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DEN EUROPÆISKE INVESTERINGSBANK
EUROPÄISCHE INVESTITIONSBANK
ΕΥΡΩΠΑΪΚΗ ΤΡΑΠΕΖΑ ΕΠΕΝΔΥΣΕΩΝ
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Annual Meeting of the Board of Governors

Statement by Sir Brian Unwin

The European Investment Bank's capacity to meet the challenges facing Europe at the start of the next millennium – Economic and Monetary Union, the introduction of the Euro and the Union's enlargement – has been strengthened following the decision by the Bank's Governors to increase the Bank's capital to ECU 100 billion. The Governors also endorsed guidelines for a new strategic framework.

The following **statement** was made by Sir Brian Unwin, EIB President and Chairman of the Board of Directors, to the Governors at their Annual Meeting:

"It is a particular pleasure to welcome you to this 40th Annual Meeting of the Governors of the Bank, the first to be held in this building, and the sixth during my term as President. As befits an Annual Meeting in the 40th anniversary year, the agenda includes some issues of great importance for the future of the Bank and, when you have dealt with them, I have arranged for us to celebrate the anniversary in a suitable way before

you change your hats and move on to important ECOFIN Council business.

As in previous years, I will not spend time on repeating the contents of the Bank's 1997 Annual Report which, although we intend to improve further both its appearance and content, is the key document of reference and record. But I should like to draw your attention to some key features of the Bank's operations in

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EIB's Board of Governors and Management Committee

1997, and then turn to the important proposals for the future.

ACTIVITY IN 1997

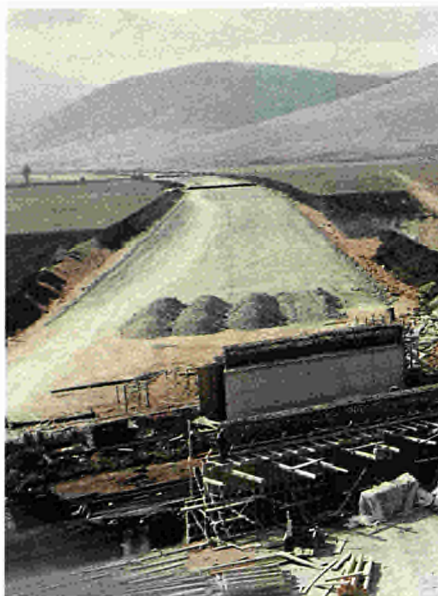
"The overall figures reveal another year of sustained performance by the Bank in a European economy that at last showed signs of increased activity, albeit still without much visible effect on unemployment at the European level. Total loan contracts signed by the Bank exceeded ECU 26 billion, while the amounts disbursed increased by over 15% on the previous year to some ECU 23.5 billion. This strong increase reflected to a large degree the boost to activity from the Amsterdam Special Action Programme, ASAP, to which I will refer later.

To finance the Bank's lending we launched bond issues to the value of ECU 23 billion in 156 operations in 21 different currencies, with European Union currencies accounting for three-quarters of the total. In the annual Eurobond poll the Bank was voted the outstanding supranational borrower of the year.

LENDING OPERATIONS WITHIN THE EUROPEAN UNION

"We are the European Union's 'house bank' and nearly 90% of our lending took place in the Member States. Our primary mission is to support regional development and accordingly, over two thirds of lending in the European Union - a record ECU 14.5 billion - was in the assisted areas, including for the first time the Arctic region. Although there was some reduction in financing in Objective 1 regions, reflecting lower public expenditure and investment in the Cohesion Countries as well as the completion of some major projects in the Eastern Länder of Germany, there was a marked increase in regional development lending in Belgium, Finland, Sweden and the UK.

The Bank has also continued to support investment for other priority areas of European Union policy. Thus, substantial sums were devoted to Trans-European



EIB helps to structure and finance PPPs for infrastructure such as the Patras-Athens-Thessaloniki motorway

Networks (TENs), bringing Bank investment in TENs in the past 5 years to over ECU 40 billion; to environmental lending (which increased by a quarter to over ECU 7 billion); and to energy projects, industry and SMEs. We have put particular emphasis on helping to structure and finance public/private partnerships, especially for transport infrastructure. We now have particular expertise in this field and are seeking to make it available for suitable projects in all Member States.

Over 60% of this lending was done through the intermediation of, or with the guarantee of, commercial banks and other financial institutions, demonstrating again the Bank's extensive reliance on collaboration with the banking sector.

Most of our lending in the European Union was aimed at maintaining investment in priority sectors during a period of depressed economic activity when, despite falling interest rates, public investment remained at low levels and confidence in the latter part of the year was shaken by events in South East Asia. At the same time, however, the Bank demonstrated its versatility and capacity for quick response by, for example, provid-

ing a substantial emergency package of grants and loans for areas hit by the earthquakes in Italy, and for reconstruction works in the regions damaged by the floods last summer in Germany, Poland and the Czech Republic. This was highly appreciated by the Governments concerned. We have recently granted further emergency aid to Italy to help restore the damage done by last month's floods in the region of Campania and we are considering with the Italian authorities how Bank finance can contribute to longer term preventative measures.

In order to help restore economic confidence in support of the peace process we have also provided special loans, with the help of the Commission and the British and Irish Governments, to SMEs in Northern Ireland and the Irish Republic.

LENDING OPERATIONS OUTSIDE THE EUROPEAN UNION

"The Bank continued in 1997 to support the European Union's development policies towards third countries. Lending under the mandates accepted by the Bank amounted last year to ECU 3.2 billion, a 40% increase on the previous year. This reflected intense preparatory work by the Bank prior to your formal approval of the new lending mandates last July.

Lending in the Mediterranean region in the framework of the Euro-Med partnership increased to a record ECU 1.1 billion; lending in Asia and Latin America amounted to nearly ECU 400 million, for the most part focused on projects of specific European interest; and with nearly ECU 200 million, we completed the first EIB lending mandate for South Africa.

Lending in the ACP countries of Africa, the Caribbean and the Pacific under the Lomé Convention amounted only to ECU 60 million, but this was due to the continuing delay by Member States in ratifying the Second Protocol of the Fourth Lomé Convention. Now that the Convention has been ratified, loan signatures will resume in these countries on the basis of

our preparatory work and of projects in the pipeline already approved by the Board of Directors.

The Bank's increasingly important lending in Central and Eastern Europe under the existing and renewed mandates amounted to a record ECU 1.5 billion last year, and I shall say more about this in the Pre-Accession context in a moment.

So far as risk sharing is concerned - the new feature of the renewed mandates - we are making good progress. It is too early to draw definitive conclusions, but I hope that we shall meet the overall 25% target for commercial risk sharing by the Bank, although, as I warned at the time, it will not be possible to do so on an individual mandate basis.

HIGHLIGHTS OF 1997

"So much for the overall 1997 picture. But this does not do justice to the commitment of the Bank to its two key strategic objectives of last year, which remain our top priorities.

In my address to you last year I said that the two main challenges facing the Bank in 1997 and in the medium term would be Economic and Monetary Union (EMU) and enlargement. I hope you will agree that the Bank has addressed these challenges with speed and vigour.

ECONOMIC AND MONETARY UNION (EMU)

"The Bank has two main roles in relation to EMU. The first is, as a lender, to help underpin the transition phase by financing investment that promotes economic growth and convergence. Although some progress has been made, convergence between richer and poorer countries in the Union has been slow and some inter regional differences have widened. In the short term, with continuing budgetary restraint, and difficult decisions still to be taken on Agenda 2000 and the financial framework, strains on some of the weaker regions may intensify

and, until private investment can fill the gaps, and capital markets are further developed, the Bank could have an even greater role to play in helping to sustain investment, particularly in the less favoured regions.

The second important role for the Bank, as the largest multinational borrower, is the support it can give to the euro by its operations on the capital markets. I will comment briefly on both of these.

AMSTERDAM SPECIAL ACTION PROGRAMME (ASAP)

"The Bank's support for EMU on the lending side was reinforced last year by the Amsterdam Special Action Programme (ASAP). You are familiar with the history of this. The Bank received a request from the Amsterdam European Council last June to support the Growth and Employment Initiative; the Board of Directors approved proposals from the Management Committee before the end of July; you, the Governors, endorsed these in August; and ASAP operations started in the early autumn so that, in presenting the initiative to the Luxembourg Employment Summit in November, I was able to report action under way and not simply plans on the drawing board.

ASAP contains three main elements - the SME window, support for the education and health sectors, and a "stepping-up" of our lending for TENs, infrastructure

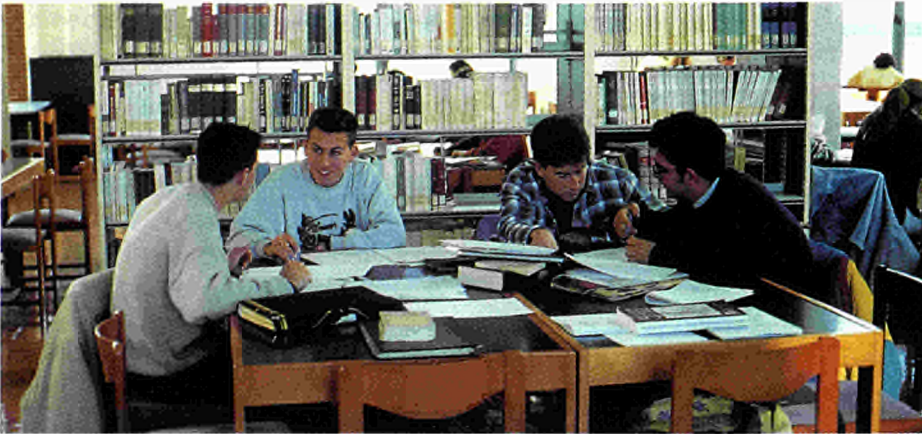
networks, environmental protection and urban environment.

The SME window, which focuses on equity and quasi-equity operations for high growth and innovative SMEs, is perhaps the most important part of the Programme. Apart from the United Kingdom, the venture capital market in the European Union, which is so crucial for future growth and jobs, is largely under-developed - indeed, in some countries it barely exists. The Bank can not only help to expand the existing markets, but, in cooperation with the European Investment Fund (EIF), perform a pioneering role in others.

Last November we established the ECU 125 million European Technology Facility, managed by the EIF, which has already invested in four specialised venture capital funds. Direct EIB operations in partnership with appropriate financial institutions have been approved in seven Member States - Italy, Spain, France, Luxembourg, the United Kingdom, Germany and Portugal - and should by the end of July extend to eleven. By the summer, total approvals by the Bank and Fund under this window could amount to well over ECU 400 million - a very large sum in relation to the present European venture capital market. We shall press on with this section of ASAP with the utmost urgency, and I hope that later this morning you will agree to the appropriation of a further ECU 300 mil-



ASAP's SME window focuses on equity and quasi-equity operations for high-growth and innovative SMEs



Under ASAP, the Bank has extended its lending to the education and health sectors

lion from the ECU 1 billion set aside from the Bank's surplus for the ASAP programme.

For the rest of ASAP, the Board of Directors has approved loans of over ECU 2 billion since last July for projects in the education and health sectors, and other operations are in the pipeline. We have concentrated on projects of particular relevance to regional development. In addition, in the other sectors specifically mentioned in the Amsterdam Resolution to which I have referred (TENs, infrastructure networks etc), where the Bank was already active, loans of some ECU 15.5 billion were committed last year (a substantial increase over the previous year) and over ECU 4 billion has been signed already this year.

In short, activity is gathering pace under all the ASAP components. This is being done in very close partnership with the financial community, not only for the new SME window but also through dedicated global loan financing in the areas of education, health, environmental protection and urban renewal. It is, of course, very difficult to quantify the impact of all this on jobs. The transmission mechanism from EIB finance for investment to job creation or consolidation is spread over time and works through many channels. But using conventional macro-economic models of the employment effects of such investment, we would expect the investment committed so far to create or sustain several hundred thousands of person-years employment.

EURO BORROWING STRATEGY

"This is perhaps the most direct way in which the Bank can support EMU and the introduction of the euro. Our euro strategy is to create a deep, liquid and widely diversified market in the new currency from the very start of EMU next January. We signalled this to the markets by the World's first euro issue early in 1997 for an amount of 1.3 billion, which was hailed by the International Financial Review as the "Eurobond of the year". It was followed by issues of "euro-tributary" bonds equivalent to some ECU 6 billion, or over one quarter of our total borrowings in 1997. These are benchmark issues in national currencies designed to be converted into a growing pool of euros after 1999, enabling the markets to develop a future yield curve for euros. We have maintained the momentum in 1998 with the launch of a euro 2 billion global issue in the United States and international markets - designed to appeal specifically to United States and Asian as well as European investors - and a further ECU 6.9 billion of euro-tributary issues so far this year. There is no doubt that the markets have much appreciated the Bank's contribution towards creating confidence in and adding credibility to the euro.

I should add that, with the agreement of the Board of Directors last week, the Bank has decided to launch a debt exchange programme, similar to that announced a few weeks ago by the French Govern-

ment, for a maximum amount of ECU 17 billion, under which outstanding debt in EMU currencies will be exchanged for euro-tributaries. The purpose of this is to remove increasingly illiquid bonds, to increase the liquidity of EIB euro-tributary issues, and thus both to offer a service to investors and to reduce the cost of the EIB's own future borrowing.

ENLARGEMENT AND PRE-ACCESSION SUPPORT

"I referred earlier to the Bank's operations in Central and Eastern Europe. Until this year, such lending only took place under specific mandates with a Community guarantee. We have now, however, launched the new Pre-Accession Facility which will be at the Bank's own risk and, in conjunction with the renewed mandates, will enable the Bank to lend up to ECU 7 billion up to the beginning of the year 2000 in the candidate countries of Central and Eastern Europe and Cyprus.

The needs of these countries, not least in basic infrastructure and the environment, are enormous. The Bank's operations, closely geared to the objectives of the Accession Partnership Agreements, will concentrate on communications infrastructure and the environment in order to



In Eastern Europe, operations have very much focused on communications infrastructure

help these countries raise their standards to the *acquis communautaire*. We shall work particularly closely with the Commission and the PHARE programme, so as to exploit suitable opportunities for co-financing, and also with the EBRD, World Bank and other financial institutions, to the extent that their strategies are aligned to European Union objectives.

Operations under the new mandate and the Pre-Accession Facility are well under way. Loans of ECU 500 million under the latter have already been signed, in addition to ECU 1.7 billion under the renewed mandate.

It is also crucial to help the applicant countries develop their own capital markets so that they can themselves raise funds on reasonable terms. This is another of our objectives. Accordingly, last



The EIB helps develop capital markets in the applicant countries

year we arranged a medium-term note programme in Hungarian Forint and we have placed a Deutschmark issue indexed to the Polish Zloty on the Euro-market. We are also present in the Czech Koruna sector of the Euromarket, and we are examining other possibilities that will have the added advantage of financing loans tailored to borrowers' requirements in their local currency.

I hope you will agree, therefore, that the Bank has addressed the two main challenges of EMU and Enlargement with vigour and imagination and I expect these two areas of operations to remain at the heart of our strategy for some years to come.

THE BALANCE SHEET

"Before I move to the future strategy and requirements of the Bank, I must also report briefly to you on the financial health and the management and organisation of the Bank.

As a consequence of the operations I have described, the balance sheet increased to ECU 157 billion at the end of 1997. Total loans and guarantees outstanding at the end of the year amounted to ECU 143 billion, compared with the statutory ceiling of ECU 155 billion. The development of this ratio is kept under close scrutiny and appropriate measures will be taken to ensure compliance with the statutory ceiling pending the effective date of the proposed capital increase. The Bank's gross operating surplus in 1997 was ECU 1 207.1 million, representing a return on average own funds of 6.5% before provisions and exchange rate movements. The small decline in this return compared with the previous year reflected the general fall in interest rates, on which the Bank's return almost entirely depends.

After consultation with our External Auditors, and with the endorsement of the Audit Committee, an increase of ECU 100 million in the Fund for General Banking Risks is proposed (bringing it to a total ECU 600 million). No additional specific provision is proposed this year. After provisions and exchange rate adjustments, the net result for the financial year amounted to ECU 1 105 million.

ORGANISATION AND MANAGEMENT

"These results, involving a substantially increased workload, have been achieved with tight cost and resource control. Apart from a small number of new posts for ASAP and the Pre-Accession Facility, the Management Committee has not authorised any new posts in 1998, although vacancies will continue to be filled. Total administrative costs in 1997 increased by 3.4%, compared with a 13% increase in loan signatures. I do not

want to labour this point, but I must remind you that the EIB's budget is still smaller than that of any of the other main international lenders, and our productivity ratios (e.g. non-interest expenses per average asset) compare more than favourably. The results have only been achieved by extraordinary professionalism and dedication by the staff, who have had to extend their expertise to new and more complex areas of activity.

We have continued to develop the organisation and management of the Bank, to ensure that our practices and controls accord with best industry standards. The new independent Credit Risk Department has widened its scope to cover counterparty risk in our financial operations; procedure manuals have been completed, and will be updated on a regular basis, in all Departments and Directorates; and the Information Technology Department has been restructured and its management strengthened to enable the Bank to deal with the challenges of the euro and Year 2000.

As with all financial institutions, this dual transition constitutes a major challenge. It is absolutely essential that, as the European Union's financing institution, we should be prepared for these unique and historic changes. A detailed action plan has been drafted with the help of external consultants, and working groups are in operation to tackle the various issues to be addressed. This will require additional spending this year and next, but the Management Committee will keep this to the minimum consistent with ensuring that the transition is successful.

A number of other significant developments took place during the past year. We have continued to reinforce our audit arrangements with the first full year of operation of the strengthened Audit Committee - and I take this opportunity to thank them for the enormous amount of time they have devoted to this. Our new External Auditors, Ernst & Young, completed their first full audit in 1997, which has proved most helpful to the



Protection of the environment remains centre stage both within and outside the Union

Management Committee. We have also established a new Audit Recommendation Enactment Unit to ensure that recommendations are implemented as quickly as possible; and the Bank's Evaluation Unit produced another three reports which have been communicated to the Board of Directors and will be published in due course.

The Bank has also continued its policy of greater public transparency. We published last year an information policy statement, including rules of public access to documents, which was approved by the European Ombudsman. We have also extended further our contacts with other institutions, including the European Parliament, and increased the volume and quality of our publications, both printed and electronic. Three electronic media are now available; multi-media kiosks used for exhibitions; CD-ROM of the Annual Report; and a website which has registered nearly fifty thousand "hits" a month.

All these achievements depend on the motivation and cooperation of our staff, on whom increasing demands are being made. I referred last year to the major review of human resources management, with the objective of gearing our policies on recruitment, remuneration, mobility, career development and training more directly to operational requirements and

individual expectations. The review itself has been completed with the involvement of a wide selection of staff and in liaison with our Staff Representatives. Detailed proposals are now being formulated and I shall present these in due course to the Board of Directors with the aim of completion of implementation of the new policy in the year 2000. As part of this reform we shall continue to pursue a strong equal opportunities policy and I am glad to tell you that last year 35% of our new recruitments were female, including the only outside appointment to the Bank's top management cadre. This compares favourably with any other European Institution.

CAPITAL INCREASE AND MEDIUM-TERM STRATEGY

"So much for past and present activities. I now turn to the future. Last year I told you that an increase in the Bank's capital would be necessary by the end of 1998, but that such an increase should be linked to a coherent medium-term strategy. I said that I had launched discussion of such a strategy with the Board of Directors, and that I would bring proposals for the capital increase to you this year.

Throughout the year we have held an intensive series of discussions in the Board of Directors, with the help of a Board Working Party, on all the issues

involved, including the proposal that a further payment to shareholders should be made from the Bank's unallocated earned surplus. The results of those deliberations are in the proposals before you for a capital increase, a payment to the Member States, and a strategic framework for the Bank for the medium term. In seeking your support for this package I will make the following comments.

In my view, a number of key objectives need to be met. The main ones are:

- nothing must be done which would impair the Bank's standing on the capital markets as a top ranking AAA borrower. This implies being seen to maintain a strong capital and the full support of the Bank's shareholders;
- unless new lending operations are to be drastically reduced from the end of this year, with serious consequences for the Bank's ability to support priority European Union objectives, a decision should be taken now to increase the Bank's capital from the beginning of next year;
- the intended duration of such an increase is for consideration, but in my view it should be sufficient to be seen to carry the Bank through these next few critical years of transition to EMU, and the enlargement of the Union;
- at the same time, however, the Bank's future strategy must be more focused so that it uses the capital provided by its shareholders to concentrate on those areas of highest priority for the European Union, where the Bank can contribute the most added value.

I believe that the package recommended by the Board of Directors strikes a fair balance between these objectives. They recommend a capital increase to ECU 100 billion, which is intended to suffice for a period of at least five years - in other words to take the Bank through the vital period to which I have referred. Such an increase would

amount to 61.257% compared with a doubling of the capital on all previous occasions.

The Board further recommend that the portion to be paid in should be lower than previously, at 6%, but with the important difference that this should be entirely funded by the Bank from the additional reserves, so that there is no cash demand on Member States.

So far as the question of a payment is concerned, the Bank cannot pursue a dividend policy as such without a change in its Statute. On the other hand, on the basis of the legal advice available to it, the Management Committee believes, and has so advised the Board, that it would be compatible with the financial position of the Bank, in the context of a capital increase, to make an exceptional payment of ECU 1 billion to shareholders this year from the unallocated earned surplus remaining from 1996. This amount would, of course, be additional to the ECU 1 billion allocated for ASAP, and the ECU 215 million from the surplus already made available to complete the outstanding payments of the 1990 capital increase, but provided it is accompanied by the perceived strong support of the Bank's shareholders in the form of a further substantial capital increase, we do not believe this would impair the Bank's market standing or adversely affect the cost of the Bank's borrowing. Such an exceptional payment is therefore recommended.

These proposals, however, must be supported by an acceptable medium-term strategy - which is precisely why I initiated the strategy review early last year. So the second part of the decision before you is endorsement of a new medium-term strategic framework.

No strategy can be frozen in time. It must be an evolving process, subject to review in the light of developments. In the case of the Bank, many of those developments are outside its direct control and the Bank is often requested to respond to policy requests by the Council. To

take a small example, the Bank has no ambition to extend its external operations and to become a second World Bank, but we are now considering a request from the ECOFIN Council for Bank intervention in Bosnia/Herzegovina.

Nevertheless, a number of principles can be established which reflect both the Bank's statutory mission, the evolving European Union policy framework, and developments in the financial sector and the capital markets. I believe that the framework recommended to you by the Board of Directors balances these considerations very well. While reasserting the fundamental elements of the Bank's strategy - support for economic convergence and integration, with priority to key areas of European Union policy, such as development of TENs, the environment, industrial competitiveness etc - and acknowledging that the Bank's top immediate priority is to support Economic and Monetary Union and Enlargement, the framework emphasises the need for a sharper focus on priorities and added value. Achievement of this will involve a fresh look at a wide range of factors, such as subsidiarity and collaboration with the financial sector, cooperation with the Commission and the EIF, loan pricing policy, and the deployment of the Bank's resources. The Board have agreed that these issues should be brought together in the submission for approval each year of a new corporate operational plan, which will provide the framework for setting strategic orientations for the future.

The strategy framework necessarily concentrates on the Bank's central role within the European Union. It also discusses, however, the Bank's operations outside the Union. At present the main task is to fulfil the existing mandates and to implement the Pre-Accession Facility. We shall soon need, however, to turn our attention to the next round of mandates and more generally the role that the Governors wish the Bank to play in support of the Union's external aid and development policies. I do not want to anticipate this, but I must repeat my

previous words of caution. The Bank is ready to continue to support these policies, and has acquired great experience and expertise in so doing. But there must be consistency in the demands made on the Bank. We cannot accept more and more requests and at the same time cut down this activity as a share of our overall lending.

I hope that you will agree that the strategic framework submitted to you is a fully acceptable vehicle to support the capital increase proposed. To implement it will require an enormous effort by the Bank and I cannot guarantee that it can all be done at once. There will have to be priorities within priorities. But I can assure you that, with your approval, the Management Committee will do its utmost to work with the Board of Directors to implement it.

I urge you, therefore, to demonstrate to the Bank and to the markets your continuing strong support for the Bank, both for what it has achieved in the past and for what it can do to further European Union policies in the future, by approving the proposals now before you.

CONCLUSION

"It only remains for me, in customary fashion, to thank all my colleagues in the Board of Directors, the Management Committee and, most particularly among the staff of the Bank, for the support they have given during this incredibly busy past year. I also thank you the Governors for your support and encouragement, not least for your swift reaction to and approval of the ASAP and Pre-Accession proposals.

I should also, finally, like to register publicly at this 40th Annual Meeting, my particular thanks to Jan Vanormelingen, who retires now as Doyen of the Board of Directors, after some 16 years service on it. His commitment has been extraordinary, and we shall greatly miss his wisdom and experience. I hope that in a few moments you will acclaim my proposal that, in recognition of his services, he should be made an Honorary Director of the Bank."

Increase in the Capital of the EIB and Related Decisions

DECISION BY THE BOARD OF GOVERNORS (1)

The Board of Governors of the European Investment Bank, at its Annual Meeting on 5 June 1998, unanimously adopted the following decisions:

- The Board of Governors of the EIB decided to increase the Bank's subscribed capital from ECU 62 013 million to ECU 100 000 million.
- The paid-in capital shall with effect from 1 January 1999 rise to ECU 6 000 million, or 6 % of the subscribed capital of ECU 100 000 million; the increase in the paid-in capital shall be effected, as of 1 January 1999, through a transfer of ECU 1 348 014 839 from the Bank's free additional reserves.
- The increase in the callable capital shall in part take effect subject to formal completion of certain parliamentary procedures at the national level; consequently, the Bank's total subscribed

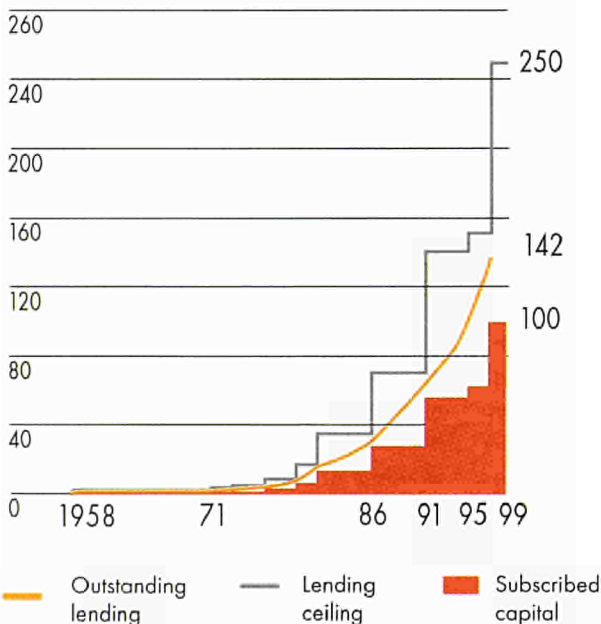
capital shall rise as from 1 January 1999 to at least ECU 95 549 597 250, in which case the remainder shall take effect as soon as the required formalities have been completed.

- Of the abovementioned amount of free reserves, a further ECU 3 798 700 000 shall be transferred from the free additional reserves to the Statutory Reserve, so as to establish this at ECU 10 000 million, or 10 % of the ECU 100 000 million subscribed capital.
- Based on a review of the Bank's requirements of own funds, the Board of Governors further unanimously decided to distribute to the Member States, as an exceptional payment, pro rata of their contributions to the Bank's subscribed capital, ECU 1 000 million, to be funded as to ECU 676 795 744 from the unallocated earned surplus remaining from 1996, the balance of ECU 323 204 256 to be drawn from the ECU 1 105 169 722 operating surplus for 1997.

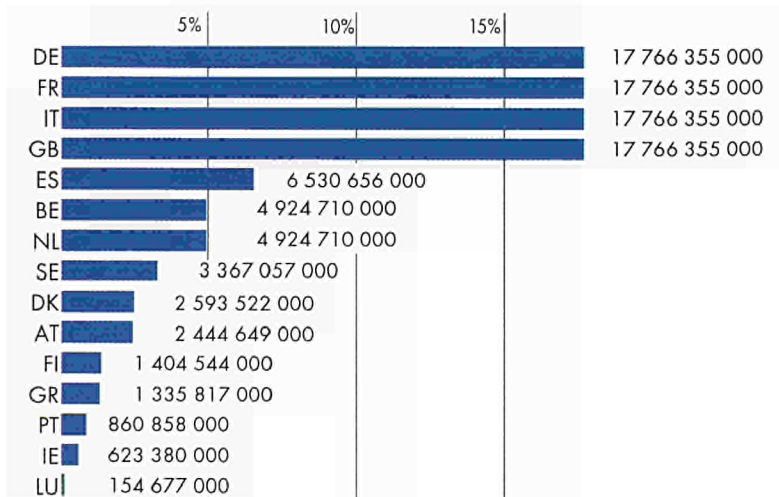
- On 20 August 1997, as part of its endorsement of the Amsterdam Special Action Programme (OJEC 98/C 10/12 15.1.98), the Board of Governors approved the appropriation from the Bank's unallocated earned surplus of ECU 200 million for financing sound projects extending the scope of the Bank's financing as specified in the said decision, forming part of an overall amount of up to ECU 1 000 million set aside for that purpose for the period ending in the year 2000. The Board of Governors has now decided to make a further allocation of ECU 300 million for the said purposes from the 1997 surplus.
- In connection with the capital increase, the Board of Governors has endorsed the following strategic framework of the Bank.

(1) This decision is to be published in the Official Journal of the EC.

Growth in subscribed capital (ECU billion)



Capital subscribed by the Bank's Member States situation at 1.1.1999 : ECU 100 bn



* all figures in ECU

THE STRATEGIC FRAMEWORK FOR THE BANK

1. INTRODUCTORY BACKGROUND

The last increase in the Bank's capital (aside from the upwards adjustment to ECU 62 bn made as a result of the accession of Austria, Finland and Sweden in 1995) was its doubling to ECU 57.6 billion in 1990. All recent increases (as opposed to adjustments), have also doubled the Bank's existing capital (1978, 1981, 1986). In 1990, the new ceiling on lending represented by this amount (viz. 250% of subscribed capital) was expected to suffice until the end of 1995 : in the event, operations have continued for two years beyond the prospective horizon for the lending ceiling.

Since 1990, Bank lending has risen, in current terms, from a total of ECU 13.4 billion (1990) to ECU 26.2 billion (1997). This represents an average annual growth of 10%. Within the total, operations outside the Union rose from ECU 0.7 billion in 1990 to ECU 3.2 billion in 1997. Looking at the balance sheet, loans outstanding increased from ECU 61.6 billion to ECU 142.4 billion.

The increase during this period reflected a number of fundamental policy and market developments affecting the Bank, including the integration of the East German Länder and the accession of three new member countries. As in the past, several of the developments took their origin or were formalised in a number of European Councils. The Edinburgh European Council at the end of 1992 decided the establishment of the ECU 5 billion Edinburgh Facility, with a focus on Trans-European Networks (TENs) and the environment. It also gave a decisive impetus to the process, launched by the Bank and the Commission, which ultimately led to the creation of the European Investment Fund, in partnership with the banking sector. Another important outcome was closer cooperation between the Bank and the Commission on the Cohesion Fund and

the Structural Funds, now in their turn about to be reformed.

In mid-1993 the Copenhagen European Council decided to increase the Edinburgh Facility by ECU 2 billion, extending its duration and adding an ECU 1 billion subsidised facility for stimulating investment by small and medium-scale enterprises (SMEs) to support employment. In December of that year, the Brussels European Council saw the focus shift to growth, competitiveness and employment, with the emphasis for the Bank on investment-intensive transport and energy TENs and the environment. In 1995, TENs financing was intensified with the process of prioritisation instigated by the Essen Council.

In 1997, the Amsterdam European Council invited the Bank to step up its activities, with special reference to a number of sectors, in order to promote the creation of employment in the European Union. Accordingly, the Bank introduced its Amsterdam Special Action Programme (ASAP), involving:

- the creation of a special SME window, designed to provide support for new instruments to help finance high-technology and high-growth small and medium-sized enterprises; this can be backed where appropriate by recourse to the annual surpluses of the Bank, up to a ceiling of ECU 1 billion.
- the development and reinforcement of EIB activity in the sectors of education, health, urban environment and environmental protection.
- a new impetus to the financing of Trans-European Networks and other large infrastructure networks.

The Special Luxembourg Council on Employment in November 1997 confirmed the steps already taken and encouraged the Bank to maintain and reinforce the momentum of this programme.

On the external side, the activity of the Bank over the period in question has



been characterised by the renewal of various mandates, for the African, Caribbean and Pacific Countries (Lomé IV-B), the Mediterranean (including also METAP) and the countries of Central & Eastern Europe (CEEC). To these have been added new theatres of operations, notably the countries of Asia and Latin America, and South Africa, and most recently the Pre-Accession Facility for the CEEC accession countries and Cyprus.

Against this background, the Board of Directors has discussed the strategic framework for the period expected to be covered by the proposed increase in capital.

2. BANK STRATEGY

The Bank's strategy will need to develop in line with changing circumstances. However, the main pillars of the Bank's strategy for the duration of the new capital increase that have emerged from these discussions are:

- concentrating the Bank's effort on "peripheral economic areas", in accordance with its principal mission to support economic convergence and integration. The main priority is to support lagging regions within the Union and the integration of those countries seeking membership of the Union;
- also continuing to support key areas of EU policy, as authorised from time to time by its governing bodies, taking account of policy decisions or requests



by the European Council, such as the development of TENs, international competitiveness, small and medium-scale enterprises, energy and the environment, and financing operations under specific mandates or other agreements in support of EU external cooperation and development policies.

This broad strategy was agreed by the Board in January, 1997. As mentioned above, its main thrust has been reinforced by recent developments:

- there has been increasing recognition that the fiscal and monetary disciplines of EMU must be accompanied by a concerted policy to reduce unemployment, including structural changes and increasing competitiveness. The Bank has, among other things, started implementing ASAP in support of the European Council's Resolution on Growth & Employment;
- the European Council's decisions on enlargement have given a sharper focus to the Bank's role in this area, and the Bank has now introduced its Pre-Accession lending facility for the candidate countries.

In the immediate future, within the above broad strategy, the Bank's top priority is to support Economic and Monetary Union. On the lending side, this is reflected in the ASAP programme. As regards its borrowing strategy, the Bank will continue its innovative euro policy.

This involves assisting with the establishment of euro benchmarks, investor diversification, and the creation of an organised market for EIB euro-bonds. Diversification of markets, particularly in the Central and Eastern European Countries, will be developed together with innovation into attractive, cost-effective, products.

3. PRIORITY-SETTING IN AN EVOLVING ENVIRONMENT

While financial sector integration over time should have the effect of further increasing the access of project promoters to alternative sources of capital, there will remain a significant role for the Bank in the coming years. Investment levels have fallen, in part due to the macroeconomic adjustment of preparing for EMU, and public investment is likely to remain constrained. However, the Bank can help to support investment growth by providing low cost long-term finance, and through lending to new forms of public-private partnerships.

Due both to its own resource constraints and to the principle of subsidiarity, an assessment of the Bank's priorities is needed. These must evolve with time, but there are number of general observations that can be made.

It is important for the Bank to focus on those sectors that are of highest priority for the EU, and the projects financed

should be particularly relevant for attaining these goals. However, this is not sufficient to ensure the Bank contributes added value. Under its Statute (Article 18.1), the Bank lends to the extent that funds are not available from other sources on reasonable terms. An additional contribution from the EIB comes about when, in complement to other sources of finance:

- it can demonstrate in project financing proposals that an EIB loan is more appropriate than other sources for the project in question (for example, when the project has a long economic life, thus justifying a long maturity);
- the Bank advances or improves the project in some additional way. This can come about because its presence lends comfort to private investors regarding a project's regulatory risks (the EU "stamp of approval"). This also applies to the political risks of lending outside the Union. In this way the Bank can act as a catalyst for other sources of finance, not least in public-private partnerships. Equally, the technical expertise of the Bank can itself add value.

In developing its future lending strategy, as to both sectors and regions, the Bank should be guided by the above principles. The Bank should seek to focus on those areas of highest value-added, while lower emphasis should be accorded to projects of lesser value-added. When adequate funding on appropriate terms is available from the market and the Bank's intervention does not otherwise enhance the speed of implementation or quality of the project, the Bank should leave the financing of the project to other sources in accordance with Article 18.1 of the Statute.

The evolution of such priorities will be discussed with the Board on an annual basis in the context of a forward-looking Corporate Operational Plan, to be approved by the Board. This is explained in more detail below.

4. SUBSIDIARITY AND COOPERATION WITH THE FINANCIAL SECTOR

Within the above framework, cooperation with the banking sector and other financial intermediaries operating on the capital markets is one of the guiding principles for implementing the Bank's strategy. Indeed, the development and diversification of this cooperation will remain a priority for years to come. This reflects both the goal of subsidiarity and straightforward practical considerations.

In order to maximise its leverage, the Bank will act in all circumstances according to the principle of complementarity and will only fund that share of the project deemed necessary to fulfil its agreed policy objectives. The Bank will work even more closely with other banks to make the partnership more efficient, and will seek (for example, by developing new products) to enhance its catalytic role.

This may include encouraging the access of borrowers to capital markets as well as collaborating in the financing plan with commercial lenders. For example, the Bank will assist regional banks and specialist institutions (such as for SMEs) as they face the challenge of adapting to the Single Market in Financial Services. Reflecting the EIB's primary mission, this would be particularly relevant in assisted

areas. A similar role could be played in the pre-accession countries, or other neighbouring countries of the Union. In developing this collaboration, as with other spheres of its activity, the Bank will pay careful attention to avoiding any distortions to competition. One consequence of the annual discussion of priorities is that, for investments of lesser value-added, the Bank would reduce the proportion of project costs that it finances. The complementarity of the Bank's loan will be outlined fully in project documentation.

The practical need for cooperation with the financial sector applies generally, but is most prominent in the case of lending to SMEs. Indeed, in terms of cost-effectiveness the global loan instrument is the only viable and economical mechanism it can deploy to support a large number of SMEs. However, the global loan approach will be reviewed in order to ensure that, among other things, the maximum benefits possible are received by the ultimate recipients of SME financing. In the medium term, the Bank's approach to SME finance could be further enriched through experience gained with alternative instruments under the ASAP SME Window.

Of course, cooperation with the financial sector extends to the liability side of the Bank's balance sheet, through its financial operations. Every year, reports on the overall cooperation between the Bank and the financial sector, for both lending and borrowing activities, will be addressed to the Board of Directors.

of the European Technology Facility to act through specialist venture capital funds in support of technology-oriented and high-growth SMEs.

The Bank and the Fund will continue to pursue the reinforcement and widening of their cooperation. In order to make this as effective as possible, the Bank will rationalise its working relationships with the EIF, whilst ensuring that it still provides the greatest possible operational support for the Fund.

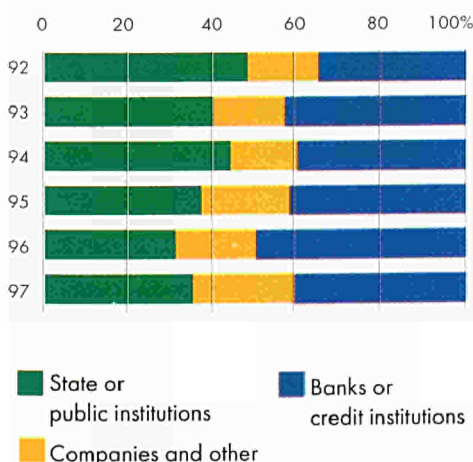
Moreover, to support more effectively key EU policies, the Bank will consult with the EIF on the possibility of enhancing its operations in the following two directions: firstly, it will examine the possibility of extending its sphere of activity to the environmental sector; secondly, within the framework of the Pre-Accession Facility, it will explore the possibilities for the selective extension of operations in Central and Eastern Europe to include Trans-European Networks between the countries of the region. Subject to the views of the Fund's other shareholders and the decisions of its General Meeting, proposals along these lines may in due course be brought forward.

6. COOPERATION WITH THE COMMISSION

Within the broader EU context, lending by the Bank for regional development is complemented by EU budgetary resources. Coordination of these two sources of funds, and hence cooperation between the Bank and the Commission, is essential for effective support for the regions.

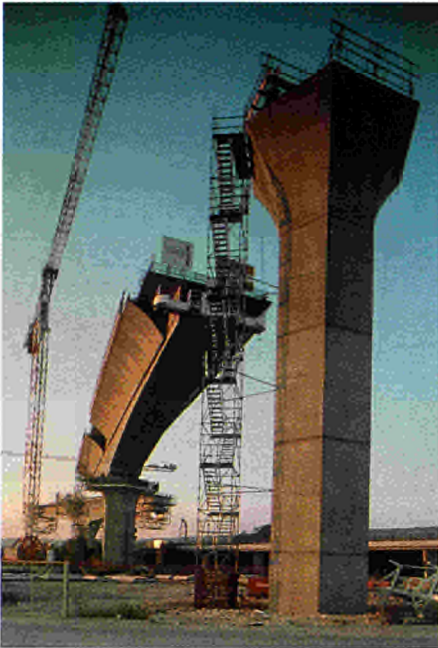
Both the Bank and the Commission already cooperate closely, but they have looked at ways to improve their effectiveness in the next decade. Improvements to operating procedures by both institutions will make for even better collaboration in the future. This is a timely issue since the Commission has produced its Agenda 2000, and the next round of negotiations with Member States concerning the Structural Funds is getting under way.

Breakdown of guarantees for loans deployed in the Union



5. PARTNERSHIP WITH THE EIF

An additional concrete example of the philosophy of partnership is the creation of the European Investment Fund, as the shareholding structure of the EIF brings together both public and private partners in an innovative way. The development of the partnership between the Bank and the Fund is one of the EIB's priorities. This was exemplified in the establishment in October 1997 (following the Amsterdam European Council)



The Bank, while taking into account the respective rôles of the regions and the Commission in this process, has proposed the following specific measures, approved by the Board of Directors:

- The Bank will seek to strengthen its participation in the preparatory programming and negotiating stages of structural operations.
- The Bank will seek to increase consultation between the institutions on co-financing operations. Subject to any considerations of commercial confidentiality, the Bank will make its project analysis available to the Commission for these projects.
- The Bank will continue to offer its technical services to the Commission on a cost-covering remunerated basis. Such services are already used to appraise projects for the Cohesion Fund, and, as appropriate, this could be extended to selected ERDF or TEN projects.

7. IMPLEMENTING THE STRATEGY: PRICING POLICY

The Bank achieves its basic objective of promoting the balanced development of the European Union by making available

in all Member States, and especially the less prosperous regions of the Union, the collective benefits of its financial strength. Its pricing policy is based upon the principles of non-profit seeking (meeting obligations and covering expenses - Article 19.1 of the Statute), non-discrimination, and transparency. Within the specific ASAP mandate, an additional guideline is the goal of achieving an appropriate balance between risk and remuneration.

An important evolution in the operations of the Bank is that the variation in appraisal costs between projects is increasing, and this trend may well accelerate over the coming years. The Bank has already adapted its uniform pricing approach to some degree to take into account the varying costs of different categories of loans (notably a lower margin for large loans and for loans with repeat borrowers). It proposes to modulate prices further, in particular through adding a further mark-up for certain high cost operations. These include:

- structured/project-finance when obtaining privileged status as secured lender presents difficulties for the Bank.
- and certain corporates that are only able to offer security or collateral which is less immediately recoverable.

The Bank's Statute requires that each individual operation carry adequate guarantees. The Bank continues to believe that for normal operations there are sufficient ways to control risk by externalising (i.e. mitigating or transferring) it to third-party guarantees or other securities. In this way, the overall price of EIB finance also reflects credit risk. Indeed, externalising the risk of projects is also an important source of collaboration between the EIB and the commercial banking sector.

However, there are certain categories of projects, within guidelines and limits to be agreed by the Board of Directors (such as some TENs, public-private partnerships, or corporate and structured/project loans) and workouts where it

may not be possible to externalise some elements of risk in accordance with the Bank's normal practice. In these cases, and subject to maintaining an acceptable risk profile, the Bank will reconsider its approach and, where appropriate, include a premium in the mark-up. The Bank will develop more specific proposals on the above guidelines, limits and other aspects, as soon as possible. However, it is clear that there will be no change as to the assessment of sovereign risks for Member States, and thus no discrimination on grounds of risk between this group of borrowers.

8. OPERATIONS OUTSIDE THE EUROPEAN UNION

The Bank's operations outside the Union are based on mandates from the European Council. The general approach to such lending was last reviewed by the Board of Governors at the Annual Meeting in 1994, when the key issues pinpointed were the indicative ceiling on operations of 10% of the Bank's average overall activity and the need for further reflection on the question of the Union's guarantee.

An important subsequent development has been the establishment of the pre-accession facility for Central and Eastern Europe. This has no EU budgetary guarantee, and is not included in the 10% guideline mentioned above. In general, a system of risk-sharing by the Bank has been established for a range of operations.

The immediate priority is to execute existing mandates: Lomé (for the African, Caribbean & Pacific countries), South Africa, Asia and Latin America, Central and Eastern Europe, the Mediterranean. These will progressively come to an end over the next two years, and the governing bodies of the Bank will have to consider its overall role in supporting EU external cooperation and development policies.

These issues cannot be decided immediately, but, at the present stage,

there are a number of principles for guiding future strategy discussions. For example:

- The Bank will continue to be the financial institution of the Member States and its core activity should be within these States or to their direct benefit. Lending outside the Union will be carried out under specific mandates from the Member States and should remain a complementary activity.
- It will pursue close collaboration with the Commission, (in conformity with the Union's overall development strategy in the individual country or group of countries concerned) and with other international financial institutions and national agencies. It will seek to coordinate its operations and project conditionality with those agencies.
- It will contribute to the development of the private sector, including the building of appropriate financing institutions and support to SMEs. As for lending within the European Union, it will finance investments to the extent that funds are not available from other sources on reasonable terms (Article 18.1 of the Statute).
- The Bank will require adequate guarantees from budgetary sources, though it will continue to share risks in appropriate cases.

The observations made in earlier sections regarding additionality, maximising

leverage, and partnership with the commercial banking sector also apply, *mutatis mutandis*, both within and outside the Union. Among other things, the 10% indicative ceiling on outstandings for loans outside the Union will have to be considered in line with lending policies. Further discussion of these issues will take place with the Board of Directors in anticipation of the next round of external mandates.

9. LENDING PRIORITIES AND THE EFFECTIVE USE OF THE BANK'S RESOURCES

The evolving economic and financial environment means that the implementation of the broad strategy must be carefully monitored and adapted in the light of economic and financial developments as well as the Bank's past performance. To ensure the contribution to EU policies is maximised, and to make the most effective use of its resources, the Bank will develop a forward-looking Corporate Operational Plan for annual discussion with, and approval by the Board. This will include sectoral analyses of lending both within and outside the Union. The operational plan, to be updated on a rolling basis, will provide a concrete framework for discussing priorities and objectives, and for setting new priorities and objectives on an ongoing basis, bearing in mind those tasks that may increasingly be left to other sources of finance. This would also provide a suitable context in which to review the annual report on the cooperation with the financial sector mentioned above.



The Corporate Operational Plan will provide a framework for performance evaluation. It will integrate feedback from the analysis of the quality of the project portfolio according to a set of performance criteria and the findings of the Bank's Evaluation Unit. This could include ways of improving operational procedures, e.g. a programme approach in some areas. Over the last few years, the Bank has considerably developed its systems to monitor its performance as a financial intermediary. The Bank will continue to develop systems to monitor activities, including benchmarking its financial operations and the comprehensive analysis of risks.

Taking a longer-term perspective, the Bank will also consider further its capital and reserves requirements in preparation for a review with the Board of Directors in 2001 including a review of key ratios.

A related issue to the medium-term outlook is the resources needed to achieve the Bank's objectives. With a small staff and the objective of keeping administrative expenses firmly under control, the Bank must continue carefully to identify its human resource requirements, and appropriate staff skills should be developed in line with the strategic priorities. The Board's discussion of the Corporate Operational Plan referred to above will also provide a framework for setting strategic orientations regarding the Bank's allocation of resources. ■



EIF Annual General Meeting 1998

The European Investment Fund (EIF) – of which the EIB is the major shareholder with 40% of its subscribed capital, along with the EU (30%) and 76 commercial banks (30%) – took its portfolio of signed guarantees to over ECU 2 billion by the end of 1997 and further increased the proportion of its activity in the small and medium-sized enterprise sector. Economic and Monetary Affairs Commissioner Yves-Thibault de Silguy, Chairman of the EIF Annual General Meeting which was held in Brussels on 8 June, praised the EIF for its efforts and achievements to date: “The EIF, as an innovative public-private partnership with the financial sector, is now well established and can play an important role in stimulating investment in Europe”, he said.

The EIF signed twenty-six guarantee contracts in 1997 for a total volume of ECU 769.2 million. Almost half of this amount was in support of TEN infrastructure projects, including the EIF’s second transaction in a Central and Eastern European country (Hungary). During 1997, the telecommunications sector continued to be a major source of business for the EIF. Transactions in the SME sector developed further, with signed guarantees now representing 31% of the portfolio compared with 22% a year previously. The Growth and Environment Pilot Project, an initiative of the European Parliament which guarantees SME loans for environmental investments, became operational in all EU Member States.

In summary, the EIF’s cumulative total of signed guarantee agreements since inception in June 1994 amounted to ECU 2 172 million by the end of 1997. TEN transactions account for ECU 1 548 million of this (69% of the total, including 26% for transport, 23% for energy and 20% for telecommunications), SME transactions for ECU 690 million (31%).

EQUITY INVESTMENTS

The EIF’s equity activity had a very successful start with nine investments made in 1997 for a total amount of ECU 32.5 million. These investments were made in venture capital funds in Belgium, France, Germany, Sweden and the United Kingdom, some of them planning to operate on a pan-European basis.

An important development was that the European Union’s Heads of State and Government acknowledged the part that the EIF can play in stimulating investment in Europe. The Amsterdam Summit in June 1997 called upon the



The Financial Committee of the EIF. From left to right: David McGlue, Gerbrand Hop, Chairman, and Michel Berthezène.

EIF and the EIB to develop instruments to support investment in SMEs. During the special Employment Summit in Luxembourg of November 1997, the European Technology Facility (ETF) was established as a response to this. Under this new venture capital facility, the EIB mandates the EIF to invest up to ECU 125 million over a period of three years.

These additional funds will allow the EIF to target some of the fastest-growing segments of the venture capital market and those where it can add maximum value by its intervention. These include especially early-stage and technology funds.

Sir Brian Unwin, Chairman of the EIF’s Supervisory Board expressed confidence regarding the EIF’s equity activities. “After the successful start of the EIF equity participations in 1996, the EIF signed the European Technology Facility with the EIB in 1997. With the upcoming new activities on behalf of the European Union, the EIF will become a very substantial player in the venture capital market in the EU over the next few years”, Sir Brian said.

GROWTH AND EMPLOYMENT

During the special Employment Summit in Luxembourg on 21-22 November 1997, the EU Heads of State and Government invited the European Commission to make proposals for new financial instruments to support innovative and job-creating small and medium-sized enterprises. Following this invitation and consultations with the EIF, the European Commission services have prepared a formal proposal to the European Parliament and Council to launch a “Growth and Employment Initiative” comprising three facilities. This proposal was adopted by the Council on 19 May 1998. The EIF has been called to manage two of these facilities on a trust basis, i.e.:

- **ETF/Start-Up:** A venture capital facility providing risk capital to SMEs through investment in specialised venture capital funds with a higher risk profile than those targeted under the ETF and the EIF’s own risk capital facilities;

- **SME Guarantee Facility**, providing counter-guarantees and/or co-guarantees to guarantee schemes operating in Member States, whether private or public, and exceptionally direct guarantees in the case of risk-sharing instruments provided by appropriate financial intermediaries.

These new facilities will represent an important extension of the EIF's current equity and SME guarantee operations.

Taken together these schemes leverage a considerable amount of lending and equity investment and their implementation will make the EIF a key player in the provision of guarantees and equity to SMEs in the European Union. ✕

THE EIF AS A PUBLIC-PRIVATE PARTNERSHIP

The European Investment Fund was established in June 1994. Its fundamental objective is to act as a catalyst in facilitating the participation of private capital in TEN projects and making it easier for SMEs to access investment finance at reasonable cost. In fulfilling its mission the EIF acts, on a commercial basis, as a complement to the banking sector, with which it shares risk, and in co-ordination with other EU financial institutions and instruments.

In September 1997 the EIF moved into its new office premises in the Kirchberg banking and administrative quarter of Luxembourg (43, Av. J-F Kennedy, L-2968 Luxembourg).

EIF GUARANTEE OPERATIONS SIGNED IN 1997

<i>Name</i>	<i>Country</i>	<i>ECU (million)</i>
1. TEN infrastructure		
<i>1.1 Transport</i>		
Rion-Antirion Bridge	Greece	55.00
<i>1.2 Energy</i>		
Lusitaniagas	Portugal	3.78
<i>1.3 Telecommunications</i>		
MATAV	Hungary	26.09
Omnitel (senior)	Italy	51.81
Omnitel (subordinated)	Italy	52.01
Digifone	Ireland	26.21
Bouygues Telecom	France	113.55
Mobistar	Belgium	8.12
<i>telecoms sub-total</i>		<i>277.79</i>
<i>TENs sub-total</i>		<i>336.57</i>
2. Small and Medium-sized Enterprises (SMEs)		
<i>2.1 Ordinary guarantees</i>		
Crédit Agricole	France	15.11
Groupe Banques Populaires	France	22.68
Mediocredito Umbria/GEPAFIN	Italy	15.60
Mezzanine Loan Fund	UK	14.52
<i>sub-total</i>		<i>67.91</i>
<i>2.2 Growth & Environment Pilot Project</i>		
Banca Popolare di Verona	Italy	50.19
Merkur	Denmark	2.48
Kreditanstalt für Wiederaufbau	Germany	49.90
Finnish Guarantee Board	Finland	14.79
KERA Corporation	Finland	14.79
Barclays Bank	UK	49.65
Deutsche Ausgleichsbank	Germany	49.68
Raiffeisen Zentralbank	Austria	29.42
Banco Comercial Português	Portugal	15.05
Banque Générale du Luxembourg	Luxembourg	4.50
Alpha Credit Bank	Greece	14.95
ING Bank NV	Netherlands	25.00
Allied Irish Banks	Ireland	15.06
Caja de Madrid	Spain	29.25
<i>G & E sub-total</i>		<i>364.71</i>
<i>All SMEs sub-total</i>		<i>432.62</i>
TOTAL ECUm		769.19

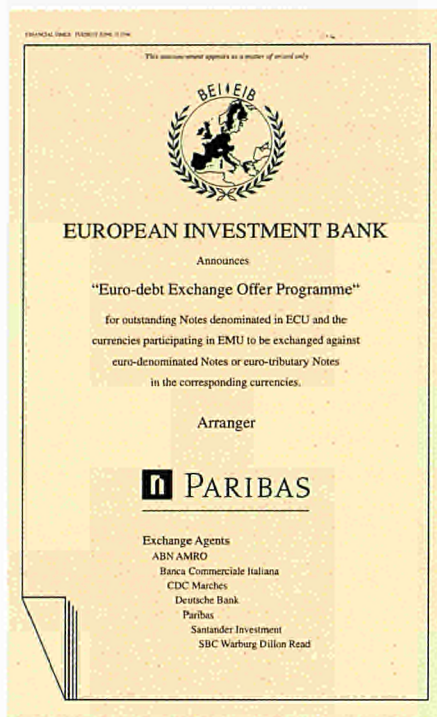
The above total of 769.19m represents the aggregate ECU volume of loans covered by EIF guarantees signed in 1997, calculated on the basis of the conversion rates prevailing on the date of signature.

EIB launches Euro Debt Exchange Offer

The European Investment Bank has unveiled a Euro Debt Exchange Offer Programme, launched on 15 June, to enable its bondholders on a regular basis to exchange into euro or euro-tributary issues EIB bonds denominated in ECUs or in those currencies participating in EMU. All the EIB's outstanding issues in ECUs and EMU-participating currencies, which currently amount to some EUR 51 billion equivalent (excluding euro-tributary bond issues), are eligible for the EIB's new programme.

This programme offers bondholders the opportunity to exchange their old issues for more liquid benchmark euro or euro-tributary EIB bonds. Following the issue by the Bank of euro or euro-tributary bonds to the value of over EUR 15 billion since early 1997, the exchange programme constitutes a key element in the EIB's strategy, as the European Union's financing institution, of contributing directly to the early emergence of a deep and broad market for the future single currency.

Paribas is acting as Arranger and Exchange Agent, together with a group of Exchange Agent banks: ABN AMRO, Banca Commerciale Italiana, CDC Marchés, Deutsche Bank, Paribas, Santander Investment and SBC Warburg Dillon Read.



The programme complements the EIB's policy of restructuring its outstanding debt with a view to EMU and the introduction of the euro. As part of its euro strategy, the EIB launched the first ever euro bond issue in January 1997 in tandem with a series of benchmark euro-tributary issues, thus helping to create a large future pool of euro-denominated instruments along the length of the euro yield curve. In March this year, the Bank also launched its first euro global issue for EUR 2 billion.

To date, the EIB has raised over EUR 15 billion via 23 benchmark issues, including euro and euro-tributary bonds in ten currencies. This year, the EIB expects to raise the equivalent of some ECU 26 billion on capital markets of which over ECU 20 billion in euro or currencies to be replaced by the euro as from 1 January 1999.

ECU

Below are the ECU values in national currencies, as at 30 June 1998; these rates are applied for the third quarter of 1998 in preparing financial statements and operational statistics of the EIB:

DEM	1.97809	BEF	40.7947
FRF	6.63061	LUF	40.7947
GBP	0.657130	ITL	1948.78
NLG	2.22993	ESP	167.902
DKK	7.53450	PTE	202.478
IEP	0.785476	GRD	333.503
SEK	8.73670	ATS	13.9168
FIM	6.01208	USD	1.09590

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