



The EIB Group



Activity Report 2002

EIB Group: key data

(EUR million)

European Investment Bank

Activity in 2002

Loans signed _____	39 618
European Union	33 443
Accession Countries	3 641
Partner Countries	2 534
Loans approved _____	52 824
European Union	42 891
Accession Countries	6 589
Partner Countries	3 344
Loans disbursed _____	35 214
From the Bank's resources	35 007
From budgetary resources	206
Resources raised (after swaps) _____	38 016
Community currencies	29 165
Non-Community currencies	8 851

Situation as at 31.12.2002

Outstandings	
Loans from the Bank's resources	233 561
Guarantees provided	466
Financing from budgetary resources	2 590
Short, medium and long-term borrowings	181 167
Own funds	24 615
Balance sheet total	220 769
Net profit for year	1 294
Subscribed capital	100 000
of which paid in	6 000

European Investment Fund

Activity in 2002

Contracts signed _____	1 707
Venture capital (36 funds)	472
Guarantees (32 operations)	1 236

Situation as at 31.12.2002

Operational portfolio	6 954
Venture capital (184 funds)	2 450
Guarantees (109 operations)	4 504
Subscribed capital	2 000
of which paid in	400
Net profit for year	19
Reserves and provisions	162



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Message from the President

In 2002, the EIB Group's operations strongly underpinned the Union's economic and social priorities across a broad range of sectors. This activity, manifested in a volume of lending close on EUR 40 billion and borrowings of EUR 38 billion, reflects the policy lines mapped out by the successive European Councils and our Governors and embodied in our multiannual "Corporate Operational Plan".

In keeping with this strategic framework - defining the EIB's identity as a policy-driven public bank - our Governors decided to increase our subscribed capital from EUR 100 billion to EUR 150 billion with effect from 1 January 2003. Achieved by converting reserves into paid-in capital and hence without burdening the public finances of the Union or its Member States, this increase raised the ceiling for EIB lending under the Bank's Statute to EUR 375 billion. With this renewed endorsement from its shareholders, the Bank is well equipped to carry its activities forward and, in particular, to assist the integration of the ten new Member Countries set to join us in the spring of 2004.

Clearly, the historic decision taken at the Copenhagen European Council will have a far-reaching impact on both the institutions and policies of the Union, especially in terms of economic and social cohesion and solidarity among the Member States. The EIB stands ready to play to the full its role in helping the Union to meet

these challenges. Accordingly, we shall take an active part in the Commission's deliberations on cohesion policies and the future trans-European networks.

Another of the Bank's tasks is to contribute to building an information and knowledge-based European economy, in accordance with the strategy adopted by the Lisbon European Council of March 2000. Considering 2010 to be a time-line compatible with the objectives set by the March 2002 Barcelona European Council, the Bank has launched a new programme: the "Innovation 2010 Initiative". This is based on an integrated approach, focusing on the links between knowledge creation and the market and covering all phases of the innovation process from education to research and development with its downstream effects in boosting productivity and competitiveness. Between 2003 and 2006, a new indicative lending package of EUR 20 billion will be earmarked for furthering the Lisbon and Barcelona European Council objectives, particularly in the field of R&D and its applications in the creation and dissemination of information and communications technologies.

Environmental protection and improvement remain a top priority in all the Bank's fields of activity. In addition to financing environmental projects, which in 2002 accounted for over 40% of loans (well above our 25-33% target range), the Bank actively contributes to



implementing the Union's environmental policies, particularly as regards the reduction of greenhouse gas emissions, renewable energies and the EU Water Initiative introduced at the 2002 Johannesburg World Summit.

Outside the Union, the Bank will, under the enhanced cooperation arrangements decided by the Council, continue to support the three Candidate Countries in stepping up their preparations for accession.

In the Mediterranean region, the new Facility for Euro-Mediterranean Investment and Partnership (FEMIP) was formally inaugurated in the autumn of 2002 in response to the conclusions of the Barcelona European Council. Its prime objective is to help the Partner Countries meet the challenges of economic and social modernisation and regional integration in the run-up to the creation of a customs union by 2010. The facility will especially focus on private sector development, regional cooperation projects and investment in health and education. At the same time, the Partner Countries are closely involved in FEMIP through a newly created Policy Dialogue and Coordination Committee.

In the ACP (African, Caribbean and Pacific) countries, the Bank, with the assistance of the Member States, the European Commission and the ACP countries themselves, prepared the launch of the EUR 2.2 billion Investment Facility established under the Cotonou Agreement. Alongside the planned lending of up to EUR 1.7 billion from the Bank's own resources over the next five years, this revolving facility will contribute to the key objective of poverty reduction in these countries, with particular emphasis on small-scale private-sector projects and on health and education schemes.

The drive for operational efficiency must be matched by a commitment to transparency and accountability so as



to bring the EIB closer to Europe's citizens, the ultimate beneficiaries of its activities. Accordingly, during the past year the Bank intensified its political dialogue with the European Parliament and the Union's Economic and Social Committee. In addition, it updated its policy on information and access to documents, in line with the most advanced Community legislation,

while continuing its dialogue with civil society, particularly through NGOs.

As is widely known, the EIB Group funds its operations by maintaining a capital market presence worldwide. Its shareholder and loan-book quality, combined with a judicious balance of prudence and innovation in its borrowing and lending policies, has established the EIB as a benchmark borrower of quasi-sovereign status, as unanimously acknowledged by the AAA credit rating that it commands throughout EU, American and Asian capital markets.

Philippe Maystadt
President of the EIB Group



Operational background and overview 2002

In accordance with its Statute and the mandates entrusted to it by the European Councils, the EIB finances projects giving tangible expression to the economic and social priorities of the European Union. As a public bank, the EIB acts in close cooperation with the other EU institutions.

In fulfilling its mission, the EIB is guided by two major principles: maximising the **value added** of operations and adopting a **transparent approach**. Financing decisions, in particular, are based on clear-cut criteria, focusing mainly on each operation's contribution towards EU objectives, the quality and robustness of the project and the specific financial merit of recourse to EIB funds.

Against this background, the EIB took forward in 2002 initiatives responding to the guidelines handed down by its Board of Governors and successive European Councils:

- continued support for the economic advancement and integration of the future Member States (Helsinki - December 1999; Barcelona - March 2002; Copenhagen - December 2002);
- long-term development of an innovation-driven, knowledge-based European economy (Lisbon - March 2000; Stockholm - March 2001; Seville - June 2002);
- backing for capital investment in sectors likely to underpin growth and employment (Ghent - October 2001);
- revitalisation of the financial partnership with the Mediterranean Partner Countries ("Facility for Euro-Mediterranean Investment and Partnership" - FEMIP) (Barcelona - March 2002; Seville - June 2002);
- establishment of the new "Investment Facility" designed to promote private-sector development in the ACP Countries, in line with the goals of the Cotonou Agreement, scheduled to enter into force in 2003 (Laeken - December 2001).

The Bank's strategic guidelines were endorsed by the decision of its Board of Governors to boost its capital from 100 billion to 150 billion. This increase is being financed from the Bank's reserves, consequently avoiding recourse to Member States' budgetary resources. As from 1 January 2003, the statutory ceiling on loans has risen to 375 billion which should provide the Bank with headroom to cater for the growth in activity from its own resources over at least five years.

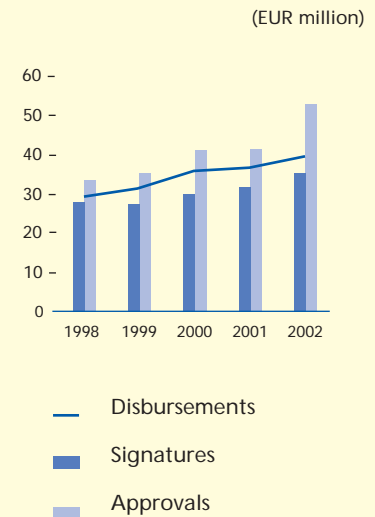


Salient figures ⁽¹⁾:

- In 2002, **loans signed** by the EIB totalled **39.6 billion**, as against 36.8 billion in 2001. The rise reflects especially the Bank's commitment to supporting the Accession Countries and EU aid and cooperation policies towards non-Member Countries. The breakdown was as follows:
 - 33.4 billion within the European Union;
 - 3.6 billion for the future Central and Eastern European Member States along with Cyprus and Malta;
 - 1.6 billion for the Mediterranean Partner Countries;
 - 425 million in the Balkans;
 - 298 million in the African, Caribbean and Pacific Countries and the OCT;
 - 50 million in South Africa;
 - 174 million in Asia and Latin America.

- **Disbursements** came to **35.2 billion**, of which 60% were in euro.
- Almost 340 capital projects were appraised by the Bank, resulting in **loan approvals** totalling **52.8 billion**.
- **Borrowings**, after swaps, amounted to **38 billion**. They involved 219 bond issues denominated in 14 currencies. After swaps, 59% of market operations were in EUR, 21.7% in USD and 16.4% in GBP.
- As at 31 December 2002, outstanding lending from own resources and guarantees amounted to 234 billion. Aggregate outstanding borrowings ran to 181.2 billion. The **balance sheet total** stood at **220.7 billion**.
- The EIF ⁽²⁾ for its part continued its support for SME activity, acquiring participations in **venture capital** funds for close on **470 million** and furnishing **guarantees** worth some **1.23 billion**.

Disbursements, contracts signed and projects approved by the EIB (1998 - 2002)



(1) Unless otherwise indicated, amounts in this report are expressed in EUR.

(2) This EIB Group activity report is supplemented by the EIF Annual Report, available on that institution's website (www.eif.org).

On the CD-ROM enclosed with this brochure, readers will find all statistics on activity for 2002 and the period 1998-2002 together with the list of projects financed during the year by the EIB Group. These data are also available under the "Publications" section of the EIB's website (www.eib.org).



The Corporate Operational Plan 2003 - 2005

Drawn up for the first time at the instigation of the Board of Governors in June 1998, the annual Corporate Operational Plan (COP) is a strategic document, approved by the Board of Directors, for defining overall medium-term policy (3 years) and setting operational priorities in the light of the objectives assigned to the Bank by its Governors.

Central to the work of the Bank's staff, the plan spans three years, although the strategic projections may be adapted during this period in order to take account of new mandates and changes in the economic climate. The Corporate Operational Plan 2002-2004 formed the basis of the report by the Board of Directors to the Board of Governors on recent developments in Bank activity and the likely evolution of operations in preparation for the decision to increase the capital of the Bank as from 1 January 2003.

The Corporate Operational Plan 2003-2005, adopted by the Board of Directors in December 2002, is the first to be based on the strategic framework provided by the Board of Governors in June 2002. Under this plan, priority continues to be given to **lending operations** matching the following objectives:

- EU regional development and economic and social cohesion (the Bank's leading priority);
- Implementation of the Innovation 2000 Initiative (i2i);
- Environmental protection and improvement;
- Preparation of Candidate Countries for accession;
- Support for EU development and cooperation policies with Partner Countries.

Alongside these main priorities, the Corporate Operational Plan also makes clear that Group financial support continues to be foreseen for small and medium-sized enterprises, Trans-European Networks and other infrastructure as well as for projects in the health and education sectors.

Lending operations also continue to reflect the Bank's response to unforeseen events, such as the mid-2002 floods in parts of Central Europe and in the South of France, as well as the coastal pollution in North-West Spain.

The EIF will continue to concentrate support to SMEs through the provision of venture capital and guarantees via specialised financial intermediaries. Moreover, EIF intends to develop new financial instruments and to expand the mandates it manages in order to further develop this support.



In deciding on the Corporate Operational Plan 2003-2005, the Board of Directors also approved a **global borrowing authorisation** for 2003 of up to 42 billion, this being the amount needed for prudential coverage of maximum projected funding requirements. If need be, its adjustment may be requested.

Strategy Map and Balanced Scorecard

The corporate **Strategy Map and Balanced Scorecard** system introduced in the Bank in 2001 strengthened the overall planning function. In 2002, planning orientations and the 2003 budget of the Bank were prepared together in a single process, enabling early identification of new priority areas for allocation of additional available resources for the coming year as well as existing core activities requiring some further resource support. Priority initiatives thus identified were:

- Preparation for accession/enlargement;
- Implementation of the Mediterranean MED-FEMIP mandate;
- Implementation of the ACP-OCT Investment Facility mandate.



The EIB's Board of Directors

EIB Group activity in 2002





Fostering balanced development throughout the Union

Promoting the Union's economic and social cohesion is the Bank's prime task - originally assigned by the Treaty of Rome and reaffirmed by the Amsterdam Treaty (June 1997) - and constitutes the first priority objective of the Corporate Operational Plan.

The Bank cooperates closely with the Commission, especially by complementing EU budgetary grant aid, so as to maximise the effectiveness of the resources deployed by the two institutions. It is worth highlighting in this regard the Bank and Commission's cofinancing of regional operational programmes eligible for the 2000-2006 Community Support Frameworks: in 2002, such operations were mounted in regions of Italy (Puglia, Emilia-Romagna) and Spain (Andalusia, Cantabria, Asturias).

Channelling investment selectively towards those sectors or regions which need it most, in recent years the Bank has continued to steer a significant amount of its financing towards development of the less favoured regions, tying in this activity with the overall goal of steady growth in lending within the Union.

12.5 billion of individual loans within the Union for regional development

In 2002, the EIB granted individual loans worth 12.5 billion for projects to assist regions lagging behind in their economic development or grappling with structural difficulties (Objective 1 and 2 regions). The Objective 1 regions alone absorbed 6.5 billion in individual loans. The main beneficiaries were Germany's eastern Länder (1.9 billion), the Cohesion Countries - Spain, Portugal, Ireland and Greece - (5.6 billion) and Italy's Mezzogiorno (392 million).

Alongside this direct support for development of the poorest regions, the Bank participated in financing a number of projects partly or indirectly contributing to this goal but eligible under other headings. This applies, for instance, in Spain, to the purchase of communications satellites covering the whole country; in France, to the LGV-Est européenne high-speed rail line passing

through Champagne and Lorraine; and in Italy, to the upgrading of rolling stock, over a third of which destined for lines in the Mezzogiorno.

Multi-sectoral action in Objective 1 regions

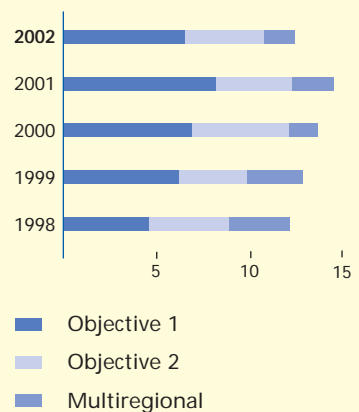
Attracting more than 30% of loans, transport is the main sector supported in the Objective 1 regions. The projects financed are helping to mitigate the effects of geographical isolation and improve internal services, so promoting the physical integration of outlying and structurally underdeveloped regions.

Upgrading of urban infrastructure accounted for over 18% of operations, while loans for industry and services totalled 15%.

Lastly, health and education attracted almost 7% of loans, clearly demonstrating the Bank's commitment to helping provide the less favoured areas with health and education services of a level

Regional development within the Union

Individual loans
1998 - 2002 : 66 billion





comparable to that in the more developed regions, thereby fostering equal access for the people of the Union to the most advanced educational and health care facilities.

The impact of global loans

Through its lines of credit to banks or financial institutions, the EIB supports SMEs as well as small-scale local infrastructure and environmental projects. The fact that global loans have multiple objectives should not divert attention from their contribution to regional development. For 2002, it may be estimated that global loan signatures in the Union's less favoured regions amounted to some 7.3 billion, of which half went to Objective 1 regions.

Against this background, the EIB pressed ahead with its policy of diversifying banking intermediaries by selecting partners with a strong regional presence, especially in Italy, the United Kingdom, Austria and eastern Germany.

Integration of the Accession Countries

With a view to reducing the regional disparities between the Accession Countries and the existing EU as quickly as possible, the EIB markedly stepped up its financing in the countries due to join the Union, applying the same project selection criteria with reference to its objectives, especially regional development. In 2002, individual loans totalled 3.1 billion. Of this amount, Poland absorbed 28.7%, the Czech Republic 27.3%, Hungary 12.6% and Romania 11.3%.

The main beneficiary sectors were transport (53%), urban and composite infrastructure (21%) and energy (9%). Financing in the health and education sectors surged ahead

(230 million compared to 75 million in 2001).

Lastly, global loans worth some 500 million will contribute to the financing of SMEs and small-scale local infrastructure.

Regional development within the Union Breakdown of individual loans by sector (2002)

	(EUR million)	
	amount	%
Energy	2 086	17
Communications	4 281	34
Water management and sundry	1 071	9
Urban development	2 221	18
Industry, agriculture	1 216	10
Health, education	873	7
Other services	705	6
Total individual loans	12 452	100
Global loans	7 300	



Investment finance and employment

Investment in infrastructure

- **Employment during the construction phase:** Infrastructure and other fixed investment increase the demand for labour during the construction phase. Input-Output models show that EUR 1 billion in spending on construction and equipment directly affects employment by some 20 000 person-years simply through increased demand for labour. Through this demand effect, the Bank's annual lending for infrastructure - averaging EUR 19 billion annually in the past five years - supports some **380 000 jobs in the construction phase**. The effect may be larger if one takes into account that EIB-sponsored projects also contain an element of non-EIB funding, and that the employment-creation of investment tends to be higher in the relatively less developed regions upon which the EIB is focusing its efforts.
- **Employment in the operational phase:** Beyond the demand effect of investment on employment, the longer-term relationship between the two depends on the capital stock and the capital-labour ratio. If more investment leads to a higher capital stock, this should also lead to permanently higher employment. It was generally estimated that on average there were around 8 000 to 10 000 jobs for every EUR 1 billion of capital stock. But, since the economy is steadily becoming more capital-intensive over time, the marginal employment content of more capital is probably lower than this figure. A potential additional employment effect, however, is that public infrastructure investment may generate multiplier effects through its impact on private investment.

SME Investment

Small and medium sized enterprises (SMEs) account for the bulk of new job creation in the EU. There is empirical evidence that shows, however, that the growth of SMEs is financially constrained. Public intervention aims at alleviating these constraints. The EIB works to aid the financing of SMEs through two different channels.

The first is by extending financing through global loans that are intermediated via financial institutions. In 2002, more than EUR 6.2 billion was made available in SME global loans. Assuming that the ratio of jobs to capital stock in the manufacturing sector is of some 8 000 jobs per billion invested, and bearing in mind that global loan financing accounts on average for 45-50% of external financing for SMEs' capital investment, the total value of SME investments co-funded from the EIB's global lending in 2002 helped **safeguard or create 95 000-100 000 stable jobs**.

The second channel that the EIB Group uses to support SMEs takes the form of equity capital and guarantees. This role is performed by the European Investment Fund (EIF). At the end of 2002, a cumulative EUR 2.5 billion had been invested by the EIF in 184 venture capital funds, helping to secure some 10 billion own funds investment for SMEs in Europe. In addition, a further EUR 4.5 billion was allocated to guarantees for SME loan portfolios held by banks, benefiting some 200 000 SMEs. Such risk participation helps to overcome credit rationing by banks and enables lending to innovative firms. However, the employment impact of such venture capital and guarantee operations cannot be evaluated properly before the outcome of all investments made has been gauged.



The “Innovation 2000 Initiative”

The “Innovation 2000 Initiative” (“i2i”) was launched by the EIB Group in furtherance of the “Lisbon Strategy”, as charted by the European Council in March 2000, for building “a European economy based on knowledge and innovation”.

Targeting five economic sectors, “i2i” operates through:

- medium or long-term EIB financing (where appropriate in the form of risk-sharing or structured loans) and
- EIF participations in venture capital funds (VCFs) that furnish SMEs with equity resources in the form of venture capital.

Research and Development (R&D)

In 2002, the EIB ploughed 2.1 billion into 15 R&D projects spanning 6 EU countries, with one pan-European international cooperation project partly located in Switzerland: the CERN particle accelerator in Geneva. Most of these are private-sector projects in the fields of electronic components, metallurgy, optics, biotechnology, aeronautics and telecommunications. These loans brought the EIB’s R&D financing since 2000 to a total of 3.9 billion.

Meanwhile, the EIF’s investment strategy continues to place emphasis on the financing of funds downstream from research and development. A notable example is the operation signed by the EIF in 2002 with the Heidelberg-based European Molecular Biology Laboratory. Such EIF investment in the life sciences, is wholly consonant with the concerns expressed by the “Competitiveness” Council in November 2002 about the need for increased biotechnology funding in Europe.

In November 2002, when the 6th Research Framework Programme was launched, the EIB and the Commission strengthened their cooperative efforts towards bringing about an increase in R&D investment within the Union to 3% of Community GNP by 2010, a target set by the Barcelona European Council (March 2002).

Development of SMEs and entrepreneurship

The EIF committed 472 million in 36 venture capital funds (VCFs). This brought its total portfolio to more than 2.5 billion invested in 184 funds, assisting the formation of nearly 10 billion of investment capital in over 1 800 SMEs.

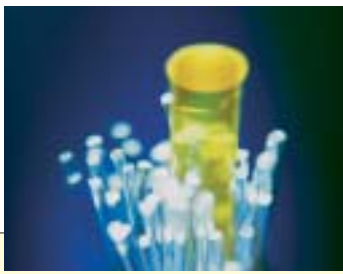
Investments in regional funds and in one fund operating in several Accession Countries continued to claim a large share of resources. In total, the EIF invested 75 million in the Accession Countries.

Also worth highlighting are the stakes taken in 8 pan-European VCFs operating on a multi-country basis, which are contributing to the emergence of a European venture capital market.

In a clearly faltering market, the EIF managed to maintain a high level of investment capital, equal to around 20% of the sector total in Europe.

Information and Communications Technology (ICT) networks

The EIB lent 366 million for information and communications technology in 2002, in Belgium, Greece, Slovenia and Spain. A large part of the network financing was for diffusion by fibre-optic cables (Belgium, Spain), mobile telephony in disadvantaged



areas (Greece, Slovenia) and the launch of a Spanish satellite.

Human capital formation

In 2002, the EIB invested 987 million in 11 education and 2 health projects in Austria, eastern Germany, Finland, Spain and 4 Candidate Countries (Cyprus, Czech Republic, Hungary and Turkey). These focused mainly on the creation of higher education or university infrastructure and the refurbishment and technological upgrading of hospitals in Styria and Upper Austria.

Being located in assisted areas, these projects provide the local inhabitants

with improved access to the latest educational and health care facilities.







Diffusion of innovation: "Audiovisual i2i"

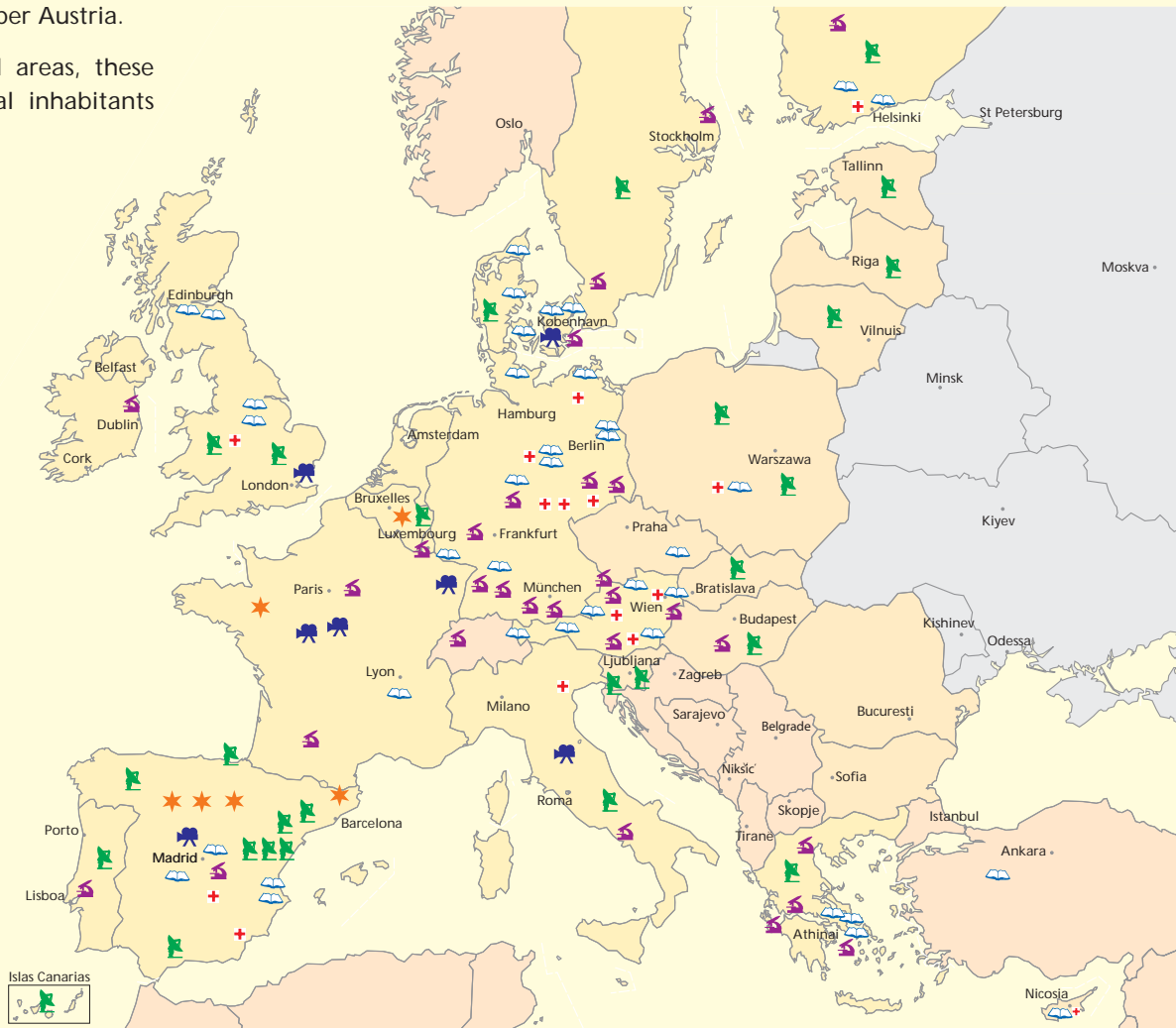
In 2002, the EIB provided 146 million for ARTE's new television centre (production, digitalisation and diffusion) in Strasbourg, for television programme co-production by BBC-Worldwide and

for the financing of fiction films and cinema refurbishment by two specialist audiovisual-industry intermediaries in Spain (ICF) and Italy (BNL-Audiovisual). These loans brought EIB financing signed in the audiovisual sector to 394 million as at 31 December 2002.

For its part, the EIF invested some 66 million in 4 VCFs - pan-European or located in France and Spain - specialis-

EIB lending under i2i 2000 - 2002

-  R&D
-  ICT
-  Education
-  Health
-  Audiovisual
-  Global loans





ing in strengthening the equity resources of audiovisual SMEs. With these operations, the total amount of EIF equity participa-

tions taken in the audiovisual sector since the launch of "i2i" rose to 119 million, spread across 10 VCFs.

"i2i": looking ahead to 2010

At the end of 2002, the EIB Group had virtually achieved the objectives set for it by the Lisbon European Council: in two and a half years it approved some 300 operations totalling almost 17 billion (14.4 billion EIB + 2.5 billion EIF), carried out in all the Union's Member Countries and the 10 Accession Countries; total loans signed ran to 10.8 billion (over 3.6 billion of this in 2002) and the volume of EIF equity participations topped 2.5 billion (471.5 million in 2002).

Although the three-year term initially fixed for the programme by the Bank's Board of Directors expires in mid-2003, the objective set under the "Lisbon Strategy" not only remains valid but was also reaffirmed by the European Councils of Stockholm (March 2001) and Barcelona (March 2002). **Accordingly, the financing of innovation will remain a top priority for the Bank as far ahead as 2010.**

"i2i" achievements demonstrate that the EIB has succeeded in meeting a real economic demand by offering a range of financial products. In so doing, the Group has accorded priority to projects bringing about a transfer of expertise to the less advanced regions and exemplifying the value added of its activity:

- **Regional development:** 66% of financing went towards projects helping the less advantaged regions and Accession Countries to gain access to state-of-the-art technologies, with schemes involving health, education and technology networks very much to the fore.
- **Innovative content:** since 2000, the innovative content of projects financed has burgeoned; research and development (R&D) projects, particularly in the life sciences, attracted 59% of loans granted in 2002; education projects (26% of loans in 2002) have a large innovative component reflecting their use of ICT (e-learning) or application of fundamental R&D (universities and university hospitals). Schemes featuring ICT networks (10% of loans in 2002) were selected because of either their powerful impact on regional development or their role in diffusing innovation (digital technologies applied to the creation or distribution of audiovisual works).
- **Sectoral breakdown:** the distribution between the different segments of "i2i" also underwent a shift: whereas in 2000 projects under appraisal related predominantly to telecommunications (59%), by end-2002 the sectoral breakdown of approved projects was as follows, in decreasing order: education/e-learning (43%), R&D (39%), technology networks (10%) and diffusion of innovation/audiovisual (8%).



Protecting the environment

Protecting and improving the environment ranks among the EIB's top priorities. Accordingly, the Bank has set itself the target of devoting between a quarter and one third of all its individual loans within the European Union and in the Accession Countries to projects safeguarding and enhancing the environment. The figures for 2002 more than meet this goal, with the proportion of such loans reaching 44% within the Union and 41% in the Accession Countries.

As a public bank at the service of the Union, the EIB is also committed to taking forward the EU's environmental policies by implementing new strategies furthering fulfilment of the international undertakings entered into by the Union, especially concerning:

- the reduction in greenhouse gas emissions,
- the promotion of renewable energies,
- the Union's contribution to water sector initiatives launched at the Johannesburg World Summit.

Cooperation with the Commission

In May 2002, the EIB and the Commission signed a memorandum of understanding aimed at improving the effectiveness of their respective actions to facilitate practical implementation of the EU's environmental commitments.

In this context, the Bank supports the Union's climate change policy, notably via its loans for projects promoting rational energy use - e.g. through combined heat and power generation, industrial efficiency, public transport - and renewable energies.

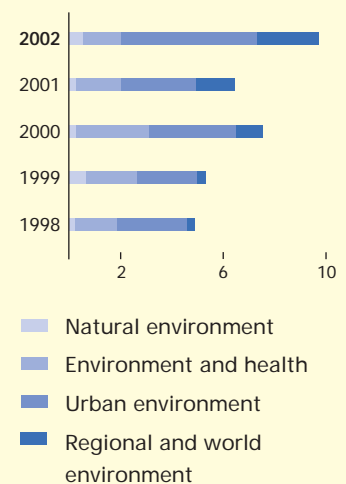
Similarly, the EIB is associated with the EU's "Water for Life" initiative designed to help achieve the United Nations'

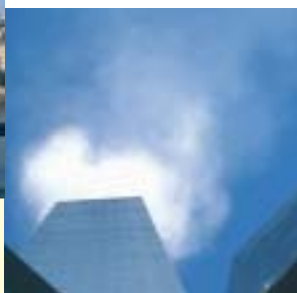
development objectives for the millennium in the water and sanitation sectors, as set out at the Johannesburg World Summit.

Lastly, the EIB and the European Commission join forces with their financing, especially in the Accession, Mediterranean Partner and ACP Countries. Synergies between EIB loans and Commission grant aid are of paramount importance in ensuring a sustained flow of investment and an efficient transfer of environmental expertise. In addition, the Bank plays an advisory role for the Commission in the appraisal of projects financed from EU budgetary resources by the Cohesion Fund and ISPA (Instrument for Structural Policies for Pre-Accession).

Environment and quality of life

Individual loans 1998 - 2002 : 32 billion





2002: a record year

In 2002, EIB individual loans for environmental projects **within the European Union** amounted to 9.3 billion (up 56% compared with 2001). Furthermore, an additional 1.8 billion in global loan allocations was provided for small-scale environmental protection schemes carried out by SMEs and local authorities. Urban public transport and the water sector attracted a significant share of EIB loans (2.5 billion and 1.4 billion respectively). In the water sector, the Bank's financing was decisive in enabling various Member States to comply with EU environmental directives, the principal driver of investment in this field.

In the Accession Countries, individual loans for environmental projects in a range of sectors came to 1.3 billion: reconstruction work following the flood damage in Poland, the Czech Republic and Slovakia in August 2002 constituted a priority area of EIB operations (460 million); the urban environment, including public transport, urban regeneration and social housing, likewise attracted significant funding (311 million); projects in the areas of water and sanitation (165 million), waste management and soil protection (138 million)

Environment and quality of life within the Union Individual loans in 2002

(EUR million)	
	Total
Natural environment	538
Environment and health	1 458
Urban environment	5 339
Regional and world environment	2 394
Total individual loans	9 264*

* As certain projects meet several sub-objectives, the various headings cannot be added together

and energy saving and diversification (110 million) were also amply supported. Over the coming years, the Bank will continue to pump substantial resources into the Accession Countries to help them comply with EU environmental standards.

Environmental report 2001-2002

In February 2003, the EIB published its first environmental report setting out the resources allocated by the Bank to this priority objective, its approach to environmental issues and its recent lending for the natural and urban environment.

This document will serve as a benchmark for future reporting and the basis for discussion of environmental matters between the EIB and its stakeholders.

It is available on the Bank's website: www.eib.org.





Fostering environmental protection in non-Member Countries

In a bid to maximise the synergies between the various sources of financing available, the EIB coordinates its activity in non-Member Countries, not only with the European Commission, but also with multi- and bilateral financing institutions as well as the banking and business communities. This gives rise to numerous operations to cofinance environmental projects.

In the Western Balkans, the EIB is participating in post-war reconstruction efforts and is currently extending the scope of its infrastructure lending to include water and other environmental projects, such as protection of the Danube river basin and wastewater management in large cities. The Bank is coordinating a key study into the ecological management of the Adriatic Sea and is actively involved in the "Danube-Black Sea Task Force" set up by the European Commission.

In the Mediterranean Partner Countries, 95 million was lent for sanitation projects in 7 Moroccan cities, industrial pollution abatement in Tunisia and post-flood reconstruction works in Greater Algiers. The environment is one of the priorities of the "Facility for Euro-Mediterranean Investment and Partnership" (FEMIP), launched in October 2002 to foster economic development and political and social stability in the region. The instruments supporting these aims include the 3% interest subsidy from the EU budget and the Mediterranean Environmental Technical Assistance Programme (METAP), which

provides help in identifying and preparing environmental projects.

In the ACP Countries, loans ran to 35 million for water management networks in Jamaica and Mauritius. To promote this type of project, interest subsidies financed from the budgetary resources of the Member States can be made available for EIB loans. The Investment Facility established under the Cotonou Agreement will provide the EIB with new opportunities to contribute to environmental protection, especially with a view to achieving the objectives set under the "Water for Life" initiative.

In Russia, the EIB is financing two water and wastewater schemes in the St Petersburg and Kaliningrad regions under a 100 million special lending mandate assigned to it by the Board of Governors following the Stockholm European Council (March 2001). As part of the "Northern Dimension Environmental Partnership", in December 2002 the Bank and the Russian Federation signed a framework agreement governing EIB lending in the region.



Preparing the future Member States of the Union

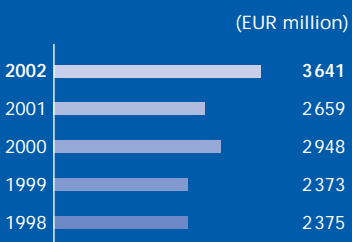
Since 1990, the EIB has granted loans totalling over 20 billion in the Accession Countries: 19.7 billion in the Central and Eastern European countries and 786 million in Cyprus and Malta. With 3.6 billion advanced in 2002 alone, significantly more than in 2001 (2.7 billion), the Bank remains the leading external source of financing in the future Member States.

The EIB gives priority to projects enabling the Accession Countries to comply with current EU standards and policies. It operates under:

- the lending mandate (associated with specific security arrangements linked to the Community budget), which authorises it to grant loans of 8.68 billion during the period 2000 - 2006;
- the three-year Pre-Accession Facility of 8.5 billion (2000 - 2003), set up at the Bank's own initiative and risk, but not covered by the Community guarantee.

Since 2002, the EIB has applied the same objectives, evaluation criteria and risk management policies to projects in the Accession Countries as to operations in the current EU Member States.

Accession Countries
1998 - 2002 : 12 billion



Improving the environment

The future Member States need to invest heavily in order to comply with the EU's environmental protection standards. The Bank is supporting these efforts by financing urban and regional transport projects, helping to reduce air pollution and improve the quality of life, as well as an increasing number of water management systems in large urban centres. In 2002, a total of 1.3 billion, or 36% of loans in these countries, was directed towards improving both the natural and urban environments.

Cofinancing of transport and environmental schemes, in a mix of EIB loans and European Commission grants (under its ISPA programme), is growing steadily.

Solidarity with flood-stricken regions

The EIB reacted swiftly by providing an emergency framework loan of 1 billion at the end of August 2002 to help repair the devastation caused by the flooding in the Elbe basin in eastern Germany, the Czech Republic and Austria. Under this package, 400 million in emergency financial aid was granted to the Czech Republic in 2002.

In addition, the Bank stands ready to finance other reconstruction works and flood prevention schemes.

Strong and diversified backing for SMEs

The EIB has deepened and broadened its lending to the SME sector so as to underpin



Objective 2004 and beyond

In Spring 2004, the European Union will welcome ten new Member States. At the Copenhagen European Council (12-13 December 2002), the Union reaffirmed its aim of embracing **Bulgaria and Romania** in 2007. Pre-accession aid for these two countries will be significantly stepped up during 2004 - 2006 and bolstered by a sustained volume of EIB lending.

The Copenhagen European Council also established the principle of opening pre-accession negotiations with **Turkey** as soon as possible, if this country, which has been a candidate for EU membership since the Helsinki European Council (December 1999), is found to meet the "Copenhagen criteria" when assessed at the end of 2004.

Since 2001, Turkey has been included in the list of countries eligible for financing under the Bank's three-year Pre-Accession Facility. At the same time, it is fully integrated into the "Barcelona Process" on which EU-Mediterranean relations are based.

The Bank's operations in Turkey are mounted under a raft of EIB Euro-Mediterranean mandates: Euromed II (expiring end-2007); the Euro-Mediterranean Facility (expiring end-2004); the TERRA Facility set up following the earthquakes in September 2001; and the Special Action Programme to prepare for the customs union (expiring end-2004).

Furthermore, Turkey is eligible for operations under the new "Facility for Euro-Mediterranean Investment and Partnership" (FEMIP) (see page 24).

As a candidate country and member of the Euro-Mediterranean Partnership, Turkey can count on the EIB's assistance with modernising its economy and preparing for integration. Given its geographical and demographic position, Turkey is destined to play a special role in the "circle of the Union's friends from the Black Sea to the southern shores of the Mediterranean" evoked by Romano Prodi in his closing speech at the Copenhagen European Council.

the substantial progress made by its partner banks in financing the smaller firms. Reflecting this, the average size of the EIB's contribution to funding SME investment last year was EUR 600 000 per project, compared to 1.4 million the previous year.

In 2002, ongoing global loans (233 million) served to finance some 380 small and medium-scale projects and the EIB granted its partner banks close on 500 million in new global loans.



The emergence of a strong and competitive SME sector in the Accession Countries is a key element in ensuring the convergence of the economies of the present and future Member States. The EIB has therefore joined forces with the European Commission to launch a new SME Finance Facility. Under this partnership, the Commission is making available 30 million in grant aid while the Bank is providing 300 million in the form of credit lines to selected banks in the region.

The EIF, for its part, is also playing a growing role in financing high-tech companies in the future Member States. Last year, it acquired a stake in the Prague-based Genesis Private Equity Fund, thereby expanding its geographical coverage to the Czech Republic and Slovakia. This brought the number of EIF participations in Central European venture capital funds to six and total EIF investment in the region to 75 million.

In early 2003, the EIF extended eligibility for its Multiannual Programme for Enterprise (MAP 2001 - 2005) to the Accession Countries (see "EIB Group support for SMEs", page 28).

Underpinning direct investment by large corporates

Direct investment by the Union's large corporates in the Accession Countries makes a major contribution to modernising the latter's economies, especially through the transfer of managerial and technological know-how brought about by such operations.

To support such projects, the EIB has adapted its range of financing possibilities by applying the same criteria for funding large corporates in the Accession Countries as within the Union. Framework or project loans made available by the EIB may therefore take the form of structured finance or include risk-sharing elements.

These new opportunities have led to the identification of several capital projects and a number of operations are already well under way. For instance, a loan for building a refrigeration plant on the outskirts of Prague was signed in 2002.

Accession Countries Loans provided in 2002

	(EUR million)
Poland	1 083
Czech Republic	898
Hungary	515
Romania	383
Slovenia	202
Latvia	123
Bulgaria	87
Slovakia	80
Estonia	50
<i>Central Europe</i>	<i>3 421</i>
Cyprus	220
<i>Mediterranean</i>	<i>220</i>
Accession Countries *	3 641

* of which Pre-Accession Facility:
3 141 million



Forum 2002: “Countdown to EU Eastward Enlargement”

“The Accession Countries have earned EU membership and the momentum for enlargement is irreversibly building up towards success”, EU Commissioner **Günter Verheugen** told the 550 participants at the 8th EIB Forum⁽¹⁾ held in Vienna on 7 and 8 November 2002. With the accession negotiations reaching their culmination in Copenhagen in December 2002, the EIB Forum proved particularly topical and attracted a great deal of attention on the part of representatives from the worlds of politics, business and banking both in the Union and the Accession Countries.

Opening the Forum, EIB President **Philippe Maystadt** highlighted the main aspects of the Bank's activity in the Accession Countries: providing support for infrastructure projects and regional development and, in particular, encouraging foreign direct investment with the spin-off effect that this has in transferring expertise as well as capital.

Summing up, EIB Vice-Presidents **Ewald Nowotny** and **Wolfgang Roth** paid tribute to the huge reform and modernisation efforts made by the Accession Countries, but pointed out that certain tasks still remained to be tackled to boost direct investment. The main challenges ahead were to strengthen the legal framework, implement legislation passed, eliminate over-regulation and red tape and adopt a bolder approach to corporate restructuring. Additionally, businesses needed to cooperate closely with colleges and universities in their regions in helping to create centres of excellence turning out a well-qualified and motivated workforce.

The Accession Countries fielded a strong contingent of speakers at the Forum. They included Ms Raseta-Vukosavljevic (Serbian Minister of Transport), Ms Tudor Mitrea (Romanian Minister of Transport) and Ms Freyberg (Secretary of State in the Polish Economic Affairs Ministry), and Messrs László (Hungarian Finance Minister), Isarescu (Governor of the Central Bank of Romania), Tošovský (former Governor of the Czech Central Bank and President of the Financial Stability Institute in Switzerland) and Wilhelm, a member of the Board of Directors of Volkswagen Slovakia.

Guest of honour at the official dinner held in Vienna's City Hall was **Aleksander Kwasniewski**, President of the Polish Republic. After looking back to the divided Europe of the pre-1989 era, he reminded his audience of the great strides made since then and reiterated that enlargement offered the best opportunity for ensuring security, trust, solidarity and progress across the continent.

(1) For further information on the Forum's proceedings, see EIB Information n°112 or visit the Bank's website www.eib.org/forum.



*Günter Verheugen,
European Commissioner
for enlargement*



*Pat Cox, President of the European Parliament and Karl-Heinz Grasser,
Austrian Finance Minister*



*Wolfgang Schüssel, Austrian Chancellor and Wolfgang Roth,
Vice-President of the EIB*



*Ewald Nowotny, Vice-President of the EIB and Aleksander Kwasniewski,
President of the Polish Republic*



Philippe Maystadt, President of the EIB

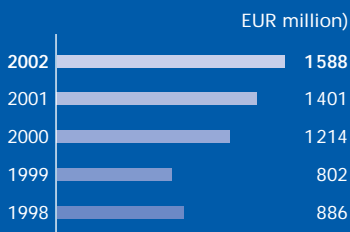


The new Euro-Mediterranean financial partnership

In 2002, lending in the 10 Mediterranean Partner Countries (MPC) reached the record figure of 1.6 billion (plus 220 million in Cyprus and Malta), confirming the Bank's position as a major player in promoting the region's economic development and stability.

This performance was achieved despite an economic climate marked by unrelenting political tension in the region and underlines the Bank's pivotal role, assigned by the Barcelona European Council of March 2002, in revitalising the Euro-Mediterranean financial partnership. At a meeting held in Barcelona on 18 October 2002 at the Bank's initiative, the Finance Ministers of the 27 EU Member States and Mediterranean Partner Countries launched the Bank's new "Facility for Euro-Mediterranean Investment and Partnership" (FEMIP).

**Mediterranean Countries
1998 - 2002: 6 billion**



FEMIP: new dimension to EIB financing in the MPC

FEMIP represents a major step forward in economic and financial cooperation between the Union and the MPC. Its priorities are:

- private-sector development, involving both local enterprises and direct investment by EU companies in the MPC;
- assistance with the process of economic reform and privatisation in the MPC;
- increased support for regional cooperation projects and investment with a social dimension (health, education and environmental schemes);
- provision of innovative financial products, risk capital and technical assistance with bringing projects to fruition.

One of the cornerstones of FEMIP is the broad involvement of the MPC in the deployment of EIB assistance through a Policy Dialogue and Coordination Committee (PDCC) bringing together representatives of the EU Member States and beneficiary

Mediterranean countries twice a year. In addition, the Bank will establish closer links with economic operators and local authorities in the MPC by setting up regional offices. This first of these will be opened in Cairo in 2003.

An initial set of loans in support of private-sector development - the facility's top priority - were signed in 2002: for a car plant in Turkey and the first private-sector cement plants in Tunisia and Algeria. At the same time, various risk-capital operations designed to build up the equity resources of firms in Egypt and Algeria were mounted.

All in all, private-sector financing accounted for more than 30% of operations approved in 2002.

The EIB is implementing FEMIP in close cooperation with all participants in the region's development: the European Commission, the banking community in Europe and the beneficiary countries, multilateral (World Bank, IFC, AfDB, etc.) and bilateral development finance institutions.



Laying the foundations for sustainable development

In 2002, EIB lending activity in the MPC was characterised by the ongoing financing of projects creating the infrastructure for economic development (1 440 million): power generation and distribution, communications, water management and environmental protection. Notable examples are loans for rebuilding infrastructure in Greater Algiers following the floods of November 2001 (45 million), for improving the sewerage systems of seven towns in northern and central Morocco (20 million) and for upgrading key power distribution networks in Morocco, Tunisia and Egypt.

Furthermore, some forty financial intermediaries established in the Mediterranean Partner Countries drew on EIB credit lines to strengthen the equity and finance the investment projects of SMEs. These global loans (313 million in 2002) help to develop the domestic financial sectors of the countries concerned by bolstering their technical and financial capacities; such activity will be promoted under FEMIP.

In the field of social welfare infrastructure (205 million), the EIB contributed, in particular, to constructing a campus for the University of Nicosia in Cyprus, creating 6 800 IT classrooms in Turkish primary schools and rehabilitating and developing 18 hospitals in Syria.

Mediterranean Countries Loans provided in 2002

	(EUR million)	
	Total	of which risk capital
Turkey	561	6
Tunisia	290	
Algeria	227	6
Egypt	225	25
Morocco	140	
Syria	100	
Lebanon	45	
Mediterranean	1 588	37

*Inauguration of FEMIP (from left to right):
Pedro Solbes, European Commissioner,
Jordi Pujol, President of the Generalitat de Catalunya,
Rodrigo Rato, Spanish Minister for the Economy,
Philippe Maystadt, President of the EIB*





Cooperation with other partner countries

Dovetailing with its activity in the Mediterranean Partner Countries, the EIB makes an active contribution towards implementing the European Union's development aid and cooperation policies in other non-member states.

Western Balkans

In 2002, the EIB boosted its financing to almost 425 million (320 million in 2001).

Lending focused on transport and energy networks (380 million). EIB-funded projects are helping to build links, between regions and with the EU and Accession Countries, and reconnect the - especially Yugoslav - power grid to that of the Union for the Coordination of Transmission of Electricity (UCTE).

Backing for private-sector development (45 million) was distinguished by the EIB's first loan in support of foreign direct investment (FDI) in the Western Balkans (Lukavac cement plant) and its first global loan for financing investment by private-sector SMEs and local authorities in the Federal Republic of Yugoslavia.

The EIB intends to maintain this level of financing in the years ahead, allocating an average annual package of 400 million to the region. While continuing to provide appropriate long-term finance for the rebuilding and upgrading of basic regional and municipal infrastructure (transport,

energy and environmental networks), the EIB will step up its support for private-sector development and help to cofinance operations targeting the health and education sectors.

African, Caribbean and Pacific (ACP) States and OCT

In 2002, the Bank mounted operations in 15 different countries and also financed a regional project. Lending totalled almost 298 million including 175 million from the Member States' budgetary resources.

Highlights include the financing of:

- air traffic control facilities in various African regions and Madagascar (33 million), improving air traffic safety

Balkans Loans provided in 2002

	(EUR million)
	Total
Federal Republic of Yugoslavia	270
Croatia	130
Bosnia-Herzegovina	25
Balkans	425

ACP-OCT Loans provided in 2002

	(EUR million)	
	Total	of which risk capital
Africa	213	130
<i>Southern and Indian Ocean</i>	50	20
<i>West</i>	48	28
<i>Central and Equatorial</i>	42	42
<i>East</i>	40	40
<i>Regional Africa</i>	33	
Caribbean	81	41
Pacific	4	4
ACP-OCT	298	175



Preparations for the entry into effect of the Cotonou Investment Facility

The Lomé Convention, the framework for EIB financing in the ACP countries, has been replaced by the Cotonou Agreement, which will enter into force on 1 April 2003. In this connection, the Member States have entrusted the Bank with managing, over the next five years, an Investment Facility endowed with 2.2 billion, to which 1.7 billion in EIB own resource lending will be added. As the prime objective is poverty reduction, priority will be given to small-scale private-sector investment and schemes in the health and education sectors. The Facility will operate as a revolving fund, meaning that the proceeds of repayments will be ploughed back into financing new projects.

The Bank has already made all the necessary organisational and administrative arrangements for implementing the Facility as soon as the Cotonou Agreement enters into force.

between Africa and Europe and over the Indian Ocean;

- rehabilitation and expansion of the urban power distribution networks of eight towns in Ethiopia (25 million);
- the fibre-optic submarine telephone cable (22 million) connecting Europe to a number of West African coastal states and South Africa, with links to several land-locked countries.

South Africa

Loans totalling 50 million were directed towards financing small and medium-scale ventures. In addition, the EIB launched, on behalf of the European

Commission, a EUR 58 million Risk Capital Facility to provide equity and quasi-equity funding to entrepreneurs from previously disadvantaged communities. This programme is a high-profile component of the South African government's strategy for the sustainable long-term development of the country.

Asia and Latin America

In 2002, lending amounted to 89.6 million in Asia and 84.6 million in Latin America, a total of 174.2 million. The EIB's main objective is to strengthen the international presence of European companies and banks by supporting projects of mutual benefit to the Union and the countries concerned.

Asia and Latin America Loans provided in 2002

	(EUR million)
Latin America	85
Brazil	55
Regional (Central America)	30
Asia	90
Indonesia	50
Sri Lanka	40
Asia and Latin America	174



EIB Group support for SMEs

The EIB Group is able to provide both medium and long-term financing via its global loans and equity through venture capital financing. This covers the spectrum of resources necessary for the development of SMEs in a changing economy.

Over the past five years, the EIB Group's support for SMEs in the Union and the Accession Countries has been distributed as follows:

- 24.5 billion in global loans granted to 150 partner banks;
- 2.5 billion in equity participations in 184 venture capital funds;
- 4.5 billion in portfolio guarantees set up through 95 specialised banks.

The total number of SMEs benefiting from the EIB Group's assistance over that period is estimated at some 275 000.

EIB global loans

Global loans advanced by the EIB in 2002 amounted to 12.2 billion, of which nearly 6.2 billion targeted ventures carried out by some 30 000 SMEs.

Applying its policy of diversifying intermediary banks in order to fine-tune its response to the needs of SMEs and other sectors, the EIB granted global loans for less developed regions (in Italy, the United Kingdom and Germany's eastern Länder) and specific policy areas (such as the environment, energy savings and the audiovisual industry). It also carried out a number of securitisation operations complementing its standard global loans in Italy, Spain and France, thereby expanding the range of its techniques for facilitating banking sector support for SMEs.

EIF venture capital

Since 2000, the EIF has been the vehicle for carrying out all the EIB Group's investment in specialised venture capital funds. By providing early-stage capital, these funds assist the gestation and development of technol-

ogy-oriented businesses in the Union and the Accession Countries. The EIF also manages the budgetary resources mobilised by the European Commission (Multiannual Programme for Enterprise, or "MAP 2001-2005") to supply seed capital.

Its investment strategy revolves around three main themes:

- support for European high technology (biotechnology, new materials, convergence);
- participation in funds furthering the objective of regional development in the Union (Southern Europe and the Accession Countries);
- backing for funds operating on a pan-European scale.

In 2002, despite a patently languishing market, the EIF's commitments ran to 471.5 million spread over 36 operations. At the same time, the sharp downturn in the European venture capital sector, and especially the collapse of new stock markets, led the EIB Group to post (mostly unrealised) losses of 132 million.



At end-2002 the EIF's total portfolio amounted to 2.5 billion, invested in 184 funds operating across the Union and in a number of Accession Countries. These venture capital operations benefited over 1 800 businesses (out of an estimated 10 000 high-tech firms in the EU). The EIF has thus become a key player in taking forward the Lisbon Strategy objective of closing the Union's competitiveness gap, particularly in leading-edge technologies.

EIF SME guarantees

The second branch of the EIF's activity is the provision of structured guarantees for portfolios of bank loans to SMEs. Financial institutions benefiting from such guarantees are able to expand their capacity for lending to this target customer group and reduce final losses on their SME loan books and hence their risk provisioning. These operations are in part funded by EU budgetary resources through the Multiannual Programme for Enterprise ("MAP 2001-2005"), which comprises a "SME Guarantee Facility" with 4 windows:

- guarantees for high-growth SMEs,
- equity participations,
- investment in information and communications technologies (ICT),

- micro-credit. These guarantees, issued for credits of under 25 000 euro, got off to a promising start in 2002, enabling the EIF to play a significant role in advancing the Community objective of economic and social cohesion by nurturing the smallest businesses.

The EIF offers a complete range of guarantee products: credit insurance and reinsurance (under the "SME Guarantee Facility"), together with a self-funded facility for enhancing credit via securitisation of mezzanine or junior tranches of SME debts. By raising the credit quality of bond issues backed by securitised SME loan portfolios, such operations leave the banks concerned with more funds available for lending to SMEs.

In 2002, 1 235 million was committed in guarantee operations (compared with 958 million in 2001). The EIF's SME guarantee portfolio exceeds 4.5 billion and encompasses 95 financial intermediaries. These operations exert a powerful leverage effect, having enabled cover to be provided for more than 170 000 businesses (over 100 000 of these under the "SME Guarantee Facility" managed under Community mandate).

New EIF consultancy activities

In order to achieve closer coordination with the European Commission, the EIF recently concluded a framework agreement with DG REGIO aimed at underpinning the policy of financial engineering pursued by the Structural Funds. This new initiative, running separately from the EIF's activities as guarantor and investor, is intended particularly to furnish regional development agencies with technical assistance with regard to the feasibility or structuring of funds.



Financing Trans-European Networks

The EIB has so far committed 22.5 billion to twelve of the fourteen priority transport projects and seven of the ten priority energy schemes

Economic integration of the Union and its future Member States calls for efficient communications, energy transfer and information networks. Accordingly, since 1993, in the wake of the various Community initiatives identifying priority Trans-European Networks (TENs) within the Union, and more recently in the Accession Countries, the Bank has built up a powerful portfolio of lending for TENs and infrastructure of EU benefit.

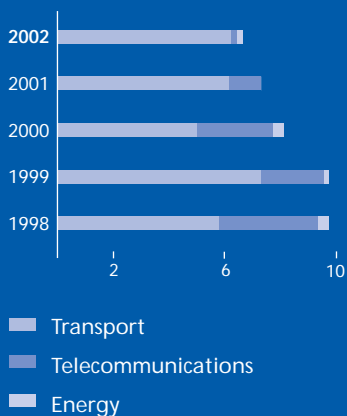
As the leading source of bank finance for these major networks, the Bank contributes real value added. It has the financial clout to:

- mobilise on the keenest terms the huge sums necessary to build this infrastructure;
- offer maturities (30 years and longer) tailored to the scale of the projects involved;
- where appropriate, provide structured finance as an adjunct to commercial bank and capital market funding.

The catalytic effect of the Bank's input is especially illustrated by the large number of public-private partnerships supported. In 2002, more than 1.6 billion was made available in such operations for financing key projects such as the London Underground, Madrid metro (Metrosur), motorway construction in Portugal, the United Kingdom and Spain, and the Rostock tunnel (Germany).

Moreover, the EIB continues to work closely with the European Commission, the Member States and the Accession Countries in pinpointing priority trans-European network projects as far ahead as 2020. This cooperation is reflected in particular by the Bank's participation in the High-Level Group on the Trans-European Transport Network, chaired by former Commission Vice-President, **Karel Van Miert**.

**Trans-European Networks
1998 - 2002: 42 billion**



7.5 billion in the Union

In 2002, total lending within the Union for trans-European transport and telecommunications networks and infrastructure of EU benefit ran to 7.5 billion.

In the transport sector, the principal financing operations concerned:

- construction of high-speed rail lines such as that linking Cologne to Frankfurt city and airport (Germany), the Milan-Bologna link (Italy), LGV Est-Europe (France) and lines connecting Brussels to Antwerp and Liège and on to the German border (Belgium);

- improvements to road and motorway networks, notably including: upgrading of the Bologna-Florence section of the A1 motorway linking northern Italy to the Mezzogiorno; rebuilding of the Turin-Milan section of the A4 motorway; construction of a toll bridge in Millau (Aveyron) on the Paris-Béziers/Spain route; safety enhancement on the French motorway network; construction of motorway sections on the Egnatia trunk road and a ring road north of Athens in Greece; building of a motorway between Pamplona and Logroño in Spain;



- upgrading of airport infrastructure in Madrid (Spain), Munich, Düsseldorf, Dresden and Leipzig (Germany), London Heathrow (United Kingdom), Amsterdam (Netherlands), Oporto (Portugal) and Billund (Denmark);
- expansion and modernisation of port facilities in Italy (at some 20 ports), Spain (Barcelona and Valencia), Germany (Hamburg and Bremerhaven) and Denmark (Aarhus).

A further 300 million contributed to financing mobile and satellite-based telecommunications networks in Spain, Greece and Belgium.

1.6 billion in the Accession Countries

In the Accession Countries, where infrastructure development and rehabilitation requirements are huge, transport and telecommunications network projects attracted 1.6 billion in 2002.

These centred on: motorways and roads (1.1 billion in Poland, Romania, the Czech Republic, Slovenia, Hungary and Latvia); port, airport and air traffic control infrastructure (270 million in Poland, Bulgaria and Cyprus); and rail and river transport (100 million in Hungary and Romania). Lastly, 52 million was advanced for a scheme to expand and modernise the mobile telephone network in Slovenia.

EIB operations in support of Trans-European Networks and corridors in neighbouring countries 1993 - 2002

- Routes of priority Trans-European Networks (TENs)
- Sections of TENs concerned by financing commitments
- Other infrastructure and networks of EU benefit financed
- Road and rail corridors in Central and Eastern Europe
- Sections of corridors financed

- Road/Rail
- ⚡ Electricity
- Gas
- ✈ Airport
- ◆ Intermodal hub
- ▼ Port
- ⦿ Air traffic control
- ⚡ Development of oil and natural gas fields



A top-flight financial intermediary





Activity on the capital markets

In a year characterized by instability and volatility in the financial markets, investors have increasingly implemented a strategy of "flight to safety". The unquestionable credit quality combined with a strategic approach to markets has further consolidated the EIB's status as a leading AAA rated non-sovereign benchmark borrower that has merited the attention of investors worldwide. The EIB's efforts to extend the product range available to investors have been recently recognized by the financial community in the form of Euroweek's award for the Most Innovative and Receptive Borrower to New Structures and Ideas.

Consolidated European Sovereign Issuer

A cornerstone of the Bank's funding strategy remains the issuance of large liquid benchmark bonds in EUR, USD and GBP. This enables the EIB to continue broadening its investor base, increasing market penetration and reaffirming its position as the consolidated European sovereign issuer. In parallel, singular prominence has been assigned to transparency. In the primary market this has been enhanced through the use of book-buildings and the pot syndication methodology, while in the secondary market the Bank has made continuous efforts to sponsor the electronic trading of its securities.

The Bank has also continued to show flexibility and innovation by the use of bespoke products, specially arranged to meet particular investor needs in a wide array of currencies. These issues cover the whole range from "plain vanilla bonds" to sophisticated structured securities adapted to the needs of specific investors. Structured bonds often incorporate different types of options as well as the linking of coupons and redemption amounts to different indices and

currencies. These products serve the unique purpose of enhancing yields to investors on a platform of the highest credit standing. Despite the complexity of these products, the EIB's risk management policy assures meticulous analysis and adequate hedging against the various types of risk embedded in these issues.

The Bank has a pioneering role in the development of domestic capital markets in particular those of the Accession Countries, setting up domestic issuance programmes and establishing treasury capabilities, in order to on-lend in local currencies. These efforts have led the EIB to become the major external borrower in these countries during 2002. The Bank is focusing on building up issues towards liquid, benchmark size, extending maturity profiles and providing both domestic and international investors in these currencies with new instruments. The first ever Hungarian Forint euro fungible issue by the EIB was cited as the Best Emerging Market Currencies Bond Issue in Euroweek's 2002 awards.

The EIB is the largest supranational borrower, and its role as an important international issuer is also reflected in its cur-

Borrowings signed in 2002

(amounts in EUR million)

	Before swaps		After swaps	
	Amount	%	Amount	%
EUR	13 305	35.0	22 441	59.0
DKK	54	0.1	135	0.4
GBP	6 180	16.3	6 227	16.4
SEK	0	0.0	362	1.0
Total EU	19 539	51.4	29 165	76.7
AUD	1 284	3.4	0	0.0
CZK	232	0.6	407	1.1
HKD	161	0.4	0	0.0
HUF	139	0.4	105	0.3
JPY	1 245	3.3	0	0.0
NOK	250	0.7	65	0.2
NZD	50	0.1	0	0.0
PLN	162	0.4	13	0.0
TWD	458	1.2	0	0.0
USD	14 383	37.8	8 231	21.7
ZAR	109	0.3	30	0.1
Total non-EU	18 473	48.6	8 851	23.3
TOTAL	38 012	100.0	38 016	100.0



rency diversification. This is demonstrated by the EIB's strong presence in Japan, the Asia/Pacific region, notably the Taiwanese and Australian markets, and the South African market. The Bank has built up an excellent reputation and strong name recognition amongst investors in these currencies.

As a policy driven public bank, the EIB has always made sustainable efforts towards disclosure and open communication with its investor base. The year 2002 saw a further emphasis in this direction through more intensive investor dialogue covering the widest possible retail and institutional audience. Extensive road shows were conducted in most prominent investor locations around the globe.

Borrowing activity on the markets

Total borrowings signed, before swaps, amounted to 38 012 million, representing an increase of 18% compared to the previous year (32 305 million in 2001). The share of funds raised in EU currencies remains stable at 51% (53% in 2001). Bonds were issued in 14 currencies (13 in 2001) and through 219 transactions (148 in 2001).

Resources raised after swaps totalled 38 016 million in 10 currencies (32 172 million in 2001). 81% of issue volume (30 763 million) were swapped. This reflected the need to switch funding currencies to accommodate loan demand as well as interest rate hedging.

After swaps, floating-rate resources (32 491 million compared with 25 818 million in 2001) accounted for 86% of the total raised, whereas fixed-rate borrowings decreased from 6 354 million in 2001 to 5 525 million. The average maturity profile

of borrowings stood at 6.1 years (6.3 years in 2001).

As part of its debt management, the Bank engaged in early redemptions and repurchase operations worth 1 283 million (981 million in 2001).

EUR: 13 305 million before swaps / 22 441 million after swaps

In 2002, EUR 13 305 million was raised via 19 transactions, corresponding to 35% of the overall annual funding programme.

The Bank continued its benchmark policy by launching three EARN transactions, which followed the EIB's strategic issuance approach, characterised by full transparency and best market practice:

- a EUR 2 billion increase of the EARN 3.875% due April 2005, (which brought it to the EUR 5 billion threshold required for trading on EuroMTS);
- a EUR 5 billion issue due October 2012 and
- a EUR 5 billion issue due October 2005.

The launch of these benchmark transactions builds on the EIB's long-standing strategy to provide sovereign-class liquidity in the EUR market. At the end of 2002, the EARN curve comprised 11 benchmarks covering maturities from 2003 to 2012 with a total outstanding volume of over EUR 50 billion. The entire yield curve was traded on the MTS electronic platform with seven benchmarks (worth EUR 37 billion) also trading on Euro-MTS. Market-making arrangements support the trading of EARN benchmarks on this platform, ensuring

Amounts outstanding on EARN issues as at 31 December 2002

Coupon %	Maturity	Amount (EUR million)
4.500	15.02.2003	3 360
5.250	15.04.2004	6 190
3.875	15.04.2005	5 000
3.500	15.10.2005	5 000
4.875	15.04.2006	5 000
4.000	15.01.2007	5 000
5.750	15.02.2007	2 578
5.000	15.04.2008	6 082
4.000	15.04.2009	4 538
5.625	15.10.2010	3 000
5.375	15.10.2012	5 000

50 748



sovereign-class liquidity for dealers and minimal bid-offer spreads for end investors.

In 2002, the Bank sharply increased its issuance of non-benchmark EUR-denominated products. At year-end, total issuance in this market segment was EUR 1 305 million (via 16 transactions), as compared to the EUR 398 million (through 10 transactions) issued in the previous year.

A wide variety of customised products have been launched during the year, to satisfy both institutional investors' and retail investors' requirements.

Total standard issues (4 transactions) reached the amount of EUR 775 million. Three of these issues (EUR 525 million) were mainly distributed in Italy, to a large extent to institutional investors. The fourth was issued in the Benelux market, also finding a good reception with smaller retail investors.

Structured bonds issuance (12 transactions) reached the amount of EUR 530 million. In the first part of the year, several equity-linked products were placed among investors, while in the second part of the year a greater demand for interest rate products led the Bank to concentrate its issuance in that market segment, focusing mainly on structured floating rate, step-up coupon and inflation-linked notes.

**USD: 12 920 million before swaps /
7 552 million after swaps**
(in EUR: 14 383 million / 8 231 million)

USD 12.92 billion (EUR 14.38 billion) was raised through 36 operations in 2002,

representing the EIB's largest ever USD issuance in a year, corresponding to 38% of total funding. The USD strategy continues to be based on a foundation of liquidity, transparency and investor diversification, and comprises global bond issuance, targeted issues and structured transactions.

The Bank continued its strategy of offering large sized issues in global format on a regular basis. Three global bond issues were brought to the market. Each global issue had a size of USD 3 billion, which is the current market norm for liquid, benchmark transactions. Total global bonds issued and outstanding since January 2001 were USD 17 billion. All outstanding global benchmarks were listed on the New York Stock Exchange during the year.

Targeted USD issues (Japan, Asia and Europe), which accounted for USD 2.8 billion, have further contributed to the diversification of the EIB's USD investor base. These include four Euro-dollar transactions and three retail targeted or "Uridashi" issues. In addition, USD 1.1 billion in structured issues has been raised in response to reverse enquiries from investors.

A curve of liquid benchmark issues has been built with USD 28 billion outstanding and real-time prices quoted by market-makers on Reuters page "EIBUSD01" and on Bloomberg "EIB<GO>". In line with promoting the liquidity and transparency of traded prices in our bonds, the Bank has encouraged secondary trading on inter-dealer and dealer-to-investor electronic platforms.

The admission of EIB bonds to the New York Stock Exchange enables the Bank to reach a wide span of investors





**GBP: 3 872 million before swaps /
3 905 million after swaps**
(in EUR: 6 180 million / 6 227 million)

Total sterling issuance by the EIB since it launched its first sterling issue 25 years ago (November 1977) amounts to GBP 38 billion. Over 70% of this issuance was launched in the period 1998-2002. The total outstanding of EIB sterling bonds at the end of 2002 stood at GBP 33 billion representing over 11% of the non-gilt sterling index.

The EIB retained its position as the largest non-gilt issuer in the sterling market with about a 6% share of the market issuance volume in 2002. This was achieved through further diversification of the investor base. Insurance company primary market purchases of the EIB's sterling bonds fell further from over 50% of the EIB's sterling issuance in 2000, 40% in 2001 and 27% in 2002. Early indications are that this trend will be reversed in 2003. Retail investors, local authorities and investment management groups all increased their share in the investor base. Non-UK investors increased from 17% to 25% of total purchases. This diversification was substantially achieved through the sterling retail programme launched in late 2001. The 5% 2006 retail targeted issue was increased over the year

to a GBP 1.3 billion issue size and a new retail benchmark, the 4.5% 2008, was launched and increased to GBP 400 million. One of the attractions of the EIB's retail issues is that they are also bought by institutional and bank investors. This, together with a retail dealer group of ten banks, many of which quote prices on their automatic execution systems and all of which are committed to make markets in the bonds, provides the necessary conditions for fair secondary market prices at all times. Demand from money market funds as well as commercial and central banks resulted in a GBP 1 billion 2005 FRN issue in the early part of the year.

Continued emphasis was placed on maintaining liquidity in the EIB's institutional benchmarks through the 10 dealer banks. Taps of the institutional benchmarks 2004, 2005, 2006, 2011, 2021, 2025 and 2032 were achieved. Euroweek magazine stated, "By consistently keeping a regular presence in the market, and operating through its disciplined benchmark and retail dealer groups, the EIB maintained its position as the backbone of the Gilt-surrogate market".

The inflation-linked issuance was supplemented by a new 2013 maturity, which was used to fund a corporate loan on a back-to-back basis.



European markets

In Norwegian krone, the EIB launched NOK 1.9 billion (EUR 250m) in 6 transactions. In the Danish kroner market the DKK 400 million (EUR 54 million) 8-year issue accounted for 16% of the total DKK Eurobond market.

Central and Eastern European markets

A total of EUR 533 million equivalent was issued in 20 transactions, an increase of 75% over the previous year, divided as follows: CZK 7.165 billion (EUR 232 million), 7 transactions; HUF 34 billion (EUR 139 million), 6 transactions; PLN 591 million (EUR 162 million), 7 transactions. This made the EIB the largest non-domestic government issuer in the Central European Accession Countries (ACC) during 2002 (see inset box for further information).

Asia/Pacific and South African markets

In total, the Asian/Pacific and South African markets accounted for the equivalent of EUR 3.3 billion. This comprised half of the Bank's transactions and 9% of its funding volume in 2002.

The Asian market is also key to the EIB's issuance strategy and the Bank continues to benefit from its well-established profile in the region through local currency issuance. This provides the Bank with the opportunity for investor diversification and product innovation. Issuance in Japan this year comprised: structured transactions off the Bank's EMTN programme; an innovative structured Samurai transaction (JPY 145.8 billion or EUR 1 245 million through 83 transactions); and 6 "Uridashi" issues in USD and AUD - for which this has been a record year. The Bank

was the largest supranational issuer in the Taiwanese market in 2002, issuing NTD 15 billion (EUR 458 million). EIB was awarded Euroweek's best Taiwanese dollar bond of the year.

In Australian Dollars, the Bank concluded 3 "Uridashi" transactions (EUR 1.29 billion), the last of which was for AUD 1.285 billion (EUR 718 million) and represented the largest supranational AUD transaction ever in terms of net proceeds. It was placed with more than 34 000 retail investors in Japan. The Bank also completed 2 transactions in Hong Kong Dollars and one in New Zealand Dollars.

The EIB was again the largest international issuer in the Rand market. Total issuance amounted to ZAR 1.1 billion (EUR 109 million) in 8 transactions.



Capital Market Activities in Accession Country Currencies (ACC)

Funding local currency lending in the future Member States of the European Union together with the development of the respective capital markets have become major priorities of the Bank in recent years. In 1996, the EIB launched its first bond issue in one of the Accession Country Currencies (CZK) and since then the Bank has constantly worked to pioneer and support the development of these markets.

In the early stages the Bank had to focus on the groundwork - discussing the relevant capital market legislation with market authorities and participants in order to establish effective ways to issue not only in the international markets, but also in the largest domestic bond markets of the region. This led to the establishment of domestic Debt Issuance Programmes in Hungary, the Czech Republic and Poland between 1997 and 2001.

The ability to offer its bonds to both domestic and international investors has enabled **the EIB to become the largest issuer in the region (domestic government issuers excepted) with a market share of nearly 13%**. The Bank's total ACC issuance in 2002 was the equivalent of EUR 535 million, an increase in its annual issuance volume of over 75% from 2001. Compound growth in the Bank's ACC issuance over the last four years has exceeded 50% per annum.

The Bank's strategy has now shifted to building up issues towards liquid, benchmark size, extending and improving maturity profiles, and providing investors in the ACC with new instruments to choose from. This has led to the Bank's issuance in 2002 of 15 and 20-year bonds in PLN and CZK, respectively. In June, the Bank launched the first ever HUF euro-tributary bond, a step-down euro-fungible issue designed to attract international investors looking for HUF/EUR convergence opportunities. The issue was ranked number 1 in Euroweek's 2002 emerging currency awards.

As the Bank intends to expand its local currency lending in the region, continued growth of its issuance activities in local currencies is anticipated for 2003 and beyond. At the same time, the Bank will review further expansion of its capital market activities in other ACC.

The EIB's issuance in ACC (EUR million equivalent)

	1998	1999	2000	2001	2002
Domestic	28	134	83	61	212
International	73	66	121	243	323
Total	101	200	204	304	535



Cooperation with the banking sector

The EIB Group works in very close cooperation with the banking sector, both with respect to its borrowings on the capital markets and its lending, equity participation and guarantee activity. This provides an essential channel through which the EIB Group can:

- contribute funding to a raft of large-scale individual projects, where appropriate via intermediated financing;
- obtain adequate security for funding private-sector individual projects, with one third of guarantees made available to the EIB being furnished by banks or other financial institutions;
- on the strength of its experience in appraising long-term projects, act as a prime mover in arranging sound financing packages offering the keenest interest rate and maturity terms;
- help to finance municipalities and promoters of small and medium-scale infrastructure schemes by providing global loans;
- by way of its global loans and the operations of its subsidiary the EIF, underpin the activities of SMEs by enhancing their financial environment and acting as a catalyst for bank investment in this sphere.

In working together with the banking sector, the Group deploys a varied and effective range of financial products.

EIB global loans, an important means of fostering smaller-scale investment, are currently deployed through some 280 banks and other financial institutions both within and outside the EU. Apart from their impact on developing the local financial sector, they enable SMEs and local authorities to maintain close links with banks. The palette of global loans is being broadened to encompass regional banks (in response to the objective of supporting investment in less favoured areas) and more specialised intermediaries, for instance in the environmental, audiovisual and high-tech sectors.

The EIB also cofinances medium and larger-scale projects. Complementing the banking sector, EIB funding, predomi-

nantly long-term and sometimes taking the form of structured or intermediated financing, serves to diversify the sources and types of funding available to businesses, so optimising their development plans. As part of its endeavours to widen the gamut of its products to accommodate economic needs, the EIB, in cooperation with its partners in the European banking sector, is giving thought to devising a new form of financing tailored to intermediate-sized firms.

Lastly, operating both within and outside the Union, the EIB is well equipped to work in tandem with the banking sector in supporting the group strategies of major players by furthering their projects in the EU as well as their foreign direct investment in non-member countries.

The **EIF**, for its part, also operates in close association with the financial and banking sector:

- either in channelling finance to venture capital funds, partly run by banking groups' specialist subsidiaries;
- or by providing guarantee facilities for banks' SME investment portfolios.

In both cases, the EIF supplies not only its expertise but also substantial value added.

EIB Group administration and staff





A partner to the European institutions in touch with civil society

As a public bank whose purpose is to further the Union's objectives by implementing financing guidelines laid down by its Governors within a framework mapped out by the European Councils, the EIB must reconcile the demand for operational efficiency with the need for effective communication and a commitment to forging partnerships with all its stakeholders.

Partnership with the elected representatives of Europe's citizens

In 2002, the EIB, on behalf of the Group, intensified its dialogue with the **European Parliament**, as witnessed by the Bank's participation in a number of meetings of Parliamentary Committees (notably the Committee on Economic and Monetary Affairs). The culmination of this dialogue was the examination in plenary session, in November 2002 and with the participation of the Bank's President, of the EP's annual report on monitoring the EIB's activities. Exchanges of views between members of the Bank's Management Committee and Parliamentarians serve the twofold purpose of providing the elected representatives of the Union's citizens with more detailed information on the Group's operations and giving the Group the opportunity to hear at first hand the European Parliament's EU policy priorities. This ongoing working relationship also enables the Parliament to take account of the EIB Group's activity in discharging its legislative, budgetary and political monitoring responsibilities. This enhances the consistency of the ini-

tiatives pursued by the Union for the benefit of its citizens.

Alongside this strategy of openness, the EIB has also forged closer links with the **European Economic and Social Committee** so as to make the most of the Committee's enhanced role under the Treaty of Nice as an interface between the Union's institutions and civil society. In the wake of a visit to Luxembourg by the Chairman and members of the Committee, the Bank's President addressed the plenary session of the ESC in January.



Philippe Maystadt at the plenary session of the European Parliament



Cooperation with the Council

Similarly, the Bank regularly participates in the meetings of the **Ecofin Council** and its preparatory bodies, making available its capital investment financing expertise.

Also in 2002, the trend continued for the **European Council** to look increasingly to the Bank and the EIF for assistance in implementing new Community initiatives hinging on banking or financial instruments. This was the case at the Council meetings held in Barcelona in March and Seville in June, which called on the EIB Group to step up its activity in support of a knowledge-based, innovation-driven economy and to strengthen the financial partnership with the Mediterranean Partner Countries. Furthermore, in addition to finalising the institutional and legal aspects of the new Member States' accession (including provisions on the EIB), the Copenhagen European Council in December emphasised the Bank's key financing role in preparing the Accession Countries for their future integration.

Lastly, in November, the "**Competitiveness Council**", bringing together the Ministers for Industry and Research, invited the Group to expand its operations to promote new technologies, especially by bolstering the equity base of firms in their development phase.

Strengthened relations with the European Commission

The EIB Group has also strengthened its operational links with the **Commission** so as to enhance the interaction between the Bank's lending, the EIF's operations and the Union's budgetary resources in furthering common objectives. More effective procedures for consulting the Commission on EIB loan proposals have been defined and

two important agreements concluded in the fields of environmental protection and the information society. In addition, 2002 saw the agreement on improving coordination of the two institutions' operations in support of R&D in Europe bear fruit, as witnessed by the synergies achieved under the 6th Research Framework Programme and in the cofinancing of several large-scale projects in this sector.

Furthermore, the practice has now been established of holding an annual meeting between the College of Commissioners and the Bank's Management Committee, supplemented by some fifteen working meetings, at the level of the Directors General of the two institutions, designed to create closer operational ties in the fields of regional development, preparing the Accession Countries for EU membership, R&D, supporting corporate competitiveness, the information society, education and culture (including audiovisual production) and aid and cooperation policies towards non-Member Countries, particularly Mediterranean and ACP.

Following a management agreement, signed in 2001, entrusting the EIF with execution of the Directorate-General for Enterprise's operational budget via the "Multiannual Programme for Enterprise" (MAP), the Fund and the Commission's Directorate-General for Regional Policy concluded an agreement on the provision of advisory services by the EIF for the development of venture capital and guarantee activity in support of SMEs in the Union's least advanced regions.



Transparency and dialogue with civil society

During the year, the Bank stepped up its policy of **transparency**, notably through adopting a new information policy statement together with new rules on public access to its documents, in line with the principles and limits laid down in the most recent Community legislation in this field (EC Regulation 1049/2001). Recognising the legitimacy of public interest in its workings, the Bank has set itself the goal of providing as much information as possible on its *modus operandi*, activities and projects, while achieving a balance with the requisite banking confidentiality of its operations and the integrity of its decision-making processes.

Against this backdrop, the EIB has substantially expanded its website (www.eib.org) which, with more than 850 000 visitors each year, represents the main interface between the Bank and the public. The EIB now publishes on its website:

- **its operational strategies**, making available on-line its Corporate Operational Plan and details of its sectoral policies, in particular those relating to the environment, sustainable development, climate change, promotion of renewable energies and preparing the Accession Countries for EU membership;
- **a list of projects under appraisal**, subject, where applicable, to protection of the Bank's and its counterparties' legitimate business confidentiality interests; full information is provided on the parameters of each project under consideration;

- **detailed explanatory notes** on projects already financed attracting particular attention from interest groups;
- information on **appraisal procedures and methods**, the project life cycle and the monitoring arrangements for projects financed.

This drive for greater transparency is backed up by *ongoing dialogue with civil society conducted via NGOs*. In 2002, the Bank participated in four meetings held by NGOs on sectoral aspects of its activities. It also organised a round table in Copenhagen in June on the issues of sustainable development and cleaning up the pollution affecting the Baltic Sea. A special session was organised for NGOs on the EIB's new information policy. At the same time, the Bank pressed ahead with its exchanges of correspondence and information with various organisations voicing their concern about projects likely to attract financing and replied to a number of requests for information from academic researchers conducting studies on EIB activity.

EIB Governing Bodies

The **Board of Governors** consists of Ministers designated by each of the Member States, usually Finance Ministers. It lays down credit policy guidelines, approves the annual accounts and balance sheet, decides on the Bank's participation in financing operations outside the European Union as well as on capital increases. It appoints members of the Board of Directors, the Management Committee and the Audit Committee.



Meeting of the Board of Governors

The **Board of Directors** ensures that the Bank is managed in keeping with the provisions of the Treaty and the Statute and with the general directives laid down by the Governors. It has sole power to take decisions in respect of loans, guarantees and borrowings. Its members are appointed by the Governors for a renewable period of five years following nomination by the Member States and are responsible solely to the Bank. The Board of Directors consists of 25 Directors and 13 Alternates, of whom 24 and 12 respectively are nominated by the Member States; one Director and one Alternate are nominated by the European Commission.

The **Management Committee** is the Bank's permanent collegiate executive body. It has eight members. Under the authority of the President and the supervision of the Board of Directors, it oversees day-to-day running of the EIB, recommends decisions to Directors and ensures that these are implemented. The President chairs the meetings of the Board of Directors. The members of the Management Committee are responsible solely to the Bank; they are appointed by the Board of Governors, on a proposal from the Board of Directors, for a period of six years.

The three members of the **Audit Committee** are appointed by the Board of Governors for a renewable mandate of three years. Since 1996, the Committee has also included an observer, appointed annually for a mandate of one year. An independent body answerable directly to the Board of Governors, the Audit Committee verifies that the operations of the Bank have been conducted in compliance with the procedures laid down in its Statute and its books kept in a proper manner. The Governors take note of the report of the Audit Committee and its conclusions, and of the Statement by the Audit Committee, before approving the Annual Report of the Board of Directors.



The Audit Committee



The impact of enlargement on the EIB's governing bodies

The planned accession of ten new Member States to the European Union in 2004, with the prospect of two others joining later, required amendments to be made to the EIB's Statute as annexed to the Accession Treaty. Consequently, at its meeting on 5 November 2002 the Ecofin Council adopted conclusions designed to modify the Bank's capital and governance. A Protocol annexed to the Accession Treaty will introduce the corresponding amendments to the EIB's Statute.

Capital: independently of the capital increase from EUR 100 to 150 billion decided by the Board of Governors in June 2002, which took effect on 1 January 2003, it is envisaged that the ten new Member States will subscribe to the Bank's capital when the Accession Treaty enters into force on the scheduled date of 1 May 2004. As with the current Member States, their share will reflect their economic weight within the European Union (expressed in GNP), and the portion of subscribed capital to be paid in will be so in eight instalments.

At that time, Spain will increase its share of the subscribed capital to approximately 10% through an additional financial contribution, also in accordance with an eight instalment schedule.

Overall, upon completion of these operations, the Bank's subscribed capital will amount to more than EUR 163.7 billion.

Board of Governors: each new Member State will have one representative on the Board of Governors. This will generally be its Finance Minister.

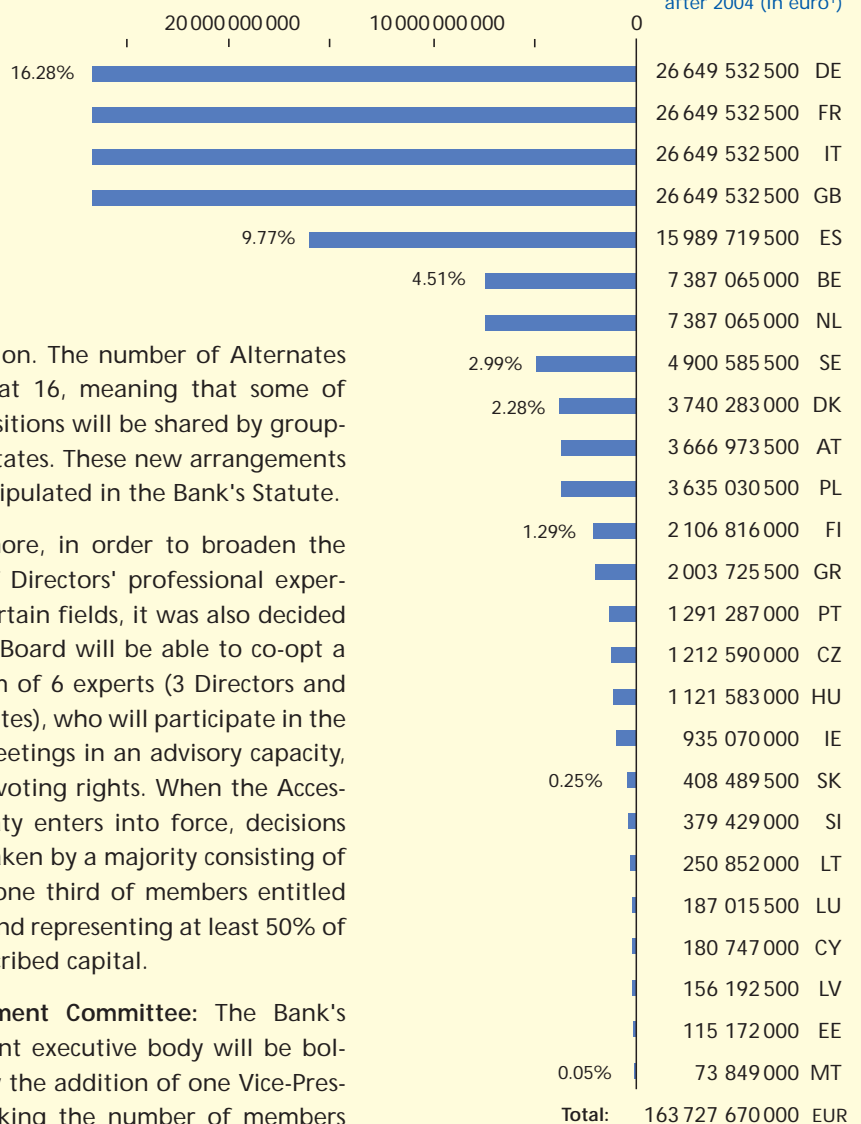
Board of Directors: to preserve the effectiveness of this body by keeping it to a manageable size, it was decided that following the accession of the 10 new countries, each Member State will be entitled to a single Director, bringing the total number to 25 plus one Director representing the European

Commission. The number of Alternates was set at 16, meaning that some of these positions will be shared by groupings of States. These new arrangements will be stipulated in the Bank's Statute.

Furthermore, in order to broaden the Board of Directors' professional expertise in certain fields, it was also decided that the Board will be able to co-opt a maximum of 6 experts (3 Directors and 3 Alternates), who will participate in the Board meetings in an advisory capacity, without voting rights. When the Accession Treaty enters into force, decisions will be taken by a majority consisting of at least one third of members entitled to vote and representing at least 50% of the subscribed capital.

Management Committee: The Bank's permanent executive body will be bolstered by the addition of one Vice-President, taking the number of members from 8 to 9. This increase also takes account of the second phase of enlargement.

Future breakdown of the EIB's capital after 2004 (in euro¹)



(1) Amounts shown for the new Member States are indicative and based on provisional figures for 2002 published by Eurostat (New CRONOS).



The Management Committee of the EIB

The College of the Management Committee Members and their supervisory responsibilities

Wolfgang ROTH
Vice-President



- Financing operations in Germany and in Central and Eastern European Accession Countries
- Information and communications policy
- Equal opportunities policy
- Headquarters extension and Buildings
- Vice-Governor of EBRD

Philippe MAYSTADT
President of the Bank and
Chairman of its Board of
Directors



- Relations with European Parliament
- Institutional matters
- Reporting by Financial Controller and Internal Audit
- Credit risk
- Human resources
- Governor of EBRD

Ewald NOWOTNY
Vice-President



- Financing operations in Austria, Sweden, Finland, Iceland, Norway, Slovenia, Turkey and the Balkans; relations with Switzerland
- Economic and financial studies
- Trans-European Networks
- "Nordic Dimension" initiative
- Liaison with NIB

Peter SEDGWICK
Vice-President



- Financing operations in United Kingdom
- Environmental protection
- Relations with NGOs, openness and transparency
- Operational risks
- Internal and external audit and relations with Audit Committee
- Relations with European Court of Auditors
- Member of EIF Board of Directors

Isabel MARTÍN CASTELLÁ
Vice-President



- Financing operations in Spain, Portugal, Belgium, Luxembourg, Asia and Latin America
- Structured finance and new lending instruments; Securitisation
- Legal affairs (operational aspects)
- Liaison with IADB and AsDB

Michael G. TUTTY
Vice-President



- Financing operations in Ireland, Denmark, the Netherlands, ACP States and South Africa
- Cotonou Agreement Investment Facility
- Project appraisals and *ex post* evaluations
- Regional development
- Global loans (general aspects)
- Professional training
- Liaison with AfDB

Gerlando GENUARDI
Vice-President



- Financing operations in Italy, Greece, Cyprus and Malta
- Budget
- Accountancy and control of financial risks
- Information technologies

Philippe de FONTAINE VIVE CURTAZ
Vice-President



- Financing operations in France, Maghreb and Mashreq countries, Israel, Gaza/ West Bank
- Facility for Euro-Mediterranean Investment and Partnership (FEMIP)
- Financial policies
- Capital markets
- Treasury

(situation at 06/03/2003)

Organisation Chart

(Situation at 1 June 2003)

General Secretariat and Legal Affairs



Eberhard UHLMANN
Secretary General and
General Counsel of Legal Affairs

*Audit Enactment,
EIB Group Development*
Helmut KUHRT

Resource Management and Enlargement
Ferdinand SASSEN

General Administration



Rémy JACOB
Deputy Secretary General

Information and Communications

Henry MARTY-GAUQUIÉ
Director

Communications and Transparency
Adam McDONOUGH
Patricia TIBBELS

Media Relations
Paul Gerd LÖSER

Records and Information Management
Marie-Odile KLEIBER
Associate Director
Duncan LEVER

Purchasing and Administrative Services
Manfredo PAULUCCI de CALBOLI

Facilities Management
Agustin AURÍA

Translation
Georg AIGNER
Kenneth PETERSEN

Legal Support for Lending Operations



Alfonso QUEREJETA
Director

Operational Policy and the Balkans
Roderick DUNNETT
Associate Director

Germany, Austria, Accession Countries
Gerhard HÜTZ
Gian Domenico SPOTA

Spain, Portugal
Ignacio LACORZANA

United Kingdom, Ireland, Nordic Countries
Patrick Hugh CHAMBERLAIN

Belgium, France, Luxembourg, Netherlands
Pierre ALBOUZE

Greece, Italy, Cyprus, Malta
Manfredi TONCI OTTIERI

*Mediterranean (FEMIP), Africa, Caribbean,
Pacific (Cotonou Investment Facility), Asia and
Latin America*
Regan WYLIE-OTTE

Interinstitutional Affairs and Brussels Office

Dominique de CRAYENCOUR
Director

Jack REVERSADE

Legal Services for Community and Financial Affairs

Marc DUFRESNE
Director

Jean-Philippe MINNAERT
(Data Protection Officer)
Luigi LA MARCA

Legal Aspects of Financial Issues
Nicola BARR

Legal Aspects of Institutional and Staff Issues
Carlos GOMEZ DE LA CRUZ

Planning, Budget and Control
Theoharry GRAMMATIKOS
Associate Director

Institutional Matters
Evelyne POURTEAU
Associate Director

Gudrun LEITHMANN-FRÜH

Governing Bodies, Secretariat, Protocol
Hugo WOESTMANN
Associate Director

Directorate for Lending Operations - Europe



Terence BROWN
Director General

United Kingdom, Ireland, Nordic Countries

Thomas BARRETT
Director

Banking, Industry and Securitisation
Bruno DENIS

Infrastructure
Tilman SEIBERT
Alain TERRAILLON

Structured Finance and PPPs
Cheryl FISHER

Nordic Countries
Michael O'HALLORAN

Spain, Portugal

Director

Spain - PPPs, Infrastructure, Social and Urban Sector

Christopher KNOWLES
Marguerite McMAHON

Spain - Banks, Industry, Energy and Telecommunications
Fernando de la FUENTE

Madrid Office
Alberto BARRAGÁN

Portugal
Rui Artur MARTINS

Lisbon Office
David COKER

France, Benelux

Laurent de MAURTORT
Director

France - Infrastructure
Jacques DIOT

France - Enterprises
Constantin SYNADINO

Belgium, Luxembourg, Netherlands
Henk DELSING
Associate Director

Germany, Austria

Joachim LINK
Director

Berlin Office
Franz-Josef VETTER

Germany (Northern Länder)
Peggy NYLUND GREEN

Germany (Southern Länder)
Heinz OLBERS

Austria, Energy and Telecommunications in Germany
Paolo MUNINI

Accession Countries

Emanuel MARAVIC
Director

Estonia, Latvia, Lithuania, Poland, Euratom
Grammatiki TSINGOU-PAPADOPETROU
Associate Director

Hungary, Slovenia
Cormac MURPHY

Bulgaria, Romania
Rainer SAERBECK

Czech Republic, Slovakia
Jean VRLA

Foreign direct investment (FDI) and financial institutions

Italy, Greece, Cyprus, Malta

Thomas HACKETT
Director

Infrastructure
Bruno LAGO
Associate Director

Energy, Environment and Telecommunications
Alexander ANDÒ

Industry and Banks
Jean-Christophe CHALINE

Greece
Themistoklis KOUVARAKIS

Operations Support

Jürgen MOEHRKE
Chief operational coordinator

Coordination
Dominique COURBIN
Richard POWER

IT and Management Information
Thomas FAHRMANN

Business Support
Ralph BAST

Directorate for Lending Operations - Other Countries

Jean-Louis BIANCARELLI
Director General



Development Economic Advisory Service

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Chief Development Economist
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Core Business Packages

(Luciano DI MATTIA)

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Infrastructure

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Peter MAERTENS
Head of Internal Audit

Siward de VRIES



Management Committee Adviser

on EIB Group Strategy and Negotiations

Francis CARPENTER
Director General



Chief Economist

Alfred STEINHERR



EIF Governing Bodies

The EIF is managed and administered by the following three authorities:

- the General Meeting of shareholders (EIB, European Union, 28 financial institutions), which meets at least once a year;
- the Board of Directors, composed of seven members, which decides on the Fund's operations;
- the Chief Executive, who is responsible for the management of the Fund in accordance with the provisions of its Statutes and the guidelines and directives adopted by the Board of Directors.

The Fund's accounts are audited by a three-person Audit Board appointed by the General Meeting.

EIF Structure



Francis CARPENTER Chief Executive

Thomas MEYER *Head of Division, Risk Management and Monitoring*

Robert WAGENER Secretary General

Marc SCHUBLIN *Head of Division, Policy and Institutional Coordination/Advisory Services*

Maria LEANDER *Head of Division, Legal Service*

Susanne RASMUSSEN *Human Resources and Facilities Management*

Frédérique SCHEPENS *Accounting and Treasury*

John A. HOLLOWAY Director of Operations

Jean-Philippe BURCKLEN *Head of Division, Venture Capital 1 (Belgium, Spain, France, Greece, Italy, Luxembourg, Netherlands, United Kingdom)*

Kim KREILGAARD *Head of Division, Venture Capital 2 (Germany, Austria, Denmark, Finland, Ireland, Portugal, Sweden, Accession Countries)*

Alessandro TAPPI *Head of Division, Guarantees*

Frank TASSONE *Head of Division, Product Development and Operations Research*



EIB Group administration and staff

In 2002, the Bank continued to develop initiatives to promote transparency, accountability and modernisation of its personnel policies. Decentralisation of budgetary and staff management responsibilities to the Directorates was successfully implemented.

Organisation and structure

As from August 2002, Mr Eberhard Uhlmann has been appointed Secretary General and General Council of the Bank. The Bank's organisation continued to adapt during 2002, in particular to take account of the new strategic developments (FEMIP, ACP Investment Facility and Enlargement of the European Union). In view of the forthcoming enlargement of the Union, the Bank began to recruit nationals from the Accession Countries. The Organisation Chart, presented on page 47 and following, is regularly updated on the EIB's website (www.eib.org).

Staff Representation

In 2002, the College of Staff Representatives (SR) carried on working with the Human Resources Department (HR) on the task of developing and updating the Staff Regulations. HR/SR cooperation is conducted via working groups - e.g. those concerned with the annual appraisal exercise and salaries - focusing on issues of importance to staff and management alike. A large part of the discussion between HR and SR is also held within various Joint Committees.

These include the Joint Committee on Health, Safety and Working Conditions, which stepped up its activities over the past year with a view to bringing the Bank's accident prevention and worker protection provisions into line with European best practice.

Equal Opportunities

The Joint Committee on Equal Opportunities (COPEC) oversees the implementation of policy on equal opportunities in terms of career development, recruitment, training and social welfare infrastructure. Last year, the Committee contributed in particular to the successful introduction of the Bank's new parental leave policy. It also highlighted the need to recruit a career development adviser, a proposal which was favourably received.

Individual Development

The Bank continued to invest in the development of skills and learning of its staff. The "Management Skills Development" Programme, a three-year programme focusing on people management and tailored to the needs of the Bank's managers, was launched in 2002.

Personal Data Protection

The Bank appointed during 2002 a Data Protection Officer, in line with the provisions of the EC regulation on the protection of individual rights in the processing of personal data.

Staff Complement

At end-December 2002, the Bank's staff complement stood at 1 113, 1.5% up on the preceding year.

The EIF

On 1 August 2002, Mr Francis Carpenter was appointed Chief Executive by the EIF's Board of Directors. The structure of the EIF was reorganised around three main divisions and departments: Risk Management, the General Secretariat and Operations. The EIF currently has a staff of 59 (18% more than in 2001), most of whom are employed in the Operations department.



EIB Group

Summarised balance sheet as at 31 December 2002 (in EUR '000)

ASSETS	31.12.2002	LIABILITIES	31.12.2002
1. Cash in hand, balances with central banks and post office banks	16 100	1. Amounts owed to credit institutions:	
		a) repayable on demand	0
		b) with agreed maturity dates or periods of notice	1 182 667
			1 182 667
2. Treasury bills eligible for refinancing with central banks	1 530 847	2. Debts evidenced by certificates:	
		a) debt securities in issue	193 210 101
		b) others	898 071
			194 108 172
3. Loans and advances to credit institutions:		3. Other liabilities:	
a) repayable on demand	118 433	a) interest subsidies received in advance	289 954
b) other loans and advances	9 947 089	b) sundry creditors	1 036 001
c) loans	92 414 790	c) sundry liabilities	46 994
	<u>102 480 312</u>	d) currency swap contracts adjustment account	3 549 176
		e) negative replacement values	5 446 623
4. Loans and advances to customers:			10 368 748
* Loans	103 506 204	4. Accruals and deferred income	3 896 429
* Specific provisions	- 175 000		
	<u>103 331 204</u>	5. Provisions for liabilities and charges:	
		a) staff pension fund	517 755
5. Debt securities including fixed-income securities:		b) provision for guarantees issued	42 357
a) issued by public bodies	3 376 557		560 112
b) issued by other borrowers	6 057 698	6. Minority interests	217 732
	<u>9 434 255</u>		
6. Shares and other variable-yield securities	888 286	7. Capital:	
		a) subscribed	100 000 000
7. Intangible assets	9 848	b) uncalled	- 94 000 000
			6 000 000
8. Property, furniture and equipment	117 645	8. Consolidated reserves:	
		a) reserve fund	10 000 000
9. Other assets:		b) additional reserves	3 571 323
a) receivable in respect of EMS interest subsidies paid in advance	282	c) special supplementary reserves	750 000
b) sundry debtors	1 088 401		14 321 323
c) positive replacement values	13 594 484	9. Funds allocated to structured finance facility	250 000
	<u>14 683 167</u>		
10. Prepayments and accrued income	2 185 440	10. Funds allocated to venture capital operations	1 499 091
		11. Fund for general banking risks after appropriation	1 105 000
		12. Profit for the financial year	
		before appropriation	1 192 830
		appropriation for the year to Fund for general banking risks	- 25 000
			<u>1 167 830</u>
		Profit to be appropriated	1 167 830
	<u>234 677 104</u>		<u>234 677 104</u>



Results for the Year 2002

Before provisions, write-downs and extraordinary result (after deduction of minority interests), the profit for the financial year 2002 ran to EUR 1 347 million and net profit to EUR 1 168 million.

The transfer to the Fund for general banking risks is EUR 25 million for 2002, while, for venture capital operations, write-downs and the provision for guarantees provided came to EUR 144 million in 2002.

Overall, treasury operations yielded net income of 747 million in 2002, producing an average overall return of 3.58% in 2002.

General administrative expenses together with depreciation of tangible and intangible assets amounted to 225 million in 2002.

Taking into account IAS 39, the fair value of derivatives had a negative impact of EUR 324 million on the EIB Group's own funds. This negative impact corresponds to the recording in

the accounts, as at 31 December 2002, of a number of interest rate swaps entered into between 1999 and 2002 in order to hedge the Bank's overall interest rate position. However, these derivatives do not comply with certain specific criteria of IAS 39 which allow for hedge-accounting to be applied.

Risk Management

The Bank has aligned its risk management systems to changing economic and regulatory conditions and adapts them on an ongoing basis so as to achieve best market practice. Systems are in place to control and report on the main risks inherent to its lines of business:

- the guiding principles for **operational risk** are modelled on those recommended by "Basel II". The guidelines also define responsibilities for measuring and managing operational risk within the various departments of the Bank and set out the applicable management processes.
- the EIB's credit risk policy guidelines set out credit quality levels for both

borrowers and guarantors in lending operations, as well as for treasury and derivatives transactions. The Bank is also adopting EIB Group-wide credit risk management taking into consideration the exposure generated by the SME guarantee activity of its subsidiary, the European Investment Fund.

- **market risks** are captured in the context of Market Risk and Asset and Liability Management Systems (ALM). The applicable guidelines for ALM and market risk management define a structured process by which risks are identified, measured, managed and reported.

More detailed information on risk management can be found in the EIB Group's Financial Report 2002 (page 72). This can also be found in the CD-ROM attached to this brochure.



New Building at Hamm

The EIB prepares for its expansion

The EIB's role in providing financial support for attainment of the European Union's objectives has led to a substantial increase in its activities in recent years. To cater for its immediate office space needs, the EIB recently purchased a new building in Hamm, near Luxembourg city centre and about ten minutes from its Kirchberg headquarters. The new premises can accommodate some 160 staff.

Certain Bank divisions and departments have been transferred to these new premises, which are served by a regular shuttle bus. Mail services, switchboard arrangements and e-mail addresses remain unchanged.

The Hamm premises are configured as a back-up site ensuring business continuity in the event of an emergency.

International competition for a new building

The EIB is also planning to build a second extension within the grounds of its present headquarters.

Following an international architects-designers competition launched on 12 July 2001, a jury chaired by Ricardo Bofill selected, from among 56 entries, the project submitted by the consortium "Ingenhoven Overdiek Architekten - Werner Sobek Ingenieure".

The new building, to be built in a single phase and delivered as from mid-2006, will have a capacity of around 800 work places and will be constructed with quality materials conforming to the new HEQ (High Environmental Quality) norms. Functional yet welcoming, with particular attention being paid to envi-

ronmental considerations, it will likewise meet the highest standards as regards integration into its surroundings, choice of materials, energy conservation and, during the construction phase, minimising disturbance to the public and occupants of adjacent buildings.

The EIB does not need the entire building in the immediate future. It is already discussing the possibility of renting out space surplus to its short to medium-term requirements with various institutions.



Model of the new extension



Projects eligible for financing by the EIB Group

Within the European Union and in the **Accession Countries**, projects considered for financing must contribute to one or more of the following objectives:

- strengthening economic and social cohesion: promoting business activity to foster the economic advancement of the less favoured regions;
- furthering investment contributing to the development of a knowledge-based and innovation-driven society;
- improving infrastructure and services in the health and education sectors, key contributors to human capital formation;
- developing transport, telecommunications and energy transfer infrastructure networks with a Community dimension;
- preserving the environment and improving the quality of life, notably by drawing on renewable or alternative energies;

- securing the energy supply base by more rational use, harnessing of indigenous resources and import diversification;
- assisting the development of SMEs by enhancing the financial environment in which they operate by means of:
 - medium and long-term EIB global loans;
 - EIF venture capital operations;
 - EIF SME guarantees.

In the Partner Countries, the Bank participates in implementing the Union's development aid and cooperation policies through long-term loans from own resources or subordinated loans and risk capital from EU or Member States' budgetary funds. It operates in:

- the non-member Mediterranean Countries by helping to attain the objectives of the Euro-Mediterranean Partnership with a view to the creation of a Customs Union by 2010;

- the African, Caribbean and Pacific States (ACP), South Africa and the OCT, where it promotes the development of basic infrastructure and the local private sector;
- Asia and Latin America where it supports certain types of project of mutual interest to the Union and the countries concerned;
- the Balkans where it contributes to the goals of the Stability Pact by directing its lending specifically towards not only reconstruction of basic infrastructure and projects with a regional dimension but also private sector development.

The EIB wishes to thank the following promoters and agencies for the photographs illustrating this report:

Ciudad de las Artes y las Ciencias de Valencia (cover), Metro do Porto, SA (cover), Getty Images (cover, pp. 8, 9, 12, 13, 16, 17, 21, 25, 52), Scottish and Southern Energy plc (cover), Imedia (pp. 3, 4, 5, 9, 40, 44, 45, 46, 47, 48, 49, 51, 53, 55), Konrad Scheel (pp. 5, 46, 47, 48, 49, 53), Sade (p. 6), EC (pp. 7, 9, 20, 21, 22, 25, 41, 42, 43), Deutsche Bahn AG (p. 8), Sue Cunningham (pp. 9, 20, 22, 38), Digital Vision (pp. 10, 12, 14, 15, 28, 29, 31), Tramvía Metropolitana, SA (p. 12), Barcs Endre (pp. 13, 23), Storebaelt (p. 13), Cern (pp. 14, 28, 29), Vamed Standortentwicklung und Engineering GmbH & Co KG (p. 15), Universitat d'Alicante (p. 16), Masterfile (pp. 17, 19, 30, 31, 32, 33, 34, 35, 36, 39), Photodisc (p. 18), ASM Brescia (p. 18), Alexander Wulz (p. 23), Electricity Authority of Cyprus (p. 24), Generalitat de Catalunya (p. 25), Bowin Power Company Ltd (p. 27), Songas Ltd Tanzania (p. 27), Corinth Pipeworks S.A. (p. 28), Flughafen Dresden GmbH (p. 30), La Vie du Rail (p. 31), Warnoquerung GmbH & Co. KG (p. 31), NYSE (p. 35), EP (p. 41), Blitz (p. 50), Ingenhoven Overdiek Architekten – Werner Sobek Ingenieure (p. 54).

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