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CREDIT OPINION
16 May 2023

Update

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RATINGS

Nordic Investment Bank

	Rating	Outlook
Long-term Issuer	Aaa	STA
Short-term Issuer	P-1	--

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

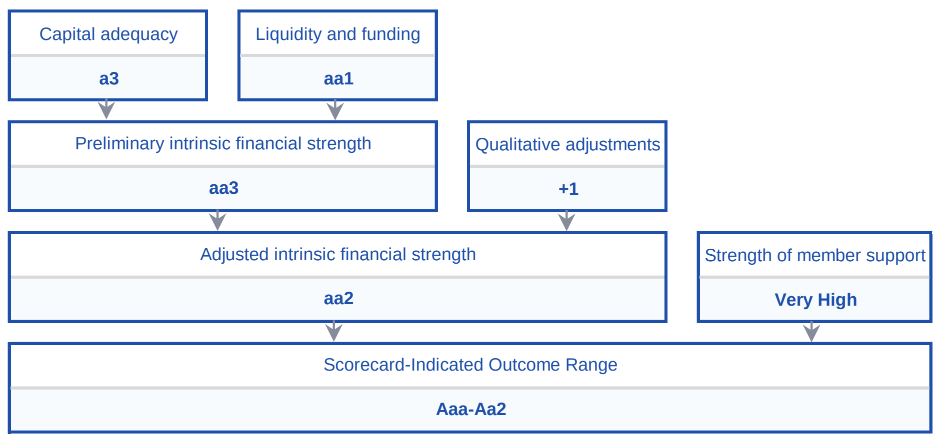
Nordic Investment Bank – Aaa stable

Update following rating affirmation, outlook unchanged

Summary

Our credit view of Nordic Investment Bank (NIB) reflects its strong credit fundamentals: healthy capital adequacy, excellent asset performance, ample liquidity and a strong track record of support from its highly rated shareholders. These features offset the credit impact of NIB's elevated leverage ratio, which is substantially higher than that of most other multilateral development banks (MDBs) we rate.

Exhibit 1
Nordic Investment Bank's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» Very strong asset performance and quality, supported by robust risk management

» Track record of access to funding from a diverse investor base

» Very strong member support, with Aaa-rated members contributing 77% of capital

Credit challenges

» Maintaining asset quality in a volatile macroeconomic environment

» Managing the impact from lending growth on NIB's very high leverage ratio

Rating outlook

The stable outlook reflects our view that NIB's very strong credit profile will be maintained. In particular, we expect profitability to improve further, helped by rising net interest income. Together with relatively small net new loan disbursements this will help to stabilize the relatively high leverage ratios. Also, the bank has shown a resilient credit profile in the wake of the coronavirus pandemic and the changed geopolitical situation in the region it operates in.

Factors that could lead to a downgrade

Downward pressure on NIB's ratings could result from a material weakening in the bank's asset quality and performance, and/or a significant increase in leverage over several years, potentially reflecting a combination of a big increase in lending and declining profitability. A substantial weakening in the bank's liquidity buffers and funding profile would similarly be credit negative. A significant reduction in the strength of member support, for example, because of downgrades of member states' sovereign ratings, would also exert downward pressure on NIB's ratings.

Key indicators

Exhibit 2

Nordic Investment Bank (NIB)	2017	2018	2019	2020	2021	2022
Total Assets (USD million)	35,921.4	36,307.7	36,682.7	43,466.4	42,533.2	41,895.5
Development-related Assets (DRA) / Usable Equity [1]	497.5	531.4	501.0	556.1	550.7	543.5
Non-Performing Assets / DRA	0.2	0.4	0.4	0.3	0.3	0.0
Return on Average Assets	0.7	0.6	0.6	0.5	0.4	0.4
Liquid Assets / ST Debt + CMLTD	199.2	230.6	238.8	254.3	240.6	247.8
Liquid Assets / Total Assets	37.9	35.4	37.1	34.3	37.3	39.0
Callable Capital / Gross Debt	23.7	22.3	21.5	25.9	23.9	23.8

[1] Usable equity is total shareholder's equity and excludes callable capital
Source: Moody's Investors Service

Profile

NIB was founded on 4 December 1975 by the five Nordic countries of Sweden (Aaa stable), Finland (Aa1 stable), Denmark (Aaa stable), Norway (Aaa stable) and Iceland (A2 stable). In reflection of the long-standing economic and political ties between the Nordic and Baltic regions, NIB's membership was expanded to include Estonia (A1 stable), Latvia (A3 stable) and Lithuania (A2 stable) on 1 January 2005, the year after all three Baltic states joined the European Union (EU, Aaa stable). The Aaa-rated member governments of Denmark, Norway and Sweden contribute approximately 77% of NIB's capital, while Aa1-rated Finland contributes close to 18%. Moreover, Sweden, the largest economy in the region, contributes the highest share of subscribed capital at almost 35% and Swedish counterparts constitute the largest share of NIB's current loan portfolio at 29%, as of 31 December 2022.

NIB has a dual policy mandate of providing funding to support productivity gains and environmental benefits in member states. Consequently, lending is concentrated in the key areas of environment and energy, infrastructure, transport and communication, and industry and services. Although NIB is not a profit-maximising institution, it has been consistently profitable over the past decade and charges market interest rates on its loans. In contrast to most MDBs, it typically distributes annual dividend payments to member state governments. Given NIB's mandate, lending is concentrated in the Nordic-Baltic region, with the share of loans outstanding in member countries accounting for 97% of the total at the end of 2022. The bank continues to be an important source of long-term financing for borrowers from member countries given its regional focus.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: "a3"

Our assessment of NIB's overall capital adequacy score of "a3" balances its comparatively weak capital position score ("ba3"), which reflects its high leverage ratio, against its strong development asset credit quality (DACQ, with a score of "a") and excellent asset performance, scored at "aaa".

NIB's leverage ratio is significantly higher than that of most of its Aaa-rated peers

NIB's leverage ratio – which measures the bank's development assets (that is, its lending portfolio) and its liquid treasury assets rated A3 or below against its usable equity – was very high at 568% as of the end of 2022, leading to a comparatively low score of "ba3" for its capital position. The ratio rose from 2020 to 2021, peaking at 587%, due to the bank's record high disbursement of new loans in 2020. It returned close to 2019 levels in 2022 (see Exhibit 3) and we expect that to remain the case also in 2023 as lending growth should remain moderate.

NIB is one of the most highly leveraged MDBs that we rate and its leverage has also increased substantially from around 500% in 2014-15. The bank's leverage ratio is more than double the Aaa-rated MDB median. However, its leverage remains below the 584% leverage ratio of Aaa-rated peer the European Investment Bank (EIB, Aaa stable) in 2022 (see Exhibit 4).

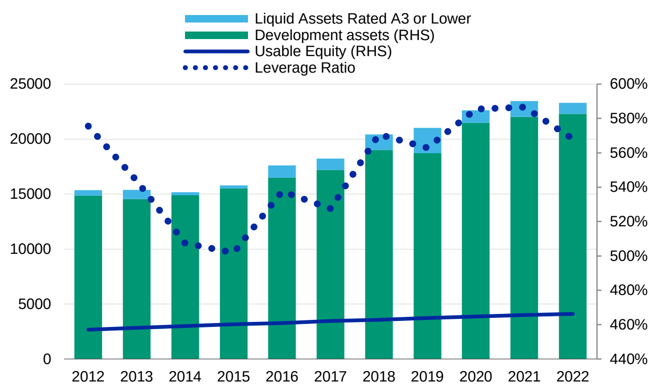
Lending growth moderated in 2022, standing at €3.7 billion for the full year, which marks a return to relatively normal levels of disbursements after new lending fell to €2.4 billion in 2021 following an all-time high of close to €5 billion in 2020. The book value of outstanding loans has declined slightly in 2022 (€22.2 billion vs. €22.3 billion in 2021), mainly because of scheduled repayments, as well as pre-payments that were a bit higher than expected, and valuation changes due to foreign exchange rate movements and hedging account changes. We expect a stable leverage ratio going forward, based on the bank's operational plan. For 2023, NIB plans to disburse around €3.5 to €4 billion in new loans, while planned repayments amount to around €2.6 billion.

NIB is a profit-making institution and although it distributes dividends to its shareholding governments, its robust track record of profitability has allowed it to consistently generate retained earnings that bolster its capital base and moderate the increase in leverage. Usable equity grew at an average annual rate of 3.5% from 2017 to 2022 against an average annual growth rate for the combined portfolio of gross loans and liquid assets rated A3 or below of 5.7% over the same period.

Exhibit 3

NIB's leverage ratio has increased since 2015...

Leverage ratio = (Development assets + Treasury assets rated A3 and lower) / Usable equity, %

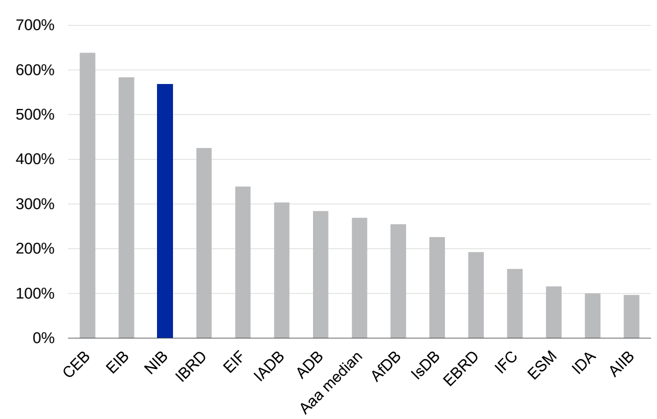


Sources: NIB and Moody's Investors Service

Exhibit 4

...and it is one of the most highly leveraged MDB that we rate

Leverage ratio



Sources: NIB and Moody's Investors Service

NIB's asset quality and performance are among the strongest of the MDBs we rate

NIB receives a strong score of “a” for its development asset credit quality (DACQ), the second sub-factor of the capital adequacy rating factor. The bank's weighted average borrower rating, the starting point of our DACQ assessment, was “baa2” at the end of 2022 and is among the strongest of the MDBs we rate. The median weighted average borrower rating for Aaa-rated MDBs is “ba3”, with the median DACQ score at “a” (see Exhibit 5).

More than 95% of NIB’s lending exposure is concentrated in the benign operating environment of the Nordic-Baltic region of its member states. Furthermore, relatively highly rated public sector borrowers account for around 27% of NIB’s lending portfolio, with local and regional governments a key sector of lending growth in recent years. On the whole, the expansion in NIB’s portfolio since 2015 has remained concentrated in its lowest risk classes, supporting the comparatively high asset quality of its portfolio, with over 90% of lending extended to investment-grade borrowers.

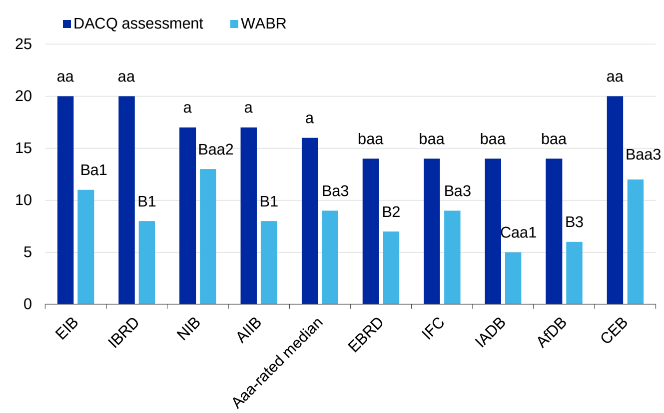
Country concentration, as measured by the Herfindahl-Hirschman Index, is relatively high at 19% compared to the Aaa median of 7%, while sector concentration at 19% is low compared with the Aaa median of 24%. These attributes and the absence of any equity investments in NIB’s development asset portfolio contribute to our assessment of its DACQ score at “a”. To limit concentration risks, the bank’s lending to a single project generally does not exceed 50% of the total cost of the project (for small and mid-sized enterprise financing this limit is set at 75%).

Although NIB often provides unsecured loans, almost all of its lending enjoys some form of credit enhancement. Out of NIB's total loan portfolio at the end of 2022, 26% was granted directly to or guaranteed by member countries or local authorities, while 24% was granted to or guaranteed by companies owned (50% or more) by member countries or local authorities in member countries. The remainder of the loan portfolio has some form of protection through collateral, guarantees or covenants.

The key ratio we consider in assessing NIB's asset performance is the level of nonperforming assets relative to total development related assets, which was virtually 0% at the end of 2022, leading us to assign a “aaa” score for the bank's asset performance (see Exhibit 6). For comparability across institutions, we standardise the numerator of the nonperforming assets ratio to include loans with interest or principal payments that are 90 days or more overdue.

Exhibit 5

NIB's asset quality is among the strongest of all MDBs...

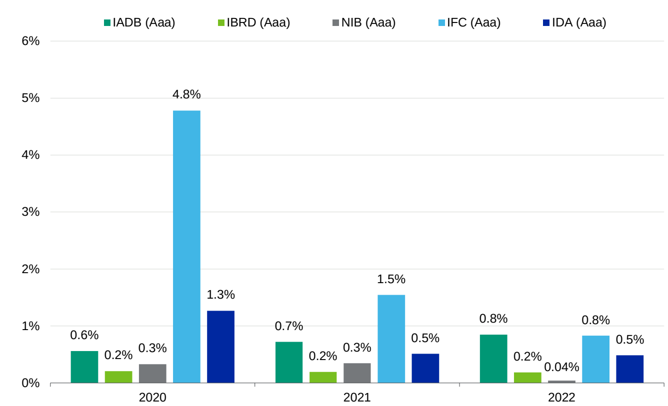


WABR = Weighted Average Borrower Rating
DACQ= Development Asset Credit Quality
Source: Moody's Investors Service

Exhibit 6

...as is its asset performance ratio

Nonperforming assets (NPAs) 90 days or more overdue as % of total development related assets



Source: Moody's Investors Service

The bank's track record of very strong asset performance is underpinned by its prudent risk management framework, which supports our positive one-notch adjustment to its intrinsic financial strength score on account of the quality of management (see “Qualitative adjustments” section). Additionally, NIB usually cooperates with other IFIs to benefit from their expertise in specific foreign markets to minimise lending risks in non-member states, although it is in this environment where its nonperforming assets have historically arisen.

FACTOR 2: Liquidity and funding score: "aa1"

Our assessment of NIB's liquidity and funding position at "aa1" reflects the combination of its ample liquid resources and excellent quality of funding.

NIB has strong liquidity buffers and follows international banking standards in managing liquidity risk

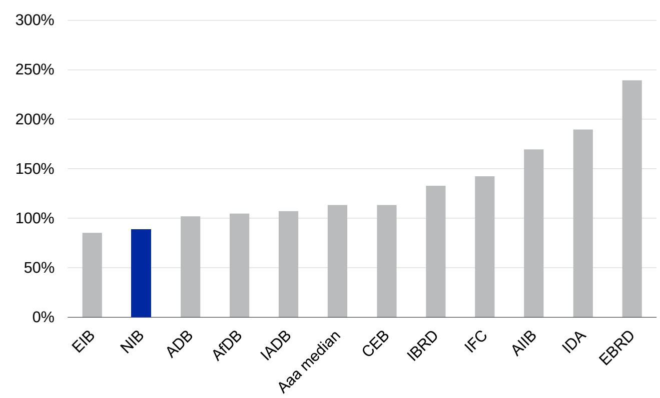
Liquidity plays an important role in the credit assessment of MDBs because, with the exception of EIB, they are not eligible for emergency funding from central banks. Our key metric for the assessment of an MDB's liquidity is the availability of liquid resources (ALR) ratio, which measures an entity's discounted liquid assets against expected net cash outflows over the ensuing 18-month period. Based on end-2022 figures, this ratio was 89% for NIB, a decline from 98% a year before and 114% two years prior, and remains below the Aaa-rated median of 113% in 2021 (see Exhibit 7).

NIB also has an internal requirement to maintain sufficient liquid resources to meet all operating and refinancing requirements for the ensuing 12-month period (with a minimum requirement of nine months), even under severe stress. NIB's so-called survival horizon decreased to 417 days at the end of 2022, down from 450 days a year earlier. NIB's liquidity buffer amounted to €13.5 billion at the end of 2022, a slight increase from €13.3 billion in 2021. At the end of 2022, 39% of the liquidity buffer was held as cash or in short-term money market instruments, with the remainder in longer maturity assets. 90% of assets in the liquidity buffer had a rating corresponding to Aa3 or above as of end-2022, while 86% met the standard of high-quality liquid assets under the Basel III definition.

NIB's internal liquidity risk management also covers two prudential ratios, which are embedded in the Basel Accords: the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The LCR covers a 30-day period and the NSFR one year, and both must be at or above 100%. At the end of 2022, NIB's LCR was 1,176%, significantly below the 2021 value of 5,162%. Its NSFR has remained broadly stable at around 160% since 2016 (see Exhibit 8). NIB's adherence to such international banking standards supports the positive one-notch adjustment we make to its intrinsic financial strength score on the basis of the quality of the bank's management (see "Qualitative adjustments" section).

Exhibit 7

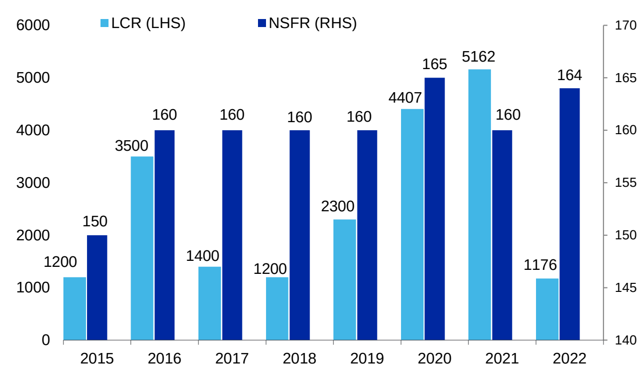
NIB's availability of liquid resources is in line with Aaa peers
Availability of liquid resources ratio



Sources: NIB and Moody's Investors Service

Exhibit 8

It also exceeds the key Basel III liquidity targets
%



LCR=liquidity coverage ratio, NSFR=net stable funding ratio
Source: NIB and Moody's Investors Service

NIB's funding is raised in a broad mix of currencies and maturities from a diverse invester base

We score NIB's quality of funding at "aaa", reflecting its established market presence, with funding consistently raised at low cost in a mixture of currencies and maturities from an investor base that is diversified by both geography and type. The bank's access to funding is strong, partly because demand for its securities is supported by their classification under the Basel III framework as high quality liquid assets, which implies a zero risk weight. NIB securities are also eligible for central bank repo transactions in several major jurisdictions.

NIB's outstanding debt had a book value of €31.5 billion at the end of 2022, up from €26.7 billion at the end of 2019, with the increase in debt driven by the bank's significant increase in lending in 2020. The bank typically follows a strategy of creating US dollar-denominated benchmark liabilities while simultaneously maintaining broad investor and currency diversification. Consequently, around 37% of outstanding debt is denominated in US dollars, followed by funding in the Nordic currencies (21%), euros (23%) and pound sterling (10%). The bank uses swaps extensively to better match its funding to its lending requirements and to mitigate exchange and interest-rate risks. After accounting for swaps, 49% of the bank's funding is in the Nordic currencies and 43% in euros, with the share of dollar funding reduced to 7%.

In 2011, NIB began issuing NIB Environmental Bonds (NEBs), which allow investors to provide funds for lending that meets the bank's highest criteria in the fulfillment of its environmental mandate. NEBs have helped NIB to diversify its investor base further, because demand for the bonds from asset managers and pension and insurance funds in particular is typically higher than for the bank's ordinary debt issuances. In 2022, NIB's issuance of NEBs surpassed €1 billion for the first time. In February 2019, NIB listed its inaugural blue bond for water management and protection on Nasdaq Stockholm — the first blue bond to be listed on the Nasdaq Sustainable Debt Market. Moreover, to fund the increase in lending driven by the outbreak of the coronavirus, NIB issued two so-called Response Bonds in 2020.

Qualitative adjustments to intrinsic financial strength

Operating environment

We do not apply a negative adjustment for NIB's operating environment. Although there is a high degree of correlation between the bank's member states and its assets that could pose a risk in the event of a synchronised shock, the Nordic-Baltic region is on the whole characterised by a high degree of political stability, a supportive institutional environment and high degree of economic diversification, both within and among member states, which provide for a benign operating environment for the bank.

Quality of management

We apply a one-notch upward adjustment for NIB's quality of management. NIB has long committed to following international banking standards such as those of the EU and European Banking Authority and the Basel Accords in its operations. Under the update to the bank's statutes adopted in 2020, NIB remains formally committed to follow "sound banking principles" in its operations.

The bank publishes a risk appetite statement and updated risk management policies annually, approved by the member states through its representatives on the board of directors. Under NIB's updated statutes, lower limits for capital adequacy, leverage and liquidity are set by the bank's board of governors and board of directors, to set the parameters for the level of risk they wish to see NIB take on in its operations. Monitoring of compliance with these limits is done by the internal risk department which reports to the bank's control committee, its supervisory body composed of member state representatives, which is responsible for ensuring NIB is adhering to the statutes in its operations.

While all bank units are responsible for the implementation of these policies (first line of defense), the bank's independent risk and compliance department, headed by a dedicated chief risk officer, operates as a second line of defense that is responsible for bank-wide monitoring and reports both to the bank's internal Asset, Liability and Risk Committee, the Board of Directors and the Control Committee. The risk department carries out independent measuring, monitoring and reporting of the bank's credit risk, market risk, liquidity risk and operational risk, as well as capital and liquidity adequacy. It also provides independent credit opinions on individual transactions and provides' recommendations to the Mandate, Credit and Compliance Committee and Board of Directors, as relevant. The bank's internal audit unit functions as a third line of defense, evaluating the controls and risk-management processes put in place throughout the bank.

The bank's holistic internal capital adequacy assessment process aims to ensure that NIB holds sufficient levels of capital and liquidity given the risk taken on in its lending and treasury activities. Portfolio risk is assessed using an economic capital model. NIB also conducts regular stress tests to assess the resilience of the bank under adverse economic scenarios. All credits are evaluated and rated on an internal 20 grade credit scale, with all credit exposures being subject to continuous monitoring of contractual compliance and any signs of a material change in risk. Large and high-risk exposures are subject to more thorough and frequent in-depth analysis.

NIB's strong commitment to best-in-class risk management practices throughout the institution has allowed it to build a track record of very strong asset performance and has helped it weather periods of macroeconomic and financial market turbulence such as the global financial crisis and the coronavirus pandemic without a significant negative impact on its credit profile.

FACTOR 3: Strength of member support score: Very High

Strength of member support is scored at “Very High”. Although contractual support in the form of callable capital is relatively limited compared with its peers, NIB’s weighted average shareholder rating of “aa1” is one of the highest of the MDBs we rate (see Exhibit 9). We also assign a “Very High” score for member states' willingness to support NIB over and above their contractual obligations, given the importance of the bank in promoting key economic and environmental policy goals in the member states' home jurisdictions.

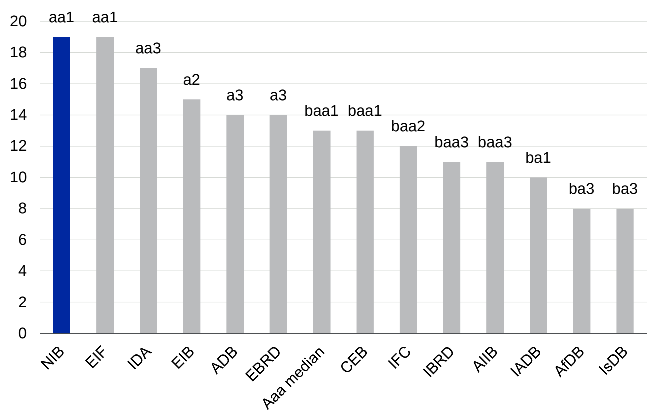
The ability of NIB' member states to support the institution is very strong

We consider the ability of NIB’s members to support the bank to be very strong, based on their “aa1” weighted average shareholder rating, which is among the highest of all the MDBs we rate. Aaa-rated members Sweden, Denmark and Norway provide 77% of NIB’s paid-in capital, while Aa1-rated Finland provides an additional 18%. Iceland and the Baltic states, which together account for around 5% of NIB’s paid-in capital, are all rated in the single A category.

Exhibit 9

NIB's shareholder base is among the highest rated of Aaa-rated MDBs

Weighted average shareholder rating

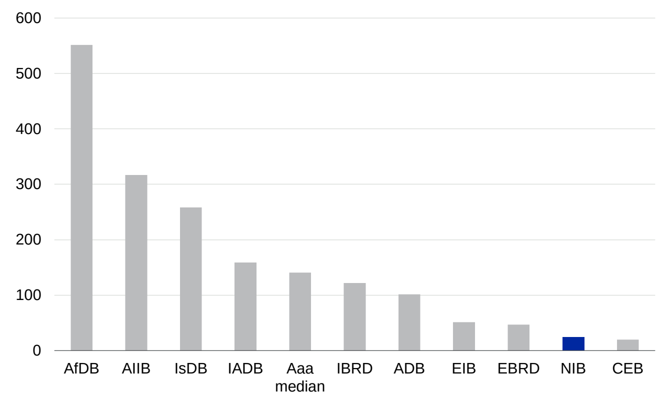


Source: Moody’s Investors Service

Exhibit 10

NIB's ratio of callable capital to debt is low compared to peers

Callable capital, percentage of total outstanding debt



Source: Moody’s Investors Service

Callable capital is relatively limited but benefits from a strong enforcement mechanism

We score NIB's contractual support at “ba1” based on its relatively low share of callable capital to total debt of 23.8% in 2022, which is considerably below the median for Aaa-rated MDBs (see Exhibit 10). Callable capital currently accounts for 90% of NIB's subscribed capital, with the remaining 10% provided by paid-in capital.

We include a one-notch upward adjustment to our assessment of contractual support to reflect the very strong enforcement mechanisms in place to ensure that capital would be swiftly and reliably paid if called upon. According to NIB's constituent documents, capital can be called to the extent that the board of directors deems necessary for the fulfilment of the bank's debt obligations. Although the timeline for payments is not specified in the bank's statutes, the timelines have been confirmed in writing through formal legal opinions with the relevant ministries of member countries. Taking account of country-specific procedures and capital commitments, payment of over half of callable capital would take place within one month and close to full payment within six months.

NIB's importance in meeting member states' policy goals supports a very high level of non-contractual support

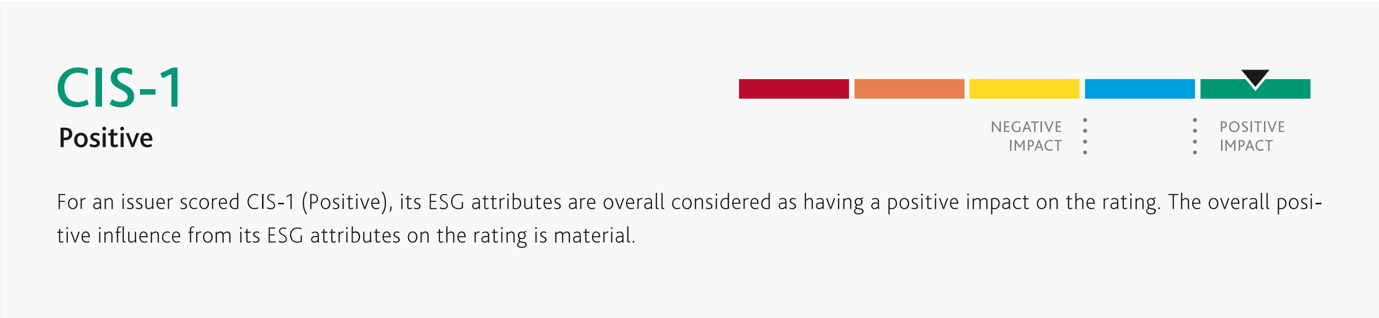
NIB’s score for non-contractual support is assessed as “Very High” on the basis of an established track record of shareholders' willingness to provide financial support to the bank, as well as NIB's importance in supporting economic development and environmental objectives in the countries of the shareholding governments.

Members' willingness to support NIB has, for instance, been demonstrated by the provision of an additional €2 billion in authorised capital in 2011 and the effective implementation of the requisite procedures under the calls of two guarantees under the MIL facility in 2014 and 2016. Given NIB's relatively small scale and the extremely strong creditworthiness of its shareholders, it is highly likely that the shareholders would be in a position to provide financial or other support in an emergency. The regional concentration and limited number of member states would also likely facilitate any emergency intervention, if needed.

ESG considerations

Nordic Investment Bank's ESG Credit Impact Score is Positive CIS-1

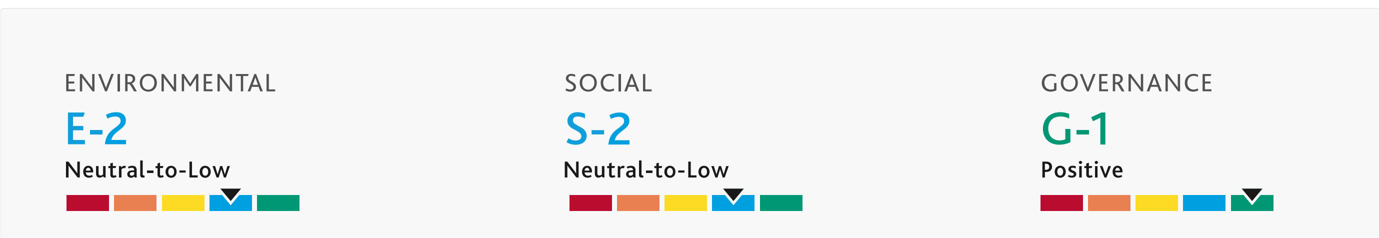
Exhibit 11
ESG Credit Impact Score



Source: Moody's Investors Service

NIB's credit impact score is positive (**CIS-1**). This notably reflects a very strong governance profile that we consider to be a positive feature of NIB's rating, as well as its very low exposure to environmental and social risks. The positive credit impact of ESG is underpinned by the very strong support and governance profiles of its Nordic-Baltic shareholder governments, which support the bank's resilience to environmental and social risks which could potentially evolve in the future.

Exhibit 12
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

NIB's environmental issuer profile score is neutral-to-low (**E-2**). This assessment is based on the bank's neutral-to-low exposure to environmental risks across all five environmental risk categories, reflecting the generally low environmental risks in the bank's main Nordic-Baltic operating environment.

Social

The bank's social issuer profile score is neutral-to-low (**S-2**), too. NIB has neutral-to-low exposure in all social risk categories and enjoys strong customer relations with its borrowers. Moreover, meeting productivity objectives, together with environmental ones, has been part of NIB's dual mandate since its inception, which supports Moody's assessment of responsible production. The bank aims to promote technological progress and innovation as well as human capital development with its funded projects.

Governance

We consider NIB's very strong governance to be a positive feature of its issuer profile, resulting in a positive governance issuer profile score (**G-1**). The bank's very strong financial strategy and risk management as well as management credibility and track record are core strengths. The strong emphasis placed on risk management within all parts of the organization has also allowed the bank to build a strong track record of low loan-losses.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

Lending growth returns to normal levels in 2022 after a slump in 2021 and record disbursements in 2020

New lending disbursed in 2022 stood at €3.7 billion, which marks a return to relatively normal levels of disbursements after new lending fell to €2.4 billion in 2021 following an all-time high of close to €5 billion in 2020 – significantly above the €3.4 billion originally planned for that year. The exceptionally strong lending growth in 2020 was spurred by member state governments' wishes to see NIB play an active role in tackling the economic impact of the pandemic. Virtually all of the additional lending was directed to the single-A rated Baltic sovereigns, however, with only small portions directed to corporates.

This boost in lending led our measure of NIB's already elevated leverage ratio to jump from 562.9% to 585.5% in 2020. Our measure of NIB's leverage ratio fell slightly in 2022 reaching 568% and we expect it to remain relatively stable in 2023, when the bank is planning on disbursing around €3.5-4 billion in new loans. Nevertheless, the lending expansion as well as higher than expected collateral outflows, forced the NIB to enlarge its funding plan by more than €2 billion in 2022 reaching €9.59 billion in new debt issuance at end-2022, which constitutes the largest funding programme during any year.

Russia-Ukraine conflict poses limited risks to asset quality, mainly through indirect Baltic impact

NIB's direct exposure to Ukraine (Ca stable), Russia and Belarus (Ca negative) is very limited. The bank has no exposure at all to Ukraine and the loans to Russia and Belarus are about €10 million or less than 0.05% of the total loan portfolio. Although these exposures are at heightened risk of becoming nonperforming, the small size of the exposure entails a limited potential impact on NIB's stock of nonperforming assets, which currently stands at €10 million or 0.04% of the total portfolio.

About 10% of the bank's total lending is to the three Baltic states, which are more susceptible to geopolitical event risk, a factor which has increased recently in light of Russia's invasion of Ukraine[1]. The by far largest exposures are three loans extended to the Baltic sovereigns as part of the bank's pandemic response in 2020, which constitute three of NIB's four largest exposures overall. Public transport companies account for the other largest exposures in the Baltics. Although these are likely to be hit by a sharp fall in the transit trade to Russia and Belarus via the Baltics, and asset quality may deteriorate as a result, we do not expect this will lead to a material weakening in NIB's overall asset quality or performance unless there is a further sharp escalation in geopolitical risks that directly affect the Baltic states.

Profitability shows signs of improvement

NIB's still solid profitability has been under pressure for several years, mainly from weakening treasury income in the low yield environment. After several years of steady profits of around €210 million, 2019 profit was down to €182 million and reached €139 million in 2022, down €20 million from 2021. Net interest income rebounded after a drop in 2021 reaching €219 million in 2022, €18 million higher than the previous year, as a result of higher credit spreads and increasing lending volumes.

Total losses in 2022 stood at €38 million, primarily driven by unrealised valuation losses (which produced a gain of €64 million in 2020) that mainly reflect movements in spreads on the bank's derivatives portfolio. By contrast, the €50 million increase in provisioning in 2020 to account for an expected deterioration of losses stemming from the pandemic shock was partly reversed in 2021 as the macro outlook brightened. The bank paid €25 million in dividends to member states in 2023 (related to financial year 2022) and €40 million in 2022 (related to financial year 2021) after a pause to dividend payments due to the pandemic shock in 2020.

The bank has boosted lending in recent years, partly to offset the impact on profits of declining treasury income. The significant increase in global policy interest rates in 2022 translated relatively rapidly into higher net interest income, but did not boost the bank's overall profitability. However, NIB's recent attempt at broadening the risk profile of new lending, with the share of sub-investment grade lending rising to 19% in 2022 from 12% over the preceding 5 years, may contribute to higher profitability. Moreover, the bank joined the European Commission's InvestEU programme in December 2022 with an initial target of €480 million lending, which will likely increase its lending to riskier small and medium-sized companies as a result of the risk-sharing mechanism of the programme.

NIB's shift into slightly riskier lending segments such as mid-cap corporates, following a strong focus on very highly rated Nordic sub-sovereigns in recent years, will likely be gradual and evolutionary. We also expect that lending will remain highly concentrated to the benign operating environment of its Nordic-Baltic member states.

Interim financial statements for the first quarter of 2023 show continued improvements in profitability. Net profit increased to €65 million (Q1 2022: €21 million), with net interest income up 38% compared to Q1 2022 and up 19% from Q4 2022 and also driven by unrealized profit on financial operations. Lending disbursements reached €889 million (Q1 2022: €1.1 billion) and new lending signed was €432 million (Q1 2022: €1.2 billion).

Rating methodology and scorecard factors: Nordic Investment Bank - Aaa stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			a3	a3
Capital position (20%)			ba3	
	Leverage ratio	ba3		
	Trend	0		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			a	
	DACQ assessment	a		
	Trend	0		
Asset performance (20%)			aaa	
	Non-performing assets	aaa		
	Trend	0		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			aa1	aa1
Liquid resources (10%)			a3	
	Availability of liquid resources	a3		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (40%)			aaa	
Preliminary intrinsic financial strength				aa3
Other adjustments				+1
Operating environment		0		
Quality of management		+1		
Adjusted intrinsic financial strength				aa2
Factor 3: Strength of member support (+3,+2,+1,0)			Very High	Very High
Ability to support (50%)			aa1	
	Weighted average shareholder rating	aa1		
Willingness to support (50%)				
	Contractual support (25%)	ba2	ba1	
	Strong enforcement mechanism	+1		
	Payment enhancements	0		
	Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range				Aaa-Aa2
Rating Assigned				Aaa

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Related websites and information sources

» Moody's Supranational web page

» Moody's Sovereign and supranational rating list

» Nordic Investment Bank

Endnotes

1 See **Sovereigns – Europe: Missile strike in Poland amid Russia-Ukraine conflict points to risks for European NATO members**, 16 November 2022

REPORT NUMBER 1359945