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Liquidity Policy

Adopted by the Board of Directors of the Nordic Investment Bank
on 26 February 2024 with entry into force as of 18 March 2024

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LIQUIDITY POLICY

1 INTRODUCTION

This Liquidity Policy ("**Policy**") sets out the policy of the Nordic Investment Bank ("**NIB**") towards managing liquidity risk. The Policy defines NIB's objectives for managing liquidity risk, sets criteria for the calculation of the minimum size of the "**Liquidity Buffer**"[1] (minimum liquidity requirement) and the funding needed to support an adequate (target) Liquidity Buffer.

In the preparation of the Policy, NIB has taken note of the recommendations and standards as issued by:

- the Basel Committee on Banking Supervision;
- the EU Commission in its Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR); and
- ratings agencies in their methodologies for rating supranational organisations.

The Policy shall be read in conjunction with the Risk Appetite Statement (RAS) and Risk Management Policy (RMP), which set out the risk tolerance and the counterparty and market risk limit framework for, inter alia, the Treasury operations and provides the overall requirements for the risk governance.

The Policy is composed as follows: Section 2 provides an overview of NIB's business model from the viewpoint of liquidity management. Section 3 specifies NIB's governance related to liquidity management, Section 4 defines liquidity risk and Section 5 defines NIB's liquidity risk tolerance. Section 5 describes NIB's stress testing approach for measuring liquidity risk and Section 7 describes NIB's practices for managing liquidity risk. Section 8 specifies the procedures for the activation of the contingency plan, and Section 9 describes requirements for liquidity risk reporting.

2 NIB'S BUSINESS MODEL

NIB finances projects that improve productivity and benefit the environment of the Nordic and Baltic countries. NIB provides long-term loans and guarantees on market terms to both private and public sector customers.

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

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

As a rule, NIB enters into International Swaps and Derivatives Association ("ISDA") contracts with swap counterparties. This provides for a netting of the obligations arising under all of the derivative contracts covered by the ISDA agreement in case of insolvency and, thus, results in a single net claim on, or payable to, the counterparty. To further reduce the credit risk associated with its derivatives exposure, NIB enters into Credit Support Agreements ("CSA"). This provides risk mitigation, as the swap transactions are marked to market daily and exposures exceeding agreed minimum transfer amounts are collateralised. CSA agreements also make it easier to novate swaps

[1] The *Liquidity Buffer* consists of cash, unencumbered highly rated and liquid bonds and money market securities as well as deposits.

from one counterparty to another. NIB may be required to post collateral to counterparties with whom NIB has established bilateral CSA agreements.

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

NIB's business model entails liquidity risk mainly through maturity mismatches between NIB's assets (loans and Treasury's investments) and liabilities (funding and equity). CSA agreements also contribute to the liquidity risk as changes in market factors like foreign exchange rates and interest rates may cause large changes in derivative valuations and consequently in collateral amounts.

To mitigate the liquidity risk, NIB maintains a Liquidity Buffer. In addition to risk mitigation, the objective of the Liquidity Buffer is to generate stable earnings for NIB.

3 LIQUIDITY RISK GOVERNANCE

Liquidity risk management follows the Principles for Capital and Liquidity Management issued by the Board of Governors that supplement the Statutes and the same overall risk governance principles as described in the Board of Directors' Risk Appetite Statement (RAS) and Risk Management Policy (RMP).

More specifically, and in line with the overall powers given to the Board of Directors in the Statutes, this Policy is approved by the Board of Directors and regularly reviewed to ensure that it is aligned with NIB's business plan, economic and financial position, liquidity adequacy or any other significant changes which affect NIB.

The Board of Directors receives regular reports on the liquidity and funding situation of NIB.

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

NIB has formulated a Capital and Liquidity Recovery Plan which will be activated, inter alia, in case NIB's liquidity situation reaches (or breaches) the set trigger level (stated in terms of survival horizon, see Section 5) in the recovery plan. In case the trigger level is reached (or breached), the President shall make a formal proposal to the Board of Directors to activate the recovery plan.

The President is authorised to approve the Framework for Liquidity Stress Testing in accordance with requirements set out in Section 5.

4 LIQUIDITY RISK

Liquidity risk is defined as the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due. Liquidity risk is further divided into three sub-risk types:

- *Funding liquidity risk* materialises when NIB cannot fulfil its payment obligations because of an inability to obtain new funding.
- *Market liquidity risk* materialises when NIB is unable to sell or transform instruments in its Liquidity Buffer into cash without significant financial losses.
- *Intraday liquidity risk, which materialises if incoming payments are not received in a timely manner.*

5 LIQUIDITY RISK TOLERANCE

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

As stated in the Risk Appetite Statement, NIB's target survival horizon is 12 months and the survival horizon shall, according to the Risk Management Policy, always exceed 9 months.

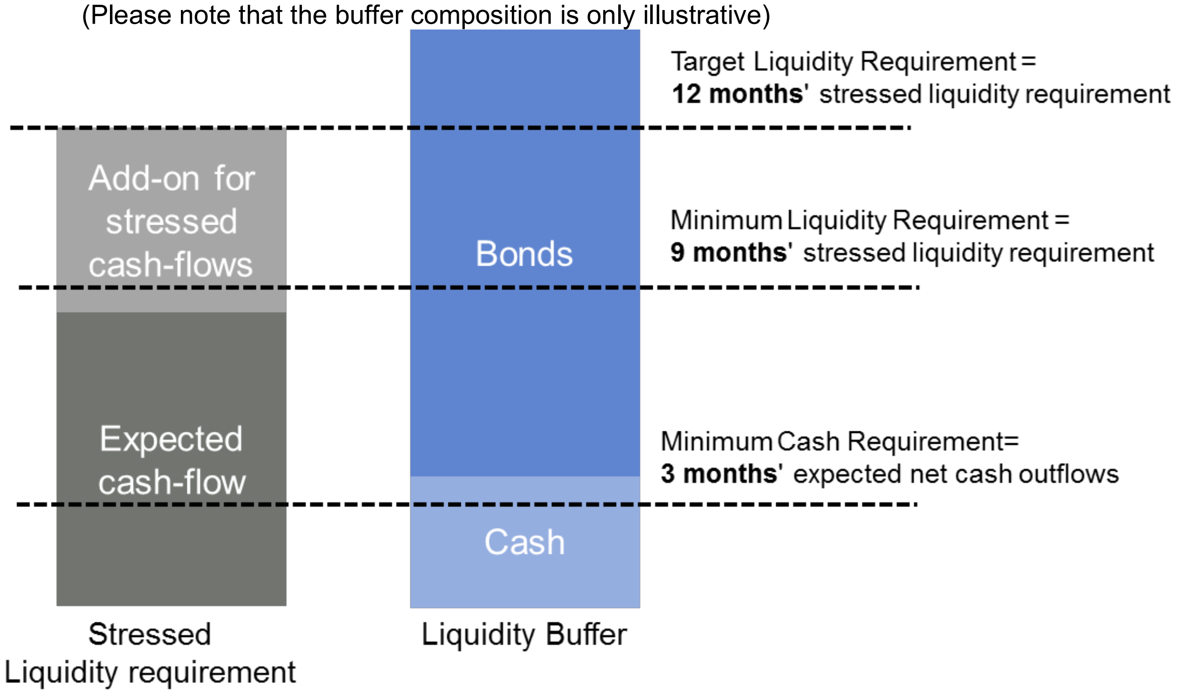
NIB uses a stress scenario to calculate the liquidity requirements corresponding to different survival horizons. Figure 1 illustrates the relationship between NIB's Liquidity Buffer and the stressed liquidity requirements corresponding to a survival horizon of 9 months ("**Minimum Liquidity Requirement**") and to a survival horizon of 12 months ("**Target Liquidity Requirement**"). When the size of the Liquidity Buffer equals the Target Liquidity Requirement, NIB is able to fulfil all its payment obligations and continue its business operations without disruptions for the forthcoming 12 months under a stress scenario as described in Section 5.

The surplus between the actual size of the Liquidity Buffer and the Target Liquidity Requirement (or the Minimum Liquidity Requirement, depending on the choice of the benchmark) is called liquidity headroom.

To secure the fulfilment of short-term payment obligations, such as borrowing repayments and new loan disbursements, it is required that the forthcoming 3 months' expected net cash outflows can be met with maturing investments from the Liquidity Buffer.

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

(Please note that the buffer composition is only illustrative)



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

- support and secure the highest possible overall issuer credit rating from S&P (AAA) and Moody's (Aaa), but not necessarily the highest rating for the liquidity sub-component in the rating agency methodologies; and

- fulfil the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements as specified in the prevailing Capital Requirements Regulation of the European Union, even though these regulatory metrics are only used as benchmarks.

6 MEASURING LIQUIDITY RISK

6.1 Survival Horizon

The key metric NIB uses to measure and limit liquidity risk is the *survival horizon*. It is calculated based on the expected cash inflows and outflows within a specific time horizon, instruments in the prevailing Liquidity Buffer and a stress scenario.

NIB's expected cash inflows and outflows are calculated using 12 months' time horizon. The Target Liquidity Requirement is then calculated by applying the stress scenario on the expected cash inflows and outflows and on the prevailing composition of the Liquidity Buffer. The stress test (and the scenario) aims to capture both market-wide and idiosyncratic shocks.

6.2 Specification of the stress scenario

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

Existing loan portfolio and disbursements of new loans

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

Funding redemptions and new funding transactions

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

Valuation of the derivatives portfolio and contingent collateral requirements

Adverse changes in the level of foreign exchange rates and interest rates lead to an increase in the collateral requirements for NIB's derivative transactions.

Assets held in NIB's Liquidity Buffer

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

Other cash flows

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

7 MANAGEMENT OF LIQUIDITY RISK

To mitigate the *funding liquidity risk*, NIB shall establish a high-quality Liquidity Buffer which can be used to meet payment obligations while continuing normal banking activities without obtaining new funding. NIB additionally shall ensure that its funding is diversified, and that the maturity profile does not create significant mismatches between assets and liabilities.

The *market liquidity risk* is mitigated by having a Liquidity Buffer consisting of high-quality liquid financial assets that, under stressed market conditions, maintains its market value.

7.1 Liquidity Buffer

The eligible elements of the Liquidity Buffer are cash, unencumbered highly rated and liquid bonds, money market securities as well as deposited funds.

As a main rule, the Liquidity Buffer is invested in EUR, USD and the Nordic currencies. In addition, other currencies can be used if it is deemed necessary for fulfilling upcoming payment obligations.

NIB shall be able to fulfil on a daily basis the expected net cash outflows of the forthcoming 3 months with maturing investments from the Liquidity Buffer. These investments are mainly short-term money market investments and funds deposited in banks with high credit ratings, reverse repos with highly rated collateral, fixed-income instruments received as collateral, and fixed-income instruments with shorter maturity than 3 months.

The rest of the Liquidity Buffer can be invested in fixed-income instruments such as government bonds, public sector bonds, covered bonds, mortgage bonds and senior unsecured bonds.

7.1.1 Asset quality

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

- A minimum limit for the proportion of High Quality Liquid Assets[2] .
- A minimum limit for the proportion of assets eligible as repo collateral in one or several Central Banks.
- A minimum limit for the proportion of assets belonging to the expected loss (EL) rating categories EL1 – EL4.[3]

These limits are defined in appendices to the Risk Management Policy and approved by the Board of Directors.

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

7.2 Funding

7.2.1 Funding strategy

NIB raises funds through different currencies, instruments, maturities and geographic markets. Overreliance on a single or very few investors or markets shall be avoided.

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

[2] Criteria for High Quality Liquid Assets ('HQLA') are defined in the Capital Requirement Regulation of the European Union.
[3] Internal rating categories EL 1 – EL 4 correspond to S&P ratings AAA–AA- and Moody's Aaa–Aa3

establish a yield curve with several outstanding benchmark bond issues in selected markets to create liquidity and more investor demand. Both public issues and private placements are complementary and diverse funding sources for NIB.

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

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

In accordance with the target of a 12-month survival horizon, NIB's funding plan is based on the projected Target Liquidity Requirement and the size of the Liquidity Buffer. The funding plan is updated regularly throughout the year to reflect changes in the size of the Target Liquidity Requirement.

7.2.2 Funding authorisation

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

8 CONTINGENCY PLAN

NIB has defined an internal (Capital and) Liquidity Recovery Plan in order to define relevant monitoring thresholds, actions and responsibilities should NIB encounter a severe liquidity risk situation. The activation of the recovery plan shall be done if the survival horizon reaches (or breaches) a pre-defined monitoring threshold. In addition, the activation shall be considered – regardless of NIB's liquidity situation as such – if there is another crisis of a bank-specific nature or a significant general market disruption occurs.

The Chief Financial Officer and the Chief Risk Officer inform the President and the Executive Committee about the funding and liquidity situation. The President makes a formal proposal to the Board of Directors to activate the plan.

9 REPORTING

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

The reporting contains information about:

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

Furthermore, reporting on the liquidity and funding position are done in all Asset, Liability and Risk (ALR) Committee meetings.