European Investment Bank

Annual Press Conference 2007

Briefing Note No 12

The Bank promoting European objectives

Luxembourg, 8 February 2007

EIB committed to greater risk-taking

The EIB is currently making efforts on a number of fronts to enable and encourage greater risk-taking:

1. To meet its strategic objectives, the EIB is taking greater risks when financing projects thanks to a revised credit risk policy which consists, for instance, of relaxing the minimum conditions governing acceptability of new operations and reducing the security requirements.

   The Bank is adapting its lending policy and loan rating and risk pricing systems in order to support priority projects by accepting a higher risk profile. Recent amendments to the Bank's credit risk policy guidelines include *lowering the minimum rating requirements for banks, corporates and local authorities, extending the maturity of loans to corporates, increasing counterparty limits, reducing financial security requirements and relaxing the conditions applicable to new project financing operations.*

2. The Bank also regularly updates its risk assessment systems and parameters, resulting in pricing that is closer to that of the market.

   Furthermore, **the loan classification and risk pricing systems are regularly updated**, as are data on default probabilities and recovery rates, which has resulted in *improved alignment of loan pricing* with the market and greater risk-taking opportunities for the EIB.

3. The Bank is developing new indicators that will enable changes in its risk-taking to be monitored more closely.

   The EIB's multiannual corporate operational plan now contains a ***new indicator*** corresponding to the percentage of new signatures within the Union classified as B- or below, which will complement the existing portfolio's quality indicator and provide a more accurate picture of the risk profile of the Bank's lending activity.

4. The Bank is developing new instruments in conjunction with partners (banks, the EIF, the Commission, other IFIs) that enable risk to be spread so as to better reflect those partners' individual expertise and roles.

   Development of new financial instruments. In close cooperation with the banking sector, the EIF and the Commission (in this case, through the *risk sharing* financing *facility*), the Bank is finalising new value-adding facilities in the form of loans or guarantees as well as other complex instruments involving higher risk-taking (particularly by exploiting the opportunities provided by the Structured Finance Facility (SFF) in terms of mezzanine finance and high-yield bond issues for research/innovation projects) and risk sharing products aimed at SMEs.

5. The EIB's risk management is in line with best banking practices, voluntarily complying with the criteria laid down in the EU's Capital Adequacy Directive.

   By voluntarily adhering to the **Basel** Committee recommendations embodied in the EU's *Capital Adequacy Directive* and developing an internal system for evaluating its borrowers' credit rating, the Bank is demonstrating its desire to follow best banking practice in terms of identifying and managing risk, pricing and reporting.

6. The Bank is developing an internal indicator to gauge the economic contribution of its operations by explicitly including the "cost" of risk.

   It is developing a **Risk and Internal Rate of Return Indicator (RIRRI)** to complement the external value added indicators and express the financial contribution of operations to the Bank's surplus, *taking into account the risk assumed in those operations*. The RIRRI is defined as the difference between the contribution of the loan associated with the operation (intermediation income plus credit risk pricing) and the (generalised) cost of that loan (credit risk cost plus administrative costs).

For further information on the EIB, visit its website www.eib.org.

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