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**EIB Capital Market Operations in 2004**

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**Highlights**

- A leading issuer in the international bond markets and the largest supranational issuer
- Top quality credit standing – rated AAA by Moodys, S&P and Fitch
- Offers investors diversification through ownership by all EU sovereigns, underpinning market recognition for positioning as the Consolidated European Sovereign Issuer
- EUR 50bn raised in 2004 via 282 transactions in 15 currencies, across all major markets in 2004
- Outlook: 2005 volume target of around EUR 50bn
- Consistent and innovative strategy delivering liquid benchmark presence across a comprehensive range of maturities in EUR, GBP and USD, as well as responsiveness to opportunities for targeted plain vanilla and structured issuance in various currencies
- Sole supranational issuer offering comprehensive yield curves in EUR, GBP and USD
- Active role in contributing to development of markets in new/future EU Member States
- Positive market reception for approach to funding and achievements in 2004 underlined by exceptional array of awards, including *IFR*'s 'Borrower of the Year', 'Most Impressive' and 'Most Innovative' borrower in *Euroweek* poll, and 'Best Supranational Borrower' from *Euromoney*

**EUR**

In 2004 EUR issuance amounted to EUR 17.4bn via 54 transactions, a similar level to 2003. The Bank's euro benchmark or 'EARNs' (Euro Area Reference Notes) programme continued to offer the most comprehensive yield curve among quasi-sovereign issuers (2005 – 2020). At end-2004 the EARN benchmark curve comprised 13 benchmarks with an aggregate amount of EUR 63bn outstanding. The entire yield curve is traded on the leading electronic platform MTS, with 11 benchmarks also trading on the highly liquid EuroMTS segment alongside the largest sovereign issuers, where the threshold for participation is a size of EUR 5bn.

EARNs offer a complement to government issues as well as diversified exposure, thanks to the Bank's ownership by all EU sovereigns – indeed, EIB bonds can be seen as 'a way to buy Europe'. The Bank's sovereign class is visible in terms of liquidity, trading levels relative to sovereigns and the Bank's ability to issue in segments which are typically the preserve of sovereigns. The liquidity is evident in tight bid-offer spreads and secondary turnover, with EIB among the most heavily traded on MTS. In 2004 a groundbreaking 15-year EUR 4bn Global EARN benchmark issue reaffirmed the Bank's complementary status alongside sovereigns, given that large benchmark issues in this maturity have otherwise been the preserve of sovereigns. This 15-year transaction was named 'Deal of the Year' by *IFR* and also in the 2004 Bonds Poll among market participants conducted by *Euroweek*. Both this 15-year issue and the EUR 5bn 3-year Global EARN benchmark issue concluded in 2004 contributed significantly to diversification of the investor base in Europe, both geographically and, for the 15-year issue, among long-dated investors such as insurers and pension funds.

Complementing benchmark issuance (total EUR 9bn in 2004), the Bank's targeted "plain vanilla" and structured issuance in EUR amounted to EUR 8.4bn (via 52 transactions). Highlights included the EUR 3bn Floating Rate Note issue, the largest issue of its kind, and the revival of the TEC10-linked market (EUR 1bn 15-year issue), a segment originally developed by the French Treasury. There was innovative structured issuance including substantial issuance in "sticky floater" and Target Redemption Note (TARN) formats, for amounts of EUR 1.2bn and EUR 0.6bn respectively.

## GBP

In 2004 GBP issuance amounted to GBP 6.5bn (EUR 9.6bn equivalent via 46 transactions), representing growth of 33% vs. 2003. The Bank remains the leading Gilt-complement and largest non-Gilt issuer, with a market share of around 12%. The Bank currently has in the region of GBP 37bn outstanding. There are strong market-making arrangements, with two dedicated GBP Dealer Groups, one serving institutions and the other retail investors. Eligibility as collateral at the Bank of England also continues to play an important role.

In the GBP market, the EIB continues to implement the strategy of strengthening its sterling curve with new maturities and by supplementing liquidity in existing issues. In 2004 a wide range of maturities were tapped – 13 different dates from 2005 to 2054. This comprehensive and proactive tap policy illustrates EIB's commitment to providing liquidity across its sterling curve.

Highlights of 2004 included the 50-year bond launched in September. The issue was the first plain vanilla 50-year issue since 2002 and then also the longest issue in the market (from any issuer), as well as the longest issue launched by the EIB.

In structured format, the Bank expanded its presence in the inflation-linked market, doubling issuance in 2004 to GBP 350m (EUR 506m), to fund PPP projects in the UK.

## USD

2004 was a record year for EIB's USD issuance, with overall volume reaching over USD 22bn (EUR 17.9bn equivalent via 43 transactions), compared with USD 14bn in 2003 (+62% in USD terms). In 2004, EIB doubled both its benchmark and structured USD issuance.

The Bank is the largest supranational issuer in benchmark format (USD 14.5bn in 2004 via six Global issues). Total outstandings of EIB USD benchmark bonds amount to around USD 39bn. It is also the only issuer in its class to offer a comprehensive yield curve covering maturities from two to ten years. All the EIB USD benchmark issues are traded on leading electronic platforms. Also, with in the region of 20% of turnover, the EIB is also the most liquid issuer in its category traded by ICAP. Responsiveness to investor needs, through judicious execution, once again helped to boost distribution in 2004, notably in the US. On average, around 30% of USD benchmark issuance in 2004 was distributed in the US (vs. around 20% in 2003).

Highlights of 2004 benchmark issuance included the USD 1.5bn 10-year issue, which achieved exceptionally balanced demand globally (one third each in US, Asia and Europe). The issue garnered awards including 'USD Deal of the Year' among supranationals/sovereigns/agencies in the *Euroweek* poll.

Targeted "plain vanilla" and structured issuance grew to USD 8.5bn, due to a doubling of structured issuance to USD 5.1bn. Callable issues remained the largest source of structured USD funding.

## New EU Member States and Accession / Candidate Country Currencies

The EIB has taken a particular interest in fostering the development of the markets of new EU Member States and Accession / Candidate countries. Since 1996, when EIB launched its first issue in these countries' currencies, the Bank has become the largest non-government bond issuer in these markets with a share of around one third among issuers other than local sovereigns. It has built a reputation for innovation, both in terms of product and maturity. As in other currencies, EIB's issuing strategy in these markets is to build up issues to liquid size across a range of maturities where market condition permit.

In 2004 issuance in the region amounted to EUR 1.2bn equivalent (similar to volume in 2003), with the bulk of issuance in HUF (75% or EUR 880m equivalent) and PLN (17% or EUR 203m equivalent). The Bank also issued in three new currencies (Maltese Liri, Slovenian Tolar and Bulgarian Leva), in each case being the first AAA-rated or sovereign class issuer other than local governments. The Bank's existing presence in other markets of the region is also extensive in CZK and SKK.

EIB is unique amongst multilateral banks in maintaining treasury pools of funds in currencies of four new Member States (CZK, HUF, PLN and SKK). This not only facilitates on-lending in local currency but also enhances EIB's ability to respond to investor demand.

### **Other European currencies**

In 2004 the Bank extended its presence in the SEK market, building the largest 10-year SEK eurobond (SEK 2.5bn / EUR 274m equivalent). This complements the existing 2009 benchmark issue, which is the largest SEK eurobond overall (SEK 4.05bn / EUR 421m equivalent). The Bank has an existing presence in other European currencies, including a sizeable presence across a range of maturities in CHF, as well as a presence in the DKK and NOK markets.

### **Japanese Yen**

JPY remains an important market for the Bank, with EUR 1.4bn equivalent issued in 2004. The focus continues to be on structured issuance in domestic (Samurai) and international (Euroyen) formats. A highlight of 2004 was the Bank's first JPY inflation-linked issue. This was also the first inflation-linked issue other than those by the Japanese government.

### **Other currencies**

Funding for an amount of EUR 1.5bn equivalent was raised in other Asia/Pacific currencies (AUD, HKD, NZD). In AUD, there was a strengthening of domestic issuance, with two benchmark "Kangaroo" domestic issues, and further 'Uridashi' issuance (foreign currency issuance targeting Japanese investors). AUD issuance raised AUD 1.8bn (EUR 1.1bn) overall. NZD issuance also included an issue in Uridashi format, while in previous years there has been extensive Uridashi issuance in USD and EUR.

In the Canadian dollar market, a 40-year CAD 300m (EUR 193m) issue revived EIB's issuance in this currency and innovated by offering the longest maturity of any CAD issue (including the government).

In ZAR the Bank is the largest foreign issuer. In 2004 the Bank more than doubled its issuance volume to ZAR 3.9bn (EUR 474m equivalent). The issuance was in a broad spectrum of maturities ranging as long as ten years.

**Borrowings signed and raised in 2004 vs. 2003 (million EUR)**

	Before swaps:				After swaps:			
	2004		2003		2004		2003	
EUR	17 373	34.8%	17 318	41.1%	22 355	44.8%	22 931	54.7%
CZK			678	1.6%	522	1.0%	521	1.2%
GBP	9 583	19.2%	7 175	17.0%	5 497	11.0%	7 393	17.6%
Total EU-15	27 285	54.7%	24 935	59.2%	28 017	56.1%	30 983	73.9%
HUF (*)	880	1.8%	339	0.8%	77	0.2%	270	0.6%
MTL (*)	23	0.0%						
PLN (*)	203	0.4%	156	0.4%	251	0.5%	174	0.4%
SEK (*)	329	0.7%	442	1.1%	165	0.3%	659	1.6%
SIT (*)	17	0.0%						
SKK (*)			94	0.2%			94	0.2%
Total New Members	1 123	2.2%	1 267	3.0%	850	1.7%	1 059	2.4%
Total EU-25	28 408	57%	26 202	62%	28 868	58%	32 041	76%
AUD	1 065	2.1%	470	1.1%				
BGN	51	0.1%						
CAD	193	0.4%						
CHF			161	0.4%			161	0.4%
HKD	67	0.1%	122	0.3%				
JPY	1 418	2.8%	2 201	5.2%				
NOK			226	0.5%				
NZD	329	0.7%						
TWD			180	0.4%				
USD	17 863	35.8%	12 375	29.4%	20 777	41.7%	9 665	23.1%
ZAR	474	0.9%	153	0.4%	220	0.4%	44	0.1%
Total non EU	21 460	43%	15 888	38%	20 997	42%	9 870	24%
<b>TOTAL</b>	<b>49 868</b>	<b>100%</b>	<b>42 090</b>	<b>100%</b>	<b>49 865</b>	<b>100%</b>	<b>41 911</b>	<b>100%</b>

\* EU currency since 01/05/2004

For more information on the EIB, visit the internet site [www.eib.org](http://www.eib.org).

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