

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

152 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

Institution: (Montana) Resource Indemnity Fund  
created in 1974

Location: Helena, Montana

Size:

Capital Funds: \$4.5 million

Purpose: The Resource Indemnity Fund was created to accumulate income from a Severance Tax on Coal and other minerals for the purpose of providing moneys to enhance the State ecological environment and rectify damage thereto. Accumulations in the Fund shall continue until the Fund reaches \$100 million.

Source of Funds: Moneys are deposited in the Fund from a severance tax on various minerals and  $2\frac{1}{2}\%$  of the Severance Tax on Coal.

Management Structure: Moneys are collected and deposited in the Fund by the Department of Revenue. Investments in the Fund are made in accordance with guidelines established by the State Board of Investments which is composed of five private citizens appointed by the Governor for 5 year terms.

Management of Funds: Moneys are invested in debt instruments authorized by State Statutes.

Portfolio: Moneys are currently invested in corporate bonds that have been rated A or better by Moody's Investors Service and Standard & Poor's Corporation.

Income: Income from investments remain in the Fund until \$10 million has been accumulated. After the accumulation of \$10 million, income may be used for enhancement or repair of the environment.

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Institution: (New Mexico) State Permanent Fund  
created in 1898

Location: Santa Fe, New Mexico

Size:

Assets: 10 million acres  
Capital Funds: \$675 million

Purpose: The State Permanent Fund was established to collect royalties and other income from the lease of State-owned land. Income from the Fund is applied to the New Mexico public school systems and educational and eleemosynary institutions.

Source of Funds: Moneys in the Fund were initially provided from the sale of State land. Currently, revenues to the Fund are provided from royalties and income from State-owned lands under lease. Such revenues include oil and gas royalties and grazing and timber leases. In addition, any capital gains on investments remain in the Fund.

Management Structure: The State Permanent Fund is managed by the State Investment Council. Members of the Council include the Governor, the State Treasurer, the Commissioner of Public Lands, the Finance Officer and four public members who are appointed by the Governor for terms of five years.

Management of Funds: The State Investment Officer is responsible for investing moneys in the State Permanent Fund. Fifty per cent of the Fund must be invested in Federal Securities. The remainder may be invested according to State Statutes.

Portfolio: The Fund is currently invested as follows: 18% equity, 32% corporate obligations and 50% U.S. Government and Federal Agency Obligations.

Income: Income from the Fund is distributed to the public school system (80%) and the remainder to educational and eleemosynary institutions.

Institution: (New Mexico) Severance Tax Bonding Fund, created in 1941

Location: Santa Fe, New Mexico

Size:

Capital Funds: \$9,040,756.02

Purpose: The Severance Tax Bonding Fund was created to secure tax-exempt bonds issued for public capital projects.

Source of Funds: Moneys derived from the levy of the New Mexico Severance Tax on severed natural resources are paid in their entirety to this Fund. Additional sources of income include revenues from projects financed with Severance Tax Bonds and receipts from ground rentals of Public Buildings. Moneys in excess of the next two semi-annual payments on all outstanding Severance Tax Bonds are transferred to the Severance Tax Permanent Fund.

Management Structure: The Fund is managed by the State Treasurer under the supervision of the State Board of Finance. The State Board of Finance consists of the Governor, Lieutenant Governor and three private citizens appointed by the Governor for two year terms. The State Treasurer is responsible for repayment of principal and interest on Severance Tax Bonds.

Management of Funds: Moneys in the Fund are invested in debt instruments authorized by State Statutes.

Portfolio: N.A.

Income: All moneys in the Severance Tax Bonding Fund except an amount sufficient to repay principal and interest on the Severance Tax Bonds on the next ensuing semi-annual payment date is transferred to the Severance Tax Permanent Fund.

Indebtedness Limitation: The State Board of Finance may issue additional Severance Tax Bonds payable from the Severance Tax Bonding Fund provided that aggregate annual debt service on Bonds outstanding including the proposed issue be equal to no more than 50% of previous fiscal year's deposits into the Severance Tax Bonding Fund.

Institution: (New Mexico) Severance Tax Permanent Fund created in 1971

Location: Santa Fe, New Mexico

Size:

Capital Funds: \$103 million, currently accruing at rate of \$4 million per month.

Purpose: The Severance Tax Permanent Fund was created to encourage economic development in the State of New Mexico.

Source of Funds: Moneys in the Severance Tax Permanent Fund are provided from the New Mexico Severance Tax levied for the privilege of severing natural resources including oil and gas, potash, copper, uranium, timber; coal and certain other minerals. Proceeds from the Severance Tax are deposited in the Severance Tax Permanent Fund after the required payments to the Severance Tax Bonding Fund.

Management Structure: The Fund is managed by the State Treasurer under the supervision of the State Board of Finance. The State Board of Finance consists of the Governor, Lieutenant Governor and three private citizens appointed by the Governor for terms of two years.

Management of Funds: Moneys in the Fund may be invested at the discretion of the State Board of Finance. Moneys currently are invested by the State Treasurer in Certificates of Deposit of State banks who in turn make loans for capital projects to the private sector. Loan feasibility and appropriateness of the capital project is left entirely up to the bank. Participation by the Fund in sizeable loans by State banks requires the approval of the State Board of Finance. The principal of the Fund may be used for economic development purposes upon the approval of the State Board of Finance. An amendment to require 3/4's approval of the legislature prior to invasion of the principal of the Severance Tax Permanent Fund is on the November ballot.

Portfolio: Approximately \$94 million of the Fund is invested in Certificates of Deposits of State banks maturing one to five years at a floating rate of short term treasury obligations plus 50 basis points. The remainder is invested under Repurchase Agreements.

Income: Income from the Severance Tax Permanent Fund is transferred to the Severance Tax Income Fund.

Institution: (New Mexico) Severance Tax Income Fund created in 1971

Location: Santa Fe, New Mexico

Size:

Capital Funds: \$2.2 million as of 9/27/76

Purpose: The Severance Tax Income Fund was created to finance public capital improvement projects.

Source of Funds: Income from the investments of the Severance Tax Permanent Fund is deposited in this Fund.

Management Structure: Moneys are invested and disbursed by the State Treasurer under the supervision of the State Legislature.

Management of Fund: Pending appropriation for capital projects, moneys are invested under Repurchase Agreements.

Portfolio: N.A.

Income: Income from the Fund is transferred to the State General Fund.

Institution: Texas Permanent University Fund created in 1881

Location: Austin, Texas

Size:

Assets: 2,100,000 acres of land in nineteen West Texas counties  
Book value 8/31/75 \$781,771,634.49

Purpose: Fund created by provisions of the Texas Constitution in order to enable the State Legislature to carry out the purpose, as declared by the Republic of Texas and later in early State Constitutions, of creating a State University. The Constitutional provisions set aside all lands previously appropriated for the creation of a State University, together with the proceeds of any sale thereof, to create a Permanent University Fund. All moneys available in the Fund are to be invested in securities, the income from which will be appropriated by the Legislature, in order to accomplish the purpose of creating, maintaining, supporting and directing a university for the promotion of literature, and the arts and sciences, including an agricultural and mechanical department.

Source of Funds: Funds are accumulated annually in the Fund from oil, gas and water royalties, gains on investments, mineral lease rentals, lease bonuses, and any proceeds of land sold. The Permanent Fund shall be forever kept intact and all annual income shall become part of the Fund.

Management Structure: The Fund is held by the Treasurer of the State of Texas and invested by direction of the Board of Regents of the University of Texas. The Board of Regents consists of nine members who serve without compensation. They are appointed by the Governor for six year terms subject to approval by the Senate.

Management of Funds: The Fund is invested in permitted securities which are bonds of the United States, the State of Texas, or counties of the State, or in school bonds of municipalities in the State, or bonds of any city in the State, or in bonds issued under the Federal Farm Loan Act. In addition, the Fund may be invested in securities, bonds or other obligations issued, insured or guaranteed in any manner by the U.S. Government, or any of its agencies, and in bonds, debentures, or obligations, and preferred and common stocks issued by corporations, associations, or other institutions as the Board of Regents deem to be proper, provided that not more than 1% of the Fund will

Management of Funds:  
continued

be invested in the securities of any one corporation nor more than 5% of the voting stock of any one corporation be owned. In addition, stocks purchased will be only in companies incorporated in the U.S. and who have paid dividends for at least five consecutive years and, except for bank or insurance company stocks, are listed on a registered stock exchange.

Portfolio:

|   |                      |
|---|----------------------|
| Capital Funds (August 31, 1975)         |                      |
| Securities, cash and equivalent at cost | \$781,771,634.49     |
| U.S. Governments                        |                      |
| Direct Obligations                      | 106,828,987.45       |
| Guaranteed                              | 103,089,999.03       |
| Corporate Bonds                         | 279,571,990.53       |
| Convertible Debentures &<br>Preferreds  | 16,440,190.64        |
| Common Stocks                           | 254,425,102.52       |
| Short Term Securities &<br>Cash         | <u>21,415,364.32</u> |
| Total                                   | \$781,771,634.49     |

Income:

The income from Fund investments is appropriated annually by the State Legislature; two-thirds to the University of Texas and one-third to Texas A & M. The income of the Fund may be used only for permanent improvement and not for current expenses. Prior to the distribution of the income of the Fund, provision is made for the expenses of administering the Fund.

Institution: (Wyoming) University Permanent Land Fund created in 1881

Location: Cheyenne, Wyoming

Size:

Assets: 34,492 acres

Capital Funds: \$8,565,000

Purpose: The University Permanent Land Fund was created to receive income from lands granted to Wyoming to be used for the financial benefit of the University of Wyoming. Income from the Fund is used to support capital projects of the University.

Source of Funds: Moneys in the Fund are provided from income received on specific State-owned lands.

Management Structure: The State Treasurer is responsible for investing the Fund. Income from the Fund is transferred to the Treasurer of the University of Wyoming.

Management of Funds: The State Treasurer invests the Fund in debt instruments authorized by State Statutes.

Portfolio: N.A.

Income: Income from the Fund is transferred to the University of Wyoming.

Institution: (Wyoming) Permanent Mineral Trust Fund created in 1974

Location: Cheyenne, Wyoming

Size:

Capital Funds: \$51,250,000

Purpose: The Permanent Mineral Trust Fund was created to retain moneys collected from a Severance Tax on all minerals. Moneys in the Fund may be used for loans to political subdivisions upon legislative approval.

Source of Funds: Collections of a Severance Tax on all minerals are placed in the Fund.

Management Structure: The State Treasurer is responsible for managing and investing this Fund.

Management of Funds: Moneys are invested in debt instruments authorized by State Statutes.

Portfolio: N.A.

Income: Income from the Permanent Mineral Trust Fund is transferred to the State's General Fund.

Institution: (Wyoming) Government Royalties Fund created in 1973

Location: Cheyenne, Wyoming

Size:

Assets: 3.1 million acres

Capital Funds: N.A.

Purposes: Moneys collected in the Fund are applied as follows:

- 50% to Public School System
- 35% to State General Fund
- 9% to University of Wyoming for capital projects
- 6% to counties

Source of Funds: Mineral royalties and lease payments from operators on U.S. Government-owned lands in Wyoming are divided between the U.S. Government and Wyoming. Prior to 1976 the State of Wyoming received 37 1/2% and the U.S. Government 62 1/2%. As of 1976 the U.S. Government and Wyoming divide the mineral royalties and lease payments equally.

Management Structure: Mineral royalties and lease payments are collected by the U.S. Government and disbursed to the State semi-annually.

Management of Funds: Moneys remitted to the State are deposited with the State Treasurer. The Wyoming legislature intends to address the management and application of additional income received pursuant to the State's increased share of mineral royalties and lease payments.

Portfolio: N.A.

Income: N.A.

The following is a summary of States that have not created permanent trust funds to receive income derived from taxation on or royalties from finite natural resources.

STATE

APPLICATION OF SEVERANCE TAX AND ROYALTY INCOME

Alabama

Proceeds of the Timber Severance Tax support State Conservation Department timber restoration activities.

The Coal Severance Tax is used to pay debt service on Alabama State Docks Department, Seaport Facility Revenue and Special Tax Bonds. \$15,000,000 originally issued. \$13,075,000 presently outstanding. No additional bonds may be issued with the Coal Severance Tax as security.

Arkansas

Revenue from severance taxes are returned to the county level after the State deducts all claims against the county, plus a 1 1/2% charge. The 1 1/2% charge is deposited in State General Fund.

California

Fifty-six percent for capital outlay programs in California's Higher Education System.

Twenty-two percent for special projects including irrigation aqueducts and improvement in navigable waterways.

Eight percent to State Conservation Department to support various activities.

Fourteen percent deposited in State General Fund.

Colorado

Severance tax deposited in State General Fund

Idaho

Severance tax deposited in State General Fund.

Kansas

All revenue from Oil, Gas and Minerals Severance Tax is deposited in State General Fund.

All revenue from Sand and Gravel Royalty Tax is returned to counties.

Kentucky

Proceeds from severance tax are placed in short term investments. Semi-annually counties receive money for special projects. All remaining money is deposited in State General Fund.

STATE

APPLICATION OF SEVERANCE TAX REVENUE

Louisiana

Ninety percent of severance tax revenue is retained by the State for general purposes. The remaining 10% is allocated to parishes (counties).

Minnesota

Minnesota deposits 10% of the Taconite Production Tax in their general fund. Ninety percent is returned to districts where taconite is produced.

All proceeds from the Ore Royalty Tax are deposited in State General Fund.

Mississippi

Of the Timber Severance Tax, 50% is allocated to the Forest Redevelopment Fund, 25% is returned to counties and 25% is deposited in State General Fund.

The State levies taxes on gas production with 30% going to participating counties and 70% to State General Fund.

Mississippi also imposes a tax on oil production. Counties receive 30% of the first \$600,000, 10% of the next \$600,000 and 5% thereafter. The balance is deposited in State General Fund.

North Dakota

Thirty-five percent of the taxes which North Dakota levies on coal extraction goes to the Coal Impact Office. The Office then allocates money on the basis of application for public projects in the areas where coal is mined.

Thirty percent is allocated to the Land Board Trust Fund. Two-thirds of this is used to finance environmental studies. One-third is invested with interest proceeds deposited in State General Fund.

Thirty percent is deposited in State General Fund.

Remaining 5% allocated to counties.

Ohio

Seventy-five percent of severance taxes are used for the restoration of orphaned strip mining land.

Twenty-five percent is allocated to replug abandoned oil and gas wells which are deemed as hazards.

Oklahoma

State General Fund receives 85% of severance tax revenue. Fifteen percent is allocated to counties.

Utah

All revenue from severance taxes is deposited in State General Fund. Expenditures are then allocated by State legislature.

Exhibit II

Institution: Government Development Bank of Puerto Rico

Location: San Juan, Puerto Rico

Size:

Assets: \$782,101,951 - 1975

Purpose: The Government Development Bank was created in 1948 as an instrumentality and public corporation of the Commonwealth of Puerto Rico. Its two principal functions are to act as fiscal agent for the Commonwealth, its municipalities and public agencies, and to make loans to private enterprises which will aid in developing the economy of Puerto Rico. The Bank Charter provides that no changes in law may be made that impair the obligations of the Bank, that it shall have existence and that it is exempt from Commonwealth Banking Law.

Source of Funds: The Bank was originally capitalized by legislative appropriations. Its capital is received from operations, capital notes (some of which are guaranteed by the Commonwealth) and lines of credit with U.S. and Commonwealth banks.

Management Structure: The governing body is a seven-member Board of Directors who are appointed by the Governor and serve four year overlapping terms. Appointment is subject to approval by the Council of Secretaries of the Commonwealth. The Bank is under the supervision of and subject to examination by the Commonwealth's Secretary of the Treasury.

Management of Funds: N.A.

Portfolio: N.A.

Functions: As fiscal agent, the Bank is responsible for the timing and sale of bonds and notes by the Commonwealth and its agencies, and, during the period 1944-75 it arranged or provided for nearly \$11 billion of borrowings by these governmental units. The Bank also arranges or provides loans for the private sector. From 1944 to 6/30/75 it reportedly has disbursed over \$337 million loans to private business (about 47% for manufacturing, 22% for commercial buildings, 6% for hotels). As of 6/30/76 there were \$165.4 million business loans outstanding (45% industrial, 3.6% hotel and restaurant, 14% commercial buildings, 4% hospital, and remainder interium and other). The Bank also issues its own full faith and credit notes (\$40,000,000 as of 6/30/75 issued to major mainland and Puerto Rican Banks). The Bank is the central clearing house for checks in the Commonwealth. On 9/11/75 the Bank negotiated a \$612 million note purchase agreement (guaranteed by the Commonwealth) with major mainland and Commonwealth Banks to provide a revolving line of credit for the Commonwealth and its various public agencies. This line of credit will decline to \$352 million by 7/15/79.

Institution: The Pennsylvania Industrial Development Authority  
created in 1973

Location: Harrisburg, Pennsylvania

Size:

Assets: \$266,357,736 (as of March 31, 1976)  
Capital Funds: \$226,309,289

Purpose: The Authority was established to alleviate unemployment and economic stagnation within the Commonwealth of Pennsylvania by the promotion and development of industrial and manufacturing enterprises, research and development enterprises and agricultural enterprises in those areas where critical unemployment exists. To accomplish its purposes, the Authority is authorized to make mortgage loans to non-profit Industrial Development Agencies. The Agencies utilize funds borrowed from the Authority to finance industrial development projects on behalf of private industry at below market interest rates.

Source of Funds: Moneys to make mortgage loans have been provided from aggregate legislative appropriations of \$191,140,000 during fiscal years 1955 through 1975, from the proceeds of tax-exempt bond issues in the total principal amount of \$72,500,000 and from repayment of principal and interest on outstanding mortgage loans.

Management Structure: Membership of the Authority consists of the Secretary of Commerce who serves as Chairman, and the Secretaries of Labor and Industry, Community Affairs, Agriculture and Banking. In addition seven members are appointed by the Governor for terms of seven years. The Board meets monthly to review mortgage loan applications.

Management of Funds: Disbursement of mortgage loan proceeds and receipt of mortgage loan repayments are the responsibility of a designated Trustee bank. Moneys held by the Trustee are invested according to State Statute.

Portfolio: As of March 31, 1976 the Authority's portfolio was invested in \$206 million mortgage loans yielding from 7/8 of 1% to 4% per annum. In addition the Authority has \$56.5 million invested in U.S. Treasury Securities.

Income:                      Income from investments remains with the Authority.

Indebtedness Limitation: Additional tax-exempt bonds may be issued provided that estimated net revenues over the life of all outstanding bonds, including the proposed issue, will equal not less than 200% of the annual principal and interest requirements on all bonds to be outstanding.

# FINANCIAL ASSISTANCE FOR INDUSTRY

|                | State Sponsored Industrial Development Authority | Privately Sponsored Development Credit Corporation | State Authority or Agency Revenue Bond Financing | State Authority or Agency General Obligation Bond Financing | City and/or County Revenue Bond Financing | City and/or County General Obligation Bond Financing | State Loans for Building Construction | State Loans for Equipment, Machinery | City and/or County Loans for Building Construction | City and/or County Loans for Equipment, Machinery | State Loan Guarantees for Building Construction | State Loan Guarantees for Equipment, Machinery | City and/or County Loan Guarantees for Building Construction | City and/or County Loan Guarantees for Equipment, Machinery | State Financing Aid for Existing Plant Expansions | State Matching Funds for City and/or County Industrial Financing Programs | State Incentive for Establishing Industrial Plants in Areas of High Unemployment | City and/or County Incentive for Establishing Industrial Plants in Areas of High Unemployment |
|----------------|--|--|--|---|---|--|---------------------------------------|--------------------------------------|--|---|---|--|--|---|---|---|--|---|
| Alabama        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   | •2  |   |  |   |
| Alaska         | •4   | •  | •4   | •4  | •   | •3   | •                                     | •                                    |  |   |   |  |  |   | •   |   |  |   |
| Arizona        | •  | •4   |  |   | •   | •3   | •                                     | •                                    |  |   |   |  |  |   | •   |   |  |   |
| Arkansas       | •  | •5   |  |   | •   | •  |                                       |                                      |  |   |   |  |  |   |   |   | •6   |   |
| California     | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Colorado       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Connecticut    | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Delaware       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Florida        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Georgia        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Hawaii         | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Idaho          | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Illinois       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Indiana        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Iowa           | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Kansas         | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Kentucky       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Louisiana      | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Maine          | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Maryland       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Massachusetts  | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Michigan       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Minnesota      | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Mississippi    | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Missouri       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Montana        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Nebraska       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Nevada         | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| New Hampshire  | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| New Jersey     | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| New Mexico     | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| New York       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| North Carolina | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| North Dakota   | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Ohio           | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Oklahoma       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Oregon         | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Pennsylvania   | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Rhode Island   | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| South Carolina | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| South Dakota   | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Tennessee      | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Texas          | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Utah           | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Vermont        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Virginia       | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Washington     | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| West Virginia  | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Wisconsin      | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| Wyoming        | •  |  |  |   |   |  |                                       |                                      |  |   |   |  |  |   |   |   |  |   |
| STATE TOTALS   | •30  | •35  | •18  | •8  | •43                                       | •21  | •15                                   | •13                                  | •8   | •7  | •14   | •11  | •0   | •0  | •27   | •7  | •13  | •7  |
| Puerto Rico    | •  | •  | •  | •   | •   | •  | •                                     | •                                    | •  | •   | •   | •  | •  | •   | •   | •   | •  | •   |

Source: Industrial Development  
December 1975





Footnotes for Tables on pages 12, 13, 14.

- 1--Permitted only in specified municipalities
- 2--State allows cities or counties to offer financial aid for existing plant expansions. In Louisiana, state financing aid is directly involved only in the case of those port authorities whose obligations are backed by the full faith and credit of the state
- 3--Activity is limited to Anchorage Port Authority in Alaska, to Ports Authority in Georgia and to port districts in Oregon. In Washington, port districts are municipal corporations operating under special state enabling legislation and are the only public bodies authorized to issue either revenue or general obligation bonds to finance industrial development
- 4--Authorized but none is active
- 5--State-sponsored but privately operated non-profit Regional Job Development Corporations may be established in low-income areas to provide loans to small businesses
- 6--State guarantee of loans from privately operated non-profit Regional Job Development Corporations serving low-income areas
- 7--Limited to EDA-designated areas
- 8--Loans also cover working capital, site improvements and inventories
- 9--Permitted for processing products of agriculture, including forestry and timber production
- 10--New York Job Development Authority and New York Urban Development Corp. have the power to issue non-guaranteed bonds
- 11--New York Job Development Authority is empowered to participate in loans for machinery and equipment in new manufacturing plants
- 12--Under the New York Job Incentive Program, a corporate franchise or unincorporated business tax credit is allowed to firms locating, expanding or improving facilities in a low-income section of a city of 50,000 or more population or in a low-income rural county. The firm must create or retain at least five jobs and provide an approved training program. In addition, the largest share of the facility's volume of business must be from outside the eligible area in which it is located, as in manufacturing or wholesaling. The credit is given for up to 10 years. The 2% credit described in footnote 46 may be taken instead of the job incentive credit. Under the Job Incentive Program real property tax exemption is a local option
- 13--Permitted for electric generation and transmission facilities in North Dakota, and for electric generation and transmission facilities and for wastewater treatment facilities in Texas
- 14--State and local program of participation in building construction
- 15--State loan guarantees of up to \$250,000
- 16--For acquiring and developing sites
- 17--Authorized if a one mill, multi-purpose tax levy is approved by local voters
- 18--A 15% reduction in assessed valuation of business inventories is allowed. Business inventories include raw materials used in manufacturing
- 19--Exemption is allowed on certain types of equipment, including rail freight cars, certain watercraft and vessels of more than 1,000 tons burden
- 20--Applies only to pollution control equipment
- 21--Law allows reduction in taxes but not exemption. Goods in transit, inventories and raw materials are assessed at 5%
- 22--Corporate income tax credit is allowed only for the cost of pollution control equipment
- 23--Equipment and machinery acquired after the 1973 assessment date is exempt from local property tax
- 24--Delaware and New York do not collect excise tax
- 25--Nebraska, Ohio, Texas and Washington do not tax corporate or personal income. Florida and New Hampshire do not tax personal income
- 26--Raw materials are assessed at 25%, while most other tangible personal property is assessed at 100%
- 27--50% of federal tax paid is exempt
- 28--First \$4,500 of assessed taxable value of personal property is exempt
- 29--Inventory is taxed only on the value of raw materials
- 30--Applicable to Industrial Revenue Bond financed property only. A 10-year exemption is allowed
- 31--In Kentucky, Rhode Island and Tennessee, the exemption is applicable at the local level only. In Maryland, the exemption may be applicable at the county or local level. In Virginia, localities have the option of exempting all or part of certified pollution control facilities and equipment from real or personal property taxes
- 32--Applicable under the tax equalization law only
- 33--Exemption applicable to capital improvements only
- 34--Allowed except for sales/use tax when purchased for use as an ingredient in tangible personal property for sale
- 35--A 1% tax credit, based on wages paid, is allowed for the first three years to new and expanding industry engaged in the mechanical or chemical transformation of materials or substances into new products. "Expanding" means to expand a present operation so as to increase total permanent jobs by 30%
- 36--Taxed at 2% instead of usual 4%
- 37--R&D equipment is classified as manufacturers' machinery and equipment and, as such, is eligible for tax exemptions
- 38--Local option, in designated redevelopment areas
- 39--Reduced 79%
- 40--Exemption is allowed on separate, detachable accessory tools and equipment which have a useful life of less than 12 months
- 41--State does not collect sales/use tax
- 42--1976 business inventories are allowed a 50% exemption; 1977 and thereafter, a 62.5% exemption will be allowed
- 43--Applicable to goods stored in bonded warehouses
- 44--New Jersey citizens employed in New York and Pennsylvania are not exempt
- 45--Noise abatement codes recommended by state for adoption by municipalities
- 46--A tax credit equal to 2% of qualified capital invested in new production facilities may be applied against a business corporate franchise, unincorporated business income or personal income tax liability. The tax credit is restricted to investment in buildings, equipment and facilities which have a useful life of at least four years and are used in manufacturing, processing, assembling, refining, mining, agricultural or commercial fishing. Experimental research and development facilities may elect this option in place of the write-off described in footnote 47. A particular investment is not eligible for both the investment credit and other state tax incentives. Corporate franchise taxpayers will continue to be required to pay a minimum tax of \$125 annually. Any credit remaining may be carried forward
- 47--Costs paid or incurred in a taxable year by incorporated or unincorporated business for experimental R&D facilities, for industrial waste treatment facilities and/or for air pollution control facilities may be deducted from net income for tax purposes. The 2% credit described in footnote 46 may be taken in lieu of this credit
- 48--Tangible and intangible personal property is not subject to ad valorem taxes
- 49--New equipment is allowed a preferential rate of 1%, with a maximum tax of \$80 per article
- 50--Leaf tobacco is allowed an exemption of 60% of tax rate, bales of cotton, 50%, and peanuts, 20%
- 51--Exemption extends only to new construction
- 52--Tax credits allowed to manufacturers and processors for property taxes paid on goods in process
- 53--Exemption allowed while facility is under construction only
- 54--Exclusion from sales and use tax on industrial purchases used directly in industrial production and research
- 55--Exclusion of tangible personal property from taxation at local level
- 56--Rhode Island's sales/use tax is being phased out over five years
- 57--In Tennessee, tax credits are allowed for products of state soil. In Florida, tax credit applies only to alcoholic beverages produced from specified Florida-grown agricultural products
- 58--Seven-year annexation or de-annexation exemption
- 59--Allowable depreciation is similar to that which is permitted under federal laws
- 60--Exempt from sales/use tax, but not from business capital tax
- 61--Local governments may classify separately the tangible personal property of research and development firms from that of other taxpayers and tax it at different rates
- 62--Deduction is allowed for sales tax paid on energy
- 63--80% credit
- 64--Reduced rate of 1.5% (1% state and 5% local) applied to industrial machinery, installation and repairs
- 65--Provided only in rare instances. In California, a few cities and counties will lease land they own at nominal rates
- 66--Limited to technical assistance
- 67--Facilities available on a contract basis
- 68--State vocational education program keyed to federally funded program
- 69--Carried out through local development corporations
- 70--Available to industry on a contract and/or consulting basis
- 71--City-owned land only. Cities may not purchase land for purpose of providing free land to industry
- 72--Highway Commission will build first two miles of road into new ski areas
- 73--Maryland Industrial Development Financing Authority will guarantee up to 80% of the mortgages for land and 70% for equipment for recreational projects
- 74--Activity limited to certain units
- 75--State supplies 75% of cost of administering programs; no reimbursement to trainees
- 76--Cities and counties are authorized to use mill levy for industrial development purposes. Speculative buildings and free land have been provided in some instances
- 77--Port districts only
- 78--Funds are from Public Health for solid waste disposal projects
- 79--State matches funds from U.S. Dept. of Housing and Urban Development

Exhibit III

Institution: Swedish Investment Bank Ltd.

Location: Stockholm, Sweden

Size: 12/31/74  
Assets: U. S. \$672.8 million  
Capital: U. S. \$270.9 million

Purpose: Swedish Investment Bank Ltd. ("SIB") was established in 1967 by an act of the Swedish Parliament to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalization, structural adaptation and development. The act establishing SIB contemplated that its lending will be consistent with national economic policies. All of the capital stock of SIB is owned by the Swedish Government. In addition, the Swedish Government has extended a limited guarantee of SIB's obligations.

Source of Funds: Subscribed capital, reserves, net income, cash flow from lending operations and borrowing.

Management Structure: Governed by a Board of Directors (9) and Deputy Directors (9). Ongoing operational responsibility rests with Managing Director and Staff. Total employees: 31, 22 of whom are managerial or professional. In certain loan and credit evaluations, SIB engages special consultants.

Management of Funds: Internal. Bank's staff consists primarily of "lending officers" with previous commercial and investment banking experience.

Portfolio: SIB makes medium (5-10 years) and long-term (10-20 years) loans and guarantees thereof principally to or for private Swedish companies to finance industrial projects in Sweden and, to a lesser extent, Swedish exports. Such financing is not generally available from other sources in Sweden and may involve additional risks especially those related to long-term developments, which would not normally be assured by conventional Swedish lending institutions. SIB is also authorized to make equity investments.

In assessing individual projects, SIB pays particular attention to the commercial viability of the project concerned. SIB also considers the impact of the use

Portfolio:  
(cont'd.)

of proceeds on the Swedish economy. One of SIB's objectives is to earn a satisfactory return on its equity capital and it applies credit standards and negotiates loan terms consistent with this purpose.

At 12/31/74, SIB's outstanding loans totalled U. S. \$517.6 million and its guarantees outstanding totalled U. S. \$15.8 million.

## Capital Structure:

|         | 12/31/74 |                      |             |
|---------|----------|----------------------|-------------|
| Debt    | U. S.    | \$487.8 million      | 64.3%       |
| Capital | U. S.    | <u>270.9 million</u> | <u>35.7</u> |
|         | U. S.    | \$758.7 million      | 100.0%      |

## Income:

10% of net income allocated to statutory reserve.  
Substantially all net income to date retained by SIB.  
Income not exempt from taxation.

Institution: Japan Development Bank

Location: Main office in Tokyo. Other offices in 9 cities in Japan and in Washington, D. C., New York City, London and Frankfurt.

Size: 3/31/76

Assets: ¥ 3,521,391 million (\$11,433 million)  
Capital: ¥ 233,971 million (\$759.6 million)

Purpose: Established in 1951 as a Japanese Government financial institution pursuant to the Japan Development Bank Law. Purpose is to supply long-term funds for the promotion of industrial development and economic and social progress. JDB makes loans to provide funds: (1) for acquisition and construction or improvement of plant and equipment; (2) for reclamation of land; (3) for acquisition of land and construction of buildings and equipment for urban redevelopment projects. A related authority (which JDB has not yet exercised) permits JDB to provide funds by subscription to corporate debentures issued to raise funds for above purposes. JDB can guarantee repayments of loans and has authority to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

Source of Funds: Principal sources are borrowings from Japanese Government, repayment of loans and internal sources. Outstanding government loans to JDB as of 3/31/76 amounted to \$9.3 billion. Other sources have consisted of foreign currency borrowings from the World Bank, all guaranteed by the Japanese Government. Also, there have been 6 dollar issues (including 5 registered issues publicly offered in U. S.), 1 Swiss franc issue and 1 Deutsche Mark issue of external loan bonds and notes. JDB is authorized to borrow an amount equal to 10x its capital and statutory reserve.

Management Structure: JDB is managed by a Governor, a Deputy Governor and 8 Executive Directors. JDB also has 2 auditors and 6 Counsellors. The Governor, the Deputy and the Auditors are appointed by the Prime Minister for terms of 4 years. The Executive Directors and Counsellors are appointed by the Governor for terms of 4 years and 2 years, respectively. The Governor is the CEO. The Executive Directors exercise various management functions in accordance with delegations from the Governor. Final authority to make decisions for JDB in all matters resides exclusively with the Governor.

**Management of Funds:** JDB makes its loans at fixed rates no greater than rates charged by private financial lenders and in most cases at lower rates. Maximum rate has been 9.2% since 11-75. JDB has limited foreign currency loans to amount of borrowings from the World Bank and charges the same interest rate plus 0.3%. JDB charges 0.2% to 0.3% per annum on outstanding amounts of foreign credits guaranteed by it. JDB makes most of its loans with original maturity of 10 - 15 years. Most of JDB's lending operations involve the financing of projects in cooperation with private financial institutions, with JDB taking the intermediate and longer term maturities and private banks taking the shorter maturities.

**Portfolio:** From inception to late 1960's, JDB's lending activities were directed primarily to electrical power, ocean shipping, coal mining, and the iron and steel industry. In the late 1960's and 1970's, JDB began to become more involved in urban development and pollution control. As of 3/31/76, portfolio was as follows: urban development 16.9%; regional development 12.5%; pollution control 14.2%; quality of life improvement projects 2.8%; resources and energy 15.7%; ocean shipping 21.6%; technological development 7.6%; other 8.2%; foreign currency loans 0.5%.

| Capital Structure:                             | 3/31/76 | (\$ Millions) | %           |
|--|---------|---------------|-------------|
| Long-term borrowing from government            |         | \$ 9,299      | 84.4%       |
| Guaranteed long-term borrowing from World Bank |         | 55            | 0.5         |
| Guaranteed external loan bonds and notes       |         | 228           | 2.1         |
| Capital and statutory reserve                  |         | <u>1,437</u>  | <u>13.0</u> |
| Total capital                                  |         | \$11,019      | 100.0%      |

**Income:** For fiscal year ending 3/31/76 JDB earned \$105.6 million. Of net earnings, \$78.9 million were put into the statutory reserve, and \$26.7 million was paid to the Japanese National Treasury.

Institution: National Financiera S.A.

Location: Mexico City, Mexico. Offices in New York and Tokyo.

Size: 12/31/75

Assets: U. S. \$6.1 billion

Capital: U. S. \$555 million (including reserves and special funds)

Purpose: National Financiera S.A. ("Nafinsa") was established in 1934 and is the principal instrument of the Mexican Government for the financing of economic development in Mexico. By law, the Government must own 51% of Nafinsa's capital stock. At 12/31/75, the Government owned, directly and indirectly, 68% of such stock, with the balance owned by other Mexican institutions.

Nafinsa's broad purpose is to assist in the financing of development projects which (1) create employment; (2) improve personal income; (3) expand regional development; (4) centralize industry; (5) promote exports; (5) stimulate capital formation; (6) foster economic independence.

Source of Funds: Capital funds contributed by the Government, borrowings, retained earnings and cash flow from lending operations. Principal source is borrowings. By law, the Government can call up additional capital subscriptions from certain Mexican financial institutions. Nafinsa also administers 209 special purpose development trust funds for the account of the Government.

Management Structure: Managed by Board of Directors (Minister of Finance is Chairman). Director General is responsible for ongoing operations and policy. President of Mexico may veto resolutions of Board under certain circumstances. Total staff approximately 1,600.

Management of Funds: Internal.

Portfolio: Nafinsa may participate in the financing of development projects through direct loans, loan guarantees or equity investments, all of which may be extended to or made in or on behalf of both public and private sector entities. Principal activity is direct lending (U. S. \$4.9 billion outstanding) with public sector borrowers accounting for

Exhibit IV

Institution: International Bank for Reconstruction and Development (World Bank)

Location: Headquartered in Washington, D.C., U.S.A. Offices in London, Paris, Tokyo. Missions in 20 countries.

Size: 3/31/76  
(000's)

Assets: U. S. \$29.5 billion

Capital: Authorized Capital: U. S. \$30.9 billion  
Paid-in-Capital: U. S. \$3.1 billion

Purpose: Established 6/24/46 pursuant to articles of agreement drawn up at Bretton Woods Conference of July, 1944. Initial membership 29 sovereign states. Present membership 127 sovereign states.

Purpose of World Bank is to function as intergovernmental financial institution to (a) assist in the reconstruction and development of member states by facilitating investment of capital for productive purposes; (b) supplement private foreign investment through guarantees of or participation in private investments; (c) supplement private investment via loans from its own resources or borrowed funds. See "Affiliated Institutions" below.

Source of Funds: Capital provided by subscriptions of member states and borrowings in international and U. S. capital markets. Supplemented by internal cash flow from lending activities and sale of loans.

Management Structure: Governed by Board of Governors composed of one from each member state. Executive Directors (20) appointed by Board function as Board of Directors. President selected by Executive Directors and is responsible for all operations. Operations are organized by geographic area, industry, and function. Total employees: approximately 3,500.

Management of Funds: Internal. All loans to or guaranteed by member states. Loan portfolio monitored with respect to industry and country in relation to worldwide economic conditions. The bank has not suffered any losses on its loans to date and does not take part in debt rescheduling agreements.

- Portfolio: Loans made generally in conformity with 5 principles: (1) loans must be to governments, government agencies or authorities, or if to private enterprises, guaranteed by a government (only member governments eligible); (2) loans must be for productive purposes based on bank analysis; (3) bank must exercise prudence in making loans and consider ability of borrower to obtain foreign exchange necessary for loan service; (4) Bank does not make loans obtainable privately on reasonable terms; (5) use of proceeds supervised by Bank. Since inception, loans totalling \$31.1 billion have been made to 95 countries. Current loans outstanding total \$27.7 billion. Largest borrowers are Brazil, Mexico, Korea, Yugoslavia, Columbia, Iran, Turkey, Philippines and Nigeria. Loans made for extended terms at fixed rates (1/2% above money cost to Bank adjusted quarterly).
- Capital Structure: Debt 73.2%; Capital Stock 26.8%. Capital Stock funds may only be used for lending with consent of each member state; otherwise such funds must be used for administrative purposes or to support guarantees and borrowings only.
- Income: Generally retained by Bank except portion transferred to International Development Association.
- Affiliated Institutions: International Finance Corporation. Makes loans and investments to private enterprises in member countries without government guarantee. 104 governments are members. Sources of funds are members' subscriptions and loans from Bank. Staff is substantially identical to that of Bank.
- International Development Association. Purpose is to promote economic development in less developed member countries. 116 countries are members. Loans generally made for terms of 50 years without amortization. Service charge of 3/4% on outstanding balance levied in lieu of interest. Staff substantially identical to that of Bank.

Institution: Inter-American Development Bank

Location: Headquartered in Washington, D.C., U.S.A.  
Field offices in 23 South American locations

Size: 12/31/75

Assets: U. S. \$2.98 billion  
Capital: Authorized Capital: U. S. \$6.3 billion  
Paid-in-Capital: U. S. \$983 million

Purpose: Established 10/1/60 pursuant to Inter-American Development Bank Agreement of December, 1959. Membership consists of 24 North and South American Governments, plus Belgium, Denmark, Israel, Japan, Spain, Switzerland, U.K., West Germany and Yugoslavia.

Purpose of Bank is to further individual and collective economic and social development of regional developing member countries via: (1) promotion of public and private investment for development purposes; (2) financing, directly or through guarantees, of development and economic growth of members; (3) encouragement and/or supplement of private investment in development projects; (4) co-ordination of members' development, economic growth and foreign trade; (5) provision of technical assistance on development projects.

Source of Funds: Capital provided by members' subscriptions plus borrowings in U. S. and international capital markets, internally generated funds and sales of loan participations. See also "Special Funds" below.

Management Structure: Governed by Board of Governors, one from each member state; executive powers delegated to Executive Directors (11), one U. S., 2 non-regional and 8 regional. Administrative responsibility centered in President, appointed by Board, and Executive Vice President, appointed by Executive Directors. Operations organized by region and function.

Management of Funds: Internal. Loans made directly to or guaranteed by member governments (98%). Loans monitored with respect to country, industry and regional economic conditions. Since inception, defaults have occurred on 2 loans totalling \$11.2 million, resulting in net loss of \$1.8 million. The Bank does not take part in debt rescheduling agreements.

## Portfolio:

Loans made pursuant to 6 principles: (1) loans made only on basis of formal analysis presented to Executive Directors; (2) in evaluating loan or guarantee, Bank must take into account ability of borrower to obtain private financing on terms it believes reasonable; (3) Bank must consider ability of borrower or guarantor to meet loan obligations; (4) in opinion of Bank, interest rate and other loan charges plus amortization schedule must be appropriate for the project being financed; (5) the Bank must receive adequate compensation for risks assumed by guaranteeing loans made by others; (6) loans made for special projects only and directly, except when amounts too small to warrant bank supervision. Since inception, Bank has made or authorized 889 loans aggregating \$8.7 billion. Largest borrowers are Brazil, Mexico, Argentina, and Columbia. Loans made for terms of 10-25 years, including grace periods, at fixed rates. Current lending rate is 8%.

## Capital Structure:

Debt 53.6%, capital funds and reserves 46.4%. Capital subscriptions of member states available for general use unless specifically restricted.

## Income:

Income retained as reserve for loan losses.

## Special Funds:

Social Progress Trust Fund. Administered by Bank from grant provided by U. S. Government. Resources of Fund may be used to improve land use, land settlement, low income housing, water supplies, sanitation or education. Assets consist of 119 loans aggregating U. S. \$537.2 million.

Special Operations Fund. Established by Bank from separate contributions by members to finance projects to which special circumstances apply, principally need for loan terms to be more liberal than those normally offered by Bank. Assets consist of 453 loans aggregating U. S. \$4.2 billion.

Venezuelan Trust Fund. Administered by Bank from U. S. \$500 million grant provided by Venezuela in 1975. Purpose is to contribute to the financing of projects and programs that would have significant effect on development of Bank's smaller members. Approved loans aggregate U. S. \$83.7 million.

Institution: Asian Development Bank  
Location: Principal office in Manila, Philippines

Size: 3/31/76

Assets: U. S. \$2,834,910  
Capital: Authorized Capital: U. S. \$3.3 billion  
Paid-in-Capital: U. S. \$1.1 billion

Purpose: Established in 1966 as an international inter-governmental institution pursuant to an agreement initially signed by 31 countries.

Purpose is to foster economic growth and cooperation in Asia and the Far East (the "region") and to contribute to the acceleration of economic development in the developing member countries in the region, collectively and individually. The Bank's principal functions include: (1) promotion of public and private investment; (2) financing economic growth; (3) assisting in coordination of members' economic growth, plans and policies; and (4) providing technical assistance for the preparation, financing and execution of development projects and plans.

Source of Funds: Capital provided by subscriptions of member states and borrowings in member countries and elsewhere. General principle is that borrowings should be diversified as to country of borrowing. These sources supplemented by internal cash flow from lending activities.

Management Structure: Managed by Board of Governors, Board of Directors, President, Vice Presidents, other officers and staff. All powers are vested in Board of Governors (with certain powers which may be delegated to Board of Directors), with each member selecting a Governor and an alternate Governor. The Board of Directors (12) has responsibility for the direction of the general operations of the Bank.

Management of Funds: Internal. Bank may make, participate in or guarantee loans to the governments of its developing member countries, to any of their agencies or political subdivisions and to public or private enterprises operating within such countries, as well as to international or regional entities

Management of Funds:  
(cont'd.) concerned with economic development in the region. The Bank has not suffered any loan losses in its ordinary operations to date and follows a policy of not taking part in debt rescheduling agreements.

Portfolio: Loans made generally in conformity with the following principles: (1) the Bank's loans cover only a portion of the total costs of each project financed; (2) goods and services must be purchased in the loan country, with competitive bids to be received on such; (3) realistic economic, technical, and financial feasibility of projects involved; (4) adequate borrowing capacity; (5) beneficial effects on domestic savings and balance of payments; and (6) assistance in expansion of employment opportunities. Loans made for projects in 15 member countries, including industrial development banks (27.3%), utilities (35.7%), transportation and communications (21.8%), agriculture (14.3%) and education (0.9%).

Capital Structure: Debt 46.5%; Capital Stock 53.5%.

Income: Generally retained by Bank.

Institution: African Development Bank

Location: Abidjan, Ivory Coast

Size: Authorized Capital: U.A. 400 million;  
Issued Capital: U.A. 370 million (1 Unit of Account =  
1 special drawing right of the IMF)

Purpose: Established by African Governments in 1964, commenced operations in July 1966. Present membership consists of 39 of 42 countries which are members of Organization for African Unity, including 16 which are included in U. N.'s list of 25 least developed nations.

Purpose of Bank is to promote the economic development of its member countries and social advancement of their peoples through gradual integration of their economies.

Source of Funds: Subscribed capital, borrowings and retained income. Bank also operates African Development Fund, established from grants from 16 non-African exporting countries, which makes 50 year interest free loans and SIDFIDA, a Geneva-based internationally funded organization of private enterprises which assists in the mobilization of international private capital for development projects in Africa.

Management Structure: Board of Governors, one from each member, oversees operations. Management responsibility and policy coordination rests with Board of Directors (9), President and staff.

Management of Funds: Internal. Bank oversees projects for which funds have been dispersed.

Portfolio: Alone or jointly with others, Bank (1) utilizes available resources to finance investment projects or programs consistent with its purpose; (2) promotes private and public capital investment in Africa; (3) provides technical and financial assistance in project evaluation and structure. All loans and investments in private sector must be government guaranteed. Portfolio at 9/30/74 consisted of one or more loans or equity investments in 31 countries totalling U. S. \$192 million. Loan terms keyed to ability of borrower to repay and service debt.

Capital Structure: Believed to be solely members' capital subscriptions, plus retained income. Discrepancy between issued capital and outstanding loans not reconcilable from existing data.

Income: Believed to be reinvested in operations.

Institution: European Investment Bank

Location: Luxembourg

Size: 12/31/75

Assets: U. S. \$6.4 billion

Capital: Authorized Capital: U. S. \$4.1 billion  
Paid-in-Capital: U. S. \$471.9 million  
Capital Subscriptions Due: U. S. \$177.0 million

Purpose: The EIB was established by the Treaty of Rome in 1957 which also established the EEC. The members of the EIB are the nine member states of the EEC. The purpose of the EIB is to contribute to the balanced and orderly development of a common market among the member states. The EIB grants and guarantees long-term loans to finance projects which are related to the development of the less advanced regions of the Common Market or the development of its conversion areas, where traditional activities are being supplanted by newer economic activities which serve the common interests of several member states. By unanimous decision the EIB grants loans for projects outside the EEC.

Source of Funds: The EIB finances its loans from the capital paid in by the member states, from internally generated funds and from borrowings in European and international capital markets.

Management Structure: The EIB is administered and managed by (1) a Board of Governors composed of one government minister (usually the minister of finance) appointed by each member state; (2) a Board of Directors composed of 18 Directors and ten Alternative Directors each appointed by the Board of Governors for a 5 year term on nomination by the member states and the Commission of the European communities; (3) a Management Committee, consisting of a President and four Vice Presidents appointed for 6 years by the Board of Governors on recommendation of the Board of Directors.

Management of Funds: Management of funds is internal, and the EIB has not experienced any defaults on its loans or guarantees.

## Portfolio:

Loans and guarantees are made according to the following policy: (1) for projects that improve less developed regions of the EEC and that are of common interest to the member states (such projects preferably assist in the coordination of markets and the integration of the economies of member states), (2) for projects that are of sufficient size to avoid widespread dispersal of its resources; (3) loans made shall only supplement the resources otherwise available to the borrowers for such projects; (4) special attention is given to projects in which member countries' capital is invested. The EIB does not generally lend more than 40% of the cost of a project. At December 31, 1975 it had loans disbursed as follows: 30.5% energy projects; 24.8% industry; and 17.5% to transportation.

## Capital Structure:

80% Funded Debt, 11% Capital, 9% Statutory Reserves. Subscribed capital is \$4,129.5 million of which \$648.9 is or will be paid in by members. Calls on subscribed capital are required to be in proportion to members' percentage of subscription obligations.

## Income:

Income is appropriated to statutory reserve. EIB's assets and income are exempt from all direct taxes of the member states.

Institution: European Coal and Steel Community ("ECSC")

Location: Brussels, Belgium; Luxembourg

Size: At December 31, 1975, the assets of the ECSC amounted to U. S. \$3.5 billion. ECSC's "capital" is provided solely from retained earnings and reserves.

Purpose: Established 4/18/51 pursuant to treaty. Initial membership of 6 European nations. Present membership 9 European nations. Purpose is to aid the development of the economies of the member states through the creation of a common market for coal and steel. Also, ECSC facilitates the financing of capital investment programs in coal, coke, iron ore, iron, steel and scrap by lending funds which it obtains primarily through its own borrowing. ECSC also responsible for coordinating production in above-named products by methods such as determining general objectives for modernization and expansion of productive capacity, reviewing investment programs, making research grants, enforcing fair competition, fixing prices in emergencies and imposing fines for infringement of ECSC rules. Also active in promoting better living and working standards for workers in the coal and steel industries through housing loans and retraining and research grants.

Source of Funds: Capital provided by: (1) a regular revenue levy collected monthly in the respective currencies of the member states from steel producers. Levy payments to be made in 1976 are expected to be \$104.9 million; (2) borrowings through bonds or notes, both public and private. As of 3/31/76 ECSC had outstanding \$3.3 billion of funds borrowed.

Management Structure: Governed by a Commission comprised of 13 members who are nationals of the member states, not more than 2 of whom may have the same nationality. Over the Commission is a Council consisting of one representative of each member state. Certain actions of the Commission require the assent of the Council. The ECSC is also responsible to a European legislative assembly - the European Parliament, which consists of 198 representatives elected by the legislatures of the member countries. It reviews the ECSC and by a vote of consensus can compel the resignation of the members of the Commission. Also, the Court of Justice of European Communities, comprised of 9 judges, interprets and applies the provisions of the treaty. Decisions are binding.

**Management of Funds:** The Commission has the responsibility of borrowing, financing and managing funds. The primary responsibility for specific capital investment programs rests with the individual borrowers who decide what capital projects they want to undertake and whether to seek the assistance of the ECSC. The criteria applied by ECSC in selection of projects to be financed are based on normal banking practices. ECSC borrows in whatever currencies appear most advantageous to it and under the best conditions prevailing at the time in the capital markets in which the ECSC operates. In order to minimize risks, ECSC matches principal, interest rates, maturities and currencies of loans made with its own borrowings. A general policy is also to secure loans by guarantee of country, banks or industrial concerns or mortgages on the financed projects.

**Portfolio:** Since inception ECSC has granted loans (both from borrowed funds and from its own resources) aggregating \$3.4 billion through 12/31/75, of which, as a result of repayments by the borrowers, \$2.7 billion was then outstanding. Of this amount, about 26% was guaranteed by the member countries, 25% by banks and 18% by industrial concerns, and 27% was secured by mortgages on the projects financed. Since establishment, there have been defaults on 3 loans, totaling \$1.8 million, less than 0.1% of the total amount of loans granted by the ECSC. Rescheduling of principal and interest payment dates and delays in the receipt of loan service charges have been insignificant. Guarantees granted by ECSC since inception have aggregated to \$65.3 million through 12/31/75, of which \$24.3 were outstanding at that date. ECSC's guarantees are secured by guarantees from member countries, banks, industrial concerns or by mortgages on the projects financed. ECSC has never been required to make payment on a guarantee.

**Capital Structure:**

|               | 12/31/75        |            |
|---------------|-----------------|------------|
| Borrowings    | \$2,786 million | 82.1%      |
| Reserves      | 338             | 9.9        |
| Revenue Funds | <u>271</u>      | <u>8.0</u> |
| Total Capital | \$3,395 million | 100.0%     |

**Income:**

In 1975 revenues of \$307.95 million: 57.9% from interest on loans; 26.6% from levies and 15.6% from contributions, interest investments and other. 55.3% went to pay interest and fees payable; 6.3% for administration; 7.5% for research; and 14.9% went for other. Most of the 16% excess went to the Guarantee Fund, housing projects, and reconversion, technical and economic research.

Exhibit V

Institution: Saudi Development Fund

Location: Riyadh, Saudi Arabia

Size:

Capital: SR 10 billion (Saudi Riyals)

Purpose: Established in September 1974, the SDF participates in financing development projects in the developing states by providing loans.

Source of Funds: Believed to be direct contribution from Saudi Arabian revenues.

Management Structure: The Fund is managed by a six man Board of Directors comprised of a Deputy Chairman, the Minister of Finance and National Economy, and four other members selected for three year terms of office by the Council of Ministers.

Management of Funds: Internal

Portfolio: The Fund will grant loans to projects of economic or social benefit to the recipient state on the condition that the loan is repaid in Saudi Riyals and that any one loan does not exceed 5% of the Fund's capital or 50% of the overall cost of the project being financed. In addition, any one country may not be extended loans totalling more than 10% of the Fund's capital. To date the Fund has extended more than fifty loans to a large cross-section of developing countries including Indonesia, Egypt, North Yemen, People's Republic of Congo and Niger.

Capital Structure: N.A.

Income: Believed to be retained.

Institution: Arab Bank for Economic Development in Africa

Location: Khartoum, Sudan

Size: Authorized and subscribed capital: U. S. \$231 million

Purpose: Established in 1974 under aegis of Saudi Arabia and League of Arab States. Operations commenced in 1975. Membership consists of 18 Arab states which have contributed from U. S. \$50 million (Saudi Arabia) to U. S. \$1 million (Jordan, Bahrain, Sudan, Syria, Egypt, Mauritania, Palestine) to initial capital. Purpose is threefold: (1) assist in financing economic development in African countries; (2) stimulate the contribution of Arab capital to African development; (3) help provide technical assistance required by Africa's economic development.

Source of Funds: Anticipated to be capital subscriptions by member states, plus borrowings (up to a limit of 2x paid in capital and reserves), deposits and retained earnings. Special funds also authorized.

Management Structure: Board of Governors (one from each member country) oversees general operations and policies. Initiation and implementation of policies and direction of management via Board of Directors (12, based on share ownership) through President (Chairman of Board of Directors) and staff.

Management of Fund: Internal policies prohibit disbursement of funds without prior provision for supervision of related project by bank staff.

Portfolio: Operations of bank may take the form of (1) loans and guarantees granted to development financing institutions; (2) participation in financing of major economic projects, especially agriculture and industry, to make up any deficit from external sources of financing; (3) technical and financial assistance aimed at identifying and structuring economic development projects, especially Afro-Arab projects; (4) technical and financial aid with respect to technological development. Eligible recipients limited to (1) African governments and agencies; (2) public and private companies, organizations and projects in African

Portfolio:  
(cont'd.)

countries, majority owned by African governments or citizens; (3) mixed, African or Afro-Arab economic development companies. Present portfolio believed to consist of 20-25 loans in 20 African states. Maximum participation by Bank in any one project to be lesser of U. S. \$10 million or 50%; term of loans to vary based on project; and interest charges to vary from 1% to 6%. All loans and investments must be guaranteed.

Capital Structure:

See "Source of Funds" above.

Income:

Allocated to reserves or members' capital accounts by Board of Governors.

Institution: Arab Fund for Economic and Social Development

Location: Kuwait City, Kuwait

Size: Authorized Capital: KD 400 million (KD = Kuwaiti Dinars)

Purpose: The AFESD was organized by the Arab Council of the Arab League in 1968. Operations did not commence until 1973 at which time the Fund had acquired 21 country members. The purpose of the Fund is to participate in financing economic and development projects in all Arab member states through: (1) financing economic development projects on easy terms to governments and to public or private organizations and institutions, giving preference to economic projects vital to overall Arab development and to joint Arab projects; (2) encouraging directly or indirectly the investment of public or private capital in such a manner as to ensure the development and growth of the Arab economy; (3) providing technical expertise and assistance to the various fields of economic development.

Source of Funds: Believed to be solely member subscriptions at present.

Management Structure: Believed to be internal.

Management of Funds: Internal. Interest rates for loans made during 1975 ranged from 4% - 6%.

Portfolio: Loan criteria emphasizes those projects that (1) assist less developed Arab countries in narrowing existing income differentials; (2) have infrastructures that link Arab countries; (3) facilitate cross-border funds flows; (4) intensify exploitation of agricultural resources; (5) contain new ideas for public and private co-operation investment projects. Since 1973 the Fund has granted loans totalling KD 93.2 million for eighteen projects in nine countries. During 1976 AFESD is planning a major expansion of activities with cumulative loan commitments projected to rise to KD 177 million.

Capital Structure: Of the KD 400 million committed capital, KD 102 million was paid up by the member states as of February 1976. The outstanding balance is to be paid over the next three years.

Income: No information available on disposition of income.

Institution: Abu Dhabi Fund for Arab Economic Development

Location: Abu Dhabi, United Arab Emirates

Size: Authorized Capital: DH 2 billion; Paid-in-Capital  
DH 1 billion (DH - Dirhams)

Purpose: To offer economic aid to Arab countries in support of their economic development through loans, participations, or guarantees. Also economic aid to African, Asian and other Islamic countries.

Source of Funds: Believed to be internal allocation from Abu Dhabi revenues.

Management Structure: N.A.

Management of Funds: Believed to be internal.

Portfolio: Loans outstanding to 11 countries totalling \$500 million at December 1975. Mostly connected with industry and manufacturing.

Capital Structure: Believed to be solely paid-in-capital at present.

Income: No information available with respect to distribution of income.

Institution: Islamic Development Bank

Location: Jeddah, Saudi Arabia

Size: ID = Islamic Dinars (equal to 1 Special Drawing Right  
of the International Monetary Fund)

Capital: Authorized Capital: ID 2 billion  
Paid-in-Capital: ID 755 million

Purpose: Bank established in 1975 based on agreement signed by members of Islamic conference in 1974. Purpose is to foster economic development and social progress of member and Muslim communities in accordance with Islamic principals. Present membership 29 countries.

Bank permitted under agreement to (1) purchase equity in productive projects in member countries, (2) participate in economic and social infrastructure projects in member countries; (3) make loans to public and private sectors for project financing in member countries; (4) establish and operate trust or special funds; (5) accept deposits and borrow funds; (6) assist members in matters relating to development, foreign trade and economic co-operation; (7) invest surplus funds. Bank is to be non-political and governed by economic considerations only.

Source of Funds: Members' capital subscriptions. Leverage permitted, but not yet used. Cash flow and income will also be used to fund activities of Bank in future.

Management Structure: Board of Governors, composed of one from each member state, to appoint Executive Directors and President, to be responsible for operations and selection of personnel. All officers of Bank must be from member states. Executive Directors approve all loans.

Management of Funds: All contracts will provide for internal follow-up and inspection by Bank.

## Portfolio:

Selection and determination of investments to be based on the following criteria: (1) due regard to be paid to safeguarding interests of Bank, including obtaining guarantees; (2) the ability of recipient and/or guarantor to meet obligations to Bank; (3) consistency with principles of promotion of complimentary economic development among members, promotion of social and economic well being in member states and enlargement of employment opportunities; (4) avoidance of concentration of loans and investments in one country and maintenance of reasonable relation of loans and equity investments in each country; (5) reasonable diversification of equity investments; (6) in all cases, priority to be given to co-operative economic projects.

Loans to be for terms based on project requirements. In view of interest prohibition under Islamic law, service fee to be charged.

## Capital Structure:

Presently all member states' equity.

## Income:

May be distributed to members after general reserve equals 25% of subscribed capital.

Institution: Kuwait Fund for Arab Economic Development

Location: Kuwait City

Size:

Capital: Authorized Capital: KD one billion;  
Paid-in-Capital : KD 328 million (KD - Kuwaiti Dinars)

Purpose: To assist Arab and other developing states in implementing development projects by making KD loans. The Fund may also guarantee the obligations of such states or corporate entities. The Fund may not finance more than 50% of non-local project cost.

Source of Funds: 400 million KD's out of government reserves according to the needs of the Fund. 600 million KD's out of public revenues of the State. Amount to be appropriated determined annually.

Management Structure: Prime Minister - Chairman of Board of 9 Directors elected for an initial term of two years. Chairman appoints Director - General of the Fund (upon recommendation of the Board) who has responsibility for financial and administrative matters.

Management of Funds: Net profits of the Fund are credited to a reserve account until reserves equal 20% of capital. Thereafter profits are added to the capital of the Fund.

| Portfolio:                                      | (KD Millions) |
|---|---------------|
| Cash  | 5.1           |
| Bank deposits                                   | 174.5         |
| Securities                                      | 110.4         |
| Loans   | 62.0          |
| Participations in Arab development institutions | 25.9          |
| Accrued interest                                | <u>6.9</u>    |
| Total   | 384.8         |

Capital Structure: The Fund may borrow funds and give guarantees up to twice capital and reserves.

Paid-in-Capital KD 328 (March 1975)

General Reserve KD 56

Income: Financial information limited.

Total Income KD 16.6 million

Income from Investments 14.4

Income from Loans 2.2

Loan Disbursement: Loans made to 12 countries by sector

Transport and storage 35.6%

Agriculture 23.2

Industry 20.6

Power 20.6

100.0%

Institution: Fondo de Inversiones de Venezuela

Location: Caracas, Venezuela

Size: 12/31/75

Assets: BS 22,470,317,537 (1 Bolivar (BS) = U. S. \$0.233)  
Capital: BS 20,532,175,000

Purpose: Fund established by Presidential decree in June 1974 following OPEC's increase in oil prices and consequent increase in Venezuelan government reserves. Stated purposes are fourfold: (1) to create a professionally managed reservoir for public funds that would be kept out of domestic money supply until needed, thereby avoiding inflationary pressures caused by over-rapid money supply growth; (2) to invest in external capital markets funds not immediately needed in Venezuela; (3) to assure a rational and diversified internal investment program designed to reduce Venezuela's dependence on oil revenues; (4) to generate economic growth that creates full employment, redistributes national income and encourages technological independence.

Source of Funds: Yearly allocation of oil revenues, the size of which is determined at the highest level of government and approved by President. Allocations in 1974 and 1975 aggregated slightly in excess of U. S. \$5 billion.

Management Structure: Fund operations overseen by General Assembly (consisting of State Ministers and high level government officials) which has power to dictate policy. Major policy directives typically originate from high level political sources and the Fund's internal Executive Directorate (2 internal and 2 external) and are ratified by Assembly. President of Fund (State Minister) is crossroads for policy and routine management operations. Major investment decisions made by Executive Directorate and all external investments discussed at senior management level committee meetings.

Management of Funds: Internal staff divided into 3 groups by function: International Financial Group (investments in external markets); International Financial Cooperation Group (analysis and monitoring of loans to International and non-Venezuelan Government Agencies); National Investment Group (review and monitoring of debt and equity investments in Venezuelan entities). All groups have specialized sub-groups.

Institution: Alberta Heritage Savings Trust Fund

Location: Edmonton, Province of Alberta, Canada

Size:  
Capital: C \$1,500,000,000

Purpose: Fund established in May 1976 to invest a substantial portion of non-renewable resource revenues for the benefit of the people of Alberta in future years.

Fund permitted by Legislative Act to (1) invest up to 20% of its assets in projects which will provide long-term economic or social benefits to the people of Alberta but which will not by their nature yield a return to the Fund, provided the moneys are first specifically appropriated from the Fund by an act of the Legislature; (2) invest up to 15% of its assets in loans to the Crown in right of Canada or of any other province of Canada or in loans guaranteed by the Crown in right of Canada or of any other province of Canada; (3) make investments the Investment Committee, or the Legislative Assembly as expressed in an Assembly resolution, feels will yield a reasonable return or profit to the Fund and will tend to strengthen and diversify the economy of Alberta; (4) invest or reinvest moneys not invested according to 1, 2 or 3 above in any or all of the following: (a) evidences of indebtedness of, or fully guaranteed by, the Canadian Government, any Canadian provincial government, any Canadian municipal corporation, the government of a country other than Canada, a chartered bank or treasury branch, or any corporation if authorized by the Canadian and British Insurance Companies Act; and (b) mortgages or hypothecs of real estate or leaseholds in Canada under certain circumstances.

Source of Funds: Original funding of Canadian dollars \$1,500,000,000 plus 30% of the non-renewable resource revenues to be received in fiscal 1976-77 (and each fiscal year thereafter if the Legislative Assembly enacts a Special Act authorizing such annual transfer from the General Revenue Fund) on a monthly basis.

- Management Structure: Heritage Savings Trust Fund Investment Committee consisting of all 24 members of the Provincial Executive Council (including Provincial Ministers and Treasurer) responsible to the Legislative Assembly in the operation of the Fund. Actually managed in the Provincial Treasurer's Office.
- Management of Funds: The Provincial Treasurer holds and administers the Fund in accordance with the Act. Fund has separate accounting record. The Investment Committee, except when directed by the Legislative Assembly, approves investments and dispositions of investments, although the Provincial Treasurer invests, reinvests and disposes of such with respect to Fund activities in investment category 4 under "Purpose" above. While all funds are managed internally, outside advisors may be used to review and package potential investments.
- Portfolio: As under "Purpose" above. No authority to guarantee the credit of others nor is it intended to allow for other than short-term borrowings from the General Revenue Fund in anticipation of fund transfers (i.e. - no leverage allowed).
- Capital Structure: See "Source of Funds", "Portfolio" and "Income".
- Income: The income of the Fund accrues to and forms part of the Trust Fund.

September 30, 1977

Ted Swick  
White, Weld & Company, Inc.  
One Liberty Plaza  
91 Liberty Street  
New York, NY 10006

Dear Mr. Swick:

Enclosed is the original of the contract between the Division of Legislative Finance and your firm. If you find it in order, please sign it and return it to our office.

Under the contract, we would like your firm to:

1. Be present to offer financial advice to the Committee at the Southeastern Hydropower Conference on October 13 and 14 in Sitka.
2. Prepare a report for the Committee's October 20 and 21 meeting in Juneau. The report should include but not be limited to, descriptions of principles in management of trust funds, performance of various sorts of trusts and recommendations to the Committee on how to structure the Permanent Fund as a financially viable, politically accountable trust fund.
3. Collect any available information on the existence and location of any capital gap in Alaska and be prepared to offer comment on any other capital gap studies being compiled.

To help you in planning for the meetings, the information is as follows:

October 13--1:30 p.m. Centennial Building, Sitka;

October 21--9:00 a.m. Conference Room 123, Juneau.

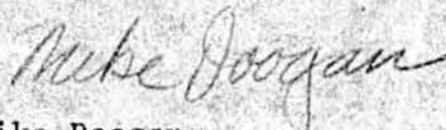
Ted Swick

-2-

September 30, 1977

Additional information on requirements for October 14 and 20 will be forthcoming as soon as I get my hands on it.

Sincerely,

A handwritten signature in cursive script that reads "Mike Doogan".

Mike Doogan  
Administrative Assistant

MD:LAD

Enclosure

WHITE, WELD & CO.  
INCORPORATED

ONE LIBERTY PLAZA  
91 LIBERTY STREET, NEW YORK, N. Y. 10006

THEODORE P. SWICK  
FIRST VICE PRESIDENT  
212/285-2153

CABLE ADDRESS-"WHITEWELD"

March 17th, 1978

Special Committee on the  
Alaska Permanent Fund  
Pouch V  
Juneau, Alaska 99811

Gentlemen:

In performing our duties under contract with the House Special Committee on the Alaska Permanent Fund we have attended drafting and discussion sessions, recommended provisions and language, opined on alternatives, advised on reports of other consultants, provided definitions and customary meanings of phrases and words and, in general, participated in the deliberations of the Committee in the creation of House Bill No. 596 in the Legislature of the State of Alaska, Tenth Legislature-Second Session.

We are satisfied that Bill No. 596 is a workable bill that facilitates and accomplishes the will and intent of the Committee.

It was a pleasure for us to have participated in this project. Messrs. Fuhrmann, Greeley, Plaia and others of our firm congratulate you on the Bill and wish it smooth traveling through the legislative process. We understand that we may be called upon for further consultation during the legislative session.

Very truly yours,



Theodore P. Swick

TPS/vmr

SCOMM

#9:50

ERIC E. WOHLFORTH  
ROBERT B. FLINT  
TIMOTHY G. MIDDLETON

LAW OFFICES  
WOHLFORTH & FLINT  
A PROFESSIONAL CORPORATION  
645 G STREET  
ANCHORAGE, ALASKA 99501

TELEPHONE  
AREA CODE 907  
274-2519  
272-9489

April 18, 1977

Hon. Clark Gruening, Chairman  
Commissioner of Revenue, Sterling Gallagher  
Members of the Joint Legislature  
Committee on the Permanent Fund

Sirs:

I am very sorry that I cannot attend your hearings scheduled for April 20 and 21, on the Permanent Fund. I would like, nevertheless, to set down for your consideration a precis of my views.

The special State Investment Advisory Committee Hearings held last year were an immensely valuable start of consideration of uses of the permanent fund. Advisors were used intelligently and were made to work hard to educate the Committee on development loan and permanent fund systems in place elsewhere. Not the least important lesson of the hearings was the fact that public education as to the parameters of the issues is at least as important as pure public input. In light of this, I feel that you should consider compiling a readable digest of this expert testimony, and that otherwise available to you, as to what has happened elsewhere both with permanent funds created with non-renewable resource revenues and with public development banking. I further suggest that the digest be made broadly available in Alaska before embarking on broad scale public hearings. Hearings conducted in this context would seem to me to be very much more valuable than those conducted in a public vacuum of knowledge of what has happened elsewhere. Ideally the digest would contain a readable summary of the history of state loan programs to date.

Honorable Clark Gruening, Chairman  
Commissioner of Revenue, Sterling Gallagher  
Members of the Joint Legislature  
Committee on the Permanent Fund  
April 18, 1977  
Page Two

If I may presume to advise you further on procedure, I commend to your consideration the hearing-seminar procedure of the type conducted by the Brookings Institute in 1970 after the North Slope lease sale. The considerations of possible use of the permanent fund have major implications for Alaska's governmental structure as well as its economic future. I cannot emphasize too strongly the importance of the selection of the correct method of securing public input.

As to substantive matters, I have two observations. First, the preliminary pass at the development loan banking issue which I chaired in Juneau in 1971 elicited the firm recommendation of the representative of the World Bank that structuring of a development loan program be preceded first by intensive investigation of development banking opportunities. We were told then, and I have heard since, that a one year initial effort to ascertain the scope and magnitude of investment opportunities be first undertaken before a developmental banking structure is legislated. The initial committee should be comprised of Alaska businessmen, entrepreneurs and investors in various sectors of our economy and should have adequate support help.

Our situation in this regard is better advanced than in 1971 for now we have developing case histories of successes and failures in Native Corporate investment in the State. We should take advantage of this body of knowledge in configuring any Development Loan structure.

Secondly, I feel that Permanent Fund monies devoted to the public sector should be used on a "leveraged" basis. I feel that establishment of reserve funds to support local government borrowing or State agency

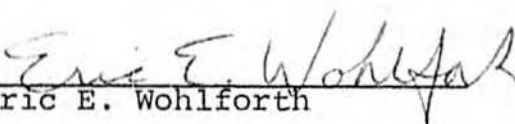
Honorable Clark Gruening, Chairman  
Commissioner of Revenue, Sterling Gallagher  
Members of the Joint Legislature  
Committee on the Permanent Fund  
April 18, 1977  
Page Three

borrowing for this purpose is preferable to direct loans to municipalities. The reason for this view is the fact that local government bonds are tax exempt. Loans between tax exempt entities are not economically efficient if the debtor entity can borrow publically at tax exempt rates. Satisfactory precedent for this procedure now exists with both the Alaska Municipal Bond Bank Authority and the Alaska Housing Finance Corporation.

Thank you for the opportunity to comment. I wish again I could attend the meeting and hearings. Extra copies are enclosed for the Committee's use.

Very truly yours,

WOHLFORTH & FLINT

By   
Eric E. Wohlfarth

EEW:vf

Enclosures: as stated.

#50

LAW OFFICES

WOHLFORTH & FLINT

A PROFESSIONAL CORPORATION

645 G STREET

ANCHORAGE, ALASKA 99501

ERIC E. WOHLFORTH  
ROBERT B. FLINT  
TIMOTHY G. MIDDLETON

TELEPHONE  
AREA CODE 907  
274-2519  
272-9489

M E M O R A N D U M

TO: Hon. Sterling J. Gallagher  
Commissioner of Revenue

Hon. Clark Gruening, Chairman  
Special Committee on the Alaska  
Permanent Fund

FROM: Eric E. Wohlforth *Eric E Wohlforth*

DATE: February 1, 1978

SUBJECT: Brief Comments on House Bill 595 Relating to  
Income of the Alaska Permanent Fund, House Bill  
596 Relating to Non-renewable Resources, and  
House Bill 682 Relating to Non-renewable Resources.

Section 1 of HB 596 provides for an investment oversight committee apparently with the purpose of overseeing the activities of all agencies of the State performing lending, borrowing or investment functions, including the corporations established by the bill itself.

Section 3 of the bill establishes, by adding a new chapter to AS 37, the Alaska Permanent Fund from which is allocated 5/6 of mineral rents and royalties to the Alaska Permanent Fund Corporation. AS 37.13.020 contains legislative findings with respect to the Alaska Permanent Fund Corporation and its primary goal which is to maximize total return while maintaining safety of principal and states that it is a savings device to allow the maximum use of disposable income as needed for the purposes as provided by law. Under 37.13.130 the prudent man rule is established to govern the investment activities of the corporation with the provision that assets may be used only for income producing investments and that the board maintain reasonable diversification. Subsection (g) of Section 130 limits investments to direct obligations of the United States, mortgage loans and stock and "corporate obligations freely marketable under the Securities Act of 1933". It is submitted that the limitation to direct obligations to the United States may be too limiting now and that investment permission should be extended to government agencies and instrumentalities currently the subject of investment of monies in the State general fund.

Hon. Sterling J. Gallagher  
Hon. Clark Gruening  
February 1, 1978  
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The Alaska Enterprise Investment Corporation is created by Section 4 and is funded with an allocation from the Permanent Fund of one-sixth of all of the receipts thereof up to \$100,000,000. The corporation is permitted to invest its capital in loans or stock of projects, with stock investment limited to 25% of the capital stock of a project and loans up to 90% of cost except where additional amounts are necessary to protect the interest of the fund.

AS 44.55.125 imposes a prudent man rule on the investment policy of the corporation requiring at least 150% of all guarantees by the corporation to be invested in investment grade securities with not more than 50% invested in "financing the establishment, improvement, and expansion of productive private enterprise which will benefit Alaskans, and for which sufficient capital is not available from other sources or unreasonable terms" in the form of equity, debt or guarantees and 50% "for financing the longer-term investment capital needs for financially sound small and medium scale community development projects of municipalities and public corporate entities and private dwellings for which sufficient financing is not available from other sources or unreasonable terms". The right to guarantee obligations in addition to the right to invest in the stock or purchase the debt of a corporation is referred to in AS 44.55.080 and AS 44.55.120 and provides that the corporation has power to guarantee obligations of another corporation or legal entity to facilitate their sale. In general, guarantees are made in connection with corporate financings by a parent of a subsidiary in which there is already an investment. There would be some question as to whether a guarantee of debt not incident to an investment of monies would qualify under the constitutional limitation that money to the Permanent Fund may only be invested in an income producing securities.

AS 44.55.130 establishes a capital reserve account to secure obligations of the corporation. Monies in the capital reserve account are to be used to pay principal, interest and redemption premium on obligations of the corporation. The capital reserve account is funded with the income of the corporation until that is equal to 25% of its

Hon. Sterling J. Gallagher  
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outstanding obligations. Under AS 44.55.120(4) the corporation is permitted to borrow amounts up to its paid-in capital. If the corporation is conceived as a borrowing vehicle to provide money for investments or loans and there should be additional provisions establishing its rights to enter into covenants and agreements with bondholders, provisions providing that the indebtedness of the corporation is not a debt of the State and otherwise as necessary for a public bond financing. The above is not in the nature of a policy observation since it is readily perceived that the primary thrust of the fund is an investment or lending vehicle rather than a borrowing vehicle.

HB 595 provides that income from investment of the Permanent Fund, becomes part of the Permanent Fund and may be used to provide for guarantees of indebtedness issued by governmental agencies of the State for power projects. This is a worthy and sensible goal for the use of Permanent Fund income in my opinion. However, I feel that the efficacy of a guarantee of debt of public authorities, municipalities or agencies issued for power projects may well be subject to the legislature's appropriating income to the fund for this purpose on an annual basis. Further, the requirement that the fund itself be invested in income producing investments may not be satisfied by a guarantee or indebtedness of another body. When AS 37.13.200 provides for the guarantee of indebtedness issued for power projects of monies transferred to the Permanent Fund from its income, the actual obligation which is entered into by the board of trustees of the Alaska Permanent Fund Corporation may amount only to an annual direction to use income for the purpose stated rather than a long term obligation requiring the corporation to devote the income to that purpose without further act. As I have stated before, I may well be wrong in my reading of the power and permission to devote Permanent Fund income on a long term basis without further appropriation of the legislature, but I think there is at least a substantial question whether an effective guarantee can be entered into under HB 595 of such income to secure indebtedness of another party.

As to HB 682 creating an Alaska Renewable Resources Corporation, the primary purposes appear to be research and development in renewable resource industries and investment

Hon. Sterling J. Gallagher  
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in projects related to research and development. The investment permission in AS 37.12.170 is limited in size (\$1,500,000) and in percentage of a project (25%) unless a greater amount or percentage is fixed by concurrent legislative resolution. Under AS 37.12.050, the corporation is allocated 5% of mineral lease bonuses and rentals, half of which are to be placed in the fund. Under AS 37.12.150(11) the corporation "may make financial assistance available in the form of grants, loans, loan guarantees or other appropriate forms to public research and development groups in the state in order to facilitate investment" and in (13) may further make grants. The power to make grants seems to run counter to the constitutional requirement that the Permanent Fund may only be invested in income producing investments. As to guarantees, please see my comments above.

EEW:jt



BANK OF AMERICA

October 19, 1971

BANK INVESTMENT SECURITIES DIVISION

Mr. Eric E. Wohlforth, Commissioner  
Department of Revenue  
State of Alaska  
Pouch S  
Alaska Office Building  
Juneau, Alaska 99801

Dear Commissioner Wohlforth,

The objective of forming an Alaska Industrial Development Corporation is certainly commendable, from a theoretical standpoint. Yet given the variety of structural and operational alternatives relative to such formation, the small step from concept-in-theory to implementation-in-practice imposes on the executive several large and hard questions which demand resolution. It was obvious, from our conversation last Friday, that you and your staff are well aware of the organizational problems and pitfalls. What you might be less familiar with - insofar as research materials are concerned, is: 1) the latest literature on industrial-aid financing and the IRS; 2) prospectively, the increased ease and attractiveness of using tax-exempt bonds issued by the state or a state agency, as the primary financing vehicle for raising seed capital to lure new industry to Alaska.

Recent efforts by the Investment Bankers Association and other interested groups have concentrated upon:

the desired exclusion from present IRS industrial-aid bond limits of all state and local general obligation bond issues, regardless of purpose

expansion of the straight industrial-aid limit to \$15 million per issue, as proposed by Chairman Wilbur Mills of the House Ways and Means Committee.

Favorable action in either of these areas should promote renewed consideration by Alaska of tax-free industrial-aid bonds as a financing alternative to subsidize or support statewide industrial development. The cheapest method of financing would clearly be to issue voted bonds backed by the state's guarantee or its full faith and credit. Reasonable rates could also be obtained by using a state agency as issuer, provided that: 1) a debt-service reserve fund were established from bond proceeds equal per issue to maximum annual principal and interest; 2) annual access to the state's general fund were statutorily permitted, to compensate for any drawdown of the reserve fund to meet debt-service payments. In the case of

Mr. Eric E. Wohlforth  
Commissioner

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October 19, 1971

either direct state or state agency financing, support for industrial-aid issues would presumably be derived not from state-tax moneys, but rather from loan repayments by the benefited industries. As such, from a municipal analyst's viewpoint, the bonds in due course would be treated as self-liquidating obligations deductible from the state's gross debt - thus reducing, to small or no measure, potential impairment of the state's general credit.

The success of an industrial development corporation in Alaska is keyed as much to its structure and planning as to the method selected for financing its operations. It would be an error, in my view, to staff and administer the corporation as a unique, state-level entity responsible only to the executive and a governing board, and responsive by its nature largely to the corporate stature, potential profitability, and market prospects of applicant industries on a case-by-case basis. In order to ensure a better, more even-handed result, I would strongly recommend - before the corporation is formed, that a joint study be undertaken: by the state and selected local governments or chambers of commerce, to determine the number, type, size, and optimum location of the industries that such a corporation would seek to draw to Alaska. By inviting local participation in the planning process, the corporation would additionally benefit from a broader political base of support, as well as a greater prospective commitment from the private local sector in financing a share of the corporation's activities. Then, too, while there is an evident need for an executive director and professional staff on the state-corporation level, there would seem to be an equally pressing need for local representation on the governing board - which would presumably include leading spokesmen from the public, business, financial, and academic communities.

Much stress in this analysis has been given to the necessity for intergovernmental cooperation in planning, organizing, and administering an Alaska Industrial Development Corporation. This relationship could additionally be extended, on the public level, to the financing aspect as well. Where the siting of a corporation-assisted enterprise could reasonably be expected to stimulate ancillary developments, the local government in the area may strongly be induced to underwrite certain infrastructural costs associated with servicing an industrial complex. To the extent that such participation could be courted, the capital costs of a corporation-assisted enterprise would be reduced, and the free-resource funds of the corporation enlarged accordingly.

I welcome this opportunity to share these views with you, Mr. Wohlforth, and hope that the enclosed materials on industrial-aid

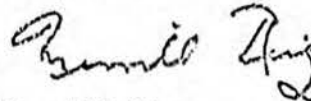
Mr. Eric E. Wohlforth  
Commissioner

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October 19, 1971

financing will prove of value. If I can be of any further assistance,  
please be in touch.

Sincerely,



Merrill Ring  
Senior Research Officer

Enclosures

MR/vs  
622-2530(415)

cc: Mr. Leland S. Prussia, Jr.  
Mr. William D. Shaw, Jr.

SCOMM

#9:51

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: Swedish Investment Bank Ltd.

Location: Stockholm, Sweden

Size: 12/31/74

Assets: U. S. \$672.8 million

Capital: U. S. \$270.9 million

Purpose: Swedish Investment Bank Ltd. ("SIB") was established in 1967 by an act of the Swedish Parliament to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalization, structural adaptation and development. The act establishing SIB contemplated that its lending will be consistent with national economic policies. All of the capital stock of SIB is owned by the Swedish Government. In addition, the Swedish Government has extended a limited guarantee of SIB's obligations.

Source of Funds: Subscribed capital, reserves, net income, cash flow from lending operations and borrowing.

Management Structure: Governed by a Board of Directors (9) and Deputy Directors (9). Ongoing operational responsibility rests with Managing Director and Staff. Total employees: 31, 22 of whom are managerial or professional. In certain loan and credit evaluations, SIB engages special consultants.

Management of Funds: Internal. Bank's staff consists primarily of "lending officers" with previous commercial and investment banking experience.

Portfolio: SIB makes medium (5-10 years) and long-term (10-20 years) loans and guarantees thereof principally to or for private Swedish companies to finance industrial projects in Sweden and, to a lesser extent, Swedish exports. Such financing is not generally available from other sources in Sweden and may involve additional risks especially those related to long-term developments, which would not normally be assured by conventional Swedish lending institutions. SIB is also authorized to make equity investments.

In assessing individual projects, SIB pays particular attention to the commercial viability of the project concerned. SIB also considers the impact of the use

Portfolio:  
(cont'd.)

of proceeds on the Swedish economy. One of SIB's objectives is to earn a satisfactory return on its equity capital and it applies credit standards and negotiates loan terms consistent with this purpose.

At 12/31/74, SIB's outstanding loans totalled U. S. \$517.6 million and its guarantees outstanding totalled U. S. \$15.8 million.

## Capital Structure:

|         |       | 12/31/74             |             |
|---------|-------|----------------------|-------------|
| Debt    | U. S. | \$487.8 million      | 64.3%       |
| Capital | U. S. | <u>270.9 million</u> | <u>35.7</u> |
|         | U. S. | \$758.7 million      | 100.0%      |

## Income:

10% of net income allocated to statutory reserve.  
Substantially all net income to date retained by SIB.  
Income not exempt from taxation.

SDR 40,000,000  
(Special Drawing Rights)

**SVERIGES INVESTERINGSBANK  
AKTIEBOLAG**

(Swedish Investment Bank Limited)

wholly-owned by the

**Kingdom of Sweden**

9% Bonds Due 1982

The Offering Price of the Bonds is 100 per cent. of the principal amount, plus accrued interest from 1st July, 1975 to the date of delivery. Subscription is to be made in United States dollars at a subscription price of U.S.\$1,246.48 per Bond plus accrued interest to the date of delivery.

*The value of the SDR, subject as set forth herein, is equal to the value of one special drawing right of the International Monetary Fund, which at present is valued on the basis of specified amounts of 16 currencies, as more fully set forth herein. The value of the International Monetary Fund special drawing right in terms of the United States dollar as of the date of this Prospectus, as determined by the International Monetary Fund, is U.S.\$1.24648.*

The Bonds will rank as direct unsecured obligations of Sveriges Investeringsbank Aktiebolag. Mandatory redemption will be by instalments of SDR 10,000,000 on 1st July in each of the years 1979, 1980 and 1981. Save as referred to herein, the Bonds may not be optionally redeemed prior to 1st July, 1979.

Payments of principal, premium, if any, and interest will be made in United States dollars, and without withholding or deduction for or on account of Swedish taxes to the extent set forth under "Description of Bonds—Taxation". Interest is payable annually on 1st July in New York City, Amsterdam, Basle, Brussels, Frankfurt/Main, Geneva, London, Luxembourg, Milan, Paris and Zurich.

Application has been made to list the Bonds on the Luxembourg Stock Exchange.

The Bonds have not been registered under the United States Securities Act of 1933 and may not be offered or sold directly or indirectly in the United States of America (including its territories, its possessions and all areas subject to its jurisdiction), or to nationals or residents thereof. See "Underwriting and Subscription" herein.

It is expected that delivery of the Bonds will be made at the offices of Credit Suisse White Weld Limited, 122 Leadenhall Street, London EC3V 4QH, on or about 8th July, 1975.

**Credit Suisse White Weld Limited**

Swiss Bank Corporation  
(Overseas) Limited

Union Bank of Switzerland  
(Securities) Limited

Kredietbank S.A.  
Luxembourgeoise

Dresdner Bank Aktiengesellschaft

S. G. Warburg & Co. Ltd.

Post-och Kreditbanken  
PKbanken

Skandinaviska Enskilda  
Banken

Svenska  
Handelsbanken

The date of this Prospectus is 19th June, 1975

No dealer, salesman or any other person has been authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by Sveriges Investeringsbank Aktiebolag (the "Bank") or by the banks named on the front page of this Prospectus (the "Managers") or by any of the underwriters. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof. This Prospectus does not constitute an offer or solicitation with respect to any security other than the Bonds offered hereby or by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

This Prospectus has been prepared and compiled by the Bank, which has given written assurances to the Managers that the information contained herein is accurate and that there are no other material facts the omission of which would make any statement herein misleading.

In this Prospectus, all references to dollars or "\$" are to United States dollars. Except as otherwise indicated, the U.S. dollar amounts appearing in this Prospectus represent translations of Swedish Kronor ("Skr") amounts at the rate of 4.09 Skr to the U.S. dollar, the quoted commercial bank selling rate in Stockholm on 31st December, 1974, the last date included in the audited financial statements presented herein. Such translations should not be construed as representations that the Kronor amounts could have been or could be converted into U.S. dollars at that or any other rate. The Kronor-U.S. dollar rate has been floating since March, 1973. On 18th June, 1975, the selling rate for Kronor quoted by commercial banks in Stockholm at the close of business was 3.909 Skr to the U.S. dollar.

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In connection with this offering, the Managers may over-allot or effect transactions in the open market or otherwise with a view to stabilising or maintaining the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

## DESCRIPTION OF BONDS

The Bonds will be limited to SDR 40,000,000 (Special Drawing Rights) aggregate principal amount and will be direct unsecured general obligations of Sveriges Investeringsbank Aktiebolag (the "Bank"). The Bonds will be issued under a Trust Agreement (the "Trust Agreement") dated 19th June, 1975 among the Bank and Finimtrust S.A., acting as fiduciary representative of the holders of the Bonds (the "Trustee"). The Trustee's principal office is presently located at 37, rue Notre Dame, Luxembourg City. Certain statements under this caption are summaries of, and are subject to, the detailed provisions of the Bonds and the Trust Agreement, copies of which will be available for inspection at the offices referred to under "Payment of Principal and Interest" below. Pursuant to the Trust Agreement, no holder of any Bonds or any coupons appertaining thereto may individually exercise any of his rights under the Bonds or coupons, except for the right to collect payment of the Bonds and coupons, the right to vote at general meetings of holders of Bonds and the rights expressly granted by the Trust Agreement, unless he has been so authorised by the Trustee in writing.

The issue of the Bonds was authorised by a Resolution of the Board of Directors of the Bank adopted on 25th April, 1975.

The Central Bank of Sweden gave, on 18th June, 1975, approval for the issue of the Bonds and has given an authorisation, irrevocable by its terms, under which the Bank may purchase and transfer sufficient U.S. dollars to pay interest on, principal of, and premium, if any, in respect of the Bonds.

### Payment of Principal and Interest

All payments of principal, premium, if any, and interest will be made in United States dollars.

The Bonds will be dated 1st July, 1975, will mature on 1st July, 1982 and will bear interest from 1st July, 1975 at 9% per annum, payable annually in arrears on 1st July, beginning 1st July, 1976. The Bonds and coupons may be presented for payment (a) at the principal office of The Chase Manhattan Bank (National Association) in New York City (the "Principal Paying Agent") or (b) subject to applicable laws and regulations and subject to the right of the Bank to terminate or add to such offices, at the main offices of The Chase Manhattan Bank (National Association) in Frankfurt/Main, London, Milan and Paris; Crédit Suisse, Swiss Bank Corporation and Union Bank of Switzerland in Basle, Geneva and Zurich; Nederlandse Credietbank N.V. in Amsterdam; Banque de Commerce S.A. in Brussels; Banque Française de Dépôts et de Titres in Paris and Kredietbank S.A. Luxembourgeoise in Luxembourg City. Payment at the offices referred to in (b) above will be made by United States dollar cheque drawn on a bank in New York City or by transfer to a United States dollar account maintained by the payee with a bank in New York City. The amount of each payment will be computed on the basis of the value of the SDR, determined as set forth under "Computation of the Value of the SDR" below, as of the fifth business day in both London and in New York City (and, at any time contemplated by paragraph (b) under "Computation of the Value of the SDR" below, in Luxembourg City) prior to the date on which such payment is to become due. The term "business day" means any day on which banks in the relevant cities are normally open for business. The Bank will agree that so long as any Bonds are outstanding it will at all times maintain paying agents in New York City and Luxembourg City for the payment of principal of, and premium, if any, and interest on, the Bonds.

### Denomination and Transfer

The Bonds will be issued as bearer coupon Bonds in the denomination of SDR 1,000 each, and title thereto will pass by delivery.

### Value of the SDR

Subject to the provisions under "Computation of the Value of the SDR" below, the value of the SDR, expressed in U.S. dollars, is equal to the value of one special drawing right of the International Monetary Fund (the "IMF") in terms of the U.S. dollar. The IMF special drawing right is at present valued on the basis of specified amounts of 16 currencies as shown below. This basis may be changed by the IMF from time to time, including changes in the currencies and such specified amounts, or the addition of other

units of value, in which event the value of the SDR, subject to the provisions under "Computation of the Value of the SDR" below, will change accordingly.

Under Rule 0-3 of the IMF's Rules and Regulations as in effect on the date of this Prospectus one IMF special drawing right is deemed, for the purpose stated in said Rule 0-3, to be equal to the sum of:

|                     |       |                    |        |
|---------------------|-------|--------------------|--------|
| U.S. Dollar         | 0.40  | Belgian Franc      | 1.6    |
| Deutsche Mark       | 0.38  | Swedish Krona      | 0.13   |
| Pound Sterling      | 0.045 | Australian Dollar  | 0.012  |
| French Franc        | 0.44  | Danish Krone       | 0.11   |
| Japanese Yen        | 26    | Norwegian Krone    | 0.099  |
| Canadian Dollar     | 0.071 | Spanish Peseta     | 1.1    |
| Italian Lira        | 47    | Austrian Schilling | 0.22   |
| Netherlands Guilder | 0.14  | South African Rand | 0.0082 |

Under said Rule 0-3, one IMF special drawing right in terms of the U.S. dollar is equal to the sum of the equivalents in U.S. dollars of the amounts of the currencies specified above, calculated on the basis of exchange rates established in accordance with procedures decided from time to time by the IMF. The IMF at present determines and publishes daily the value of the IMF special drawing right in terms of the U.S. dollar. The value of the IMF special drawing right in terms of the U.S. dollar as of the date of this Prospectus, as determined by the IMF, is U.S.\$1.24648.

#### Computation of the Value of the SDR

(a) Subject to the provisions set forth below, the value of the SDR, expressed in U.S. dollars, as of any day shall be equal to the value of one IMF special drawing right in terms of the U.S. dollar as determined by the IMF as of that day.

The value of one IMF special drawing right in terms of the U.S. dollar is at present equal to the sum of the equivalents in U.S. dollars of the amounts of the currencies specified under "Value of the SDR" above. Those U.S. dollar equivalents are at present determined by the IMF, pursuant to Decision No. 4234-(74/67) S, as follows. The U.S. dollar equivalent of each of the component currencies other than the U.S. dollar, except for the Japanese Yen, is determined by the IMF on the basis of the middle rates between the buying and selling spot delivery rates for the U.S. dollar quoted at noon in the London exchange market. The U.S. dollar equivalent of the Japanese Yen is determined by the IMF on the basis of its representative rate for spot delivery for the U.S. dollar, which is the middle rate on the Tokyo exchange market as ascertained by the Bank of Japan. If for any reason the rate for any currency cannot be obtained as set forth above, the rate used by the IMF in its determination of the U.S. dollar equivalent of that currency is the rate quoted at noon in the New York exchange market or, if not available there, the rate at the fixing in the Frankfurt exchange market. If rates against the U.S. dollar cannot be obtained directly in any market, the rates are to be calculated by the IMF by use of appropriate cross rates. If on any day the rate for a currency cannot be obtained as set forth above, calculations are made by the IMF on the basis of the rate for the previous business day, unless the IMF decides otherwise.

(b) If, as of any day, the value of one IMF special drawing right in terms of the U.S. dollar is not determined by the IMF, the value of the SDR as of such day, expressed in U.S. dollars, shall be determined by the Luxembourg Stock Exchange (the "Exchange") as follows:

(i) If IMF special drawing rights are valued by the IMF on the basis of one or more currencies or other units of value (other than gold alone) each of which has, in the opinion of the Trustee, a market value whose U.S. dollar equivalent can reasonably be determined, the value of the SDR as of that day shall be equal to the sum of the then U.S. dollar equivalents of the market values (as determined by the Exchange) of the amounts of currencies or other units of value used by the IMF in valuing IMF special drawing rights.

(ii) If it is impossible to determine the value of the SDR pursuant to clause (i) above, the value of the SDR as of that day shall be equal to the sum of the then U.S. dollar equivalents of the market values (as determined by the Exchange) of the amounts of currencies or other units of value

(other than gold alone) which were used by the IMF in valuing IMF special drawing rights on the most recent day on which such valuation was based solely on currencies or other units of value (other than gold alone) each of which has, as of the date of such determination by the Exchange, in the opinion of the Trustee, a market value whose U.S. dollar equivalent can reasonably be determined.

- (iii) If it is impossible to determine the value of the SDR pursuant to clauses (i) and (ii) above, the value of the SDR as of that day (the "valuation date") shall be determined as follows: the currencies or other units of value to be used in such determination shall be those which were used by the IMF in valuing IMF special drawing rights on such day subsequent to 19th June, 1975 as the Trustee shall select (the day so selected by the Trustee being hereinafter called the "component date"); and, using such currencies or other units of value, the value of the SDR as of the valuation date shall be equal to the aggregate of the following: (A) in respect of those currencies or other units of value which, in the opinion of the Trustee, have a market value whose U.S. dollar equivalent can reasonably be determined, the sum of the U.S. dollar equivalents on the valuation date of the market values (as determined by the Exchange) of the amounts of such currencies or other units of value used by the IMF on the component date in valuing IMF special drawing rights, and (B) in respect of those currencies or other units of value which, in the opinion of the Trustee, do not have on the valuation date a market value whose U.S. dollar equivalent can reasonably be determined, the sum of such U.S. dollar amounts as the Trustee shall in its discretion determine for each of such currencies or other units of value.
- (iv) Notwithstanding the provisions of clauses (ii) and (iii) above, if as of any day IMF special drawing rights are not valued by the IMF on the basis of any currency or other unit of value, but a U.S. dollar equivalent of one IMF special drawing right can be determined on the basis of an officially declared value of the U.S. dollar in terms of IMF special drawing rights and the Trustee determines that the U.S. dollar equivalent so determined is more representative of the exchange rate of the U.S. dollar in terms of IMF special drawing rights than the value of the SDR determined as set forth in clause (ii) or clause (iii) above, the value of the SDR as of that day shall be determined on the basis of said officially declared value of the U.S. dollar.

The U.S. dollar equivalents of each of such currencies or other units of value shall be determined by the Exchange by such method as may be specified by the Trustee, which shall as nearly as reasonably practicable be the same as the method last used by the IMF for that purpose. The Exchange shall obtain reference quotations as to any such currency or other unit of value from such person or persons as may be specified by the Trustee.

In the event that the reference quotations to be used by the Exchange are not available for any such currency or other unit of value as of any day, because the relevant markets are closed in any country or for any other reason, the most recent quotations for that currency or other unit of value obtained by the Exchange shall be used in determining the value of the SDR as of such day; provided, however, that such most recent quotations may be used only if they were prevailing not more than two business days before such day. After such period of two business days, the Exchange shall determine the U.S. dollar equivalent of such currency or other unit of value on the basis of such quotations, obtained as of such time and from such person or persons, as may be specified by the Trustee.

In the event that there is more than one market for dealing in any such currency or other unit of value by reason of foreign exchange regulations or for any other reason, the market to be referred to in respect of such currency or other unit of value shall be the market last referred to by the IMF for the purpose of valuation of one IMF special drawing right, except as may otherwise be specified by the Trustee.

All determinations made by the Trustee or the Exchange shall be in their sole discretion and shall be conclusive for all purposes and binding upon the Bank and all holders of Bonds or coupons.

### Status of the Bonds (Negative Pledge)

The Bonds will be direct and unconditional general obligations of the Bank. The Bonds will rank at least *pari passu*, without any preference one over the other by reason of priority of date of issue or currency of payment or otherwise, with all other present and future unsecured indebtedness of the Bank. The Bank will agree in the Bonds that it will not create, assume, incur or suffer to be created, assumed or incurred any mortgage, lien, pledge, charge or other encumbrance of any kind upon any of its present or future revenues or assets, for the purpose of securing any external indebtedness, now or hereafter existing, without making effective provision whereby the Bonds then outstanding shall be directly secured by such mortgage, lien, pledge, charge or encumbrance equally and ratably upon the same revenues or assets with any and all other obligations and indebtedness thereby secured, and that the instrument creating such mortgage, lien, pledge, charge or encumbrance will expressly so provide. As used above, "external indebtedness" means any borrowing in the form of, or represented by, bonds, debentures or other securities which by their terms are payable or may be required to be paid in a currency other than Swedish Kronor and which are, or are intended to be, quoted, listed or ordinarily dealt in on any stock exchange or over-the-counter or other securities market.

### Mandatory Redemption of Bonds

The Bank will be required to redeem SDR 10,000,000 principal amount of Bonds on each 1st July in the years 1979, 1980 and 1981 at 100 per cent. of the principal amount thereof plus accrued interest to the redemption date. The Bank or any of its subsidiaries may purchase Bonds for their own account at any time in the open market or otherwise at any price. All Bonds so purchased must be cancelled and may not be reissued or resold. In lieu of making all or part of any mandatory redemption payment in cash, the Bank may deliver to the Trustee, not less than 60 days prior to such mandatory redemption payment date, for cancellation, Bonds so purchased, which delivery shall be treated as equivalent to the payment by the Bank in cash for mandatory redemption purposes of an amount equal to the principal amount of the Bonds so delivered.

### Optional Redemption of Bonds

At any time on or after 1st July, 1979, the Bonds will be redeemable at the option of the Bank in whole, or from time to time in part in aggregate principal amounts of SDR 250,000 or integral multiples thereof, at the following redemption prices expressed as percentages of principal amount, together with accrued interest to the redemption date if redeemed during the 12 months beginning 1st July in each of the following years:

| <u>Year</u> | <u>Redemption Price</u> |
|-------------|-------------------------|
| 1979        | 102%                    |
| 1980        | 101%                    |
| 1981        | 100½%                   |

The Bonds are also subject to redemption if the Bank would be required to pay additional amounts as described herein under "Taxation". Upon such determination, the Bank may at its option at any time redeem the Bonds in whole at the following redemption prices expressed as percentages of principal amount, together with accrued interest to the redemption date if redeemed during the 12 months beginning 1st July in each of the following years:

| <u>Year</u>       | <u>Redemption Price</u> |
|-------------------|-------------------------|
| 1975 through 1979 | 101%                    |
| 1980              | 100½%                   |
| 1981              | 100¼%                   |

### Drawings and Notice of Redemption

Notice of redemption will be given not less than 30 days prior to the date fixed for redemption. Each Bond called for redemption is to be presented for redemption accompanied by all coupons appertaining thereto which are due after the date fixed for redemption; the aggregate face amount of all missing coupons due after such date will be deducted from the principal to be paid on redemption.

In case of partial redemption, Bonds to be redeemed will be selected by the Trustee in the manner provided by the Trust Agreement.

## Taxation

All payments of principal, premium, if any, and interest will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Kingdom of Sweden or any authority in Sweden having power to tax, unless the Bank is required by law to deduct or withhold such taxes or duties. In that event, the Bank will pay such additional amounts as may be necessary in order that the net amounts after such deduction or withholding shall equal the respective amounts of principal, premium, if any, and interest which would have been receivable in respect of the Bonds or coupons in the absence of such deduction or withholding; except that no such additional amounts shall be payable with respect to any Bond or coupon presented for payment (a) by or on behalf of a holder who is liable to such taxes or duties on such Bond or coupon by reason of his having some connection with Sweden other than the mere holding of the Bond or coupon, or (b) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment at the close of such 30-day period. For this purpose the "relevant date" means whichever is the later of (i) the date on which such payment first becomes due, and (ii) if the full amount of the monies payable has not been received by the Principal Paying Agent on or prior to such due date, the date on which such monies shall have been so received and notice to that effect shall have been duly published.

The Bank shall not be required to make any payment with respect to any tax, assessment or governmental charge imposed by any government (or any subdivision thereof or taxing authority therein) other than the Kingdom of Sweden or any authority in Sweden having power to tax.

## Events of Default

The Bonds and the Trust Agreement will provide that in case one or more of the following events ("Events of Default") shall have occurred and be continuing, that is to say:

- (a) if the principal of or premium, if any, on any of the Bonds (whether at maturity or upon redemption or otherwise) shall not be paid for a period of 7 days after the date when due; or
- (b) if any instalment of interest on any of the Bonds or any additional amounts payable pursuant to the provisions set forth under "Taxation" above shall not be paid for a period of 30 days after the date when due; or
- (c) if the Bank shall fail duly to perform or observe any term, covenant or agreement contained in any of the Bonds or the Trust Agreement for a period of 30 days after the date on which written notice of such failure, requiring the Bank to remedy the same, shall first have been given to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least a majority of the Bonds at the time outstanding; or
- (d) if an event of default as defined in any indenture or instrument evidencing or under which the Bank has at the date of the issuance of the Bonds or shall thereafter have outstanding any indebtedness for borrowed money shall happen and be continuing and such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall not have been stayed, rescinded or annulled prior to the date on which written notice of such default shall first have been given to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least 20 per cent. of the Bonds at the time outstanding; provided, however, that if such event of default under such indenture or instrument shall be remedied or cured by the Bank or waived by the holders of such indebtedness, then the Event of Default under the Bonds by reason thereof shall be deemed likewise to have been thereupon remedied, cured or waived without further action upon the part of either the Trustee or any of the holders of the Bonds; or
- (e) if the Bank shall fail to pay at the stated maturity thereof (after giving effect to any applicable grace period) any indebtedness for borrowed money and such failure shall not have been remedied or cured by the Bank or waived by the holders of such indebtedness prior to the date on which written notice of such failure shall first have been given to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least 20 per cent. of the Bonds at the time outstanding; or

(j) if the Bank is wound up or dissolved or becomes bankrupt or insolvent;

then, and in each and every case, either the Trustee or the holders of a majority of the Bonds then outstanding, by notice in writing to the Bank (and to the Trustee if given by the holders of the Bonds), may declare the principal of all the Bonds to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, together with accrued interest thereon.

#### **Listing and Notices**

Application has been made to list the Bonds on the Luxembourg Stock Exchange. In connection therewith, it is anticipated that the notice relating to the issue will be deposited prior to the listing with the Chief Registrar of the District Court of Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*) where such document may be examined and copies obtained. The Articles of Association of the Bank will be deposited with the Chief Registrar prior to the listing.

Notices required to be given to holders of the Bonds will be given by publication in daily newspapers in general circulation in London and, if and so long as the Bonds are listed on the Luxembourg Stock Exchange, in Luxembourg City to the extent required by Luxembourg law or the regulations of such Stock Exchange. It is expected that such notices will be published in London in the *Financial Times* and in Luxembourg City in the *Luxemburger Wort*.

So long as any Bonds remain outstanding the Articles of Association and the annual reports of the Bank will be available for inspection at the principal offices of Kredietbank S.A. Luxembourg and the Trustee in Luxembourg.

The Luxembourg Stock Exchange has agreed to arrange for the publication, in the Official Price List, of daily valuations of the SDF in terms of the U.S. dollar.

#### **Modification of the Trust Agreement**

The Trust Agreement will contain provisions permitting the Bank and the Trustee, with the consent of the holders of not less than 66 $\frac{2}{3}$  per cent. of the Bonds at the time outstanding at a general meeting of the holders of the Bonds or of the holders of not less than 66 $\frac{2}{3}$  per cent. of the Bonds validly voting at a second meeting, to enter into supplemental trust agreements which modify the rights of the holders of Bonds and coupons, provided that certain modifications may not be effected without the consent of the holders of Bonds as more particularly set forth in the Trust Agreement.

The Trust Agreement will provide for the calling of meetings of the holders of the Bonds by the Trustee or upon request of the Bank or the holders of at least 5 per cent. of the Bonds then outstanding for, among other things, any of the following purposes: (a) to give any directions to the Trustee, (b) to waive any Events of Default, (c) to modify the Trust Agreement pursuant to its terms, (d) to remove the Trustee and appoint a successor trustee and (e) to take any other action authorised to be taken by or on behalf of the holders of any specified number of the Bonds under the provisions of the Trust Agreement or under applicable law. Depending on the purpose of the meeting, the Trust Agreement will specify that decisions shall be taken by the holders of not less than 66 $\frac{2}{3}$  per cent. or a majority, as the case may be, of the Bonds outstanding or represented at the meeting, as the case may be. The procedures respecting meetings of the holders of the Bonds are described in the Trust Agreement. The Trustee may agree, without the consent of the holders of the Bonds or coupons, to any alteration of the provisions of the Trust Agreement, the Bonds and coupons which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the holders of the Bonds or coupons.

#### **Prescription**

The right to the payment of principal (whether at maturity or at any date fixed for redemption or otherwise) or premium, if any, in respect of each Bond shall be forfeited and void 30 years from the date when such principal or premium shall have become due and payable, and the right to the payment of interest on each Bond shall be forfeited and void five years from the date when such interest shall have become due and payable; and no action, suit or other legal proceeding based on the right to payment of principal or premium, if any, or interest, as the case may be, may be commenced after the expiration of such periods.

### Replacement of Bonds and Coupons

If any of the Bonds or coupons are lost, stolen, mutilated or destroyed, the Bank will deliver at the principal office of the Principal Paying Agent in London substitute Bonds or coupons, as the case may be, upon payment of the expenses occasioned thereby and subject to the production of evidence satisfactory to the Principal Paying Agent as to the loss, theft, mutilation or destruction of the Bonds or coupons and the rights of the claimant thereto and after all necessary formalities shall have been complied with, including provision for indemnities satisfactory to the Principal Paying Agent.

### Governing Law and Jurisdiction

The Bonds and coupons appertaining thereto and the Trust Agreement will be governed by and interpreted in accordance with the laws of the Grand Duchy of Luxembourg, including the Grand Ducal Decree of December 22, 1972 concerning fiduciary representation.

The Trustee and, subject to the provisions of the Trust Agreement, the holders of Bonds and coupons will be free to enforce their rights against the Bank in the courts of the City of Luxembourg. For the purpose of any action or proceeding brought in the courts of the City of Luxembourg, the Bank will elect domicile at the principal office of the Trustee for all acts, formalities or procedures in connection with the Bonds and will irrevocably submit to the jurisdiction of the courts of the City of Luxembourg.

### LEGAL OPINIONS

Certain legal matters in connection with the offering contained herein will be passed upon for the Bank by G. Sandströms Advokatbyrå, Sergels Torg 12, S-11157 Stockholm, Sweden, and will be passed upon for the Managers by Messrs. Shearman & Sterling, 53 Wall Street, New York, New York 10005, Messrs. Elvinger & Hoss, 84 Grand Rue, Luxembourg City and Messrs. Allen & Overy, 9 Cheapside, London EC2V 6AD. Shearman & Sterling, Elvinger & Hoss and Allen & Overy will rely upon the opinion of G. Sandströms Advokatbyrå with respect to all matters of Swedish law.

### CAPITALISATION

The following table sets forth the capitalisation of the Bank as at 11th June, 1975 (except that statutory reserve and retained earnings are stated as at 31st December, 1974):

|                                     | In thousands<br>of Swedish Kronor | Translated into thousands<br>of U.S. dollars |
|-------------------------------------|-----------------------------------|--|
| Borrowings: (1)                     |                                   |  |
| Short-term .....                    | Skr 103,497                       | \$ 25,305                                    |
| Medium-term.....                    | 418,933                           | 102,428                                      |
| Long-term .....                     | 1,472,755                         | 360,087                                      |
| Total borrowings .....              | <u>1,995,185</u>                  | <u>487,820</u>                               |
| Equity capital:                     |                                   |  |
| Share capital .....                 | 900,000                           | 220,049                                      |
| Statutory reserve .....             | 125,000                           | 30,562                                       |
| Retained earnings.....              | 82,836                            | 20,254                                       |
| Total equity capital .....          | <u>1,107,836</u>                  | <u>270,865</u>                               |
| Total borrowings and equity capital | Skr <u>3,103,021</u>              | <u>\$758,685</u>                             |

(1) Short-term borrowings are those with a final maturity of one year or less; medium-term are those with a final maturity of more than one but less than ten years; and long-term are those with a final maturity of ten years or more. See note 4 of Notes to Financial Statements with respect to borrowings at 31st December, 1974 and note 9 of Notes to Financial Statements for borrowings since 31st December, 1974.

## USE OF PROCEEDS

The net proceeds from the sale of the Bonds offered hereby are estimated to be \$48,525,000. It is expected that the entire net proceeds will be converted into Swedish Kronor and used by the Bank to make loans in Kronor to companies in Sweden. However, it is possible that a small part of the net proceeds may be used to make dollar loans in connection with the Bank's export financing activities. Pending such uses, the net proceeds will be invested in short-term obligations, which may include dollar obligations.

The Bank anticipates that it will incur additional borrowings for use in its lending activities from time to time during the remainder of 1975 and thereafter. The amount and timing of such borrowings will depend upon the Bank's commitments and the terms available to it in the Swedish and international capital markets.

## SVERIGES INVESTERINGSBANK AKTIEBOLAG

The Bank was established in 1967 pursuant to Government Proposition No. 56 of 1967 (the "Proposition") approved by the Swedish Parliament. The Bank's primary purpose is to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalisation, structural adaptation and development. The Bank also participates in the financing of Swedish exports.

All of the share capital of the Bank was subscribed to and is owned by the Kingdom of Sweden (the "Kingdom"). The Kingdom has guaranteed the obligations of the Bank up to an amount of Skr 2,000 million (\$489 million). See "Guarantee of the Kingdom of Sweden".

As of 31st December, 1974, the total equity capital of the Bank was \$270.9 million. At the same date, the Bank had loans and guarantees outstanding of \$520 million and \$15.8 million, respectively, and undisbursed loan commitments of \$3/4 million. (As used in this Prospectus, except in the financial statements, loans include advances to subsidiaries and affiliates.)

The Bank's business is the making of medium-term (5 to 10 years) and long-term (10 to 20 years) loans, principally to finance industrial projects in Sweden and, to a lesser extent, to finance exports by Swedish companies. Such medium- and long-term financing is generally not otherwise available in the Swedish capital market and, as contemplated by the Proposition, may involve additional risks, principally relating to long-term developments, which would not normally be assumed by conventional Swedish lending institutions. In assessing individual loan proposals, the Bank's primary consideration is the commercial viability of the project involved. In certain cases the Bank also considers the potential impact of the use of proceeds on the economy of Sweden. Although the Bank is also authorised to make equity investments as a method of long-term financing, it has rarely chosen to do so.

The Bank is not authorised to accept deposits from the public and is principally dependent upon its equity and borrowings in the Swedish and international capital markets to provide the funds needed for its lending activities.

Although the Proposition contemplates that the Bank's lending activities will be consistent with national economic policies, the Bank has a high degree of autonomy in determining its own policies and in its day-to-day operations. The Bank seeks to earn a satisfactory return on its equity capital and applies credit standards and negotiates loan terms to achieve this objective.

The principal office of the Bank is located at Regeringsgatan 107, Stockholm, Sweden.

## STATEMENT OF INCOME

The following statement of income of Sveriges Investeringsbank Aktiebolag for the five years ended 31st December, 1974, insofar as it is expressed in Swedish Kronor, has been examined by Messrs. Tore Henckel and Bruno Svensson, authorised public accountants in Sweden, whose report thereon appears elsewhere in this Prospectus. The statement is presented in accordance with accounting principles generally accepted in Sweden. The statement should be read in conjunction with the other financial statements and related notes included elsewhere herein. The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of mathematical computation only, at the rate of Skr 4.09 to U.S.\$1 (see note 2 of Notes to Financial Statements).

|   | Year ended 31st December       |                |                |                |                | Year ended 31st December                   |               |               |               |               |
|---|--------------------------------|----------------|----------------|----------------|----------------|--|---------------|---------------|---------------|---------------|
|   | 1970                           | 1971           | 1972           | 1973           | 1974           | 1970                                       | 1971          | 1972          | 1973          | 1974          |
|   | In thousands of Swedish Kronor |                |                |                |                | Translation into thousands of U.S. dollars |               |               |               |               |
| <b>Operating Revenue</b>                              |                                |                |                |                |                |  |               |               |               |               |
| Interest and fees on loans.....                       | Skr 26,638                     | 62,083         | 93,003         | 122,649        | 147,683        | \$ 6,513                                   | 15,179        | 22,739        | 29,987        | 36,108        |
| Interest on deposits with banks and investments.....  | 75,547                         | 39,193         | 23,959         | 60,130         | 63,902         | 18,471                                     | 9,583         | 5,858         | 14,702        | 15,624        |
| Gain on repurchase of bonds...                        | —                              | —              | —              | 1,444          | —              | —  | —             | —             | 353           | —             |
|   | <u>102,185</u>                 | <u>101,276</u> | <u>116,962</u> | <u>184,223</u> | <u>211,585</u> | <u>24,984</u>                              | <u>24,762</u> | <u>28,597</u> | <u>45,042</u> | <u>51,732</u> |
| <b>Operating Expense</b>                              |                                |                |                |                |                |  |               |               |               |               |
| Salaries .....  | 904                            | 1,188          | 1,562          | 1,841          | 2,143          | 221  | 291           | 382           | 450           | 524           |
| Pension .....   | 62                             | 78             | 133            | 152            | 225            | 15   | 19            | 32            | 37            | 55            |
| Other employee benefits.....                          | 52                             | 89             | 177            | 209            | 346            | 13   | 22            | 31            | 51            | 85            |
|   | <u>1,018</u>                   | <u>1,355</u>   | <u>1,822</u>   | <u>2,202</u>   | <u>2,714</u>   | <u>249</u>                                 | <u>332</u>    | <u>445</u>    | <u>538</u>    | <u>664</u>    |
| Interest paid on borrowings....                       | 3,408                          | 4,614          | 19,697         | 80,756         | 99,757         | 833  | 1,128         | 4,816         | 19,745        | 24,390        |
| Commissions and fees.....                             | 114                            | 248            | 210            | 460            | 872            | 28   | 61            | 51            | 112           | 213           |
| Debt issuance costs .....                             | —                              | —              | 8,857          | 8,800          | —              | —  | —             | 2,166         | 2,152         | —             |
| Foreign exchange losses (gains) —net (1) .....        | —                              | —              | 587            | 1,209          | (3,542)        | —  | —             | 144           | 296           | (866)         |
| Provision for future foreign exchange losses (1)..... | —                              | —              | —              | 35,000         | 13,000         | —  | —             | —             | 8,557         | 3,178         |
| Provision for loan losses (5) ....                    | 40,000                         | 41,688         | 30,313         | 4,264          | 46,513         | 9,780                                      | 10,193        | 7,411         | 1,043         | 11,372        |
| Rent.....   | 141                            | 185            | 228            | 250            | 358            | 34   | 45            | 56            | 61            | 88            |
| Depreciation.....                                     | 24                             | 31             | 33             | 39             | 47             | 6  | 7             | 8             | 9             | 12            |
| Contributions to subsidiaries (3)                     | —                              | —              | 125            | 1,934          | 668            | —  | —             | 31            | 473           | 163           |
| Other expenses.....                                   | 220                            | 345            | 459            | 647            | 1,540          | 54   | 84            | 112           | 158           | 377           |
|   | <u>44,925</u>                  | <u>48,466</u>  | <u>62,331</u>  | <u>135,561</u> | <u>161,927</u> | <u>10,934</u>                              | <u>11,850</u> | <u>15,240</u> | <u>33,144</u> | <u>39,591</u> |
| Income Before Taxes.....                              | 57,260                         | 52,810         | 54,631         | 48,662         | 49,658         | 14,000                                     | 12,912        | 13,357        | 11,898        | 12,141        |
| Income taxes (1).....                                 | 30,567                         | 28,650         | 29,769         | 3,600          | 7,868          | 7,474                                      | 7,005         | 7,278         | 880           | 1,923         |
| Net Income.....                                       | Skr <u>26,693</u>              | <u>24,160</u>  | <u>24,862</u>  | <u>45,062</u>  | <u>41,790</u>  | <u>\$ 6,526</u>                            | <u>5,907</u>  | <u>6,079</u>  | <u>11,018</u> | <u>10,218</u> |

The numbered note references are to Notes to Financial Statements.

## BUSINESS

### *Lending Activities*

The Bank's borrowers include large and small, publicly and privately owned companies in various industries. Although firms in all segments of the economy may make application, loans have been made principally to industrial companies. Most loans are made to finance specified plant and equipment investments by the borrower, but others (especially in the case of smaller firms) finance product development costs or other corporate projects. Companies whose operations contribute to the Swedish economy are considered for loans without regard to nationality of ownership. A small number of the Bank's loans has been made to companies which are wholly or partly owned by the Kingdom.

The majority of the Bank's loans to Swedish companies have been and are expected to be medium- and long-term loan participations in financings in which commercial banks or other institutions provide other funds with shorter maturities. At 31st December, 1974, more than 95 per cent. of the Bank's loans by number and outstanding amount were in this category.

Most of the Bank's loan transactions involve commitments to the borrower to provide funds at a predetermined rate of interest at a later date or dates. In some cases such commitments may extend over several years. A commitment fee is not usually charged. The interest rate which the Bank will charge on a loan is usually fixed at the time the loan commitment is entered into.

At 31st December, 1974, fixed-interest-rate loans accounted for 98 per cent. of the amount of the Bank's outstanding loans and variable-rate-loans for the balance. The Bank's lending rates vary from loan to loan and are generally higher than the interest rate fixed by Sveriges Riksbank, the Central Bank of Sweden ("Riksbank"), for long-term public industrial bond issues. During the latter part of 1974, the Bank raised its minimum lending rate for new commitments to 10 per cent.

Of \$520 million total amount of loans outstanding at 31st December, 1974, 7.6 per cent. was accounted for by loans with original terms of less than five years; 25.6 per cent. by loans with original terms of five to ten years; and 66.8 per cent. by loans with original terms of more than ten years. The Articles of Association of the Bank ("Articles") limit the maximum term of loans which the Bank may make to 20 years.

Most of the Bank's loans (96 per cent. of loan balances at 31st December, 1974) are secured by mortgages or guarantees of third parties. Typically the borrower grants the Bank a security interest in its plant, equipment, inventory or receivables. However, in most cases the Bank's security interest is subordinate to that of other lenders participating in the same financing, such as commercial banks providing short-term credit.

The Bank believes that it applies normal commercial banking standards in evaluating the credit risks and fixing the terms of its loans. Of the 300 to 400 applications for loans received by the Bank in each of the last several years, less than one-third have been approved as meeting the Bank's credit standards.

The Articles limit the total of the Bank's unsecured loans, guarantees and equity investments to one-half of its share capital. At 31st December, 1974 such loans, guarantees and investments (including undisbursed commitments) aggregated \$26.1 million or 11.8 per cent. of the Bank's share capital.

### *Export Financing*

Since 1971 the Bank has also been authorised to engage in export financing and approximately one-third of the aggregate amount of the Bank's outstanding loans and undisbursed commitments is for export transactions. The Bank's activities in this area include loans to Swedish companies for projects abroad in order to develop export markets or for specific export transactions and loans to purchasers of Swedish exports. In addition, the Bank has guaranteed loans made by foreign banks to foreign subsidiaries or affiliates of Swedish companies where exchange restrictions prohibit such subsidiaries or affiliates from obtaining funds outside their country of operation. Such loans and guarantees are made both in Kronor and in various foreign currencies. Often the Bank issues an export loan quotation prior to the actual sale, thereby permitting Swedish companies to include financing arrangements in their bids for export sales. On most of its export credits, the Bank has also required that commercial and/or political guarantees of the credit be obtained by the borrower from the Swedish Export Credits Guarantee Board which customarily guarantees 70 per cent. to 90 per cent. of such credit.

The largest credit granted by the Bank to date is a \$122 million export loan commitment (of which \$21 million had been disbursed at 31st December, 1974) to Teollisuuden Voima OY ("TVO"), a company owned by Finnish industrial and power companies, for purchase of a nuclear power plant from the Swedish company, AB ASEA-ATOM. The net power output of the plant will be 660 MW and the Swedish contract value is about \$170 million. The credit has a final maturity of 20 years and the repayment will be guaranteed by the Republic of Finland or by Finnish banks. These guarantees will be supplemented by a guarantee from the Swedish state-owned Export Credits Guarantee Board covering the political risks for 90 per cent. of the loan amount. To finance this credit the Bank has obtained a special purpose loan of \$122 million from the Swedish National Pension Insurance Fund. The repayment provisions of this special purpose loan are tailored to meet the amortisation schedule on the TVO credit. The terms of this transaction give the Bank a smaller profit margin than it would ordinarily receive on an export financing. The arrangement of this credit enabled AB ASEA-ATOM to compete successfully for the TVO contract with producers of nuclear power equipment from other countries.

In order to finance the sale of a second nuclear power plant to TVO by AB ASEA-ATOM the Bank has agreed to advance—for its own account and as participant in a consortium of Swedish banks—a further amount of approximately \$34 million to TVO, but final terms have not yet been settled. The guarantee will be comparable to the one obtained in the previous credit to the same borrower. No special purpose loan will be obtained to finance this transaction.

#### *Growth of Loan Portfolio*

The following table indicates the amount of the Bank's outstanding loans and undisbursed commitments at the end of each of the seven fiscal years since its establishment:

| <u>31st December</u> | <u>Loans<br/>Outstanding</u> | <u>Undisbursed<br/>Commitments</u> |
|----------------------|------------------------------|------------------------------------|
|                      | (000 omitted)                |                                    |
| 1968 .....           | \$ 7,188                     | \$123,896                          |
| 1969 .....           | 41,564                       | 219,560                            |
| 1970 .....           | 130,386                      | 256,720                            |
| 1971 .....           | 234,982                      | 275,949                            |
| 1972 .....           | 339,595                      | 374,455                            |
| 1973 .....           | 404,250                      | 296,667                            |
| 1974(1) .....        | 520,121                      | 343,766 (2)                        |

(1) Of loans outstanding and undisbursed commitments at 31st December, 1974, the equivalent of \$16.3 million and \$2.1 million, respectively, were in currencies other than Swedish Kronor. At that date, guarantees equivalent to \$15.8 million (principally in connection with export financing) were outstanding, of which the equivalent of \$6.8 million were in foreign currencies, and the Bank had granted commitments to issue guarantees equivalent to \$3.8 million, of which the equivalent of \$3.4 million were in foreign currencies.

(2) The estimated timing of disbursements of commitments outstanding at 31st December, 1974 is as follows: 1975, \$180,929,000; 1976, \$80,685,000; 1977, \$58,680,000; 1978, \$19,560,000; and 1979 and after, \$3,912,000.

### Distribution of Loans and Undisbursed Commitments by Industry

The following table indicates the distribution by industry of (i) new credit commitments (including guarantees) granted by the Bank in 1974 and (ii) outstanding loans and undisbursed commitments at 31st December, 1974:

|                            | Granted in 1974 |        | Outstanding at<br>31st December, 1974 |                                |                  |        |
|----------------------------|-----------------|--------|---------------------------------------|--------------------------------|------------------|--------|
|                            | (000 omitted)   |        | Loans                                 | Undisbursed<br>Commitments (1) | Total<br>Credits |        |
| Engineering (2) .....      | \$160,217       | 56.6%  | \$103,712                             | \$221,310                      | \$325,022        | 36.8%  |
| Pulp and Paper.....        | 4,890           | 1.7    | 117,804                               | 12,958                         | 130,762          | 14.8   |
| Electric Power Plants..... | —               | —      | 56,071                                | 26,895                         | 82,966           | 9.4    |
| Chemicals .....            | 22,968          | 8.1    | 86,863                                | 6,507                          | 93,370           | 10.5   |
| Metals .....               | 3,667           | 1.3    | 28,525                                | 1,222                          | 29,747           | 3.4    |
| Construction .....         | 12,962          | 4.6    | 16,208                                | 36,540                         | 52,748           | 6.0    |
| Timber .....               | 22,550          | 8.0    | 32,062                                | 26,685                         | 58,747           | 6.7    |
| Communications .....       | 25,083          | 8.8    | 39,490                                | 15,222                         | 54,712           | 6.2    |
| Textile products .....     | 13,839          | 4.9    | 11,182                                | 6,653                          | 17,835           | 2.0    |
| Retail and wholesale... .. | 1,687           | 0.6    | 8,194                                 | 1,834                          | 10,028           | 1.1    |
| Other .....                | 15,231          | 5.4    | 20,010                                | 7,529                          | 27,539           | 3.1    |
|                            | \$283,094       | 100.0% | \$520,121                             | \$363,355                      | \$883,476        | 100.0% |

(1) Including guarantees.

(2) Including commitments and loans to TVO as described above under "Export Financing".

### Distribution of Loans by Size

The following table indicates the distribution, by amount, of (i) new credit commitments (including guarantees) granted by the Bank in 1974 and (ii) total loans outstanding and undisbursed commitments (including guarantees) at 31st December, 1974.:

|   | Up to<br>1 mKr.<br>(\$244) | Over<br>1 mKr.<br>up to<br>10 mKr.<br>(\$2,444) | Over<br>10 mKr.<br>up to<br>25 mKr.<br>(\$6,112) | Over<br>25 mKr.<br>up to<br>50 mKr.<br>(\$12,225) | Over<br>50 mKr. |
|---|----------------------------|---|--|---|-----------------|
| New loan commitments granted in 1974 .....    | 1.7%                       | 18.8%   | 15.6%  | 31.3%   | 32.6%           |
| Total at 31st December, 1974:                 |                            |   |  |   |                 |
| Loans Outstanding.....                        | 1.6%                       | 13.9%   | 19.2%  | 14.1%   | 51.2%           |
| Undisbursed Commitments .....                 | 0.3%                       | 11.0%   | 7.4%   | 14.3%   | 67.0%           |
| Total Loans and Undisbursed Commitments ..... | 1.1%                       | 12.7%   | 14.4%  | 14.1%   | 57.7%           |

(mKr. = million Swedish Kronor; \$000 omitted)

### Major Loans

The following table provides information on the Bank's twenty largest loans outstanding, as of 31st December, 1974:

| Borrower                              | Purpose and Year Granted                | Final<br>Maturity | Amount<br>Outstanding | Total<br>Commitment |
|---------------------------------------|---|-------------------|-----------------------|---------------------|
| (000 omitted)                         |   |                   |                       |                     |
| Skogsägarnas Industri AB.....         | sulphate paper mill.....1968            | 1987              | \$55,012              | \$61,125            |
| Skandinaviska Raffinaderi AB Scanraff | oil refinery.....1968 and 1971          | 1987              | 36,186                | 36,675              |
| MKG Mellansvensk Kraftgrupp AB...     | nuclear power plant.....1972            | 1992              | 29,340                | 39,120              |
| Teollisuuden Voima OY (TVO).....      | nuclear power plant (export)...<br>1972 | 1993              | 21,431                | 122,249             |