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EIB Borrowing Activities in 2009

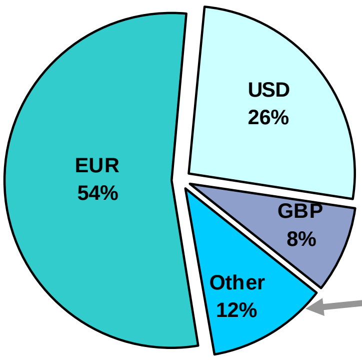
Substantial growth amidst historic market volatility and uncertainty

- The Bank achieved a substantial (33%) increase in funding volume over 2008, in line with the needs generated by growth in its lending programme.
- In exceptionally turbulent times, the Bank benefited from its high credit quality and sound funding strategy that addressed market demand focused on top quality and liquid products.

Key figures

- EUR 79.4bn raised (EUR 59.5bn in 2008) via 262 transactions (247 in 2008).
- Increased importance of EUR market, which offered good size and longer maturities, required by the Bank for its enlarged long-term lending activities. EUR funding accounted for 54.4% or EUR 43.2bn, the largest amount ever raised by the Bank in a single currency.
- The Bank continued to be one of the leading non-US issuers in the USD market, raising USD 27.9bn/EUR 20.5bn (25.9% of total), including EIB's largest USD issue to date – a USD 5bn 3-year issue.
- Remained the leading non-Gilt issuer, raising GBP 5.8bn/EUR 6.5bn (8.2% of total).
- Expanded non-core currency funding by 11% to EUR 9.18bn (2008: EUR 8.27bn) during limited periods of opportunity, as risk aversion early in the year meant non-core markets, especially for emerging currencies, were largely closed for much of H1 2009.
- The Bank was able to extend the maturity of funding to 7.4 years vs. 5.0 years in 2008, when market opportunities had a shorter-term focus. This was in keeping with the long-term profile of the Bank's lending.

Currency breakdown of borrowings in 2009



AUD	4.7%	SEK	0.4%	HUF	0.2%	RON	0.04%
CHF	2.0%	TRY	0.3%	PLN	0.1%	BGN	0.02%
JPY	1.9%	ZAR	0.2%	DKK	0.1%	CZK	0.02%
NOK	1.4%	HKD	0.2%	NZD	0.1%	RUB	0.01%

Issues in synthetic format:
Brazilian real (BRL), Ghanaian cedi (GHS) and Zambia kwacha (ZMK) with payment and settlement in either EUR or USD.

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Market conditions: Adapting to historic levels of volatility and uncertainty

- At the start of 2009, markets were overshadowed by the state of near closure from mid-October to year-end 2008. Moreover, there was unprecedented uncertainty about bond supply and demand in EIB's asset class, amidst government rescue plans that were expected to lead to massive supply of both sovereign and government-guaranteed bonds. This proved to be the case, especially in the first half of the year: in H1, issuance in EIB's asset class – sovereign, supranational and agency issuers – grew 85% vs. H1 2008. And this figure excludes the surge in issuance by major new entrants to the market – government-guaranteed issuers.
- These market conditions produced a pronounced re-pricing of all assets vis-à-vis Euribor/Libor, which maintained prices for the Bank's asset class at levels largely above Euribor/Libor for most of 2009, especially in the longer maturities required by the Bank.
- Volatilities and uncertainty concerning spreads made funding patterns highly unpredictable and created high execution risk.
- In the highly volatile market environment, the achievement of funding objectives benefited from the Bank's flexible and balanced funding strategy. This approach is characterised by proactively addressing changing patterns of market demand, while also developing and maintaining a strategic presence. It also involves the pursuit of liquidity, transparency, and diversification of funding sources.
- The Bank duly adapted its approach to the market, with its initiatives including:
    - Swiftness of response to windows of opportunity, while maintaining a strategic approach involving liquidity and transparency.
    - Closer collaboration with a wider range of banks to reach more disparate demand worldwide: greater use of banks with local reach, in particular in Europe.
    - Increased product innovation to access market demand, such as substantially increased issuance of floating rate notes across currencies, and use of promissory notes and similar products that were in demand in the German market.
    - Continued development of benchmark liquidity required by the market: benchmark issuance in the core currencies (EUR, GBP and USD) accounted for the bulk of issuance: EUR 53.7bn or 68% of the total.
    - Proactive use of targeted plain vanilla issuance which, including non-core currencies, accounted for EUR 23bn or 29% of the total. The balance (3%) was provided by the subdued structured product market, where risk aversion towards such products continued.

Progress in developing capital markets

- While investor demand became more fragmented, in a time of crisis investors increasingly demanded top quality liquid bonds, such as those from EIB. The Bank thus seized the opportunity to access new investors worldwide, notably in Europe, and was able to roughly double the number of investors in EIB bonds. The strongest demand came from Europe, which accounted for 70% of demand for EIB benchmark bonds.
- Among the highlights was EIB's innovation in the EUR market in terms of syndicate composition, by building for the first time the involvement of cooperative, popular and savings banks, particularly in Germany, Italy and France. Through these new channels the Bank syndicated 'Cooperative Floating Rate Notes' for a total of EUR 4.5bn. It also for the first time used products in a format specific to the German market, Promissory Notes (Schuldscheine) and Registered Bonds (Namens-schuldverschreibungen), which generated funding of EUR 2.7bn.
- In a climate where investors required liquidity more than ever, but where large initial issue sizes were hard to achieve, the Bank addressed this need through a highly responsive use of taps (increases) across most currencies.
- The Bank further developed its presence among Socially Responsible Investors, notably by addressing the growing interest in its Climate Awareness Bonds, with new bonds issued in the Swedish market for a volume of SEK 2.25bn (EUR 214m).

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Results by currency: Core currencies remain dominant source of funding

Funds raised in the Bank's three core currencies (EUR, GBP, USD) amounted to EUR 70.21bn through 171 transactions, accounting for 88.4% of the total (86% in 2008).

EUR: Largest programme ever

- EUR 43.15bn, or 54.4% of the total funding programme, was raised in euro. This is the largest amount ever collected by the Bank in a single currency and a substantial increase from 2008 (EUR 16.8bn, or 28.2% of the total).
- Of this amount, EUR 34bn was issued in maturities of 5 years or longer. The difficulty of accessing the longer-dated markets in size in other currencies meant such long-dated funding was required to maintain the overall congruence of maturities in funding and lending.
- Among peers in the EUR benchmark segment, soaring sovereign, supranational and agency and Government-guaranteed issuance (up by 133% in euro in 2009) created severe competition and, together with market uncertainty, created obstacles to issuance in very large size. Indeed, in January and February, issue sizes had to be kept below the EUR 5bn benchmark threshold. The Bank overcame this via timely and frequent recourse to taps. At the same time, stronger penetration in key countries (e.g. Germany and Japan) could be achieved via extensive involvement of local distributors.
- As market confidence improved and competition eased somewhat, the Bank was able to issue a EUR 5bn EARN in the 3-year maturity in March, followed by a rare 7-year EUR 5bn EARN in April. The Bank then availed itself of further improving sentiment in April to launch the first syndication in its asset class in the 15-year maturity segment since 2007 (for EUR 3.5bn), brought to EUR 5bn via 2 re-openings.
- By end June, EUR 31.5bn of EARNs had been issued via 5 new lines and 11 taps, EUR 25bn of which in tenors of 5 years or longer (of which EUR 8bn in 15 years or longer).
- Subsequently, the Bank was able to be more selective and focused on targeted bonds from July onwards. In the targeted and structured segment, there was a strong increase in volume to EUR 11.03bn (26% of the euro-total, from EUR 3.8bn/22% in 2008), raised via much more frequent transactions (69 vs. 22 in 2008).

GBP: Largest non-Gilt issuer

- The Bank raised GBP 5.84bn/EUR 6.53bn, or 8.2% of the total programme for the year (vs. GBP 6.88bn/EUR 8.92bn or 15% of the total in 2008).
- Despite the reduced total issuance volume, the Bank continued to be the top non-government sterling issuer in 2009. EIB sterling benchmarks kept their status as the primary liquid alternative to Gilts (UK government bonds). The Bank updated its sterling yield curve with new, current low-coupon benchmark issues, which was essential to make sterling products attractive to investors in the market environment characterised by low yields.
- Also, difficult market conditions reduced the activity of smaller SSA issuers in the sterling market. Consequently, a lower number of transactions was concentrated on a more limited number of SSA issuers, notably EIB, as investors were looking mainly for such liquid alternatives to Gilts.
- In tune with the market's appetite for liquidity, the Bank was able to launch several relatively large benchmark transactions. The first landmark sterling transaction in 2009 was the new GBP 1bn March 2013 bond, the Bank's largest ever fixed-rate GBP issue launched in a single tranche, in February. It was followed by the GBP 600m June 2029 issue, also an exceptionally large fixed-rate SSA sterling issue with a 20-year maturity.

USD: Strong benchmark presence

- The Bank raised an amount of USD 27.98bn/EUR 20.53bn, or 25.9% of the total programme for the year.
- In stark contrast to 2008, the year 2009 can be characterised as a buyers market. This, along with volatile conditions in underlying markets buffeted by event risk, led to a very challenging issuance environment in USD.
- Notwithstanding the context, the Bank was able to navigate its global benchmark bond programme in a manner that enabled the maintenance of benchmark sizes of its issues.
- As markets recovered from the second quarter onwards from their extremely fragile state, funding spreads tightened with every new issue, culminating in the Bank's largest ever USD global bond issue – a USD 5bn 3-year issue, which also illustrated the move to sub-Libor cost levels in short maturities. Although USD spreads

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made an enormous recovery from their distressed levels earlier in the year, they were still far from reverting to mean historical levels.
- Structured issuance and other tailor-made transactions also reached good volumes in 2009, at USD 5bn/EUR 4bn. Demand was good for short-dated plain vanilla private placements and various callable structures.

Strong diversification: Issuance in 16 other currencies

- Against a backdrop of severe risk aversion, which largely closed non-core emerging currency markets for much of H1, it was significant to achieve an 11% volume increase in non-core currencies to EUR 9.18bn (2008: EUR 8.27bn). There were 91 transactions (113 in 2008) in 16 other currencies in 2009, plus three in synthetic format, accounting for 11.6% of the total programme for the year (14% in 2008).
- The three largest contributors in these other currencies were AUD (EUR 3.71bn), CHF (EUR 1.57bn) and JPY (EUR 1.47bn).
- **In Swiss francs (CHF), EIB was the largest issuer in its asset class**, and CHF was the Bank's fifth largest funding currency (EUR 1.6bn/CHF 2.4bn raised). The Bank benefited from its established position in the Swiss domestic market and its recognition as a safe alternative. Due to a clear preference of domestic investors for the longer part of the CHF curve, the average maturity of the Bank's CHF issuance reached 9.1 years, contributing to the extension of the duration of the funding programme in 2009.
- The volume of issuance in the **Nordic region** totalled EUR 1.5bn. This was dominated by Norwegian krona (NOK), where the Bank raised a total of NOK 9.65bn (EUR 1.1bn) through 17 transactions, twice the volume of 2008. This made the Bank the **largest issuer in NOK in its asset class**. In **Swedish krona** (SEK), the Bank raised a total of SEK 3.5bn (EUR 335m), the majority via **Climate Awareness Bonds**, of which the proceeds will be used for future lending projects of the Bank in the fields of renewable energy and energy efficiency.
- Investor interest in **new and future Member States and EU neighbouring country currencies** dropped significantly, as these currencies were generally perceived to carry high risk. There were 26 issues for EUR 498m equivalent, down from EUR 1.15bn equivalent the previous year. Turkish lira (TRY) and Hungarian forint (HUF) were the largest contributors (71% in total) with EUR 225m and EUR 131m, respectively. In the international markets, **EIB was the leading IFI issuer in HUF**. The Bank also returned to the market in Bulgarian leva (BGN), Czech koruna (CZK), Polish zloty (PLN), Romanian leu (RON) and Russian rouble (RUB). Although demand was mainly from retail investors focused on shorter maturities, the Bank achieved a significant volume (EUR 162m) in the 2015 maturity segment, and was able to conduct two long-dated issues – a RUB 10y and a CZK 12y.
- **Japan and Asia/Pacific currencies:** Among the non-core currencies in 2009, the largest source of funding – and hence the Bank's fourth largest currency – was once more the **Australian dollar** (AUD), raising AUD 6.3bn (EUR 3.7bn). This was **just short of double the 2008 volume**, and meant that the Bank was, for the third year in a row, the **largest Kangaroo (foreign) issuer**. The 2015 transaction attracted demand of AUD 1.5bn, the largest new Kangaroo issue ever, while the long-dated 2019 issue achieved a cumulative volume of AUD 1.65bn. **Japanese yen** (JPY) was noteworthy as **the currency achieving the longest average maturity (13.8 years) for sizeable volume**, being one of only four non-core currencies to exceed EUR 1bn equivalent (JPY 189bn/EUR 1.5bn). The public JPY issuance in 2009 occurred in a narrow time-window when alternative funding currencies were at the peak of their cost levels and yen issuance became relatively attractive. In the period of March – May 2009, the busiest period of issuance, the Bank dominated the market with 3 benchmark transactions (equating to EUR 1.09bn).
- Issuance in **African currencies** continued to be muted in 2009, due to investors' risk aversion to these emerging market currencies, in the context of the financial crisis. In 2009 the Bank launched 10 transactions in three currencies: Ghanaian cedi (GHS), South African rand (ZAR) and Zambian kwacha (ZMK), for a total of EUR 216m equivalent. A highlight was a rare ZAR 555m (EUR 43m) two-year 'Uridashi' transaction, a format designed for Japanese investors in foreign currency products.

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

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