The relevance of public driven banks for the sustainable realisation of social and economic policy objectives: Evidence from the European Investment Bank and the European Union

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To my family

and Pia
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Abstract

There are diverging opinions about public banking and there relevance for the financing of economic growth. In this explorative research project the question about EU’s expectations of the EIB and the effectiveness of the EIB in meeting these expectations is central. The main sources of this research project are secondary data about the EIB and the European Union as well as the “honourable merchant”.

To answer the question about the effectiveness of the EIB, the bank’s field of activity was contextualised with the “Europe 2020 strategy”. One key finding is that the relevance of public banks, such as the EIB, is underestimated. Especially the ability to provide long-term capital for large-scale investments with a low rate of return, shows that the public banks and its financial tools are essential for the economic development.

Furthermore, the second research question analyses the ethical position of the EIB as a public bank. This analysis is based on the hypothesis that this type of bank is acting more ethically as the strategic alignment is not based on the shareholder value approach. In this research project, the ethical stance of the bank was analysed by using the concept of the “honourable merchant”. The research project comes to the conclusion that public banks can invest more ethically because competition is not forcing the bank to maximise the rate of return.

Keywords: Public Banks, Private Banks, European Investment Bank, Europe, Europe 2020 strategy, Honourable Merchant
I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas. Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed
19.04.2013
Tobias Andreas Sanders

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# Table of Contents

Acknowledgement............................................................................................................. i
Abstract ................................................................................................................................... ii
Table of Contents ...................................................................................................................... iv
List of Tables ............................................................................................................................. v
List of Figures ............................................................................................................................ v
List of Equations ....................................................................................................................... v
List of Acronyms ....................................................................................................................... vi
Introduction ............................................................................................................................. 1
Research Methodology ............................................................................................................. 4
  Philosophies ............................................................................................................................. 5
  The interpretive paradigm .......................................................................................................... 7
  The functionalist paradigm ......................................................................................................... 9
Approaches .............................................................................................................................. 11
Strategies .................................................................................................................................. 14
Choices ...................................................................................................................................... 17
Time Horizon .......................................................................................................................... 20
Data Collection and Data Analysis ........................................................................................... 21
Preliminary Conclusion ............................................................................................................ 23
Literature Review ..................................................................................................................... 24
  The differences between public banks and private banks ......................................................... 24
  The European Investment Bank ............................................................................................... 29
  The honourable merchant ......................................................................................................... 35
  The objectives of the European Union ...................................................................................... 39
The European Investment Bank ................................................................................................. 43
  Legal and Historical Overview ................................................................................................ 43
  Today’s role of the European Investment Bank ....................................................................... 45
Financial Overview of the European Investment Bank .............................................................. 48
  Balance Sheet as at 31 December 2011 (in thousand euros) ................................................... 48
  Profit and Loss Account for the year ended 31 December 2011 (in thousand euros) ........... 50
  Summary of the bank’s financial situation .............................................................................. 51
Table of Contents

The European Investment Bank and the execution of European policy objectives........................................ 53
  Sustainable growth ........................................................................................................................................... 53
  Smart and inclusive growth .............................................................................................................................. 55

The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant” .................................................................................................................. 57
  Basic terms .................................................................................................................................................... 57
  Honour ......................................................................................................................................................... 57
  Merchant ...................................................................................................................................................... 59
  Honourable Company .................................................................................................................................. 60

Is the European Investment Bank honourable? ............................................................................................ 66
  The ethical stance of the management ........................................................................................................ 66
  The ethical stance of the company ................................................................................................................ 68
  The responsibility for society ...................................................................................................................... 69

Conclusion ..................................................................................................................................................... 75

Theory building ............................................................................................................................................. 77

Critical Reflection .......................................................................................................................................... 84

Literature ......................................................................................................................................................... 1

Appendix ......................................................................................................................................................... XIX
List of Tables
Shareholder Structure of the EIB (EIB,2010b) .................................................................................. 44
Loan Signatures and Gross Assets of the EIB Group from 2007 to 2010 (EIB, 2010b) .................. 45
Total Assets of the EIB ......................................................................................................................... 48
Total Liabilities of the EIB .................................................................................................................. 49
Profit and Loss Account for the year 2011 of the EIB ........................................................................ 50

List of Figures
The research onion (Saunders, Lewis and Thornhill, 2007, p.102) ...................................................... 4
Paradigms (Burrell and Morgan, 1979) ............................................................................................... 5
The Honourable Merchant ..................................................................................................................... 35

List of Equations
State Ownership ................................................................................................................................... 28
Return on Equity ................................................................................................................................. 28
Basel II Capital Adequacy Ratio (CAR) ............................................................................................... 49
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALA</td>
<td>Asia and Latin America</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>EIF</td>
<td>European Investment Fund</td>
</tr>
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<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GHG</td>
<td>Trade Greenhouse Gas</td>
</tr>
<tr>
<td>JASMINE</td>
<td>Joint Action to support microfinance institutions in Europe</td>
</tr>
<tr>
<td>JASPERS</td>
<td>Joint Assistance to Support Projects in European Regions</td>
</tr>
<tr>
<td>JEREMIE</td>
<td>Joint European Resources for Micro and Medium Enterprises</td>
</tr>
<tr>
<td>JESSICA</td>
<td>Joint European Support for Sustainable Investment in City Areas</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Sized Enterprise</td>
</tr>
<tr>
<td>SPL</td>
<td>Structural Programme Loans</td>
</tr>
<tr>
<td>TEN</td>
<td>Trans-European Network</td>
</tr>
</tbody>
</table>
Introduction

Since its beginning, the European Community has been based on the idea of sustainable and balanced economic growth, a high degree of competitiveness and social progress. To facilitate the policy objectives major financial mechanisms were created. These mechanisms aim to change the political and economic conditions and to push equitable and effective economic integration. The current global financial crisis and the measures to combat this crisis have prompted a questioning of some of the functional principles of capitalist economic systems. It is striking that the term “corporate greed” is often used in this context for an analytical description of a systemic characteristic of our European economic system. Caused by this state of affairs, this research project tries to link financial, political and ethical aspects.

This research project is focused on the EIB as one of the European financial mechanisms. The research aims is to evaluate the relevance of such a public investment bank for the realisation of European policy objectives. Furthermore, the specific behaviour of this bank will be analysed in part using the concept of the honourable merchant. As this research project is based on a new interpretation of grounded theory, it aims to develop a basis for a theory about the phenomenon “public banks and policy objectives” by using the EIB and the EU as an example.

The research questions and objectives are:

Research Question 1: What are the European Union’s expectations of the European Investment Bank?

Research Objective 1: To identify what the European Union expects the EIB to achieve.
Introduction

Research Question 2: How effective is the bank in meeting these expectations by considering the moral behaviour of the bank?

Research Objective 2: To gather data to evaluate the extent to which the EIB meets these expectations and to evaluate the moral behaviour of the bank.

As a beginning, the research methodology will be explained in accordance with the so-called “research onion” by Saunders, Lewis and Thornhill (2007). This methodological approach was chosen by the researcher to ensure a systematic procedure in developing a suitable methodological strategy. Furthermore, this includes an in-depth discussion of the underlying paradigms and research strategies. In general, this work is based on a mix of the interpretive and functionalist paradigm by employing a well-balanced proportion of logical reasoning methods. The research strategy is exploratory in that it seeks to gain a deeper insight in the phenomenon, prior to potential future study. To avoid limitations during the research and to maximise understanding, qualitative and quantitative data will be used.

Furthermore, the concurrent strategy of this research project leads to a broad collection of data about the EIB. An overview of the latest relevant literature will be given in the literature review. This review is structured thematically. Firstly, the differences between public banks and private banks will be highlighted. Secondly, the EIB and the field of activity will be presented. Later, the concept of the “honourable merchant” will be introduced as well as the policy objectives of the European Union.

The author will then go to a further descriptive research of the EIB, including the legal and historical background, the changing role of the bank and a short financial
Introduction

overview of this public bank. This section aims to provide a further overview of the bank itself.

The following chapter will combine European policy objectives with the activities of the EIB. The terms “smart growth”, “sustainable growth” and “inclusive growth” as the main European policy objectives will be explained and linked with the different instruments of the EIB.

As one major research question is to evaluate the moral position of the EIB, the next chapter will analyse the behaviour of the bank in the context of the concept of the “honourable merchant”. This contains an overview of the basic terms as well as the transfer of the concept to the actual business by combining parts of the concept with existing business theories and models. This leads then to the evaluation whether the EIB is honourable in the sense of the concept of the “honourable merchant”.

The conclusion will present the answers of the originally developed research questions and an overview of the questions that have been raised during the research process. In accordance with the methodological approach of this research project the conclusion will also include the theory building and a critical reflection.
The methodological approach of this research project is based on the “research onion” by Saunders, Lewis and Thornhill (2007, p. 102).

The sub-chapters of this section are written in accordance with the thematic structure of the research onion. Therefore, the above figure will be used as a guideline for the methodological structure of this research project. Consequently, not every possible methodological approach based on the research onion will be explained. Nevertheless, the choice of the developed methodological approach will be critically assessed.

According to Saunders, Lewis and Thornhill (2007, p. 102) the research philosophy shows the perceptions of a researcher in terms of how knowledge is constructed. In
general, research and knowledge is a phenomenon which is developed and influenced by different contextual variables.

Philosophies

The figure of the “research onion” shows in the section “Philosophies” different research paradigms. A paradigm represents an intellectual world view, which is accepted and communicated by the scientific community. The choice of one or more paradigms serves to organise scientific research by providing guidelines for the understanding and utilisation of a phenomenon (MacKenzie and House, 1978). According to Kuhn (2000) a theory or hypothesis can only be judged and compared within a specific paradigm. The importance of paradigms for research means in return, that the absence of a paradigm leads to the random collection of data and therefore to an indiscriminate research (Kuhn, 1962).

For a classification of the paradigms the explanations by Burrell and Morgan (1979) will be consulted. According to these authors, social theory can be distinguished between four key paradigms: radical structuralist, radical humanist, interpretive and functionalist. To identify the different dimensions the following matrix was developed by Burrell and Morgan (1979):
Research Methodology

The predominant quantitative research in finance is based on a positivistic paradigm, which assumes that social facts exist in an objective reality.

This research project will incorporate a mix of the interpretive paradigm and the functionalist paradigm as this fits to the underlying research questions of this project. It is contested, however, whether a mix of paradigms is possible. According to Kuhn’s concept of the “incommensurability of paradigms” it could be difficult or impossible to establish a consensus between the ideas of two different paradigms and concludes that “differences between successive paradigms are both necessary and irreconcilable” (Kuhn, 1962, p. 103). This results in the question whether the researcher can use methods developed within specific assumptions of different paradigms. Considering this debate this research is based on the idea of paradigm diversity which respects the idea of a creative research process (Schultz and Hatch, 1998; Feyerabend, 1975). Furthermore, this diversified philosophical approach facilitates the increase in understanding during the research process. This approach therefore follows the idea of Midgley (1997) and Jackson (2000) that a mix of paradigms helps to complete the thinking of researchers by learning from other.

Figure 2: Paradigms (Burrell and Morgan, 1979)
researchers by considering the different background. This signifies that a communication between researchers and also paradigms is possible,

The interpretive paradigm

The interpretive paradigm can be located on the objective-subjective continuum (Scherer, 1995). In contrast to the functional paradigm the interpretive paradigm assumes that social reality is a result of individual interpretations (Cohen, 2007). The process of the social world is seen as a product by the individuals. Social reality can be described in this field as the sum of assumptions of the different individuals and intersubjectively shared meanings, which leads to the belief of multiple realities (Ardalan, 2008). This means that “researchers recognize their role within the phenomenon under investigation. Their frame of reference is one of participant, as opposed to observer” (Ardalan and College, 2001, p.5). However, due to the individual assumptions and interpretations the researcher can be absolutely objective.

Because of the belief that human values affect scientific research, the interpretive sociologists try to find and understand the main sources of social reality. Furthermore, it is essential to “understand” the inner experiences of the individuals because within the interpretive paradigm the cultural phenomena are seen as an external nature of the essentially inner experiences (Collier, 2003). The analytical methods are normally based on the idea of “understanding” in order to comprehend human beings and the individual feelings (Ardalan and College, 2001). A core belief of the interpretive paradigm is also that science is mainly based on “taken-for granted” assumptions (Collier, 2003).
In mainstream academic finance, the subject is often processed as an empirical phenomenon in the real world. Mathematical and empirical tools are often seen as an example for structural absolutism. But this is against the beliefs of interpretive researchers because of their emphasis that the social world is a subjective construction of individual human beings like the mathematical language. In an interpretive sense mathematics is a social invention and the proofs are just one part of the whole social process. The bank, as a user of mathematical tools, is adhering to this paradigm of social construction, which has to be analysed with respect to the whole social process. With regard to this paradigm money is also socially constructed, as for example during interactions with authorities (Ardalan, 2008).

Interpretive researchers emphasize the social world and social construction. Numerous research in finance is based on an empirical phenomenon which has a concrete existence in the real world. In contrast, this approach is unusual for interpretive researchers as they emphasize the social world and the subjective construction of individuals. This precludes the richness of interpretive research in finance so far. In comparison with the functionalist research the interpretive research is marginal. However, the interpretive paradigm enables researchers to contextualise ethical, cultural, political and social issues within academic finance (Ardalan, 2008).

However the interpretive paradigm could be used together with the functionalist paradigm to analyse the organizational culture of the European Investment Bank in accordance with the concept of the "honourable merchant". On the one hand, the structure of the bank could be analysed with a functionalist view, whereas on the other hand, the interpretive paradigm could be helpful to analyse the processes within the bank. In general there are thematic overlaps between the functionalist and interpretive paradigm. Both highlight the homogeneity of virtues and attitudes of
employees. This is especially true of the EIB, which is interested in sustainable economic growth, so would be expected to reflect this with an appropriate business culture.

In general the interpretive paradigm seems to be helpful to analyse the behaviour of the EIB in the context of the concept of the "honourable merchant".

**The functionalist paradigm**

Scherer (1995, p.138-140) illustrates that the functionalist paradigm, which consists of objective assumptions and the focus on order, involves the so-called subject-object dichotomy. The term subject-object dichotomy was formed by Karl Jaspers (1953) and refers to a basic epistemological structure that our consciousness refers to objects. Between object and subject is, according to Jaspers (1953, p.24), always an irreconcilable difference.

One main assumption of the functionalist paradigm is that the society, which has a concrete existence in the world, follows certain rules. This approach leads to the idea that scientific financial theories can be distinguished objectively (Ardalan, 2008) by using statistical or mathematical arguments. According to this it assumes that scientific theories can produce knowledge of reality. A further assumption is that of external rules and governmental institutional control of the external world.

The functionalist paradigm also tries to provide objective and rational explanations of social affairs relating to society (Ardalan, 2008). According to Ardalan these ideas show the importance of rules, which can be understood by society and provide equilibrium as well as stability within that society (2008, p.4).
In general the functionalist paradigm is based on the tradition of positivism. Within a functionalist paradigm the researcher assumes that the world has a concrete existence and that meaning can be identified during a research process. The approach often derived from the natural science. (Ardalan, 2008). This means that knowledge and meaning of the social world can be identified, explained and studied quantitatively. In accordance with these assumptions, it is important that all positivistic methods are able to measure the outside world (Ardalan, 2008). As the research corresponds to finance and more in detail the banking business, it is vital to link the different details within the research field to the functionalist paradigm.

In finance, most of the academic work is based on the functional paradigm. With respect to academic finance theories one can notice that that there is a causality mechanism in all human and natural activity in an ontological sense. In an epistemological sense the junction between initial conditions and the final outcomes is striking, while humans in a society are interacting with each other. The necessary information about all human and natural activity can be gained by different quantitative methods, for example financial returns and surveys. This has meant that the financial theories are mainly based on the functionalist paradigm (McGoun, 1992).

In general, the field of finance is seen as a place of statistical evidence with concrete reality. Especially the regularities which can be explained with reference to physical causality characterizes the world of finance. Moreover, the belief in the passive role of every individual in the functionalist paradigm can be found in most of the financial theories.

This paradigm will help to analyse the financial and legal framework of the EIB and therefore, to answer the first research question.
Approaches

One of the basic methods of social science is observation. Researchers observe facts about the real world and make a note of their apperception in an appropriate manner. In general, it is possible to make three assumptions about the facts of the real world. From the point of view of Chalmers (2001, p.7; 1999, p.12) each of these assumptions are associated with specific difficulties. According to this author, the facts should be accessible for the observer by unprejudiced and accurate observations. Furthermore, the facts should be independent and develop a theory. Thirdly, the facts should constitute a stable and reliable basis for scientific knowledge.

The part “approaches” of the “research onion” includes induction and deduction. One explanation of the inductive method was given by Seiffert (2003, p. 156). According to him, hypotheses are seen in this context as a tool for researchers to explain observations provisionally. If a hypothesis was approved by previous research processes and actual predictions the hypothesis can be assumed as laws in the sense of cause and effect statements. An aggregation of laws is in turn a theory. This approach is called an inductive reasoning method. According to Strauss (2007) induction is an act which leads to the development of hypotheses based on ideas or assumptions of the researcher. Therefore, induction helps to establish laws, in the sense of cause and effect statements from individual experiences in the form of hypotheses and theories. In empiricism induction was classified as the unique strategy to acquire knowledge (Hjørland, 2005). Consequently, the problem of induction is still unexplained. This problem is based on the fact that inductive conclusions are always uncertain. Therefore, inductive conclusions also have no absolute empirical causal validity (Dancy and Sosa, 1994). The renunciation of
inductive empiricism towards critical rationalism was based on a lack of empirical validity. However, critical rationalism is acknowledged in the academic world and is seen as the foundation of the quantitative approach (Agassi and Jarvie, 1995). Historically, this discussion is based on the philosophers Bacon, Comte, Hume, Locke and Popper (Guba and Lincoln, 1994).

Deduction represents the counterpart of induction. Unlike the method of induction, deduction is not suggesting the validity of a theory arises from observations but it applies theories to assumptions. With the aid of inference techniques researchers are able to access knowledge in order to generate and acquire logical and redundant knowledge (Tashakkori and Teddlie, 2003). In this process, preliminary and arbitrary anticipations will predict logical consequences, which are in turn based on a theoretical system and on a deductive method. Thereafter, the anticipations and logical consequences will be compared to the research data gathered in order to evaluate if the logical relationship between them holds. The logical relationship in this context refers to, for example, equivalence, derivability, compatibility or contradiction (Popper, 2002). It is important to note, however, that the verified hypotheses cannot be declared as true, but merely as not disproved. The advantage of a deduction based on theories is that researchers can employ important preparatory work for their development of theories. Furthermore, the researchers have the option to avoid the development of complicated definitions of terms as the researcher derive inferences based on existing knowledge. The adoption of good assumptions is also possible in this context (Gilbert, 2001). However, this advantage is in equal measure a weakness of this research logic. A pure conjunction of a theory with an already existing body of theory could limit the research because of the possible absence of an alternative to develop new radical interrelations (Rubin and Babbie, 2009).
According to Polanyi (1952) there is no rule which allows falsification or verification of theories because both are following specific but undefined principles. Polanyi states that

“propositions embodied in natural science are not derived by any definite rule from the data of experience, and that they can neither be verified nor falsified by experience according to any definite rule. Discovery, verification and falsification proceed according to certain maxims which cannot be precisely formulated and still less proved or disproved, and the application of which relies in every case on a personal judgment exercised (or accredited) by ourselves.” (Polanyi, 1952, p.9).

The critiques regarding induction and deduction lead to the development of abduction. Charles Sanders Peirce developed this method in order to develop a logic of discovery which is also conducive to generate hypotheses (Sanders Peirce, 1955). In this context it is assumed, that the hypotheses are based on background knowledge and the incorporated cognitive process of the researcher (cf. Abduction) and not just on a data set (cf. Induction).

For the elaboration of background knowledge researchers employ four exploration strategies (Bortz and Döring, 2006):

- Theoretical exploration
- Methodical exploration
- Empiric-quantitative exploration
- Empiric-qualitative exploration.
Abduction provides the researcher with possible explanations and interpretations for phenomena and simultaneously contributes to the generation of truth. The willingness to acknowledge abduction as a scientific method is given in the field of qualitative research, whereas the quantitative research rejects the form of this method (Balnaves and Caputi, 2001).

In this research project a strict application of induction, deduction and abduction would not be appropriate. There is a strong suspicion that every scientific research approach comprises to a certain degree inductive, deductive and abductive logical reasoning methods (Meheus, 2002). To answer the above mentioned research questions about EU’s expectations of the EIB and the effectiveness of the EIB in meeting these expectations, a well-balanced proportion of logical reasoning methods should be aimed for. On the one hand, a unilateral employment of the inductive method would avoid a consideration of important theoretical perspectives and concepts. But these perspectives and concepts could be advantageous for explanations of the phenomenon. On the other hand, a strict employment of the deductive method would limit the possibility to develop new theories. According to this, a combination of induction, deduction and abduction will be employed.

**Strategies**

The research strategy or the research design describes a concept for the accumulation and analysis of evidence, which provides answers concerning the research questions of the researcher (Denzin and Lincoln, 2000). Furthermore, the research design arranges the framework for every research project which shows that the choice of methods is subordinated to the research design. In order to choose a
specific research design a few characteristics of the research project should receive
attention. According to Flick, Kardorff and Steinke (2003) the main objective of the
study is important as well as the theoretical perspective of the research project. The
above mentioned authors stated that the main methodological approach, the degree
of standardization and the resources are also important for a research design. In the
literature one can find general differentiations of research designs. One, given by
Churchill and Iacobucci (2005) distinguish between an explorative design, a
descriptive design and a causal design. The explorative design develops new ideas
and the researcher gains deep insights into a problem. The descriptive design can be
seen as a more detailed description of a problem. In contrast, the discovery of a
cause and effect relationship is the aim of a causal design. It is important to note that
each of these three designs can be linked to qualitative as well as quantitative
methods. In this context, a distinct explorative design usually employs qualitative
methods but the choice of methods is on principle independent.

For this research project the explorative research method will be employed.
According to Robson exploratory research means finding out “what is happening; to
seek new insights; to ask questions and to assess phenomena in a new light” (2002,
p.59). The research aim is to evaluate the relevance of the EIB for the realization of
the EU policy objectives. In particular, the analysis of the characteristics of the
European Investment Bank, as one objective of this research project, will pay great
attention to the current ethical status quo as well as the ethical self-concept of the
bank. In this context the “fable of the bees” (Mandeville, 1732) as well as the idea of
the honorable merchant (cf. “Ehrbarer Kaufmann”) and Smith’s invisible hand (Smith,
1759) will be applied to this context. This shows once more the appropriateness of
the general exploratory research strategy.
The choice of a paradigm, the research design and the phenomena being investigated, determine the choice of strategy or design for every research project (Denzin and Lincoln, 2000). The selection of specific methods is only reasonable after the determination of the research design. Saunders, Lewis and Thornhill (2007) distinguish the different research designs as experiment, survey, case study, action research, grounded theory, ethnography and archival research. In particular the first research objective aims to develop new theories. Because of this, grounded theory is a candidate to be employed. This research design seems to fit with the chosen interpretive paradigm (Burrell and Morgan, 1979; Goulding, 1999) as this approach was also used by Gephart (1993), Prasad (1993) as well as Gioia and Chittipeddi (1991).

Grounded theory is a common design in the area of qualitative social research and is based on symbolic interactionism (Aldiabat and Le Navenec, 2011) as grounded theory is analysing the interaction between humans and social roles. The main aim of this design is to develop new theories. The systematic and inductive approach enables the researcher to generate theories about a phenomenon (Glaser and Strauss, 1998). At this juncture, theoretical concepts will be discovered during the research and in the course of the analysis these concepts must attest the relevance for the whole research process. From this it follows, that grounded theory has a circular analytic process (Strauss, 1987), which is called “theoretical sampling”. In this context, the generation of theories is not in contrast to the evidence. The central analysis process of grounded theory is coding. Therefore, a permanent comparing process is needed, in which the new discovered data has to be compared with the previous data. This process is called “constant comparative method”. The results of this comparing influences the choice of the following data enquiry (cf. sampling). The
Research Methodology

research, in accordance with grounded theory, describes an interplay of selection of data, the analysis and the development of theories. According to Strauss (1987) the process of coding can be distinguished between three different stages. The open coding helps the researcher to name concepts and to carve out categories. Secondly, the axial coding describes the selection of the axial categories and their relating codes. Thirdly, the selective coding describes the discovery of the main category and the intrinsic development of the theory.

Additionally, this research project will use secondary data. This aims to generate a phenomenon by using existing sets of data and already available knowledge. The documents in this analysis are, for example, memorandums, reports, surveys or laws. An advantage of this analysis is that the researcher can only influence the research project with the choice of which data will be consulted. However, the enquiry cannot be influenced by subjective factors. Therefore, the researcher has always to mind the key findings of the data (Mayring, 2002). In the following chapter, the choices (cf. Saunders, Lewis and Thornhill, 2007) will be discussed.

Choices

As mentioned, a combination and integration of quantitative and qualitative methods will be aimed for. Such a combination of methods enhances the set of methods which could lead to an improvement in results. A mix of methods is based on a mix of paradigms. This mix is controversial but also accepted by Amaratunga, Baldry, Sarshar and Newton (2002), Jick (1979), Lowery and Evens (2004), Srnka (2007) and Yauch and Steudel (2003). In this context, the term “meta triangulation” will be used. This describes a process “of building theory from multiple paradigms roughly
analogous to traditional (i.e. single paradigm) triangulation” (Lewis and Grimes, 1999, p. 676). The word triangulation in this sentence refers to Denzin (2001), who described with this metaphor the systematic combination of different data, different theories and different methods. According to Denzin (2001) there are four types of triangulation: data triangulation, investigator triangulation, theory triangulation and methodological triangulation. Data triangulation refers to a different enquiry of the data; whereas investigator triangulation means that different researchers have different backgrounds. The term theory triangulation describes a process where different theories and derived hypotheses are contrasted and analysed. Fourthly, the methodological triangulation was mentioned, which is distinguished between “within – methods” (i.e. qualitative or qualitative) and “between – method” (i.e. quantitative or qualitative). Therefore, this type of triangulation describes an employment of more methods in one research project (Trumbo, 2004, p. 417-438). In relation to meta-triangulation the paradigms can be analysed in three different scales. A “multiparadigm review” illuminates the similarities and differences regarding the different theoretical perspectives of the paradigms. The “metapardigm theory building” tries to explain contradictory details of different paradigms in a new interrelationship. “Multiparadigm research” combines enquiry methods and analysis methods with different paradigms (Lewis and Grimes, 1999).

According to Hohental (2006, p.186) the combination of qualitative and quantitative methods is beneficial, because

“the qualitative study made it possible to formulate better propositions, and it also made operationalization of these propositions more precise. The quantitative study made it possible to test these propositions, and the
qualitative study made it possible to understand the results of this test in a better way. The greatest contribution of the combination of methods was that, at least, some alternative explanations for the relationship between constructs could be eliminated” (Hohenthal 2006, p. 186).

In contrast, the combination of qualitative and quantitative methods does also contain disadvantages because the researcher has to adjust the research questions as well as the whole research design (Jick, 1979).

One integrated research method is “mixed method”. According to Creswell, Clark, Gutman and Hanson (2003, p.212) a

“mixed method study involves the collection or analysis of both quantitative and/ or qualitative data in a single study in which the data are collected concurrently or sequentially, are given a priority, and involve the integration of the data at one more stages in the process of research”.

Therefore, mixed methods combine qualitative and quantitative methods regarding the enquiry of data as well as the analysis of the data. In general, there are three different approaches: the “sequential strategy”, the “concurrent strategy” and the “transformative strategy”. The first mentioned “sequential strategy” contains a brief qualitative preliminary study and an ensuing quantitative main study. The “concurrent strategy” employs a qualitative and a quantitative study. The results of both studies will be incorporated in an empiric result (Creswell, 2009). In contrast to these two strategies, the “transformative strategy” employs a “theoretical lens as an overarching perspective within a design that contains both qualitative and quantitative data” (Creswell, 2009, p.29). If a researcher employs an integrated design, the qualitative
and quantitative research process must be combined in a multilevel research process. In this context the “deepening design” describes a qualitative and quantitative analysis of quantitative data. In contrast, the “generalisation design” describes the qualitative and quantitative analysis of qualitative data (Chi, 1997).

The “concurrent strategy” would fit with the aim of this research project. Collections of qualitative and quantitative data at the same time will aim to provide a broad analysis of the European Investment Bank. After exposing the “choice” the time horizon should of this research project will be explained.

**Time Horizon**

Another dimension of the “research onion” is the time horizon. In the literature two different time horizons are recognised. The “longitudinal time horizon” observes a specific phenomenon over a specified time period. In contrast the “cross-sectional time horizon” focuses a phenomenon in a specific moment.

This research project will have a cross-sectional time horizon. One of the reasons for this choice is the limited time which does not allow a longitudinal research. Furthermore, the present research questions are not logically constructed in researching about the variance of the research variables over a specific time period. In fact, this research project is focused on exploring new insight by suggesting newly developed interpretations as well as theoretical assumptions (cf. Robson, 2002)
Data Collection and Data Analysis

With respect to the previous discussion, the research process can be explained in general as exploratory. The aim is to achieve new insights and to evaluate the European Investment Bank in a new light. This research project employs grounded theory and will be based on a combination of qualitative and quantitative primary and secondary data. Furthermore, this research incorporates a mixed methods research process. This research strategy was chosen because of the belief that both types of data will improve the research results. The primary data will be mainly used to describe the present issues of the research field, whereas the secondary data provides the researcher with a solid theoretical perspective (cf. Robson, 2002). The employed secondary data can be described as multiple source secondary data. This can be divided into “area based” and “time series based”. The area based secondary data will contain academic sources related to the European Investment Bank as well as the time series based data. The researcher has to ensure at every opportunity an unprejudiced interaction with the data collection process. Especially a unilateral collection of data should be prevented as this would not be consistent with the exploratory research strategy. The combination of the data might help to get deeper insight into the research field which might also support the theory building.

The term “analysis” describes the dismantling process of a complex ensemble in components in order to analyse the available data more closely and to reduce, sort and re-assemble the information. With analytical operations the researcher manipulates the data (Stier, 1999). The analysis of the data as well as the interpretation is important for the evaluation of qualitative data. The analysis of qualitative data employs for example summarizing and categorising. Normally the data will be reduced by the researcher during an analysis, whereas the researcher
Research Methodology

expands the data during an interpretation (Flick, 2007). The analysis of the qualitative data is crucial for the description and interpretation of the interrelation regarding the European Investment Bank. In particular, the description of the relationship between the European Union and the European Investment Bank is only possible with the usage of qualitative data (for example laws and contracts).

The quantitative analysis will be accomplished in accordance with the guiding ideas to isolate the principle of cause and effect as well as the operationalization of theoretical interrelations. Furthermore, the analysis of the quantitative data aims to develop universally valid theories as this is one objective of the employed grounded theory approach. Important quality criteria for the analysis of quantitative data are basically objectivity, reliability and validity. With the employment of common mathematical and financial mathematical operations (for example arithmetic averages and financial ratios) the quantitative data will be analysed. The primary aim of the quantitative analysis is the considered objective measurement and quantification of the European Investment Bank.

In summary, the analysis of the quantitative and qualitative data contains a financial analysis as well as an ethical analysis. The ethical analysis especially aims to illustrate the differences between the European Investment Bank and common investment banks. The European Investment Bank considers itself as a bank with high ethical and behavioural standards. This research project will analyse the status of the Bank regarding its ethical standards and contrast the results of this analysis with its ethical aims and terms of reference (EIB, 2010). This analysis and the following interpretation might allow a partial explanation about the effectiveness of the EIB in meeting the expectations of the EU. The whole analysis of the data aims to answer the research questions in an appropriate academic design.
Preliminary Conclusion

This chapter exposes that the approach of this research project is exploratory and based on the interpretive and functionalist paradigm. It will also combine induction, deduction and abduction logical reasoning methods in a well-balanced manner. The reason for the exploratory approach is that this research project aims for a deeper insight into the European Investment Bank. Furthermore, the grounded theory as a research design was chosen. This design allows the development of new theories about the relevance of such a public investment bank for the realisation of European policy objectives. Furthermore, this research will use a mix of qualitative and quantitative data as this will help to describe the EIB in detail. The strategy in this context is concurrent, which allows the simultaneous coordination of qualitative and quantitative secondary area based data.

An overview of the literature which is related to the research project will be given in the following chapter.
Literature Review

A traditional literature review aims for the development of hypothesis which will be tested in the real world. Grounded Theory, however, analyses the data without a preconceived hypothesis (Glaser and Strauss, 1967). The related data to the research project will be described from an interpretive perspective. The analysis of the data involved the searching for concepts and theories behind the actualities and the categorisation. Therefore, this literature review is structured thematically.

The differences between public banks and private banks

In many countries public banks undertake the task of supporting financial projects. The literature produced two alternative perceptions about public banks and their effect on welfare.

On the one hand public banks are considered as important institutions for the channeling of private deposits into private investment projects (Clifton, Comín and Fuentes, 2003). This “social view” of public banks therefore highlights their role in an economic system. According to this perception a lot of investment projects incorporate externalities which complicate funding. An example of negative externalities in this context may be systematic risk in terms of an unstable legal environment (Cole, McKenzie and White, 1995). These externalities or transaction spillovers are unacceptable operational considerations for most of the commercial banks. In contrast with commercial banks, public banks are able to internalise these externalities (Stiglitz, 1994). On the other hand, public banks are instruments for
policy. In this “political view” public banks allow politicians to give employment to supportive members, to make political concessions (Kornai, 1979; Boycko, Schleifer and Vishny, 1996). Both perceptions show that public banks affect investment in national economies. The “social view” of public banks is aimed at the imperfection of the market, whereas the “political view” sees the public bank as a tool to achieve social interests. The latest empirical literature shows that most of the public banks in less developed countries are less profitable and usually sustain a loss (Miam, 2003; Faccio, 2006). It is a moot question whether the “political view” is true for European public banks and especially for the EIB. In fact, the role of public banks in conjunction with the underlying economic system should be discussed in a broader context and in detail. This research project will fulfil that demand and will answer the research question by considering the current role of banks of the European capitalist system.

In the theoretical literature the “social view” is more pronounced. Hakenes and Schnabel (2006) discussed limitations of decision making based on the “Principal Agent Problem” and possible advantages of the so called “regional principle” (Brunner, 2004) in terms of capital drain. The “principle agent problem” is linked to the so-called “rational choice models”, which attributes a rational behaviour to individuals in which a person is acting in an utility-maximising manner. This social action is in turn established by personal preferences (Becker, 1992). The origin of the “principle agent theory” is a privity of contract between the principal and the agent. This relationship is based on the principal’s request for the best possible result and therefore characterized by the interdependence between the two parties (Moe, 1984). The main feature of the theory is the information asymmetry in favour of the agent and the resulting dependence of the principal. Therefore the principal agent theory is combining the inequality of information resources and risk diversification.
The term capital drain describes the accrual of funds towards richer regions in an integrated financial market. In the model of Hakenes and Schnabel (2006), the authors compare two regions with different capital backing and the same access to investment projects. Because of the information asymmetry the “Moral Hazard Problem”, which can be described as the conflict between collective rationality and individual rationality, emerges in this case (Jenkins, 2009). As a higher interest rate can usually be found in richer regions, the capital flows out of the poorer regions for capital investments. The consequences of this will be the imposition of penalties in welfare for the poorer regions. In this case, public banks can boost welfare by considering the “regional principle” and providing subsidies. Through these credit initiations in poorer regions the interregional business activity will increase (La Porta, Lopez de Silanes and Shleifer, 2002).

Allen and Gale (2000) also argue that public banks and their fields of activity may support financial stability, as these types of banks avoid contagion effects in financial markets. Reactions to the negative implications relating to the earnings position and risk position are also considered differently by public banks. Whereas commercial banks tend to invest in risky portfolios in order to increase their profit margins, the reaction of public banks to negative implications on the earnings and risk position is still unclear (Hakenes and Schnabel, 2004). The “social view” of public banks can be associated with Alexander Gerschenkron (1962) and his focus on financial development. According to this author public banks are important for countries with low standards of honesty in business. In this case the government undertakes the task of financing economic growth. Gerschenkron gives the example of Russia in the year 1890 and he points out “it was the government that generally fulfilled the function of industrial banks” (Gerschenkron, 1962, page 22). Nevertheless, this
author holds the view that privately owned commercial banks are an important tool in chanelling private savings into industry.

Commercial banks can be defined as “financial intermediaries that issue deposits and use the proceeds to purchase securities” (Fama, 1980, page 39). This author also points out that the transaction service is one of the main characteristics of commercial banking, whereas Kareken (1985) highlights the payment system in this context. In general, commercial banks supply credit (Diamond, 1984) and provide liquidity (Diamond and Dybvig, 1983). Credit and liquidity are interrelated in this context because banks can monitor deposit movements which help banks to process new loans. Fama (1985) and James (1987) argue that commercial banks are special in this case because the private information about borrowers can be used for the bank’s lending decisions.

According to Schumpeter (1934), who analysed the role of banks in economic growth through money creation, economic growth is based on changes in factor combinations. To enable entrepreneurs to improve factor combinations banks are needed as they finance this process with credits. As the main difference between public banks and commercial banks is the ownership, Shleifer (1998) argues that private ownership should be preferred in a competitive market environment as public shareholders are interested to re-establish economic and financial stability through well-ordered market conditions and cannot sell their shares to secure portfolio losses. In accordance with Stiglitz (1994), Shleifer and Vishny (1997) the handling of externalities of privately owned banks is not optimal. The reason for this might be the frequent unilateral focus on profits to satisfy the expected yield demand of the shareholders (Laffont and Tirole, 1993; Sappington and Stiglitz, 1987). According to
Grossmann and Krueger (1993) as-well-as Dewenter and Malatesta (2001) the focus on profits increases the efficiency of privately-owned companies which therefore supports the public interest in a better way than publicly-owned banks do. But it is questionable if the explanations of Dewenter and Malatesta (2001) are suitable for the differentiation of public banks and commercial banks as their empirical research is based on the analysis of the profitability, leverage and labour efficiency. This means that long-term effects on social welfare are not considered. However, the research of Dewenter and Malatesta (2001) shows that the performance of public banks has to be analysed critically. To calculate the proportion of state ownership \((Own_{\text{state}})\) Cornett, Guo, Khaksari and Theranian (2008) used the equation:

\[
 Own_{\text{state},i} = \sum_{j=1}^{J} S_{ji} s_{gj}, \text{ where}
\]

\[\text{Equation 1: State Ownership}\]

- \(j=1\ldots J\) : shareholders of a bank
- \(S_{ji}\) is the share of the bank \(i\) which is owned by shareholder \(j\)
- \(S_{gj}\) represents the share of equity the government owns in shareholders \(j\).

According to Dinç (2005) a bank is owned by the government if the amount of shares is at least 20%. As the ownership structure might have an impact on a bank (Grossmann and Krueger, 1993), the analysis of financial ratios are often part of the quantitative analysis. The DuPont Financial Ratio Analysis (Cole, 1973) was used for example by Aarma and Vensel (1998, 2000, 2003) to analyse the financial performance of banks. The original DuPont model was developed in 1918 by an engineer of the company DuPont who noticed that the product of the net profit margin and total asset turnover equals return on asset. Cole (1972) adapted and applied the DuPont model for banks. One of the main ratios for a performance
analysis is the rate of return on equity (ROE) which is based on the DuPont model. To calculate the specific rate of a bank the following equation can be used:

$$ROE = \frac{Earnings \ after \ Taxes \ (EAT)}{Book \ Value \ of \ Equity \ (BVE)}.$$  

*Equation 2: Return on Equity*

It is also possible to use the so-called matrix approach, comparative analysis or economic modeling. The use of these methods was published in several research papers – for example by Aarma and Vensel (1998, 2000, and 2003).

**The European Investment Bank**

“The EIB is no ordinary bank: it was created specifically to provide financial support for the European Union’s objectives. I describe this special character with the term ‘policy-driven public bank’ – namely a bank which, in synergy with the other EU institutions and without burdening the public purse, contributes to the realization of projects giving concrete expression to the economic, social and, ultimately, political priorities of the Union” (EIB, 2001, p.4).

Since 2010, the bank is the largest multilateral lending institution in the world in terms of the volume of it loans (EIB, 2010a). This institution was founded in 1985 during the establishment of the European Economic Community (Treaty of Rome, Article 129 and 130). The article 309 of the Lisbon Treaty (2007) describes the task of the EIB. In
general, the bank should contribute to steady development “of the internal market in the interest of the Union”. Therefore, the bank is operating on a non-profit-making basis. By granting loans and giving guarantees the EIB should focus on finance projects in less-developed regions, within the internal market and in general modernizing and developing projects. The bank should also finance projects with a high capital commitment, which are in the interests of several member states. By supporting these projects, the bank has access to assistance from the structural funds and other EU instruments (Laffan, 1997). In a legal sense, the EIB is a legal person “with its own decision-making bodies” (EIB, 1995).

The shareholders of the EIB are the 27 member states of the EU, in which their share in the business depends upon their economic strength within the EU at the time of when the country joins the EU. Every member state has the right to apply for financing activities consideration without any restrictions (EIB, 1995). In 2010, the capital stock amounted to 232 billion Euros (EIB, 2010a). The finance ministers of all member states of the EU represent the “board of governors” of the EIB (2010a). This board enacts credit policy guidelines, agrees to the annual balance sheet as well as the profit and loss statement. Furthermore the board makes decisions regarding cooperation in financial operations outside of the EU and determines the recapitalization of the bank itself (EIB, 1995).

The board of directors consists of 28 people taking decisions in respect of loans, guarantees and borrowings. Furthermore, the board of directors oversee that the bank is managed in accordance with the Treaty of Rome and the statute of the bank (EIB, 1995). The management committee of the EIB consists of nine managers and
Literature Review

is responsible for the day-to-day business of the bank and is supervised by the board of directors (EIB, 1995).

In general, the EIB supports economic growth and job creation as well as environmental sustainability. With respect to the support of economic growth, the EIB (2010b) firstly helps the convergence of regions within the EU with the provision of large structural programme loans (SPLs) to support investment in the public sector (i). For this purpose the EIB developed the four major programmes “Joint Assistance to Support Projects in European Regions” (JASPERS), “Joint European Support for sustainable Investment in City Areas” (JESSICA), “Joint European Resources for Micro and Medium Enterprises” (JEREMIE) and “Joint Action to support microfinance institutions in Europe” (JASMINE).

All these programmes ensure that member states can finance major projects (EIB, 2010b). Secondly, the EIB focuses on the financing of small and medium sized enterprises (ii). This strategic direction is also in part, support for economic growth and jobs within the EU. The third field of activity in the support of economic growth is the financing of large scale investment projects (iii), for example in infrastructure. The fourth and fifth parts in the field of activity are the support of “the establishment of a competitive, knowledge-based economy capable of sustainable growth” (iv) (EIB, 2010b, page 17) and the safeguarding of secure and competitive energy supplies (v). With respect to the support for climate action the EIB wants to ensure “green growth” in the EU as this is a core aspect of the Europe 2020 strategy (EIB, 2010b) with investment in renewable and efficient energy. Furthermore, the EIB established instruments to trade greenhouse gas (GHG) emissions to comply with the Kyoto Protocol. With respect to the latest Activity Report of the EIB (2010b) the bank also
supports sustainable urban development. This objective overlaps with the previously mentioned JESSICA programme as this programme aims for repayable investments in urban areas.

To implement this technical assistance the EIB offers individual loans, intermediated loans, special instruments like “Structured Finance Facilities”, “Risk –Sharing Finance Facilities”, “Carbon Credit Funds” and “KIDS Fund Energy Efficiency Facilities”. Within the EU, the EIB also provides guarantees for senior and subordinated debt. Senior debts are

“Loans or debt securities that have claim prior to junior obligations and equity on a corporation’s assets in the event of liquidation. Senior debt commonly includes funds borrowed from banks, insurance companies, or other financial institutions, as well as notes, bonds or debentures not expressly defined as junior or subordinated” (Downes, 1998, page 557).

Subordinated debt can be described as

“debt, that is, repayable only after other debts with a higher claim have been satisfied. Some subordinated debt may have fewer claims on assets than other subordinated debt; a junior subordinated debenture ranks below subordinated debenture, for example” (Downes, 1998, page 605).

Especially to support high-technology SMEs, in 1997 the EIB developed a “Venture Capital Facility” and since 2000, the EIB supports microfinance institutions which also ensures the access to loans for SMEs and micro enterprises (EIB, 2010c).
Every year, the EIB publishes besides the “Activity Report”, the “Financial Report” and the “Statistical Report” as well as a report with information about its corporate responsibility practices (EIB, 2010d). The president of the EIB pointed out that the bank “is strongly committed to integrating environmental and social considerations throughout its business activities” (EIB, 2010d, page 4). He also confirmed that the EIB and their activities aim to support sustainable and inclusive growth, to combat climate change and to support the EU’s external policy. Furthermore, the EIB (2009) released a “Statement of Environmental and Social Principles and Standards” which has to be applied by the EIB staff in all operations. In this publication the bank asserts, that the EIB knows about the importance of implementing environmental and social considerations in its lending activities (EIB, 2009, page 6). To ensure a framework which supports this implementation, the EIB respects EU laws and policies: “The European Sustainable Development Strategy” and “The European Consensus on Development” (Commission of the European Union, 2005). According to the implementation of these environmental and social considerations the EIB aims for projects “that contribute directly to environmental sustainability and social well-being in support of sustainable development” (EIB, 2009, page 1). This implementation of this strategy is also linked to the EIB’s “environmental lending priorities” (EIB, 2010e). Projects which are not part of the environmental priorities also have to respect the “environmental and social acceptability” aspects (EIB, 2009, page 10).

The “Environmental and Social Practices Handbook” describes how the EIB implements all the standards and principles in daily business. Every project, financed by the EIB, has to undergo a certain process to ensure environmental and social feasibility. This process consists of a pre-appraisal and an appraisal stage before
approval. After this process the EIB is still monitoring the projects with regard to environmental and social issues. During the pre-appraisal phase every detail of a project will be categorised in accordance with the associated social and environmental issues (EIB, 2009, page 22). This screening process also includes obtaining of the Commission’s advice (EIB, 2009, page 32). The appraisal phase will prove, based on the data of the pre-appraisal stage, the general feasibility of the project considering relevant EU laws and policies (EIB, 2009, page 38). The final social and environmental risk will be calculated by using an “Environmental and Social Impact Rating”, which groups the risks in low, moderate or high categories. An application which does not meet the strict criteria of this rating process, would lead to a refusal of the financing project (EIB, 2009, page 58). This decision is always made by the board of directors of the bank (EIB, 2009, page 60). Although the EIB considers these social and environmental principles, Wright (2007, p.51) criticised “the lack of clarity, consistency and comprehensiveness” because of the page 25 of the EIB’s “Environmental and Social Practices Handbook”. This page includes the staff briefing which says “Text that is short and clear should be used as much as possible” (EIB, 2009, page 25). But this critique is questionable, as this operational task will not impact significantly on the effort of the EIB in terms of their social responsibility strategies. In fact, it could be the attempt of the EIB to integrate performance with high social standards. In addition, the development of high social and ethical standards for the lending operations should be considered as a continuous process. The critique of these standards therefore helps to constantly analyse and improve the social, ethical and environmental standards of EU and EIB.
The honourable merchant

In this research the ethical behaviour of the EIB and its activities, will be examined on the basis of the “Ehrbarer Kaufmann” or translated into the English language the “honourable merchant” (Bauer, 1906). In the following chapter the term “honourable merchant” will be used to ensure clarity for the reader.

The variety of opinion about ethical conducts and statements concerning corporate social responsibility illustrate that there is no common basic ethical concept in the economic systems at this juncture. In general, economic ethics is associated with the economic system on a macro level. Business ethics is related to the meso level, which aims to combine the macro and micro level of ethics in economics, whereas the individual ethics aligns with ethical behaviour of individuals. Furthermore, macro level, meso level and micro level can be distinguished between normative and practical ethics. In this context, normative ethics establishes basic principles for economic behaviour. Practical ethics focuses on the practical implementation of the identified normative basic principles (Steinmann and Scherer, 2000).

According to Albach (2009) business requires no special ethical standards as business is based on ethical principles. However, the ethical concept of the honourable merchant seems to have been forgotten. Witt (2007) pointed out that all business men should ensure that their business is ethically rooted. One of The forgotten ethical roots may be the concept of honourable merchant. As early as the Middle Ages, honour was used as a tool to ensure socially desirable behaviour in urban society (Strasser, 2009). The “Corporation of Traders” in these times had a significance influence on the development of the honour of the merchant, as these
corporations enjoined a certain conduct of life (Rogge, 1995). Klink (2007) explains the honourable merchant can be explained by using the following figure:

![Figure 3: The Honourable Merchant](image)

The figure shows a circle with twelve circles which represent the different levels of consciousness of the honourable merchant.

The three centric levels describe the honourable merchant in a narrower sense. The foundation of the merchant is based on humanist philosophy, followed by comprehensive business knowledge and a well-grounded character with commercial virtues. Humanism is based on the interests, values and the honour of humans (Epstein, 2010). In this context, Klink (2007) lists among others the virtues of probity, thriftiness, honesty, frugality, discreetness, orderliness, resoluteness and assiduity. These virtues will ensure long-term business activity. The honourable merchant personified the merge of ethics and business.

Based on the three inner levels of consciousness Klink (2007) developed the next three levels – coloured in green - which represent the enterprise level. Beginning from the inside, the three levels describe the sense of responsibility of the honourable merchant for employees, customers and distributors as-well-as competitors.
The green coloured circles represent awareness of the society. Beginning from the inside, Klink (2007) mentions the sense of responsibility for the consumers, the community, the public, the political system and the environment. The outermost circle represents funds or capital. Klink (2007) points out that all circles in the society dimension provide the basis for the understanding of capital, which is considered in this context as very important for the success of the company. Klink (2007) also argues that this is the reason for the exposed position of this circle. The concept of the honourable merchant may help to develop a common ethical concept for businesses in our current economic system.

In general, the concept of the honourable merchant disagrees to a certain extent with the unilateral focus on self-interest and therefore also to a certain extent with Adam Smith’s (1976) concept of the “invisible hand”. Lux (1990) also disagrees with Smith (1976), especially with regard to Smith’s example of the butcher (Smith, 1976, pages 25-27) as “there is nothing in self-interest that rules out cheating” (Lux, 1990, page 83). According to Leacock (1935) the general public interest must overrule the individual’s self-interest. Both, Leacock and Lux consider that a free market would lead to an exploitation of human beings and nature. However, it is doubtful if the strong critique of Smith (1976) is justified as his work “The wealth of Nations” must be seen in the context of his book “The Theory of Moral Sentiments” (1959). In this book Smith argues

“How selfish so ever man may be supposed, there are evidently some principles in his nature, which interests him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it” (Smith, 1959, page 4).
This shows that Smith is well aware of the universality of human life and therefore also with the issue of non-economic factors in terms of the reliability of the “invisible hand”. Furthermore, the book “The wealth of Nations” (Smith, 1976) contains a political perspective. According to Smith the government has several important functions, for example to guarantee the external security or the provision of public institutions. In the context of the honourable merchant and the propagated virtues of market participants one has to mention Mandeville’s “fable of the bees” (1714). According to Smith and Mandeville the united actions of individuals generate a public benefit (Petsoulas, 2001). However, Mandeville’s opinion can be found in the fourth part of the poem (Mandeville, 1714) in which he points out that power and economic progress belong together. According to him the progress in capitalist systems is accompanied with a loss of virtues, the poverty of the working class and the split of the society. In the context of Mandeville’s poem luxury is the basic requirement for the existence of the “working poor”. Thus, the division of labour was discussed not only by Smith (1776) but also by Mandeville. The said problems are currently present and controversial. One of the best known critiques of Mandeville’s opinion about the principles of economic thought is, among others, from George Berkeley. According to Berkeley Mandeville’s poem is “evil” (1803). If one looks at the statements in the “fable of the bees” by considering the historical context the rejection of Mandeville’s poem seems understandable as the poem disregarded to a certain extent the moral concepts which were predominant at the time. The book “The Mephisto- Principle” by Maxeiner and Miersch (2001) shows that Mandeville’s critical approach is still present. With respect to the authors egoism has several advantages in terms of the development of economies and applied arts. The book is written in accordance with Goethe’s Faust which contains the appeal “Part of the Power which would // The Evil ever do, and ever does good” (1986, Chapter 6 “Studierzimmer”). This shows that the
research has to consider the current economic system, especially capitalism, as this describes the reference framework of the research project.

**The objectives of the European Union**

According to the Treaty of Lisbon (2012) the EU aims for a competitive social market economy with full employment and social progress. The concept of the social market economy is based on an ordo-liberal form of neoliberalism (Müller-Armarck, 1976). The concept of the social market economy tries to combine the principle of free markets with the principle of social justice (Müller-Armarck, 1956).

To explain the social market economy one has to refer to Keynes’s (1936) “The General Theory of Employment, Interest and Money”. In his opinion, governments can support the economy by fiscal policies. His statement is linked to the so-called “pump-priming theory” (Anderson, 1944) which states that the more money is circulated in the economy, the more the demand for goods in a market. Keynes (1936) defined the opinion that the government has to increase the taxes when the economic situation is favourable. Even today his fundamental considerations affect not only economic theories but also political policy. His work can be considered as the main essence of the social market economy. The so-called global financial crisis also kindled a broad discussion about the capitalist economic system. The recent history of the development of the world economy may show – wholly in the spirit of Schumpeter - that economic and social crises can emerge in the capitalist economic and social order. The book “Capitalism, Socialism and Democracy” by Schumpeter (1942) shows good cause why economic and social crisis are, if applicable, inherent in capitalism. According to this author, capitalism is destroying the supporting social
structure because of the success of this economic system. Schumpeter pointed out that capitalism cannot survive because of this self-destructive position and that capitalism will pass into socialism. The role of public banks and the possibility to close gaps in the credit supply in times when inherent crises of capitalism affect the financing options in market economies should be discussed in this context too.

The social market economy, which is the preferred economic system in the EU, is also known as “Rhine Capitalism” (Albert, 1993). This economic system can be found in France, Germany and in some of the northern EU member countries. In contrast to the so-called “Neo-American model”, “Rhine Capitalism” is dominated by the bank-based financial structure which highlights the positive effect of banks in the economic system, in terms of capital allocation and corporate governance, managing liquidity risk and the mobilization of capital (Allen and Gale, 2000; Bencivenga and Smith, 1991). In contrast, the market-based financial system, which can be found in the United Kingdom and the United States of America, is enhancing the role of the market in an economic system. According to Albert (1993) the relationship between banks and enterprises is very close in “Rhine capitalism”. The power of shareholders and managers is also well balanced and the employees are more loyal than in the Neo-American model and also better educated. Albert (1993) points out that the differences in the education are based on the dual education system. However, it is highly questionable whether this generalised statement is true in all cases. Albert (1993) also argues that most of the citizens share general ideas in social markets about equality and solidarity.

The main objectives of the EU can be explained by the Europe 2020 targets. The three main targets of the EU are smart, sustainable and inclusive growth. More
specifically, the EU pursues the following objectives (Commission of the European Union, 2010, page 5):

- “75% of the population aged 20-64 should be employed
- 3% of the EU’s GDP should be invested in research and development
- The 20/20/20 climate targets should be met, which describes a reduction in greenhouse gas by 20%, a 20% reduction in primary energy usage as well as the target that 20% of EU’s energy consumption comes from renewable resources
- In maximum 10% of early school leavers and at least 40% of the younger generation should have a tertiary degree
- 20 million less people should be at risk of poverty”

To achieve these targets the European Commission is implementing seven initiatives. In this context, the “Innovative Union” is aiming for a more efficient framework in the financing of research and innovation (i). To improve the performance of education systems, the EU developed the initiative “Youth on the move” (ii) which also tries to “facilitate the entry of young people to the labour market” (Commission of the European Union, 2010, page 6). The development of high-speed internet is part of the so-called “A digital agenda for Europe” (iii). These three initiatives should support the headline target of “smart growth”. Also, the European Commission implemented the initiative “Resource efficient Europe” (iv) in order to secure the long term supply of resources. This initiative also aims for the shift towards a low carbon economy. The fifth initiative is named “An industrial policy for the globalization era”(v) which tries to improve the general business environment by supporting small and medium sized enterprises (SME’s) to develop a sustainable and
competitive industrial base. These two initiatives are aiming for sustainable growth within the EU. A modernization of labour markets is part of the initiative “An agenda for new skills and jobs” (vi). The last initiative which will be implemented to support the headline targets of the EU is named “European platform against poverty” (vii) which should ensure the social and territorial cohesion within the EU. These last two initiatives are targeted at inclusive growth. (Commission of the European Union, 2010). According to the proposed timeline (Commission of the European Union, 2010, Annex 3) the voting and the discussions were completed in the years 2010 and 2011. From the year 2012 onwards the European Commission will focus on specific initiatives and will monitor the whole process.
**The European Investment Bank**

**Legal and Historical Overview**

"The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it" (Treaty of Rome, Article 2)

This article describes the main goal of the European Economic Community which was created in 1957 by the Treaty of Rome. The economic assumptions behind this goal consisted of the rationale that trade liberalization and economic integration leads to a rapid and combined economic upturn for European regions. Particularly this rationale is based on the idea of economies of scale (Brülhart and Torstensson, 2006). However, it was also widely known that private financial markets are not able to finance large infrastructure projects or to invest in areas with political risks. To limit these market imperfections the Treaty created the EIB

“to contribute, by having recourse to the capital market and utilising its own resources, to balanced and steady development” and the financing of “(a) projects for developing less developed regions; (b) projects for modernising or converting undertakings or for developing fresh activities called for by the progressive establishment of the common market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States; and (c) projects of common
interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the Individual Member States” (Treaty of Rome, Article 130).

This article defined the two tasks of the EIB: supporting convergence by reducing income differentials and the allocation of financial resources.

The following table shows the current ownership structure of the EIB

<table>
<thead>
<tr>
<th>Country</th>
<th>Capital contribution in Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>France</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>Italy</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>Spain</td>
<td>6,530,656,000</td>
</tr>
<tr>
<td>Belgium</td>
<td>4,924,710,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4,924,710,000</td>
</tr>
<tr>
<td>Sweden</td>
<td>3,267,057,000</td>
</tr>
<tr>
<td>Denmark</td>
<td>2,493,522,000</td>
</tr>
<tr>
<td>Austria</td>
<td>2,444,649,000</td>
</tr>
<tr>
<td>Finland</td>
<td>1,404,544,000</td>
</tr>
<tr>
<td>Greece</td>
<td>1,335,817,000</td>
</tr>
<tr>
<td>Portugal</td>
<td>860,858,000</td>
</tr>
<tr>
<td>Ireland</td>
<td>623,380,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>124,677,000</td>
</tr>
</tbody>
</table>

Table 1: Shareholder Structure of the EIB (EIB, 2010b)
Today’s role of the European Investment Bank

More recently, the tasks of the EIB were extended. Based on the two originally tasks, the EIB is supporting the financial markets in the European Union by providing official lending to secure the liquidity of private banks (Griffith-Jones and Ocampo, 2011). The need of a bank which is acting countercyclical arose during the current global financial crisis because of constrained liquidity in the private financial sector (Paravisini, 2005). One of these banks is the EIB which means that one new role of the bank is to close market gaps in economically weak periods by granting loans countercyclical. These decisions were made in 2010 when the EIB governors encouraged the bank to increase the financial ceiling for special activities from 6.35 billion euros to 8 billion euros (EIB, 2010). The new countercyclical role can be seen by the loan signature and gross assets of the EIB group from 2007 to 2010.

<table>
<thead>
<tr>
<th>Euro Billions</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Signatures</td>
<td>47,8</td>
<td>57,6</td>
<td>79,1</td>
<td>71,8</td>
</tr>
<tr>
<td>Gross Assets</td>
<td>310,8</td>
<td>351,9</td>
<td>367,4</td>
<td>419,8</td>
</tr>
</tbody>
</table>

Table 2: Loan Signatures and Gross Assets of the EIB Group from 2007 to 2010

(EIB, 2010b)

The table shows how the loan signatures and the gross assets increased due to the above mentioned liquidity problems of private banks during the global financial crisis. Taking Greece as an example, the EIB provided this EU member in 2009 with 1.6 billion euros and in 2010 with 3.2 billion euros to support the national economy.
With respect to the loan signatures, the EIB statute directs in this context that

“the bank shall grant finance, in particular in the form of loans and guarantees to its members or to private or public undertakings for investments to be carried out in the territories of member states, to the extent that funds are not available from other sources on reasonable terms. However, by decision of the board of governors, acting by a qualified majority on a proposal from the board of directors, the bank may grant financing or investment to be carried out, in whole or in part, outside the territories of member states.” (EIB, 1995).

In this context it is important to note, that the lending outside of the EU might have a negative effect on other objectives of the EIB. Trzaskowski states that

“the EIB clearly fails to meet its own priorities of supporting efficient and sustainable energy sources in developing countries” as most of the investments support fossil fuel projects (CEE, 2011).

Furthermore the different and possibly weaker banking supervision outside the EU enables non-European banks to use the capital for other purposes which are against the ethical proposition of the EIB.

Furthermore, combating the climate change and balancing the market failures in the job market are new activities of the bank. According to the EU, the climate change incorporates externalities as the risk in new technologies is for most of the private lenders too high. Therefore, the EIB is strengthened to finance a high-value and high-
employment economy in the EU to tackle the changing climate conditions on a regional level (EIB, 2010b).

Finally, the range of the lending activities of the EIB was increased which represents a new role of the bank too. The bank mainly lends within the EU. Around 10% of its lending volume is outside of the EU in 2011 (EIB, 2010a). Most of the countries which are receiving capital from the EIB are neighbouring countries such as North Africa and poorer countries of the Caribbean and Pacific, which are named by the EIB as ACP countries. Poorer countries in Asia and Latin America are also receiving capital by the EIB, mainly to develop the infrastructure within the country. These countries are named “ALA” in this context. In this connection it should be noted, that the relationship between the EIB and other foreign development banks is expandable as most of foreign public banks have not got experiences in the financing of large-scale and long-term projects. The EIB could assist countries outside the EU by setting up efficient developing strategies (Griffith-Jones, Tyson and Calice, 2010)

The EU Commission issued in 2010 “Europe 2020: A strategy for smart, sustainable and inclusive growth” to counteract current structural problems within the union. The EIB helps in this context to execute this political strategy by financing the policy initiatives. According to the EIB president “the EIB stands ready to make a major contribution to implementing this strategy” (EIB, 2010b, page5) and that the “lending strategy in the years ahead will be aligned with the objectives of the Europe 2020 strategy” (EIB, 2010b, page 7). These roles will be fulfilled by providing long-term, low-cost financing especially for infrastructure projects in the EU and for filling market gaps.
Financial Overview of the European Investment Bank

To assure a comprehensive insight into the EIB as an institution, this section will show and analyse the main sections of the last EIB’s financial report (EIB, 2011b).

Balance Sheet as at 31 December 2011 (in thousand euros)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash in hand, balances with central banks and post office banks</td>
<td>427463</td>
<td>253692</td>
</tr>
<tr>
<td>2. Treasury bills and other bills eligible for refinancing with central banks</td>
<td>14029737</td>
<td>11572529</td>
</tr>
<tr>
<td>3. Loans and advances to credit institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) repayable on demand</td>
<td>908250</td>
<td>460293</td>
</tr>
<tr>
<td>b) other loans and advances</td>
<td>40008199</td>
<td>32015523</td>
</tr>
<tr>
<td>c) loans</td>
<td>133861282</td>
<td>124030306</td>
</tr>
<tr>
<td></td>
<td>174777731</td>
<td>156506122</td>
</tr>
<tr>
<td>4. Loans and advances to customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Loans</td>
<td>249726477</td>
<td>226989482</td>
</tr>
<tr>
<td>b) specific value adjustments</td>
<td>-192790</td>
<td>-91608</td>
</tr>
<tr>
<td></td>
<td>249533687</td>
<td>226897874</td>
</tr>
<tr>
<td>5. Debt securities including fixed-income securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) issued by public bodies</td>
<td>1302779</td>
<td>1572008</td>
</tr>
<tr>
<td>b) issued by other borrowers</td>
<td>9045447</td>
<td>7731156</td>
</tr>
<tr>
<td></td>
<td>10348226</td>
<td>9303164</td>
</tr>
<tr>
<td>6. Shares and other variable-yield securities</td>
<td>1913201</td>
<td>1691599</td>
</tr>
<tr>
<td>7. Shares in affiliated undertakings</td>
<td>491588</td>
<td>483817</td>
</tr>
<tr>
<td>8. Intangible assets</td>
<td>10402</td>
<td>8266</td>
</tr>
<tr>
<td>9. Tangible Assets</td>
<td>304476</td>
<td>315046</td>
</tr>
<tr>
<td>10. Other Assets</td>
<td>113538</td>
<td>60562</td>
</tr>
<tr>
<td>11. Subscribed capital and reserves, called but not paid</td>
<td>0</td>
<td>57663</td>
</tr>
<tr>
<td>12. Prepayments and accrued income</td>
<td>19897805</td>
<td>12675414</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>471847854</strong></td>
<td><strong>419825748</strong></td>
</tr>
</tbody>
</table>

Table 3: Total Assets of the EIB
### Liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Amounts owed to credit institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) repayable on demand</td>
<td>10969469</td>
<td>5675399</td>
</tr>
<tr>
<td>b) with agreed maturity dates or periods of notice</td>
<td>1724882</td>
<td>1620420</td>
</tr>
<tr>
<td><strong>2. Amounts owed to customers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) repayable on demand</td>
<td>1630588</td>
<td>1524466</td>
</tr>
<tr>
<td>b) with agreed maturity or periods of notice</td>
<td>960037</td>
<td>975965</td>
</tr>
<tr>
<td><strong>3. Debts evidenced by certificates</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) debt securities in issue</td>
<td>376154543</td>
<td>334378114</td>
</tr>
<tr>
<td>b) others</td>
<td>25281246</td>
<td>23630474</td>
</tr>
<tr>
<td><strong>4. Other liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5. Accruals and deferred income</strong></td>
<td>10532412</td>
<td>9988253</td>
</tr>
<tr>
<td><strong>6. Provisions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) pension plans and health insurance scheme</td>
<td>1578063</td>
<td>1437362</td>
</tr>
<tr>
<td>b) provision for commitment on investment funds</td>
<td>8026</td>
<td>0</td>
</tr>
<tr>
<td><strong>7. Subscribed capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Subscribed</td>
<td>232392989</td>
<td>232392989</td>
</tr>
<tr>
<td>b) Uncalled</td>
<td>-220773340</td>
<td>-220773340</td>
</tr>
<tr>
<td><strong>8. Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) reserve fund</td>
<td>20972343</td>
<td>20082400</td>
</tr>
<tr>
<td>b) additional reserves</td>
<td>1144024</td>
<td>1144024</td>
</tr>
<tr>
<td>c) special activities reserve</td>
<td>4108940</td>
<td>3299370</td>
</tr>
<tr>
<td>d) general loan reserve</td>
<td>2340863</td>
<td>1923734</td>
</tr>
<tr>
<td><strong>9. Profit for the financial year</strong></td>
<td>2291777</td>
<td>2116642</td>
</tr>
</tbody>
</table>

**Total liabilities**                                                       | **471847854**  | **419825748**  |

**Table 4: Total Liabilities of the EIB**

Table 4 shows total own funds in the amount of EUR 42,477,596.00 in 2011 and EUR 40,185,819.00 in 2010. The “**Basel II Capital Adequacy Ratio**” (CAR) (Moody’s, 2011) calculated with the equation

\[
CAR = \frac{TIER\ 1\ Capital + TIER\ 2\ Capital}{Risk\ weighted\ assets}
\]

**Equation 3: Basel II Capital Adequacy Ratio (CAR)**
The European Investment Bank

is therefore at 24.9% in 2011 and at 27.3% at 2010 which is considered as strong.
The decrease in the CAR ratio might be determined by rating downgrades of the shareholders and by banking operations with higher risks. The “Total Liquidity Ratio” stood at 58.2% in 2011 and at 34.8% in 2010 which is also considered as strong.
The total assets increased by 12.4% compared to 2010 due to higher loan signatures.

Profit and Loss Account for the year ended 31 December 2011 (in thousand euros)

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest receivable and similar Income</td>
<td>24911031</td>
<td>19176077</td>
</tr>
<tr>
<td>2. Interest payable and similar charges</td>
<td>-22038661</td>
<td>-16627080</td>
</tr>
<tr>
<td>3. Income from securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) income from shares and other variable-yield securities</td>
<td>23962</td>
<td>56432</td>
</tr>
<tr>
<td>b) income from shares and other variable-yield securities</td>
<td>1786</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>25748</td>
<td>56432</td>
</tr>
<tr>
<td>4. Commissions receivable</td>
<td>217392</td>
<td>183044</td>
</tr>
<tr>
<td>5. Commissions payable</td>
<td>-13884</td>
<td>-12286</td>
</tr>
<tr>
<td>6. Net loss on financial operations</td>
<td>-154468</td>
<td>-227777</td>
</tr>
<tr>
<td>7. Other operating income</td>
<td>11734</td>
<td>12018</td>
</tr>
<tr>
<td>8. General administrative expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Staff costs</td>
<td>-363364</td>
<td>-326710</td>
</tr>
<tr>
<td>b) Other administrative costs</td>
<td>-122664</td>
<td>-112951</td>
</tr>
<tr>
<td></td>
<td>-486028</td>
<td>-439661</td>
</tr>
<tr>
<td>9. Value adjustments in respect of tangible and intangible assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Tangible assets</td>
<td>-23890</td>
<td>-25907</td>
</tr>
<tr>
<td>b) Intangible assets</td>
<td>-4716</td>
<td>-3370</td>
</tr>
<tr>
<td></td>
<td>-28606</td>
<td>-29277</td>
</tr>
<tr>
<td>10. Value (re-)adjustments in respect of loans and advances and provisions for contingent liabilities</td>
<td>-102481</td>
<td>25152</td>
</tr>
<tr>
<td>11. Extraordinary Charges</td>
<td>-50000</td>
<td>0</td>
</tr>
<tr>
<td>12. Profit for the financial year</td>
<td>2291777</td>
<td>2116642</td>
</tr>
</tbody>
</table>

Table 5: Profit and Loss Account for the year 2011 of the EIB
The European Investment Bank

Table 5 shows that the net profit increased by 8.3% due to an increase in net interest income over the year 2011. This return is remarkable because of the difficult political and economic situation in the union. Especially the so-called special activities of the EIB to support the European economy could have been deteriorated the profit in 2011.

The following chapter will evaluate the relevance of public banks for the realisation of policy objectives. Therefore, the activities of the EIB will be contextualised within European policy objectives.

Summary of the bank’s financial situation

The EIB enjoys the highest credit rating AAA. According to Standard & Poors (2011, p.2) this rating decision is based on the

“high quality of assets and the expectation that the bank would receive support from its highly creditworthy member countries, if necessary. These two factors help distinguish the bank from commercial lending institutions, and they offset EIB’s less-favorable leverage, excluding its ‘AAA’ callable capital, relative to most other multilateral lending institutions (MLIs)”.

In 2010, the bank’s asset totaled 420 billion euros. In contrast, the total assets of the next largest bank, the International Bank for Reconstruction and Development totaled 314 million US$ as of June 30, 2010 (Standard & Poors, 2011a). A large percentage of the EIB’s assets are loans. The distribution of loans by sector can be found in Appendix No. 4. In summary, 86% of the total assets are loans in the year 2010,
The European Investment Bank

which had a negative impact on the liquidity ratio (liquid assets divided by total assets). With respect the loans, the bank’s statute directs that

“the bank shall make the loan conditional either on a guarantee from the member state in whose territory the investment will be carried out or on other adequate guarantees, or on the financial strength of the debtor.” (EIB, 1995).

The high quality of the loan portfolio, which is focused on lending to highly rated governments, banks, corporates and public-sector institutions, represents this guideline of the EIB statute. The capital relative to total assets is at 9.6% at the end of year 2010, which is also considered as low. Further capital ratios related to the balance sheet and profit and loss statement can be found in the Appendix No. 1.

The profits grew by 8.3 % in 2011 and reached 2.29 billion euros. This implied a 5% return on equity which is in line with the profitability of the past years. 2.1 % of total expenses are administrative expenses. 75% of these expenses were related to staff costs in the year 2011. It is notable, that the provisions for losses doubled to 193 million euros in this year which leads to a 55% proportion of impaired loans. The build-up reserves amounted to 28.6 billion euros which is equivalent to 250% of the paid-in capital.

Because of the high quality of EIB’s loan portfolio and other assets the outlook is stable. It can be assumed that the key role of this bank within the financial sector will continue.
The European Investment Bank and the execution of European policy objectives

The financing of sustainable growth as well as the smart and inclusive growth demand long-dated and low-cost funds. This is achieved by EIB’s AAA credit rating which is based on a strong capital base. To keep the best possible credit rating, capital calls and subscriptions have been made. During the global financial crisis the subscribed capital was increased by EUR 164 billion to EUR 232 billion in 2009.

Sustainable growth

As noted in the literature review, the sustainable growth strategy of the EU contains several environment issues. To finance the “green growth” the EIB increased the lending for renewable energy and energy efficiency. In 2008 the bank financed EUR 2.2 billion for renewable energy and EUR 0.7 billion in energy efficiency. Two years later the total lending increased almost threefold (EIB, 2010b).

To evaluate if the EIB is relevant for the financing of the “green growth” the following characteristics of such investments has to be noted:

Firstly, the success of new technologies in the energy industry is dependent on research and development (R&D). Those investments are considered as high risky due to a high a failure rate and the length of those projects. These two factors usually limit private investments. To fill this market gap, development banks usually provide guarantees or capital to initiate the development of new technologies (Hall, 2002).

Secondly, new technologies need a functional infrastructure. Especially new technologies in the energy industry need a fully functional large-scale infrastructure.
The European Investment Bank and the execution of European policy objectives

Therefore, the EIB supports the development of pan-European energy grids which are crucial for the optimisation of exchange to balance supply. The expansion of large and small scale wind and solar power projects, for example the offshore wind farm project in Denmark, is also financed partly by the EIB (Belwind, 2009).

The sustainable growth strategy of the EU is not only aiming for the development of new technologies, but also to develop sustainable cities. To support this policy objective, the EIB lent EUR 14.7 billion in 2010 to build cities with a strong transport infrastructure. The financing of large scale transport infrastructure is comparable to the large scale investments in research and development. Mainly public banks are able to provide capital for the development of large-scale and long-term infrastructure project (EIB, 2010c). The financing of the infrastructure in sustainable cities is also deeply linked to the previously mentioned Trans-European Network (TEN) programme of the EU.

It has to be noted, that the EIB tries to finance project in accordance with environmental standards.

The sustainable growth strategy contains the Europe 2020 initiatives “Resource efficient Europe” and “An Industrial Policy for the globalisation era”. For the “Resource efficient Europe” initiative the bank provides individual loans for transport, energy and climate change as well as global loans for SMEs. The previously mentioned JESSICA programme is also part of the senior debt instrument of the EIB to support this initiative. A structured finance facility also aims to support SMEs. To execute the initiative “An Industrial Policy for the globalisation era” the EIB created the JEREMIE programme and offers Mezzanine and subordinated debt.
Smart and inclusive growth

The main purpose of the smart and inclusive growth strategy is to create a high value and high employment economy in the union. This is to be achieved by innovations in different branches of industry which leads to commercial activity. This EU agenda is mainly focused on the SME sector as most of the innovations are produced in smaller enterprises. However, especially SMEs are facing financing constraints because of the assumed risk of lending to SMEs by the banking sector. Especially during the global financial crisis these financial constraints could be observed when private bank’s risk adversity was increased. The new counter-cyclical role of the EIB to avoid credit crunches can be documented by the lending for SMEs by the bank from 2008 to 2010. In 2008 the bank lent EUR 8.2 billion to European SMEs. In 2010 the lending increased by almost 150% to EUR 12.8 billion. To enlarge the support for SMEs in the EU, the EIB group formed the dedicated subsidiary European Investment Fund (EIF). To improve the financial structures and vehicles for SMEs the fund cooperates with financial intermediaries. Usually by providing co-financing, venture capital and guarantees the fund supports the sources of funding for companies. Also, the EIB provide direct funding for medium enterprises. In 2010, the EIB provided companies in the high tech sector for renewable energy, chemical industry and electrical engineering projects with loans to encourage innovations.

The financing of high speed broadband and universities is also often supported by the EIB due to the relatively unattractive risk-yield relationship for the private banking sector.

“Smart Growth” incorporates the Europe 2020 initiatives “Innovative Union”, “Youth on the Move” and “Digital Agenda for Europe”. For all these initiatives the EIB
The European Investment Bank and the execution of European policy objectives

provides companies with individual loans, global loans and structured finance facilities. The term “inclusive growth” circumscribes the initiatives “An agenda for new skills and jobs” and “European platform against poverty”. To support the initiative “An agenda for new skills and jobs” the EIB issues individual loans. Furthermore, the EIB developed programmes JEREMIE, JESSICA, JASMINE and JASPERS to execute this initiative. However, there is currently no programme or financial resources for the support of this Europe 2020 initiative.

It can be noted, that the EIB and public banks in general, are important for the financing of large scale projects as well as for the filling of market gaps. In the following chapter the behaviour and the business approach of this type of bank will be analysed in detail. The aim is to make a statement about the ethical justifiability of the EIB and more abstract analysis about the role of public banks in the current economic system.
The behaviour of the European Investment Bank in the context of the concept of the "honourable merchant"

As the research project deals with the European Investment Bank (EIB) it will focus on the ethical stance of this bank by using the concept of the honourable merchant. Therefore, the basic terms “Honour” and “Merchant” will be explained as well as Klink’s (2007) concept of the honourable merchant. This thesis also includes the attempt to contextualise Klink’s (2007) concept in today’s business models in order to investigate concrete models for honourable companies and to show that the basic ideas of the concept are feasible for implementation.

Basic terms

Before introducing the concept of the "honourable merchant" the related basic terms must be described in more detail because of the change process of the related terms.

Honour

According to Bowman (2006) the word “honour” is a phenomenon which describes bravery and indomitability. “Honour” also highlights the willingness to avenge insults and is therefore associated with manhood and to a certain extent an identification with a group. The simple aggressive restoration of honour was defined by Bowman as “primitive honour” (2006, page 40). In western society the term “honour” passed through a distinctive process of change. The “primitive honour” for example can be found in Homeric poems (Cf. Adkins, 1960) but the main literary roots of the term can be found in classical Greek and Roman thought as well as in the Christian faith. In Christian morality the word “honour” is linked to the idea of “fair play” and good
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”
manners. Patriotism was also associated during the nineteenth century with the word “honour” (Cahn, 2002 page 1074). At the present time the word “honour” and its meaning is fragmented. As an example, criminal organizations use this word in conjunction with an insult to masculine pride whereas other sections of the population are not using this word on a daily basis (Bowman, 2006). The Cambridge dictionary defines honour as “a quality that combines respect, being proud and honesty” (2012).

In this context, Schopenhauer and his definition are often cited, which states that “objectively honour is other people’s opinion of our worth and subjectively our fear of that opinion” (Schopenhauer, 2007, page 66). According to Aristotle, acts of virtue bring honour to individuals whereas vice brings dishonour. Some of these virtues which are used in this context are “courage”, “friendliness” and “self-discipline”. Thus, honour is based on applied virtues which also determine the value of an individual.

The evaluation of the individual value is carried out by the society. The resulting self-esteem can be changed into honour (Stippel, 1938).

This understanding of the word “honour” is important as a basis to comprehend the concept of the honourable merchant because all of his acts are directly related to the society which evaluates the honour of the merchant. Notably, there is a close correlation between personal ethics and individual business reputation. Especially in social market economies the business reputation is important (Helle, 1957) as a good reputation and behaviour in a business environment could strengthen existing and prospective business relationships (Debenham, 2009).

Thus, the ethical stance of a merchant is linked to ethical behaviour in a social context and furthermore has a social dimension through the confirmation or rejection by the society.
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

**Merchant**
The word “merchant” is in today’s business world not as common as the word “manager”. Similar to the above described word “honour” the description of market participants has changed. For instance, in the 18th century the word entrepreneur was more common than the word merchant within the European area (Schultz, 1997). The word “merchant” describes an economic subject which produces more goods than needed for the individual demand of the good (Brenning, 1993). A further description is “a person whose job is to buy and sell products in large amounts, especially by trading with other countries” (Cambridge Dictionary, 2012). In contrast, an entrepreneur is the person “who assumes the risk associated with uncertainty” (Brewer, 1992, page 59; Hérbert and Link. 2010, page 6) and “who supplies financial capital” (Hérbert and Link, 2010, page 6). According to these authors an entrepreneur is also

“an innovator, decision maker, industrial leader, manager or superintendent, organizer and coordinator of economic resources, owner of an enterprise, employer of factors of production, contractor, arbitrageur and an allocator of resources among alternative uses” (Hérbert and Link, 2010, page 6).

Based on better transportation systems in the early 20th century the entrepreneurs had the opportunity to provide more people with their goods which also led to changes in monitoring mechanisms and control mechanisms. This change and the increasing complexity of business led to the need for managers who were responsible for the continuation of companies or negotiations with investors (Besanko et al, 2004). An antiquated but also revealing definition of the word “manager” is
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

“someone who is responsible for the work of other people” (Drucker and Drucker, 1999, page 15). A more modern definition of a manager is for example an individual who will “provide the decision and supervision necessary to implement the owner’s business objectives and achieve stability and growth” (Downes, 1998).

This shows that the different types of economic subjects and their meaning for business have grown and developed historically. It is important to note that the concept of the honourable merchant is representative for all economic subjects (Klink, 2007).

Honourable Company

In the first instance, this section will categorise the concept of the honourable merchant in three main levels. The inner three levels of Klink’s (2007) concept are related to the merchant or manager as an individual person. The next three levels are linked to the company level, followed by the society level. To get deeper insight and a practical link to the concept, the contents of the honourable merchant will be discussed in context of practical and established models and approaches in business. This aims on the one hand the discussion of Klink’s (2007) concept in the context of today’s business environment. On the other hand this approach will support the analysis of the EIB as an honourable company as Klink’s (2007) concept is embedded and linked to existing business and management models.

A manager who wants to act in accordance with the concept of the honourable merchant (Klink, 2007) has to pass on his or her ethical standards to the whole workforce and hence to the whole company. Therefore, it is important to analyse the “managers” of a company because their ethical standards may be a role model for
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

employees. One management approach which meets the principles of the concept of the honourable merchant (Cf. page 6, the three inner levels) may be the “Humanistic Management Model” (Dierksmeier and Pirson, 2009; Melé, 2003). This approach highlights the responsibility of companies for society (Melé, 2003). The long-term objective is to maximise the citizens’ quality of life (Spitzeck et al, 2009).

A quantitative research project about the interdependence of corporate social responsibility and the financial performance came to the conclusion that there is positive association (Vogel, 2005). The integrative model of humanistic management by Spitzeck (2011) is based on the conjunction of humanistic value creation and profitably. In this context, Spitzeck distinguished between two company types: “Instrumentalizing Businesses” which are based on humanistic values but more interested in the profit and “Truly Humanistic Businesses” which considers “profits as a means for societal value creation” (Spitzeck, 2011, page 57). The author also points out that this management model shows the difficulty in today’s globalized management environment as the task for managers is to find a compromise between moral and financial logic. This shows clearly the thematic overlaps between the humanistic management model and the honourable merchant as Klink’s (2007) concept (Cf. page 6, the three inner levels) combines the humanist philosophy with comprehensive business knowledge. The developed integrative model of humanistic management by Spitzeck (2011) might be useful as a practical management model for honourable managers as it incorporates the idea of the three inner levels of Klink’s developed concept of the honourable merchant.

An honourable company can only be achieved through a value- based company management approach. In the spirit of Klink (2007), it can be assumed that a simple employment of the shareholder value model is not meant in this context as this would
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

not be fully compatible to the sense of responsibility of the honourable merchant for stakeholders (Cf. Figure 1: The honourable Merchant). The shareholder value model highlights the return claim of the investors which means that the interests of the investors are in the foreground and a central pillar of the management. The long-term goal of the shareholder value model is maximizing the value of the company by increasing the profits and the return on investment (Rappaport, 1999). This shows that the minimum return of equity is dominating all other concerns. As the fourth, fifth, sixth level of consciousness of the honourable merchant can be summarised as the “responsibility of the honourable merchant for stakeholders”, the so-called “stakeholder approach” (Freeman, 1984) may be an appropriate model for a value-based company. Lopez-De-Pedro and Rimbau- Gilabert (2012) stated that this management approach is a good “lens to analyse the firm’s responsibility”. According to Freeman a stakeholder is “any group or individual who can affect or is affected by the achievement of the firm’s objective” (1984, page 46). The “Stakeholder Approach” of this author is helpful for the management to analyse the environment and to develop strategies which avoid problems with agents and which helps in improving the performance of the company (Freeman, 2005). Furthermore, this approach considers a company as an institution which is facing a variety of interests. The manager has to respect these interests which mean that the manager is not only a functionary of the microeconomic market based mechanism (Cf. Gutenberg, 1983). To analyse the environment of the honourable company the following segments should be observed (based on Bea, Haas (1997) :
1. Economic Development

   With the indicators: Growth of the gross national product, Development of the value of the money, Development of the balance of payments and exchange rates and unemployed figures.

2. Demographic Development

   With the indicators: Birth rate, Development of the age structure, Regional Mobility, Increase in single households

3. Technological Development

   With the indicators: product innovation, process innovation, Research and Development expenses, patent applications

4. Changes in the political environment

   With the indicators: shifts in party structure, change of government, legal changes, deregulation within the European Union, Changes in working life, Intergovernmental agreements

5. Changes in the social environment

   With the indicators: Formation of citizens' initiatives, leisure time mobility and leisure behaviour, Environmental Awareness, Renunciation of material values

The analysis of the environment is carried out in four steps:

a) Scanning Process: Identification of stakeholder groups

b) Monitoring Process: Identification of relevant trends

c) Forecasting Process: Evaluation of the intensity of environmental changes

d) Assessment Process: Evaluation of scanning, monitoring and forecasting results
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

The implementation of the stakeholder approach may present the possibility of transferring parts of Klink’s (2007) developed claims for the honourable merchants to the actual company.

The next six levels in Klink’s concept can be described as the responsibility for the society. An honourable merchant is aware that the society is fundamental for the company’s success. For example the main education of the employees had been managed by the government. This shows that the publicly financed infrastructure in terms of education or transportation of goods is essential for every company as well as a secure political environment and certainty on the law (Klink, 2007). According to this author, every company has to mind the society as it describes the outmost frame of reference which effects every investment decision. The responsibility of companies for the society is well discussed in the literature. Carroll (1999) and Matten and Crane (2005) pointed out that the concept of “Corporate Citizenship” in the context of “Corporate Social Responsibility” “conceptualises the role of business in society” (Matten and Crane, 2005, page 167). According to the authors “Corporate Citizenship” can be defined as “the role of the corporation in administering citizenship rights for individuals” (Matten and Crane, 2005, page 173). In practical experience companies often utilize a “Corporate Citizenship Mix” (Dresewski, 2004) which includes one or more of the following instruments: “Corporate Giving”, “Social Sponsoring”, “Cause Related Marketing”, “Corporate Foundations”, “Corporate Volunteering”, “Social Commissioning”; “Public Private Partnership”, “Social Lobbying” and “Venture Philanthropy”.

64
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

The link between the concept of the honourable merchant and existing business models shows that most of the content of Klink’s concept is part of the corporate social responsibility debate. One definition of corporate social responsibility is:

“CSR is not simply about whatever funds and expertise companies choose to invest in communities to help resolve social problems, it is about the integrity with which a company governs itself, fulfils its mission, lives by its values, engages with its stakeholders, measures its impacts and reports in its activities” (Clement Jones, 2004, page 8).

According to the European Union corporate social responsibility

“should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation” (EU, 2001).

In general, the guiding principle of the honourable merchant can be described with “omnium rerum mensura homo” (Sombart, 1920). According to Klink (2007) the concept of the honourable merchant and his historical analysis is of great importance for the current corporate social responsibility debate as the historical context shows that merchants and their responsibility has a long tradition. Because of this Klink (2007) points out that the whole debate about the responsibility of companies is based on the ancient honourable merchant. The author also argues that most of the
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

research about corporate social responsibility is focused on the meso level and not on the micro level. Furthermore, Klink (2007) demonstrates that the forgotten concept of the honourable merchant may help to close gaps in the current corporate social responsibility research.

Based on Klink’s (2007) concept the European Investment Bank will be analysed in order to evaluate the specific ethical stance of this bank.

Is the European Investment Bank honourable?

In this chapter the ethical position of the European Investment Bank will be analysed in accordance to Klink’s (2007) developed concept of the Honourable Merchant.

To answer this question all relevant information of the EIB will be linked with the 12 levels of consciousness of the honourable merchant (Cf. Table 1, page 5).

The ethical stance of the management

This paragraph will analyse the managers of the bank in the context of the honourable merchant in a narrower sense. This includes the humanist philosophy in managing practice, the comprehensive business knowledge of the managers and a well-grounded character of the EIB managers with commercial virtues.

The Statement on Corporate Social Responsibility of the EIB shows that the bank knows about the importance of employing capable managers (EIB, 2005). The bank refers in this statement to their "Transparency Policy” which is according to the EIB Transparency Policy document (EIB 2010b) is an essential part of the bank’s
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant” corporate social responsibility strategy. The policy aims to reveal decision-making processes of managers in order to increase transparency and accountability. Thus, the bank and the managers hope to increase also the efficiency, sustainability and acceptance of their business (Cf. EIB, 2010, page 3). According to the policy, the bank and its managers advocate good governance. The so-called “High Level Policy” of the statement on Corporate Social responsibility also includes the declaration that all executives should create trust with their actions.

The statements of the bank and their policies show that the bank is sensitized for corporate social responsibility. The bank anchored strategies in their management approach which may represent an honourable management in the sense of Klink’s concept. To what extent managers of the EIB implement the policies or even virtues in their day to day business is, however, unknown.

By its own account, the EIB is also dedicated to hire managers who are interested in maximising the standard of living and quality of life of people in Europe (EIB, 2012a). This dedication is compatible with the principles of the “Humanistic Management Model” (Dierksmeier and Pirson, 2009; Melé, 2003) as the bank’s long-term objective is also to maximise the citizens’ quality of life (Spitzeck et al, 2009). Furthermore, the EIB ensures well educated and skilled managers by implementing a training policy. This policy aims to support lifelong learning as well as the general development of the skills of the staff (EIB, 2012b). The bank is obliged to choose staff not only because of personal ability and qualification but also in a way which is an equitable representation of nationals of member states” (EIB, 1995, p. 10). However, accurate information about this does not exist or has not been published.

Based on Klink’s (2007) three inner levels of consciousness a humanist philosophy, comprehensive business knowledge and commercial virtues are the foundation of an
honourable merchant which leads to long term business activities. This basic direction of the management is also noticeable in the initiatives “Resource efficient Europe” (Cf. page 42) and the general long- term financing strategy of the EIB (Cf. section “Today’s role of the European Investment Bank”).

The ethical stance of the company

This paragraph explores the responsibility of the EIB for employees, customers and distributors as-well-as competitors.

With respect to the “Work/Life Policy” (EIB, 2012c) the employees have the right to leave the bank for making arrangement for the child’s welfare, to work part-time, to leave for a certain time the bank for family caring activities, to apply for teleworking, flexi time and other instruments which aims to support the welfare of the employees. In this context the training of the bank to support staff to improve their skill has to be mentioned again (EIB, 2012b). To ensure employee satisfaction the EIB is carrying out surveys (EIB, 2012d). The bank describes in the “Corporate Social Responsibility Report 2010” (2010) in the paragraph “Governance and Accountability” their approach for developing a close relationship with the stakeholders of the bank. The report describes that the bank holds public consultations and meetings with other European institutions and organisations on a regular basis. As the EIB stated, the close relationship with the stakeholders aims to ensure that the strategic direction of the bank meets the objectives of the European Union.

The “Work/Life Policy” (EIB, 2012c) shows that the EIB as a company is aware of their responsibility to treat staff fairly and considerately, which is in line with the fourth level of Klink’s developed concept of honourable merchants. It can be assumed that the EIB follows the idea that the success of a company depends to a certain extent
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant” on the satisfaction of the employees. This approach reflects the guiding principle of the honourable merchant that people are the measure of all things (Sombart, 1920). The interest of the EIB to have a good relationship with the stakeholders of the bank may also be driven by the general long-term approach of the bank. According to Klink’s (2007) fifth level the honourable merchant is interested in a long-term relationship with customers and distributors to develop a stable business environment. The efforts of the EIB to have a regular dialogue with other European institutions and the organisation of events, such as the European Banking Federation annual conference, show that the ethical stance of the company meets the requirements of the fourth and fifth level of Klink’s (2007) concept.

Information which show the bank’s sense of responsibility for competitors (cf. sixth level of Klink’s (2007) concept) are not available because of the totally different competitive environment in the public banking market in comparison with the private banking market. A direct competitor of the EIB cannot be recognised.

The responsibility for society

This paragraph explores the responsibility of the EIB for consumers, the community, the public, the political system, the environment and in money management.

A classical relationship between the EIB and consumers does not exist as the bank does not deal with the general public. With respect to the definition of the European Union, a consumer is “a natural person who, in transaction covered by Directive, is action for purposes which can be regarded as outside his trade or profession” (European Community Law, 2012, Directive 85/577, Art. 2). A relationship with customers cannot develop, as the bank does not “take deposits, manage savings,
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

have private customers” (EIB, 2012f, page 1) and therefore does not manage personal bank accounts.

The EIB states in the “Corporate Social Responsibility Report 2010” (2010) that the bank is constantly interacting with the community and the society. Based on this, the Bank developed programmes to support European artists, universities and young researchers. Furthermore, the bank donates money to aid e.g. reconstruction in countries after natural disasters. Further details are not mentioned.

As the bank is owned by all member states of the European Union and because of the focus on the “Europe 2020 Strategy” (European Commission, 2012) the bank supports the specific political system of the European Union. The unique system is totally different from national political systems as Europe is a union of sovereign states. With structural programmes the EIB is supporting the cohesion and convergence within the union. In this context, the financing of Europe’s cohesion strategy might be a mechanism to eliminate the structural democratic deficit. The range of languages and cultures and the absence of European media leads to the critique that the political power of the EU is not based on democratic legitimacy as a Europe-wide public debate is not possible (Löser, 2008). However, a critical examination of the political system cannot be carried out by the EIB as the bank was established under the treaty of Rome and has to act in the interests of the European Union (Lisbon Treaty, 2009, Article 309).

The president of the EIB pointed out that the bank “is strongly committed to integrating environmental and social considerations throughout its business activities”
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant” (EIB, 2010d, page 4). He also confirmed that the EIB and their activities aim to support sustainable and inclusive growth, to combat climate change and to support the EU’s external policy. Furthermore, the EIB (2009) released a “Statement of Environmental and Social Principles and Standards” which has to be applied by the EIB staff in all operations. In this publication the bank asserts, that the EIB knows about the importance of implementing environmental and social considerations in its lending activities (EIB, 2009, page 6). To ensure a framework which supports this implementation, the EIB respects EU laws and policies: “The European Sustainable Development Strategy” and “The European Consensus on Development”. According to the implementation of these environmental and social considerations the EIB aims for projects “that contribute directly to environmental sustainability and social well-being in support of sustainable development” (EIB, 2009, page 1). This implementation of this strategy is also linked to the EIB’s “environmental lending priorities” (EIB, 2010e). Projects which are not part of the environmental priorities also have to respect the “environmental and social acceptability” aspects (EIB, 2009, page 10). However, according to Bankwatch Network (2009) 55% of the lending operations of the EIB support mainly unsustainable fossil and energy projects. Therefore, the EIB declares its interest in environmental sustainability but is also investing in projects which might be disadvantageous for the environment.

The “Environmental and Social Practices Handbook” describes how the EIB implements all the standards and principles in daily business. Every project, financed by the EIB, has to undergo a certain process to ensure environmental and social feasibility. This process consists of a pre-appraisal and an appraisal stage before approval. After this process the EIB is still monitoring the projects with regard to
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

environmental and social issues. During the pre-appraisal phase every detail of a project will be categorised in accordance with the associated social and environmental issues (EIB, 2009, page 22). This screening process also includes obtaining of the Commission’s advice (EIB, 2009, page 32). The appraisal phase will prove, based on the data of the pre-appraisal stage, the general feasibility of the project considering relevant EU laws and policies (EIB, 2009, page 38). The final social and environmental risk will be calculated by using an “Environmental and Social Impact Rating”, which groups the risks in low, moderate or high categories. An application which does not meet the strict criteria of this rating process, would lead to a refusal of the financing project (EIB, 2009, page 58). This decision is always made to the board of directors of the bank (EIB, 2009, page 60) which shows that the EIB is aware of the importance of responsible investments. However, it is questionable if these rules and regulations are sufficiently respected in the daily lending operations.

According to Bankwatch the EIB’s reporting mechanism about lending operations is not appropriate as the society has no opportunity to judge about projects before approval because of delayed publications. As an example, the Gazela bridge rehabilitation project in Belgrade was approved before the society was able to judge about the details of this lending operation (Bankwatch, 2012).

According to Klink’s (2007) concept an honourable merchant has a strong sense of responsibility for the community, the political system and the environment.

The wide range of considerations of the EIB about the European Community and the general business environment can be recognised by the “Environmental and Social Practices Handbook”. The implemented rating system which aims to ensure a social feasibility of EIB projects as an example shows that the bank is interested to act in accordance with the public interest. It should be noted that European citizens have
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

no say in the operation of the bank. This would be expected from a company which acts in accordance with Klink’s (2007) concept because the honourable merchant would be interested in explaining the social role of his enterprise. The non-possibility of participation as a European citizen due to the statute of the EIB (EIB, 1995) is a clear disadvantage because it hinders an in-depth public discourse about the bank’s activities. From the point of view of the honourable merchant the legal form of a publicly-traded company is more attractive because of the securitised rights of the shareholders which allow an active participation. This enables the citizens to not only oversee the developments of a company more easily, but also the management to explain the social role of the company to the public, for example in the form of annual general meetings.

However, more difficult in the evaluation of the EIB’s responsibility for society is the legal foundation of the bank itself. As the EIB was established under the treaty of Rome and has to act in the interests of the European Union it is questionable if the bank has the freedom to act in general in the interest of society. In case of doubt, the EIB will subject itself to its statute (EIB, 1995) and therefore to the directives of the European Union. In case of the different interest of European civil society and individual member states in the form of the board of governors, the EIB has to subject itself to its statute (EIB, 1995) which could lead, in an extreme case, to paying preferential attention to individual political interests and the disregard of general societal interests. In the context of the concept of the honourable merchant (Klink, 2007) this legal framework is not in line with the idea of socially responsible companies. In the hypothetical and extreme case that the interests of the general European society and the political order are contrary to each other the EIB has to act in accordance with the societal interest to be an honourable merchant in the sense of
The behaviour of the European Investment Bank in the context of the concept of the “honourable merchant”

Klink’s (2007) concept. This approach, however, would reduce the general certainty of acting legally, which should be also protected by honourable merchants. This shows the complexity of this problem case. But it would be anticipated that the decision of the merchant in such extreme problem cases would be in line with his general humanistic orientation and his virtues.
Conclusion

The conclusion includes not only the response to the research question, but also the development of a derived theory based on the key findings. This research project focused on the EIB and their relevance for the EU, especially for the realisation of EU policy objectives. Therefore, the specific policy objectives were named in accordance with the “Europe 2020 strategy” and contextualised with basic information about the EIB.

The role of the bank within the EU and the functioning of the bank show that the bank is a major policy tool for the financing of economic growth and, more importantly, for the restructuring of the existing economy in relation to the “smart and inclusive” economy. The constantly growing loan signatures, especially during the financial crisis, show that the role of the EIB in achieving the community objectives will become more central. The strict alignment of the bank to EU objectives can be found not only in the statute of the bank but also in the field of activity of the EIB. This leads to the conclusion that the EIB meets the expectations of EU requirements. However, the literature shows that public banking or governmental influence in banking is still controversial. A key critique in this context is the apparent lack of efficiency in their day-to-day routine in a public bank. It has to be analysed whether the positive affects of public banks, for example the possibility to internalize externalities, outweighs the possible lack of efficiency. In summary, the EU expects that the EIB executes European policy objectives like the “Europe 2020 strategy” through large-scale and long-term investments.
The second research question dealt with the moral behaviour and role of the bank and how effective the bank is meeting the expectations of the EU. Therefore, the EIB was analysed in accordance with Klink’s (2007) concept of the honourable merchant. Furthermore, the concept was linked to several business models which are all aiming for a more honourable approach in today’s business. To achieve this, Klink’s guiding ideas were linked in accordance with the different levels of consciousness with Spitzeck’s “Integrated Model of Humanistic Management”, Freeman’s “Stakeholder Approach” and general Corporate Social Responsibility models. This indicates that the concept of the honourable merchant is applicable in the figurative sense. Besides the problem that not all necessary documents are accessible, the analysis shows that the EIB as a bank has implemented policies which are aiming for a sustainable and socially responsible business process. However, the analysis also shows that the lending operations deviate from some rules and regulations. Especially the transparency and the participation of the society are questionable as some publications are held back. This prevents a public discourse about specific lending operations. This issue seems to be symptomatic for supranational political institutions because of the structural democratic deficit. As the implementation of the European Idea is an ongoing process the democratic deficit of the EIB should be monitored in future.

However, the wide range of policies and regularities of the EIB shows that the bank is well aware of its role within the European Union and the consequences of their lending operations. This indicates that the legal and philosophical foundation of the bank is honourable in the sense of Klink’s concept of the honourable merchant. The central question is to what extent these guidelines are respected in the daily business of the EIB. The political relevance of the EIB for the EU might lead to the problem
that political motivations and objectives of the EU in any form are a higher priority than ethical behaviour. In that case, the statute of the EIB forces the bank to act in accordance with the EU. The ethical stance of the EIB’s organisational foundation is remarkable, but the “Gazela bridge rehabilitation project” in Belgrade, as an example, shows that the ethics of specific lending operations of the EIB can only be finally assessed by analysing the appropriate cases. However, the ethical stance of the EIB cannot be described as truly “honourable” in the sense of the “concept of the honourable merchant” (Klink, 2007). In summary, the EIB is meeting the expectations of the EU as the EIB is bound to the contract for the foundation of this public bank (EIB, 1995)

**Theory building**

In accordance with the research aim, to evaluate the relevance of the EIB for the realisation of European policy objectives, this research project attempts to develop a theory which comprised the key findings. As every economic policy objective reflects a comprised economic theory it is important to clarify the perspective of the researcher.

The development of this theory will be written from the perspective of the financial instability hypothesis (Minsky, 1992) interpretation of Keynes’s “The General Theory” (1936). This interpretation is based on the idea that Keynes set out the foundations of investment theory of general business cycles and financial theory of investment for capitalist economies. The Keynesians view differs from the ‘neo-classical’ economic theory because Keynes’s theory, is built upon the financial instability hypothesis, money is not neutral as changes in monetary and financial institutions will affect the economy. Also, in the financial instability hypothesis, the economy can be described
Conclusion

as a set of interacting and independent processes. These processes generate relevant economic variables over time. According to this interpretation the market interaction is mostly tranquil but also able to generate turbulent market conditions with an incoherent behaviour which can lead to systematic deviations of output from potential output. In contrast to the “orthodox theory”, the financial instability hypothesis holds that the performance of capitalist markets is often insufficient (Minsky, 1992).

A central aim of the EU is a sustainable economic development (EIB, 2010e). For this, the reasonable provision of capital in an economic system is needed. Normally, lending activities decrease when the cost-income ratio of private banks is not sufficient for the return on equity. In general, the following isolated or combined causes can lead to an insufficient capital disbursement by private banks (Simkovic, 2009):

1. A liquidity situation which leads to higher funding costs

2. A risk-bearing capacity which does not allow further risks. This cause usually lies in losses which reduce shareholders’ equity, worthless credit default swaps (CDS), a decreasing credit rating of the borrower, higher interest rate risks and other legal restrictions.

The importance of public banks, such as the EIB, might be underestimated in the EU. This statement was also made by Robinson (2009) in the publication “The European Investment Bank: The EU’s neglected institution”. The orientation on the financing of economic growth without the requirement of meeting a market-based yield return, allows long-term investments in risky projects. To ensure that long-term lending is
successful, the macro environment must not be too volatile and the legal system, as well as the regulation and supervision of banks must be efficient. This was also a key finding in the publication of the United Nations (2005) with the title “Rethinking the role of National development banks”. A further finding is that public banks have a welfare effect as they improve financial stability and provide funding for large-scale projects, which was also stated by Stiglitz (1994), Allan and Gale (2000), Hakenes and Schnabel (2004, 2006). The use of long-term financing is mostly needed for the realisation of large infrastructure projects in the EU. Large scale investments in basic infrastructure “are vital for enabling people, especially people living in poverty, to benefit from changing economic conditions and opportunities” (United Nations, 2005).

In the case that the private banking sector and other private arrangements are not able to execute policy objectives through financing, the public sector should intervene with governmental activities in consideration of economic principles. The cycles of boom and bust in the European economic system have led to a certain extent to financial markets which are not meeting the needs of development financing (Reinhart and Rogoff, 2010). During the current financial crisis, the approach of the EIB to stabilise the economic environment was to increase lending when private lending has fallen (Ocampo, Griffith-Jones and Tyson, 2010). According to Serven (1996) three types of public investments can be distinguished: basic infrastructure projects, commercial projects and industrial projects. The empirical analysis of this author shows that infrastructure crowds in private capital whereas commercial and industrial projects lead to the contrary. This means that every public intervention has to mind the “crowding out” effect which shows that government activities can minimize investments in the private sector (Spencer and Yohe, 1970),
Conclusion

Based on this existing set of theories and knowledge, this research project comes to the result that the economic environment can be stabilised to a certain extent through the lending operations of public banks, which in return secures the standard of living of citizens. A sustainable absorption of bust cycles through public banks is, however, only possible if private investments are monitored by administrative authorities as the prevention of downturns of the economy is only possible by rapid state interventions. A late reaction of public banks will increase the uncertainty in the market and therefore reduce the volume of private investments. To secure and support these private investments, public banks should only invest in countries, sectors and technologies which are “privately undercapitalised” and only if the public investment is not “crowding out” private investors.

Derived from this result several other “European research questions” arise. If a state intervention aims to stabilise the European economic environment, the key sectors of every European member state must be known because of the risk that the public investment has no significant impact on the national economy. In this context, it has to be analysed which sectors have a distribution- orientated wage policy and a large contribution to the output of the national economy. This is important to ensure private monetary asset generation which in return leads again to private investments. Furthermore, the absorption of boom and bust cycles through public investments has to be analysed with regard to the impact on the European economic growth rates. The impact of an expanded public lending strategy might also have a significant impact on the profits of commercial banks. As these types of banks also represent a key sector within the EU, public lending might have a negative impact on the national economy. To conclude, the ethical stance of public banks has to be analysed much
Conclusion

more in detail. The current financial crisis has led some European banks to reconsider the moral basis of banking. In this regard it is questionable if the moral behaviour of banks will change sustainably or if the current discussion is a communication strategy. Furthermore, the concept of the “honourable merchant” should receive more attention outside of Germany. In this context, the link between the concept and existing business models should be analysed in more detail.

The above developed idea of an extended importance of public banks is aiming for an economy that is sustainable in the sense of long-term stability. This also includes the assurance of the performance of our ecological, socio-political and economic system. In the past, sustainability problems have often been addressed separately. This approach neglects impacts of measures on other sustainability aspects. The challenge is to develop an integrated strategy for sustainable economic development which respects the interdependences between these different sustainability aspects (Paehlke, 1999).

The economic development in past decades has led to economic growth in the western society. This had a significant impact on the EU’s growth potential and prosperity. Nevertheless, this development also affected the economic sustainability as the competition increased which has forced companies to reduce production costs. To remain competitive the companies in the EU have been increasing productivity but also decreasing wages to a certain extent which reduces social standards and, as a result, increased social inequality. Therefore, the economic trend of every member state has to be considered for sustainable economic development. The above developed approach tries to take this into account and proposes to
Conclusion

analyse public banks and the resulting possibilities for the development of sustainable economic growth (Blossfeld, Buchholz and Hofäcker, 2011).

Besides the challenge of sustainable economic growth, the challenge of social sustainability should be explained in the context of the above described theoretical approach. Industrialization has replaced marginal employment with machines. This development has led to an increase in well trained and educated employees and a decrease of low skilled staff. The most common approach to compensate the resulting gap between the gross incomes of well trained and less skilled staff are still transfer payments. Considering the current financial crisis and its after-effects as well as the ageing population, this approach might lead to further financial stress within the EU. Furthermore, the increasing interest expenses for governments and costs for economic stimulus programs are limiting the potential for to invest in human capital. The previously mentioned focus of the EIB on education funding should receive more attention. The complementary financing of the education system through national public banks might be advantageous for the development of European human capital (More, 2000).

In the context of prospective challenges, the ecological aspects should be highlighted too. Based on an increased standard of living and world population the global consumption of natural resources has risen dramatically. The impact of the incipient scarcity of resources can be explained by using the resource of water as an example: Apart from healthcare issues of the consumption of contaminated water, water shortages will lead to losses in production as water is essential for almost all economic sectors. Because of the central importance of the resource water, public banks should finance the development of technologies which reduce the use of
resources (Butts, 1997). The existing focus of the EIB on the development of efficient technologies can be a pioneering approach for national public banks for long-term investments in sustainable use of natural resources. Decentralised commitments by national public banks would complete the existing European basic approaches.

The socio-political challenges derive from the above described challenges of economic, social and ecological sustainability, which are intensifying the predicaments when combined. Ecological unsustainability from overexploitation undermines the basis of production processes and disregards the postulate of ecological sustainability. Without this, a sustainable production and material prosperity cannot be secured which might also lead to social consequences. Simultaneously, the basis of public finance collapse in turn leads again to a lack of transfer payments to balance social inequality. As a result, political and social tensions would complicate the implementation of future reforms. These sustainability problems must be solved at global level to prevent negative impacts on the current standard of living. The problem here is the isolated focus on one sustainability problem without considering the interdependencies. Therefore, the main objective of political solutions should be to find a coherent strategy to establish a sustainable economic and social system.

The long-term focus of the EU will help to develop a sustainable ecological, economic and social environment if the policy objectives and the execution of the EIB are in line with the four principles of sustainability:
Conclusion

“Borrow systematically only to invest, not to consume. Keep money sound: control inflation, public borrowing, trade deficits, indebtedness. Establish transparent accounting systems that give realistic asset values. Maintain or increase stocks of capital (manufactured, human, social, nature)”

Paul Ekins (2009).

Critical Reflection

This last sub-chapter will critically reflect on the whole research project and this dissertation in terms of the methodological approach and its implementation as well as the personal challenges of writing my first English dissertation.

One of the first tasks during my studies at the University of Gloucester was to learn about research methodologies and to develop an appropriate methodological approach for my research project. For a start, the choice of the research paradigm was a difficult decision for me as I tried in the beginning to analyse the phenomenon in all kinds of variations and from any possible perspective. After writing this dissertation I know about the importance of paradigms for the organisation of a research project. From the beginning it was clear for me to research about a finance-related question by using a non-positivist paradigm. This decision was driven by the truly “positivistic” orientation of my prior studies in Germany. For me personally, this was a weakness as I had no chance to think and research about finance-related topics from a different perspective. Although it was one of the main challenges, I think the critical look at paradigms helped me to see specific aspects in the world of finance and banking from a different point of view.
Conclusion

The choice of a mix of paradigms was driven by the wish to combine the research about public banks with Klinks concept of the “honourable merchant”. The idea to research about public banks was in return driven by the current financial crisis and public discourse about the European banking business. It is remarkable that most discussions are focusing on corporate greed and not on possible solutions to develop new basic approaches for current financial issues in the EU.

The objective to develop new approaches leads to explanation of the used methodology. Stoner and Holland (1996) and their example of qualitative research, which is built upon the examples of qualitative research by Straus and Corbin (1990), provides an example of qualitative research in finance. In this context, the use of grounded theory might be unusual but could contribute to research as it represents a different approach how to deal with finance-related research questions. The implementation of the grounded theory was a special challenge. Nonetheless, a clear advantage of the grounded theory was, that I was able to use every kind of data for this research project. This advantage, however, includes several risks. During my research process it was a challenge to remain on the research track because of emerging research questions. Also, the wealth of information has led to difficulties in aggregating the findings to formulate a theory which explains the phenomenon.

Another difficulty of this research project was the implementation of the “honourable merchant”. This concept was developed in 2007 by Daniel Klink at the Humboldt-University in Berlin. The implementation of this concept in order to analyse the ethical stance of the EIB was interesting but also challenging as there was no English data
Conclusion

about this concept available. The final evaluation of the moral behaviour of the EIB was also difficult as my first assumption about the ethical stance of the EIB seemed to be wrong. The idea that public banks invest more ethical than other banks cannot be upheld because of the mentioned reasons in this dissertation. However, it was not possible for me to make a final statement about the moral behaviour due to a lack of robust information about EIB’s lending impact on, for example, the economic environment outside the EU or non-European governments. This has moved the focus on the EIB to the more general phenomenon “public banks”.

In summary this research project helped me to learn more about the EIB, the “honourable merchant” and the methodological approach of dissertations. As this research projects raises further research questions I plan to research further into the field of public banks.
Literature


Literature


Literature


Literature


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Humboldt-Universität zu Berlin. (Online). Retrieved May 7, 2012 from:


Literature

Printed for J. Tonson.


Literature


Literature


### Appendix

#### 1. Financial Ratios of the European Investment Bank

<table>
<thead>
<tr>
<th>Profitability</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>[1] Return on Average Assets (%)</td>
<td>0.63</td>
<td>0.56</td>
<td>0.51</td>
<td>0.89</td>
<td>0.55</td>
<td>0.53</td>
<td>0.54</td>
<td>0.54</td>
<td>0.51</td>
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<tr>
<td>[2] Return on Average Usable Equity (%)</td>
<td>5.63</td>
<td>4.97</td>
<td>4.57</td>
<td>8.05</td>
<td>4.86</td>
<td>4.67</td>
<td>5.05</td>
<td>5.41</td>
<td>5.54</td>
</tr>
<tr>
<td>[3] Net Interest Margin (%)</td>
<td>0.80</td>
<td>0.74</td>
<td>0.68</td>
<td>0.65</td>
<td>0.69</td>
<td>0.70</td>
<td>0.69</td>
<td>0.72</td>
<td>0.72</td>
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<tr>
<td>[4] Interest Coverage Ratio (X)</td>
<td>1.20</td>
<td>1.19</td>
<td>1.17</td>
<td>1.13</td>
<td>1.13</td>
<td>1.13</td>
<td>1.13</td>
<td>1.13</td>
<td>1.11</td>
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<table>
<thead>
<tr>
<th>Liquidity</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>[5] Liquid Assets/Short-term Borrowings (%)</td>
<td>62.53</td>
<td>68.67</td>
<td>59.86</td>
<td>54.04</td>
<td>54.35</td>
<td>65.06</td>
<td>80.64</td>
<td>49.62</td>
<td>72.42</td>
</tr>
<tr>
<td>[5] Liquid Assets/Undisbursed Loans (%)</td>
<td>45.36</td>
<td>52.08</td>
<td>58.12</td>
<td>42.06</td>
<td>44.44</td>
<td>45.86</td>
<td>38.06</td>
<td>30.68</td>
<td>46.42</td>
</tr>
<tr>
<td>[6] Total Liquidity Ratio</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>31.30</td>
<td>34.81</td>
<td>58.26</td>
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<tr>
<td>Total Net Cash Outflows</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>-76.27</td>
<td>-78.42</td>
</tr>
<tr>
<td>Total Net Treasury</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>23.87</td>
<td>27.30</td>
<td>33.56</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>[7] Basel II Capital Adequacy Ratio</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>37.60</td>
<td>35.30</td>
<td>30.30</td>
<td>27.20</td>
</tr>
<tr>
<td>Usable Equity/Assets (%)</td>
<td>11.10</td>
<td>11.50</td>
<td>10.76</td>
<td>11.30</td>
<td>11.44</td>
<td>11.11</td>
<td>10.36</td>
<td>9.57</td>
<td>9.00</td>
</tr>
<tr>
<td>Usable Equity/Risk Assets (%)</td>
<td>388.59</td>
<td>400.24</td>
<td>350.30</td>
<td>402.24</td>
<td>340.61</td>
<td>286.39</td>
<td>272.25</td>
<td>132.42</td>
<td>62.28</td>
</tr>
<tr>
<td>Usable Equity/Loans (%)</td>
<td>12.54</td>
<td>13.30</td>
<td>12.64</td>
<td>12.70</td>
<td>12.74</td>
<td>12.42</td>
<td>11.74</td>
<td>11.15</td>
<td>10.74</td>
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<tr>
<td>Total Equity/Assets (%)</td>
<td>71.98</td>
<td>71.81</td>
<td>64.55</td>
<td>65.07</td>
<td>63.31</td>
<td>59.17</td>
<td>70.45</td>
<td>62.16</td>
<td>55.79</td>
</tr>
<tr>
<td>Total Equity/Loans (%)</td>
<td>81.30</td>
<td>83.05</td>
<td>75.86</td>
<td>73.11</td>
<td>70.48</td>
<td>66.15</td>
<td>79.85</td>
<td>72.38</td>
<td>66.55</td>
</tr>
<tr>
<td>Total Equity/Borrowing (%)</td>
<td>86.62</td>
<td>86.17</td>
<td>75.14</td>
<td>76.30</td>
<td>75.17</td>
<td>72.20</td>
<td>84.66</td>
<td>72.89</td>
<td>65.58</td>
</tr>
<tr>
<td>Usable Equity + CC of Aaa &amp; Aa Rated</td>
<td>71.16</td>
<td>68.47</td>
<td>61.57</td>
<td>62.09</td>
<td>60.10</td>
<td>56.25</td>
<td>66.79</td>
<td>58.25</td>
<td>40.04</td>
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</table>
Appendix

<table>
<thead>
<tr>
<th>Members/Assets (%)</th>
<th>2,491.22</th>
<th>2,383.49</th>
<th>2,005.17</th>
<th>2,210.01</th>
<th>1,788.77</th>
<th>1,449.88</th>
<th>1,754.92</th>
<th>805.75</th>
<th>276.98</th>
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</thead>
<tbody>
<tr>
<td>[9] Usable Equity + CC of Aaa &amp; Aa Rated Members/Risk Assets (%)</td>
<td>80.38</td>
<td>79.18</td>
<td>72.36</td>
<td>69.77</td>
<td>66.90</td>
<td>62.87</td>
<td>75.70</td>
<td>67.82</td>
<td>47.76</td>
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<tr>
<td>[9] Usable Equity + CC of Aaa &amp; Aa Rated Members/Loans (%)</td>
<td>85.64</td>
<td>82.16</td>
<td>71.67</td>
<td>72.81</td>
<td>71.36</td>
<td>68.63</td>
<td>80.26</td>
<td>68.30</td>
<td>47.06</td>
</tr>
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</table>

Statutory Ceiling on Lending Activities

<table>
<thead>
<tr>
<th>Statutory Ceiling on Lending and Guarantees (Mil Euro)</th>
<th>375,000</th>
<th>409,134</th>
<th>409,134</th>
<th>409,134</th>
<th>412,020</th>
<th>412,020</th>
<th>637,856</th>
<th>642,013</th>
<th>646332</th>
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<tbody>
<tr>
<td>Gearing Ratio (%)</td>
<td>166.50</td>
<td>163.70</td>
<td>181.00</td>
<td>191.70</td>
<td>199.00</td>
<td>214.60</td>
<td>159.10</td>
<td>175.85</td>
<td>186.56</td>
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Risk Assets (Mil Euro)

<table>
<thead>
<tr>
<th>Loans to Non-Investment Grade Countries (Risk Assets)</th>
<th>6,687</th>
<th>7,405</th>
<th>8,874</th>
<th>8,124</th>
<th>10,141</th>
<th>12,637</th>
<th>13,983</th>
<th>30,348</th>
<th>68,208</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assets/Total Loans Outstanding (%)</td>
<td>3.23</td>
<td>3.32</td>
<td>3.61</td>
<td>3.16</td>
<td>3.74</td>
<td>4.34</td>
<td>4.31</td>
<td>8.42</td>
<td>17.24</td>
</tr>
<tr>
<td>Investment Grade Assets/Total Loans Outstanding (%)</td>
<td>94.96</td>
<td>94.85</td>
<td>94.69</td>
<td>96.12</td>
<td>95.52</td>
<td>94.88</td>
<td>94.84</td>
<td>90.59</td>
<td>81.78</td>
</tr>
</tbody>
</table>

Asset Quality (Mil Euro)

<table>
<thead>
<tr>
<th>Watch List</th>
<th>1,402</th>
<th>1,161</th>
<th>1,027</th>
<th>330</th>
<th>91</th>
<th>526</th>
<th>1,386</th>
<th>1,370</th>
<th>7,073</th>
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<tr>
<td>Impaired Loans</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>501</td>
<td>381</td>
<td>353</td>
<td></td>
</tr>
<tr>
<td>Provisions for Impaired Loans</td>
<td>179</td>
<td>239</td>
<td>293</td>
<td>82</td>
<td>37</td>
<td>22</td>
<td>111</td>
<td>92</td>
<td>193</td>
</tr>
</tbody>
</table>

Maturity of Borrowings (%)

<table>
<thead>
<tr>
<th>One Year and Less</th>
<th>15.05</th>
<th>15.16</th>
<th>18.88</th>
<th>16.91</th>
<th>17.24</th>
<th>15.54</th>
<th>12.64</th>
<th>15.64</th>
<th>13.70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two to Five Years</td>
<td>49.75</td>
<td>51.75</td>
<td>44.05</td>
<td>39.56</td>
<td>34.31</td>
<td>42.41</td>
<td>44.75</td>
<td>44.66</td>
<td>48.77</td>
</tr>
<tr>
<td>More than Five Years</td>
<td>35.20</td>
<td>33.09</td>
<td>37.08</td>
<td>43.53</td>
<td>48.44</td>
<td>42.05</td>
<td>42.61</td>
<td>39.70</td>
<td>37.53</td>
</tr>
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</table>
## Appendix

### 2. Disbursed Loans Outstanding

<table>
<thead>
<tr>
<th>Millions of euro</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% of Total</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5,979</td>
<td>6,376</td>
<td>7,374</td>
<td>8,258</td>
<td>9,240</td>
<td>9,808</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>2.5</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>3,956</td>
<td>4,365</td>
<td>5,059</td>
<td>6,219</td>
<td>7,149</td>
<td>7,795</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>--</td>
<td>404</td>
<td>676</td>
<td>802</td>
<td>1,091</td>
<td>1,300</td>
<td>--</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>2,937</td>
<td>2,656</td>
<td>2,190</td>
<td>1,854</td>
<td>2,069</td>
<td>1,882</td>
<td>11.0</td>
<td>10.8</td>
<td>10.1</td>
<td>9.5</td>
<td>9.3</td>
<td>9.3</td>
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<tr>
<td>Cyprus</td>
<td>669</td>
<td>787</td>
<td>916</td>
<td>1,045</td>
<td>1,362</td>
<td>1,394</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
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<tr>
<td>Czech Republic</td>
<td>4,873</td>
<td>4,873</td>
<td>5,420</td>
<td>6,214</td>
<td>7,730</td>
<td>8,564</td>
<td>1.9</td>
<td>1.8</td>
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### 3. Capital Subscriptions (at year end 2011, Millions of Euros)

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Appendix

4. Distribution of Loans

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