European Investment Bank

The bank promoting European objectives | Luxembourg, 9 June 2009

Statement by Mr Philippe Maystadt, President, to the Annual Meeting of the Board of Governors

Governors,
Ladies and Gentlemen,

It is my pleasure once again to welcome you to the Annual Meeting of the EIB Board of Governors. I dare say that when we met last year, few of us anticipated quite how dramatically events would unfold in the European and World economy.

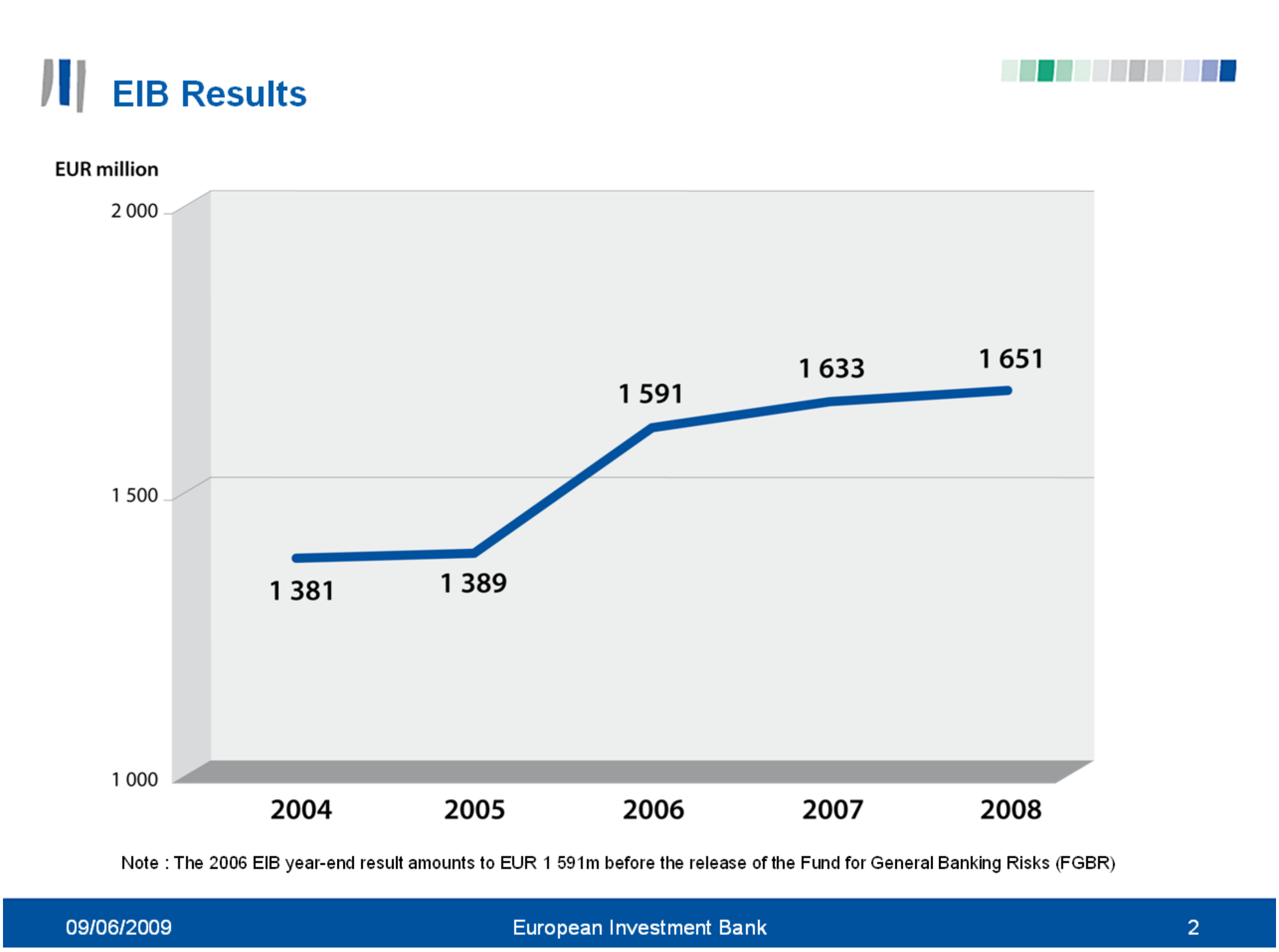
Over the last 12 months, I have of course met with many of you and discussed how the Bank might support your own as well as the international response to the crisis. Today is an opportunity to take stock, to look back on some of the highlights of last year and more importantly to contemplate the immediate future. It is an opportunity, as I outlined already in my letter to you, to discuss the impact of the crisis and EIB's response and for you to provide us with valuable guidance for the Mid-Year Review of the Bank's Corporate Operation Plan.

I will now outline some of the actions taken in recent months as well as those foreseen for the months ahead.

I. PRESERVING A SOUND FINANCIAL STANDING

The Board of Governors approved a EUR 67 billion increase in the Bank's capital in April and I want to take this opportunity today to thank you, our shareholders, for demonstrating so publicly and so effectively your commitment to the EIB in what has been for most others in the financial sector a difficult and turbulent time. This capital increase has given us a new lease of life allowing the EIB to pursue a more ambitious policy for Europe and to support your economic recovery plans.

EIB has always exerted a very tight financial risk control, monitoring its lending and borrowing portfolios daily and its financially prudent approach has paid off. In 2008, in spite of the financial turbulence, the EIB has proved again worthy of your trust, not only in developing further its economic impact, as I will outline further, but also in demonstrating continued strong profitability and resilience to adverse market developments. Thanks to prudent financial management, net profit increased marginally to EUR 1.65 bn in 2008. [SLIDE 1]



The Bank must remain financially very sound if it is to maintain its AAA rating and be able to borrow unprecedented amounts in a more volatile market. In this context, I welcome EIB's access to the Eurosystem's open market operations and liquidity facilities of the European Central Bank, which will further mitigate EIB's liquidity risk. Not surprisingly, the agreement signed between the ECB and the EIB in May received a positive reaction from market participants. EIB will comply with all the normal requirements of an eligible counterpart for ECB, including minimum reserves, statistical obligations and Eurosystem access to financial information for this purpose.

The EIB is prepared to accept additional regulatory supervision at EU-level, as I indeed mentioned in my address to the European Parliament last year, and to open its books with confidence to supervisors. This acceptance of regulatory scrutiny should demonstrate to the Member States and to the markets that EIB continues to be one of the most solid financial institutions in the world.

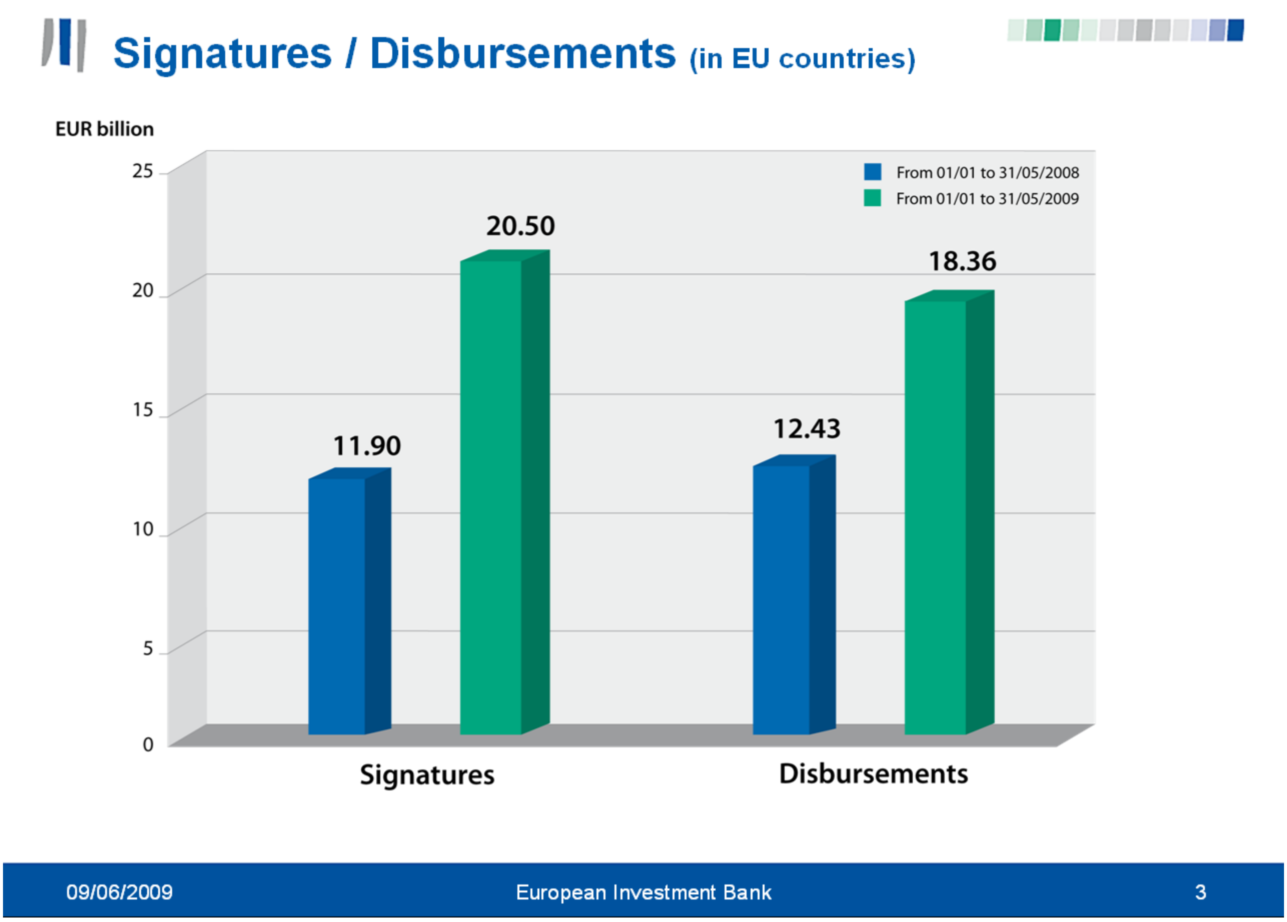
As long as EU-wide supervisors are not available, EIB will continue to seek a partnership with national supervisory authorities, for instance, with the Luxembourg supervisor regarding the implementation of Basel II. More generally, the EIB remains open and attentive to the recommendations of its organs of control and in particular its Audit Committee, the Court of Auditors in matters where Community resources are committed and the European Ombudsman whose recommendations were officially accepted in a recent case. Moreover, in light of the G-20 meeting in April, the EIB is proposing to strengthen its existing policy on Offshore Financial Centres, by imposing relocation undertaking to financing structures located in tax havens. The revised policy will be discussed by the Board of Directors next week.

II. INCREASING THE SUPPLY OF LOANS

Today, a few months into one of the deepest financial crises in history, the EIB has emerged strongly as part of the solution to the crisis rather than part of the problem, raising significant amounts of additional funds to support more projects in the European Union.

Last December, the EIB committed itself to a European Economic Recovery Package that would increase our overall lending by some 30% or EUR 15 bn in both 2009 and 2010. This package targeted three key areas: small and medium-sized enterprises (or SMEs); energy and mitigation of climate change; and investment in the 'convergence' regions of the EU. The second of these areas, energy and mitigation of climate change, included a new European Clean Transport Facility primarily intended to double EIB support for the automotive sector.

In fact, even before this recovery package was finalised, EIB was already responding on a rapid and practical basis to requests to step up its support to the European economy. It is a sign of how quickly and efficiently the EIB can deliver on such promises that by the end of last year the Bank had already increased disbursements by some EUR 10 bn compared to its original target and by May of this year it had already achieved solid results towards the challenging objectives set for 2009. [SLIDE 2]



In the first five months of 2009, signatures for projects in the European Union were EUR 20.5 bn, an increase of 72% over the equivalent period in the previous year. Likewise, disbursements increased by 47% and reached EUR 18.2 bn by the end of May.

In the same period, lending to banks for SMEs amounts to EUR 4.4 bn against an overall target of EUR 8 bn for 2009. For Convergence, EUR 7.7 bn has so far been signed against an overall target of EUR 22 bn and for Energy, EUR 3.9 bn against an overall target of EUR 9 bn. Looking at support for the automotive sector specifically, approved loans amount to EUR 5.2 bn; at the end of July, more than EUR 7 bn are expected to be approved.

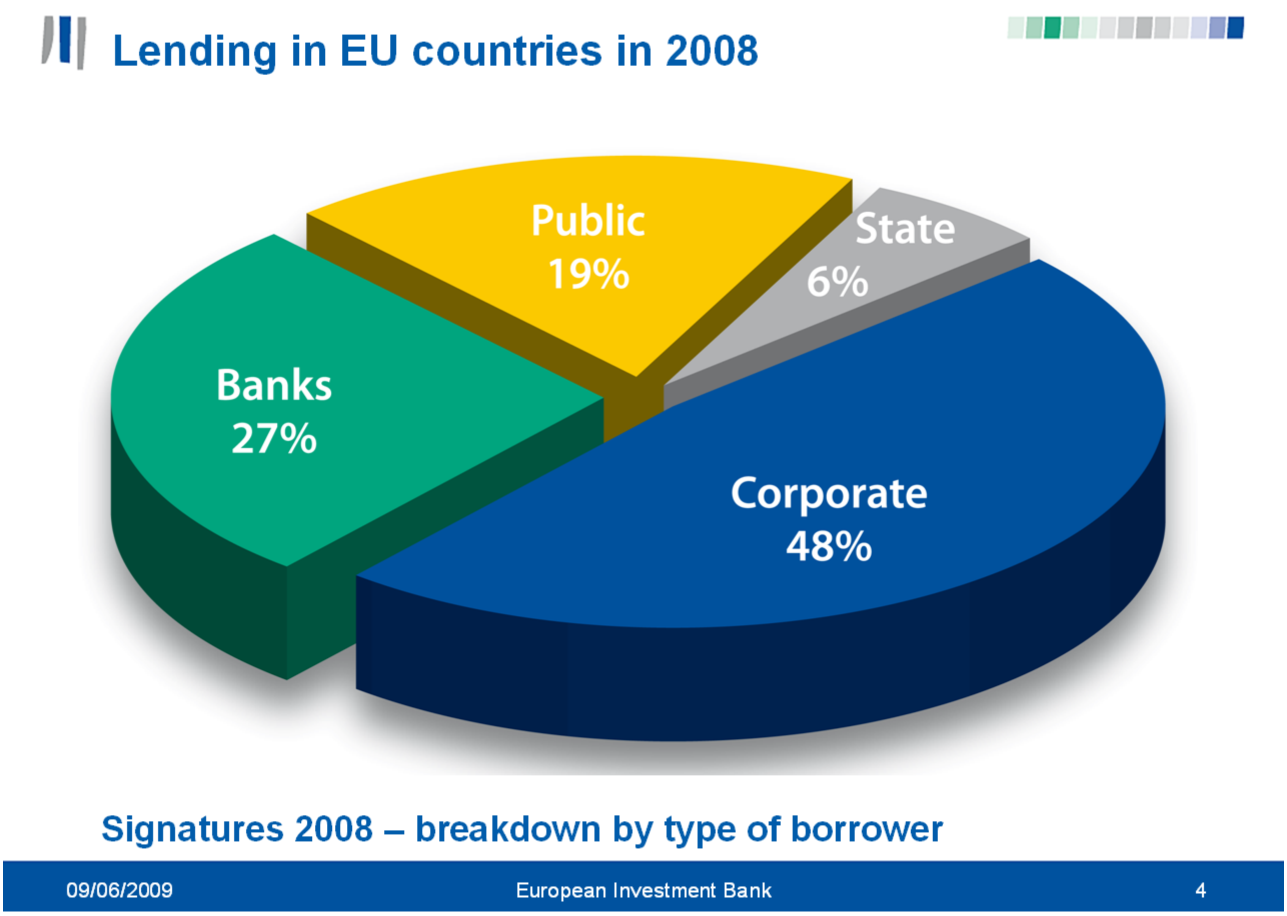
In view of the additional demand seen by the Bank for its lending programme, it is now envisaged that EIB loan signatures could exceed by EUR 10 bn the amount foreseen in December last year. This would mean total lending of some EUR 70 bn for 2009 for the EU and Pre-Accession countries, coming from a "normal" level of EUR 45 bn. The additional 25 bn per year would mean a truly significant contribution in terms of liquidity to European banks, corporates and public sector clients.

III. DEVELOPING NEW PRODUCTS AND TAKING ADDITIONAL RISKS

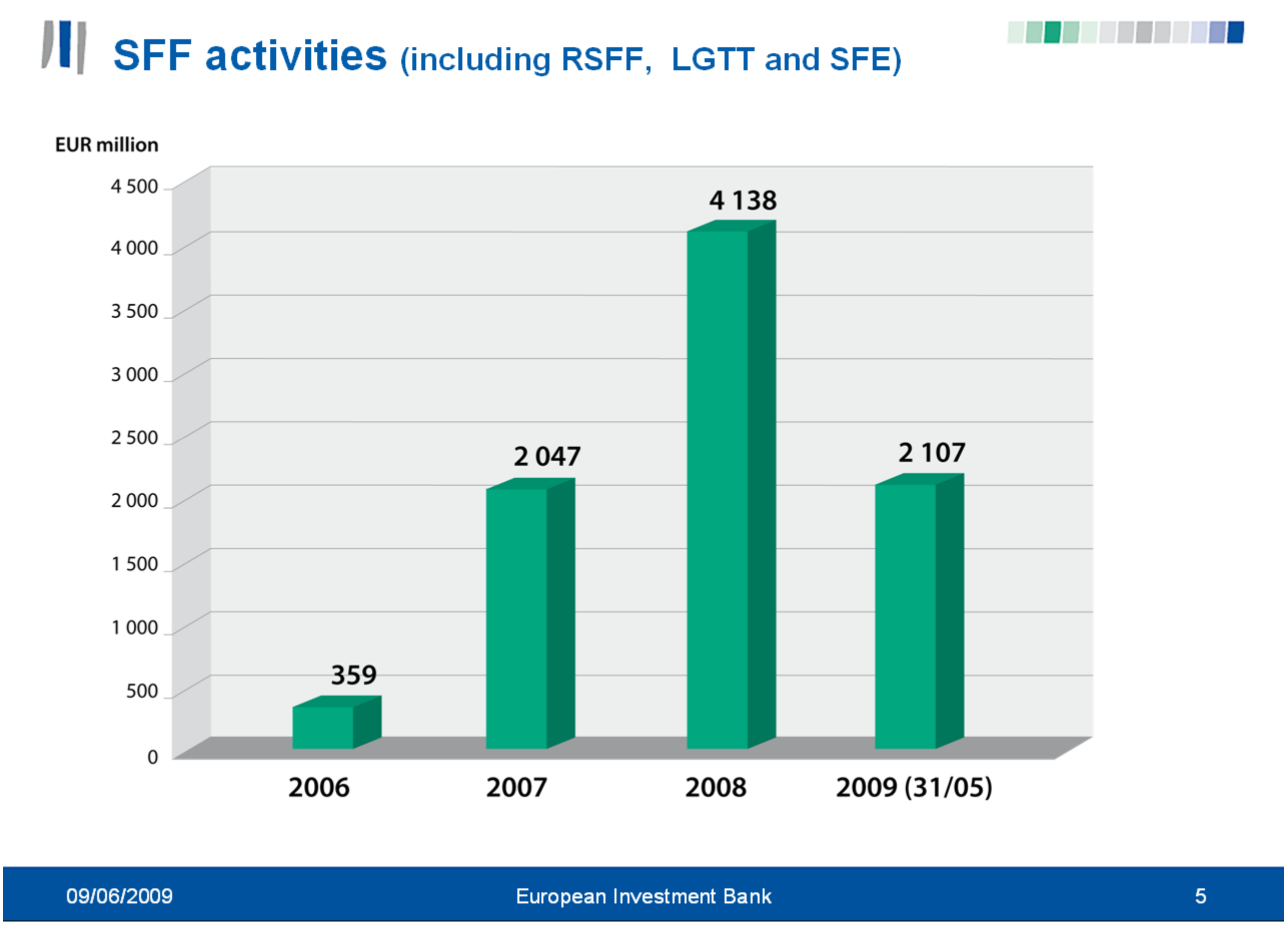
As you are well aware however, providing additional liquidity to different sectors of the European economy is only part of the answer. Scarcity of capital and risk aversion are further concerns for market participants, limiting financial intermediaries capacity and desire to promote lending activities and support the real economy. The intervention of a solid European public policy bank such as EIB is required in a broader range of financial products than ever before, which, for the EIB, involves taking increased but calculated risks. More risks than before, but more calculated than ever!

Whilst what might be considered the at risk portion of our loan portfolio stands at less than 6% of the total value of the portfolio, in the last 9 months, 12% of the loans signed by EIB were in this category[1].

Furthermore, the proportion of unsecured loans expressed as a percentage of the Bank's portfolio reached 26% at the end of the first quarter 2009. Indeed, unsecured loans signed in the exceptional period of the last 9 months represent 43% of the amount signed during this period. We should be clear, as the next slide [SLIDE 3] shows, a substantial part of EIB lending is to the private sector, both banks and corporates, without any third party guarantee.



[1] The proportion of loans internally graded "Good" or better has fallen to 94.7 % of the total risk portfolio (from 96.5 % at the end of 2006). This reflects new signatures with higher credit risk as well as the migration of previously higher graded loans into slightly lower grading classes but confirms the continued high investment grade quality of the Bank's overall portfolio.



[SLIDE 4]
In the highest risk loan category (sub-investment grade loans financed under the Structured Finance Facility), over the last 9 months, we have approved loans for an amount of EUR 6.4 bn, which is almost as much as the outstanding stock of signed operations. The trend is very clear with a substantial increase in sub-investment grade lending evident in recent years. This necessitates a further allocation of EUR 1 bn from our reserves for the Structured Finance Facility, a request which will be put to Directors in July.

More is still possible whilst maintaining EIB within safe and orthodox financial boundaries. All SFF limits for individual operations were recently increased by 50% and additional risk taking capacity will be provided by developing EIB guarantee products, by extending the range of risk-taking instruments for the financing of SMEs and MidCaps, and by increasing the availability of equity and quasi equity finance in critical sectors. A few words about each of these three orientations:

Development of guarantee products

Guarantees issued by the Bank should make it easier to attract other lenders to projects, thus facilitating the financial closing of operations which will also benefit from EIB loans. In the longer term, due to an anticipated 0% risk weighting applied to the exposures guaranteed by the EIB, the Bank will relieve capital allocation of financial intermediaries, allowing them to increase lending activities and foster economic recovery in Europe.

The Bank has started work to implement standardised guarantee instruments, covering the credit risks of corporates, public sector entities and project finance transactions. It is expected that the implementation process will be finalised by year end but the first guarantees could be provided already in 2009.

Taking more risks on SME and MidCap financing

In parallel, the EIB Group is modernising and extending its range of intermediated SME and MidCap loans. The new version of the EIB loan to SMEs combines a guarantee on part of the existing SME loan portfolio of a partner bank with financing of a new SME portfolio. As such, it combines EIB's skills in intermediated lending with EIF's experience in assessing and managing risk on portfolios of SME exposures.

Promoting the availability of equity and quasi equity finance

Whilst continuing to operate within the limitations imposed by the EIB’s Statute, EIB’s expertise is also being further developed in the direction of equity and quasi equity finance. Notably during the course of 2009, EIB has given a EUR 1 bn Mezzanine Mandate to the EIF to promote further risk taking on SMEs which is expected to leverage considerably in terms of new investment. Through this Mezzanine Mandate, the EIF will invest in funds providing a range of equity, quasi-equity and hybrid structures to finance the development and transmission of existing SMEs.

Following the call from the Informal Ecofin Council last September in Nice, we have also actively pursued discussions with other long term credit institutions within the EU to establish a pan-European infrastructure equity fund – called Marguerite - to provide equity and quasi-equity instruments, alongside debt, to invest in medium to large scale infrastructure projects in Europe. I would like to take this opportunity to invite you to encourage other European public and private investors to join this initiative alongside the four original partners CDC, CDP, KfW and EIB. A detailed report on this fund will be made to the July ECOFIN.

IV. TECHNICAL COOPERATION

In developing its contribution to the European and international financial stability, the EIB will not depart from its core activity of focusing its lending activities on sound projects and sound investment programmes. However, in order to increase its value added, the EIB is prepared to turn weak projects into good ones and questionable or disorganized investment programmes into sound ones whenever possible through technical cooperation.

Over the years, Technical Cooperation has grown out of necessity to accompany the Bank’s lending activities and address the difficulties of promoters during project preparation and/or project implementation and, more recently, to help potential promoters in the definition and design of the projects. More than ten different technical assistance facilities have developed and the Bank is regularly solicited to take part in new initiatives. In the last few years, JASPERS, JEREMIE & JESSICA in particular have begun to help some Member States, notably in Central and Eastern Europe, towards enhanced and more efficient absorption of EU support. The Covenant of Mayors is another important, recent initiative aimed at furthering cooperation, the exchange of best practices, and the transfer of knowledge among cities for energy efficiency, an initiative in which the EIB is called upon to bring technical cooperation.

In accordance with the modifications to the Bank’s Statute under the Lisbon Treaty, technical cooperation should form part of the Bank’s activities alongside loans and guarantees. These activities will be further developed and the Board of Directors asked to adopt guiding principles in due course.

V. SUPPORTING EXTERNAL PARTNER AND DEVELOPING COUNTRIES

Outside the EU, EIB committed not to reduce its activity, which was already a factor of stability in the face of the looming recession. However, the Commission has called on EIB to step up its activities in a number of areas. Opportunities certainly exist to accelerate our lending activities whilst respecting the limits and maintaining the sustainability of our existing mandates, to extend our support to SMEs under the Eastern Partnership, to increase the availability of FEMIP and Pre-Accession resources for equity and micro-finance operations and to further develop the EU-Africa Infrastructure Trust Fund, whenever possible in cooperation with other international financial institutions (IFIs).

As you know, the EIB has traditionally cooperated closely with other IFIs and European bilateral institutions. I have proposed to the heads of other IFIs to go a step further: to broaden and deepen this co-operation by establishing a common approach towards harmonisation of procedures and partial or full delegation of project appraisal and monitoring. This is what I call “mutual reliance”.

Some progress has already been achieved: we are pleased that the Western Balkans Investment Framework (WBIF) will be soon operational, allowing the EIB, the EBRD, the CEB and the Commission to join their resources to those of the Member States and other donors to provide technical assistance and grant finance and to propose coordinated debt financing of projects.

Other examples include the recent EIB, AFD and KfW initiative for mutual reliance and joint co-financing in the Mediterranean and ACP countries and the signing of a Cooperation Agreement with the IFC on the sharing of credit risk data outside Europe.

In all regions, the current crisis gives us renewed impetus to be more efficient and to deliver more value for the benefit of our partner countries. In this spirit, I hope and trust that through complementary core competencies, mutual reliance for due diligence and coordination of financial interventions, the IFIs will better assist the countries of operations to face the challenges and consequences of the crisis.

VI. CONCLUDING REMARKS

In conclusion, I would like to stress that we are sticking to what we do best, i.e. providing long-term financing for good projects or good investment programmes. In particular, the EIB cannot bail out companies in difficulties, nor provide short-term liquidity, nor substitute for structural reforms that might be needed in some industries and which would go beyond what Technical Cooperation programmes would allow. What we can do – and what we are doing – is to support viable, good quality projects that are in line with the EU policy objectives, from the fight against climate change to supporting poorer regions of the Union, or fostering the small businesses that are the bedrock of the European economy. We are doing so by increasing the volume of our lending and by taking all the necessary risk, in a controlled manner, for more value added. In this, I am grateful for the considerable effort of the Bank's staff and their commitment and dedication to work together in support of all Member States irrespective of their particular nationality.

Thank you for your attention.