EUR 3.6 billion.

Of the outstanding environmental loans, 80% are Nordic and 20% international. These figures are directly proportional to the Bank's total Nordic and

international lending.

NIB has environmental loans outstanding in all the operative or geographic regions where it is active. The environmental share of total lending in each country or geographic region varies. The Bank's exposure for environmental projects in Sweden and Finland constitutes, in volume, the largest shares of environmental loans, followed by the Baltic countries and Poland, and Norway. Nearly half the loan portfolio in the Baltic countries and Poland consists of environmental loans, while for Central and Eastern Europe the share exceeds one-third.

### MOST LOANS TO ENERGY AND PAPER INDUSTRIES

The energy sector is the largest in the Bank's total environmental loan exposure, accounting for 29% (26), followed by paper and pulp with 22% (23). Infrastructure for environmental protection, accounting for 12% (13) of the environmental loans outstanding, includes wastewater treatment and waste management, for example.

The Bank's international lending portfolio is dominated by environmental loans to energy investments, e.g. flue gas treatment for power plants, while the Bank's Nordic environmental loans have mostly been granted to the paper and pulp industry.

### INITIATIVES IN THE NORDIC COUNTRIES

Environmental loans at the end of 2002 accounted for 15% (14) of the Bank's

#### ENVIRONMENTAL LOANS

At 31 Dec 2002, in EUR million

	Outstanding loans	Signed, not disbursed	Approved, not signed	Total	Number of loans
Nordic countries	1,174.7	41.3	38.2	1,254.2	139
Estonia	33.8	54.9	0.0	88.7	11
Latvia	20.5	6.5	0.0	27.1	32
Lithuania	19.1	5.9	0.0	24.9	9
Poland	114.2	11.2	0.0	125.4	7
Russia	0.7	48.0	103.1	151.8	6
Others	97.9	17.0	74.3	189.3	25
<b>Total</b>	<b>1,460.9</b>	<b>184.8</b>	<b>215.7</b>	<b>1,861.5</b>	<b>229</b>

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

### Cleaner water in the Baltic Sea

The Housing and Urban Development Fund, HUDF, in Lithuania is NIB's financial intermediary. The Bank has cooperated since 1999 with this fund, which finances municipal environmental and infrastructural investments in Lithuania. The HUDF has channelled an environmental credit facility of EUR 20 million from NIB to eight different environmental projects in Lithuania. Six of these are concerned with wastewater treatment, one with construction of a new, environmentally safe landfill, and the eighth is a major energy project in which 121 Lithuanian schools are being insulated and made more energy-efficient. In recognition of its efforts to preserve the environment of the Baltic Sea and Lithuania, the HUDF received the Swedish Baltic Sea Water Award for 2002.

During 2002 NIB granted the HUDF a new credit facility of EUR 30 million for environmentally oriented municipal and other infrastructural investments. A large part of these investments will have a positive environmental impact, but the facility can also be applied to social purposes, for example construction and renovation of hospitals, schools and homes for the elderly. One-third of the credit facility is intended for energy efficiency improvements in local and national government buildings.

At the beginning of 2003 the HUDF merged with Lithuania's Public Institution Central Financing and Contracting Unit, CFCU, to form the Public Institution Central Project Management Agency (CPMA).

also disbursed an environmental loan to an oil refinery and one to the food industry. At the oil refinery the plan is to reduce the percentage of health-endangering aromatic hydrocarbons in vehicle fuels by modifying the refining process. This will mean reduced emissions, e.g. of the carcinogenic substance benzene, at the distribution and consumer stages.

The pulp and paper industry is the dominant sector in the Bank's Nordic environmental loan portfolio. The projects in this sector are among other things concerned with financing waste water treatment, collection systems for malodorous gases, flue gas treatment, various in-process investments for reducing harmful emissions, and heavier emphasis on the use of recycled paper as a raw material in papermaking.

### PROJECTS IN THE NEIGHBOURING AREA

The neighbouring areas to the Nordic countries comprise Estonia, Latvia, Lithuania, Poland and the northwest of Russia including the Kaliningrad region. These countries still have very large local sources of both air and water pollution.

The energy sector, which is a major polluting source, dominates the Bank's environmental lending in the Baltic countries and Poland. Current environmental investments in these countries are, among other things, concerned with desulphurisation plants and major flue gas cleaning projects. Heavy investments are also being made in energy efficiency improvements.

The Bank's environmental lending commitment in the neighbouring areas at year-end 2002 totalled upwards of EUR 188 million (155).

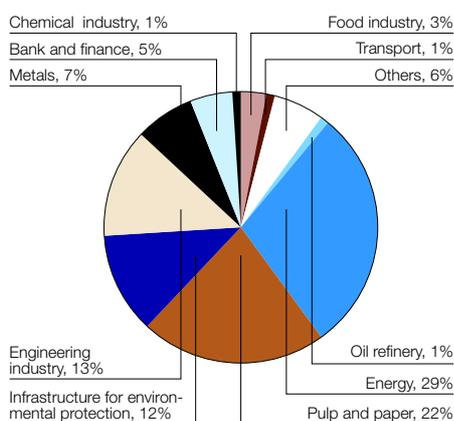
total Nordic exposure. During the past five years environmental loans have fluctuated between 14% and 18% of the total lending stock. In absolute figures, annual disbursements of environmental loans equal between EUR 100 million and EUR 200 million.

During 2002 the Bank disbursed a total of EUR 220 million (164) for 14 (8) environmental projects in the Nordic area. Nordic environmental loans outstanding at the end of 2002 totalled EUR 1,175 million (1,066), which was 10% up on the preceding year. Three of the Nordic environmental loans disbursed in 2002 referred to environmental investments in the paper and pulp industry.

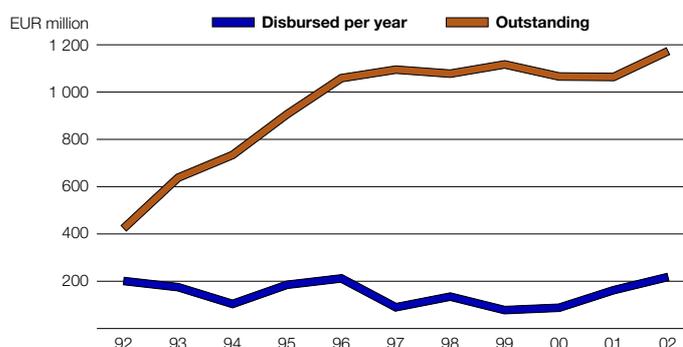
Two loans concerned investments in district heating. District heating projects often have a considerable positive environmental impact, since installation of district heating also means that older, inefficient oil-fired boilers can be shut down. New district heating plants have very small toxic emissions or none at all.

Another loan concerned investments in pollution-free powder coating in paint shops for lorry cabs. Two of the loans referred to waste management and other environmental investments in metal manufacturing, one to investments in a bio-fuelled power plant, one to a wind park and one to a municipal sewerage project. During the year the Bank

**ENVIRONMENTAL LOANS OUTSTANDING**  
Sectoral distribution 2002



**NORDIC ENVIRONMENTAL LOANS**  
1992-2002



Many municipal environmental projects in the neighbouring regions are relatively small, and NIB has actively supported the development there of national intermediaries. The intermediaries assist with the preparation and implementation of projects, which in turn improves the prospects of cofinancing, for example with other multilateral financial institutions, EU funds and Nordic bilateral assistance. The Bank's loans to the neighbouring regions are mostly channelled through intermediaries, one of which, HUDF in Lithuania, is described in the fact box on the previous page.

During 2002 the Bank granted a total of 38 loans for environmental projects in the neighbouring regions. One-third of them concerned investments in wastewater treatment plants where positive environmental effects will be achieved, for example reduced emissions of nutrients and oxygen-demanding substance in watercourses flowing into the Baltic Sea. The other loans referred to investments in district heating plants, for example installation of modern insulated district heating pipes, phase-out of old, worn-out boilers, conversion from fossil fuels to bio-fuels, and the construction of new, modern boilers with high efficiency and low emissions.

Further to these loans, the Estonian national energy corporation Eesti Energia was granted a loan for extensive renovation of the oil-shale-fired power stations in Narva and of the corporation's power transmission network. When the project is complete, annual emissions will be reduced by 26,000 tonnes of sulphur dioxide, 630,000 tonnes of carbon dioxide and 32,000 tonnes of particles.

### ENVIRONMENTAL INVESTMENT LOANS

The Bank has at its disposal a special Environmental Investment Loan facility (MIL) for the neighbouring regions, established in 1996 by resolution of the Nordic Prime Ministers. The purpose of MIL is to make possible the financing of important and prioritised environmental projects in the neighbouring regions, which do not qualify for NIB's Project Investment Loan facility (PIL). The MIL facility is intended to contribute towards an abatement of transboundary pollution and environmental impact. MIL loans can be granted to both public and private sector borrowers.

Guaranteed by the Nordic countries, the MIL facility is mainly intended

for urgent environmental projects in the Barents region of northwest Russia, Karelia, the St. Petersburg region and the Kaliningrad region. Environmental projects in the Baltic countries and Poland can presently often be financed by NIB through the PIL facility.

The total lending ceiling for MIL was raised on 1 January 2003 from EUR 100 million to EUR 300 million.

### ENVIRONMENTAL POLICY

The Bank has an environmental policy whereby it adheres to certain given, internationally accepted principles. Among other things that policy lays down that all projects with major environmental implications are to be subjected to an environmental impact assessment. Projects may not conflict with the project country's environmental legislation or with international conventions relating to the environment. In addition, the Bank shall actively encourage investments with a positive environmental impact. These principles are the guidelines of the Bank's activities with reference to the environment.

The Bank's environmental policy and procedures are published in full on the Bank's website.

For its headquarters in Helsinki, the Bank has taken environmental protection measures to comply with the requirements of current Finnish environmental legislation, and in many fields it has gone further than the law requires.

### INTERNAL PROCEDURES AND SCREENING

The Bank has environmental procedures whereby all projects which it considers financing undergo systematic environmental review in which all relevant environmental impact and environmental hazards entailed by a project are taken into account. Projects are classified according to the extent of their environmental and social impact.

At the end of 2002 work began on a more detailed environmental coding of the Bank's lending. The system is extensively based on the EuroStat definitions

of environmental protection expenditure.

NIB's screening of projects conforms to international practice in this field. If a project is expected to have significant environmental impact, it is assigned environmental code A. If moderate environmental impact is anticipated, the project belongs in category B. Projects with limited or small or not readily quantifiable environmental impact are classed as C projects. Category A projects have to undergo complete environmental impact assessment (EIA), and category B projects a partial EIA. No formal EIA is required for category C projects, but the Bank can commission an environmental review all the same.

During 2002 the Bank carried out 92 environmental analyses of projects, 12 category A projects, 28 category B projects and 52 category C projects.

The Bank requires an environmental audit in connection with company acquisitions or projects entailing obvious environmental risks. As regards the financing of company acquisitions, it is important for an environmental audit to be carried out of projects where there is an obvious risk of the purchaser incurring environmental liability in the form of remediation costs relating to previous environmental damage, for example contaminated soil, polluted groundwater, asbestos clearance of premises, leaking landfill sites or chemical stores. During 2002 environmental audits were carried out in connection with 9 loan applications.

NIB attaches great importance to all projects financed having necessary environmental permits and otherwise being deemed environmentally acceptable. The Bank refrains from financing projects which are considered environmentally questionable or which do not accord with the principles of international applicable conventions for the environment.

### INTERNATIONAL ENVIRONMENTAL COOPERATION

NIB participates in several international and regional forums of environmental cooperation where important environmental issues are discussed: the Helsinki Commission for Baltic Marine Environment Protection (HELCOM), Baltic Agenda 21, MFI Environmental Working Group, and the Northern Dimension Environmental Partnership, which is described in more detail on pp. 28–30.

#### *Environmental staff resources at 31 Dec 2002*

Number of employees	144
Loan officers	22
Loan officers dealing with environmental loans <sup>1)</sup>	5.6
Full-time environmental analysts	2

<sup>1)</sup> Expressed as whole-year equivalents



# FINANCIAL GUIDELINES AND RISK MANAGEMENT

The Bank's guidelines for its financial transactions and risk management are characterised by a conservative attitude towards financial risk-taking. The Articles of Agreement signed by the owner countries and governing NIB's operations require that loans be made on the basis of commercial banking considerations. The Bank's Statutes call for adequate security for the loans granted by the Bank, as well as hedging of the Bank's foreign exchange risks. NIB's use of various financial instruments in its operations, including derivative instruments, demands continual oversight of its financial operations and risk management.

## MARKET RISK

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

## FOREIGN EXCHANGE RISK

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

The Bank's loans are made primarily in US dollars and euros. Interest income in US dollars can cause a certain fluctuation in the Bank's future net income in euro terms. However, any such potential fluctuations in future cash flows would be minor, compared with the Bank's total assets and net worth.

## INTEREST RATE RISK

The Bank's Board sets maximum limits for the interest rate risk the Bank can take. The interest rate risk—the sensitivity of the Bank's income to changes in interest rates—is calculated by measuring how much an interest rate change of 1 percentage point can affect the Bank's net interest income over time (gap analysis). The limits are set for each individual currency as well as for the Bank as a whole. The limits are adjusted annually, and are set in relation to the Bank's equity. At present, the total limit is fixed at EUR 28 million, which corresponds to approximately 2% of NIB's equity. Total interest rate exposure at year-end 2002 was approximately EUR 4.2 million, or 15% of the limit.

In addition to using gap analysis, NIB has a limit system, designed to ensure efficient management of the maturity profile of the assets and the liabilities on the Balance Sheet in order to minimise any discrepancies. Large differences in asset and liability maturities can give rise to a refinancing and reinvestment risk. These risks occur when the margin on assets and liabilities changes at the time of the refinancing and reinvestment.

The exposure is calculated by measuring how much a 0.1 percentage point change in the margin on an asset or liability can affect the Bank's net interest income over time. The calculation is made in a manner similar to that of the gap analysis mentioned above. The limit is established for the Bank as a whole, and is now set at EUR 14 million, which is about 1% of the Bank's equity. NIB's total exposure at year-end was about 50% of the total limit. In addition to this sensitivity analysis, a EUR 1 billion ceiling has been established to limit the difference in the cash flow between assets and liabilities in the course of any given year. This serves to prevent a large concentration of refinancing or reinvestment needs in the capital markets in a single year.

The placement of assets in an amount corresponding to NIB's equity is managed as a separate portfolio and is not included in the normal calculation of NIB's interest rate risk limits and exposures. In accordance with a previous decision of the Board of Directors,

beginning with the year 2000, a maximum of 35% of these placements can belong to the so-called marked-to-market trading portfolio. This portfolio is managed more actively. The Bank has also established benchmark portfolios in order to improve the management of these capital market placements, both with regard to risk and return.

NIB supplements the above-mentioned foreign exchange risk control and gap analysis system used for measuring interest rate risk by using the value-at-risk methodology to evaluate the totality of market risk in the Bank's financial portfolios.

In 2002, the Bank expanded its value-at-risk analysis to include all of its financial portfolios. The Bank has also supplemented its value-at-risk analysis with the so-called Monte Carlo method. This method consists of using a stress test to estimate the sensitivity of the portfolios and of each individual transaction to changes in various factors such as interest rates or exchange rates. Tests were run on the new system at the end of 2002, and the Bank will start to use it in the first half of 2003.

NIB has improved its system of reporting counterparty risk by constructing a model using the Monte Carlo simulation in order to estimate the various transactions' future risk. This model will be expanded to become a credit risk model for all the Bank's operations.

## CREDIT AND COUNTERPARTY RISK

NIB takes a careful attitude towards credit and counterparty risk, which arises in connection both with lending and in connection with the Bank's treasury operations. In order to make it easier to manage NIB's credit risks as one portfolio, the Bank has a common, unified risk classification system for the various operational areas. The system consists of categories from 1 to 10, of which 1 is the best and 10 is the worst in terms of risk. The Bank's ordinary lending operations usually take place in risk categories 1 to 6, which more or less corresponds to investment grade. The Bank also has strict rules regarding exposure to individual borrowers and composition of the portfolio.

## Lending

The Bank's Board authorises all loans, with some delegation of decision-making power to the Bank's President for decisions concerning loans of small amounts. The Bank's Board and its Credit Committee receive regular reports on the economic situation of its clients and guarantors. All of NIB's lending operations are classified according to risk, based on both the client's creditworthiness and the quality of the security. Fig. 1 shows the quality of the Bank's loan portfolio broken down by type of security.

## Treasury operations

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

NIB applies a system for managing derivative financial instruments, particularly swaps, that permits precise monitoring of the market value for each individual swap, and, as a result, NIB's exposure vis-à-vis its swap counterparties. In addition to the current market value, the potential risk exposure for the agreement entered into is also calculated. The calculation of this potential risk is made in the manner required under the BIS

regulations. However, NIB in fact uses stricter criteria than those required under the BIS regulations.

## CREDIT QUALITY

Fig. 2 shows the development of the quality of the Bank's credit exposure based on the common credit risk classification.

The average quality of the Bank's total credit exposure has declined marginally during 2002, but nonetheless continues to remain at a high level. Almost two-thirds of the credit exposure is within risk categories 3 through 5 in the Bank's risk classification system.

## Nordic lending

The quality of the Nordic loan portfolio declined somewhat during the year. Although some borrowers' classifications were downgraded, the share of the three lowest risk classifications in the portfolio is still less than 3%. Most of the portfolio—more than 70%—still belongs to risk classifications 4 and 5. The Nordic department's interest rate margins have continued to strengthen, and the Nordic lending portfolio is still well balanced in terms of geographical distribution, industrial sector distribution and the loan's size distribution.

## International lending

In spite of the uncertainty in the global economy, the quality of the international loan portfolio has been maintained during the year. The last few years' decline in the share of the three lowest risk classifications continues, and is now just over 12%, while the share of projects

in the best risk classifications, namely 3 to 5, has increased marginally.

The average interest rate margin for international loans has remained unchanged during 2002.

## Financial counterparties

The credit quality of the Bank's financial exposure has been maintained at a very high level. The share of the three highest risk classifications is appr. 85%, as has previously been the case.

## The Bank as a whole

Taken as a whole, the average credit quality in the Bank's portfolios has weakened marginally during the year, but is nonetheless still very strong. About 65% of NIB's total exposure consists of exposure in risk categories 3 to 5. The share in the most risky categories, namely 8 to 10, is now 3.4%, compared with 3.9% at year-end 2001.

## OPERATIONAL RISK

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

The work of updating the Bank's central IT systems continues.

## OUTSTANDING LOANS AND GUARANTEES By type of repayment protection as of 31 Dec 2002

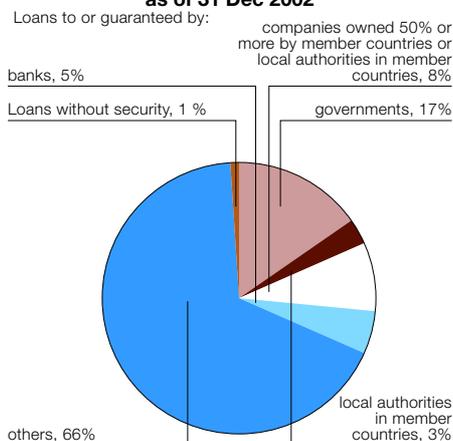


Fig. 1

## TOTAL EXPOSURE BY NIB RATING

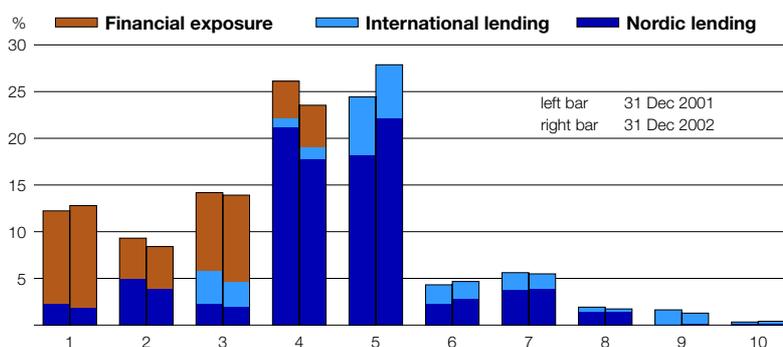
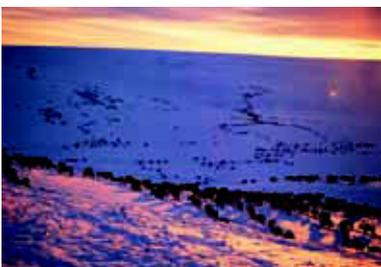


Fig. 2



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## Summary of the year 2002

The year 2002 was good for NIB. Profit increased by 8.3% and amounted to EUR 142 million, compared with EUR 131 million in 2001. Net interest income increased to EUR 150 million during the year compared with EUR 147 million in 2001. Profits from financial transactions rose to EUR 13 million, mostly as a result of the continuing downturn in market interest rates.

Economic growth in the Nordic countries is estimated at an average of 1.5% during 2002. The international economic downturn has lasted longer than had been expected, which has caused growth to be weak in the Nordic countries' export markets as well. As a result of these factors, Nordic business has gone forward cautiously as regards investment decisions, with the value of investments in the Nordic countries continuing to decline during 2002. Despite this situation, the demand for NIB financing has thus far not felt any noteworthy effect.

The EUR 1,648 million in new lending for the year was at about the same level as last year's high level of lending, EUR

1,661 million, and loans agreed during the year amounted to EUR 1,807 million (2001: 1,795). The demand for loans in the Nordic countries continued to be good during 2002. NIB's portfolio of loans outstanding in the Nordic countries amounted to EUR 7,975 million (7,748) at year-end. Total loans outstanding at year-end amounted to EUR 10,110 million (10,067).

The Bank gives priority to environmental projects in its lending decisions. During 2002, NIB financed many environmental improvement projects. NIB held the chairmanship of the Steering group for NDEP, the Northern Dimension Environmental Partnership, during the Partnership's first year of operations, until the middle of 2002. The NDEP is a forum created for the purpose of coordinating and streamlining the financing of environmental investments, particularly in the Baltic and Barents Sea regions. The first operational year of the NDEP ended with a successful pledging conference in Brussels.

The credit quality of the Bank's lending portfolio and financial counterparties has continued to be maintained at a high

and stable level. During the period, the Bank made specific provisions in its accounts for identified possible loan losses in a total amount of EUR 3.7 million in respect of three loans. These provisions were made due to the weak economic situation and the prevailing uncertainty concerning general economic development in 2003, which may mean increased risk to the creditworthiness of the Bank's counterparties.

New borrowing rose to EUR 3,320 million (2,099). Outstanding borrowings increased to EUR 13,150 million (12,298). A total of 83 (46) long-term borrowing transactions were made in 12 (9) different currencies. In 2002, the Bank launched a 1 billion US dollar global issue under its US MTN borrowing programme.

At year-end, total assets amounted to EUR 15.9 billion (15.0). Net liquidity rose to EUR 2,947 million (2,641). The Board of Directors proposes that EUR 40.3 million (39) be paid as a dividend to the Bank's owners, the Nordic countries, for fiscal year 2002.

### LENDING

#### Nordic countries

Lending in the Nordic countries rose compared with last year, despite the underlying weakness in the global economy. In particular, the financing of environmental and energy projects was among the areas where the Bank was able to generate added value for its clients, by offering the long-term financing needed to make large, long-term investments feasible.

Disbursements in fiscal 2002 amounted to EUR 1,268 million (1,179). The relatively high demand for loans was partly due to the fact that commercial banks are reluctant to grant long-term loans during economic downturns. This, in turn, has the effect of strengthening NIB's complementary role.

Loans outstanding amounted to EUR 7,975 million (7,748) at year-end.

The Bank entered into loan agreements amounting to EUR 1,289 million (1,178). No new guarantees were issued, compared to EUR 25 million in 2001. The effects of exchange rate changes have had an impact on the amount of NIB's loan portfolio. The weakening of the dollar has caused a decrease in the loan portfolio calculated in euros, since over one-fifth of NIB's loans are denominated in dollars.

Financing of environmentally friendly energy investments rose significantly for the second year in a row, with that sector's share of total lending rising from 23% to 32%. The Bank made loan disbursements to energy investments in all the Nordic countries, and they were a considerable portion of the year's disbursements in Denmark and Norway in particular.

In terms of the total loan portfolio,

the manufacturing industry is still the most important sector in the Bank's Nordic lending operations, increasing from 41% to 42% of new lending. Disbursements to the pulp and paper industry rose again after two years. In the manufacturing sector, the share of disbursements to the food and engineering industries rose, while a drop was noted in the share of steel and metal manufacturing. Lending to financial intermediaries for onlending to small and medium sized enterprises (SMEs) grew from 7% to 10%, while lending to other sectors stayed more or less at last year's levels.

The portion of new lending denominated in euros amounted to 62% (60). The share of new lending in US dollars dropped to 11%, compared with 12% last year. Lending in Norwegian kroner rose from 2% to 5%, while lending in both Swedish kronor and Danish kroner

declined compared with 2001. The share of lending in Swedish kronor was 14% (16) and in Danish kroner 5% (9). The British pound had the largest share of all other currencies, corresponding to 3% (0) of lending.

Of the total amount of loan disbursements, 33% involved the financing of infrastructure projects, particularly energy supply. About 28% of lending went to cross-border investments, with Finnish and Swedish companies in particular as investors. Environmental investments accounted for 17% of all disbursements.

### **Environmental financing**

Environmental lending operations are one of the cornerstones in the Bank's lending. As of 31 December 2002, the Bank had a total exposure of EUR 1,861 million in environment related projects. A large part of these loans has been granted for urgent environmental projects in the Nordic countries and their neighbouring areas. As mentioned in the previous section, 17% of all loan disbursements to the Nordic countries in 2002 were made to finance environmental investments. These included an environmental loan to the pulp and paper industry, for a modern recycled paper facility and a biological water treatment plant. In the Bank's international lending operations, environmental financing outside the Nordic countries is primarily aimed at the neighbouring areas to the Nordic countries, particularly through the Bank's special Environmental Investment Loan facility (MIL).

NIB applies environmental procedures consisting of a systematic environmental impact assessment of all its loan applications. Under the Bank's environmental policy, the environmental impact of the projects behind all loan applications must be studied, and the projects have to conform with international agreements concerning the environment. In addition, the Bank shall actively encourage investments with positive environmental impact.

### **International lending**

In several of the Bank's borrower countries outside the Nordic region, investment activity has been lower than in previous years. The authorities in these countries have been more restrained than in the past in granting permission to its borrowers to take up loans in foreign currencies, which in turn has decreased the ability to invest in many areas, which has been the case, for example, in Asia.

A total of EUR 759 million (847) in new loans was approved in 2002. Loans were agreed on for a total amount of EUR 518 million (617). Disbursements amounted to EUR 379 million (482). Loans outstanding amounted to EUR 2,135 million (2,319) at year-end. The decrease in the portfolio is primarily a result of the weakening of the dollar vis-à-vis the euro.

The financing of new investments and the modernisation of existing facilities in the energy sector still make up an important part of new loans as well as the outstanding loan portfolio. The energy sector's share of outstanding international loans is almost 40%, which is twice as high as that sector's share of lending in the Nordic countries. The energy sector is one of the pillars for development in the borrower countries, and the investments in energy projects are also largely environmental projects.

There is a wide geographical dispersion in NIB's lending. About 43% of disbursed loans went to Central and Eastern Europe (including the Baltic countries, which accounted for 80% of that amount), 37% to Africa and the Middle East, 12% to Asia, and 0.1% to Latin America. Western Europe's share was 8%.

The year's disbursements were dominated by loans to infrastructure investments, particularly the energy sector with a 24% share and the transportation and telecommunications sector with a 44% share. The share of disbursements to the health and healthcare sector amounted to just over 5% of loans disbursed.

A large part of the loans were dis-

bursed as part of lending programmes to financial intermediaries, and are usually earmarked for the financing of projects in the SME sector. NIB's international lending is usually based on cooperation agreements with the governments of the borrower countries. Today, NIB has cooperation agreements with 36 countries. The Bank signed a cooperation agreement with Morocco during 2002. The agreement makes it possible to participate in the financing of private and public projects of mutual interest for Morocco and the Nordic countries.

### **THE NEIGHBOURING AREAS**

Part of the Bank's strategy is to contribute with financing to sustainable economic development in the Nordic countries' neighbouring areas, that is, the Baltic countries, Poland, and northwestern Russia. NIB's activities in the neighbouring areas constitute an important part of its lending operations, and the Bank allocates considerable resources to these activities. Lending to the Baltic countries increased sharply in 2002, particularly the financing of infrastructure investments in the energy and transportation sectors.

In 2002 NIB signed an agreement with the government-owned Estonian power company Eesti Energia, for a loan intended, among other purposes, for modernisation of the power plants in Narva as well as for transmission and distribution. The investments are supposed to help reduce sulphur dioxide and carbon dioxide emissions, and to help the power plants comply with the EU's emission standards. In addition, the first ordinary investment loan to the Baltic countries was signed. Ordinary investment loans are loans without special Nordic guarantees. The loan was agreed upon with the government-owned Latvian energy company, Latvenergo, and is earmarked to finance wide-ranging investments in transmission and distribution.

In this way the Bank has helped the government-owned Baltic power companies, particularly in Estonia and Latvia, create large investment programmes.

Through these loans NIB has become the largest single external source of financing within the Baltic energy sector.

During 2002 three loan programmes were signed for female entrepreneurs in the Baltic countries with local banks as the intermediaries. The lending programmes, which are a continuation of a previously established lending programme, are carried out in cooperation with the Council of Europe Development Bank.

One of the most important projects within the framework of the Bank's environmental lending facility is the modernisation of the nickel smelting plant, Pechenga Nikel, on the Kola Peninsula. Disbursements of grants and loans to the project started during 2002, and the construction work has begun.

### **Northern Dimension Environmental Partnership**

The Bank has an active role within the Northern Dimension Environmental Partnership (NDEP), a partnership aiming to coordinate and make more effective the financing of urgent environmental projects with cross-border effects in the Northern Dimension's area—at the outset considered to be northwestern Russia and the Kaliningrad region.

The NDEP consists of a Steering group and a Fund. Activities are directed by the Steering group, which prioritises projects and appoints a lead bank for each project. Permanent members of the Steering group are the EBRD, EIB, NIB, the World Bank, the European Commission and Russia. NIB held the Steering group's chairmanship during the Partnership's first operational year, up until the beginning of July 2002.

The first pledging conference for the Environmental Partnership was held in Brussels in the beginning of July. The participants were representatives of the potential donors. NDEP's Fund, which has the task of soliciting grants, was activated by virtue of sufficient donor funds (EUR 122.5 million as of the publication of this Annual Report) having been collected at the conference in order to proceed on both environmental and nuclear waste problems. Additional contributions were promised for the future.

The funds can be used in the financing of NDEP projects in combination with long-term loans from the international financial institutions and with local funds.

The Steering group for NDEP has chosen 12 prioritised projects in Russia, of which six are proposed to be carried out under NIB's direction. The projects are located in Kaliningrad, St. Petersburg, Novgorod, the Leningrad region and Murmansk. One of these projects is the last phase of the Southwestern wastewater treatment plant in St. Petersburg, a project with transboundary environmental effects throughout the Baltic Sea area. NIB has granted a loan of EUR 45 million to the project, which has a total cost of ca EUR 190 million.

In order to sharpen the focus of its work with environmental projects in northwestern Russia, the Bank has set up an internal project organisation for projects in the Northern Dimension.

### **Increase in the environmental lending ceiling**

In June 2002, the Nordic Council of Ministers approved an increase in the Bank's environmental lending facility for the neighbouring areas (MIL) from EUR 100 million to EUR 300 million, with special guarantees. The parliamentary discussion in each of the member countries came to an end during 2002, and agreements with respect to the guarantees were signed. The increase in the MIL ceiling entered into force on 1 January 2003.

At the end of the year 2002, the Bank's total exposure under MIL amounted to EUR 94 million, and a large number of projects are now in the preparation stage.

### **FINANCIAL ACTIVITIES**

The Bank's borrowing on capital markets in 2002 amounted to EUR 3,320 million (2,099). Repayments of previously issued loans corresponded to EUR 1,787 million (1,780). Borrowings outstanding amounted to EUR 13,150 million (12,298) at year-end. During the year 2002, 83 (46) funding transactions were carried out in 12 (9) different currencies.

The US dollar was the Bank's most important borrowing currency in 2002, with a share of just over half of NIB's new borrowings. In 2002 NIB carried out its largest issue ever, which was also the Bank's first global benchmark issue. The issue, for one billion dollars, is registered with the Securities and Exchange Commission in the US. Almost one-third of the year's new borrowings were carried out on the Asian capital markets. The Japanese yen accounted for 21%, the Hong Kong dollar for 6%, and the Taiwanese dollar for 5%. In addition, the Bank has issued bonds in Australian dollars corresponding to 5%, and in euros, likewise corresponding to 5% of the year's borrowings. During the year the Bank has borrowed in three Nordic currencies: Swedish kronor, Norwegian kroner, and Icelandic kronur, which together amounted to 4% of the year's borrowing transactions. The Bank issued a public fifteen-year bond in Icelandic kronur, which was NIB's first public issue on the Icelandic market.

The Bank thus borrows in many different currencies, which are swapped into the currencies that are demanded by the Bank's customers. The credit exposure inherent in the swap transactions is monitored within the Bank through well-controlled procedures.

The Bank's equity amounted to EUR 1,540 million at the end of 2002. The Bank invests an amount corresponding to its equity in portfolios of interest-bearing securities. For accounting purposes, these placements are divided into two securities portfolios: the held-to-maturity portfolio, consisting of securities which are anticipated to be held until maturity, and the marked-to-market portfolio, consisting of securities which are marked to the market and which can be bought and sold continuously, based on the assessment of market developments. The marked-to-market portfolio accounted for 35 % of NIB's equity at year-end. This portfolio is managed in accordance with strict limits on risk-taking. Marked-to-market portfolio profits or losses are recorded directly in the Bank's Profit and Loss Account.

The Bank's net liquidity amounted to EUR 2,947 million at the end of

2002. This is in line with the Bank's long-term goal of maintaining a net liquidity level that corresponds to the Bank's requirements for the following 12 months. This level of net liquidity enables the Bank to enter into borrowing transactions only at the point in time when market conditions are deemed to be favourable.

### **COOPERATION WITH FINANCIAL INSTITUTIONS**

NIB places a great deal of importance on its cooperation with commercial banks in and outside the Nordic countries, as well as with international financial institutions, in order to create added value through efficient division of labour. During the year, its cooperation with financial institutions both in and outside the Nordic countries deepened in a number of areas. The intensified cooperation within the NDEP with EBRD, EIB, the World Bank Group, and the EU Commission has been described above (see The Neighbouring Areas).

NIB has close cooperation with the other financial institutions within the Nordic Financial Group in Helsinki (the Nordic Development Fund, NDF; the Nordic Environment Finance Corporation, NEFCO; and the Nordic Project Export Fund, Nopef), through, among other things, coordinated localisation in Helsinki. During 2002, NIB's cooperation with NEFCO increased further through the participation in various NDEP projects in northwestern Russia.

In 2002 NIB entered into a cooperation agreement with the Council of Europe Development Bank, CEB. The purpose is to increase cooperation between the two institutions and make it easier to cofinance projects in CEB's member countries where NIB is operational.

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

The cooperation with Nordic commercial banks and savings banks has continued to develop in a positive way. NIB has framework agreements with 35 Nordic banks and financial institutions which act as intermediaries for lending to SMEs. In addition, NIB has increased its participation in medium-term note programmes arranged by Nordic commercial banks for financing large Nordic industrial companies' investments.

### **RISK MANAGEMENT**

The Bank's risk management guidelines are characterised by a conservative attitude towards risk-taking. The Bank's Statutes call for adequate security when loans are granted, as well as the avoidance of currency risks.

The compliance with these general guidelines is followed in practice by an extensive system of limits and monitoring control.

In 2002 the Bank continued its work of developing and improving its risk management methods, which combine a traditional system of management of limits and the use of benchmarks with a model-based simulation of portfolio risk. These two different approaches to risk management complement each other and are used in the management of both market risk and credit risk.

The goal for the management of the Bank's financial portfolio is to make certain that NIB is sufficiently prepared financially to meet its operational needs, and to maintain its status as a borrower while simultaneously contributing to the Bank's income by virtue of active asset management. The high quality of the Bank's financial counterparty exposure has been maintained during the year.

The quality of the Bank's various portfolios, taken as a whole, continues to be very high. The portfolios are well balanced both geographically and as regards sector distribution and degree of concentration. Specific provisions made and posted to the accounts for possible loan losses in respect of Nordic lending during the year amount to EUR 2.0 million, and to EUR 1.7 million in respect of international lending.

At the end of the year, the Bank's assets were mainly of the same high qual-

ity as at the beginning of the year. Nonetheless, there is still a fair degree of uncertainty regarding economic development for the remainder of 2003. The weak economic situation which appears to be continuing into 2003 may very well have a negative effect on the economic position of the Bank's counterparties, and may therefore mean that there is a certain risk that the creditworthiness of the Bank's counterparties will decline.

### **PERSONNEL**

At year-end the number of employees was 144 (137). The Bank is continuing with its management training within an internal programme around the theme of communication and leadership. A new Code of Conduct was established for NIB's personnel and is designed to function as workplace guidelines for employees. The Bank has already had in force corresponding guidelines for the Bank's Board of Directors and the President.

### **INFORMATION TECHNOLOGY**

At the beginning of the year, NIB began a wide-ranging three-part development programme for renewal of its most important IT systems. The first phase of the development programme consists of renewing the system for managing the Bank's loan portfolio. Access to and management of information, particularly for NIB's lending operations, was considerably improved by means of further development of the centralised information system. As regards risk management, especially the tools for managing credit risks were improved.

The technical infrastructure was strengthened during the year. The largest individual project was the total renewal of NIB's data communication lines with the outside world, in particular the improvement of connections for personnel outside NIB's headquarters through a secure connection to the Bank's intranet and e-mail system.

### **RESULT**

Since 1994 NIB has drawn up its annual accounts in compliance with International Accounting Standards (IAS). The Bank has posted a profit for fiscal 2002 of EUR 142 million, com-

pared with EUR 131 million in 2001. Net interest income increased to EUR 150 million (147). The increase in net interest income compared with 2001 is primarily the result of NIB's larger average asset size and higher interest rate margins. Net interest income as a proportion of equity declined somewhat as a consequence of generally low interest rates, which have an effect on new investments and reinvestments of funds. The increase in the fiscal year's profits before the results of financial transactions and reserves is in line with net interest income. The Bank's net profit on financial operations amounted to EUR 13 million in 2002.

### Key figures

Profit as a proportion of average equity was 9.5% (9.5). This can be compared with the last 5 years' moving average for the 5-year euro interest rate, which was 4.7% (4.8). The corresponding annual average figure for 2002 was 4.5% (4.7).

NIB's established financial goals for its operations are to achieve a reasonable, stable return on its equity and to build up sufficient reserves. These goals have been achieved, which is important for the Bank in fulfilling its primary purpose effectively: to provide long-term financing in order to further projects of Nordic interest, which support sustainable development. During the year, EUR 39 million was distributed to the Bank's owners from profits from the year 2001.

As of 31 December 2002, NIB's equity, which consists of capital paid in by the owners plus accumulated reserves, amounted to EUR 1,540 million (1,440), corresponding to 9.7% (9.6) of total assets.

In addition to the paid-in capital, the Bank's owner countries have provided callable capital for the Bank, which also contributes to NIB's high credit rating.

### OUTLOOK

The outlook for the global economy is still uncertain. Economic conditions are still expected to be weak compared with the second half of the 1990s. The Nordic countries are thought to show an economic growth in line with the EU area. An economic upswing is expected in most of the world's emerging market

regions, in contrast to the weak economic development anticipated in the industrialised countries. Growth is assumed to continue in Central and Eastern Europe and in the developing countries in Asia. The economies in Latin America are expected to show a modest improvement during 2003.

The outlook for investments in the Nordic countries indicates some degree of improvement during 2003 compared with 2002, which was a weak year. Investment decisions, nonetheless, are largely dependent on the economic development in the other industrialised countries in Europe and America.

The demand for NIB's long-term loans during 2003 is still expected to be good. The Bank is still going to have an important complementary role as a financier of projects both within and outside the Nordic countries.

In the Bank's Nordic lending, the goal is to continue cooperating with other financial institutions by increasing financing of business investments, working together with the Bank's intermediaries, and by focusing on long-term complementary financing to creditworthy companies in the Nordic basic industries. In its operations NIB will give priority to the financing of environmental protection and infrastructure projects as well as Nordic companies' projects in the neighbouring areas.

In the Bank's international lending, the work of assessing environmental projects in the Nordic countries' neighbouring areas continues. Great efforts are being made within the Northern Dimension Environmental Partnership with focus on northwestern Russia, where the Bank plays an active role. Project appraisals are also going forward in other parts of the world. In the infrastructure sector, the emphasis is on energy, transportation and communications.

Most loans within international lending will continue to have governments or government-guaranteed entities as counterparties, but a certain amount of project appraisal work is also occurring for the financing of infrastructure projects in the private sector.

The Project Investment Loan facility (PIL) has been the core of the Bank's

lending operations outside the Nordic countries for two decades. PIL was originally conceived to enable NIB to finance projects in development countries, but also in the area that at the beginning of the 1980s was called state trade countries, that is, particularly Central and Eastern Europe's former communist countries. From the beginning of the 1990s, the transition countries, which are going through a transformation from centrally planned economies to market economies, have come under the PIL facility. NIB's member countries provide special guarantees for the PIL facility.

The proposed EU membership from 1 May 2004 for eight of the transition countries in Central and Eastern Europe is a watershed in these countries' economic development. When this occurs, it will without doubt have an effect on the Bank's future operations. During the years to come, NIB intends to deepen its cooperation with the accession countries, particularly in the neighbouring areas: Estonia, Latvia, Lithuania, and Poland. In this cooperation, NIB is going to place a great deal of importance on the energy sector and environmental investments.

NIB will be continuing its flexible, global borrowing strategy in 2003, whereby it will meet investor demand for attractive investment possibilities in the markets. At the same time, the Bank will strengthen and continue to develop the framework for management of its financial activities.

The Bank's operational results for the year 2003 are expected to be in line with those of 2002, even if a certain amount of uncertainty unavoidably prevails as to development of the world's financial markets.

## Proposal by the Board of Directors to the Nordic Council of Ministers

The Board's proposal for the allocation of profits for the year takes into consideration that the Bank's operations are carried out with an objective to achieve a reasonable return on the Bank's equity and a satisfactory dividend to the owners. The proposal will facilitate the continuing accumulation of the Bank's equity and keep its ratio of equity to total assets at a secure level, both of which are prerequisites for maintaining the Bank's high creditworthiness.

The Board of Directors proposes to the Nordic Council of Ministers that the profit of EUR 141,630,621.06 be allocated as follows:

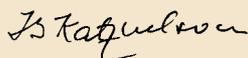
- That EUR 91,030,621.06 be transferred to the Statutory Reserve. Subsequent to such transfer, the Statutory Reserve will amount to EUR 644,982,835.99 or 16.1% of the Bank's authorised capital of EUR 4,000,000,000.00.
- That EUR 10,000,000.00 be transferred to the Credit Risk Reserve as a part of equity.
- That no reservation, pursuant to section 6A of the Bank's Statutes, is made for Project Investment Loans.
- That EUR 300,000.00 be transferred to a reserve for the HIPC initiative.
- That EUR 40,300,000.00 be available for distribution as dividends to the owners.

The Profit and Loss Account, Balance Sheet, Changes in Equity and Cash Flow Statement, as well as the Notes to the Financial Statements, are to be found on pages 46 through 67.

Helsinki, 6 March 2003



Claes de Neergaard



Ib Katznelson



Thorsteinn Ólafsson



Eli Telhaug



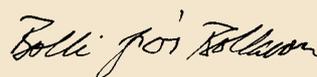
Bo Göran Eriksson



Bo Marking



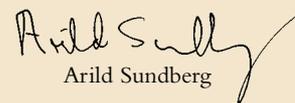
Seppo Suokko



Bolli Þór Bollason



Lars Kolte



Arild Sundberg



Jón Sigurðsson

## PROFIT AND LOSS ACCOUNT 1 JANUARY – 31 DECEMBER

	<i>Note</i>	<b>2002</b> <i>1,000 EUR</i>	<i>2001</i> <i>1,000 EUR</i>
Interest income		528,496	713,756
Interest expense		-378,775	-566,866
<b>Net interest income</b>	(1), (2)	<b>149,721</b>	<b>146,890</b>
Commission income and fees received	(3)	5,621	5,306
Commission expense and fees paid		-1,204	-1,011
Net profit on financial operations	(4)	13,003	2,637
Foreign exchange losses		-44	-57
<b>Operating income</b>		<b>167,098</b>	<b>153,765</b>
<b>Expenses</b>			
General administrative expenses	(5)	19,693	18,395
Depreciation and write-down in value of tangible and intangible assets	(10)	2,300	4,259
Provision for possible loan losses	(6), (8)	3,475	390
<b>Total expenses</b>		<b>25,468</b>	<b>23,044</b>
<b>PROFIT FOR THE YEAR</b>		<b>141,631</b>	<b>130,720</b>

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

## BALANCE SHEET AT 31 DECEMBER

	Note	2002 1,000 EUR	2001 1,000 EUR
<b>ASSETS</b>			
Cash and cash equivalents	(1), (19), (20) (18), (21)	3,227,307	2,821,111
Financial placements	(7), (18)		
Placements with credit institutions		100,389	74,293
Debt securities		970,335	830,107
Other		5,933	8,363
		<b>1,076,657</b>	<b>912,763</b>
Loans outstanding	(8), (18)	10,110,258	10,066,982
Intangible assets	(9)	1,986	1,294
Tangible assets	(9)	34,007	35,137
Other assets	(11), (18)		
Derivatives		1,160,977	839,505
Other assets		5,140	5,282
		<b>1,166,117</b>	<b>844,787</b>
Accrued interest and fees receivable		331,670	341,579
<b>Total assets</b>		<b>15,948,001</b>	<b>15,023,653</b>
<b>LIABILITIES AND EQUITY</b>			
	(1), (19), (20)		
<b>Liabilities</b>			
Amounts owed to credit institutions	(18)		
Short-term amounts owed to credit institutions		280,749	180,075
Long-term amounts owed to credit institutions		100,340	74,281
		<b>381,089</b>	<b>254,356</b>
Debts evidenced by certificates	(12), (18)		
Debt securities issued		12,850,484	12,011,430
Other debt		299,301	286,273
		<b>13,149,784</b>	<b>12,297,703</b>
Other liabilities	(13), (18)		
Derivatives		582,238	717,786
Other liabilities		3,679	4,571
		<b>585,917</b>	<b>722,357</b>
Accrued interest and fees payable		291,161	308,774
<b>Total liabilities</b>		<b>14,407,951</b>	<b>13,583,189</b>
<b>Equity</b>			
Authorised and subscribed capital		4,000,000	
of which callable capital		-3,595,740	
Paid-in capital	(14)	404,260	404,260
Statutory reserve	(15)	553,952	529,432
Credit risk reserves	(16)	429,200	362,000
Other value adjustments		11,007	14,051
Profit for the year		141,631	130,720
<b>Total equity</b>		<b>1,540,050</b>	<b>1,440,463</b>
<b>Total liabilities and equity</b>		<b>15,948,001</b>	<b>15,023,653</b>
Guarantee commitments	(8), (17)	31,981	32,572
Other off-balance sheet commitments	(17)		

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

## CHANGES IN EQUITY

(AMOUNTS IN EUR MILLION)

	Paid-in capital	Statutory reserve	Credit risk reserves	Other value adjustments	Profit for the year	Total
<b>Equity at 31 December 2000</b>	<b>394.3</b>	<b>469.1</b>	<b>332.0</b>		<b>130.5</b>	<b>1,325.9</b>
Value adjustments according to IAS 39 in equity at 1 Jan 2001		-1.2		22.8		21.6
Appropriations between reserves		61.5	30.0		-91.5	0.0
Paid-in capital	10.0					10.0
Dividend payment					-39.0	-39.0
Available-for-sale portfolio				0.3		0.3
Hedge accounting				-9.0		-9.0
Profit for the year					130.7	130.7
<b>EQUITY AT 31 DECEMBER 2001</b>	<b>404.3</b>	<b>529.4</b>	<b>362.0</b>	<b>14.1</b>	<b>130.7</b>	<b>1,440.5</b>
Appropriations between reserves		24.5	67.2		-91.7	0.0
Paid-in capital	-					-
Dividend payment					-39.0	-39.0
Available-for-sale portfolio				-2.0		-2.0
Hedge accounting				-1.1		-1.1
Profit for the year					141.6	141.6
<b>EQUITY AT 31 DECEMBER 2002</b>	<b>404.3</b>	<b>554.0</b>	<b>429.2</b>	<b>11.0</b>	<b>141.6</b>	<b>1,540.1</b>

<b>Proposed appropriation of the year's profit</b>	<b>2002</b>	<b>2001</b>
Appropriation to credit risk reserves		
General reserve	10.0	51.0
Loan loss reserve (PIL)	-	14.2
Appropriation to HIPC initiative	0.3	2.0
Appropriation to dividend payment	40.3	39.0
Appropriation to statutory reserve	91.0	24.5
<b>PROFIT FOR THE YEAR</b>	<b>141.6</b>	<b>130.7</b>

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

## CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

	Note	2002 1,000 EUR	2001 1,000 EUR
<b>Cash flows from operating activities</b>	(21)	<b>137,300</b>	<b>160,470</b>
 <b>Cash flows from investing activities</b>			
<i>Lending</i>			
Disbursements of loans		-1,649,533	-1,665,027
Repayments of loans		1,014,066	1,091,309
Exchange rate adjustments		622,897	-174,879
<i>Placements and debt securities</i>			
Purchase of debt securities		-323,459	-683,502
Sales of debt securities		183,796	416,298
Placements with credit institutions		-29,430	43,508
Other financial placements		453	8,169
Exchange rate adjustments etc.		15,118	99,601
<i>Other items</i>			
Change in other assets		4,609	-11,040
Change in tangible and intangible assets		-1,862	-1,096
<b>Investing activities, total</b>		<b>-163,345</b>	<b>-876,660</b>
 <b>Cash flows from financing activities</b>			
<i>Debts evidenced by certificates</i>			
Issues of new debt		3,320,139	2,099,283
Redemptions		-1,786,745	-1,779,781
Exchange rate adjustments		-1,022,040	-35,924
Issuing charges		-2,283	-4,057
<i>Other items</i>			
Placements from credit institutions		26,059	64,581
Change in other liabilities		-164,565	129,123
Paid-in capital		-	10,000
Dividend paid		-39,000	-39,000
<b>Financing activities, total</b>		<b>331,565</b>	<b>444,225</b>
 <b>CHANGE IN NET LIQUIDITY</b>	 (21)	 <b>305,521</b>	 <b>-271,965</b>
<b>Opening balance for net liquidity</b>		<b>2,641,036</b>	<b>2,913,001</b>
<b>Closing balance for net liquidity</b>		<b>2,946,558</b>	<b>2,641,036</b>

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

## General operating principles

The operations of the Nordic Investment Bank are governed by an agreement among the governments of Denmark, Finland, Iceland, Norway and Sweden, and the Statutes adopted in conjunction with that agreement. A new agreement, which replaced the previous agreement of 4 December 1975, was signed on 23 October 1998 and entered into force on 18 July 1999. The new agreement further strengthens the Bank's status as a multilateral financial institution as well as its legal status.

In the member countries, the Bank is exempt from payment restrictions and credit policy measures, and has the legal status of an international juridical person, with full legal capacity. The agreement contains provisions concerning the Bank's immunity and the exemption of the Bank's assets and income from all taxation.

The purpose of the Bank is to grant loans and issue guarantees on sound banking terms and in accordance with socio-economic considerations for the implementation of investment projects of interest to the Nordic countries and other countries which receive loans or guarantees from the Bank.

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

## Significant accounting principles

### BASIS FOR DRAWING UP THE FINANCIAL STATEMENTS

The Bank's Financial Statements have been prepared in accordance with the International Accounting Standards (IAS), issued by the International Accounting Standards Board (IASB). Since 1 January 1999, the Bank's accounts are kept in euro. The Bank's Financial Statements are presented in millions or thousands of euros. With the exceptions noted below, they are based on historical cost.

### ASSESSMENTS MADE IN PREPARING THE FINANCIAL STATEMENTS

As part of the process of preparing the Financial Statements, the Bank's management is required to make certain estimates that have an effect on the Bank's profits, its financial situation and other information presented in the Annual Report. Such assessments are based on available information and management's best estimate of the situation. Future financial outcome may deviate from the assessments thus made, and such deviations can at times be considerable vis-à-vis the Financial Statements.

### FOREIGN CURRENCY TRANSLATION

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

Realised and unrealised exchange rate gains and losses are accounted for in the Profit and Loss Account.

The Bank uses the official exchange rates published for the euro by the European Central Bank. See note 22.

### CASH AND CASH EQUIVALENTS, NET LIQUIDITY

Cash and cash equivalents include monetary assets and placements with original maturities of 6 months or less, calculated from the time the acquisition and placements were made. They also include placements in liquid certificates at floating interest rates, regardless of original maturity.

Net liquidity contains the net amount of monetary assets, placements and liabilities with original maturities of 6 months or less calculated from the time the transaction was entered into, as well as placements in liquid debt securities at floating interest rates irrespective of original maturity. This definition is in accord with the Bank's actual net liquid asset position.

### FINANCIAL PLACEMENTS

Items recorded as financial placements in the Balance Sheet include placements with credit institutions and debt securities, for example in the form of bonds and other debt certificates, as well as certain placements in instruments with equity characteristics. The placements are initially recorded on the settlement date. The subsequent measurement depends on the purpose in holding the assets.

Financial assets held for trading are carried at fair value. Adjustments for changes in fair value are recognised in the Profit and Loss Account.

Held-to-maturity financial assets are carried at amortised cost. These financial assets are evaluated for any permanent decrease in value.

Financial placements available-for-sale are measured at fair value. Unrealised value changes are recorded in equity under the item "Other value adjustments" until the asset is sold or the unrealised loss is considered to be permanent. Unrealised losses are considered to be permanent when the financial placement's fair value has remained less than recorded value for a considerable time. 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 issue guarantees under various lending facilities. The lending facilities are Ordinary Lending, Project Investment Loans, Baltic Investment Loans, and Environmental Investment Loans.

Ordinary lending includes loans and guarantees within and outside the Nordic countries, as well as Regional Loans in the Nordic countries. The Bank's Ordinary Lending ceiling corresponds to 250% of its authorised capital and accumulated general reserves and amounts to EUR 12,455 million following the appropriations of the year's profits in accordance with the Board of Directors' proposal.

Project Investment Loans (PIL loans) are granted for financing creditworthy projects in the emerging markets of Asia, the Middle East, Central and Eastern Europe, Latin America and Africa. The Bank's Statutes permit such loans to be granted, and

guarantees issued, up to an amount corresponding to EUR 3,300 million. The member countries guarantee 90% of each loan under the PIL lending facility up to a total amount of EUR 1,800 million. Payment under the member countries' guarantee 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 has granted loans for investments in the Baltic countries within the EUR 60 million Baltic Investment Loan facility (BIL). The member countries guarantee 100% of this lending facility. The Bank's mandate to grant BIL loans ended on 31 December 1999.

The Bank is authorised to grant special Environmental Investment Loans (MIL) and issue guarantees up to a total amount of EUR 100 million, for the financing of environmental projects in the neighbouring areas to the Nordic countries. An increase in the Bank's environmental lending facility from EUR 100 million to EUR 300 million was approved during the year, and became effective on 1 January 2003. The Bank's member countries guarantee 100% of this type of loans and guarantees.

Loans are recorded at the time the funds are transferred to the borrower. Loans are recorded initially at historical cost, which is the fair value of the transferred funds including transaction costs. Outstanding loans are carried at amortised cost. If the loans are hedged against changes in fair value by using derivative instruments, they are recorded in the Balance Sheet at fair value, with value changes recorded in the Profit and Loss Account.

#### **PROVISIONS FOR LOAN LOSSES**

Receivables are carried at their estimated recoverable amount. Loans are recorded in the Balance Sheet net of write-downs both for actual as well as possible loan losses. On the liabilities side, possible loan losses are recorded in respect of the guarantees NIB has issued. Actual and possible losses are taken as charges to the Profit and Loss Account, less amounts recovered. The net cost of any calls made under NIB's guarantees and other commitments is likewise recorded in the Profit and Loss Account.

Provisions for impairment are made based on individual assessment of collectable amount for credits and guarantees. The assessment takes into account any costs of administration or realisation of the security.

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 in non-accrual status. This means that the Bank stops recording interest as income on the Profit and Loss Account and unpaid interest and fees are reversed.

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 in non-accrual status. Whenever payments in respect of a PIL loan which is not to a government or guaranteed by a government is more than 90 days overdue, all loans in respect of that borrower are deemed to be in non-accrual status. Loan loss provisions are then made 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.

#### **INTANGIBLE ASSETS**

Intangible assets mainly consist of investments in software products and licenses. The investments are carried at historical cost. The amortisation is calculated according to the straight-line method over the estimated economic life, usually between 3 and 10 years.

#### **TANGIBLE ASSETS**

Tangible assets in the Balance Sheet include land, buildings, furnishings, shares, and other tangible assets owned by the Bank. The assets are recorded at historical cost deducted with depreciations over the assets' estimated economic life. No depreciations are made for land. The Bank's office building in Helsinki is depreciated straight-line over a 40-year period. The Bank's other buildings are depreciated over a 30-year period. Furnishings and other tangible assets are depreciated straight-line over a 3 to 5 year period.

#### **WRITE-DOWNS**

The Bank's assets are reviewed for impairment annually in order to assess any permanent decrease in value. If indicators for permanent decrease in value prevail, the assets' recoverable amount is assessed as the basis for a possible write-down.

#### **BORROWING**

The Bank's borrowing transactions are recorded at the time the funds are transferred to the Bank. The borrowing transactions are recorded initially at historical cost, which is the fair value of the funds transferred, less transaction costs. Outstanding borrowing is carried at amortised cost. The Bank uses derivative instruments to hedge the fair value of virtually all its borrowing transactions. In these instances the borrowing transaction is recorded in the Balance Sheet at fair value, with any changes in value recorded in the Profit and Loss Account.

#### **DERIVATIVE INSTRUMENTS**

The Bank's derivative instruments are recorded at fair value in the Balance Sheet as "Other assets" or "Other liabilities".

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

When cash flow hedging, the change in fair value of the derivative is taken to Equity to the extent that it is an effective hedge to the identified risk. At maturity, the accumulated amount recorded in Equity is transferred to the Profit and Loss Account at the same time as the item being hedged affects the Profit and Loss Account.

When the hedging operation was in respect of the fair value of a financial asset or liability, the derivative instrument's change in value is recorded in the Profit and Loss Account together with the hedged item's change in value.

## NOTES TO THE FINANCIAL STATEMENTS

If the hedging relationship in connection with a cash flow is terminated before the derivative's maturity, or if the hedge is no longer considered effective, the amount accumulated in Equity is transferred to the Profit and Loss Account, in the same period or periods during which the hedged cash flow affects the Profit and Loss Account.

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 operation 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 fair valued in the Profit and Loss Account.

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

### FAIR VALUE

The fair value of financial instruments, including derivative instruments, that trade in a liquid market, is the bid or offered closing price at Balance Sheet date. Where there is not a liquid market for a financial instrument, fair value is determined by discounting the estimated future cash flows at market rates that correspond to the remaining lifetime of the instrument. The Bank's structured borrowing transactions with embedded derivative instruments, and the hedging swap contracts, are measured at fair value by using a theoretical valuation model.

### EQUITY

The Bank's authorised and subscribed capital is EUR 4,000 million, of which the paid-in portion is EUR 404.3 million. Payment of the subscribed, non-paid in portion of authorised capital will take place upon request by 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 reserves for general credit risks (Credit risk reserve), the Loan loss reserve (PIL), and the HIPC initiative reserve (Debt Initiative for Heavily Indebted Poor Countries).

The Bank's profits are transferred to the Statutory reserve until the latter amounts to 10% of NIB's subscribed authorised capital. Thereafter, the Nordic Council of Ministers, after proposal of the Bank's Board of Directors, shall decide upon the allocation of the profits between the reserve fund and dividends on the subscribed capital.

Credit risk reserves include a general reserve, the Loan loss reserve (PIL), and a reserve for the HIPC initiative.

The general credit risk reserve is in respect of unidentified, exceptional risks in the Bank's operations. The reserve for credit risks in the Project Investment Loan facility is made to a separate loan loss reserve in order to primarily cover the Bank's

own share of the risk of Project Investment Loans and Project Investment Guarantees.

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

### INTEREST

The Bank's net interest income includes accrued interest on loans that have not been placed in non-accrual status, as well as accruals of the premium or discount value of financial instruments. Net interest income also includes swap fees that are accrued over the transactions' lifetimes.

Borrowing costs are capitalised and accrued over the lifetime of the borrowing and are included in "Net interest income".

### FEES AND COMMISSIONS

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

Annual costs arising from the Bank's borrowing, investment, and payment transactions are recorded under the item "Commission expense and fees paid".

### FINANCIAL OPERATIONS

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

### ADMINISTRATIVE EXPENSES

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

NIB receives a host country reimbursement from the Finnish government equal to the tax levied on the salaries of NIB's employees. This payment is shown in Note 5 below, and reduces the Bank's administrative expenses.

### EMPLOYEES' PENSIONS AND INSURANCE

In accordance with the host country agreement between the Bank and the government of Finland, the Bank completely covers the employees' basic pension protection. The pension plan NIB uses for its employees is the Finnish pension plan for government employees. Contributions to the pension plan, which are paid to the Government Pension Fund, are calculated as a percentage of the salaries. The Finnish Government determines the basis for the contributions, and the Republic of Finland State Treasury establishes the actual amount of the contributions.

At year-end 2002, the Bank's pension liability was fully covered. Under the Finnish pension system at present, the usual age of retirement is 65.

NIB has also introduced an additional pension system for its

permanent employees. This insurance plan enables NIB's employees to retire at the age of 63. The additional pension insurance is a group pension insurance plan that is based on a defined contribution plan.

In addition to the Finnish social security system for its employees, NIB has subscribed to a comprehensive accident insurance, life and health insurance programme.

## Risk management

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

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

### FOREIGN EXCHANGE RATE RISK

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

### INTEREST RATE RISK

The interest rate risk is the possible effect that changes in market interest rates can have on the value of interest-bearing assets and liabilities, and on the interest flow that is recorded in the Profit and Loss Account. The interest rate risk is dependent on the length of the interest rate fixing period, and on the maturity profile of assets relative to liabilities. The differences in the maturity profile between assets and liabilities can lead to a refinancing or reinvestment risk, as changes may occur in the assets' or liabilities' interest rate margins. The Bank has an established system of limits in order to manage its refinancing and reinvestment risks. The system measures the Bank's mismatch in various maturity buckets and its maximum estimated effect on the Bank's net interest income.

The Bank invests an amount corresponding to its equity in interest-bearing securities with high credit ratings. Approximately one third of the Bank's equity has been placed in a marked-to-market portfolio with a maximum duration of 3.5 years and a daily value-at-risk not exceeding 0.3% of the portfolio's value at a 95% confidence level. The remaining two thirds of the Bank's equity has been placed in a held-to-maturity port-

folio that has a duration of between 3.0 and 5.5 years. Fluctuations in the value of the marked-to-market portfolio affect the Bank's profits. Fluctuations in interest rates also affect the net interest income in the held-to-maturity portfolio, since the interest and capital at maturity are reinvested.

### CREDIT RISK

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

The Bank's credit risk is monitored by means of a common, unified risk classification system, in which the Bank's counterparties are divided into credit risk categories on a scale from 1 to 10. The Bank also has rules for credit risk concentrations with regard to individual counterparties, economic sectors, countries etc.

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

### LIQUIDITY RISK

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

### OPERATIONAL RISK

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

## Reclassifications

Starting with fiscal year 2002, the adjustment to hedge accounting is recorded in the item "Net profit on financial operations".

Cash and cash equivalents include assets with an original maturity of 6 months or less and placements in liquid floating-rate debt securities, which can be reconciled with the cash flow analysis. In the past, placements in liquid floating rate debt securities were included in the Balance Sheet item "Debt securities".

This year's profit is shown unappropriated in equity.

In addition, some minor reclassifications have been made. The comparative figures have been adjusted accordingly.

## 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.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### (1) SEGMENT INFORMATION

(Amounts in EUR 1,000)

##### Primary reporting segment—business operations

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

	<i>Lending</i>	<i>Liquidity</i>	<i>Placements in financial investment portfolios</i>	<i>Total</i>	<i>Lending</i>	<i>Liquidity</i>	<i>Placements in financial investment portfolios</i>	<i>Total</i>
	<i>2002</i>	<i>2002</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>	<i>2001</i>	<i>2001</i>	<i>2001</i>
<b>Net interest income</b>	<b>62,371</b>	<b>10,920</b>	<b>76,430</b>	<b>149,721</b>	56,066	6,234	84,590	146,890
Commission income and fees received	5,347	274	-	5,621	4,452	854	-	5,306
Commission expense and fees paid	-14	-1,190	-	-1,204	-13	-998	-	-1,011
Net profit on financial operations	901	889	11,213	13,003	-	721	1,916	2,637
Foreign exchange losses	-	-44	-	-44	-	-57	-	-57
Administrative expenses, depreciations and write-downs	-18,739	-1,082	-2,172	-21,993	-19,250	-951	-2,454	-22,655
Provision for possible loan losses	-3,475	-	-	-3,475	-390	-	-	-390
<b>Profit for the year</b>	<b>46,392</b>	<b>9,767</b>	<b>85,472</b>	<b>141,631</b>	40,865	5,803	84,052	130,720
<b>Assets</b>	<b>10,192,059</b>	<b>4,215,892</b>	<b>1,540,050</b>	<b>15,948,001</b>	10,165,397	3,417,793	1,440,463	15,023,653
<b>Liabilities and equity</b>	<b>10,192,059</b>	<b>4,215,892</b>	<b>1,540,050</b>	<b>15,948,001</b>	10,165,397	3,417,793	1,440,463	15,023,653

##### Secondary reporting segment—geographical segment

(Amounts in EUR 1,000)

In the Nordic countries, the Bank participates in the financing of crossborder investments as well as projects in industry that concern several Nordic countries. The core of NIB's lending operations outside the Nordic countries consists of loans under the Bank's Project Investment Loan facility for projects in emerging markets. NIB also grants loans to projects within the OECD area and the Baltic countries. The table below is based on the region where the borrower resides.

	<i>2002</i>
	<i>Net interest income</i>
<b>Nordic loans</b>	
Denmark	4,853
Finland	12,199
Iceland	2,607
Norway	4,791
Sweden	14,493
<b>Total, Nordic loans</b>	<b>38,943</b>

	2002
	<i>Net interest income</i>
<hr/>	
<i>International loans</i>	
Africa	1,694
Asia	8,932
Baltic countries and Poland	3,861
Eastern and Central Europe	3,303
Latin America	4,039
Middle East	1,578
Western Europe	21
<b>Total, international loans</b>	<b>23,428</b>
<b>Total, net interest income from lending</b>	<b>62,371</b>

## (2) INTEREST INCOME AND INTEREST EXPENSE

(Amounts in EUR 1,000)

	2002	2001
<i>Interest income</i>		
Cash and cash equivalents	82,202	151,091
Placements with credit institutions for more than 6 months	2,516	3,588
Debt securities for more than 6 months	49,354	49,205
Loans outstanding	394,359	509,692
Other interest income	64	180
<b>Total, interest income</b>	<b>528,496</b>	<b>713,756</b>
<i>Interest expense</i>		
Amounts owed to credit institutions	7,593	10,068
Debts evidenced by certificates	679,771	689,760
Swap contracts and other interest expenses, net	-317,844	-143,636
Borrowing costs	9,254	10,674
<b>Total, interest expense</b>	<b>378,775</b>	<b>566,866</b>

## (3) COMMISSION INCOME AND FEES RECEIVED

(Amounts in EUR 1,000)

	2002	2001
Commitment fees	1,795	1,560
Loan disbursement fees	3,057	2,086
Guarantee commissions	180	191
Premiums on prepayments of loans	423	1,240
Commissions on lending of securities	166	229
<b>Total, commission income and fees received</b>	<b>5,621</b>	<b>5,306</b>

## (4) NET PROFIT ON FINANCIAL OPERATIONS

(Amounts in EUR 1,000)

	2002	2001
Debt securities in trading portfolio, realised gains and losses	216	6,537
Debt securities in trading portfolio, unrealised gains and losses	12,264	-4,226
Adjustment to hedge accounting and changes in value of unhedging derivatives, unrealised gains and losses	-4	-2,719
Repurchase of NIB bonds, other	526	3,045
<b>Total, net profit on financial operations</b>	<b>13,003</b>	<b>2,637</b>

## NOTES TO THE FINANCIAL STATEMENTS

### (5) GENERAL ADMINISTRATIVE EXPENSES

(Amounts in EUR 1,000)

	<i>2002</i>	<i>2001</i>
Personnel costs	<b>13,454</b>	12,016
Pension premiums in accordance with the Finnish state pension system	<b>2,612</b>	2,220
Other pension premiums	<b>654</b>	582
Office premises costs	<b>760</b>	651
Other general administrative expenses	<b>7,174</b>	7,681
Cost coverage, NDF and NEFCO	<b>-754</b>	-800
Cost coverage, rental income and other administrative income	<b>-707</b>	-636
<b>Total</b>	<b>23,193</b>	<b>21,714</b>
Host country reimbursement according to agreement with the Finnish government	<b>-3,500</b>	-3,318
<b>Net</b>	<b>19,693</b>	<b>18,395</b>
<b>Average number of employees</b>	<b>142.6</b>	<b>134.2</b>

The average age of the staff was 43, and the average period of employment was 8.5 years.

#### **Compensation for the Board of Directors, the Control Committee, and Senior Management**

Compensation for the Board of Directors and the Control Committee is set by the Nordic Council of Ministers. Compensation for the Bank's senior management is set by the Board of Directors on the basis of a fixed annual salary.

Senior management is granted staff loans from the Bank at interest rates that are the same for all of the Bank's employees and that are set with reference to the so called base rate determined from time to time by Finland's Ministry of Finance.

The pension benefits for the Bank's senior management are based on the Finnish government's pension system, with certain additions.

#### **Rental agreement**

NIB operates in its own office building in Helsinki. Of the building's total area of 18,500 m<sup>2</sup>, 1,500 m<sup>2</sup> are rented to other parties.

### (6) POSSIBLE LOAN LOSSES AND ACTUAL LOAN LOSSES

(Amounts in EUR 1,000)

	<i>2002</i>	<i>2001</i>
Increase in provisions	<b>3,711</b>	507
Reversals of previous provisions	<b>-237</b>	-117
<b>Total, provision for possible loan losses</b>	<b>3,475</b>	<b>390</b>

See also note 8.

### (7) FINANCIAL PLACEMENTS

The debt securities were issued by the following counterparties:

(Amounts in EUR million)

	<i>2002</i>	<i>2001</i>
Governments	<b>570</b>	567
Public institutions	<b>35</b>	79
Other	<b>365</b>	184
<b>Total, debt securities</b>	<b>970</b>	<b>830</b>

These debt securities are at fixed interest rates.

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

	<i>Book value</i>		<i>Fair value</i>	
	<b>2002</b>	2001	<b>2002</b>	2001
Trading portfolio	<b>279</b>	262	<b>279</b>	262
Held-to-maturity portfolio	<b>691</b>	568	<b>740</b>	594
<b>Total, debt securities</b>	<b>970</b>	<b>830</b>	<b>1,019</b>	<b>856</b>

## **(8) LOANS AND GUARANTEES OUTSTANDING**

Loans outstanding are recorded net of possible loan losses and actual loan losses.

### **Loans outstanding are distributed as follows over the Bank's four loan facilities:**

(Amounts in EUR million)

	<b>2002</b>	2001
<b>Ordinary Loans</b>		
Investment loans in the Nordic countries	<b>7,819</b>	7,590
Regional loans in the Nordic countries	<b>100</b>	133
Investment loans outside the Nordic countries	<b>65</b>	-
<i>Adjustment to hedge accounting</i>	<b>56</b>	24
<b>Total</b>	<b>8,040</b>	<b>7,747</b>
<b>Project Investment Loans (PIL)</b>		
Africa	<b>242</b>	166
Asia	<b>815</b>	1,037
Baltic countries and Poland	<b>355</b>	116
Eastern and Central Europe	<b>144</b>	403
Latin America	<b>336</b>	408
Middle East	<b>147</b>	154
<i>Adjustment to hedge accounting</i>	<b>9</b>	7
<b>Total</b>	<b>2,048</b>	<b>2,291</b>
<b>Baltic Investment Loans (BIL)</b>	<b>21</b>	<b>28</b>
<b>Environmental Investment Loans (MIL)</b>	<b>1</b>	-
<b>Total, loans outstanding</b>	<b>10,110</b>	<b>10,067</b>

Loans outstanding at floating interest rates amount to EUR 8,612 million (8,531), while those at fixed interest rates amount to EUR 1,433 million (1,505). Guarantees issued under the ordinary lending ceiling amounted to EUR 32.0 million (32.6) on 31 December 2002.

### **Provisions for possible loan losses**

A total of EUR 8.4 million (5.3) has been deducted from the Bank's loans outstanding for provisions for possible loan losses. EUR 2.9 million (1.8) is for provisions for Project Investment Loans. The following changes in provisions for loan losses were recorded in the Balance Sheet:

(Amounts in EUR million)

	<b>2002</b>	2001
Provisions on 1 January	<b>5.3</b>	7.9
Provisions made during the year	<b>3.7</b>	0.5
Reversals of previous provisions	<b>-0.2</b>	-0.1
Loan losses covered by provisions previously made	-	-3.1
Exchange rate adjustments	<b>-0.4</b>	0.1
<b>Provisions on 31 December</b>	<b>8.4</b>	<b>5.3</b>

See also note 6.

## NOTES TO THE FINANCIAL STATEMENTS

The distribution of provisions for possible loan losses was as follows:  
(Amounts in EUR million)

<i>Distribution by lending facility:</i>	<i>2002</i>	<i>2001</i>
Ordinary loans in the Nordic countries		
Investment loans in the Nordic countries	5.5	3.5
Project Investment Loans		
Asia	0.4	0.5
Eastern and Central Europe	0.9	1.3
Latin America	1.6	-
<b>Total, provisions</b>	<b>8.4</b>	<b>5.3</b>

As of 31 December 2002, the Bank had loans outstanding in non-accrual status amounting to EUR 3.7 million (4.4) within Ordinary Lending in the Nordic countries. In addition, loans outstanding in non-accrual status within the Project Investment Loan facility amounted to EUR 21.6 million (-).

### **As of 31 December 2002, loans agreed but not yet disbursed amounted to the following:**

(Amounts in EUR million)

<i>Loans agreed but not yet disbursed</i>	<i>2002</i>	<i>2001</i>
Ordinary Loans	184	264
Project Investment Loans	862	837
Baltic Investment Loans	-	1
Environmental Investment Loans	48	56
<b>Total, loans agreed but not yet disbursed</b>	<b>1,093</b>	<b>1,158</b>

The amounts set forth above for loans agreed but not yet disbursed include loans for considerable amounts, where certain conditions, primarily interest rate conditions, may not yet have received final approval and can therefore not be considered as binding commitments for the Bank.

### **Currency distribution of loans outstanding**

(Nominal amounts, in EUR million)

<i>Currency</i>	<i>Ordinary loans</i>		<i>PIL-loans</i>		<i>Total</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Nordic currencies	2,504	2,384	4	5	2,508	2,388
EUR	3,517	2,827	321	235	3,853	3,078
USD	1,831	2,412	1,669	1,995	3,503	4,414
Other currencies	132	101	46	50	182	155
<b>Total</b>	<b>7,983</b>	<b>7,723</b>	<b>2,040</b>	<b>2,285</b>	<b>10,045</b>	<b>10,036</b>
<i>Adjustment to hedge accounting</i>	56	24	9	7	65	31
<b>Total, loans outstanding</b>	<b>8,040</b>	<b>7,747</b>	<b>2,048</b>	<b>2,291</b>	<b>10,110</b>	<b>10,067</b>

The total amount also includes EUR 21 million (28) in Baltic Investment Loans and EUR 0.7 million (0.1) in Environmental Investment Loans.

## Sector distribution

(Amounts in EUR million)

<i>Loans outstanding as of 31 December 2002</i>	<i>2002</i>		<i>2001</i>	
Manufacturing	<b>4,204</b>	<b>42 %</b>	4,283	43 %
Energy	<b>2,334</b>	<b>23 %</b>	2,176	22 %
Transport and communication	<b>1,592</b>	<b>16 %</b>	1,660	16 %
Trade and services	<b>656</b>	<b>6 %</b>	658	7 %
Bank and finance	<b>647</b>	<b>6 %</b>	598	6 %
Regional loans	<b>100</b>	<b>1 %</b>	133	1 %
Others	<b>513</b>	<b>5 %</b>	528	5 %
<i>Adjustment to hedge accounting</i>	<b>65</b>	<b>1 %</b>	31	0 %
<b>Total</b>	<b>10,110</b>	<b>100 %</b>	<b>10,067</b>	<b>100 %</b>

<i>Loans disbursed</i>	<i>2002</i>		<i>2001</i>	
Manufacturing	<b>550</b>	<b>33 %</b>	508	30 %
Energy	<b>492</b>	<b>30 %</b>	428	26 %
Transport and communication	<b>267</b>	<b>16 %</b>	264	16 %
Trade and services	<b>120</b>	<b>7 %</b>	212	13 %
Bank and finance	<b>116</b>	<b>7 %</b>	95	6 %
Regional loans	<b>11</b>	<b>1 %</b>	11	1 %
Others	<b>92</b>	<b>6 %</b>	143	9 %
<b>Total</b>	<b>1,648</b>	<b>100 %</b>	<b>1,661</b>	<b>100 %</b>

## 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)

<i>As of 31 December 2002</i>	<i>Amount</i>	<i>Share, in %</i>
Loans to or guaranteed by governments		
Loans to or guaranteed by member countries	<b>222<sup>1)</sup></b>	<b>2.2</b>
	<b>(2,022)<sup>2)</sup></b>	
Loans to or guaranteed by other countries	<b>1,529</b>	<b>15.2</b>
Loans to or guaranteed by local authorities in member countries	<b>322</b>	<b>3.2</b>
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries	<b>742</b>	<b>7.4</b>
Loans to or guaranteed by banks	<b>546</b>	<b>5.4</b>
Other loans		
backed by a lien or other security in property with a negative pledge clause and other covenants	<b>516</b>	
with a guarantee from the parent company and other guarantees	<b>4,518</b>	
	<b>1,626</b>	<b>6.6</b>
Loans without security	<b>58</b>	<b>0.6</b>
<b>Total</b>	<b>10,077</b>	<b>100.0</b>
<i>Adjustment to hedge accounting</i>	<b>65</b>	
<b>Total, loans outstanding (including guarantees)</b>	<b>10,142</b>	

<sup>1)</sup> NIB's member country guarantees exclusive of member country guarantees for the PIL lending facility (EUR 1,800 million).

<sup>2)</sup> Including member country guarantees for the PIL lending facility.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2001

	<i>Amount</i>	<i>Share, in %</i>
Loans to or guaranteed by governments		
Loans to or guaranteed by member countries	283 <sup>1)</sup>	2.8
	(2,083) <sup>2)</sup>	
Loans to or guaranteed by other countries	1,689	16.8
Loans to or guaranteed by local authorities in member countries	336	3.3
Loans to or guaranteed by companies owned 50% or more by member countries or local authorities in member countries	764	7.6
Loans to or guaranteed by banks	538	5.3
Other loans		
backed by a lien or other security in property	572	
with a negative pledge clause and other covenants	4,301	
with a guarantee from the parent company and other guarantees	1,531	
Loans without security	55	0.6
<b>Total</b>	<b>10,068</b>	<b>100.0</b>
<i>Adjustment to hedge accounting</i>	31	
<b>Total, loans outstanding (including guarantees)</b>	<b>10,099</b>	

<sup>1)</sup> NIB's member country guarantees exclusive of member country guarantees for the PIL lending facility (EUR 1,800 million).

<sup>2)</sup> Including member country guarantees for the PIL lending facility.

The member countries guarantee PIL up to the following amounts as of 31 December 2002:  
(Amounts in EUR 1,000)

<i>Member country</i>	<i>Amount of guarantee</i>	<i>Share, in %</i>
Denmark	391,225	21.7
Finland	357,094	19.8
Iceland	16,139	0.9
Norway	340,991	19.0
Sweden	694,551	38.6
<b>Total</b>	<b>1,800,000</b>	<b>100.0</b>

The member country guarantees for the Baltic Investment Loans (BIL) as of 31 December 2002 are distributed as follows:  
(Amounts in EUR 1,000)

<i>Member country</i>	<i>Amount of guarantee</i>	<i>Share, in %</i>
Denmark	13,380	22.3
Finland	11,700	19.5
Iceland	630	1.0
Norway	11,340	18.9
Sweden	22,950	38.3
<b>Total</b>	<b>60,000</b>	<b>100.0</b>

The member countries' guarantees for special Environmental Investment Loans (MIL) on 31 December 2002 are distributed as follows:

(Amounts in EUR 1,000)

<i>Member country</i>	<i>Amount of guarantee</i>	<i>Share, in %</i>
Denmark	24,000	24.0
Finland	16,600	16.6
Iceland	1,100	1.1
Norway	19,500	19.5
Sweden	38,800	38.8
<b>Total</b>	<b>100,000</b>	<b>100.0</b>

#### **(9) INTANGIBLE AND TANGIBLE ASSETS**

As of 31 December 2002, the historical cost for buildings and land was recognised in the Balance Sheet, net of depreciation on the buildings in accordance with the depreciation plan, at EUR 31.0 million (31.7). Shares providing ownership rights in connection with employee housing accommodation and other shares and holdings have a Balance Sheet value of EUR 1.1 million (1.0). The value of furniture and fixtures and other movable assets is recorded at EUR 1.9 million (2.4). No computer software included in intangible assets has been written down during 2002 (2.6).

#### **(10) DEPRECIATIONS AND WRITE-DOWNS**

(Amounts in EUR 1,000)

	<i>2002</i>	<i>2001</i>
Intangible assets	<b>438</b>	2,159
Tangible assets		
Buildings	<b>670</b>	670
Office equipment	<b>1,192</b>	1,429
<b>Total</b>	<b>2,300</b>	<b>4,259</b>

#### **(11) OTHER ASSETS**

(Amounts in EUR million)

	<i>2002</i>	<i>2001</i>
Derivatives are included in Other assets:		
Floating interest rates, nominal amount	<b>5,928</b>	5,852
Fixed interest rates, nominal amount	<b>11,013</b>	10,022
<b>Total, nominal amount</b>	<b>16,941</b>	<b>15,874</b>
Netting of nominal amount per derivative	<b>-16,593</b>	-15,478
<b>Derivative receivables, net <sup>1)</sup></b>	<b>348</b>	<b>396</b>
<i>Adjustment to hedge accounting and changes in value of unhedging derivatives</i>	<b>813</b>	444
<b>Derivatives</b>	<b>1,161</b>	<b>840</b>
Other	<b>5</b>	5
<b>Total</b>	<b>1,166</b>	<b>845</b>

<sup>1)</sup> Includes capitalised swap fees.

Derivatives are carried at fair value in the Balance Sheet net per contract. Derivatives with a positive net fair value are reported under Other assets.

## NOTES TO THE FINANCIAL STATEMENTS

### (12) OUTSTANDING DEBTS EVIDENCED BY CERTIFICATES AND SWAPS

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

(Amounts in EUR million)

Currency	Borrowing		Swap contracts payable/receivable		Net currency	
	2002	2001	2002	2001	2002	2001
Nordic currencies	1,492	1,545	1,102	1,025	2,593	2,571
EUR	1,276	1,376	3,799	2,259	5,075	3,635
USD	2,925	1,643	1,658	4,143	4,582	5,786
JPY	2,139	2,182	-2,080	-2,105	59	77
GBP	2,615	2,773	-2,597	-2,790	18	-16
HKD	796	1,088	-796	-1,088	-	-
Other currencies	893	1,008	-850	-959	43	49
<b>Total</b>	<b>12,134</b>	<b>11,616</b>	<b>235</b>	<b>486</b>	<b>12,370</b>	<b>12,102</b>
<i>Adjustment to hedge accounting and changes in value of</i>						
<i>unhedging derivatives</i>	1,016	682	-959	-658	57	24
Swap fees	-	-	144	51	144	51
<b>Total, borrowings outstanding</b>	<b>13,150</b>	<b>12,298</b>	<b>-580</b>	<b>-122</b>	<b>12,570</b>	<b>12,176</b>

The table set forth above includes 224 (192) borrowing transactions in the equivalent amount of EUR 8,877 million (8,676) entered into under the Bank's euro medium-term note programme, 8 (9) borrowing transactions in the equivalent amount of EUR 234 million (230) under the Bank's Swedish medium-term note programme, and 1(0) borrowing transaction in the equivalent amount of EUR 954 million (0) under the Bank's US medium-term note programme. The Bank has established a USD 600 million commercial paper programme in Europe and another USD 600 million programme in the United States.

Of debt securities issued, EUR 1,869 million (2,363) are at floating interest rates, while EUR 9,984 million (9,036) are at fixed interest rates. Other borrowing transactions, EUR 281 million (260), are at fixed interest rates. As of 31 December 2002 the Bank had entered into agreements for future borrowings of EUR 272.6 million (23.4) in the form of 9 (1) borrowing transactions having an average maturity of 10.4 years (29.0). The agreements were denominated in JPY, TWD, USD, and NOK.

### (13) OTHER LIABILITIES

(Amounts in EUR million)

	2002	2001
Derivatives are included in Other liabilities:		
Floating interest rates, nominal amount	15,758	14,861
Fixed interest rates, nominal amount	1,419	1,498
<b>Total, nominal amount</b>	<b>17,177</b>	<b>16,359</b>
Netting of nominal amount per derivative	-16,451	-15,427
<b>Derivative payables, net <sup>1)</sup></b>	<b>726</b>	<b>932</b>
<i>Adjustment to hedge accounting and changes in value of unhedging derivatives</i>	-144	-214
<b>Derivatives</b>	<b>582</b>	<b>718</b>
Other	4	5
<b>Total</b>	<b>586</b>	<b>722</b>

<sup>1)</sup> Including swap fees.

Derivatives are carried at fair value in the Balance Sheet net per contract. Derivatives with a negative net fair value are reported under Other liabilities.

#### (14) AUTHORISED CAPITAL—PAID-IN CAPITAL

The member countries have subscribed to the following amounts of the Bank's authorised capital:  
(Amounts in EUR million)

<i>Member country</i>	<i>2002</i>	<i>Share, in %</i>	<i>2001</i>	<i>Share, in %</i>
Denmark	881.1	22.0	881.1	22.0
Finland	765.8	19.2	765.8	19.2
Iceland	38.6	1.0	38.6	1.0
Norway	793.1	19.8	793.1	19.8
Sweden	1,521.4	38.0	1,521.4	38.0
<b>Total</b>	<b>4,000.0</b>	<b>100.0</b>	<b>4,000.0</b>	<b>100.0</b>

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

<i>Member country</i>	<i>2002</i>	<i>Share, in %</i>
Denmark	89.2	22.1
Finland	74.4	18.4
Iceland	3.9	1.0
Norway	77.1	19.1
Sweden	159.5	39.5
<b>Total</b>	<b>404.3</b>	<b>100.0</b>

#### (15) STATUTORY RESERVE

At year-end 2001, the Statutory reserve amounted to EUR 529.4 million. From the profit of fiscal year 2001 EUR 24.5 million was transferred to the Statutory reserve. At the end of 2002, the Statutory reserve amounted to EUR 554.0 million, or 13.8 % of the Bank's authorised capital. The Board of Directors is proposing that EUR 91.0 million of the profit from fiscal year 2002 be appropriated to the Statutory reserve.

#### (16) CREDIT RISK RESERVES

The Credit risk reserves, which are reported as a separate item in Equity in the Balance Sheet, are meant to cover exceptional, and as yet unidentified, credit losses. These reserves include the Bank's general credit risk reserve and consist of appropriations transferred from previous years' profits.

At the end of 2002, the General credit risk reserve amounted to EUR 327.0 million. The Board of Directors is proposing to allocate EUR 10.0 million to the General credit risk reserve.

In accordance with section 6A of the Statutes, the Bank has established a separate Loan Loss Reserve in respect of exceptional, and as yet unidentified risks in the Bank's Project Investment Loan activities, to primarily cover the Bank's own share of the risk. This reserve amounted to EUR 98.2 million in 2002.

In addition, the Bank has built up a reserve of EUR 4.0 million as part of equity for the HIPC programme (Debt Initiative for Heavily Indebted Poor Countries). The Board of Directors is proposing to allocate EUR 0.3 million of the year's profit to this reserve.

Taken together, these credit risk reserves amount to 429.2 million on 31 December 2002.

## NOTES TO THE FINANCIAL STATEMENTS

### (17) OFF-BALANCE SHEET COMMITMENTS

As of 31 December 2002 the Bank had entered into the following off balance sheet commitments:  
(Amounts in EUR million)

	<b>2002</b>	<b>2001</b>
Guarantees issued (note 8)	<b>32</b>	33
Loans agreed but not yet disbursed (note 8)	<b>1,093</b>	1,158
Borrowing commitments	<b>273</b>	23
Subscription to shares in the European Investment Fund, unpaid portion	<b>4</b>	4

### (18) FAIR VALUE OF FINANCIAL INSTRUMENTS

(Amounts in EUR million)

	<b>2002</b>				<b>2001</b>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Fair value</i>
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>
<b>Assets</b>						
Cash and cash equivalents	<b>3,227</b>	<b>3,227</b>	-	2,821	2,821	-
Placements with credit institutions	<b>100</b>	<b>101</b>	<b>1</b>	74	74	-
Debt securities	<b>970</b>	<b>1,019</b>	<b>49</b>	830	856	26
Other financial placements	<b>6</b>	<b>6</b>	-	8	8	-
Loans outstanding	<b>10,110</b>	<b>10,133</b>	<b>23</b>	10,067	10,078	11
Derivatives, net	<b>1,161</b>	<b>1,161</b>	-	840	840	-
			<b>73</b>			<b>37</b>
<b>Liabilities</b>						
Short-term amounts owed to credit institutions	<b>281</b>	<b>281</b>	-	180	180	-
Long-term amounts owed to credit institutions	<b>100</b>	<b>101</b>	<b>1</b>	74	74	-
Debts securities issued	<b>12,850</b>	<b>12,853</b>	<b>3</b>	12,011	12,013	2
Other debt	<b>299</b>	<b>299</b>	-	286	286	-
Derivatives, net	<b>582</b>	<b>582</b>	-	718	718	-
			<b>4</b>			<b>2</b>
<b>Net</b>			<b>69</b>			<b>35</b>

## (19) MATURITY PROFILE

(Amounts in EUR million)

The table set forth below presents assets and liabilities according to their remaining maturities, calculated from closing date to maturity date. The possibility of early repayment 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 recorded under the column undefined. See also notes 11 and 13.

	0-6 months	6-12 months	1-5 years	5-10 years	More than 10 years	Unde- fined	Total
<b>Assets</b>							
Cash and cash equivalents	1,422	92	1,572	142	-	-1	<b>3,227</b>
Financial placements							
Placements with credit institutions	63	38	-	-	-	-	<b>100</b>
Debt securities	99	-	481	282	98	11	<b>970</b>
Other	-	-	-	-	-	6	<b>6</b>
	161	38	481	282	98	17	<b>1,077</b>
Loans outstanding	609	556	4,395	3,870	615	65	<b>10,110</b>
Intangible assets	-	-	-	-	-	2	<b>2</b>
Tangible assets	-	-	-	-	-	34	<b>34</b>
Other assets							
Derivatives							
Receivables <sup>1)</sup>	771	632	3,061	1,267	1,094	813	<b>7,638</b>
Payables	-724	-580	-2,948	-1,257	-968	-	<b>-6,477</b>
	47	51	114	10	126	813	<b>1,161</b>
Other assets	-	-	-	-	-	5	<b>5</b>
Accrued interest and fees							
receivable	-	-	-	-	-	332	<b>332</b>
<b>Total assets</b>	<b>2,239</b>	<b>737</b>	<b>6,562</b>	<b>4,304</b>	<b>839</b>	<b>1,268</b>	<b>15,948</b>
	0-6 months	6-12 months	1-5 years	5-10 years	More than 10 years	Unde- fined	Total
<b>Liabilities and equity</b>							
Liabilities							
Amounts owed to credit institutions							
Short-term	281	-	-	-	-	-	<b>281</b>
Long-term	63	38	-	-	-	-	<b>100</b>
	343	38	-	-	-	-	<b>381</b>
Debts evidenced by certificates	1,157	761	5,767	2,498	1,951	1,016	<b>13,150</b>
Other liabilities							
Derivatives							
Receivables	-546	-576	-4,617	-2,969	-1,266	-144	<b>-10,117</b>
Payables	583	615	4,931	3,163	1,407	-	<b>10,699</b>
	36	40	315	195	141	-144	<b>582</b>
Other liabilities	-	-	-	-	-	4	<b>4</b>
Accrued interest and fees payable							
	-	-	-	-	-	291	<b>291</b>
<b>Total liabilities</b>	<b>1,537</b>	<b>838</b>	<b>6,082</b>	<b>2,693</b>	<b>2,092</b>	<b>1,166</b>	<b>14,408</b>
Equity	-	-	-	-	-	1,540	<b>1,540</b>
<b>Total liabilities and equity</b>	<b>1,537</b>	<b>838</b>	<b>6,082</b>	<b>2,693</b>	<b>2,092</b>	<b>2,706</b>	<b>15,948</b>
Net during the period	702	-101	481	1,611	-1,253	-1,440	-
Cumulative net during the period	702	600	1,081	2,692	1,440	-	-

<sup>1)</sup> Including swap fees.

## NOTES TO THE FINANCIAL STATEMENTS

### (20) AVERAGE BALANCE SHEET

(Amounts in EUR million)

	2002
<b>Assets</b>	
Cash and cash equivalents	2,896
Financial placements	
Placements with credit institutions	83
Debt securities	872
	955
Loans outstanding	10,021
Intangible assets	2
Tangible assets	35
Other assets	
Derivatives	919
Other assets	28
	947
Accrued interest and fees receivable	369
<b>Total assets</b>	<b>15,225</b>
<b>Liabilities and equity</b>	
<i>Liabilities</i>	
Amounts owed to credit institutions	
Short-term amounts owed to credit institutions	242
Long-term amounts owed to credit institutions	83
	325
Debts evidenced by certificates	
Debt securities issued	12,213
Other debt	282
	12,495
Other liabilities	
Derivatives	573
Other liabilities	8
	582
Accrued interest and fees payable	331
<b>Total liabilities</b>	<b>13,733</b>
<i>Equity</i>	
Paid-in capital	404
Statutory Reserve	550
Credit risk reserves	428
Other value adjustments	32
Profit for the year	77
<b>Total equity</b>	1,492
<b>Total liabilities and equity</b>	<b>15,225</b>

The average Balance Sheet is calculated on a monthly basis.

## (21) CASH FLOW STATEMENT

(Amounts in EUR 1,000)

	2002	2001
Profit for the year	141,631	130,720
Amortisation of issuing charges	9,254	10,674
Market value adjustment, trading portfolio	-12,315	3,746
Depreciation and write-down in value of tangible and intangible assets	2,300	4,259
Change in accrued interest and fees (assets)	44,633	67,652
Change in accrued interest and fees (liabilities)	-52,346	-59,690
Provision for possible loan losses	3,475	390
Adjustment to hedge accounting and changes in value of unhedging derivatives	4	2,719
Other adjustments to the year's profit	665	-
<b>Cash flow from operating activities</b>	<b>137,300</b>	<b>160,470</b>

Specification of the change in cash and cash equivalents on 31 December:

(Amounts in EUR 1,000)

	2002	2001
Cash and balances with banks	5,651	7,630
Placements with credit institutions for less than 6 months	1,387,804	1,029,359
Liquid debt securities at floating interest rates	1,833,851	1,784,122
<b>Cash and cash equivalents</b>	<b>3,227,307</b>	<b>2,821,111</b>
Amounts owed to credit institutions for less than 6 months	-280,749	-180,075
<b>Net liquidity</b>	<b>2,946,558</b>	<b>2,641,036</b>
<b>Change in net liquidity</b>	<b>305,521</b>	<b>-271,965</b>

## (22) EXCHANGE RATES

	EUR-rate on 31 Dec 2002	EUR-rate on 28 Dec 2001
DKK Danish krone	7.4288	7.4365
ISK Icelandic krona	84.74	91.48
NOK Norwegian krone	7.2756	7.9515
SEK Swedish krona	9.1528	9.3012
AUD Australian dollar	1.8556	1.728
CAD Canadian dollar	1.6550	1.4077
CHF Swiss franc	1.4524	1.4829
CZK Czech koruna	31.577	31.962
EEK Estonian kroon	15.6466**	15.6466**
GBP British pound	0.6505	0.6085
HKD Hong Kong dollar	8.1781	6.8723
JPY Japanese yen	124.39	115.33
LVL Latvian lat	0.6140	0.5563
NZD New Zealand dollar	1.9975	2.1215
PLN Polish zloty	4.0210	3.4953
SDR Special drawing right	0.77408*	0.70475*
SGD Singapore dollar	1.8199	1.6306
SKK Slovakian koruna	41.503	42.78
TWD Taiwanese dollar	36.33226*	30.92726*
USD United States dollar	1.0487	0.8813
ZAR South African rand	9.0094	10.4302

\* The exchange rate is calculated from the market rate for USD/relevant currency providing the EUR/relevant currency rate.

\*\* Fixed exchange rate to the euro.

### To the Control Committee of the Nordic Investment Bank

In our capacity as auditors appointed by the Control Committee of the Nordic Investment Bank we have audited the Financial Statements, the accounting records and the administration of the Bank, for the year 2002. The Board of Directors and the President are responsible for the accounting documents as well as the administration. Based on our audit it is our responsibility to express an opinion on the Financial Statements and the administration of the Bank.

Our audit was conducted in accordance with International Standards on Auditing as issued by the International

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

In our opinion the Financial Statements give a true and fair view of the financial position of the Nordic Invest-

ment Bank as at 31 December 2002 and of the results of its operations and its cash flows in 2002 in accordance with International Accounting Standards as adopted by the International Accounting Standards Board. It is also our opinion that the administration of the Board of Directors and the President complied with the Statutes of the Bank.

Helsinki, 7 March 2003

#### **Kristian Hallbäck**

Authorised Public Accountant  
Ernst & Young, Helsinki

#### **Torbjörn Hanson**

Authorised Public Accountant  
Ernst & Young, Stockholm

### To the Nordic Council of Ministers

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 13 of the Statutes of the Nordic Investment Bank we have been appointed to control the operations of the Bank and to be responsible for the auditing of the Bank's accounts. After having completed our assignment for the year 2002, 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. Control and examination measures considered necessary were then performed. The Annual Report of the Bank was

examined at a meeting in Helsinki on 7 March 2003. In carrying out its tasks, the Control Committee received such information and carried out such examination measures as it deemed necessary to assess the Bank's position in regard to its risks. We have also received the Auditors' Report, submitted on 7 March 2003 by the authorised public accountants appointed by the Control Committee.

Following our audit, we note that:

- The Bank's operations during the financial year have been conducted in accordance with the Statutes, and that
- The Financial Statements give a true and fair view of the financial position of the Bank as at 31 December 2002 and of its results and financing in 2002. The Profit and Loss Account

shows a profit of EUR 141,630,621.06 for the financial period.

We recommend to the Nordic Council of Ministers that:

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

Helsinki, 7 March 2003

#### **Bjarne Mørk-Eidem**

**Bill Fransson**

**Trond Helleland**

**Elver Jonsson**

**Per Kaalund**

**Markku Markkula**

**Ísólfur Gylfi Pálmason**

**Riitta Prusti**

**Gitte Seeberg**

**Guðmundur Snorrason**

## CONTROL COMMITTEE

The Control Committee ascertains that the Bank's operations are carried out in accordance with its Statutes. The Committee is responsible for the audit of the Bank and provides an annual Auditor's Report to the Nordic Council of Ministers.

The Control Committee consists of ten members, who are appointed for a maximum period of two years. One representative

for each Nordic country is appointed by the Nordic Council of Ministers and five representatives by the Nordic Council.

The Control Committee usually meets twice a year, in connection with the drawing up of the Bank's interim and annual financial statements. As of 1 March 2003 the Control Committee consists of the following members:

**DENMARK** **Gitte Seeberg** Member of Parliament  
**Per Kaalund** Member of Parliament

**FINLAND** **Riitta Prusti** Member of Parliament  
**Markku Markkula** Member of Parliament

**ICELAND** **Ísólfur Gylfi Pálmason** Member of Parliament  
**Guðmundur Snorrason** Authorised Public Accountant

**NORWAY** **Bjarne Mørk-Eidem** Auditor General  
(Chairman of the Control Committee 02/03)  
**Trond Helleland** Member of Parliament

**SWEDEN** **Bill Fransson** Managing Director  
(Chairman of the Control Committee 03/04)  
**Elver Jonsson** Chairman of the Municipal Executive Board, Alingsås

### AUDITORS APPOINTED BY THE CONTROL COMMITTEE

**Kristian Hallbäck** Authorised Public Accountant, Ernst & Young, Helsinki  
**Torbjörn Hanson** Authorised Public Accountant, Ernst & Young, Stockholm

**Per-Olof Johansson** Authorised Public Accountant, Ernst & Young, Helsinki  
**Secretary to the Control Committee**

## BOARD OF DIRECTORS

The Board of Directors exercises all of the Bank's powers, but to the extent it is deemed practical, may delegate them to the Bank's President. The Board adopts decisions in matters that involve lending, borrowing and administrative questions.

The Board consists of ten members. Each member country

appoints two Board members for a maximum period of four years. Two alternates are likewise appointed. The positions of Chairman and Deputy Chairman rotate among the member government representatives for a period of two years.

The Board of Directors usually meets eight times a year.

### DENMARK



**Ib Katznelson**  
from 1 June 1996,  
Deputy Secretary,  
Ministry of Economic  
and Business Affairs



**Lars Kolte**  
from 1 Aug 2002,  
Managing Director,  
Danish Export Credit  
Agency  
(Lars Tybjerg, until 31  
July 2002, Deputy  
Permanent Secretary,  
Ministry of Economic  
and Business Affairs)

#### Alternates:

**Hans Denkov**  
Assistant Director,  
Danmarks  
Nationalbank  
**William Friis-Møller**  
Ambassador

### FINLAND



**Bo Göran Eriksson**  
from 1 April 1998,  
Director General,  
Ministry of Trade  
and Industry



**Seppo Suokko**  
from 1 Dec 1996,  
Deputy Director  
General, Ministry of  
Finance

#### Alternates:

**Tytti Noras**  
Legal Counsellor,  
Ministry of Finance  
**Risto Paermaa**  
Deputy Director  
General, Ministry of  
Trade and Industry

### ICELAND



**Bolli Thór Bollason**  
from 1 June 2002,  
Director General, Ministry  
of Finance (Deputy  
Chairman of the Board)  
(Guðmundur Magnússon  
until 31 May 2002,  
Professor, University of  
Iceland)



**Thorsteinn Ólafsson**  
from 1 July 1996,  
Deputy Chairman of  
the Board,  
Búnaðarbanki Íslands

#### Alternates:

**Páll Magnússon**  
Assistant to the Minister, Ministry of  
Trade and Industry  
(Steingrímur A. Arason  
until 31 Dec 2002, Director General,  
The Government Student Loan Fund)  
**Ragnheiður E. Árnadóttir**  
from 1 Jan 2003, Political Advisor to  
the Minister of Finance, Ministry of  
Finance

### NORWAY



**Eli Telhaug**  
from 1 June 1998,  
Director General,  
Ministry of Finance



**Arild Sundberg**  
from 1 June 1996,  
Director General,  
National Insurance  
Administration

#### Alternates:

**Kari Gjestebý**  
Acting National Librarian, National  
Library of Norway  
(Geir Axelsen  
until 31 Oct 2002, Assistant Director  
General, Ministry of Finance)

**Peter Reine**  
from 1 Nov 2002, Deputy Director  
General, Ministry of Finance

### SWEDEN



**Sven Hegelund**  
until 31 Jan 2003,  
State Secretary,  
Ministry of Finance  
(Chairman of the  
Board)



**Bo Marking**  
from 1 June 1996,  
Director

#### Alternates:

**Jan Landahl**  
Deputy Auditor General,  
The Swedish National  
Audit Office

**Lena Rooth**  
Manager, International  
Financial Services,  
Swedish Trade Council



**Claes de Neergaard**  
from 1 Feb 2003,  
Director  
(Chairman of the  
Board)

## MANAGEMENT COMMITTEE



**Jón Sigurðsson**  
President and CEO  
Joined NIB in 1994. B.A., Stockholm University; M.Sc.Econ., London School of Economics and Political Science.



**Carl Löwenhielm**  
Executive Vice President  
Head of the Nordic Lending Department. Joined NIB in 1996. MBA, Stockholm School of Economics.



**Erkki Karmila**  
Executive Vice President  
Head of the International Lending Department. Joined NIB in 1993. Licentiate in Law, University of Turku; Master of Laws, Harvard



**Bo Heide-Ottosen**  
Executive Vice President, CFO and Treasurer  
Head of the Finance Department. Responsible for Accounting, Budgeting and IT. Joined NIB in 1997. Cand.oecon, University of Århus; SEP, Stanford University; PED, IMD.



**Siv Hellén**  
Senior Vice President  
General Counsel.  
Joined NIB in 1977. LL.M., University of Helsinki; eMBA, Helsinki School of Economics and Business Administration.



**Oddvar Sten Rønsen**  
Senior Vice President  
Head of the Appraisal Department. Responsible for Financial Administration and Planning, and heads the project organisation for environmental financing within the Northern Dimension. Joined NIB in 1993. B.A. (Econ.) Hon., Manchester University; M. Sc., Warwick University Graduate Business School, England.



**Juha Kotajoki**  
Senior Vice President  
Head of the Risk Management Department. Responsible for Personnel and Office. Joined NIB in 1986. B.A., University of Turku.

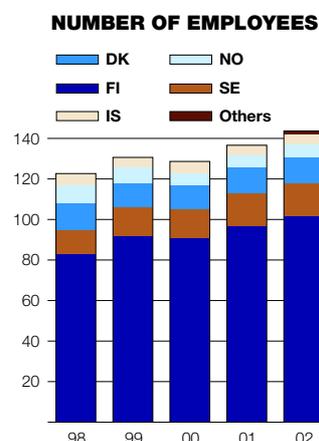
## PERSONNEL

At year-end 2002 the number of employees was 144, 71 women and 73 men. The nationality breakdown is shown in the figure beside. The average age of the personnel was 43 years and the average length of service 8.5 years.

The Bank has a Cooperation Committee tasked with developing working conditions and streamlining the interaction between employer and employees. The Committee met six times in 2002. During the year the renewal of NIB's staff rules and regulations continued and

resulted in a Code of Conduct for the personnel as well as updated Staff Rules.

In-house management training around the theme communication and leadership continued during the year. The Bank's other training activities continued actively as well. The average number of training days per person was 8.6. This figure includes both in-house and external training. Themes for the annual seminar for the personnel were IT and IT security.



# NIB's ORGANISATION

## PRESIDENT AND CEO

Jón Sigurðsson

## SUPPORTING DEPARTMENTS

<b>Accounting and Budgeting</b>	Stina Kontro
<b>Appraisal Department and project organisation for the Northern Dimension Financial Administration and Planning</b>	Oddvar Sten Rønsen (Member of the Management Committee)
<b>General Counsel's Office</b>	Christer Björklund
<b>Information and PR</b>	Siv Hellén (Member of the Management Committee)
<b>Information Technology</b>	Jamima Löfström
<b>Internal Auditing</b>	Seija Hallavo
<b>Personnel and Office</b>	Martin Gardberg
<b>Risk Management</b>	Christer Boije
	Juha Kotajoki (Member of the Management Committee)

## NORDIC DEPARTMENT

	Carl Löwenhielm (Member of the Management Committee)
<b>Denmark</b>	Per Klaumann
<b>Finland</b>	Lars Selenius
<b>Iceland</b>	Thór Sigfússon
<b>Norway</b>	Lars Fuglesang
<b>Sweden</b>	Lars Norén
<b>Credit Unit</b>	Kenneth Grönholm
<b>Nordic Legal Matters</b>	Ann Damström

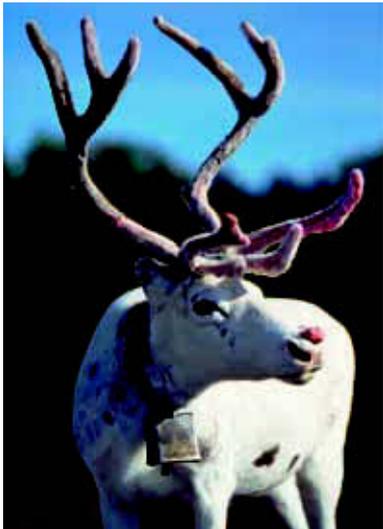
## INTERNATIONAL DEPARTMENT

	Erkki Karmila (Member of the Management Committee)
	Lars-Åke Olsson (Deputy Head of the Department)
<b>Africa and the Middle East</b>	Jørgen D. Ilsoe
<b>Asia</b>	Søren Kjær Mortensen
<b>Baltic Countries and Poland</b>	Lauri Johnson
<b>Central and Eastern Europe</b>	Martin Relander
<b>Latin America</b>	Lars-Åke Olsson
<b>Private Sector Financing</b>	Tarja Kylänpää
<b>Credit Unit</b>	Liisa Niemelä
<b>International Legal Matters</b>	Mirja Koskimäki, Klaus Stubkjær, Ebbe Thalín

## FINANCE DEPARTMENT

	Bo Heide-Ottosen (Member of the Management Committee)
	Torben Nielsen (Deputy Head of the Department)
<b>Funding</b>	Kari Kukka
<b>Portfolio Management</b>	Torben Nielsen
<b>Financial Analysis Support</b>	Kaare Guttorm Andersen
<b>Financial Legal Matters</b>	Sten Holmberg, Pernelle Skytte

For updates and details about NIB's personnel, please visit [www.nib.int](http://www.nib.int)



## LONG-TERM BORROWING 2002

Currency	Amount (million)	Amount EUR (million)	Issue price	Coupon rate %		Maturity/ Year	Leading/Arranging Bank
<b>PUBLIC SYNDICATED BOND ISSUES</b>							
TWD	5,000	160	100.000 %	2.60-3.00%		2005-8	Citibank Securities (Taiwan) Ltd
USD	1,000	954	99.767 %	2.75 %		2006	Goldman Sachs International & Salomon Smith Barney
<b>OTHER LISTED BORROWINGS</b>							
USD	20	23	99.990 %	6.210 %	2)	2022	Bank of America Asia Ltd
USD	20	23	100.000 %	6.185 %	2)	2022	Salomon Brothers International Ltd
SEK	400	44	99.939 %	5.250 %		2006	Den Danske Bank
USD	20	23	100.000 %	6.250 %	2)	2022	Salomon Brothers International Ltd
USD	10	11	100.000 %	0.000 %	2) 4)	2022	Morgan Stanley & Co Int. Ltd
USD	73	20	27.120 %	0.000 %	2)	2022	Bank of America Asia Ltd
ZAR	150	16	99.745 %	12.000 %		2007	Royal Bank of Canada Europe Ltd
ISK	3,000	35	93.660 %	4.750 %	5)	2017	Búnaðarbanki Íslands
USD	174	25	14.372 %	0.000 %	2)	2032	Salomon Brothers International Ltd
NOK	400	55	101.305 %	6.250 %		2007	Deutsche Bank
<b>OTHER BORROWINGS</b>							
JPY	2,700	24	100.00 %	FRN	1) 2) 3)	2031	Merrill Lynch International
CAD	50	37	99.520 %	3.500 %		2004	The Toronto-Dominion Bank
JPY	5,500	47	100.500 %	PRDC	1) 2) 3)	2032	Daiwa Securities SMBC Europe Ltd
JPY	1,300	11	100.000 %	PRDC	1) 2) 3)	2027	Kokusai Europe Ltd
JPY	2,900	25	100.000 %	PRDC	1) 2) 3)	2032	Merrill Lynch International
USD	20	23	100.000 %	6.230 %	2)	2022	The Toronto-Dominion Bank
JPY	1,500	13	100.500 %	PRDC	1) 2) 3)	2032	Daiwa Securities SMBC Europe Ltd
JPY	1,200	10	100.000 %	PRDC	1) 2) 3)	2027	Kokusai Europe Ltd
AUD	40	24	100.000 %	4.800 %		2005	Mizuho International Plc
JPY	1,200	10	100.000 %	FRN	1) 2) 3)	2032	Salomon Brothers International Ltd
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2027	Salomon Brothers International Ltd
JPY	1,000	9	100.500 %	FRN	1) 2) 3)	2022	Nomura International Ltd
JPY	2,000	17	100.000 %	FRN	1) 2) 3)	2017	Salomon Brothers International Ltd
EUR	100	100	100.000 %	4.200 %		2007	Daiwa Securities SMBC Europe Ltd
HKD	1,000	147	100.000 %	5.250 %		2007	HSBC
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Morgan Stanley & Co Int. Ltd
JPY	2,200	19	100.000 %	FRN	1) 2) 3)	2032	Merrill Lynch International
JPY	1,400	12	100.700 %	FRN	1) 2) 3)	2032	Nomura International Ltd
JPY	1,000	9	100.500 %	FRN	1) 2) 3)	2022	Nomura International Ltd
JPY	1,000	9	100.500 %	FRN	1) 2) 3)	2032	Daiwa Securities SMBC Europe Ltd
JPY	1,300	11	100.000 %	FRN	1) 2) 3)	2022	Kokusai Europe Ltd
JPY	1,700	15	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
JPY	1,700	15	100.000 %	FRN	1) 2) 3)	2032	Merrill Lynch International
JPY	2,000	17	100.000 %	FRN	1) 2) 3)	2032	Morgan Stanley & Co Int. Ltd
JPY	1,400	12	100.000 %	FRN	1) 2) 3)	2032	Kokusai Europe Ltd
JPY	1,200	10	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
USD	103	114	100.000 %	4.550 %		2006	Mizuho International Plc
AUD	134	80	100.000 %	5.740 %		2006	Mizuho International Plc
EUR	5	5	100.000 %	4.290 %		2006	Mizuho International Plc
JPY	1,100	10	100.000 %	FRN	1) 2) 3)	2032	Merrill Lynch International
JPY	1,300	11	100.000 %	FRN	1) 2) 3)	2032	Salomon Brothers International Ltd
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Morgan Stanley & Co Int. Ltd
JPY	1,100	10	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2022	Kokusai Europe Ltd

JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Nomura International Ltd
JPY	2,200	19	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
JPY	1,200	10	100.000 %	FRN	1) 2) 3)	2032	Merrill Lynch International
JPY	5,000	43	100.000 %	FRN	1) 3)	2014	BNP Paribas/Yasuda Life
JPY	1,100	9	100.000 %	FRN	1) 2) 3)	2027	Nomura International Ltd
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Nomura International Ltd
JPY	2,000	17	100.000 %	FRN	1) 2) 3)	2032	Tokyo-Mitsubishi International
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Kokusai Europe Ltd
JPY	3,000	25	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
JPY	1,100	9	100.000 %	FRN	1) 2) 3)	2032	Nomura International Ltd
JPY	2,000	17	100.000 %	FRN	1) 2) 3)	2032	Merrill Lynch International
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Salomon Brothers International Ltd
JPY	2,000	17	100.000 %	FRN	1) 2) 3)	2027	Kokusai Europe Ltd
JPY	1,000	9	100.500 %	FRN	1) 2) 3)	2027	Daiwa Securities SMBC Europe Ltd
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2027	Nomura International Ltd
JPY	1,400	12	100.000 %	FRN	1) 2) 3)	2032	JPMorgan Securities Ltd
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
USD	50	51	100.000 %	3.650 %		2006	Tokyo-Mitsubishi International Plc
EUR	50	50	100.000 %	3.950 %		2006	Tokyo-Mitsubishi International Plc
JPY	1,000	9	100.000 %	FRN	1) 2) 3)	2032	Mizuho International Plc
JPY	1,000	9	100.000 %	FRN	1) 2) 6)	2032	Deutsche Bank AG
JPY	3,200	28	100.000 %	FRN	1) 2) 3)	2032	Tokyo-Mitsubishi International
AUD	20	11	72.440 %	0.500 %		2009	Mizuho International Plc
AUD	45	25	100.000 %	4.960 %		2007	Mizuho International Plc
EUR	10	10	100.000 %	3.390 %		2007	Mizuho International Plc
USD	142	102	71.000 %	0.500 %		2012	UFJ International Plc
AUD	25	14	100.000 %	4.700 %		2005	UFJ International Plc
JPY	1,100	9	100.000 %	FRN	1)	2017	Mizuho International Plc
USD	84	12	14.699 %	0.000 %	2)	2032	Salomon Brothers International Ltd
JPY	1,000	8	100.000 %	FRN	1) 2) 6)	2032	Deutsche Bank AG
JPY	1,000	8	100.000 %	FRN	1) 2) 7)	2033	JPMorgan Securities Ltd
HKD	300	39	100.000 %	5.000 %		2012	HSBC Ltd
USD	196	128	68.600 %	0.500 %		2010	UFJ International Plc
PLN	100	25	98.815 %	5.500 %		2022	Bank of America Securities Ltd
JPY	1,000	8	100.000 %	FRN	1) 2) 3)	2032	Nomura International Ltd
USD	100	95	100.000 %	3.770 %		2009	Goldman Sachs International

1) Floating

2) Callable

3) Linked to JPY/USD rate

4) Redemption price substantially above par

5) Linked to Icelandic CPI index

6) Linked to JPY/AUD rate

7) Linked to JPY/EUR rate

## NORDIC LOANS 2002

### LOANS AGREED AND DISBURSED BY SECTOR

Loans agreed but not disbursed are included in the customer list but have not been quantified.

<i>Sector/Customer</i>	<i>Project</i>	<i>Disbursed EUR million</i>	<i>% of total disbursements</i>
<b>MANUFACTURING INDUSTRY</b>		<b>529.1</b>	<b>41.7 %</b>
<b>Food and drink industries</b>		<b>71.8</b>	<b>5.7 %</b>
Aarhus Oliefabrik A/S	Investments in energy conservation and anti-pollution		
Atria Oyj	Acquisition of pre-made food business in Sweden		
Huhtamäki Corporation	Investment in production facilities in Poland		
V&S Group	Company acquisition in Denmark		
<b>Wood, pulp and paper</b>		<b>122.0</b>	<b>9.6 %</b>
Billerud AB	Environmental investments at two papermills		
Myllykoski Corporation	Investment in de-inking plant in Germany		
Myllykoski Paper Oy	Environmental investment in papermill		
SCA Coordination Center N.V.	Acquisition of Finnish corrugated cardboard business		
UPM-Kymmene Corporation	Environmental investments in plants		
<b>Chemicals and minerals</b>		<b>27.9</b>	<b>2.2 %</b>
Preem Petroleum AB	Investment in propene facility and environmental investments		
Suominen Corporation	Investments to increase capacity in Poland		
<b>Metals</b>		<b>61.4</b>	<b>4.8 %</b>
AvestaPolarit Oyj Abp	Investment to increase productivity in cold rolling mill		
Imatra Steel Oy Ab	Modernisation of heavy rolling mill		
SSAB Swedish Steel AB	Environmental investments in coke plant		
<b>Engineering</b>		<b>246.0</b>	<b>19.4 %</b>
Alteams Oy	Company acquisition in Sweden		
Elekta AB	Research and development, products for radiosurgery and radiotherapy		
Haldex AB	Research and development, four-wheel drive and disc brakes		
Hexagon AB	Acquisition of six Nordic and Baltic companies		
Imatra Steel Oy Ab	Company acquisition in Scotland		
Instrumentarium Corporation	Company acquisition in the United States		
KONE Corporation	Research and development, lift technology		
Marel hf	Investment in business properties		
Metso Corporation	Investments to improve productivity		
NVP Systemair AS	Acquisition of property in Norway and investments in Estonia and Poland		
Oy Rettig Ab	Company acquisition in Austria		
Sapa AB	Investments in rolling mill		
Scania CV AB	Environmental investments in paint shops		
Wärtsilä Corporation	Acquisition of British group of companies		
<b>ENERGY AND MINERAL EXTRACTION</b>		<b>429.9</b>	<b>33.9 %</b>
Agder Energi AS	Investment in distribution network, power production and district heating		
Oy Alholmens Kraft Ab	Construction of the world's largest biofuelled power station		
Arctic Wind AS	Investment in wind power plant		
Bergenshalvøens Kommunale Kraftverk AS	Investment in power production, network and district heating		
DONG A/S	Company acquisition in Norway and investment in wind power		
E-Co Energi AS	Investment in hydro-power development		
Fortum Oil and Gas Oy	Acquisition of fortified all-weather oil tankers		

Järvi-Suomen Voima Oy	Construction of biofuelled power production plants adjoining veneer factories
Kemijoki Oy	Investment in new hydro-power station
Kymin Voima Oy	Investment in biofuelled power production plant adjoining papermill
Lyse Energi AS	Investment in electric power distribution and gas distribution networks
Norðurorka	Drilling for hot water and pipe-laying
Nova Naturgas AB	Expansion of natural gas network
Reykjavik Energy	Investments in electricity and heat supply
PVO-Innopower Oy	Construction of eight wind power plants on the west coast of Finland
RARIK	Investments in power distribution
SEAS Distribution A.m.b.a	Ground relocation of overhead cables
Vattenfall Treasury AB	Acquisition of power distribution company in Poland
Vestas Wind Systems A/S	Financing of deliveries and research and development of wind turbines
Viken Fjernvarme AS	Expansion of the district heating network, heating centrals and customer agencies
Wisapower Oy	Construction of power plant for basic energy supply adjoining a pulp mill
Østfold Energi AS	Investments in production facilities and refuse incineration

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<b>CONSTRUCTION</b>	<b>13.6</b>	<b>1.1 %</b>
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Municipality of Reykjavik	Harbour investment
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<b>TRADE AND SERVICES</b>	<b>67.2</b>	<b>5.3 %</b>
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Bifröst, School of Business	Financing of building construction
IKEA Capital B.V.	Investments in department stores in Finland and Sweden
Nokian Renkaat Oyj	Acquisition of Swedish retail dealer
Ramirent Plc	Company acquisition in Norway
Skeljungur hf	Investment in service stations

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<b>TRANSPORT AND COMMUNICATIONS</b>	<b>101.4</b>	<b>8.0 %</b>
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Finnlines Plc	Acquisition of Swedish shipping company
Keflavik Airport	Investment in new terminal building after joining the Schengen Treaty
Copenhagen Airports A/S	Reconstruction of terminal after joining the Schengen Treaty
The Maersk Company Limited	Acquisition of new ship
Skeljungur hf	Investment in road tankers

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<b>BANKING AND FINANCE</b>	<b>116.4</b>	<b>9.2 %</b>
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Aktia Savings Bank Plc	Credit line, SMEs and municipalities in Finland
Lánasjóður Sveitarfélaga	Credit line for onlending to municipalities in Iceland
Lantbrukarnas Ekonomi AB	Financing of investments in Finland, the Baltic countries and Poland
Ringkjøbing Landbobank A/S	Credit line, SMEs in Denmark
Sparbanken Finn	Credit line, SMEs in Sweden
Sparebanken Møre	Credit line, SMEs in Norway

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<b>REGIONAL LOANS</b>	<b>10.5</b>	<b>0.8 %</b>
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Byggðastofnun	Financing of the Fund's lending in Iceland
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<b>TOTAL NORDIC LOANS 2002</b>	<b>1,268.1</b>	<b>100.0 %</b>
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*Due to rounding, the total amount may differ from the sum total of the individual figures.*

## INTERNATIONAL LOANS 2002

			<i>Agreed</i>
			<i>EUR million</i>
<b>Africa and the Middle East</b>			
Egypt	Assiut Cement Company S.A.E	Loan for cement factory modernisation	13.4
Jordan	Hashemite Kingdom of Jordan	Supplementary loan for air safety project at Amman and Aqaba airports	0.8
South Africa	Infrastructure Finance Corporation (INCA)	Loan programme for investments in municipal infrastructure projects	10.2
South Africa	RMB International. Dublin Ltd. (Rand Merchant Bank)	Loan programme for investments in countries in Sub-Sahara	20.5
Tunisia	Tunisie Telecom	Loan programme for investments in telecommunications	57.8
<b>Asia</b>			
Thailand	Total Access Communications Plc	Loan for investments in mobile telephone network	30.5
Vietnam	Republic of Vietnam	Loan programme for investments in the energy sector	20.3
<b>Baltic countries and Poland</b>			
Estonia	Eesti Energia, AS	Loan for energy sector investment programme	60.0
Estonia	Sampo Pank, AS	Loan programme for promotion of women's enterprise	1.0
Estonia	Tallinna Sadam, AS	Loan for harbour infrastructure investments	40.0
Latvia	Latvenergo, SJSC	Loan for investments in transmission and distribution networks	38.9
Latvia	Linstow Varner SIA	Loan for investments in shopping centre in Riga	10.7
Latvia	Mortgage and Land Bank of Latvia	Loan programme for investments in SMEs	10.0
Latvia	Vereinsbank Riga, A/S	Loan programme for investments in SMEs	7.0
Lithuania	Klaipeda State Seaport Authority	Loan for investments in harbour infrastructure	4.3
Lithuania	Republic of Lithuania	Loan programme for energy efficiency investments	10.0
Lithuania	Šiaulių Bankas, AB	Loan programme for promotion of women's enterprise	0.5
Lithuania	UAB Sampo Bankas	Loan programme for promotion of women's enterprise	1.0
Poland	Bank Ochrony Srodowiska SA	Loan programme for investments in SMEs and for municipal and regional environmental investments	10.0
<b>Central and Eastern Europe</b>			
Romania	MobiFon S.A.	Supplementary loan for investments in mobile telephone network	12.6
<b>Latin America</b>			
Brazil	Banco Nacional de Desenvolvimento Econômico e Social – BNDES	Loan programme for investments in various sectors	99.4
Brazil	Tele Norte Leste Participações, S.A	Loan for investments in mobile telephony network	29.2
<b>Other countries</b>			
France	Orange S.A.	Loan for investments in mobile telephony network	30.0
<b>TOTAL INTERNATIONAL LOANS 2002</b>			<b>518.2</b>

*Due to rounding, the total amount may differ from the sum total of the individual figures.*

## ABBREVIATIONS

<b>CEB</b>	Council of Europe Development Bank
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ECB</b>	European Central Bank
<b>EIB</b>	European Investment Bank
<b>HIPC programme</b>	Programme for the most indebted countries in the world (Heavily Indebted Poor Countries). The programme is being operated in close partnership with other multilateral financial institutions, with the World Bank responsible for coordination and administration.
<b>IFC</b>	International Finance Corporation. Member of the World Bank Group that finances private sector projects.
<b>IAS</b>	International Accounting Standards as adopted by the International Accounting Standards Board (IASB). See further the Notes to the Financial Statements, p. 50.
<b>IAS 39</b>	Standard for the accounting of financial instruments (Financial Instruments: Recognition and Measurement). Under IAS 39 all derivatives are recognised on the Balance Sheet and a greater number of financial instruments in the Balance Sheet are carried at fair value.
<b>KfW</b>	Kreditanstalt für Wiederaufbau, German state-owned bank.
<b>NDEP</b>	Northern Dimension Environmental Partnership. See further the section on The neighbouring areas, pp. 28–30.
<b>NDF</b>	Nordic Development Fund
<b>NEFCO</b>	Nordic Environment Finance Corporation
<b>Sida</b>	Swedish International Development Cooperation Agency. Government agency for bilateral international development cooperation and most of Sweden's cooperation with Central and Eastern Europe.

**The Annual Report of NIB** is published in English and Swedish. An Interim Report for the period January–August 2003 is published in October.

This Annual Report is printed on Finnish M-real's Galerie Art Silk. The paper is environmentally friendly.

**Translation** Joan Lofgren, Tampere, Beverly Ross, Washington DC and Roger Tanner, Stockholm.

**Portraits** Matias Uusikylä, Helsinki.

**Nature photographs** Comma Finland Oy, CredoNet Oy, Oy Kuvaario, Kuvapörssi Oy, Luonnonkuva-arkisto and Naturbild i Stockholm AB.

**Layout** Lowe & Partners, Helsinki.

**Printed by** Nomini, Helsinki 2003.



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