

Operational Plan 2012–2014

Caption: Drawn up for the first time at the instigation of the Board of Governors in June 1998, the Operational Plan of the European Investment Bank is a strategic document, approved by the Board of Directors, for defining medium-term policy and setting operational priorities in the light of the objectives assigned to the bank by its governors with a view to ensuring the fulfilment of its remits under Article 309 of the Treaty on the Functioning of the European Union.

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The EIB Group Operational Plan 2012-2014



European Investment Bank

THE EIB GROUP OPERATIONAL PLAN 2012-2014

Important notices:

The Operational Plan 2012-2014 was discussed and approved by the Board of Directors of the European Investment Bank at its meeting of 13 December 2011.

Attention is drawn to the fact that data provided on 2011 activity are estimates only which were made prior to the 2011 year-end. This document also contains other forward-looking statements such as projections of financial performance. Such statements and projections may, by their nature, prove to be inaccurate.

Data that are confidential and/or financially sensitive in nature have been removed from this publication.

Introduction

The depth and duration of the economic crisis has compounded challenges already faced by the EU. Europe has the difficult task of addressing the impact of this crisis while accelerating its transition to a smarter, greener and sustainable economy.

In this environment, the financial soundness of the EIB has been maintained and underpins its importance in the financial markets.

The Operational Plan 2012-2014 here presented responds to this environment. It has been defined by reference to the need to maintain appropriate lending volumes and optimise value-added whilst clearly respecting the Bank's risk bearing capacity. It reconfirms the Bank's long-term financial sustainability and its continued strategy to strengthening key financial and risk ratios.

The focus for planned lending activities remains on the EU. In taking a long-term investment position in projects, the EIB has a catalytic impact in the EU in the short to medium-term. Therefore, whilst overall lending activity will reach pre-2008 crisis levels, new lending operations are still planned to represent EUR 43bn, on average, for EU countries in the coming years.

The Bank remains committed to its mandates outside the EU with an average of EUR 5.3bn of lending activity earmarked annually over the three years period. The focus will rest on Pre-Accession countries and Neighbours in the East and the South. The Bank will take the necessary steps to address as best as possible the expectations of the European Parliament and Council within the resources available.

THE EIB GROUP
OPERATIONAL PLAN 2012-2014

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1. Decisions of the Board of Directors

The EIB Group operates a rolling three-year Operational Plan, reviewed mid-year and fully updated on an annual basis. The Operational Plan 2012-2014 includes target indicators of performance and summarises the major priorities and activities to deliver the Group's strategy for the next three years. A particular focus is given to the activities for 2012 whilst preparing the Bank to be aligned with the next EU programming period which will start in 2014. Attention is paid to ensuring the risk-bearing capacity and financial soundness of the Bank will continue to be preserved.

A number of key strategic parameters, set by the Board, were used to develop the operational programme reflected in this document. These key parameters include:

- a. Upholding of the core business model that necessitates the retention of the Bank's excellent credit standing as the primary consideration. Consequently the lending programme must facilitate the strengthening of the relevant risk ratios that influence this.
- b. Focus on supporting sound, long-term investment projects in the EU.
- c. Short and medium term measures to ensure the Bank's financial sustainability including measures that focus on further improving cost coverage and maintaining the quality of its lending portfolio.

The Board of Directors approved the following:

- I. to target total **signature and disbursement** volumes of EUR 50bn for 2012 (average EUR 48bn for 2012-2014).
- II. to grant a **global borrowing authorisation** for 2012 of up to EUR 60bn and, on an annual basis, to authorise associated treasury and derivatives activities in accordance with Article 18 of the Rules of Procedure.
- III. to authorise an overdraft facility for the New Entry Reserve (NER 300) Mandate represented by the EC for an amount necessary to fund the requirements of the NER 300 Mandate for margin collateral, guarantee fund contributions and other expenses of monetisation.
- IV. the preliminary expenses and revenues of the **Administrative Budget** and the **Capital Budget** for 2012. This implies a budget **decrease** in real terms further improving cost coverage to 199% (170% forecast in 2011).
- V. the principle of making relevant additional staff and other resources available during 2012 for new initiatives provided that the Board will have approved these initiatives and will have been informed of the impact on the 2012 budget and cost recovery accordingly.
- VI. the delegation of decisions regarding staff and administrative expense budgets relating to existing partnership agreements to the Management Committee provided that the budgetary framework of these partnerships approved by the Board is complied with (as granted in the Operational Plan 2011-2013).

2. Operating Environment

The Bank's operating environment remains unsettled, more than three years since the eruption of the financial and economic crisis; marked by a further deepening of the sovereign debt crisis and a continuing uncertainty over the different economic perspectives of EU countries.

The ensuing deterioration of credit ratings suffered by many of the Bank's counterparts creates a challenging context in which the Bank must reconcile its long term objectives with the short term need to engage in regions and sectors most affected by the crisis within the EU. The Bank continues to take proactive steps in deploying risk mitigating measures to prevent a more pronounced reduction of the Bank's activities in those countries most affected by the sovereign debt crisis.

The EIB remains on solid financial grounds with a high quality loan portfolio, strong and growing net surplus, a lean cost base, support from EU sovereign shareholders and associated preferred creditor status. As anticipated, and in line with the development in the banking sector, some financial ratios have deteriorated during the crisis period and the Bank will continue its vigilance to ensure future activity is undertaken within its risk bearing capacity.

Financial and Economic Environment Impact and Outlook

The sovereign debt crisis has dominated the financial environment, affecting financing conditions for banks and the corporate sector. Banks face worsening funding conditions and constraints on their liquidity management. Write-downs of public bonds and the pressure to deleverage in the context of stricter capital adequacy requirements have led to a tightening of credit standards on loans to non-financial corporations or even credit rationing. The tightening of credit standards accelerated in the third quarter of 2011 and is expected to continue. At the same time, the demand for bank loans by the corporate sector has declined due to increased uncertainty, a slowdown in economic activity - notably corporate investment - and a worsening of the economic outlook. Part of the decline in bank credit has been offset by a pick-up of corporate debt issuance; however, debt issuance by corporations remains well below the peaks observed in 2009-10.

Against this background, even if the economic growth in the third quarter of 2011 was positive, notably in Germany, France and the UK, the outlook remains poor with a material risk of another recession in the EU. The coming quarters (until mid-2012 at least) are expected to stagnate resulting in the projected annual growth rate for 2012 in EU-27 at only 0.6% (0.5% for the euro area). Moreover, risks to these projections are deemed to be "strongly" on the downside.

Key drivers of the worsening outlook include sharply deteriorating confidence, constraining consumption and investment demand; fiscal consolidation efforts; a slowdown in global growth and reduction in the demand for European exports. Nevertheless, there remains considerable heterogeneity in the outlooks for individual countries, owing to different crisis legacies and opportunities to tap markets outside Europe. This heterogeneity is also reflected in the projected investment activity in 2012; for example at the extremes in Ireland and Lithuania fixed investment in machinery is projected to grow by 15%, but fall by as much as 8% in Portugal and Luxembourg.

Banking for Europe and Looking Ahead

On the back of the Bank's major contribution to the EU economic recovery efforts, notably in 2008-2010, the Bank has adapted its lending activity, enhanced its product offering and improved its internal processes. In doing so, the Bank could confirm its role of the long-term financing institution of the European Union. Lending within the EU countries shall remain the main component of the Bank's plans moving up to 90% of lending volume going to this region over the planning period.

In line with the 'Europe 2020' agenda, the Bank will give priority to projects that make a significant 'value-added' contribution to domestic growth, employment, cohesion and environmental sustainability in Europe. The Bank will continue to engage in specific and targeted projects in those countries or regions facing limited access to capital markets, notably by leveraging on existing earmarked public funding (e.g. EU structural funds). The Bank will also continue to support the European Commission (EC) and individual EU Member States commitments to climate action.

3. Key Challenges for 2012

Activity Programme – inside the EU

The fundamental EU long-term priorities for growth, employment, cohesion and economic sustainability mean that the EIB must continue selecting and prioritising projects to maximise the impact of EIB financing on the real economy. Recent developments in the EIB's operating environment and important changes pending, such as Europe 2020, have led to a refinement of the Priority Lending Objectives. During 2012, the Bank will move to reporting underlying signature activity in line with their contribution to the following Public Policy goals:

- Increase in **Growth and Employment Potential**
- **Economic and Social Cohesion**
- **Environmental Sustainability**
- projects that specifically contribute to **Climate Action**

The joint actions already developed by the EIB with the EC and with other public long-term investors have demonstrated the effectiveness of cooperation and blending to achieve greater leverage. Further development of such joint actions will offer important risk-sharing mechanisms and capital efficient activity opportunities. The Bank will continue to leverage its expertise and resources in support of EU policy goals through technical and financial advice. Certainly by complementing the careful targeting of lending based on capital efficient structures by non-lending activity, the Bank can add even more value added to its activities. In these areas, the challenge is to develop joint actions which can be rapidly implemented and to ensure technical and financial advisory work complements the Bank's core lending activities in a cost-effective manner.

Specific Sectorial Challenges in the EU

The EIB must design and launch initiatives for infrastructure projects capable of operating and creating an impact on a European scale. Such projects can however require lengthy set-up periods not least due to the need for both public and private co-financing and often, the use of multi-country investment vehicles. The divergence of economic status across EU Member States continues to create delays to overall viable projects which the EIB could support. Nevertheless, an average share of 50% of the Bank's annual lending volume inside EU will target the financing of Infrastructure and Energy investments in the next three years.

The European Small and Medium-sized Enterprises (SME) sector is also a core element of the European economy. However, the SME sector faces a range of financing gaps which pose a potential barrier to growth and innovation. Significant challenges lie ahead in prioritising lending resources, pricing to intermediaries in different markets and maximising transfer of EIB financial advantage to final beneficiaries. For the European Investment Fund(EIF), the SME Securitisation market remains difficult despite some promising first attempts to revive the asset class. The EIF will continue its lead role in credit enhancing and risk transfer transaction in order to catalyse increased SME lending by both large multifunctional banks and important mid-sized local banks.

Indeed the partnership of the EIB with the banking sector in Europe includes as its core element the lending to SMEs where the EIB Group, including the EIF, has already reinforced its activity in 2011 and reached more than EUR12bn – twice as much as before the crisis. In order to support the real economy, this level is planned to be retained in 2012.

The business environment for microfinance remains challenging, especially in the EU where the models are evolving. The target group for microfinance, namely the financially excluded but economically active, is faced with tightening credit supply by mainstream banks due to higher risk aversion and de-leveraging balance sheets. The European Progress Microfinance Facility financed jointly by the EIB and the EC and managed by the EIF is well placed to respond to this challenge through the provision of loans and guarantees to Microfinance Institutions.

Risk capacity in the commercial banking sector and economic volatility in the Renewable Energy sectors plus regulatory uncertainty in some markets and the low price of carbon are likely to prove challenging for investors and their financiers including EIB in these markets in the area of Climate Action. The Bank faces challenges in its ability to blend resources and share risk, particularly as it continues efforts to innovate and help fill market gaps.

It should be noted that in order to fully cover the range of EIB objectives and ensure a reasonable spread throughout the areas of activities of the EIB, it is likely that either the average project size or the average proportion of project cost supported by the EIB will reduce from the levels seen in the recent past. Projects will need to be prioritised in order to optimise the Bank's associated value-added offering, while ensuring internal cost effectiveness of the various financing and advisory services made available across different sectors.

Borrowing Programme

Key challenges for the Bank's funding programme include the fiscal and economic situation in Europe and their potential consequences for EIB's financial strength; spread evolution and volatility and associated shifts in investor preferences. The EIB's consistent application of a prudent approach to maintain its financial strength and associated credit standing are expected to remain the strong and stable platform for funding activities as has historically been the case.

Outside the EU

Globalisation increases the importance of Europe's relationship with its neighbour and partner countries as a result of rapid advances in technology, communication and transportation. However, with a focus on activities supporting growth within the EU and the necessity to simultaneously reduce overall lending volumes, there is a need to reduce the Bank's own risk activities outside the EU by proportionally more than the reduction inside the EU.

Conclusions and decisions reached by the European Parliament and Council have resulted in increased lending ceilings under the Bank's mandate for its activities outside the EU and confirmed the Bank's role in the EU's Neighbourhood and Partner Countries. The Bank will have to use its lending headroom in a way which is consistent with EU policies and which also reflect EU priorities. The Bank intends to make maximum use of the headroom available under the revised External Mandate and the Climate Change Mandate in the Pre-Accession Countries up until 2013. However, the Bank's lending volume constraints will also impact the levels of activities under mandate, consequently significant challenges ahead in balancing available resources with the expectations of the Bank's stakeholders of its activity outside the EU.

4. The 2012-2014 Lending Programme

Overall Lending Programme Activity Levels

In the wake of prolonged stress in the financial markets, coupled with continued uncertainty in the economic environment, the Bank will seek to maximise its lending programme within the constraints of its risk bearing capacity. This means a rapid return to levels preceding 2008, a focus on operations within the EU, striking the appropriate balance between the support to the EU economy and further strengthening of the EIB Group's financial position.

Table 1: Total Lending

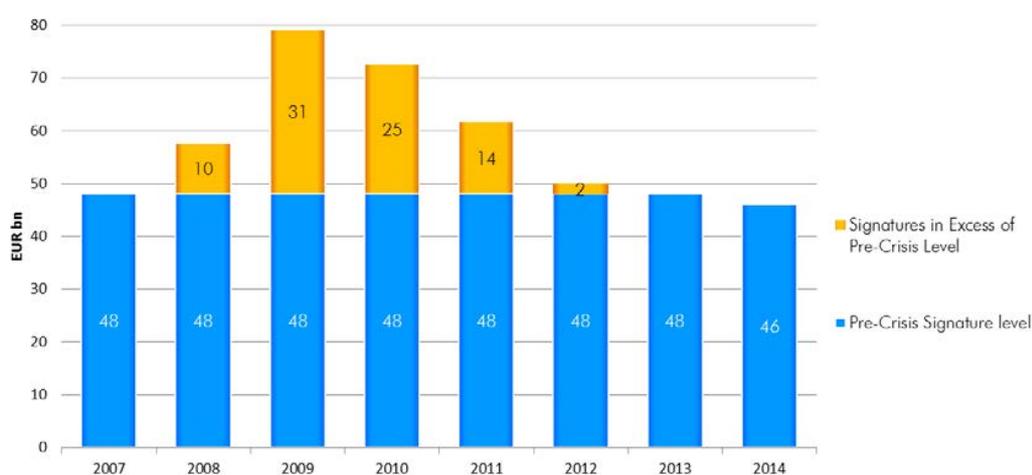


Table 2: Total Lending Signature Ceilings

(EUR bn)	2011 Forecast	2012	2013	2014	2012-2014 Average
Total Lending (Own Resources)					
Inside the EU	54.4	44.0	42.7	41.4	42.7
Outside the EU	7.7	6.0	5.3	4.6	5.3
- of which Pre-Accession & Neighbour countries	5.6	4.5	4.0	3.5	4.0
Total Signatures (Own Resources)	62.1	50.0	48.0	46.0	48.0
Additional Lending utilising 3rd Party Resources					
ACP Investment Facility and Med Risk Capital	0.5	0.5	0.6	0.6	0.6
JESSICA	0.6	0.5	0.5	0.5	0.5
Total Additional Signatures utilising 3rd Party Resources	1.1	1.0	1.1	1.1	1.1
Total Special Activities (including RSFF-EC)	3.4	4.6	3.6	3.6	3.9

The lending programmes will be developed in line with the principles underpinning the 'Europe 2020' strategy; growth and employment, economic and social cohesion, environmental sustainability. The Bank also intends to continue to reinforce its leadership in climate action. Notably the EIB plans to integrate the Bank's approach to tackling the carbon footprint of its lending portfolio with its internal activities. The Bank has set an overall target of at least 25% of total signatures to contribute to Climate Action.

The Bank shall be a catalyst to leverage yet more private sector financing of investment projects inside the EU by maintaining an approach driven by the merits of each project, supported by thorough due diligence and increased availability/provision of technical and financial advice. In addition, the Bank will seek to further strengthen its key role within the group of public long-term investors with the continued development and implementation of new forms of structured cooperation and risk-sharing products.

Implications on Funding and Treasury

Against a background of continued market volatility and uncertainty, the liquid assets of the EIB will continue to be managed in a prudent manner. Liquidity levels will be kept under close scrutiny to meet present and future requirements. Diversification of funding sources and instruments will continue to apply to the implementation of the long term funding programme.

Approval of a EUR 60bn global borrowing authorisation has been given for 2012. This authorisation level will serve as a sufficient ceiling to meet expected disbursements and target liquidity ratios within the limits set in the Financial Risk and Asset Liability Management Policy guidelines.

Lending Approach in Countries most affected by the sovereign debt crisis

The Bank's Preferred Creditor Status and protection against expropriation mitigates the credit-risk associated with loans to, or guaranteed by, EU Member States. Nevertheless, the deterioration of credit ratings suffered by many of the Bank's counterparts operating in countries which are most affected by the sovereign crisis creates a challenging environment in which the Bank must operate. So far this has had a limited impact on the Bank's overall lending portfolio and to date the Bank has not suffered defaults or losses.

In particular the Bank will continue to work with the EC to support projects in countries operating under EU-support mechanisms. Collaborative work, undertaken in the context of the Europe 2020 Joint Financial Instruments, provides a base model on which new joint initiatives can be rapidly brought forward in order to facilitate the long-term financial support of viable investment projects in such countries. Current negotiation of EIB-EC risk-sharing arrangements, underpinning future Joint Financial Instruments, proposes a "portfolio approach" to ensure EC funds are used with maximum effectiveness and efficiency by providing a first loss guarantee on specific portfolios, rather than by enhancing the credit profile of individual exposures. This proposed approach can be readily adapted to new SME lending in countries under EU-support mechanisms and would enable the financial leveraging of EU Funds whilst allowing an efficient use of EIB capital. Under this approach, EIB would be able to maintain support to these countries with relatively limited additional capital requirements.

However, except in the application of EIB lending to SMEs, current Structural Fund regulations may need to be amended to allow for support to the EIB in this manner. A guarantee scheme would most likely require the approval of the EU Council and Parliament and an initial proposal to this end has been formulated by the EC in respect of countries under financial assistance.

JEREMIE (the Joint European Resources for Micro to Medium Enterprises Initiative) can be a key instrument in the Bank's activities in regions particularly affected by the sovereign debt crisis supporting SMEs that have largely lost viable access to financing. For instance, in Greece JEREMIE would be deployed as a large-scale product, funded by Structural Funds, to provide regulatory capital relief to local banks in their financing of SMEs. Discussions are well advanced to alleviate certain restrictions on the EUR 250m JEREMIE Holding Fund in Greece, managed by the EIF, to accelerate its usage through Funded Risk products and to increase impact on target SMEs.

Use of Special Activities, Risk Sharing and Credit Enhancement

The Operational Plan foresees a ceiling on Special Activities of EUR 4.6bn for 2012 taking into consideration operations already in the pipeline. This amount will then be reduced to EUR 3.6bn in 2013 and 2014 with an average of EUR 3.9bn over the three-year period. This amount includes approximately EUR 2bn per annum under the new risk-sharing finance facility (RSFF) framework. This RSFF-EC framework, which will be less restrictive in terms of scope and other requirements, will enable the Bank to increase its support to research, development and innovation over the coming years by leveraging third party funds in line with the Bank's strategy. It will also optimise the use of the Bank's capital.

Table 3: Special Activity

(EUR bn)	2010 Actual	2011 Forecast	2012	2013	2014	3yr Avg
Higher Risk Special Activity	5.3	3.4	2.6	1.6	1.6	1.9
RSFF-EC	-	-	2.0	2.0	2.0	2.0
Total Special Activities	5.3	3.4	4.6	3.6	3.6	3.9

5. Operational Activity inside the European Union

Careful management of the risk mix associated with new signatures, coupled with the successful completion of the new RSFF agreement with the EC, will result in a lending programme of EUR 44.0bn in the EU for 2012 (2011 forecast EUR 54.4bn).

Table 4: Operational Activity inside the EU

(EUR bn)	2010 Achieved	2011 Forecast	2012	2013	2014	2012-2014 Average
Total Signatures inside EU	62.9	54.4	44.0	42.7	41.4	42.7
Total Disbursements inside EU	52.3	55.5	44.0	42.7	41.4	42.7

EU domestic growth

With an average share of 50% of its annual lending volume, financing of Infrastructure and Energy investments is a core activity of the Bank. The economic accelerator inherent to infrastructure investments will be of particular importance for the stabilization of growth and employment in the current economic situation. The Bank will therefore maintain its support to Trans-European transport and Energy projects, where scarce Special Activity resources will be used, including Loan Guarantee for TEN Transport (LGTT). Urban infrastructure, contributing to the improvement of living conditions in European cities, will be supported, where possible, alongside Community resources made available through JESSICA (Joint European Support for Sustainable Investment in City Areas).

For relevant activities, in addition to being geographically located in a convergence area, the following additional regional development objectives shall be considered:

- geographical location according to level of disparity (Cohesion area),
- being specifically part of an operational programme of the EC,
- closing the gap in respect to the *acquis communautaire* (for example environmental standards),
- increasing the productivity and connectivity of the region.

The Bank will continue to reinforce its focus on climate action and activities with a high and rapid economic multiplier effect such as energy and transport infrastructure. Investment opportunities in sectors in which EU companies hold strong competitive positions such as bio-technology, environmental equipment and high speed transportation will be targeted. The support of "greener growth" will not be limited to renewable energies, but shall also include intelligent investment in energy efficiency of industrial infrastructure, transport, energy generation, transmission and distribution.

The EIB is developing new products combining EU funds and EIB lending to meet its priority objectives under Europe 2020 and achieve greater leverage, i.e. supporting more investments with a given amount of EU budget and EIB capital resources. Such new products provide alternative ways of extending the reach of the Bank's own funds and EU funds through risk-sharing and the blending of guarantees, grants and financing instruments.

SME support for growth and innovation will continue to be a core element of the Bank's lending activities as SMEs and MidCap face a range of financing barriers and gaps. Business development plans are being prepared with the most important European SME banks in order to combine the EIB loans with EIF guarantees in an increased number of joint operations. The implications for the EIB's provision of financing to the SME sector will remain closely linked to the pace and geographical spread of this recovery, which will define the levels of demand for capital investment and working capital lending.

The EIF makes a strong contribution to EU domestic growth and employment by continuing to deploy the increased financing capacity provided by the recent initiatives for microfinance, mezzanine and SME risk capital funding. The EIF will further explore opportunities to blend its resources with EIB lending instruments and EU grant facilities. The EIF has a vital role in the stimulation of Innovation and Entrepreneurship in Europe via the combination resources from the EIB, EU Competitiveness and Innovation program, JEREMIE instruments and national Funds of Funds managed by the EIF.

JESSICA Holding Funds and disbursements from Holding Funds to Urban Development Funds will help generate investment into the economy. Commitments of Urban Development Funds to project vehicles though at an early stage are rapidly accelerating. Looking ahead, potential synergies with EIB

lending activities are being fine-tuned in order to expand financial support to projects foreseen in ERDF Regional Operation Programmes primarily in the field of Energy Efficiency and Renewable Energy.

In the context of Europe 2020, intensive work by the EIF is also underway in conjunction with the EC and Member States to develop pan-European sectorally focussed Venture Capital Funds of Funds. These funds will increase the supply of market oriented risk capital and include private sector institutional investors and fund managers.

Technical and Financial Advice

Technical and Financial Advice (TFA) has become an increasingly important means of enhancing the Bank's value added to clients and shareholders. The Bank may provide TFA services in all sectors in which the EIB is able to invest or provide finance. Beyond direct lending operations, the Bank may offer TFA services to promoters, financial intermediaries or public institutions in the EU or other EIB countries of operation.

TFA is currently delivered through some 30 discrete facilities, characterised by diverse organisational structures, in many cases involving joint actions which enhance the EIB's own delivery capacity. These include for example JESSICA, JEREMIE and European PPP Expertise Centre (EPEC). The initiatives have achieved a strong result for clients/beneficiaries, funders and have accelerated investments which support priority policy goals and generate proportionately high economic benefits. Consequently, this has increased demands on the Bank to expand existing TFA initiatives and to develop new ones. This trend is set to continue in 2012 notably as public bodies grapple with the challenges of maintaining investment programmes with more limited budget funding.

Climate action

The Bank will continue to support European climate policy by investing in emerging, and mature, renewable technology and energy efficiency to meet 2020 targets. Such investments will help to demonstrate the necessity of incorporating emerging low carbon technologies to meet more stringent 2050 targets and to support European commitments to scale up financing for Climate Action in developing countries. These investments will span various heterogeneous sectors thus requiring the full range of financial and technical assistance products available within the EIB Group.

The EIB remains committed to catalysing investment with partners both within and outside Europe and will build on the successes of various instruments, in particular

- ELENA (European Local Energy Assistance) managed by the EIB and funded by the EC assisting local authorities in accelerating the development of energy efficiency and renewable energy
- the Global Energy Efficiency and Renewable Energy Fund designed to leverage energy efficiency and renewable energy in developing countries, which is financed by the EC, Germany and Norway and for which the EIB group provides advisory services
- the Green for Growth Fund launched in 2009 together with the EC and KfW for sustainable energy projects in the Western Balkans and Turkey, as well as other equity funds.

Looking ahead, such joint instruments, and notably those with the EC, will be further developed in an effort to capitalise on existing experience and to respond to demands in this area through new initiatives potentially grouped under a common platform. Climate action safeguards will continue to be incorporated within the Bank's project cycle particularly with regard to mitigation and adaptation to ensure that projects incorporate and meet EU and internationally accepted climate policy requirements and employ best available technology. A comprehensive set of sector-specific carbon footprint methodologies to measure greenhouse gas emissions generated by the projects financed by the Bank is being implemented in the standard project appraisal process addressing all the relevant sectors and project typologies.

Joint Actions

Joint Actions involving the blending of EU budgets and EIB loans, risk sharing or mutual reliance with other International Financial Institutions (IFIs) play an increasing role in the leverage of the Bank's resources. With a number of Joint Actions created under the 2007-13 multiannual Financial Framework, the Bank will actively support the renewal or strengthening of existing Joint Actions, in preparation for the 2014-2020 Multiannual Financial Framework, the proposal for which was adopted by the EC in June 2011.

Cooperation with the EC within the EU – recent highlights and future implications

The proposal for the next Multiannual Financial Framework includes the creation of two major new integrated instruments for investing in infrastructure, research development and innovation; the Connecting Europe Facility and the Horizon 2020. The Connecting Europe Facility aims at accelerating infrastructure investment in transport, energy and ICT to reach the Europe 2020 Strategy objectives and to strengthen EU's sustainable competitiveness. Horizon 2020 focuses on future societal challenges, the promotion of research excellence and innovation. The EC is also designing new architecture for the future cohesion policy with an increased concentration of funding on Europe 2020 objectives. The EIB group is engaged in the preparation of a set of instruments covering the equity, debt and guarantee spectrum.

In 2011, the EC approved the legislative proposal for the adoption of the Europe 2020 Project Bond Initiative which has two objectives: to revive project bond markets and to help the promoters of individual infrastructure projects to attract long-term private sector debt financing reducing the risk to third party investors seeking long-term investment opportunities. It will thus act as a catalyst to re-open the debt capital market as a significant source of financing in the infrastructure sector. As with the RSFF and LGTT, the EU budget would be used to provide capital contributions to the EIB to mitigate some of the risk undertaken by the EIB financing eligible projects.

New Entry Reserve (NER 300)

The Bank supports the EC as an agent in the implementation of the NER 300 initiative, which is the world's largest grant funding programme for carbon capture and storage demonstration projects and innovative renewable energy technologies. A Cooperation Agreement details the respective roles of the two institutions in implementing the NER 300, notably in the appraisal of projects submitted by Member States for funding and through the monetisation of the 300m allowances.

The Bank has begun its technical and financial evaluation of projects submitted by Member States and will begin the sale of the allowances one month after they have been transferred to the Bank and made available for settlement. Sales will take place in regular intervals through auction, exchange or over-the-counter arrangements. The allowances shall be sold for settlement in December 2013 at the earliest, meaning all sales will be on a futures or forward basis. The revenues of the sales will be used to fund selected projects until 2025.

Guarantees Securitisation and Microfinance

Guarantee activities in EIB will largely target projects promoted by corporates and public entities. They could also include LGTT in support of infrastructure project financings as well as credit enhancement for securitisation structures possibly in cooperation with the EIF. These instruments will provide credit enhancement and potential capital relief for guarantee beneficiaries (banks, institutional investors), while obligors (corporates, public sector, SPVs under project finance) will more easily attract other financiers to their projects.

The EIF will intensify its risk sharing role with partner banks through credit enhancement and guarantees of portfolios of new loans and leases in two forms:

- a. adopting a key role in the reestablishment of the Securitisation market for SME loans, the structuring and credit enhancement of liquidity driven and risk transfer transactions for targeted European SME banks and other strong regional players.
- b. mobilising EC and Member States budget capacities through the EU Competitiveness and Innovation program, JEREMIE and RSFF instruments to take a significant portion of first loss risk alongside a wide range of financial institutions with benefits passed back to SMEs in the form of lower costs and reduced collateral requirements.

Through the European Progress Microfinance Facility, EIF has already become the leading source of finance for an increasing number of Microfinance institutions within the EU. This facility will be fully invested before the end of the commitment period and will leverage EUR 500m of new loans for over 40,000 micro entrepreneurs. It will also play a role alongside the JASMINE technical assistance in capitalising and strengthening the infrastructure and competences of a significant number of emerging Microfinance institutions.

6. Operational Activity outside the European Union

Lending activities outside the EU has in recent years exceeded the annual volumes that would have been compatible with the then existing Mandates. This is due to a considerable front-loading in 2009-2010 as requested by the European Council to support developing countries in fighting the economic and financial crisis. The co-decision of the European Parliament and Council, in October 2011, confirmed additional lending headroom as follows: EUR 2bn for climate action, EUR 1bn for financings in the Mediterranean partner countries, EUR 0.35bn in the Pre-Accession countries, EUR 0.15bn in Eastern Neighbours and Russia, EUR 0.15bn in ALA. The headroom in the 2007-2013 mandate is expected to be complemented by own risk lending (Article 16 Facilities) in order to reserve the benefit of the EU guarantee for economically weaker countries. The planned signature volumes to be pursued outside the EU are as shown in Table 5.

Subject to continued competitiveness of the Bank's lending rates and conditions signatures and disbursements are expected as shown in Table 5 below.

Table 5: Operational Activity outside the EU

(EUR bn)	2010 Achieved	2011 Forecast	2012	2013	2014	2012-2014 Average
Total Signatures outside EU	8.8	7.7	6.0	5.3	4.6	5.3
- of which in Pre-Accession and EU Neighbour countries	6.5	5.6	4.5	4.0	3.5	4.0
Total Disbursements outside EU	6.4	5.4	6.0	5.3	4.6	5.3

Implementation of the new orientations provided in the revised External Mandate will require an enhanced focus by the Bank on social impact assessment, on monitoring throughout the project cycle as well as on reporting. The Bank will need to carefully manage resource allocations, possibly through streamlining but also through reinforced cooperation with other financing institutions under the Mutual Reliance or similar initiatives.

The Bank will continue to strengthen its cooperation with the EC and explore ways of increasing further the leverage of its lending outside the EU, especially in the private sector, through blending loans with EU/Member States grants. Risk sharing mechanisms, risk capital allocation or a revolving fund, all of which already exist for certain regions, could be replicated in other regions.

In the latter case, the success of the African Caribbean Pacific (ACP) Investment Facility has demonstrated how a revolving fund can provide excellent value for money contributing to the development of the private sector on a sustainable basis.

Pre-Accession and EU Neighbour Countries

The EIB remains committed to supporting the economic development and accession process of Candidate and Potential Candidate countries. The EIB works closely with the EC, combining grants and loans in the Pre-Accession region to achieve an optimum financing package. Financing foreign direct investment receives particular emphasis, since transfers of both capital and know-how are strong drivers for economic modernisation. Resources available under the Bank's Pre-Accession Facility and the additional lending headroom of approximately EUR 1bn under the Pre-Accession Mandate (including a share of the EUR 2bn under the Climate Change Mandate) will allow the Bank to provide support to Pre-Accession countries during their process towards EU membership.

The EIB aims at contributing further to the implementation of the EU policies in the EU's Eastern neighbour countries. In an environment that remains challenging for Bank operations, the Bank will strive to remove the remaining obstacles to its lending operations in Eastern Neighbours and is adapting its strategy and operational set up to achieve Operational Planning targets, including disbursements that have lagged behind targets in the past. In so doing, the Bank aims to rely, to the extent possible, on the revised External mandate that provides a broader remit for EIB lending activities in the East as on the new Memorandum of Understanding with the EBRD and the EC. With increased differentiation among countries under EU political conditionality, the Bank will focus on projects that help to connect the EU with its neighbourhood, boost development and address challenges in the region's energy, environment and transport sectors.

The EIB is also committed to providing a balance of support to the EU's Southern Neighbour countries within the framework of the EU policy to support reform and democratic transition. However, due to extreme prevailing challenges in the region, the Bank's activities in the Southern Neighbourhood may be lower than in prior years.

The Bank will continue its collaboration with financing institutions operating in Mediterranean, Eastern partner and Pre-Accession countries, for example through active participation in the Neighbourhood Investment Facility and Western Balkans Investment Facility.

The majority of the EU's neighbourhood and partner countries are rated below investment grade, and thus lending to private borrowers in these countries, unless guaranteed by EU banks or companies, entails high risks. For operation with private sector borrowers, the EU guarantee only carves out the political risks, while commercial risks can nevertheless have a significant impact on the Bank's overall credit risk. It is therefore essential for the Bank to be able to rely on the proposed allocation of Special Activity lending in its operations outside the EU.

Highlights regarding other regions outside EU

Climate action will be the main focus of the Bank's lending activities in the Asia and Latin America region as well as in South Africa. In the ACP, a gradual shift to Investment Facility operations is anticipated over the planning period. Activities shall focus on projects contributing to economic stability, promotion of sustainable growth, the creation of jobs and consequently, efficient poverty reduction. The identification of appropriate projects is likely to become more complex and will require a prioritisation to increase the EIB's footprint in this market. Blending of EIB loans (own resources and Investment Facility) will continue to be pursued, especially in the context of the UN Sustainable Energy for All Initiative, including through the EU-Africa Infrastructure Trust Fund and the pooling mechanism of the Water and Energy Facilities. In this respect, guarantee instruments are a prime candidate for increasing blending especially for the riskier one, as for instance, SME guarantees (where grant resources could take first loss for example).

The revised External mandate also calls on greater coherence between the Bank's activities in regions outside the EU and the actions of the EC and the European External Action Services. Consequently the Bank is considering further ways to efficiently enhance its presence in the field in close cooperation with the EC and the European External Action Services.

Mutual Reliance with KfW/AFD progresses well and is expected to be reinforced with a new group of pilot projects and considerable efforts are being made towards preparing Operational Guidelines. Subject to approval by the three partners' decision-making bodies, these guidelines should encourage a higher delegation of work, as intended under the Mutual Reliance Initiative.

7. Risk Management and Governance

The Bank takes a holistic, proactive approach to risk management through the close interaction of risk, return, capital and liquidity. This not only entails an inward looking view but also takes into account certain external factors, such as macroeconomic factors.

In focusing Bank financing on projects and activities that are likely to have the greatest impact on the furthering of EU Policy goals, the lending programme is adapted to define the nature of lending activity within the constraints of the Bank's leverage capacity.

Looking ahead, the Bank's risk taking needs to be exercised in an even more stringent manner, in order to maintain its credit standing and status as prime issuer on the capital markets. This entails stabilising key risk ratios in 2012, with further improvements in 2013-2014 to return towards levels preceding the beginning of the crisis.

As such, the Bank has adopted a number of measures to maximise the impact of EIB financing on the economic recovery while preserving its financial sustainability including:

- the strengthening of its project selection criteria, to assess the capital consumption of new lending opportunities against their potential contribution to revenue generation
- careful prioritisation and selection particularly for capital intensive Special Activities
- a more systematic sharing of risks with external parties, notably through Joint Actions and innovative financing solutions, involving Community budget contributions and EIF cooperation
- further diversification of the Bank's product portfolio towards non-lending services, including advisory services.

The Bank has adopted an approach to maximise the impact of EIB financing on the EU economic recovery by balancing market requirement with the Bank's risk bearing capacity. Protection of the Bank's financial stability continues to be a central component of the governance framework and as such net surplus before provisions, under current assumptions, is forecast to increase from EUR 2.4bn (2011) to EUR 2.7bn in 2012 and over 2.9bn by 2014.

Overall the lending programme has been developed to maximise the lending capacity of the Bank and to maintain the Bank's strong financial position whilst keeping the high credit risk standards set by the Bank.

8. Budgetary and Financial Planning 2012

Administrative Budget for 2012

The Bank will continue to prioritise resource allocation to operational activities in a sustained effort to ensure that the strategic lending objectives of the Bank are realised both in terms of quality and quantity.

The 2012 budget approach towards expenditure is oriented in consideration of the business outlook as well as current economic and political circumstances. Hence, the budget increase for expenditure is limited to 2.7%, below the Luxembourg rate of inflation, and thus reflects a “decreased budget” in real terms. This approach to the 2012 budget will only be possible through further efficiency efforts and staff redeployment. Once again additional posts or increases to the administrative expenses budget will only be driven by major new initiatives, or to fulfil new or existing partnership conditions.

Table 6: Total EIB Budget

(EUR m)	Budget 2011	Budget 2012	Total % Change
Intermediation and Administrative Revenues	808.7	1090.6	34.9%
Depreciation and Administrative Costs	-533.5	-547.8	2.7%
Cost Coverage (EUR m)	275.2	542.8	
Cost Coverage - %	152%	199%	

EIB Capital budget

The EIB capital budget covers annual capital expenses and multi-annual investment projects. Non-staff expenses during the implementation phase are capitalised and amortised over a pre-specified period according to the type of expenditure. Therefore the impact of capital expenditure is translated through depreciation in the administrative budget.

Table 7: EIB Capital Budget

(EUR m)	2011		2012		2011 Closed & Cancelled projects Multi-annual Budget	2012 New Request Multi-annual Budget
	Annual Budget	Multi-annual Budget	Annual Budget	Multi-annual Budget		
Total Capital Expenditure	39.2	78.4	37.0	94.8	12.7	29.1

Net Surplus (before provisions) and Return on Own Funds

Table 8: Net Surplus (before provisions)

(EUR m)	Achieved	Forecast	Orientation		
	2010	2011	2012	2013	2014
Net Surplus (before provisions)	2,098	2,374	2,678	2,772	2,906
- of which Financial Surplus	2,400	2,694	3,004	3,105	3,244

Over the horizon of the Operational Plan, the Bank’s loan portfolio will continue to grow, although at a declining pace, and Own Funds are also expected to increase but at a higher pace. This should result in a slowdown in the growth of debt and a positive impact on the evolution of key financial and risk ratios.

The Return on Own Funds (before provisions) has been relatively stable over the past years ranging between 5.3% (in 2009) and 5.7% (expected result for 2011). Internal simulations show an increase in 2012 followed by a stabilisation for the period from 2012 to 2014 around 6.0%. It is reminded that such levels of Return on Own Funds cannot be compared to commercial banks’ ones as the EIB’s business model is essentially based on long term lending at attractive conditions. The return delivered by the Bank still exceeds the yield currently offered on AAA government securities.

9. Performance Indicators

The performance indicators were chosen to focus attention on the objectives and processes the Bank deems most critical. The Performance Indicators reflect the Bank's focus on sustainability to growth in Europe. In 2012, 88% of all lending will be EU rising to 90% by 2014.

Table 9: Performance Indicator Table

Indicator	Unit	2011 Forecast	Orientations			2012-2014 Average
			2012	2013	2014	
1 Total Disbursements	EUR bn	60.9	50.0	48.0	46.0	48.0
- inside the EU	EUR bn	55.5	44.0	42.7	41.4	42.7
- outside the EU	EUR bn	5.4	6.0	5.3	4.6	5.3
2 Total Signatures	EUR bn	62.1	50.0	48.0	46.0	48.0
- inside the EU	EUR bn	54.4	44.0	42.7	41.4	42.7
- outside the EU	EUR bn	7.7	6.0	5.3	4.6	5.3
3 Signatures contributing to Increase in Growth and Employment Potential	EUR bn	39.5	32.7	31.8	30.8	31.8
4 Signatures contributing to Environmental Sustainability	EUR bn	17.3	13.5	13.1	12.7	13.1
5 Signatures contributing to Economic and Social Cohesion*	%	35%	>30%	>30%	>30%	>30%
6 Signatures contributing to Climate Action	%	>25%	>25%	>25%	>25%	>25%
7 Flow of A to D+ Graded Loans Ratio	%	>85%	>90%	>90%	>90%	>90%
8 Net surplus**/Remuneration of own Funds	%	145%	150%	159%	170%	160%
9 Cost/Income Ratio	%	17%	16%	15%	14%	15%
10 Staff Satisfaction	%	80%	80%	80%	80%	80%
11 Implementation of IG Agreed Action Plans and Recommendation – EIB Group	%	70%	>60%	>60%	>60%	>60%
12 Corporate Responsibility - External Scoring	%	59%	60%	61%	62%	61%

Table 10: Value Added average score of all projects approved in EU

Indicator	Unit	2010 Achieved	2011 Forecast	2012 Operational Range
Pillar 1: Contribution to EU objectives	#	136	120-140	120-140
Pillar 2: Quality and soundness of projects	#	143	130-150	130-150
Pillar 3: EIB contribution	#	129	100-200	100-200

Priority Lending Objectives and Public Policy Goals – EU and Pre-Accession Countries

Lending volumes reflect one aspect of the EIB's contribution to further EU policy goals but so too lending quality is a key aspect of this contribution. Traditionally the Bank has used a selection of Priority Lending Objectives to drive the underlying direction of the lending activity.

During 2012, the Bank will move to reporting underlying signature activity in line with their contribution to the following Public Policy goals:

- Increase in **Growth and Employment Potential**
- **Economic and Social Cohesion**
- **Environmental Sustainability**
- projects that specifically contribute to **Climate Action**

The composition of projects contributing to an increase in Growth and Employment Potential and Environmental Sustainability are given below. Projects of this nature can, and often do, of course contribute also to Economic and Social Cohesion and Climate Action. Hence Economic and Social Cohesion and Climate Action are considered "transversal" in nature and as such targets for these two Public Policy goals are set as percentages of total signatures.

Full transition from the current processes and reporting in line with the Priority Lending Objectives (as presented in Table 11 below) to the Public Policy Goals (as presented in Table 12) will be managed gradually and pragmatically over the first half of 2012.

Table 11: Priority Lending Objective Table

Indicator	Unit	2011 Forecast	2012 Target
Convergence	EUR bn	21.0	18.0
Knowledge Economy	EUR bn	9.8	8.4
- Total loans (EIB)	EUR bn	9.8	8.4
- Total signatures - Equity (EIF)*	EUR bn	1.2	1.3
TENs signatures (incl. Transport and Energy)	EUR bn	9.5	6.3
Environment Protection and Sustainable Communities	EUR bn	15.9	11.3
Small to Medium sized Enterprises (SMEs)	EUR bn	10.4	11.0
- Total loans (EIB)	EUR bn	10.4	11.0
- Total Signatures - Guarantees (EIF)**	EUR bn	1.3	1.3
Supporting Energy Objectives	EUR bn	12.0	9.5

*EIF figures not included in EIB signature totals, **EIF guarantee figures do not reflect the leveraged amounts which would be EUR 6.2bn in 2011 and in 2012

The Priority Lending Objectives will be modified and grouped under the Public Policy Goals as below (estimated translation pending final delivery of underlying systems). The transversal contributions, of signatures contributing to Economic and Social Cohesion and Climate Action, are reflected as percentages of total signatures.

Table 12: Public Policy Goals Table (estimated)

Indicator	Unit	2011 Forecast	Orientations			2012-2014 Average
			2012	2013	2014	
3 Signatures contributing to Increase in Growth and Employment Potential	EUR bn	39.5	32.7	31.8	30.8	31.8
- Knowledge Economy - total loans (EIB)	EUR bn	9.8	8.4	8.1	7.8	8.1
- Knowledge Economy - Equity (EIF)*	EUR bn	1.2	1.3	1.3	1.3	1.3
- TENs Transport	EUR bn	8.0	6.0	5.8	5.6	5.8
- Competitive and Secure Energy	EUR bn	7.5	4.5	4.5	4.4	4.5
- Support to SMEs - total loans (EIB)	EUR bn	10.4	11.0	11.0	10.7	10.9
- Support to SMEs - guarantees (EIF)**	EUR bn	1.3	1.3	1.2	1.8	1.4
- Support for Urban Renewal and Regeneration (inc. health care)	EUR bn	3.8	2.8	2.4	2.3	2.5
4 Signatures contributing to Environmental Sustainability	EUR bn	17.3	13.5	13.1	12.7	13.1
- Environmental Protection	EUR bn	5.2	4.1	3.9	3.8	3.9
- Renewable Energy and Energy Efficiency	EUR bn	6.6	5.0	5.1	4.9	5.0
- Sustainable Transport - Urban and Inter-urban	EUR bn	5.5	4.4	4.1	4.0	4.2
5 Signatures contributing to Economic and Social Cohesion	%	35%	>30%	>30%	>30%	>30%
6 Signatures contributing to Climate Action	%	25%	>25%	>25%	>25%	>25%

*EIF figures not included in EIB signature totals, **EIF guarantee figures do not reflect the leveraged amounts which would be EUR 6.2bn in 2011 and in 2012

Priority Lending Outside EU and Pre-Accession Countries

The lending objectives for regions in the EU's Neighbourhood and Partner countries are centred on four high-level objectives:

- Local private sector development
- Social and economic infrastructure
- Climate change mitigation and adaptation
- Regional integration

Activities in Pre-Accession countries support lending objectives both inside the EU and other European countries as well the objectives of the External Mandates in the EU's Neighbourhood and Partner countries

Glossary of Terms

ACP	African, Caribbean and Pacific States
ALA	Asia and Latin America
ALM	Asset/Liability Management
EBRD	Bank for Reconstruction and Development Bank for Reconstruction and Development
EC	European Commission
EFTA	European Free Trade Association
EFTA countries	Iceland, Liechtenstein, Norway and Switzerland
EIF	European Investment Fund
ELENA	European Local Energy Assistance facility
EPEC	European PPP Expertise Centre
ERDF	European Regional Development Fund
External Mandate	Decision 1080/2011/EU of Decision the European Parliament and of the Council of 25 October 2011, replacing Decision 633/2009/EC of the European Parliament and the Council of 13 July 2009 in turn replacing the Council Decision 2006/1016/EC of 12 December 2006
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FYROM	Former Yugoslav Republic of Macedonia
IF	Investment Facility
IFI	International Finance Institutions
JASMINE	Joint Action to Support Micro-finance Institutions in Europe
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
KfW	Kreditanstalt für Wiederaufbau
LGTT	Loan Guarantee for TEN Transport
Liquidity Ratio	The Bank's year-end total liquidity ratio is defined as being the net treasury measured to the projected net cashflows for the following year
Mid-caps	Companies of a size and development stage between SMEs (according to the Community definition of less than 250 employees) and larger companies
Neighbourhood and Partners Countries	Neighbourhood and Partnership countries include Mediterranean countries (excluding Turkey), Eastern Europe, South Caucasus, Russia, ACP/OCT, RSA and ALA
NER 300	New Entrants Reserve of the EU Emissions Trading System
OCT	Overseas Countries and Territories
PCRs	Project Completion Reports
PPP	Public Private Partnership
Pre-Accession Countries	Include Candidate countries (Turkey, Croatia, Former Yugoslav Republic of Macedonia, FYROM, Iceland), and Potential Candidate countries (Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo (under UNSCR 1244)
RSA	Republic of South Africa
RSFF	Risk Sharing Finance Facility
SFF	Structured Finance Facility
SMEs	Small and Medium-sized Enterprises
TFA	Technical and Financial Advice
TEN	Trans-European Networks



European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
☎ (+352) 43 79 - 1
☎ (+352) 43 77 04
✉ info@eib.org
www.eib.org