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EIB Capital Market Operations in 2005

2005 Highlights¹

- Overall EUR 50bn raised in 2005 via 330 transactions in 15 currencies, across all major markets.
- Cornerstone of the funding programme remained benchmark issuance in core currencies (EUR, GBP, USD), raising EUR 31bn - EIB remains *sole issuer with such comprehensive yield curves across EUR, GBP and USD*.
- Tailor-made issuance was buoyant, and included structured issuance for EUR 11bn in various currencies, with EUR structured issuance more than doubling to EUR 7.6bn.
- Programme was completed as of 4th November 2005. Thereafter, the Bank remained active in the market to selectively pre-fund part of its 2006 requirements. As of 31st December 2005 the Bank had pre-funded EUR 2.9bn of its 2006 needs (up to EUR 55bn).
- Positive market reception, reflected by the awards, as voted by market participants in the *EuroWeek* poll, including 'Most Impressive', 'Most Innovative' and 'Best Supranational/Agency' Borrower for the second consecutive year.

Consistent funding strategy

- Consistent and innovative strategy delivering liquid benchmark presence across comprehensive range of maturities in EUR, GBP and USD, with meticulous attention to execution and aftermarket performance.
- Responsive to opportunities for tailor-made plain vanilla and structured issuance in various currencies.
- Active role in contributing to development of markets in new/future EU Member States.

Top quality credit standing

- Rated AAA by Moodys, S&P and Fitch with stable outlook.
- 0% risk weighted under forthcoming Basel II framework.
- Offer investors diversification thanks to EIB's ownership by all EU sovereigns, underpinning market recognition for positioning as the Consolidated European Sovereign Issuer.

2005 Review**EUR: Cementing sovereign class**

The total volume raised in EUR in 2005 (EUR 19.3bn) was almost EUR 2bn above 2004 levels (EUR 17.4bn). EUR operations illustrated the Bank's distinctive sovereign-class positioning: the Bank is the only borrower to complement sovereigns with benchmark issues in Global format of EUR 5bn size with outstanding maturities from 3-years to 30-years, with an aggregate amount of EUR 62bn outstanding. This follows the extension and renewal of the EUR benchmark curve comprising EARNs² issues in the challenging maturities of 30-years and 10-years in 2005. Further attention to liquidity was visible in the EUR 474m increase of the 2008 EARN, following in-depth consultation with the market on execution of the Bank's first auction-based liquidity allocation procedure. The EUR 1bn tap of the 2020 issue, raising its size to EUR 5bn, permitted its eligibility for the leading sovereign trading platform EuroMTS and the associated "Eurobenchmark" status. EARNs offer a complement to government issues as well as diversified exposure, thanks to the Bank's ownership by all EU sovereigns – indeed, EIB bonds can be seen as 'a way to buy Europe'.

In the non-benchmark market in euros, there has been an unprecedented growth in demand for interest rate structures in EUR. Structured transactions raised a record EUR 7.6bn (EUR 3.7bn in 2004) driven by high demand for yield-enhancing interest rate structures among European investors.

¹ Figures are for the 2005 funding programme completed on 4.11.2005 unless stated

² Euro Area Reference Notes or "EARNs" is the Bank's programme for EUR benchmark transactions

GBP: Reinforcing leadership in non-gilt market

The EIB's status as the leading frequent issuer in the non-Gilt market was firmly underscored by raising GBP 6.9bn (EUR 10bn). The Bank maintained a share of around 10% of the non-Gilt market, confirming the status of the EIB's bonds as the principal alternative to Gilts and the benchmark for the non-Gilt market, with around GBP 42bn outstanding.

There was issuance in 11 maturities (2 to 13-years), demonstrating the consistent approach to maintaining the Bank's GBP yield curve, which extends out to the 50-year area. The Bank established two new benchmark lines. One was the June 2012 issue, which was tapped 6 times, thereby achieving particularly rapid ascent to benchmark status of GBP 1bn. The other new line was the first 10-year bond issue since January 2003. A further highlight was the GBP 300m increase of the 4.5% 2008 issue to GBP 2 850m, making it the largest and arguably most liquid 3-year benchmark from a AAA-rated issuer. The Bank's attention to liquidity was further evidenced with the increases to benchmark size of GBP 1bn of four issues (in maturities ranging from 2007 to 2013). The Bank further extended its investor distribution, particularly among Central Banks, aided by launching bookbuilt transactions that are instrumental to boost investor demand and lay the basis for taps, which are characteristic of the sterling market. In structured products, the Bank issued a Retail Price Index (RPI) linked bond on a back-to-back basis, to fund a UK PPP project, as well as an innovative synthetic BRL bond linked to the GBP/BRL exchange rate.

To enhance liquidity of EIB benchmark sterling bonds, there are strong market-making arrangements, with two dedicated GBP Dealer Groups, one serving institutions and the other retail investors. This year, in addition, an interdealer repo screen was established by Brokertec, supported by dedicated market maker quotes in order to improve the repo market in these bonds.

USD: Largest non-US issuer

In 2005, the Bank raised an amount of USD 18.3bn (EUR 14.3bn), making it the largest non-US issuer in this currency. Conditions in the USD market were significantly more challenging than in 2004. The Bank nonetheless maintained its position as a leading issuer of USD benchmark bonds, by approaching the markets in a timely and responsive manner. The Bank issued 5 benchmarks in Global format, comprising two USD 3bn issues in the three-year tenor, two USD 3bn 5-year issues and a USD 1bn issue in the particularly exigent 10-year maturity. The Bank also issued two Eurodollar bonds totalling USD 2 250m. Structured transactions amounted to USD 2.9bn (EUR 2.3bn).

New EU Member States and Accession Country Currencies

In currencies of the new Member States and Accession States, the Bank continued to be a leading complement to government bonds, raising a total of EUR 1.5bn (in HUF, PLN and TRY). A highlight was the strong demand in Turkish lira, where the Bank seized the opportunity to adopt a strategic approach, building the first-ever yield curve in Turkish lira going out to 10 years, with eight bonds maturing between 2006 and 2015. Also, the TRY 2007 issue became the largest Turkish lira bond in the international market. Total issuance in Turkish lira amounted to EUR 1.2bn equivalent - a substantial result given that this was a new currency for the Bank in an emerging market.

The EIB has taken a particular interest in fostering the development of the markets of new EU Member States and Accession Countries. Since 1996, when the EIB launched its first issue in these countries' currencies, the Bank has over recent years become one of the largest non-government issuers in the region. It has built a reputation for innovation, both in terms of product and maturity. As in other currencies, EIB's issuing strategy in these markets is to build up issues to liquid sizes across a range of maturities where market conditions permit.

Other European currencies

In other European currencies, activity in CHF was important, raising CHF 1.1bn (EUR 709m). In CHF as well as in SEK (SEK 1.6bn/EUR 174m), the focus was on further developing the Bank's benchmark presence. Issuance in NOK continued (NOK 300m/EUR 38m). Also, the Bank issued for the first time in Icelandic Krona (ISK 12bn/EUR 162m).

Asia/Pacific

EIB consolidated its role as a prominent issuer in the Asia/Pacific markets, where the Bank issued across JPY, AUD and NZD for a total of EUR 3.1bn equivalent. Of particular note was the debut in the Yen Global market, via a JPY 100bn (EUR 749m) 12-year issue, which reopened the Yen Global market for supranational issuers. In total, the Bank raised JPY 183bn (EUR 1.4bn) in this currency. Australian Dollars and New Zealand Dollars also provided a large funding volume driven by strong growth in NZD issuance (raising NZD 1.9bn/EUR 1.1bn), more than doubling 2004 levels.

Other currencies

Another important novelty was the Bank's debut in Latin America, with the launch of 6 transactions in Mexican Peso, raising MXN 2.4bn (EUR 183m). In addition, the Bank maintained a leadership role in South African Rand, raising ZAR 1.8bn (EUR 219m).

As in 2004, there were a number of innovative issues via synthetic currency format, in markets where the currency is not fully convertible. In 2005, this approach was used again in Russian Rouble and for the first time in Brazilian Real and the Botswana Pula, the latter being the first issue linked to this currency and launched by a AAA-rated issuer (and booked under pre-funding of the 2006 programme).

Borrowings signed and raised in 2005³ vs. 2004 (EUR million)

	Before swaps:				After swaps:			
	2005		2004		2005		2004	
EUR	19 311	38.8%	17 373	34.8%	32 179	64.6%	22 355	44.8%
CZK					19	0.0%	522	1.0%
GBP	10 057	20.2%	9 583	19.2%	3 096	6.2%	5 497	11.0%
HUF	222	0.4%	880	1.8%	53	0.1%	77	0.2%
MTL			23	0.0%				
PLN	73	0.1%	203	0.4%	49	0.1%	251	0.5%
SEK	174	0.4%	329	0.7%	468	0.9%	165	0.3%
SIT			17	0.0%				
Total EU	29 838	60%	28 408	57%	35 864	72%	28 868	58%
AUD	692	1.4%	1 065	2.1%				
BGN			51	0.1%				
CAD			193	0.4%				
CHF	709	1.4%			259	0.5%		
HKD			67	0.1%				
ISK	162	0.3%						
JPY	1 352	2.7%	1 418	2.8%				
MXN	183	0.4%						
NOK	38	0.1%			38	0.1%		
NZD	1 077	2.2%	329	0.7%				
TRY	1 222	2.5%						
USD	14 309	28.7%	17 863	35.8%	13 581	27.3%	20 777	41.7%
ZAR	219	0.4%	474	0.9%	63	0.1%	220	0.4%
Total non EU	19 962	40%	21 460	43%	13 941	28%	20 997	42%
TOTAL	49 800	100%	49 868	100%	49 805	100%	49 865	100%

For further information on the EIB, visit its website www.eib.org.

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