Governors,
Ladies and Gentlemen,

My intervention this year will focus particularly on the main item on the agenda: the proposed strategy for the Bank and its affiliate the European Investment Fund. This exercise was originally prompted by the mid-term review of our 2003 capital increase but it quickly became clear that a broader scope had to be contemplated. Accordingly, the Management Committee and Board of Directors opened the debate on the Bank’s medium and long-term strategy, and produced a paper proposing strategic orientations for the years to come.

Before I develop this point further, let me first of all briefly report to you on the Bank’s activity over the year 2004.

I. ACTIVITY IN 2004

LENDING OPERATIONS

During the year 2004, the Bank signed a total of EUR 43.2 bn in new loans, up 2.1% compared to 2003. Loans inside the European Union accounted for 92% of this volume.

The support to economic and social cohesion within the European Union remained, as in the past, our core lending objective. Indeed, EUR 28 bn were devoted to projects located in assisted areas. Once again, the ratio of 70% of total EU loans dedicated to this objective was reached.

Our lending in favour of the two pillars of the European Action for Growth was steady. On the one hand, the lending volumes in support of the Innovation 2010 Initiative were up, from EUR 6.2 bn in 2003 to EUR 7 bn last year. On the other hand, the Bank signed EUR 8bn in new loans for TEN (Trans-European Networks) projects.

The Bank also maintained a strong commitment towards the protection and improvement of the natural and urban environment, with a third of total lending within the Union qualifying under this objective, and with new initiatives in support of Kyoto objectives.

Concerning our operations outside the European Union, the Bank continued to play a significant role in the Balkans, especially in financing infrastructure linking these countries between themselves and with the European Union. In the Mediterranean region, the Bank reinforced its presence as agreed under the mandate received from the Council in 2003. The Bank delivered the expected results under the “reinforced FEMIP”, with strong lending figures, at EUR 2.2 billion. The Cotonou Investment Facility, despite a difficult environment, progressed in terms of lending volumes and new financial instruments.
BORROWINGS

As far as borrowings are concerned, the Bank raised EUR 50 bn through 282 transactions, up from EUR 42 billion in 2003.

The Bank’s funding strategy was undoubtedly successful, mixing consistency and innovation. Market recognition was high last year, with the EIB receiving prominent awards for benchmark transactions.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The balance sheet total reached EUR 257.8 billion at the end of 2004. Total outstanding loans and guarantees amounted to EUR 265 billion, well below the EUR 409 billion statutory ceiling.

The profit and loss statements closed with a net surplus of EUR 1 381 million, a slight reduction in comparison with 2003, due to extraordinary charges for recapitalisation of the pension fund and the health insurance scheme.

VALUE ADDED AND CORPORATE GOVERNANCE

This rapid overview of our activity in the past year would not be complete without mentioning the efforts invested in two particular fields, namely value added and corporate governance.

Concerning the issue of value added, the Board of Governors will note that the Bank has delivered on its commitment to better appraise the value added at the level of individual projects. Included among the documents approved by the Board of Directors is a set of indicators, now presented for each operation within Europe. Specific indicators will be introduced later this year for operations in Partner Countries, following the finalisation of an original and tailor made approach, putting emphasis on the developmental role of our loans.

As regards our corporate governance, in line with the announcements made to you last year, we have taken concrete actions to increase our transparency and accountability through external communication. By way of illustration, Management Committee members are now due to sign and publish a declaration of financial interest. Also, conflicts of interest reported by members of the Board of Directors are disclosed. I can also report on the creation of a Compliance Office.

More measures will be implemented in 2005. I can already announce the publication of a Corporate Social Responsibility statement, as well as a redrafting of our external communication policy, for the first time in consultation with civil society. Moreover, we will propose changes to the current Rules of Procedures, including mandatory rotation of the external auditors after each mandate. Also as a matter of sound governance, we will intensify our efforts to become compliant with Basle 2 requirements under the so-called Advanced Approach.

II. TOWARDS A NEW STRATEGY FOR THE EIB GROUP

I will now turn to the proposed strategic orientations for the EIB Group in the years to come.

As mentioned in my introduction, this strategic exercise was initiated by the announced mid-term review of our 2003 capital increase. In this regard, you will have noted the reassuring conclusion on the capital situation of the Bank.

- You will remember that, back in 2003, we had taken the commitment to avoid any new capital increase before 2008. I am happy to report that we will fulfil this commitment. We can state already now that no new capital increase will be necessary before 2010.
Moreover, the principle of self-sufficiency is maintained. We will be able to finance our next capital increase with an incorporation of our reserves. The European Investment Bank is and will remain an institution that does not require any contribution from Member States’ budgets, apart from original capital subscription.

Turning now to the concrete proposals for strategic orientations, you will have noted that a distinction has been made between operations inside Europe on the one hand, and operations within Partner Countries on the other hand.

For Europe, the key words of the proposals are “innovation” and “quality”:

- **Innovation**, because we propose to develop new financial instruments and new ways to collaborate with the banking sector in order to strengthen our support to SMEs, which we would add to the priority list of our objectives. Innovation will also apply in the way we operate with the European Investment Fund, offering a common approach to clients thanks to global relationship management.

- **Quality**, because we propose to further increase our focus on the contribution of individual operations to the Bank’s mission, translated into our value added criteria.

A major feature of our proposals is the gradual increase in the risk profile of our operations. We believe that the EIB should, if and when justified by value added considerations, play the role of a “pathfinder”. The Bank should, under strict limits and with appropriate controls, take risks that are not easily absorbed by the market. Such could for example be the case for investments made in new, unproven technologies with a high potential impact.

Naturally, we do not see increasing risk appetite as a universal way ahead. More risk should be taken only if it means more added value.

Also, we do not advocate a “one fits all” type of solution. In this respect, local market specificities and constraints will be given due consideration. The Bank will tailor its approach to local needs. This will be true for the types of products we will deploy, as well as for the intensity of our interventions.

Let me also emphasise the continuity element contained in our proposals, which I will illustrate with two examples:

Concerning the proposed increase in risk profile, what we are aiming at is nothing more than the logical next step in a trend already in place and initiated by our governing bodies. Not so long ago, back in the beginning of my mandate in the year 2000, the Bank was still reluctant to lend on a single signature basis. Guarantees were systematically required and there was no risk pricing system. As you know, this is no longer the case: thanks to the development of a “state of the art” risk management system, we are now able to reach more borrowers, to finance more priority projects, without however jeopardising the quality of our loan portfolio.

As a second example, I will consider the proposed new ways to collaborate with the banking system and the new financial instruments. Here also, the Bank did not stand still in the past years. Examples of recent initiatives include: the Structured Finance Facility, the Risk Capital mandate, Asset and Mortgage Backed Securities transactions, index linked loans, mid-caps loans and framework loans. We are also currently working on new initiatives, involving for example the sponsoring of carbon funds and a first time participation in an infrastructure investment fund.

So, as you can see, our proposal today is not a revolution, but the pursuit of an evolution already in place and which deserves support because it undoubtedly contributes to the Bank better fostering EU objectives.

Concerning **Partner Countries outside Europe**, the new and reinforced mandates recently entrusted to the Bank (Cotonou Investment Facility, Reinforced FEMIP) have raised expectations on the Bank’s contribution to achieving development goals. In this respect, it must be recognised that investment volumes are a necessary, but not sufficient condition to
the development of beneficiary countries. Therefore, we have drafted proposals aimed at better serving this developmental objective, implying a more active project acquisition approach based on country strategies, and intervention both upstream (identification, preparation, technical assistance) and downstream (monitoring, impact assessment). This approach naturally entails closer cooperation with the Commission and other IFIs with relevant experience. This can be done with the existing structure but will require more staff. If we have mentioned institutional alternatives in our paper, it is only in neutral terms and without pre-empting the conclusions of the reviews foreseen for 2006.

In conclusion, let me emphasise two important points:

Firstly, the implementation of our strategy will take time and a careful, stepwise approach to implementation. We will not embark upon drastic changes before all implications have been examined, before facts and data have been analysed, notably as to the required resources and their financial impacts on the Bank’s accounts. The Board of Directors will pilot the implementation phase, to start with a more precise declination of the general orientations described today into concrete measures and figures.

Secondly, you can rest assured that approving today the general orientations of our strategy, a step I consider as crucial in providing the required impetus for change, will not jeopardise the Bank’s basic foundation of financial self-sufficiency and AAA-rating. Indeed, the Bank’s current capitalisation level allows for the constitution, if necessary, of additional dedicated reserves, such as those already created for venture capital or SFF. Also, and in combination with our portfolio quality, which has reached a very high point, our level of own funds leaves ample room for a prudent and selective addition of riskier operations in the years to come.

I now will leave the floor for discussion, and thank you for your attention.