

€uro



EIB LENDING
AND BORROWING
DURING THE CHANGEOVER
TO THE €URO

An operational guide



EUROPEAN INVESTMENT BANK

The European Union's financing institution

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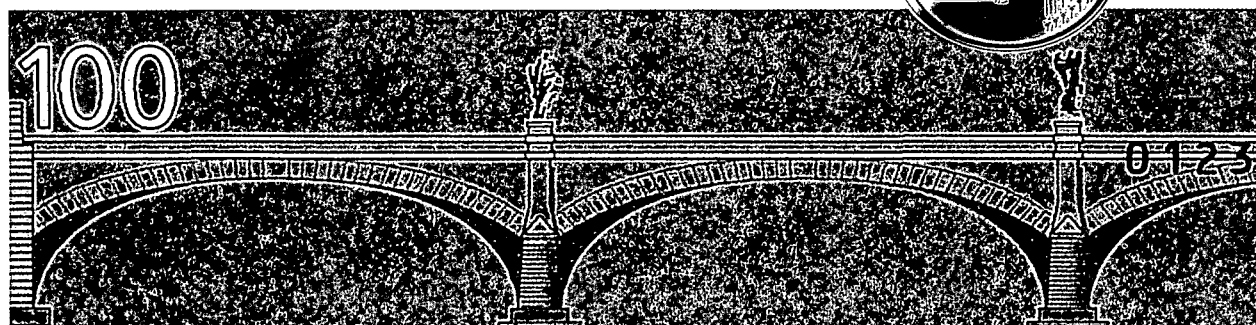
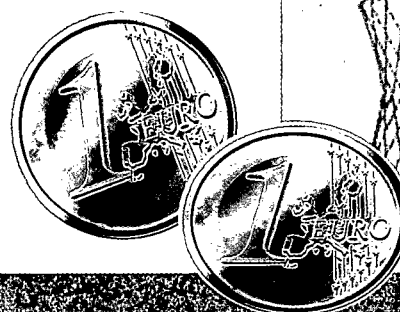
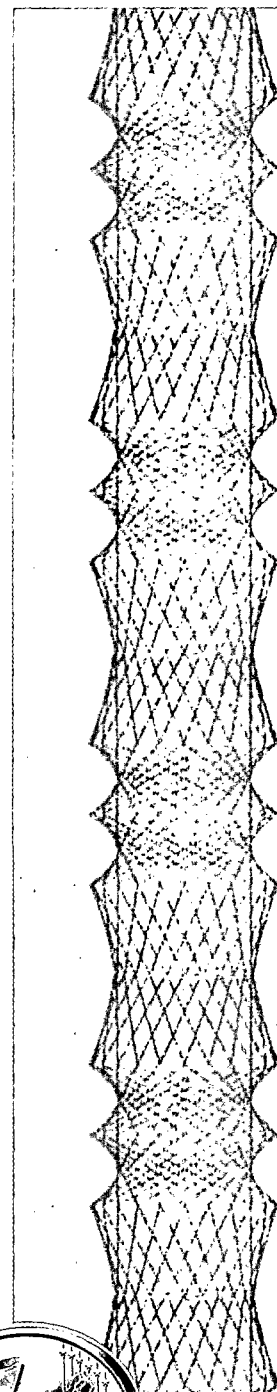
Introduction

In preparation for the start of the 3rd stage of Economic and Monetary Union (EMU) and the introduction of the single currency on 1 January 1999, the European Investment Bank (EIB) considers it useful to inform its borrowers, guarantors and investors about the changes to its existing and forthcoming borrowing and lending operations resulting from the introduction of the euro (EUR).

The introduction of the euro by 11 Member States of the European Union, following the decisions taken by the European Council in Brussels in early May 1998, will create a new currency expected to play a major global role.

The EIB has already contributed towards the establishment of the euro in a number of ways, not least through its funding strategy designed to create a deep and liquid market in euro-denominated debt instruments on the capital markets. By virtue of its experience as well as its commitment to the establishment of the euro, the EIB has been and will continue to be a significant player in the single currency market.

The aim of this information brochure is to provide answers to the main practical questions connected with EIB lending and borrowing, and to serve as an operational guide.



Paving the way towards Economic and Monetary Union

In 1998, the European Investment Bank (EIB) celebrates 40 years of serving European integration. This anniversary falls as the Union is on the brink of the most radical step forward in its history: the completion of its monetary integration, with the introduction of the euro.

The EIB is deeply committed to pioneering the way for this landmark event, through its operations, both as an institution of the Union and as a bank.

Strategic support for the introduction of the Euro

The EIB is endeavouring to make a notable contribution to the emergence of a large euro capital market. It is pursuing a borrowing strategy aimed at speeding up the creation, even prior to the start of Monetary Union, of a deep and liquid market in euro-denominated instruments. In early 1997, it launched the first-ever borrowing in euro (amounting to 1.5 billion as of mid-1998), followed, in February 1998, by its first euro global issue (for EUR 2 billion), which was placed simultaneously on the European, American and Asian markets.

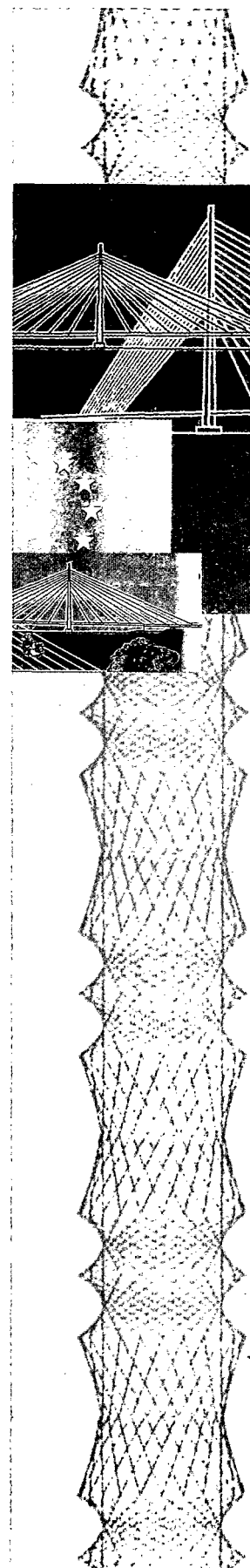
The Bank has also embarked upon a major programme of euro-tributary issues in the various currencies of the European Union's Member States. These borrowings, with the same terms and conditions, will be redenominated in euro as from 1 January 1999 with a view to building up large and liquid benchmarks along the entire yield curve. As of mid-1998, aggregate EIB euro and euro-tributary issues numbered 23 and ran to some EUR 16 billion.

Over the coming months, the EIB will be supporting this strategy with programmes involving the exchange and redenomination of its earlier borrowings – amounting to more than ECU 51 billion – in the currencies of countries taking part in the 3rd stage of Monetary Union.

The EIB is thus playing a leading role in building up a critical mass of euro-denominated instruments on the financial markets.

Lending for EMU: fostering economic and social cohesion in the Union

The EIB's main contribution to European integration is, however, through its lending activity of well over ECU 20 billion per year in the Union's Member States and their currencies.



PRINCIPLES AND KEY CONSIDERATIONS GUIDING LENDING AND BORROWING ASPECTS DURING THE CHANGEOVER TO THE EURO

As from 1 January 1999, the ECU will automatically be replaced by the euro (EUR) in all legal instruments at the conversion rate of 1:1. The euro will become the single currency of the Member States participating in the 3rd stage of Economic and Monetary Union, their national currency units continuing to be used as sub-divisions of the euro.

During the transitional period (01.01.1999 - 31.12.2001), the two main principles applicable to EIB lending and borrowing operations will be:

- "The continuity of contracts" (Article 3 of the Council Regulation (EC) N° 1103/97 ⁽¹⁾): in accordance with this article, the introduction of the euro shall not have the effect of altering any term of a legal instrument, subject to anything which the parties may have agreed.
- "No compulsion - no prohibition" (Article 8 of the Council Regulation (EC) N° 974/98 ⁽²⁾): a party may use the euro but cannot be compelled to do so. An amount denominated either in euro or in a national currency unit of a participating Member State and payable in that Member State can be paid either in euro or in that national currency unit.

As from 01.01.2002, the currencies of the 11 European Union Member States participating in the 3rd stage of Economic and Monetary Union will no longer be used in book - entry transactions. By mid-2002 at the latest, these currencies will cease to have legal tender status, being fully replaced by the euro. National currency unit notes and coins will be withdrawn from circulation at the same time.

CONVERSION AND ROUNDING RULES

The conversion rates between the euro and the national currency units of the participating Member States, to be fixed irrevocably by the Council of the European Union on 01.01.1999 in accordance with Art. 109 I.4 of the Treaty establishing the European Community, will run to 6 significant figures. Conversion and rounding will follow the relevant Council Regulation (EC) N° 1103/97 (Articles 4 and 5) ⁽¹⁾.

CONVERSION

The conversion rates are used for conversions either way between the euro unit and the national currency units. They comprise six significant figures (series of 6 figures, the first of which may not be 0). They may not be rounded or truncated when making conversions.

Examples:

1 euro = LUF 40.7806 (notional rate)

- EUR 1000 / 40.7806 = LUF 40 780.6 rounded to LUF 40 781
- LUF 1000 / 40.7806 = EUR 24.521 rounded to EUR 24.52.

For rounding purposes, all monetary amounts to be converted from one national currency unit into another national currency unit must first be converted into euro (triangular operation).

ROUNDING

The rounded amount in euro includes up to two figures after the decimal point, the euro being sub-divided into 100 units called "cent" (1 euro = 100 cent).

Amounts in euro are rounded up or down to the nearest "cent". Where application of the conversion rate gives an amount which is exactly half-way, the sum is rounded up:

Examples:

- 15.324 euro is rounded to 15.32 euro
- 15.327 euro is rounded to 15.33 euro
- 15.325 euro is rounded to 15.33 euro.



(1) OJEC, L 162, dated 19.06.1997, (2) OJEC, L 139, dated 11.05.1998

After the start of the 3rd stage of EMU, the pattern and volume of EIB lending will become particularly relevant, especially in areas where there have been persistent regional differences. Two thirds of EIB financing are devoted to investment strengthening the fabric of the Union and promoting the development of its least advanced regions, while the Bank has markedly stepped up its lending for trans-European networks (TENs) for transport, energy and telecommunications.

Additionally, in order to sustain growth and employment in Europe, the EIB has built on the foundations laid at the Amsterdam European Council in June 1997 by launching a special action programme to support growth and employment in Europe. The purpose of this is to direct a substantial part of lending towards employment creating schemes or towards projects that prepare Europe for the future by placing particular emphasis on SMEs, education and health, environmental protection, as well as the start-up of innovative businesses.

The EIB also helps to pave the way for the Union's sustainable development by financing investment directed towards fostering sound energy management, creating new industrial technologies, building up communications networks and improving the quality of life.

Outside the European Union, the EIB is closely associated with implementation of the Union's external cooperation and pre-accession policies which benefit over 120 countries in the world.

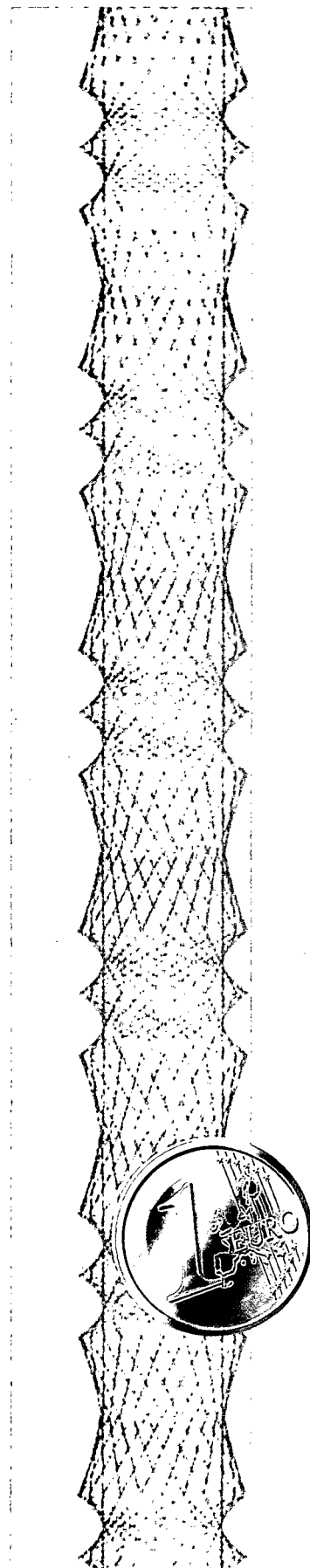
1. LENDING: what will be new for EIB borrowers?

In the context of the introduction of the euro, the EIB will continue to adapt its lending policy and instruments to the changing environment so as to fulfil its mission of promoting the balanced economic development of the European Union by offering financial services complementing those offered by the banking sector.

As part of its role of promoting EMU and the single currency, the EIB will make the widest possible use of the euro in its lending operations. The main effects on new and existing EIB loan contracts are set out below.

1.1. Validity of contracts

All EIB loan contracts and guarantee agreements signed before the introduction of the euro, whatever the currency in which they are denominated, will remain valid after 01.01.1999. Interest rates and all terms and conditions, including commitment arrangements, maturities, amortisation schedules and prepayment options will remain unchanged.



1.2. Opening of credit

Contracts signed before 01.01.1999:

- All credit opened in national currency units of the participating Member States and/or other currencies will remain unchanged.
- All credit opened in ECU will automatically be replaced by the EUR on 01.01.1999, on a one-to-one basis: 1 ECU = 1 EUR.

Contracts signed after 01.01.1999:

- All credit will be opened in euro. At the request of borrowers in *non* - participating Member States, the EIB may open their credit in their national currency.

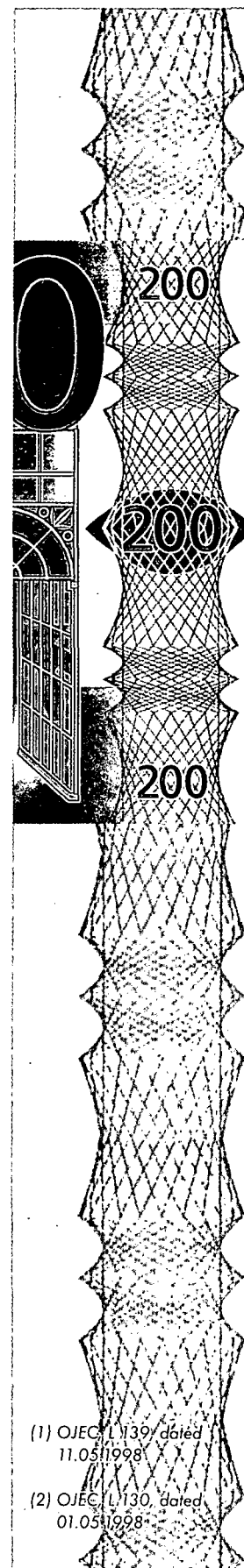
1.3. Denomination and disbursement of loans before 01.01.1999

- Loans disbursed in national currency units of participating Member States: these will remain denominated in the currency originally provided for, unless redenomination is agreed between the parties. In such cases, the final reconciliation between amounts to be amortised in national currency units and their equivalent in EUR will be made on the last instalment.
- Loans disbursed in ECU: the ECU will be automatically replaced by the EUR on 01.01.1999, on a one-to-one basis: 1 ECU = 1 EUR.
- Loans disbursed in other currencies: these will remain denominated in the currency originally provided for in the contract.

1.4. Loan disbursements after 01.01.1999

New loans, irrespective of the date of signature of the contract, before or after 01.01.1999, will be denominated and disbursed, as the case may be and subject to availability, either in EUR, a national currency of a *non* - participating Member State or other major currencies traded internationally (USD, JPY, CHF, etc.).

During the transitional period up to 31.12.2001 and in accordance with the Council Regulation (Art. 8.3 - Reg. (EC) N° 974/98 ⁽¹⁾), loans to be disbursed in a national currency unit of a participating Member State will be disbursed in EUR in that Member State. Such disbursements in EUR to national currency unit accounts designated by the borrower should be converted into those national currency units *without charge* to the borrower as pointed out in the Commission Recommendation 98/286 EC of 23.04.1998 ⁽²⁾.



(1) OJEC L 139, dated 11.05.1998

(2) OJEC L 130, dated 01.05.1998

Outside the European Union, for those borrowers who do not have euro-denominated accounts, the EIB will endeavour, via its correspondent banks, to make the funds available to the borrower at minimum conversion costs.

1.5. Repayment and servicing of loans

Payments linked to loan contracts, including annual instalments of principal interest, prepayments, penalties and any other expenses, will be made as follows:

Loans disbursed before 01.01.1999:

- Loans disbursed in ECU: to be made in EUR, as the ECU will automatically be replaced by the EUR on 01.01.1999 on a one-to-one basis: 1 ECU = 1 EUR.
- Loans disbursed in the national currency unit of a participating Member State:
 - during the transitional period up to 31.12.2001:
in EUR or in the national currency unit of the participating Member State in which the loan was disbursed, depending on the borrower's preference, it being understood that the Bank will in any case accept repayment in EUR.
 - after the transitional period as from 01.01.2002:
in EUR, as the loan contracts will have to be read as being in EUR.
- Loans disbursed in other currencies: in the same currencies as those disbursed.

Loans to be disbursed after 01.01.1999 and before 01.01.2002:

Depending on the currencies disbursed, repayments of such loans during the transitional period up to 31.12.2001 will be made:

- in EUR, or in the national currency units of the relevant participating Member State;
- in national currencies of *non* - participating Member States;
- in other major currencies traded internationally (USD, JPY, CHF, etc.).

Loans to be disbursed after 01.01.2002:

Repayments will be made in the currency or currencies provided for in the contract.

- As loans can no longer be disbursed in national currency units of participating Member States, repayments will be made in EUR.



- Loans disbursed in national currencies of *non* - participating Member States or in other currencies traded internationally (USD, JPY, CHF, etc.) will continue to be repaid in the currencies disbursed.

1.6. Interest rates

The rate or rates charged are those in force at the time of contract signature or, in the case of open-rate contracts, at the time of each disbursement, whether fixed, fixed revisable, variable or convertible rates.

Loans disbursed before 01.01.1999:

- Fixed-rate loans (including fixed revisable and convertible if already converted): the interest rate will remain that originally provided for in the contract, irrespective of the currency involved.
- Variable-rate loans (including convertible if not already converted):
 - Variable spread: the reference rate will continue to be the EIB's specific variable rate with a cap expressed in basis points above the relevant reference rate.
 - Fixed spread: direct pricing based on the reference rate originally provided for or its established successor.

Reference rates

- Loans disbursed in ECU or in national currency units of participating Member States: as from 01.01.1999, the reference rate will be the successor reference rate, EURIBOR or EURO-LIBOR as the case may be.
- Loans disbursed in national currencies of *non* - participating Member States: these will follow the reference rate provided for in the contract (e.g. GBP - LIBOR, GRD - ATHIBOR, DKK - CIBOR and SEK - STIBOR).
- Loans disbursed in other major currencies (USD, JPY, CHF, etc): the reference rate applied will be that provided for in the contract.

Loans to be disbursed after 01.01.1999:

- Fixed-rate loans (including fixed revisable and convertible if already converted): to be determined according to the currency disbursed, term and repayment mode. As from 01.01.1999, instead of the interest rates of the various national currency units of the participating Member States, the EIB will quote the euro interest rates.

- Variable-rate loans (including convertible if not already converted):
 - Variable spread: the reference rate will be the EIB's specific variable rate with a cap expressed in basis points above the relevant reference rate.
 - Fixed spread: direct pricing based on the reference rate applicable or its established successor.

Reference rates

- Loans disbursed in EUR: the reference rate will be the EURIBOR.
- Loans disbursed in national currencies of *non* – participating Member States: the reference rate applicable to the currency concerned (e.g. GBP - LIBOR, GRD - ATHIBOR, DKK - CIBOR and SEK - STIBOR).
- Loans disbursed in other major currencies (USD, JPY, CHF, etc): to follow the reference rate applicable to the currency concerned.

1.7. Financial information (amortisation schedules, repayment notices, etc.)

The financial information provided to borrowers or guarantors by the EIB concerning loan contracts will be as follows:

Loans disbursed before 01.01.1999:

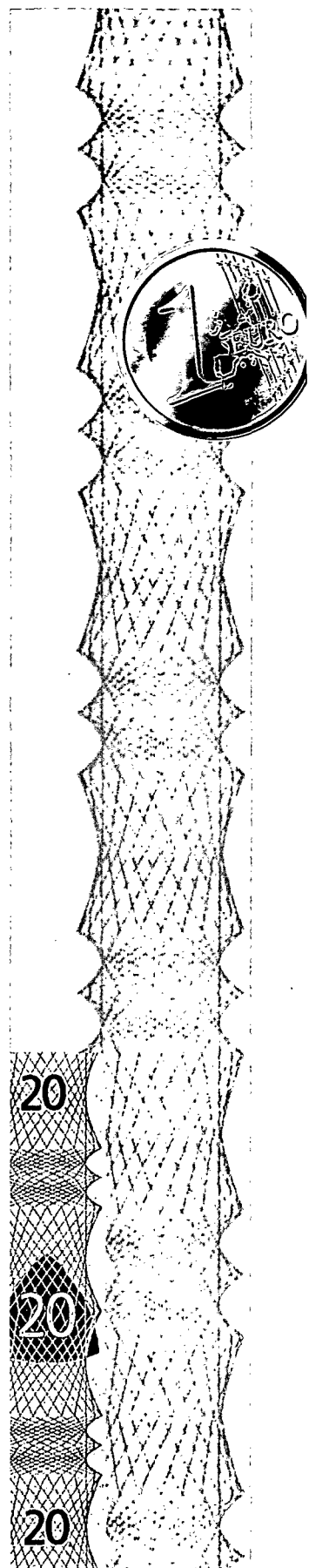
- In national currency units of participating Member States: as originally provided for in the contract together with the equivalent in EUR.
- Directly in EUR if the loan is redenominated or was denominated in ECU, as the ECU will automatically be replaced by the EUR on a one-to-one basis.
- In national currencies of *non* – participating Member States as well as loans in other major currencies traded internationally: in the same currency or currencies as provided for in the contract.

Loans to be disbursed after 01.01.1999:

Financial information will be in the currency or currencies in which disbursement is made, it being understood that, during the transitional period and at the request of the borrower, amounts disbursed in EUR can be *accounted for* in the relevant national currency unit of the participating Member State with its countervalue in EUR.

1.8. Security for loans

The underlying security will need to be denominated in the same currency as the loan.



2. BORROWING: what will be new for EIB bondholders?

2.1. The EIB's euro strategy

The EIB's euro strategy has been to issue large liquid benchmarks along the entire yield curve, so as to provide an effective complement to euro government debt, and to organise the market for Bank bonds accordingly.

The EIB's strategic goal is to position itself eventually as a quasi-sovereign benchmark borrower in the future single currency by creating a broad, liquid, critical mass for the forthcoming euro bond market to emerge.

Building its yield curve

The establishment of benchmark issues along the yield curve has been achieved by launching new euro-tributary issues or adding fungible tranches to existing issues alongside large benchmark issues denominated in euro.

- In preparation for this strategy and shortly after the European Council held in Madrid in December 1995, the EIB was the first issuer to support the conversion rate of 1 ECU = 1 EUR based on Article 109 I.4 of the Treaty establishing the European Community, with an ECU 500 million issue, including an official and explicit contractual commitment to this conversion rate.
- In January 1997, the EIB launched the first-ever issue denominated in euro which, as of mid-1998, amounts to EUR 1.5 billion.
- Subsequently, the EIB set up a programme of euro-tributary issues which are large, liquid issues in European currencies to be redenominated in euro and with the same terms and conditions upon consolidation. The first euro-tributary issue was launched in January 1997. As of mid-1998, tributary operations total ECU 15.8 billion, of which 11.5 billion can be converted into euro as from 1999. Virtually all major maturities on the yield curve are represented (5, 6, 9, 10, 11, 20 and 30 years).
- In March 1998, the EIB launched a euro global bond issue placed simultaneously on the US and international markets. This issue is fungible with other euro-tributary issues launched in other European currencies and converted into euro; just under 30% of the issue was subscribed by US investors.

Organising its market

With a view to positioning itself on the future euro market, the EIB has started to put in place the structures required for organising its own market.



A first step was taken with the signing of market-maker contracts. According to these agreements, the underwriting banks undertake to quote prices for the issue on screen and to encourage a "repo market" for transactions. This step was followed up with the admission to the electronic dealing system for Italian Government issues ("Mercato Telematico dei Titoli di Stato") of the ITL 3 000 billion euro-tributary issue fungible with the global operation in euro. Furthermore, in July 1998, the EIB floated a DEM 3 billion ten-year euro-tributary issue for which a single screen Reuters "EIBBENCH" and "EIBREPO" has been set up.

2.2. The EIB's existing non-euro-tributary debt

Redenomination

The EIB's strategy is to redenominate this debt in keeping with the respective national regulations applicable to government bonds, thus ensuring consistency with the objective of developing quasi-sovereign features. Exceptions to the general redenomination policy might be made on a case-by-case basis, it being understood that the debt will be serviced in euro. The number of issues which the EIB could possibly redenominate is some 140, amounting to ECU 42 billion.

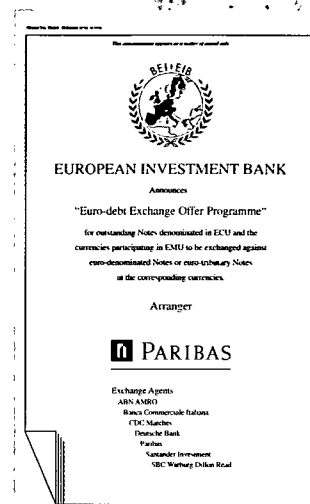
Restructuring

The EIB has launched a programme to exchange its debt for debt denominated in euro. The programme and the first exchange offer were made public on 15 June 1998. While forming part of the EIB's redenomination policy, the programme enables the Bank at the same time to restructure its debt. Bonds from 17 EIB issues denominated in three currencies (7 in DEM, 4 in FRF and 6 in ITL), with an outstanding amount totalling some ECU 10 billion, were the subject of the first exchange offer for euro-tributary issues of bonds in the same currency as the paper offered for exchange, maturing in 2003, 2004 and 2007 respectively.

2.3. New issues after 01.01.1999

New issues after 1 January 1999 will be launched in euro, replacing issues in ECU and in the eleven currency units of the participating Member States. The Bank's present approach in this regard is geared towards creating an adequate framework for EIB euro issues, gradually including more and more quasi-sovereign features in the Bank's current borrowings in euro.

The issuance programme in European Union currencies of *non*-participating Member States and other major currencies will continue as usual.



The run-up to the euro

The name of the single currency and the main arrangements for the introduction of the euro were decided in December 1995 in Madrid by the European Council, consisting of the Heads of State or Government of the European Union.

The International ISO code for the euro is EUR.

The 11 European Union Member States participating in the 3rd stage of Economic and Monetary Union as designated by the European Council in Brussels on 2-3 May 1998 are: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Austria, Netherlands, Portugal and Finland.

The method of bilateral exchange rates between the 11 currencies of the participating Member States was determined by the European Council in Brussels on 2-3 May 1998.

The irrevocable conversion rates between the EUR and the 11 currency units of the participating Member States will be fixed on 01.01.1999 by the Council of the European Union, which has officially defined the conversion rules (Art. 4 & 5 - Reg. (EC) N° 1103/97 ⁽¹⁾).

According to Council Regulation (EC) N° 974/98, the euro will be the single currency for the participating Member States as from 01.01.1999. During the transitional period, the 11 national currency units of the participating Member States will continue to be legal tender, but only as non-decimal denominations of the EUR. The sub-division of the euro is the cent.

All payments due in the currency units of a participating Member State and payable in that Member State can be made in EUR (Art. 8.3 - Reg. (EC) N° 974/98 ⁽²⁾). In such cases, payments made in EUR should be converted automatically to the national currency unit of the account *without charge* (Commission Recommendation 98/286/EC of 23.04.1998 ⁽³⁾).

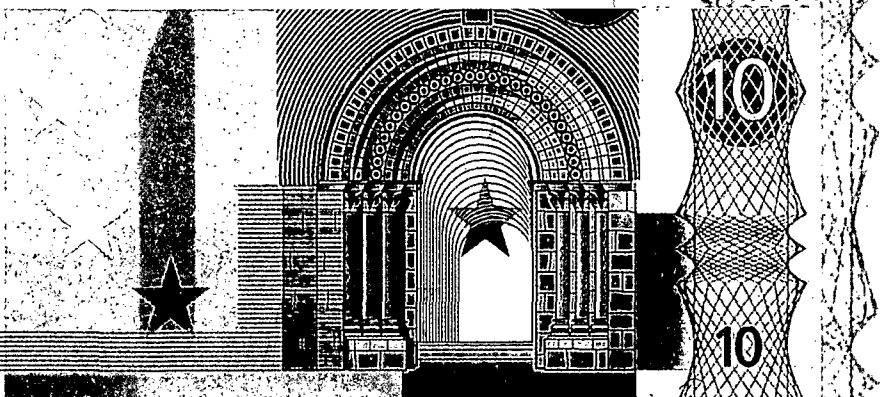
The information provided on pages 1 and 12 is sourced from public documents. Attention is drawn to the fact that this information is subject to change.

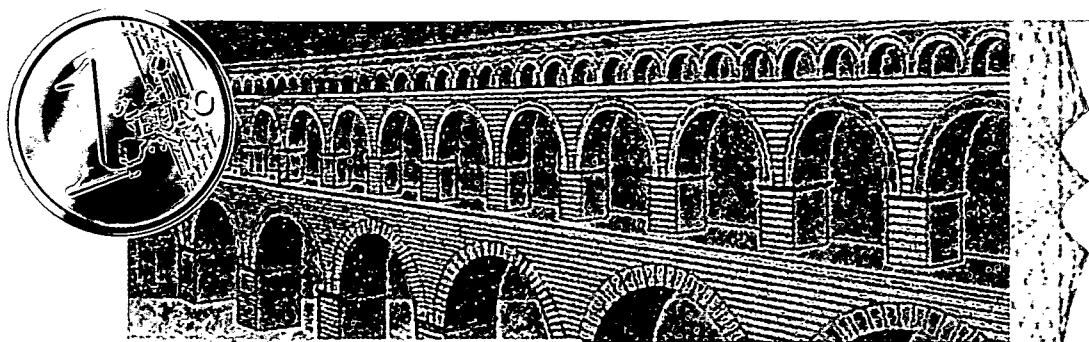
(1) OJEC L 162, dated 19.06.1997.

(2) OJEC L 139, dated 11.05.1998.

(3) OJEC L 130, dated 01.05.1998.

10 EURO
10 ΕΥΡΩ





The financial markets of the 11 European Union Member States participating in the 3rd stage of Economic and Monetary Union will switch to the EUR as from 01.01.1999.

The EUR will start to be used for all types of banking transaction as from 01.01.1999.

EUR notes and coins will become available as from 01.01.2002.

EURIBOR will be the floating reference rate for the euro sponsored by the Banking Federation of the European Union and the ACI (Association Cambiste Internationale). It will be officially displayed to all principal information services for the first time by Dow Jones Market Ltd on 04.01.1999, at 11h00, Brussels time.

EURO-LIBOR will be a floating reference rate sponsored by the British Bankers' Association; it will be displayed in London.

The European Central Bank (ECB) will operate a large-value payment system, named TARGET (Trans-european Automated Real-time Gross settlement Express Transfer), which will function in EUR as from 1 January 1999.

The European Investment Bank

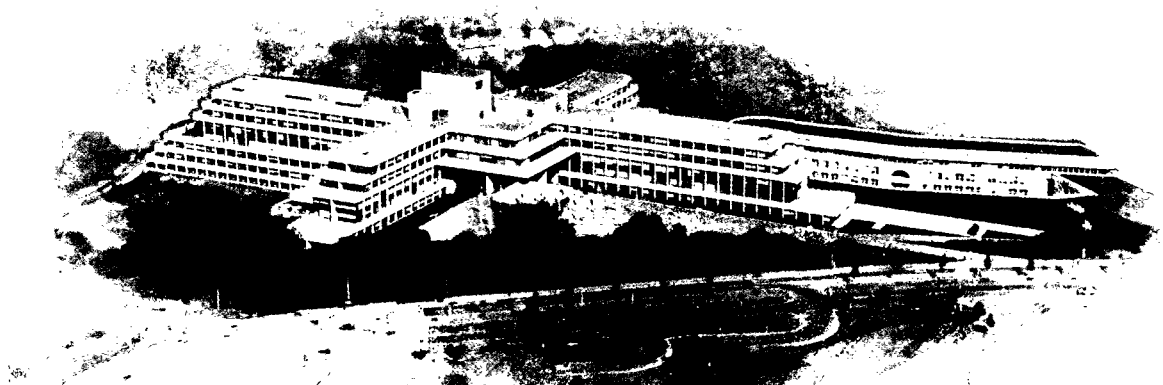
The European Investment Bank (EIB) is owned by the fifteen European Union (EU) Member States and has its headquarters in Luxembourg. It supports EU policies on a self-financing basis, raising its resources on the world's capital markets for onlending to sound capital investment projects that promote the balanced development of the European Union.

Set up in 1958 by the Treaty of Rome, the EIB has its own administrative structure and decision-making and control bodies (Board of Governors – usually the Finance Ministers of the Member Countries –, Board of Directors, Management Committee and Audit Committee).

As a major international borrower, which has always been awarded the highest “AAA” credit rating by the world's leading rating agencies, the EIB raises large volumes of funds on fine terms. It onlends the proceeds of its borrowings on a non-profit basis.

The volume of the EIB's operations has grown steadily and the Bank is today one of the largest financing institutions of its kind in the world. While the bulk of its loans are within the European Union, the Bank has also been called upon to participate in the implementation of the Union's development aid and cooperation policies through financing for the benefit of some 120 non-EU countries. It therefore supports:

- economic growth in the African, Caribbean and Pacific States and the Overseas Countries and Territories, as well as in the Republic of South Africa;
- a stronger Euro-Mediterranean partnership;
- preparations for the accession of the Central and Eastern European Countries and Cyprus;
- industrial cooperation, including the transfer of technical know-how, with Asia and Latin America.





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