Governors,
Ladies and Gentlemen,

Not surprisingly, my statement this year will focus on the implementation of the new strategic orientations for the European Investment Bank and its affiliate, the European Investment Fund, which were approved by this Board last year.

Before I develop this point, let me first of all briefly report to you on the Bank’s activity over the year 2005.

**ACTIVITY IN 2005**

**LENDING OPERATIONS**

In 2005, the Bank signed a total of EUR 47.4 bn in new loans, up 10% compared to 2004.

At least half of this increase is explained by a higher volume of signatures in the new Member States, which reached almost EUR 6 bn, up more than 50% on 2004. Indeed Economic and social cohesion within the European Union remains the Bank’s leading operational priority, with a total of EUR 34 bn devoted to projects located in assisted areas.

Lending under the Innovation 2010 Initiative also increased by more than 50%, to almost EUR 11 bn, accounting for the remainder of the overall growth. Since the Initiative's launch in May 2000, the Bank has already signed loans worth EUR 35 bn, out of a total objective of EUR 50 bn to be deployed by 2010.

Lending volumes in support of TEN (Trans-European Network) projects remained steady, with EUR 7.7 bn in the Union and EUR 550 million in Romania. Individual loans for investment projects supporting the environment and the quality of life ran to EUR 11 bn, or a third of the Bank’s total individual loans.

EUR 4 bn of dedicated global loans went to SMEs, the operational priority added last year following endorsement of the new strategic orientations.

EIB backing for EU development aid and cooperation policies towards the partner countries outside the European Union accounted for 11% of total signatures, or EUR 5 bn in 2005. Almost half of this activity was under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and over one quarter was directed to South-East Europe, in particular the Balkans, where the EIB pressed ahead with its financing for the rebuilding of basic infrastructure and its support to local authorities. Activity in the ACP countries under the Cotonou Investment Facility continues to progress in terms of lending volumes and new financial instruments.
BORROWINGS

As far as borrowings are concerned, the Bank maintained the level of EUR 50 bn raised in 2004, but increased the number of transactions and its currency diversification. The market’s positive reception of the Bank’s funding strategy in 2005 continued to be reflected by prestigious awards.

When considering these achievements, we should keep in mind that the Bank has a policy to transfer its funding advantage in full into its lending terms and conditions. Success on the capital markets is therefore instrumental to the Bank’s ability to provide the highest value added to the final beneficiaries of its loans.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The balance sheet total came to EUR 289 billion at the end of 2005, with the Bank’s gearing ratio reaching 180%, thus well below the 250% statutory ceiling. As is well documented in the “2006 Capital Review” note distributed for this meeting, the Bank will not need a capital increase before 2010. Moreover, it will be able to fully maintain the principle of self-sufficiency.

There was a significant increase, of EUR 153 m, in operating profit compared to last year, although the net surplus of EUR 1 389 million remained level, mostly due to offsetting of provisioning charges (in particular, provisioning of EUR 60 m was added to the Fund for General Banking Risks in 2005, in contrast to 2004 when EUR 135 m was released).

VALUE ADDED AND CORPORATE GOVERNANCE

Last year, I mentioned the Bank’s ongoing efforts in two specific fields, namely value added and corporate governance. This year, I am proud to report that these efforts have already translated into tangible results, and that further progress is envisaged.

Concerning the strengthened commitment of the EIB to deliver value added, the Board of Directors has been monitoring a new set of key performance indicators, introduced in the Bank’s Corporate Operational Plan. In their last meeting, Directors also endorsed the principle of an evolution towards a more pro-active approach, aimed at value added generation as opposed to mere identification. This evolution would require as a pre-condition a systematic and explicit Economic Value Added assessment, measuring not only the value added of a project but also measuring the risks and costs to the Bank. Over time, this would enable the EIB to demonstrate more explicitly its economic contribution as a policy-driven bank.

As regards our corporate governance, in line with the announcements made to you last year, we have completed the redrafting of our disclosure policy, on this occasion for the first time involving consultation with civil society. This policy is now based on a presumption of disclosure, limited only in specific cases by rules of confidentiality that are essential to business life.

Among other accomplishments, I would just like to mention an updated Code of Conduct for staff members and the establishment of a separate Code of Conduct for Members of the Management Committee, modelled, mutatis mutandis, on the provisions applicable to European Commissioners. The recently created Compliance Office has played an important role in this field.
II. IMPLEMENTATION OF THE NEW STRATEGIC ORIENTATIONS

So, after that review of activity in 2005, I should now like to turn to implementation of the new strategic orientations for the EIB Group.

IN THE EUROPEAN UNION

Last year, the Board of Governors endorsed a strategy for the EIB’s activities in the EU based on the principles of “innovation”, “quality” and “continuity with evolution”. The two proposals submitted by the Board of Directors for your approval today represent concrete steps towards implementation, consistent with all three principles.

I shall begin with a caveat. While 2005 has been an exceptional year in terms of signature volumes in the EU, we do not expect this trend to continue in 2006 and beyond. Accordingly, the “2006 Capital Review” paper already includes a scenario for stable volumes in the EU15. It goes without saying that this will not restrict lending growth in the new Member States. This capping of our operations in the EU 15 would allow the Bank’s staff to concentrate on the projects that deliver higher value added, but also are more resources intensive and involve higher risks.

The proposal for increased activity under the Structured Finance Facility should be seen in this context. It is mainly targeted to activity within the EU and to the following priorities: Research and Innovation, Trans-European Networks, and Energy. It is innovative for the inherent content of the projects that are targeted and for the products which are offered; moreover, for part of it, it uses a new approach, leveraging EU budget resources through the EIB’s access to capital markets. It focuses on quality projects as defined by clear eligibility criteria and shared objectives between the EIB and the Commission, and as endorsed by the Council. It is built on the rules of an existing Facility, which has been in operation since 2001 and which has developed at a measured pace, enabling a gradual increase in risk-taking.

It is today proposed that capital allocations to the fund for the Structured Finance Facility be increased from the current EUR 750m to EUR 1,250m with immediate effect. Furthermore, the Board of Directors proposes that an overall ceiling for SFF capital allocations be established at EUR 3,750m. This ceiling is being proposed having regard to maintaining the Bank’s self-sufficiency for future capital increases, as duly documented in the “2006 Capital Review” paper. Future allocations to the SFF fund will require specific approvals by the Bank’s governing bodies, subject to submission of periodic reviews.

Similar considerations apply to the second proposal from the EIB Board of Directors, concerning the increase in the capital of the European Investment Fund. The EIF embodies an innovative and successful partnership between the EIB, the European Commission and the banking system, which has delivered significant financial support to European SMEs, through a broad range of instruments. The EIF’s ability to enter into operations with a higher risk profile, counterbalanced by the need to generate an adequate return on its capital, reinforces the quality of its operations. Granting an increase in the capital of the EIF will ensure the continuity and further development of its activity, in line with the new strategic orientations and established partnerships. If you approve the proposal from the Board of Directors, the EIF capital will increase by at most 50% and the Bank will pay an amount of 200m.

These two proposals certainly constitute highly visible and focused lines of implementation of the new strategic orientations. As I have already mentioned, the Bank also expects the envisaged measurement of Economic Value Added to provide guidance alongside the gradual increase in the risk profile. Considering especially two key beneficiaries of EIB loans, public sector entities -- in particular local authorities -- and SMEs, it is clear that increased risk taking would entail provision of higher value added; it is however also clear that risks and
costs to the Bank have to be taken into account, so as not to jeopardize the basic foundation of financial self-sufficiency and AAA-rating.

To conclude discussion of the Bank’s activities within the European Union, I would like to mention two new initiatives which we are developing in close cooperation with the Commission and which aim at increasing the efficiency in the use of structural funds:

- **JASPERS**, a partnership pooling technical resources from the Commission, the EIB and the EBRD, will help national and regional authorities to identify and prepare projects for funding by the structural funds;
- **JEREMIE**, a new scheme managed by the European Investment Fund, will enable Member States and Regions, on a voluntary basis, to transform part of their structural funds allocations into financial instruments dedicated to micro and small enterprises.

**OUTSIDE THE EUROPEAN UNION**

I now wish to turn to the Bank’s activity outside the European Union.

This year important decisions will be taken and orientations set out, which are bound to provide the framework for the EIB’s action over the medium term: renewal of the external mandates for the period 2007-2013; review of the institutional form of EIB’s action in the Mediterranean; decisions on the budgetary resources necessary for technical assistance and risk capital operations.

We have chosen to **intensify a proactive dialogue with the Commission and other IFIs**, to ensure that the various EU funds and instruments are deployed with the highest degree of efficiency and, hopefully, effectiveness. Among the numerous examples of this approach, I should like to draw your attention to three in particular. Firstly, the Commission’s proposal for a substantial mandate for Russia, Ukraine and other Eastern Countries has to be seen in the light of the respective strengths and expertise of the EIB and the EBRD and the envisaged tripartite MoU between the Commission, the EIB and the EBRD. Secondly, an analysis of the key issues for success of the EIB action in the Mediterranean has been drafted jointly by the EIB and the Commission. Thirdly, partnerships for infrastructure financing in Africa are being established, with the goal of leveraging budgetary funds through EIB financing.

I would however point out that the ultimate success of this collaborative approach rests primarily on the good will and efforts of everybody involved, and to the considerable influence that the ultimate EU decision-makers can exert on the various institutions. In my view, it is obvious that the EU could structure a stronger, more visible and more coherent approach to the implementation of its three main external policies: enlargement, neighbourhood and development. What I wish to emphasise today, speaking to the shareholders of the EIB but also of the EBRD and CEB, is **the coordinating role that could be played by the high-level governance of these institutions**. Governors of the three Banks could create a light institutional locus where the Member States could initiate a process of progress towards a more integrated approach to the financial support of EU external policies.

This would be fully in line with the strategy paper endorsed last year by the Board of Governors. This paper stated that “better serving the development objectives and policies of the Union would call for a more coherent approach (...) in Partner Countries”. I suggest that it might be useful to look at the feasibility, costs and benefits of alternative options to strengthen the integration of the various financial instruments that exist to support EU external policies.

In conclusion, let me emphasise that the EIB has made some significant steps forward in the delivery of the new strategic orientations and that it will continue to do so in the coming years.

I thank you for your attention.