



2006



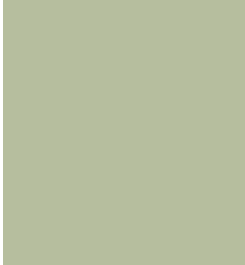
Corporate Responsibility

Looking to the future





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Introduction

Corporate Responsibility (CR) reporting is the practice of measuring, disclosing to internal and external stakeholders, and taking responsibility for organisational performance, ensuring both the sustainability of the organisation in question, and, in the case of a bank, that its lending promotes sustainable development, which "meets the needs of the present without compromising the ability of future generations to meet their own needs".¹

Corporate Responsibility is at the core of the business model of the European Investment Bank. In the financial and business community, the critical questions today relate to how to manage environmental, social and economic concerns, while ensuring the financial solvency and viability of enterprises.

While the EIB must draw clear boundaries in terms of what positive changes it can and cannot drive and what it is and is not responsible for, there is clearly an overwhelming need for truly sustainable development and a further strengthening of the constructive dialogue with our stakeholders in this respect. Through our day-to-day operations, notably our financing activities, our aim is to move forward in our common quest to safeguard our planet for the benefit of present and future generations.

¹ World Commission on Environment and Development, *Our Common Future*, Oxford University Press, 1987.

Leadership

The European Investment Bank (EIB), with its headquarters situated in Luxembourg, is the European Union's financing institution. Membership of the Bank comprises the EU Member States. While the Bank enjoys its own legal personality and financial autonomy within the Community system, its task is to ensure that its numerous activities underpin Community policies on a non-profit-making basis. Within the European Union (EU), the EIB promotes the economic and social cohesion and growth of the Member States by means of its lending activities. Outside the EU, EIB lending aims to support the EU's development aid and cooperation policies.

To support its mission and the execution of its strategy, the EIB has adopted the Balanced Scorecard (BSC) methodology in its planning process. The Strategy Map, a graphical representation of the Bank's strategic objectives, serves as the basis for each yearly planning cycle when defining the Bank's priorities. These priorities are supported by a balanced set of performance indicators. Targets are set for both the indicators and the different lines of the profit and loss account, and progress towards the execution of the strategy is monitored.

The publication in 2004 of the Bank's Statement on Governance, and of subsequent annual updates, bears witness to the EIB's continued commitment to good governance. To this end, it is committed to mainstream corporate responsibility in all its activities, thus ensuring that the CR strategy underpins the corporate strategy.

CR Reporting

The Bank considers Corporate Responsibility reporting to be a key element of transparency and accountability. Reporting serves as a tool for engaging with stakeholders and securing useful inputs into organisational processes. Furthermore, CR reporting is a living process, which does not begin or end with a printed publication. Indeed, for the EIB, reporting fits into a broader process of setting and implementing strategies and policies and evaluating their outcomes. Thus, reporting enables a robust assessment of our performance and supports improvement over time.

The EIB Group Corporate Social Responsibility (CSR) Statement was published on the Bank's website in May 2005. In publishing this statement, the Bank committed itself to periodically reporting on the implementation of CSR. The first integrated Corporate Responsibility report was published in June 2006. For the

second CR report, the Bank shortened the production cycle to enable early publication in February 2007 in order to provide our different stakeholders with timely information².

CR Management

The European Foundation for Quality Management (EFQM) framework for CSR was utilised in 2006 to perform the first CR self-assessment and the mapping of our stakeholders as well as for the preparation of the 2006 CR report, illustrating the CR implementation process as a continuous one. This self-assessment was undertaken with the assistance of external experts in the field of corporate responsibility and sustainability, the Brussels-based consultancy firm "Centre for Sustainability and Excellence (CSE)", which also provided the Bank with independent certification for the report. This exercise helped to locate the Bank in terms of its CR maturity level. The self-assessment and stakeholder mapping process is a key tool for CR integration within the EIB. Since the EIB has clearly identified its stakeholders and their respective needs, it has successfully passed the start-up phase. The Bank is now moving towards greater CR maturity, whereby CR is more fully embedded within its policies and strategies and stakeholder expectations are both measured and actioned.

Policy and Strategy

The strategic objectives approved by the Bank's Board of Directors at its Annual Meeting on 7 June 2005 were incorporated into the Corporate Operational Plan (COP) for 2006-2008 resulting in:

- An increased focus on value added;
- A progressive increase in risk-taking activity including in relation to small and medium-sized enterprises (SMEs);
- The use of new financial instruments;
- Further cooperation with the European Commission;
- Enhanced monitoring.

The COP for 2007-2009 builds on initiatives approved under the COP for 2006-2008 and also encompasses decisions taken by the European Council, Board of Governors and Board of Directors during 2006, responding to numerous external influences, notably new policies at EU level and emerging best

² For more detailed information please see our Corporate Responsibility Report 2006 on our website (www.eib.org).

banking practices. Six priorities for action within the Union are therefore fixed in the COP for 2007-2009:

- Economic and social cohesion and convergence in the enlarged Union;
- Implementation of the Innovation 2010 Initiative;
- The development of trans-European and access networks (TENs);
- Environmental protection and improving the quality of life;
- Small and medium-sized enterprises (SMEs);
- Sustainable, competitive and secure energy.

Outside the EU, the EIB's priorities are to better serve the development and cooperation objectives and policies of the European Union in partner countries, and to help fight poverty and improve the living standards of people in the developing world.

There are, however, areas of activity which are excluded from financing by the EIB. These include gambling, real estate, banking, insurance or the manufacture/supply of (or trade in) arms and munitions. Furthermore, the Bank will not disburse funds in a country that has been declared "off-limits" for EU financing.

Sustainable development

Across all activities of the Bank, but particularly through the financing of sustainable projects, sustainable development continues to be a core requirement. There are commonly three objectives associated with sustainable development:

- Environmental protection;
- Social equity and cohesion;
- Economic prosperity.

Against this background, the Bank is refining its project identification, appraisal and monitoring techniques to ensure that sustainability is sufficiently and consistently considered when the value added of a project is assessed (see Processes section below).

Whilst the Bank's performance as an EU institution will be measured against many criteria, amongst them will be its responsiveness to EU policy change and the effects of the progressive enlargement of the EU. In June 2006 the European Council adopted a renewed EU sustainable development strategy. This sets overall objectives, targets and concrete actions for seven key priority challenges for the period up to 2010:

- Climate change and clean energy;
- Sustainable transport;
- Sustainable production and consumption;
- Public health threats;
- Better management of natural resources;
- Social inclusion, demography and migration;
- Fighting global poverty.

In line with the above objectives, environmental and social issues are of paramount importance to the Bank. According to the Treaty, the task of the European Union is to promote sustainable development (Articles 2 and 6). In 2001-2002, the European Council endorsed a number of documents in this respect, including a strategy for sustainable development outside the EU, which is currently under review.

Not least among the priorities listed above are issues relating to sustainable energy and sustainable development, key areas in the attempt to combat climate change.

Sustainable, competitive and secure energy

Energy has become a key item in the EU policy agenda, in particular following the release in March of the Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy". The projects considered under this objective should belong to one of the following areas:

- Renewable energy;
- Energy efficiency;
- Research, development and innovation in energy;
- Security and diversification of internal supply (including TENs-E);
- External energy security and economic development (neighbouring and partner countries).

Reflecting the Bank's concern for environmental matters, our Board approved the introduction of "Sustainable, Competitive and Secure Energy" as a new Corporate Operational Plan objective, endorsing energy as priority. Most of the key energy orientations support environmental objectives, notably renewable energy and energy efficiency. In 2006, the Bank's operational target of devoting between 30% and 35% of all individual loans in the EU-25 to projects protecting and enhancing the environment was once again met, with the proportion of environmental lending reaching 34%. The Bank is also on course to meet its renewable energy targets, an integral part of the Bank's commitment to CR.

People

The social component of sustainable development is concerned with the general well-being of people, including their rights, health, knowledge and skills. Just as environmental policy aims to protect and improve the natural and built environments, the rights and responsibilities of human beings should be protected and promoted. As per its external mandates, the EIB takes social concerns into account in its project financing. For instance, the Cotonou Agreement (the African, Caribbean and Pacific countries and European Union Partnership) signed in 2000 states in Title 1, "Support shall be given to the rights of the individual ... the promotion of social development ...", and this is likely to increase in importance as the EU-Africa Infrastructure Partnership evolves.

Following a trial period of one year of the Development Impact Assessment Framework (DIAF) which was designed to better assess the quality and soundness, notably in the social area, of projects outside the EU, it was decided that the DIAF should be applied to all operations in the African, Caribbean and Pacific (ACP) countries and that it could be extended to other mandates once the negotiations on these are terminated.

The Bank is socially responsible towards its staff and ensures that fundamental EU social principles are respected in its relations with them. Social dialogue is part of the dealings of the Bank with the staff and is conducted mostly through the organs put in place to represent the staff. The Bank tries to ensure that the working environment provides an adequate level of protection of the health and well-being of the staff and that the staff are rewarded and developed in the best interests of the Bank and of the individual members of staff. Staff rights are balanced with duties that are described in the Bank's Staff Code of Conduct (see Processes section below) and also in the Bank's Staff Regulations. For more information go to our website: www.eib.org.

Partnerships

Lending activities

2006 saw the creation of many partnerships relating to environmental protection. The Bank established and launched, in close cooperation with the Commission, an initiative known as the European Principles for the Environment, which was signed in May together with the European Bank for Reconstruction and

Development (EBRD), Council of Europe Development Bank (CEB), Nordic Investment Bank (NIB) and Nordic Environment Finance Corporation (NEFCO). The Principles are founded on the commitment of the five signatory European-based MFIs to ensuring environmental protection and promoting sustainable development globally and across all sectors of their activities, based on EU principles, practices and standards. We have also finalised the World Bank-EIB Carbon Fund for Europe (CFE), and officially launched the Multilateral Carbon Credit Fund (MCCF) jointly with the EBRD, as part of the EIB strategy for combating climate change (see Policy and Strategy section above for more details). The Bank has also signed a Memorandum of Understanding with the World Conservation Union (IUCN), an historical framework for cooperation on strengthening awareness about nature and biodiversity when financing investment projects.

The importance of microfinance to alleviating poverty is nowadays widely recognised in light of the impact of pioneering operations in East Asia and Latin America, such as the Grameen Bank of Bangladesh. While non-governmental organisations dedicated to microfinance activities have played a very significant role in establishing the effectiveness of microfinance as a tool to fight poverty and empower low-income populations, the recent trend is that more mainstream financial institutions, such as private equity funds and banks, are paying greater attention to microfinance as a relevant market for their activities. Microfinance is evolving at a fast pace with new players emerging, such as large private foundations, along with new products, notably the securitisation of microfinance portfolios.

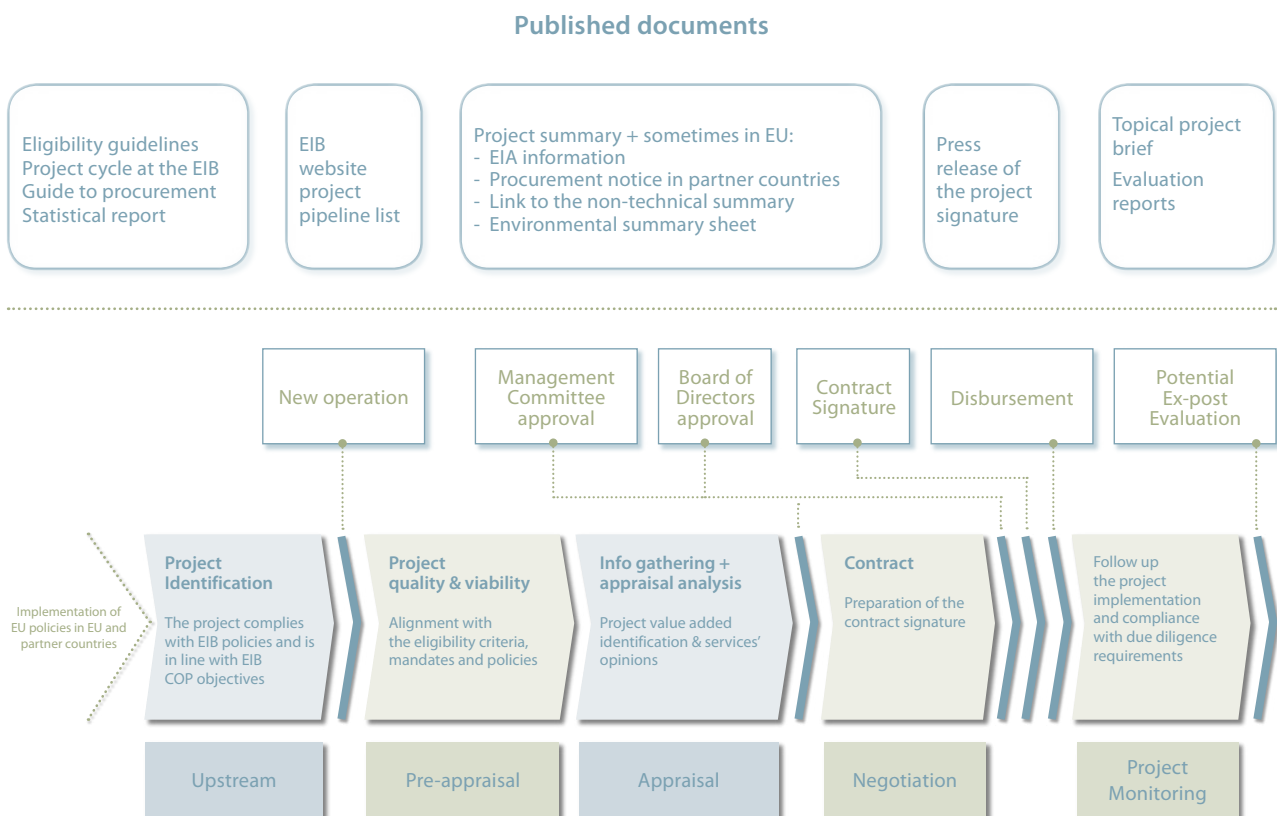
Through its operations, the Bank is seeking a triple return on investment: financial, social and demonstration. Financial return is essential to ensure the sustainability of the Multilateral Financing Institutions (MFIs) concerned and their attractiveness for other investors. Social return needs to be measured in terms of income growth at the level of those benefiting from microcredits. The demonstration effect is required to ensure future mobilisation of larger funding sources not only in the North, but also in the South. A good illustration of this last feature is the Africap Microfinance Fund in which the Bank is one of the largest investors. In 2005/06, the fund partially exited its investments in Equity Bank Ltd (EBL, Kenya), which was subsequently listed on the Nairobi Stock Exchange, thereby becoming the second MFI worldwide to be listed on a public exchange. Africap also sold its stake in First Allied Savings and Loan (FASL, Ghana). Both exits generated comfortable returns that were largely reinvested in the fund. The achievements of Africap have been recognised in the African investment community and Africap has recently been awarded the Africa Investor "Venture Capital Deal of the Year Award" for its investment in Kenya's EBL. This award is regarded as the most prestigious recognition of an investment achievement in Africa.

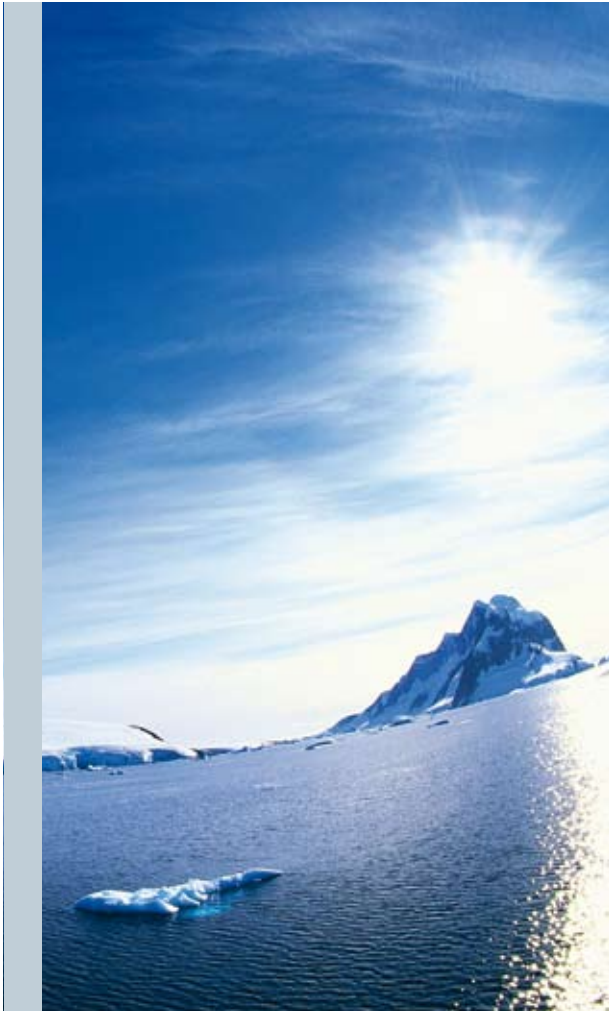
Processes

The EIB project cycle is managed to the highest standards of quality, responsibility and integrity with respect to the EU, society as a whole, the promoters and EIB staff. This result is achieved by ensuring the quality of the internal processes, by developing and empowering highly skilled staff, by preserving the Bank's independence of judgment, and by being committed to continuous improvement. The EIB operates with professional, reliable and consistent methods to identify high-quality projects, in line with EU policies and objectives, while mitigating the risks. For example, the EIB has created instruments specially designed to help tackle climate change.



The following diagram shows the processes used to determine the Bank's investments.





Tackling climate change

Good progress was made during 2006 regarding the implementation of the EUR 500m Climate Change Financing Facility (CCFF), which covers the period 2005-2007. The Facility was established to provide long-term loan finance to EU companies participating in the Emissions Trading Scheme (ETS) and to companies operating outside the EU developing joint implementation (JI) and clean development mechanism (CDM) projects. So far 60% of the CCFF sub-window I (of EUR 400m earmarked for investments that help companies meet their obligations under the ETS) has been committed for projects such the modernisation and environmental upgrading of pulp and paper mills in Portugal, the construction and operation of two run-of-river hydro-power plants in Slovenia, and a wind power project in Spain.

As the CCFF was restricted to financing projects that directly contribute to emissions trading of CO₂-based allowances under the EU ETS, the Facility (CCFF II) was renewed in May 2006 with the broader goal of financing any project that significantly reduces greenhouse gas emissions, regardless of region, sector or type of greenhouse gas.

The Climate Change Technical Assistance Facility (CCTAF) provides advance funding for activities associated with the development of project-based carbon credits under the JI and CDM mechanisms of the Kyoto Protocol on a conditional loan basis. The working procedures and guidelines for accessing and managing the CCTAF have been finalised and are available to the public. When applied fully to any one project, the CCTAF involves three stages of support:

- Phase I (carbon feasibility);
- Phase II (preparation up to project registration with the CDM Executive Board (or JI equivalent));
- Phase III JI/CDM project validation.

The CCTAF is now fully operational.

The EIB recently began to systematically incorporate climate change aspects into its internal appraisal procedure, so that all projects are now routinely screened for their potential to mitigate climate change and generate carbon credits, which could be used for Kyoto compliance purposes and/or in the EU ETS. More recently, projects are also being screened systematically for the need to incorporate adaptation measures.

Additionally, the Multilateral Carbon Credit Fund (MCCF) developed by the EIB and the EBRD, was officially launched on 13 December 2006. The MCCF is designed to develop the carbon market in countries in transition to market economies by helping EBRD and EIB shareholders and other parties to meet their mandatory or voluntary greenhouse gas emission reduction targets.

The Carbon Fund for Europe (CFE), which will be co-managed by the World Bank and EIB, is designed to facilitate the transition of market activities from the public to the private sector, catalysing the development of projects and helping EIB shareholders and clients meet their carbon emission reduction obligations. An interesting feature of the CFE is that it can purchase Emission Rights (ERs) for delivery post-2012, i.e. after the first Kyoto commitment period. The EIB is already actively working on proposals for carbon funds for the post-2012 period. A first tranche of EUR 50m can be followed by subsequent tranches up to a total of EUR 100m.

Codes of conduct

In order to improve its internal processes and generate increasing value to all stakeholders, the Bank has enforced a range of Codes of Conduct, which can be found on our website www.eib.org and are listed below:

- Code of Conduct for the members of the Board of Directors of the European Investment Bank;
- Code of Conduct for the members of the Management Committee of the European Investment Bank;
- Code of Conduct for the members of the Audit Committee of the European Investment Bank;
- EIB Staff Code of Conduct;
- EIB Code of good administrative behaviour for staff in relations with the public.

Concerns vis-à-vis conflicts of interest are addressed at the highest levels by the use of individual declarations by members of the Management Committee. Furthermore, details of these declarations are published by the EIB on its website www.eib.org. Any abstentions from voting on the grounds of conflict of interest by members of the Board of Directors are recorded in the minutes of meetings.

Corruption

As suggested in the OECD's Guidelines for Multinational Enterprises, corruption is not only harmful to democratic institutions and the governance of business, but also hampers attempts to reduce poverty levels. The Bank has prepared a set of rules to govern the handling of allegations of fraud, corruption and other forms of illegal activity affecting the financial interests of the EIB and/or the European Communities in the course of EIB Group activities. The intention is to provide unambiguous guidelines to members of the EIB Group, including the Inspectorate General (IG), in the handling of allegations. Following the success of the public consultation process vis-à-vis the EIB's disclosure policy, a similar review will begin this year for the EIB's policies, guidelines and procedures on fighting corruption, fraud, money laundering and the financing of terrorism.

Additionally, a compliance office has been created in the Bank, the objective of which is to ensure conformity with standards and identify potential incidents of non-observance of rules on ethics and integrity so that appropriate measures can be taken in line with the texts and procedures in force.

Results

End-of-year Key lending figures 2006

Key lending figures	
Total projects signed	45.8bn
European Union	39.8bn
Partner countries	5.9bn
Total disbursed	36.8bn
European Union	33.1bn
Partner countries	3.7bn
Economic and social cohesion in the enlarged EU	26.7bn
Energy	2.9bn
Transport	7.4bn
Telecommunications	1.4bn
Water, sewerage, waste	2.1bn
Urban and composite infrastructure	1.4bn
Industry	1.4bn
Services	1.2bn
Health and education	2.4bn
Credit lines for regional development	6.5bn
Innovative and knowledge-based European economy	10.9bn
Research, development and innovation	6.7bn
Education and training	2.0bn
Information and communications technology networks	1.7bn
Environmental protection	10.9bn
of which outside the EU-25	1.2bn
Sustainable urban transport	2.6bn
Urban renewal and regeneration	2.0bn
Addressing environmental and health issues	2.9bn
Tackling climate change: energy efficiency and renewable energy	2.3bn
Protecting nature and wildlife	0.5bn
Preserving natural resources and managing waste	0.6bn

Trans-European Networks	8.4bn
Small and medium-sized enterprises in the EU	5.8bn
Support for EU development and cooperation policies	5.9bn
Neighbouring South-Eastern Countries	3.2bn
FEMIP	1.4bn
Africa, Caribbean and Pacific	0.7bn
Republic of South Africa	0.08bn
Asia and Latin America	0.5bn

Resources raised	48.1bn³
EU currencies	26.5bn
Non-EU currencies	21.5bn
Situation as at 31.12.2006	
Subscribed capital	163.7bn
Loans outstanding	310.9bn
Borrowings outstanding	246.6bn



³ Resources raised under the global borrowing authorisation for 2006, including 'pre-funding' of EUR 2.9bn completed in 2005.

Environmental lending 2006 for individual projects by eligibility (in EUR million)

	2006
Tackling climate change	2 346
Renewable energy	530
Energy efficiency	317
Reduction of GHG emissions from transport	1 499
Protecting nature and wildlife	477
Protecting nature	3.5
Natural disasters	474
Addressing environmental and health issues	2 850
Water	2 618
Industrial pollution	190
Reduction of transport pollution	42
Preserving natural resources and managing waste	624
Waste management	624
Improving the quality of life in the urban environment	4 586
Sustainable transport	2 620
Urban renewal	1 966

Share of environmental loans in 2006 (in EUR million)

	Individual loans	Environment	%
EU-25	28 514	9 649	34
Accession and Acceding Countries	2 606	786	30
EU-25 + Accession and Acceding Countries	31 121	10 435	34
Other Partner Countries	2 388	448	19
Total	33 509	10 883	32%

Environmental indicators 2006

	Total annual consumption	Annual consumption per active staff member (ASM)
Heat consumption	6.64 GWh	6 385 kWh/ASM _K
Electricity consumption	11.16 GWh	10 731 kWh/ASM _K
Total energy consumption	17.8 GWh	17 115 kWh/ASM _K
CO ₂ emissions from energy consumption ⁴	8 500 tonnes CO ₂	8.2 tonnes CO ₂ /ASM _K
Waste disposed	245.6 tonnes	236.2 kg/ASM _K
Water consumption	40 293 m ³	194 litres/ASM _K per day
Copying paper consumption	20 400 949 sheets	15 900 sheets/ASM _{LUX}
Number of airmiles travelled by staff in 2006	9 500 000 miles	-
CO ₂ emissions from airmiles ⁵	2 300 tonnes CO ₂	-

ASM_K Number of active staff members in EIB main office in Kirchberg: 1 040

ASM_{LUX} Number of EIB full-time employees in Luxembourg (Kirchberg, Findel, Hamm): 1 283

⁴ The formula used for heating power is 95kgs CO₂/MWh. The formula used for electricity is 705kgs CO₂/MWh.

⁵ The formula used for calculating CO₂ emissions from airmiles is 0.24 per mile.

Lending Data 2002-2006 for comparison



Summary lending data 2002-2006 (in EUR million)

	2002	2003	2004	2005	2006
Total Lending	39 623	42 332	43 214	47 406	45 761
EU	36 614	38 213	39 661	42 273	39 850
Partner Countries	3 009	4 119	3 543	5 133	5 911
Total Lending, Individual Projects	26 535	30 158	31 448	37 242	33 509
EU	23 835	26 975	28 776	33 215	28 514
Partner Countries	2 701	3 183	2 672	4 027	4 994
Credit Lines	13 087	12 174	11 767	10 164	12 252
EU	12 779	11 238	10 885	9 058	11 335
Partner Countries	308	936	882	1 106	917

i2i loans divided by sub-sector 2000-2006 (in EUR billion)

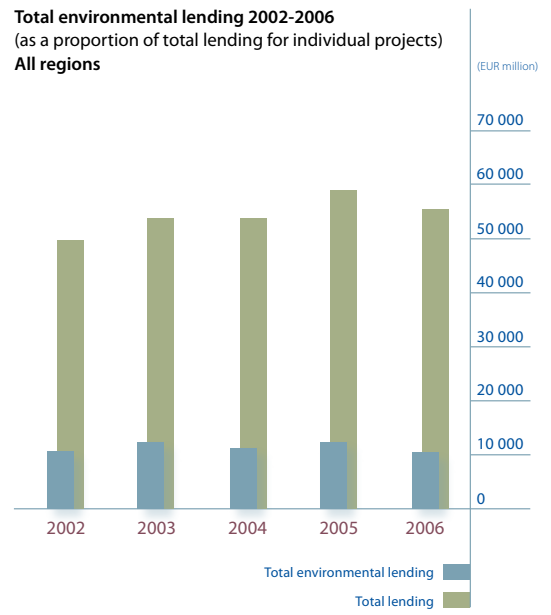
	2006	2005	2000-2006
RDI	6.7	6.2	23.0
Education/Training	1.9	2.3	11.1
ICT	1.3	1.9	9.9
Total i2i	10.4	10.7	44.8

Summary environmental lending data for comparison 2002-2006 (in EUR million)

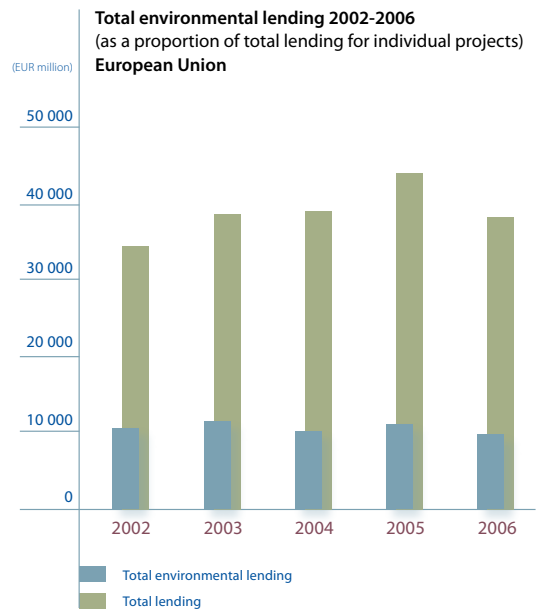
	2002	2003	2004	2005	2006
Environmental Lending	10 688	12 329	11 176	12 313	10 883
EU	10 382	11 572	10 378	10 924	9 649
Partner Countries	306	757	798	1 390	1 234



Total environmental lending 2002-2006
(as a proportion of total lending for individual projects)
All regions



Total environmental lending 2002-2006
(as a proportion of total lending for individual projects)
European Union



Total environmental lending 2002-2006
(as a proportion of total lending for individual projects)
Partner Countries





2006



**European
Investment
Bank**

100, boulevard Konrad Adenauer

L-2950 Luxembourg

☎ (+352) 43 79 1

www.eib.org – [✉ info@eib.org](mailto:info@eib.org)

Contacts:

Felismino Alcarpe

Corporate Responsibility Division

Strategy and Corporate Centre Directorate

☎ (+352) 43 79 30 15

☎ (+352) 43 79 30 63

✉ f.alcarpe@eib.org

