

**Annual Press Conference 2007****Press release****The Bank promoting European objectives**

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The European Investment Bank Group in 2006**Supporting the modernisation of the European economy**

In 2006 the European Investment Bank Group, the banking group promoting European objectives, continued its activities aimed at modernising the economies of the Member States and of the countries close to the Union.

This was the first full year in which the new strategy decided by the EIB's Governors in June 2005 was implemented: a qualitative strategy based on investment and financial innovation.

This strategy consists of:

- **strengthening the leverage** of the EIB's operations;
- **concentrating its financing within the Union on six European priorities;**
- **fostering economic convergence** between the Union and its partner countries.

In 2006, the European Investment Bank lent a total of EUR 45.8bn for projects promoting the European Union's policy objectives. Finance for the then EU-25 Member States represented 87% of its activities and amounted to EUR 39.8bn.

The European Investment Fund (EIF) – the EIB Group's specialised venture capital arm and SME guarantee provider – invested EUR 688m in venture capital funds, bringing its aggregate portfolio to EUR 3.8bn, and provided a total of EUR 2.2bn in guarantees for SME loan portfolios of banks and financial institutions.

To fund its activities, the EIB raised an aggregate amount of EUR 48bn on the international capital markets through 303 bond issues in 24 currencies.

The briefing notes attached to this press release give a detailed account of the Bank's activity in 2006 in line with its operational objectives based on six priorities within the Union and support for the three policies outside the Union. The key strategic and action points can be summarised as follows:

1. Strengthening the leverage of the EIB's operations

Within an enlarged Union of 27 Member States, the EIB Group is committed to being an economic development agent and partner, mobilising financial resources to:

- support the economic modernisation of the new Member States;
- maintain a high level of investment in public services;
- contribute to the technological competitiveness of the Union and the development of its SMEs;
- meet the challenges facing the European energy sector and tackle climate change;
- foster cooperation with specialised national and international institutions.

A few examples will serve to illustrate this proactive approach taken by the EIB Group.

First, the Group has strengthened its procedures for cooperation with the European Commission, by launching three new joint initiatives to enable the Member States to make better use of the European Structural Funds – the amount of which has been significantly increased to EUR 308bn for the period 2007-2013. It will thus be possible to allocate part of the Structural Funds for financial engineering purposes in areas providing support for SMEs and micro-enterprises (JEREMIE) or for urban social development (JESSICA). The third initiative (JASPERS) – financed by the Commission, the EIB Group and the EBRD – offers free technical assistance with identifying and implementing infrastructure projects in the new Member States that are eligible for financing by the Structural Funds. Several projects have already been pinpointed

under these facilities. It should be stressed that this technical assistance does not entail any obligation to seek cofinancing from the EIB or EBRD.

Similarly, the EIB and the Commission have combined forces to accelerate implementation of the ambitious transport and energy TENs (trans-European networks) programme by establishing a structured finance facility and a TENs guarantee fund to facilitate the financing of projects with a high risk profile. These two financial instruments will act as a catalyst in attracting up to EUR 20bn of additional public or private finance in support of TENs.

To underpin the innovation and R&D effort within the Union, the EIB and the Commission are establishing a new EUR 1bn "Research Facility", cofinanced by the Bank and the 7th R&D Framework Programme. Here too, this financial instrument will enable more risks to be taken and private capital to be mobilised for projects that are important for the Union's industrial competitiveness. Requested by the December 2005 European Council, it could leverage up to EUR 10bn of additional funds over the period 2007-2013.

At the same time, the EIF is set to give a fresh boost to support for SMEs with an increase in capital – now under preparation – and by making a further EUR 1.1bn available under the 2007-2013 "Competitiveness and Innovation" Framework Programme for deploying innovative financial products, particularly for SME start-ups.

Finally, there has been a substantial increase in EIB cooperation with other institutions, involving both the exchange of expertise and the sharing of financial products, as witnessed by the progress made in 2006 with promoting the Kyoto objectives (establishment of two carbon funds – one with the World Bank and the other with the EBRD), the operational links forged with the EBRD in support of eastern Europe and numerous joint operations mounted with national development institutions.

2. Six priorities within the Union

Within the European Union, the EIB Group's ambition is now not so much to increase the volume of its financing as to contribute effectively, through a more selective choice of projects, to achieving the Union's objectives and to mobilise funds from other sources for such projects.

This goal – set by the Board of Governors – of giving priority to the quality rather than the quantity of projects explains the slight fall in the volume of lending in 2006 (EUR 39.8bn against EUR 42bn in 2005). At the same time, the fluid political situation in a number of new Member States meant that it was not possible to implement certain projects at the pace envisaged (EIB activity in those countries amounted to EUR 5bn in 2006 compared to EUR 5.8bn in 2005).

Overall, the EIB Group calculates that its lending in 2006 supported total investment in excess of EUR 120bn, two thirds of which in the Union's least favoured areas. With a more stable volume of activity and modest growth in staff numbers, the EIB Group is concentrating on more complex projects and more innovative financial products. In so doing it is committed to supporting all 27 Member States, even though in relative terms priority will be given to the 12 new Member States.

The six European priorities on which EIB lending focuses are:

- **economic and social cohesion**, which in 2006 accounted for nearly two thirds of the financial assistance provided (EUR 26.7bn). With the reorientation of EU cohesion policy for the period 2007-2013, the EIB will in future also focus its cohesion financing operations on the "convergence regions". In order to ensure that more rapid and effective use is made of the Structural Funds, the EIB has pressed ahead with launching the JASPERS and JESSICA initiatives (see briefing note on economic and social cohesion);
- **a competitive and innovative European economy**, thanks to additional funding for research and innovation. In 2006 the EIB lent nearly EUR 11bn for projects relating to research, innovation, education and information technologies. For these sectors in particular, the EIB, in consultation with the Commission, agrees to take on higher financial risks through new joint products (see briefing note on innovation);
- efficient and easily accessible **trans-European transport and energy networks (TENs)** are being developed, in particular thanks to EIB finance. In 2006 the Bank pumped EUR 8.4bn into this objective (EUR 7.6bn within the Union and EUR 738m for extensions in neighbouring countries). In addition to standard very long-term finance, the EIB is developing with the Commission new financial instruments also designed to support riskier TENs projects (see briefing note on trans-European networks);

- **support for small and medium-sized enterprises was confirmed in 2006** with a record level of bank credit lines of EUR 5.8bn as well as a record volume of guarantees (EUR 2bn) and venture capital operations (EUR 688m). This policy of support for SMEs will receive a further boost in 2007 (see briefing note on support for SMEs);
- the "climate change" dimension of **environmental protection** but also that of conserving natural resources and improving the quality of life in urban areas. This priority objective of sustainable urban development directly accounts for more than a third of the EUR 10.9bn worth of EIB lending for the environment. The bulk of operations is carried out within the Union but the EIB, in tandem with the Commission, is also extending its activities throughout the Mediterranean and launching, with the EBRD and the World Bank respectively, two carbon funds to help achieve the Kyoto objectives (see briefing note on the environment);
- **the objectives of efficiency, diversification and security in the energy sector** are now supported as such by the EIB, which in 2007 made this its sixth priority. Within the Union, the EIB made more than EUR 3bn available in 2006 and is committed to providing over EUR 4bn a year in future, of which EUR 600m to EUR 800m will be for renewable energy (EUR 463m in 2006) (see briefing note on energy).

3. Three fields of cooperation with non-EU countries in a drive for convergence and with respect for the partners' identities

In a globalised economy, characterised by the emergence of new players and ever-increasing political and social tensions, the European Union stands out like a beacon, its values of solidarity and respect for other peoples' cultures and identities being perceived as a moderating influence that is essential in the quest for more peaceful international relations.

Acknowledging the importance of the EIB's contribution to implementing the financial aspects of the Union's aid and cooperation policies towards its partner countries, the December 2006 European Council increased the Bank's possibilities for action outside the Union over the period 2007-2013 by more than a third (to EUR 27.8bn). Three fields of action with specific objectives have been identified:

- **preparing for the accession of the future Member States**, which will receive EUR 8.7bn in loans guaranteed by the Union. The EUR 10.2bn in loans over the period 2000-2006 helped the 12 new Member States to prepare for joining the EU, in particular by speeding up their links with the Union and improving their public services. In 2006, including loans to Bulgaria and Romania, the EIB provided finance totalling EUR 3.2bn to the enlargement countries (see briefing note on preparing for enlargement);
- **the process of convergence with the Union's neighbours**, which, with a total of EUR 12.4bn in loans guaranteed by the Union, represents the EIB's biggest mandate ever. This figure can be broken down (indicative amounts) into EUR 8.7bn for the nine Mediterranean partner countries, i.e. nearly double the amount provided for the 'Barcelona Partnership' countries (excluding Turkey the 2000-2006 figure was EUR 4.6bn, of which EUR 1.4bn in 2006 alone), and EUR 3.7bn for Russia and the eastern neighbours (posing a very real new challenge for a region in which the EIB lent only EUR 85m over the period 2000-2006). To rise to the challenge of this increase in operations, where the emphasis is first and foremost on extending the TENs and supporting the private sector, new institutions have had to be created. For the Mediterranean, the partner countries will be fully involved in a reinforced FEMIP; and for Russia and the eastern neighbours, an operational agreement has been signed with the EBRD (see briefing note on convergence between the EU and its neighbours);
- **cooperation with other continents** is taking place in line with European policy in order to take account of the other financial players. With regard to sub-Saharan Africa and the Caribbean and Pacific States, the EIB lent EUR 825m in 2006, with priority being given to support for SMEs and energy projects. This economic input will be maintained over the period 2007-2013, with a lending capacity of nearly EUR 4bn. A major effort has been decided in favour of operations in Latin America and to a lesser extent Asia, with the ceiling for the periods in question being increased from EUR 2.5bn to EUR 3.8bn – for the first time the ceiling is subdivided (indicative figures) into EUR 2.8bn for Latin America and EUR 1bn for Asia. These increased possibilities will make enable the Bank to continue supporting private European initiatives in these countries as well as projects that help to protect the environment or promote European energy security (see briefing note on partner countries).

Borrowing: strategy adds value for customers

The Bank remained committed to making the most of its financial strength, founded on support from shareholders, to secure funding at optimal cost and thus to add value for customers. In the pursuit of these objectives, the Bank maintained a consistent funding strategy, entailing both continuity and innovation in its benchmark programmes and tailor-made issuance. The resulting achievements benefited loan customers, both in the EU and local developing markets targeted by the Bank (see briefing note on capital market operations).

While the funding volume of EUR 48bn in 2006 was close to that of last year (EUR 50bn), there were underlying changes. Funds were raised in a record 24 currencies (including six currencies in synthetic format), with **increased demand in non-core currencies** (notably Australian dollars), which generated funding for EUR 8bn, compared with EUR 6bn in 2005. **Core currencies (EUR, GBP and USD) remained the main source of funding**, accounting for EUR 40bn of funding (EUR 44bn in 2005), with EUR, USD and GBP contributing 36%, 30% and 17% respectively.

Benchmark programmes in core currencies (EUR, GBP and USD) strengthened the Bank's unique **positioning as a multi-currency sovereign-class benchmark issuer**. This remains a cornerstone of cost-effective funding. Benchmark issues in the Bank's three core currencies raised EUR 28bn equivalent (59% of total funding). Of this, the largest amount was raised in euros (EUR 10.6bn), followed by USD (EUR 9.7bn equivalent) and GBP (EUR 8.0bn equivalent).

A number of innovations and distinctive features differentiated 2006 activities in core currencies. In EUR, the Bank's proactive **alignment with key sovereign issuance features**, including an issue size of EUR 5bn, helped deliver the funding advantage associated with the strong performance of European sovereign-class bonds in 2006. Also, there was a significant contribution to EUR capital market development with the **first issue to leverage the EU Prospectus Directive for a simultaneous public bond offering in all eurozone markets**. This structured transaction, termed 'EPOS' (European Public Offering of Securities), enhanced access for investors thanks to a syndicate including banks from each eurozone country. In GBP, transactions with maturities out to 2054 represented the widest range of issuance maturities other than the gilt, cementing the Bank's reputation for offering customers alternatives across the yield curve. In USD the Bank extended its yield curve with a new USD 30-year benchmark issue, the first to follow revival of this maturity by the US Treasury.

Developmental work in currencies of the new Member States, Acceding/Accession Countries and EU partner countries remained an important feature. Borrowing in these and other currencies of countries targeted for Bank lending serves to remove currency risk, where funding and on-lending can be combined. The largest source of demand remained in Turkish lira, where the Bank raised EUR 1.1bn equivalent and continued to develop its liquidity and yield curve. The Bank launched its first floating rate note in Bulgarian leva and issued bonds in three further currencies from this region (CZK, HUF and PLN). Outside Europe it launched a first issue in Egyptian pounds as well as in Botswana pula and Namibian dollars (in synthetic format).

The **market's positive reception** for the EIB's funding strategy was reflected in a number of distinguished awards such as those made in a leading market poll (by EuroWeek), where the EIB was voted 'Most Impressive Borrower' and 'Most Innovative Borrower' for the third consecutive year.

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

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