Proposed modernisation of NIB's statutes

At its annual meeting on 24 May 2019, the Nordic Investment Bank's Board of Governors approved to modernise and amend the Bank's Statutes, subject to the required national procedures (including ratification if needed) to enter into force. The Board consists of ministers of finance, industry, business and economic affairs in NIB's Nordic and Baltic owner countries.

Introduction

The intent of the proposed amendments is to modernise NIB's Statutes and to ensure continued adherence with sound banking principles. The amendments cover the four areas described below, and introduce guiding Principles for Capital and Liquidity Management at the level of the Board of Governors.

They will permit NIB to be more relevant in its operations and thereby add more value and be more effective in achieving its mission. Sound and comprehensive strategies for capital and risk management allow NIB to maintain the highest possible issuer credit rating and obtain funds from the capital markets on advantageous terms, which is essential for the implementation of its mandate.

The amendments to the Statutes cover the four following areas:

Capital and liquidity management

The proposal is to replace the current statutory gearing limit with a risk-based comprehensive framework for capital and liquidity management, in accordance with sound banking principles, and to introduce minimum requirements for capital, liquidity and leverage.

The current Statutes provide a simple gearing limit based on nominal volumes not covering the full range of NIB's operations and not linked to the actual risk levels attached to NIB's assets. The purpose is to align the requirements for NIB's capital and liquidity management with best practices and to replace the statutory limit on lending with measures that balance NIB's risks with its capital resources.

Replacement of the simple gearing limit with a comprehensive capital and liquidity management framework that takes into account the quality of NIB's assets would allow a more efficient use of NIB's authorised capital while supporting the highest possible issuer credit rating.

The external assessment by the rating agencies is that NIB is adequately capitalised and in no need of a capital increase. This is also the assessment of the Board of Directors. However, during 2019 NIB will be approaching a position where an adjustment to the Bank's lending activities would be required if no change is made to the gearing limit.

Abolishment of PIL and MIL loan facilities and increase of authorised capital

The proposal is to discontinue the special loan facility for Project Investment Loans (PIL). The proposal is to convert the special credit risk fund for PIL into paid-in capital and the Member countries' PIL guarantees into callable capital. The proposal is also to discontinue the special loan facility for Environmental Investment Loans (MIL) without any conversion of the MIL guarantees. Consequently, the Member countries would be released from their PIL and MIL guarantee obligations. The outstanding amounts under the PIL and MIL facilities would be incorporated into ordinary lending.

The proposed new capital and liquidity management framework provides the necessary risk measures, capital resources and governance to incorporate PIL and MIL exposures into NIB's ordinary lending and continue its activities in non-member countries, including environmental lending in the neighbourhood of the Baltic Sea that is of interest to the Member countries.

When coupled with the other proposed amendments of the Statutes, the abolishment of PIL and MIL would permit NIB to more efficiently use the resources provided by the owners and allow for significantly increased impact and agility. The abolishment of PIL and MIL would also provide the Member countries with a more predictable position towards NIB as capital will only be called if NIB is unable to meet its payment obligations after depletion of accumulated reserves and paid-in capital. At present individual defaults of borrowers under the PIL and MIL facilities will necessarily result in Member country guarantee calls to the extent not covered by reserves.

Control Committee
The proposal is to improve the institutional governance, to clarify the role of the Control Committee and the external auditors and to strengthen the role of the Chairmanship of the Bank's Control Committee.

The amendments are intended to improve the monitoring of capital and liquidity management and risk taking. With this aim the changes split the key monitoring responsibilities between the Chairmanship and the full Committee. Particular emphasis on monitoring fulfilment of NIB's purpose and mandate is given to the Committee with the Chairmanship focusing on financial and technical aspects. It is also proposed to increase the membership of the Committee by adding a possibility for the Board of Governors to appoint two additional members to the Chairmanship.

It also clarified that the external auditors would be responsible for carrying out the audit of NIB. The external auditor's report, together with a statement from both the Control Committee and from its Chairmanship, would be delivered annually to the Board of Governors. The reporting lines between the Control Committee and the Board of Governors are also proposed to be strengthened with respect to capital and liquidity management.

Equity participations
The proposal is to allow an opportunity for equity participations as a new form of financing for the Bank in addition to loans and guarantees.

This proposal could allow NIB to finance projects and companies through equity investments where market failures are identified and traditional debt financing would not be suitable. An increased product range could allow for more targeted financing by NIB and, where NIB is acting as an implementing partner, for other parties.

The proposal is to allow for this possibility in the Statutes, subject to various strict conditions. In particular an overall statutory limit on equity participations of 15% of paid-in capital and accumulated reserves will apply. Additionally initial investments would be subject to unanimous Board of Directors' approval. It is further proposed that equity participations would initially be limited to 5% of the paid-in capital and accumulated reserves and that the Board of Directors shall report back to the Board of Governors when it reaches a 5% equity participations utilisation.

Board of Governors Principles for Capital and Liquidity Management
More comprehensive provisions regarding capital and liquidity management would be included in a new document "Principles for Capital and Liquidity Management" approved by the Board of Governors.

These Principles would provide a tool for NIB's owners via the Governors to fine tune the capital and liquidity management framework and limits introduced in the Statutes. The principles would include rules and guidance on the quality of NIB's capital and liquidity management framework, and provide a reference for the work of the Control Committee, external auditors and guidance to various external stakeholders (rating agencies, investors etc.).