

**STATEMENT BY MR. PHILIPPE MAYSTADT, PRESIDENT,
TO THE ANNUAL MEETING OF THE BOARD OF GOVERNORS
LUXEMBOURG, 3 JUNE 2003**

Welcome to the Annual Meeting of the Board of Governors of the European Investment Bank.

This year's welcome is particularly addressed at our future Governors, who have joined us as Observers today. We at the European Investment Bank highly value their presence and look forward to a fruitful collaboration in the years to come.

After a short summary of the Bank's activities in 2002, I will provide you with an overview of our operational priorities, both inside and outside the European Union, to conclude with a development of the main areas of attention for the coming year.

I. ACTIVITY IN 2002

Our activity in 2002 saw total lending reach EUR 39.6 billion, compared to EUR 36.8 billion a year earlier.

LENDING OPERATIONS WITHIN THE EUROPEAN UNION

Lending inside the EU reached EUR 33.1 billion.

The Bank maintained the total volume of loans devoted to regional development at a level similar to that of 2001, close to EUR 20 billion. Although constant in absolute terms, this loan volume decreased in relative terms. This is largely due to a more restrictive interpretation of the eligibility criteria for consideration under regional development.

Projects financed under the Innovation 2000 Initiative – i2i – totalled EUR 3.3 billion in 2002. At the end of 2002, total cumulative signatures since the launch of the i2i initiative reached EUR 10.8 billion. The Lisbon European Council had asked the Bank to dedicate in three years EUR 12 to 15 billion to projects eligible to i2i. I can report that this mandate has been fulfilled, with EUR 15.8 billion approved as of the 1st of May 2003¹.

Lending in favour of the natural and urban environment showed a substantial progression, reaching EUR 9.3 billion.

LENDING OPERATIONS OUTSIDE THE EUROPEAN UNION

Concerning our activity outside of the European Union, I am pleased to report a record EUR 3.7 billion in loans signed in Acceding and Accession countries, representing a 37% progression compared to 2001. While infrastructure projects - transport in particular - remained our prime activity area, accounting for about half of the loan volume, the environment took a larger share, with EUR 1.3 billion signed under this heading.

Lending to Partner Countries reached EUR 2.5 billion, with the Mediterranean region absorbing EUR 1.8 billion and paving the way for a successful implementation of the FEMIP programme.

BORROWINGS

¹ Including EUR 0.9 bn for ACC countries and Turkey.

As far as borrowings are concerned, 2002 was a record year with EUR 38 billion raised through 219 transactions in 14 currencies. Resources borrowed in the three major currencies (EUR, GBP and USD) accounted for 89% of the total. Regarding the euro, the Bank increased the variety of its customised products to fit investors' requirements, while continuing its benchmark policy and launching three EARN transactions worth EUR 12 billion.

Transactions performed in currencies of Acceding countries rose by 75%. The EIB became the largest non-government issuer in the ACC markets and enjoyed high visibility from the financial community.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT²

The balance sheet total reached EUR 220.8 billion at 31 December 2002. Total outstanding loans and guarantees amounted to EUR 236 billion, below the EUR 250 billion statutory ceiling, which in the meantime was raised to EUR 375 billion following the capital increase effective 1st of January 2003.

The profit and loss statements closed with a net profit of EUR 1 293.9 m, 1.3% below the 2001 figure. This decrease is largely explained by a pick-up in value adjustments on venture capital operations. The return on own funds reached 5.4%, against 6.3% a year earlier. This drop in profitability is not a surprise, considering the evolution recorded by the banking sector in the past year.

II. OPERATIONAL PRIORITIES IN AN ENLARGED UNION

I will now turn to the operational priorities of the Bank for the years to come. These priorities, presented and endorsed during last year's Board of Governors meeting are, as you know, laid out in our Corporate Operational Plan 2003-2005. They are:

- (i) the regional development and economic and social cohesion;
- (ii) the implementation of the Innovation 2000 Initiative (i2i);
- (iii) the environmental protection and improvement;
- (iv) the preparation of Accession and Acceding Countries for joining the EU; and
- (v) the support of EU development and cooperation policies with Partner Countries.

First of all, concerning **regional development and economic and social cohesion**: the Bank has reiterated its ambitious objective to grant 70% of direct loans to projects situated in Assisted areas of the European Union. This key objective remains central to our action, especially in view of the coming enlargement of the Union. In this context, the Bank is taking an active participation in the Joint Working Group set-up with the Commission, aiming at designing the future modes of action in favour of assisted areas. The proposals to be introduced by the EIB will target the reinforcement of the dialogue with the Commission, as well as the complementarity of action. The EIB will propose concrete measures to maximise the leverage effect of structural funds and avoid duplication.

Next, the EIB will promote economic and social cohesion through the continued support in financing **Trans European Networks**. Building on its unique experience acquired over the past 10 years (EUR 75 billion lent to the sector), the Bank intends to integrate its action into the priority measures currently drafted by the High Level Group on TENs. The Bank will, as appropriate, tailor its financing instruments, mobilise its technical, economic and financial expertise and reinforce co-operation with the Commission to better coordinate procedures for project evaluation.

With regard to the **Innovation 2000 Initiative**: in the context of the Lisbon strategy and following the conclusions of the EU Spring Summit, the EIB stands ready to continue and extend its support for innovation, establishing the latter as a leading theme of EIB finance in the coming decade. The EIB's Board of Directors requests your approval of the "innovation

² Non-consolidated figures

2010 initiative", a new dedicated lending envelope fully compatible with the Corporate Operational Plan and the capital increase framework.

Building on the experience gained during the successful implementation of the i2i initiative over the past three years and on a policy dialogue with the Commission, we propose to dedicate some EUR 20 billion up to end-2006 to projects in three key areas, namely:

- (i) firstly, Information and Communication Technologies (hardware, content and applications);
- (ii) secondly, Research & Development and innovative downstream investment (products and processes);
- (iii) and finally, education and training.

In addition, the European Investment Fund, the EIB Group's specialised vehicle for venture capital and SME portfolio guarantees, will also contribute to this objective thanks to its investments in venture capital funds primarily geared towards equity participations in innovative, technology intensive companies.

Concerning the **protection of the natural and urban environment**, the Bank will maintain its target of 25-35% of total lending. Moreover, it will seek new ways to reflect the environment policy priorities of the EU into its actions. An example could consist of supporting, under a form still to be defined, the emerging market for carbon. For this priority also, the EIB will seek co-operation with the Commission. The Bank is present in the Commission's working group developing new financing mechanisms for renewable energy, and closely follows the development of the Commission's Water Initiative.

III. OPERATIONAL PRIORITIES OUTSIDE OF THE UNION

Concerning our operations outside the European Union, I would like to reflect on the Bank's challenges concerning the Western Balkans, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and the Cotonou Investment Facility.

In the **Western Balkans**, the Bank remains committed to playing a pro-active role in the development of the region. We plan to lend EUR 1.2 billion over the next three years.

Till now, the EIB has primarily focused on basic infrastructure reconstruction. As the region gains in stability, we will progressively expand into other eligible sectors. The protection of the environment, the development of municipal borrowing, the dissemination of innovation and the development of health and human capital will gradually gain in importance. Of course, we will continue to coordinate our action with that of other International Financial Institutions, notably the World Bank and the EBRD.

Concerning operations in the **Mediterranean Partner Countries**, the year 2002 saw the official launch of the **FEMIP initiative** in Barcelona. The Bank promptly initiated a number of organisational changes in order to ensure optimal implementation of the facility. Those changes relate to staffing reinforcement, the creation of an ad hoc Department operating as an autonomous business unit and comprising a dedicated private sector division, as well as the opening of an EIB regional office in Cairo. As far as operations are concerned, the EIB approved EUR 2.2 billion in 2002, of which about one third was in favour of the private sector. The latter remains the prime target of the facility, for which projects in excess of EUR 1.5 billion have already been approved since launch in September 2001.

As to the future direction of FEMIP, the Policy Dialogue and Coordination Committee Meeting held in April 2003 in Istanbul opened a constructive dialogue with the representatives of all interested parties: EU Member States, Partner Countries and Institutions. The FEMIP's key role in promoting access to finance for the private sector, especially for SMEs, was again emphasised. The development of global loans and new financial products for equity and quasi equity financing should prove instrumental in achieving this objective. Moreover, the

importance of technical assistance was stressed and the Bank will extend its discussions with the Commission on this topic.

The activities in the ACP countries are placed under the implementation of the **Investment Facility resulting from the Cotonou Agreement**. The Agreement represents a milestone in the EU-ACP co-operation for the economic development aiming at the reduction of poverty. Indeed, it capitalises on the evolution witnessed during the past decade in the context of the Lome Convention, and acknowledges the private sector's central role in the creation of economic wealth. In this context, the operations supported by the Investment Facility, officially launched yesterday, will involve risk sharing more frequently than in the past and projects will have to be associated with a reasonable level of remuneration. In this way, the Bank will aim at creating a revolving facility, using the proceeds of the reimbursements or dividends. The task of generating enough returns to sustain a revolving facility undoubtedly constitutes a challenge, given the financial risks inherent to most ACP projects.

The Bank will manage up to EUR 2.2 billion coming from the budgetary resources of the EU Member States. Besides, the EIB will, when appropriate, complement the Investment Facility with loans out of own resources.

IV. AREAS OF ATTENTION

As you certainly will have noted from my previous comments, the Bank's future will encompass a constant evolution of our policies and procedures to adapt them to the priorities of the EU.

In this context, I wish to highlight three areas that deserve a particular attention, namely value added, risk management, and transparency.

On the subject of **value added**, I will recall that the Bank must consider three elements in its financing decisions:

1. the consistency between each operation and the objectives of the Union;
2. the quality and soundness of each project;
3. the particular financial benefits obtained by the use of EIB funds.

The willingness of the Bank to ensure *consistency between each operation and the objectives of the EU* is clearly shown by our involvement in a reinforced co-operation with the Commission. I have already provided several examples of instances where this co-operation is under way. I could add two particular illustrations, with the signature over the past year of two agreements, one concerning the environment with DG ENVIRONMENT and DG ECFIN, the other concerning projects in the field of electronic communication networks with DG INFSO and DG ECFIN.

The *quality and the soundness of each project* are largely dependent on appropriate, exhaustive due diligence procedures and qualified staff. In the past year, we have implemented new appraisal procedures allowing for a modulated allocation of resources in function of a project's perceived difficulty. Also, we have strengthened the organisation on environmental and procurement matters.

The *particular benefits obtained by the use of EIB funds* have been the object of a specific decision by the Board of Governors last year to limit the volume of loans directed towards large corporates having easy access to capital markets. I can report that the Bank has fulfilled this objective, with a volume of signatures in 2002 inferior to the level of 2001. We will continue to monitor this aspect of added value and will keep Governors informed on a yearly basis.

With regard to **risk management**, you have received, as announced during last year's Board meeting, a specific report on that subject, emphasising how the risks are identified, measured and monitored. The Bank has aligned its risk management systems on best market practice.

The report made clear that the EIB is actively preparing for the regulatory framework, which will result from the new Basle Capital Accord with respect to risk measurement. A follow-on report will be provided to you in 2004.

As for **transparency**, we have maintained a regular dialogue with NGOs and we have defined and implemented a new policy of on-line access to documents, aligned on the latest relevant Community legislation. The public kept demonstrating an increasing interest to information provided by EIB. The number of visits on our internet corporate web site nearly doubled, to reach about one million.

So far for the Bank's past activities, priorities and areas of attention. Before concluding, I would like to thank the outgoing members of our Board of Directors: Mrs. Isabel Correia Barata, Mr. Sinbad J.D. Coleridge, Mr. Wedige Hanns von Dewitz, Mr. Gerd Saupe, Mrs. Rebecca Lawrence and Mr Gerhard Boehmer.

As a final word, I wish to thank the EIB staff for their efforts in the past year and their dedication to making of the European Investment Bank a policy driven financial institution, at the service of the European Union.