European
Investment
Bank

STATEMENT BY PHILIPPE MAYSTADT
PRESIDENT OF THE EIB
TO THE ANNUAL MEETING OF THE BOARD OF GOVERNORS
Luxembourg, 4 June 2002

Let me welcome you all to the Annual Meeting of the Board of Governors of the European Investment Bank. I would like to start by outlining the key features of the EIB activity in 2001 before turning to two pivotal components of the strategic framework underpinning the capital increase proposal: priorities and key principles to be respected.

I. ACTIVITY IN 2001

As indicated to you last year, the increased focus on our most important core activities resulted in moderate growth in our lending operations, which amounted to EUR 36.8 billion in 2001, compared with EUR 36 billion in 2000, of which EUR 31.2 billion within the European Union and EUR 5.6 billion outside.

LENDING OPERATIONS WITHIN THE EUROPEAN UNION

Within the European Union, the Bank maintained a very high level of activity in its core mission, promoting economic and social development within the Union, with 70% of individual loans directed to projects located in regional development areas (73% in 2000) but with strong expansion for Objective 1 regions, which accounted for 56% of individual loans (50% in 2000).

We made substantial progress in implementing the Innovation 2000 Initiative – i2i – with EUR 5 billion of loans signed in 2001, placing us in a good position to achieve the objective of EUR 12-15 billion by end-2003. Of particular note in 2001 was activity in the field of Research and Development and human capital (health and education) as well as the Bank's maiden operations under "Audiovisual i2i".

Activity in favour of projects safeguarding the natural and urban environment continued at a sustained pace with EUR 5.9 billion in individual loans amounting to 29% of the total (to which should be added an estimated EUR 2 billion in global loans allocations); although below the level achieved last year, it is still well within our target of 25-33% of individual loans within the Union.

LENDING OPERATIONS OUTSIDE THE EUROPEAN UNION

Turning now to activity outside the European Union, 2001 saw a slight decline in our operations in the Accession Countries with EUR 2.7 billion signed. This slowdown can be explained partly by political changes in some countries and also by economic and fiscal policies aimed at reducing fiscal deficits and in some cases external borrowings in the run-up to accession. Our activity was concentrated on infrastructure projects (transport, telecommunications and environment), whilst the first loans in the health and education sectors were also successfully concluded.

In the Mediterranean region, EIB lending increased further in 2001 to a total EUR 1.4 billion, much of which advanced in support of infrastructure projects with particular attention paid to safeguarding the environment (34% of total lending). Activity in the ACP States and South Africa (EUR 670 million) and the Balkans (EUR 319 million) witnessed also a strong upturn, whilst lending in Asia and Latin America remained stable at EUR 543 million.

BORROWINGS

Last year the Bank raised EUR 32.3 billion, up 11% on 2000 through 148 issues in 13 currencies. The share of the three major currencies in borrowings (EUR, GBP and USD) climbed to 94% of the total. In line with our expectations and favourable market conditions, there was a significant rise in USD issues (representing 40% of aggregate borrowings before swaps), which together with increased EUR borrowings offset the contraction in our GBP issues. In all major currencies, our aim has been to arrange large benchmark issues with particular emphasis on liquidity and electronic trading.

With a view to stimulating the development of capital markets in Accession Countries, we stepped up our fund raising by 50% compared to 2000 with nine issues in Czech Korun, Hungarian Forint and Polish Zloty.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The balance sheet total amounted to EUR 209.4 billion at end-2001, a 9.6% increase on 2000 after reclassification of currency swaps as off balance sheet items. Total loans and guarantees granted amounted to EUR 223.3 billion compared to the EUR 250 billion statutory ceiling.

Gross operating surplus amounted to EUR 1 456 Million, up 8.25% on 2000, representing a 6.25% return on own funds. This increase in operating profit can be attributed to the net interest margin between lending and borrowing, the largest contributor to net banking income, which compensated for the contraction in treasury revenue, reflecting the downward trend in all major currencies throughout the year.

II. OPERATIONAL PRIORITIES

As agreed at the last Board of Governors meeting, you will find on the agenda today a proposal from the Board of Directors concerning the capital increase together with a report summarising the strategy discussions held with the Board.

Before turning to the capital increase proposal itself, I would like to highlight the five operational priorities included in the Corporate Operational Plan 2002-2004.

First, our key strategic priority remains regional development. We already had a target of a minimum share of 70% of our individual loans in the assisted areas of the European Union. This year, we have set ourselves an additional objective for 50% of our global loans to be in assisted areas. Close cooperation with the Commission will continue to play a key role in achieving these targets to maximise the synergies between loans and budgetary instruments. This is illustrated last year with cofinancing for Community Support Framework projects for Italian regions and by joint work on defining project performance indicators.

Second, the implementation of i2i must continue apace. Our aim is to attain a balanced progression in all areas, building in particular on enhanced cooperation arrangements with the Commission in the research and audiovisual sectors. Work is underway to reach a constructive understanding with the Commission with respect to information and communications technology networks to ensure the maximum possible contribution from the Bank in line with Community policy in a sector currently under stress.

Third, environmental protection and improvement remains a priority, with a review conducted of our lending strategy, which resulted in the publication of a new environmental policy statement as well as papers on climate change and sustainable development. This review was also accompanied by the decision of the Management Committee to set up a new environmental structure aimed in particular at strengthening the environmental aspects of project appraisal as well as providing input for further policy developments.

Fourth, the preparation of Accession Countries for EU membership continues to command our full attention. Following presentation to the Board of Directors of a review of our medium-term lending strategy in these countries, lending targets were revised upwards during the COP discussions, a measure fully consistent with the decision to create adequate room for activity in these countries through the limitation of the growth of activity within the European Union. Active preparation is also taking place on the institutional aspects of enlargement for the Bank.

Finally, in Partner countries we shall be supporting the implementation of Community development aid and cooperation policy in the context of the various lending mandates given to the Bank by the Council. Significant progress has been made in setting up the Investment Facility in the context of the Cotonou Agreement, however I would like to ask for your active support to ensure a prompt ratification of this Agreement by the national parliaments.

Quite clearly, these priorities reflecting our statutory remit and relevant European Council decisions will have to take into account any future additional mandate granted by European Councils to the Bank.

In that respect, I would like to draw your attention to three items included in the recent Barcelona Conclusions.

First, the Council welcomed the measures taken by the Bank following the Ghent Council: the launch of an Accelerated Finance Initiative aimed at speeding up the financing of investment in targeted sectors (transport, environment, tourism as well as the fields of i2i) through a temporary increase in the maximum percentage of EIB lending from 50% to 75% of investment cost and the more rapid mobilisation of new financing instruments, in particular the Structured Finance Facility and EIF facilities.

Second, the Council invited the Bank, the Commission and the Member States to find solutions as swiftly as possible allowing for full implementation of the Göteborg Conclusions on the Northern Environment Partnership. With this in view, I met the Russian Prime Minister and I hope that it will be possible to find a solution, which could be acceptable to the Russians as well as to the Bank's shareholders.

Third, the Council endorsed the decision of the special Ecofin meeting to create a Euro-Mediterranean Investment Facility and Partnership within the EIB including the following commitments:

- to create a Supervisory Board of the Facility involving the beneficiary states;
- to set up a special investment fund, which could receive voluntary contributions from Member States;
- to develop and enhance technical assistance
- to develop activity, with particular focus on the private sector.

This is an ambitious undertaking and our aim is to have the facility operational at the latest by the end of the year. Work is well underway as Vice President Francis Mayer had the opportunity to explain to the Economic and Financial Committee last week. But I would like to stress in particular the need to work very closely with the Commission, the Ecofin Council and the beneficiary states to ensure a prompt start to this Facility.

III. PRINCIPLES TO BE RESPECTED

Having highlighted our operational priorities, I would like now to turn to four major principles, which already guide our activity but which must be continuously developed and enhanced in the future.

First principle: subsidiarity or, in other words, maximisation of the value added of EIB's operations. This principle is enshrined in the Strategy Framework approved by the Board of Governors and in the Corporate Operational Plans approved by the Board of Directors. I know that this is an issue to which you are particularly attentive especially as far as our corporate and global loan activities are concerned.

Turning to lending to large corporates, this activity has recently been reviewed by the Board of Directors, which agreed on the following conclusions: confirmation of the rules concerning the maximum percentage of external financing and adoption of a more focussed and selective approach by targeting projects located in assisted areas and projects with both a strategic innovative content and corresponding to EU priorities (i2i in particular). The Board also agreed to the submission, before the end of the year, of proposals concerning "second tier" companies. In addition, at the end of last year, the Management Committee took decisions on new limits and pricing policy for single risk corporate borrowers. The impact of these measures would be a reduction of the Bank's lending to large corporates, which amounted to EUR 8.1 billion in 2001. I consider that we can commit ourselves to such a reduction, being understood that this reduction should not affect projects located in assisted areas as the Board has already decided that these should remain a priority.

In anticipation of enlargement, the Governors should review the situation, taking into account the special needs of the new Member States, whilst avoiding to make any impact on the relative position of the "old" assisted areas.

With regards to global loans, I would like to remind you that these are the only practical way in full cooperation with the banking sector to support SMEs and small-scale infrastructure. This activity is subject to regular review by the Board of Directors and our efforts to increase the number of intermediaries, to develop more targeted global loans and to improve transparency in order to maximise the advantages for the final beneficiaries are starting to yield concrete results. The Board agreed that we should continue our efforts along the same lines.

Second principle: good and efficient risk management and control. This is an area, where complacency is out of the question and where constant evolution in line with best practice but also regulatory requirements is crucial.

As promised last year, we have sent to you two reports the first one describing the Bank's risk management framework, the second one on the evolution of single risk bank and corporate exposure. And I can confirm to you that the Management Committee, the Board of Directors and the Audit Committee, in line with their respective responsibilities, are keeping the area of risk management under close scrutiny. A further report on risk management will be submitted to you before the next Board of Governors meeting in June 2003.

The Management Committee intends to maintain the prudent policy of the Bank towards risk. It does not mean that the Bank should not take any risk, this would go against the wishes that you have expressed in the past and also against the principle of maximisation of value added, but it does mean that the risks taken by the Bank should be properly assessed, falling within efficient risk management systems enabling proper reporting and action in the event of problems arising. An integral part of this policy is our pricing policy, which is also updated regularly to ensure that an adequate contribution is made towards the build-up of provisions commensurate with the risks linked to our lending and financial activities.

Quite clearly, this policy has served the Bank well, as borne out by experience so far and by the confirmation in the review by the Board of Directors that the capital adequacy ratio, if applied to the Bank would be well above the best rated private sector financial institutions. But I must repeat that no complacency can be allowed and we shall continue to improve our risk management systems, controls and procedures in the future.

Third principle: transparency. I have already had an opportunity during previous meetings to report to you on our action concerning transparency.

Our prime responsibility remains to you, as representatives of our shareholders and I believe that the regular attendance of the EIB's President at Ecofin meetings is helping to improve communication and information on the Bank's activities in line with the wishes expressed by its shareholders at the highest level.

We have also developed a closer dialogue with the European Parliament, not only through participation in meetings of individual Parliamentary Committees but also in the plenary session examining the report on the Bank's activities. This dialogue enables the Bank to brief the European Parliament in greater detail on its activities as well as to gain a better understanding of the Parliament's priorities concerning Union policies.

Transparency towards civil society has been strengthened, notably through closer links with the Economic and Social Committee fitting with its enhanced role as an interface between the EU's institutions and civil society. As indicated last year, we have continued our dialogue with NGOs through participation in meetings and organisation of round tables attended by Members of the Board of Directors. This has proved a valuable experience in responding to questions and criticism and also in receiving interesting and in some cases constructive feedback. Furthermore, the Bank publishes now on its website, its operational strategies (with the publication of the Corporate Operational Plan) as well as sectoral policies (with in particular the publication of those relating to the environment, sustainable development and climate change). 253 projects have also appeared on our project pipeline list in its first year of existence.

This "external" transparency must be complemented by an "internal" transparency, with in particular, as already explained to you, development of the Balanced Scorecard, which should be implemented this year to improve policy implementation and communication within the Bank.

Fourth principle: financial self-sustainability. The Bank must be able to generate a sufficient surplus to build up reserves (for financing future capital increases or supporting new initiatives decided by its shareholders) and provisions (to cover adequately the risks linked to its activities). This is essential to make certain that no calls are made on our shareholders for equity contributions in the future.

To ensure that the Bank will be able to support new initiatives, the Board of Directors has proposed the appropriation of EUR 750 million out of the 2001 surplus to a new reserve, which could be used, depending on a future decision by the Board of Governors, for venture capital or Structured Finance Facility operations or for any other suitable purpose (including appropriation to Additional Reserves). No decision is required from you today on the utilisation of this reserve.

IV. CAPITAL INCREASE PROPOSAL

Taking into account the principles to be respected as well as our key priorities going forward, the Board of Directors has considered a number of reference lending scenarios. These scenarios cannot be seen as targets but as an illustration of a possible lending pattern building on the latest COP figures. In particular, a low rate of growth in our activity within the EU creates additional capacity for increased lending outside the Union, in particular in Accession Countries and also in the Mediterranean Region to cater for implementation of the Barcelona Conclusions.

As the statutory limit on loans outstanding will be reached in 2003, the Board of Directors has made a recommendation to you concerning a capital increase, which would include the following elements:

- The capital increase would enter into effect on 1 January 2003;
- The subscribed capital would be increased by 50% to EUR 150 billion;
- The paid-in ratio would be lowered from 6% to 5%;
- The capital increase would be funded through the conversion of Additional Reserves;
- The capital increase should cover the Bank's lending activities for at least five years, subject to a revision should you decide on further new tasks for the Bank.

Three important issues were discussed in detail by the Board of Directors.

First, the need to ensure that the capital increase will last for at least five years. In addition to the annual COP discussions and approval, an integral part of the capital increase proposal is to submit at the Board of Governors meeting in 2005 a formal mid-term review of strategy implementation.

Second, the fact that the 10% statutory reserve would not be fully filled on the effective date of the capital increase. Confirmation has been sought from the Bank's legal services that there is no statutory constraint in this respect, and in fact this situation has actually occurred in the past. It would also have no impact on the Bank's credit standing. Nevertheless, the text of the proposal stresses the absolute priority to be given to reconstitution of the statutory reserve after the capital increase.

Finally, a point which has been the subject of additional discussions since the last meeting of the Board of Directors, concerning lending to large corporates with easy access to capital markets.

I would like to point out that the Board of Directors, in its report on the capital increase sent to Governors, has already clearly endorsed the view that regional development is and will remain the prime objective for the Bank's lending and that a more focused and selective approach will be developed in order to reduce the Bank's lending to large corporates in the EU.

The clarifications in my two letters to you last week emphasise these points, and in my letter of 31 May, I added the point that a review of the Governors' decision would be needed in anticipation of enlargement. This review should ensure, and I would like this to be recorded, that there will be an equal treatment for the EU's existing assisted areas, as compared to new member Countries.

I can therefore assure Governors that the focused lending will enable the Bank to meet your concerns, and I therefore ask you to approve the capital increase proposal incorporating my text as circulated on 31 May 2002.