

# Audit Committee Annual Reports

for the year 2020



# **Audit Committee Annual Reports 2020**

Annual Report to the Board of Governors  
for the Financial Year 2020

Annual Report to the Board of Governors  
on the Investment Facility for the 2020 Financial Year

Response of the Management Committee  
to the Annual Reports of the Audit Committee  
for the Financial Year 2020

18 June 2021

**Audit Committee Annual Reports 2020**

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# ANNUAL REPORT TO THE BOARD OF GOVERNORS FOR THE 2020 FINANCIAL YEAR

## EXECUTIVE SUMMARY

This report summarises the results of the Audit Committee's (AC) work in 2020. Based on this work and building on the work and the recommendations elaborated in last year's report, AC makes key observations and recommendations. This year's AC key observations are grouped under four headings:

- 1) Business model and sustainability: impact of Covid-19 pandemic and Climate Bank Roadmap;
- 2) Group alignment;
- 3) Group Information and Communication Technologies: Strategy, Digitisation and Information Security Risk Management; and
- 4) EIB Review and Evaluation Process (EIB REP): AC's Supervisory role, project status and implementation roadmap.

The mandate and scope of AC's work is determined by the EIB's Statute and Rules of Procedure. This sets out three responsibilities:

- i) the auditing of the EIB (the Bank) and the EIB Group's<sup>1</sup> (the Group) accounts, for which AC largely relies on the external auditor;
- ii) the verification that the operations of EIB are conducted in a proper manner having regard to: the monitoring of the internal control environment, risk management, compliance and internal audit activities; and
- iii) the verification that the Bank's activities conform to Best Banking Practice (BBP).

In 2020, AC fulfilled its responsibilities by:

- i) the issuance of the Statements on the EIB and EIB Group's Financial Statements as at 31 December 2020, which have been delivered to the Board of Governors and form an intrinsic part of the EIB Group Annual Report,
- ii) the preparation of this Annual Report, and
- iii) producing its key policy document the EIB REP Guiding Principles.

2020 was an extraordinary year with a challenging economic backdrop due to the outbreak of the pandemic, but also with the persistently low interest rates and easing macro-economic policy decisions taken by the central banks around the world. The pandemic placed an unprecedented burden on people, health systems, economies and government finances overall. Disruptions emanating of the pandemic affected the Bank's personnel, IT systems, facilities and relationships with third party service providers and customers.

In 2020, AC in parallel with the EIB Services used video conferencing for its meetings and has held several additional briefing calls focused on the monitoring of the Bank's operational resilience, asset quality, liquidity and funding management, stress testing capacity, capital planning, IT and cyber security risks.

In order to repair the economic and social damage caused by the coronavirus pandemic, the European Union (EU) responded by adding to the general 2021-2027 Multiannual Financial Framework (MFF) an additional extraordinary EUR 750 billion EU Next Generation package. The EIB Group undertook actions to respond to the pandemic via several initiatives, launched the EUR 25 bn European Guarantee Fund (EGF) and is involved in the implementation of several programs under the next EU budget, such as the InvestEU Fund, or the Neighborhood, Development and International Cooperation Instrument (NDICI). In addition, and building on the EIB's Board of Directors agreed commitments related to climate action and environmental sustainability (CA&ES), the Bank

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<sup>1</sup> The EIB Group comprises the EIB and the European Investment Fund, which is majority-owned by the EIB.

established a Climate Strategy and a Climate Bank Roadmap (CBR). While the impacts of the changes to operations introduced by the EGF and InvestEU might be short to medium term, the evolution of Bank's activities under the CBR to support the climate action are expected to have a more long-lasting and strategic impact.

In terms of financial sustainability, AC acknowledges that the Bank's future activities under the Climate Bank Roadmap, InvestEU and the new EGF will evolve further and are expected to change the nature and risk profile of its operations. The new activities and mandates (including the ones under negotiation) need to be sufficiently remunerated in order to ensure the Bank's long-term sustainability and capital adequacy, and to preserve its business model.

As a result of the expected impact from the pandemic on loan portfolios, the Bank has prudently increased its specific and collective provisioning. This impacted negatively the net surplus for the year. AC stresses the importance of product profitability to remain at such a level that the EIB Group can remain financially self-sustainable in the long term. The annual net surplus is a significant source of internal capital generation needed by the EIB to meet demanding and increasing public policy objectives and to maintaining a stable risk profile. In addition, AC reiterates that the Risk Appetite Framework needs to be extended to a fully-fledged and integrated prudential and strategic group level policy document in 2021, covering both financial and non-financial risks, as well as climate-related and environmental risks.

In terms of operational resilience, AC underlines the need for enhanced monitoring, management and oversight of operational and technology risks, including cyber risks, and in the longer term the deployment of an EIB Group Information and Communication Technologies (ICT) Strategy. It should be able to support and enable the organization in the business model evolution over the coming 5 to 10 years. Moreover making the best use of the Cloud and Artificial Intelligence possibilities, Big Data Analytics should be explored to exploit the full potential of the Bank's unique database linked to projects, products and counterparties.

Better operational resilience also includes reinforced governance rules and procedures. Lax or incomplete rules and processes of non-binding nature may potentially pose serious risks to the functioning of the governing bodies of the Bank which should be eliminated. Therefore, to limit those potentially high impact operational risks the relevant governance codes, rules and processes should be revisited and strengthened to ensure higher operational security of the governing bodies of the EIB, and of the EIB as a whole in accordance with the applicable best banking practice.

Regarding Group alignment, that is the creation of a genuine Group structure and governance with the parent company exercising effective oversight of the EIB and EIF, and of any future subsidiaries, AC acknowledges that the Bank has initiated numerous projects and initiatives concerning the achievement of Group alignment in business, risk management and compliance areas. AC expects that continued progress is achieved on its recommendations of prior years. AC recommends that the Group dimension be strengthened in the area of risk measurement and the management of operations and the subsidiary business model through building awareness at Group-level governance and organisation, as well as in the area of financial reporting and for the preparation of the financial accounts. AC continues to urge Group oversight of all three lines of defence. Regarding the credit appraisal and approval process, AC makes reference to its recommendations of the prior year for the sequencing of the implementation of the 3 Lines of Defence model within the Bank as it relates to the credit process.

The AC saw increased focus in 2020 on the subject of Information and Communication Technologies, in particular Strategy, Digitisation and Information Security Risk Management (including Cyber Security). Where the outbreak of the pandemic led to a rapid transition to virtual working accelerating the deployment of some technologies such as video conferencing and electronic signing, at the same time it deferred long term strategic ICT thinking and raised the risk of cyber-attacks. Led by an effective tone at the top, AC recommends the conclusion of an EIB Group ICT Strategy by summer 2021 encompassing the needed large capital investment, as well as the timely appointment of an EIB Group Chief Information Officer, and the fostering of a strong cyber-security culture.

Concerning the EIB Review and Evaluation Process (EIB REP) and the AC's additional role under its third remit to verify compliance with the BBP, over the past year, the AC worked actively laying the groundwork to make operational the decision of the Board of Governors to strengthen the supervisory role of the Audit Committee, within the existing statutory framework. The EIB REP team is almost fully recruited, the EIB REP Framework was designed, based on three tiers, the first of which, the EIB REP Guiding Principles was completed and approved



by the Board of Governors. The strengthened AC supervisory role and the EIB REP process will contribute to the completeness of the application of the best banking practices at EIB, and the process of oversight and verification of compliance with BBP, where the EIB strives to lead by example amongst its peers.

Regarding the BBP Framework, AC is pleased with the increased level of its maturity and is looking forward to the setting up of the BBP Rules repository. AC expects further progress with: i) the implementation of the 3 LoDs model, and ii) the further development of the regulatory compliance function. AC reiterates its 2018/19 recommendation related to the reporting of prudential ratios and to the development of the capacity to produce stress-testing results, on an IFRS basis.

The annual BBP self-assessments prepared and submitted by the Services to AC, in support of the AC's verification of the Bank's implementation of BBP, concluded, and the MC agreed, that the overall level of compliance with BBP was "partially compliant" with BBP, unchanged from last year, but carrying a more positive outlook, and includes progress made by the Bank to fully address IA findings in relation to AML-CFT, as referenced by the AC in its prior year report.

The recommendations raised by AC are subject to a Management Committee implementation roadmap (MC implementation roadmap). AC expects MC to review that roadmap regularly. AC expects that the MC and Services will continue to implement these recommendations according to the agreed timeline.

Finally, AC considers that it has adopted a focused approach during the year in terms of the objectives and means utilised to obtain the necessary assurances and achieve the outcomes of its work. AC believes that it has maintained appropriate relations with the MC and the Bank's staff, as well as the external auditors and consultants, while remaining independent at all times.

In 2020, and against the background of the pandemic outbreak, AC continued to receive full support from MC and Services, thus AC was able to properly discharge its responsibilities. AC expects to receive similar support going forward. AC appreciates and is grateful for the relevant assistance it has received from the President, Management Committee, Board of Directors and Services throughout the Group.

The Audit Committee remains fully committed to delivering on its mission in order to contribute to the continued strengthening of the EIB Group in these challenging times while preserving its independence.

## 1. KEY OBSERVATIONS AND RECOMMENDATIONS

AC sets out below its key observations and recommendations as priorities for the MC, the BoD and the Board of Governors. These are based on the AC activities during 2020 described in Section 2 of this report.

AC regularly monitored the implementation of the prior AC recommendations through the so-called MC implementation roadmap setting out actions which the MC and the Bank (see Annex 2) are undertaking. AC expects that the MC and Services with the support of the BoD ensure that the implementation of these recommendations is achieved according to their agreed timeline.

In 2020, the AC in parallel with the EIB Services used video conferencing for its meetings to mitigate the risks posed by the Covid-19 pandemic. This limited AC's interaction with the MC and Services compared to physical meetings. This was partly compensated by more frequent briefing calls during the year and the ease of calling meetings at short notice.

AC had met with Services on three occasions to review the roadmap of implementing prior AC recommendations, and intends to continue to review it over the coming year. AC reiterates that this roadmap is the key control document from one Annual Report to the next. In this way MC, BoD, AC and the Board of Governors can see with clarity the progress made and the timeline for clearing outstanding AC actions. The roadmap will be formally refreshed and agreed with MC each year as actions are cleared and new actions are added.

### 1.1 Sustainability and Business Model: impact of Covid-19 pandemic and Climate Bank Roadmap

#### Background

2020 was an extraordinary year with a challenging economic backdrop due to the outbreak of the pandemic, but also with the persistently low interest rates and easing macro-economic policy decisions taken by the central banks around the world. EU economies, small, medium and large companies experienced economic disruptions and significant decline in activities due to lockdowns, while the depth and duration of the pandemic remained unknown. The pandemic placed an unprecedented burden on people, health systems, economies and government finances overall. Disruptions emanating of the pandemic affected the Bank's personnel, IT systems, facilities and relationships with third party service providers and customers.

In order to repair the economic and social damage caused by the coronavirus pandemic, the European Union (EU) responded by adding to the general 2021-2027 Multiannual Financial Framework (MFF) an additional extraordinary EUR 750 billion EU Next Generation package. The total EU budget makes available EUR 1.8 trn of funding that "will lead the way out of the crisis and lay the foundations for a modern and more sustainable Europe"<sup>2</sup>. One of the key components of the EU Next Generation package is the Recovery and Resilience Facility addressing the dual objective of this massive EU financing.

The EIB Group is involved in the implementation of several initiatives under the EU budget, such as the Invest EU, or the Neighborhood, Development, and International Cooperation Instrument (NDICI). Building on the experience of EFSI, InvestEU was set up to provide crucial support to companies to recover from the pandemic. The EIB Group, as a privileged implementing partner to InvestEU, and along with other partners such as the National Promotional Banks (NPBs), will support projects with higher risk profile. InvestEU will significantly increase the risk-taking capacity of the EIB Group, bringing operations with a higher risk profile. This higher risk appetite will be managed taking into account the imperative need for cost coverage of those operations.

The EIB Group undertook actions to respond to the pandemic via several initiatives, and launched the EUR 25 bn European Guarantee Fund (EGF). The EGF is a completely new instrument within the portfolio of EIB products and relies on the full backing of EU Member States guarantee, which will be used to provide private sector clients

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<sup>2</sup> EC Budget: [ec.europa.eu/info/strategy/eu-budget\\_en](https://ec.europa.eu/info/strategy/eu-budget_en)

with capital and liquidity credit lines and to help keep SMEs afloat. Within the EIB Group, it is expected that the EIF takes the lead on the EGF implementation.

Overall, the EIB Group's operations are expected to evolve further under the EGF and InvestEU. These public policy goals will need to be balanced with the imperative for a long-term sustainability of the EIB Group. In addition, full cost coverage of activities and mandates is necessary to ensure that capital calls from the Member States are avoided.

The pandemic accelerated some existing trends in financial intermediation such as, for example, decreasing profitability amid lower interest rate environment, increased reliance on technology, IT solutions and third-party service providers. Due to the pandemic and similar to other big organisations, the EIB was forced to move quickly to an entirely remote working environment, while undertaking measures to respond to the pandemic and to assist clients with their financing needs.

Over the past year, the AC focused on the monitoring of the Bank's operational resilience, asset quality, liquidity and funding management, stress testing capacity, capital planning, IT and cyber security risks.

Due to the impacts of the pandemic, AC had numerous briefing calls in order to assess how the Bank was responding to the new operating environment and the emerging risks. The AC received regular reports on vulnerable exposures, the magnitude of requests of payment deferrals, the measures to address clients' needs, operational readiness and IT posture as well as discussed capital planning and stress testing results. Similar to other authorities, extending relief in order to allow for a focus on operational continuity, the AC agreed to postpone the EBA stress testing exercise to 2021 to alleviate pressures on the Bank from the remote working relationships, and the evolving health and economic crisis.

In terms of market risk and liquidity, AC monitored the Bank's preparedness for the implementation of the interest rates benchmark (IBOR) reform, and received regular reports on liquidity and funding metrics, as well as reporting sent to the Banque Centrale du Luxembourg (BCL). AC reviewed the status of Bank's implementation of BCL recommendations. Overall, the Bank's liquidity and funding management remained adequate during the past year with high liquidity positions and adequate management practices.

Over the past year, and building on the EIB's Board of Directors agreed commitments related to climate action and environmental sustainability (CA&ES), the Bank established a Climate Strategy and a Climate Bank Roadmap (CBR), in effect from 1<sup>st</sup> January 2021. The CBR envisions the transformation of the EIB into the EU Climate Bank with more than 50% of its overall lending activities supporting climate actions and environmental sustainability by 2025, and all financing being aligned to the Paris Agreement goals. The CBR provides for climate risk reviews and an alignment framework, which will permeate project/ counterparties evaluation and loan portfolio monitoring. The new climate action orientation of operations will change both the lending and the financing of the EIB. While the impacts of the changes to operations introduced by the EGF and InvestEU might be short to medium term, the evolution of Bank's activities under the CBR to support the climate action are expected to have a more long-lasting and strategic impact.

The ECB SSM Supervisory priorities for 2021 foresee the monitoring by the ECB of banks' alignment with the expectations set out in the ECB Guide on climate related and environmental risks. The AC expects that the EIB, as part of the compliance with best banking practice and in view of the CBR, integrates these new risks into its business strategy and risk management framework.

In addition to the climate action, the EIB is focused on other priorities such as the need to fully support the EU policy priorities to transition to a digital economy and to implement MFF mandates for 2021-27, such as InvestEU, NDICI and the "Team Europe" package, for operations outside of the EU.

## Key Observations

*Business model and sustainability* – the Bank's future activities under the Climate Bank Roadmap, InvestEU and the new EGF are expected to change the nature and risk profile of its operations, and to have an impact on its business model. The new activities and mandates need to be sufficiently remunerated to ensure the Bank's long-

term sustainability and capital adequacy. AC underlines that cost coverage of mandates and activities remains essential for the Bank's sustainability. In addition, pressures of prior year trends of insufficient cost coverage of some mandates and operations continued over the last year. These tendencies, which were coupled with the impacts of the low interest rate environment and the pandemic affected the level of net surplus. The Bank's AAA rating is necessary to ensure appropriate market sources of financing and must be preserved. Cost coverage of mandates is indispensable.

Furthermore, the Bank needs to preserve the confidence of its public and private investors by maintaining its high rating, which is key to the Group being able to offer competitively priced products. The Bank's AAA rating is therefore at the core of its business model. The Bank's rating is anchored on its financial strength, good governance, resilience, long-term sustainability and the support of the EU Member States as shareholders. The EIB Group's ability to issue AAA bonds is a cost effective mechanism whereby the financial impact of Member States capital is multiplied many times.

The EIB is not an EU budget institution and is reliant on confidence-sensitive capital markets funding. On the other hand, as the public policy bank of the EU, the EIB must continue to balance its policy mission with an adequate level of cost coverage for the services it provides.

It is important that the EIB profitability is such that the EIB Group can remain financially self-sustainable in the long term. The annual net surplus is a significant source of future capital needed by the EIB to meet demanding and increasing public policy objectives. AC acknowledges the strategic direction undertaken by the Bank with the CBR, EGF and the InvestEU, which is coupled with the pre-existing downward trend in net surplus. However, cost coverage must be very quickly re-established. This is needed to avoid calls for capital increases from Member States.

*Credit quality* – the pandemic had an impact on the Bank's clients leading to numerous request for forbearance and negatively impacting asset quality. As of the end of 2020, the total non-performing exposures remained modest although with an increasing trend. AC acknowledged the work of the Bank with respect to the consistent and clear approach implemented, and measures taken to address clients' needs and to assess the impacts on the loan and equity portfolios. Guidelines were adjusted to reflect performing and non-performing forbearance, a new more granular and BBP-aligned methodology was developed for assessing early signs of deterioration or non-performing exposures.

As a result of the expected impact on loan portfolios, the Bank has prudently increased its specific and collective provisioning. This impacted negatively the net surplus for the year. AC acknowledged this development and underscores the need for continued monitoring of the loan and equity portfolios for further deterioration using a prudent approach. The pandemic will have a long lasting impact on the Bank's counterparties with the risk that the initial Covid-19 related liquidity constraints will transform into solvency issues in particular for less capital intensive SMEs.

*Capital planning and stress testing* - the Bank performed several vulnerability assessments, stress tests and scenarios to understand better the capital and other impacts of the pandemic and has elaborated relevant capital plans. EIF's approach to capital sustainability needs to be reviewed in light of policy objectives to ensure the sustainability of each EIB and EIF as well as of the EIB Group in line with the Group's capital sustainability policy.

With regards to financial risks, AC requested in its last year's report that:

- i) the capital consumption of different BBP projects of the Prudential BBP Programme be estimated, disclosed in the risk report, and integrated in the capital planning process of the Bank, and
- ii) results of the stress testing exercises should not be less conservative as if they were prepared on an IFRS basis.

AC underlines that capital planning needs to better incorporate the evolving regulatory developments. These AC recommendations (also referred in the section on BBP) should continue to be implemented in 2021.

*Operational resilience* – the pandemic and its implications to the operational environment of the Bank, namely full teleworking accelerated the potential for operational risk events linked to human error, failed processes, over reliance on end user computer tools, and emphasized the vulnerability of systems. AC calls for increased

emphasis on an enhanced monitoring, management and oversight of operational and technology risks, including cyber risks and other non-financial risks like AML-CFT. Last but not least, a fully integrated and cascaded Group RAF will be essential for the management of the Bank's and the Group's financial and non-financial risks. In addition, it needs to be recognized that the pandemic is creating an environment where an extra and long lasting natural psychological pressure on all employees may be experienced. This remains a matter that should draw a continued and permanent attention.

Better operational resilience also includes reinforced governance rules and procedures. Lax or incomplete rules and processes of non-binding nature may potentially pose serious risks to the functioning of the governing bodies of the Bank which should be eliminated. Therefore, to limit those potentially high impact operational risks the relevant governance codes, rules and processes should be revisited and strengthened to ensure higher operational security of the governing bodies of the EIB, and that of the EIB as a whole in accordance with the applicable best banking practice.

*Credit appraisal and approval process* - AC notes that the recommendations of the 3 LoDs Task Force were reflected in the new project management office overseeing the implementation of the 3 LoDs model, which is currently ongoing. AC underlines its recommendation that, in the first instance, the delineation of roles and responsibilities among the 1<sup>st</sup> and 2<sup>nd</sup> LoDs need to be clarified, for credit risk and compliance but also for all other risk types. Once clarified, a reorganisation of Services must take place to separate, as far as possible, the two lines of defence and remove overlaps. The role of the Board of Directors and Management Committee in the credit approval process and delegation to Services needs to be clarified as well. AC recognises the MC's view of the importance of sequencing: first the reorganisation element must be completed before the delegation element can be analysed. That is a key factor to maintain and strengthen the long term sustainability of the Bank.

## Recommendations

In addition to Management Committee progressing with the implementation of prior years' recommendations, given the increasing volume and number of new mandates (still under negotiation), the AC reiterates the imperative of ensuring adequate cost coverage of all mandates.

The financial risk RAF was approved a few years ago and clarifications were provided as to the implementation of the non-financial risk indicators. The RAF needs to be extended to a fully-fledged and integrated prudential and strategic Group level policy document in 2021, covering both financial and non-financial risks, as well as climate-related and environmental risks.

## 1.2 Group Alignment

### Background

Group alignment is the creation of a genuine Group structure and governance with the parent company exercising effective oversight of the EIB and EIF, and of any subsidiaries in the near future. Group alignment in the sense of EU law means that the parent and the subsidiary institution should ensure appropriate governance, processes and mechanisms are in place, and are consistent and well integrated on a consolidated basis. In the group functioning and governance appropriate balance should be established between the effective control of the parent institution and the operational autonomy and accountability of the subsidiary. A critical component of safe Group management is an effective and efficient system of internal controls.

Group alignment includes Group oversight of the first line by the second and third lines of defence and the establishment of Group support functions. The Group alignment will preserve the autonomy and accountability of the EIF governing bodies within the EIB Group structure for the implementation of their part of the Group business strategy, internal control and risk management framework, designed by the EIB. Group alignment process implies also that the EIB REP process will be extended to the EIF in the near future.

## Key Observations

The Bank has initiated numerous projects and initiatives concerning the achievement of Group alignment in business, risk management and compliance areas. The AC notes that work is ongoing for the Implementing Provisions for the Group Risk Management Charter (GRMC), which are essential elements for establishing risk management and the proper oversight of the Group. The AC expects that further progress is achieved with the Group oversight of the second line of defence within the Bank.

The AC acknowledges that other Group policies were further developed or elaborated, such as the Group Equity Strategy, the Group Capital Plan, the Group Stress Testing Program, the Group Internal Liquidity Adequacy Assessment Process (ILAAP) and the Group Contingency Funding Plan. The Internal Capital Adequacy Assessment Process (ICAAP) was also extended to cover a Group dimension. AC expects that the Risk Appetite Framework (RAF), the ICAAP, the Recovery and Contingency Plan will soon be (by H1'21) extended to a Group dimension based on a Group Operational Plan, according to the agreed timeline as per the roadmap.

Regarding the Group data warehouse and the risk measurement, monitoring and reporting at a group level, the Bank has launched a long-term project, which is also one of the four high priority projects of the Prudential BBP Programme. The requirement for Group risk data aggregation and an integrated data warehouse are the necessary stepping stone for the development of the Group oversight of risk, compliance and governance. It is an essential requirement for systemically important banks of the size of EIB. The Bank should continue to work on that.

The AC underlines the need for the Bank and the EIB Group to continue to extend the prudential risk and non-financial risk management policies including AML-CFT related, as well as the risk measurement and management to a Group dimension, under the leadership of the Group Chief Risk Officer (GCRO). The AC attaches great importance to sound internal control systems, as a prerequisite to effective risk management. To further strengthen Group alignment, the AC notes that other Group appointments such as a Group Chief Information Officer (GCIO) and a Group CFO are also necessary.

With reference to sound internal control systems, the Bank launched in 2018 a comprehensive project aimed at strengthening the Internal Control Framework, AC is of the view that progress has been made in a number of areas. However significant challenges remain coming from the silo mindset, the fragmented nature of the control environment. AC considers this is related mainly to the lack of ownership and accountability of transversal (trans-action related) controls, and that these challenges need to be addressed.

With reference to AML-CFT and the implementation of IA related recommendations referenced in the AC's prior year report, the AC received updates on the status of implementation and was satisfied with progress. The AC took note that remaining actions are set out in the AML-CFT Transitional Roadmap which encompasses two main pillars: 1) Governance and Structure and 2) Counterparty/Operation Lifecycle. The AC was informed that each are organised into different work streams and subsequent actions, to be implemented within a 2 to 3- year period and subject to regular reporting to the MC.

Finally, the Group alignment of IFRS-based financial reporting frameworks between the Bank and the EIF in accordance with Best Banking Practice should be considered in the medium term. At present, EIF compiles stand-alone subsidiary financial statements in accordance with IFRS, the Bank prepares stand-alone financial statements in accordance with EU Directives (EU AD), and Group Financial statements are prepared in accordance with EU AD and IFRS.

## Recommendations

In 2021, the AC expects that continued progress is achieved on its recommendations related to Group alignment in accordance with the agreed timelines. The ongoing evolution of the three lines of defence model implementation and the creation of the Group oversight in RM and compliance is work in progress. This will be closely monitored by AC with the expectation of further progress.

AC recommends that the Group dimension be strengthened in the area of risk measurement, the management of operations and the subsidiary business model through education, building awareness of group-level governance and organizational issues.

### 1.3 Group Information and Communication Technologies: Strategy, Digitisation and Information Security Risk Management

#### Background

Prior to Covid-19 there has been a high rate of change at the EIB. This is evidenced by increased business volumes and the deployment of new products and mandates such as the European Fund for Strategic Investments. This pace unexpectedly accelerated in 2020 following the outbreak of Covid-19. EIB, the EU's Bank, was called to respond to help Europe recover from the impact. And, with other organisations had to move all staff to remote working in a short period of time.

This rapid transition to virtual working accelerated the deployment of some technologies such as video conferencing and electronic signing. At the same time it deferred long term strategic ICT thinking and it raised the risk of cyber-attacks.

#### Key Observations

AC liaised directly with Services on the ICT agenda towards the end of 2020 and identified two ICT observations related to Cyber security and a group approach to an IT strategy. These observations are interconnected and have been thrown into stark relief by the Covid-19 crisis.

*Cyber security* - Cyber threats take many forms such as DDOS (Distributed Denial of Service), malware spreading through spear-phishing and phishing and ransomware. A potential attack can result in key data being leaked, lost or locked. It can also result in reputational and legal risks. Successful attacks can have a significant adverse impact on operational functioning. They can render common risk management and business continuity arrangements ineffective. This emphasises the twofold critical need to defend against cyber-threats and to recover from potential attacks. It is important that the Board of Directors and Management Committee understand that they play a crucial role in facilitating the implementation of a cybersecurity strategy. The tone must move away from 'if' an attack happens. It must instead address 'when' an attack happens. A cyber-resilience culture needs to be fostered at all levels of staff from MC downwards and consider a holistic approach combining cyber and physical security. Clear processes and procedures need to be defined and adhered to by all. Adequate training and appropriate metrics to monitor cyber-risk require further development.

The Group has had a tendency to view IT 'through IT eyes'. In the AC's view, it needs to view the systems through 'business eyes'. We encourage the Services to build a Business Impact analysis with defined impact tolerances. An impact tolerance expresses the length of time a business system can stay offline before it has a severe impact (operational, legal or reputational) on the EIB. Impact tolerances then enable the EIB Group to consider resources required to resume operations within the time specified. It enables the EIB Group to organise recovery priorities for system resources.

A detailed cyber incident response plan with a Computer Security Incident Response Team (not limited to IT staff and also including members of MC in an informed capacity) needs to be designed. This response plan needs to be stress-tested through regular exercises of real-time attacks in fictional scenarios to identify gaps and ensure preparedness.

*A group approach to an IT strategy* - an ICT strategy is an enabling part of an organisation's overall business strategy. It aims to see that information technology capability exists to maximise the efficiency and effectiveness of processes and operations. It forms the basis of an effective risk management framework for ICT and security risks. It should be able to support and enable the organization in the business model evolution over the coming 5 to 10 years. Through its history, the Group has built a significant and unique source of data linked to projects, products and counterparties – corporate, big, medium and small companies. Making the best use of the Cloud

and Artificial Intelligence possibilities, Big Data Analytics should be developed to get the full potential from the database, identify new opportunities, offer more tailored products, meeting more closely client requirements, improve risk assessment and enhance profitability.

Moreover, AC observed an increasing trend of Internal Audit findings identifying reliance on end user computing (EUC) tools to support certain elements of key processes. This is an unstable and costly option that results in undue operational risk.

For these reasons, and in order that IT capabilities continue to keep pace with change, the AC considers the conclusion of the ICT Strategy should be considered a short-term high priority. And subsequent implementation, a short to medium term priority. With budgetary considerations, including the adequate quantity and quality of staff allocated to ensure implementation, forming a natural part of the strategy.

The ICT Strategy has to be written and implemented at group level as the backbone to a truly aligned EIB Group. In keeping with the good progress achieved as result of the appointment of the GCRO, AC considers the appointment a Group Chief Information Officer is now a priority. The GCIO should be an experienced ICT services professional with a track record of delivering transformational change programmes. The GCIO should be able to partner with Services to develop and enable business strategy but also act as a change instigator, pursuing transformation while ensuring resilience. This is a critical appointment in terms of transforming the EIB Group to a modern, digitized, data led and highly cyber secure organisation.

The Group alignment cannot take place if the IT infrastructure, the data warehouse and the other basic IT support systems are not designed and operated at a group level. The Group IT Strategy and implementation is a key prerequisite for a genuine alignment in the EIB Group.

AC is advised that the Group IT Strategy is being developed and will come forward in the first half of 2021. If AC has a concern it is the constant reference to the size of the bill. AC would prefer to see the strategy definition lead to a budget debate. The IT Strategy will inevitably need a large capital investment. But MC and the Board of Directors must look past that and decide what business outcomes are needed. And critically, in what time period those need to be delivered.

MC has already led a re-organisation of Services to accommodate a change of thinking about ICT. This reflects the earlier comment to view ICT through 'business eyes'. A three-layered approach was launched in July 2020 comprising all parts of the Group.

AC suggests that Services review all current projects to establish whether all are still priorities for delivery. This is especially needed since many were defined and agreed before the Covid-19 crisis. AC expects this review to dovetail with the emerging ICT Strategy so that projects within the overall programme reflect the current and future business needs and not those of the past.

## Recommendations

In 2021, the AC expects that substantial progress is made with the elaboration of an EIB Group ICT Strategy, ideally with its conclusion by Summer 2021 at the latest. This strategy should encompass in due time a review of all ongoing projects to ensure they map against the requirements of the new strategy. AC considers the timely appointment of an EIB Group Chief Information Officer is essential.

AC expects that both the Management Committee and Board of Directors accept their responsibility for a strong tone from the top. This tone to encompass the needed large capital investment, the fostering of a strong cybersecurity culture among employees and the requirement to develop effective recovery plans that are regularly updated and tested.



## 1.4 *EIB Review and Evaluation Process (EIB REP): AC's Supervisory role, project status and implementation roadmap*

### Background

Over 2020, the AC worked actively on the groundwork to make operational the decision of the Board of Governors to strengthen the supervisory role of the Audit Committee, within the existing statutory framework, and under the AC's mandate to verify compliance with BBP (please refer to Annex 2 for the AC activities under that mandate).

Back in 2019, the AC elaborated an approach for strengthening its supervisory role, which is built upon the four pillars of the EBA Supervisory Review and Evaluation Process (SREP) Guidelines (business model, risk management and governance, capital and liquidity) but framed with an EIB-specific Review and Evaluation Process, or an EIB REP. The EIB REP is to be aligned with the current BBP philosophy and framework of the Bank, and to have the following high-level objectives:

- meet the public interest of having a robust and financially secure and sustainable EU IFI by strengthening the EIB Group adherence to BBP,
- ensure appropriate risk management and internal governance, and
- ensure that the expanding EIB Group remains adequately capitalised, stable and liquid.

Over the past year, the Bank and the AC jointly launched the work on the EIB REP, with the appointment of the Head of the EIB REP team. The recruitment process for the REP team members was also launched, and currently it comprises 6 members, which will be extended to 9 in April, and to 12 by the end of 2021.

The AC worked on the development of the operational framework of the EIB REP to be anchored within the best banking practices of the Bank and built on three tiers, namely:

- the EIB REP Guiding Principles – high level policy document,
- followed by Implementing Rules, and
- complemented later on by a more technical supervisory approach and methodology, all tailored to the EIB.

These three tiers are explained in more detail in the next section.

The AC recognises the intensive work done by the REP team, while regretting the delay in recruitment suffered mainly due to the pandemic. Nevertheless, the AC together with the REP team elaborated the first high level policy document of the framework – the EIB REP Guiding Principles, which represents an overarching document for the working principles of the EIB REP. The AC submitted the EIB REP Guiding Principles in February 2021, jointly with the EIB President for Board of Governors approval, which was obtained in early March 2021.

The AC held a special session with the BoD to present the EIB REP Framework, and has consulted the BoD on the EIB REP Guiding Principles.

In 2021, AC will carry on the development of the REP approach through: a) continued development of the Implementing Rules and the individual elements of the REP methodology, and b) the delivery of a pilot review in one of the SSM supervisory priority areas. It is anticipated that the progressive development of the methodology will increase through selected coverage in 2022, with full coverage of the REP scope in 2023.

### Key Observations

The AC together with the REP team and in collaboration with the EIB Services has worked on the development of the operational framework for the AC's supervisory role and of the elements of an EIB REP Framework. The latter is based on three tiers:

- EIB REP Guiding Principles,
- Implementing Rules (the background analysis was completed), and
- Supervisory approach and methodology.

The remaining tiers of the EIB REP will be developed chronologically, gradually developing the Implementing Rules over 2021, with progressive elaboration of the approach and methodology over 2021 and 2022. All these tiers will be tailored to the EIB.

The first tier of the EIB REP Framework, or the EIB Guiding Principles represent a high-level document, setting forth the general principles, rules and provisions regarding the governance, the organizational structure and the functioning of the Review and Evaluation Process applicable to the EIB (including the independence of the REP activities performed under the supervisory mandate and the authority of the AC).

As the AC in its supervisory role is responsible for the EIB REP planning, execution and conclusion – the annual and multi-annual REP cycle, AC would ensure the EIB REP dialogue with the EIB governing bodies. The EIB REP and the AC's supervisory role will require an adjustment to the Rules of Procedure of the Bank, permitting direct reporting lines to the Board of Governors on REP issues. In perspective, after the implementation of the governance changes in the context of the group alignment the REP intends to be further extended to the subsidiary of the EIB.

In order to perform its duties, the REP team has appropriate access to data and information and to have exceptional attendance to meetings of EIB governing bodies, which are relevant to the work of the REP team.

The second tier of the EIB REP Framework is the Implementing Rules, which set out the EIB REP organizational arrangements to ensure the due process including but not limited to: i) the specification of the roles, responsibilities and reporting lines of the EIB REP team, ii) access to data and information and the Bank's departments, iii) procedures for documenting and recording findings, iv) procedures for the approval and communication of the findings, as well as, v) exceptional attendance to relevant meetings of EIB governing bodies.

AC notes that preliminary work on the Implementing Rules has already begun because of the analysis performed for the EIB GP, which had to reflect on the actual organizational arrangements, REP team roles and responsibilities as well as on the prospective processes and procedures.

The third tier of the EIB REP Framework is more technical and relates to the development and adoption of an approach and methodology to perform the EIB Review and Evaluation Process, specific to the EIB Group. In performing that task, the AC would be assisted by the REP team. This third tier document will rely largely on guidelines and methodologies elaborated and applied by EBA and SSM. However, as the REP team do not have access to the SSM SREP Manual these general guidelines will require specific development to the actual work to be performed in EIB.

In parallel with the building up of the REP team and the phasing in of a supervisory assessment, the Bank will need to develop its own capabilities to respond to supervisory-type requests from the EIB REP team as further highlighted below.

### **EIB REP Team**

As noted, the EIB REP team's recruitment process was launched during 2020 as per the plan for the delivery of EIB REP project. The original staffing model envisaged that 50% of the REP team would include seconded supervisors from National Competent Authorities. The process to solicit suitable candidates was coordinated via the Board of Directors. This 'secondment campaign' did not result in national secondments, mostly due to the disruption caused by the pandemic uncertainty.

AC recognises the progress to date and regrets the delays encountered for the building up of the EIB REP team. The EIB REP team comprises the Head of the REP, one administrative support, and 4 experts – 3 internal, 1 secondee. Three additional external appointees are expected to come on board in April 2021, and the recruitment process for additional three team members is currently ongoing. The team is expected to reach its full complement of 12 by the end of 2021. In order to find a long-term solution before the end of 2021 for the post of the Head of the REP team with a candidate having a strong supervisory background, the Bank needs to rely on an external recruitment process.

### *Work and achievements of the EIB REP team (REP team) in 2020*

During 2020, the EIB REP team had started its preparatory work in several areas including in relation to business model, liquidity, and regulatory reporting. The team has also established contact with the ECB/ SSM and BCL.

The following are a few of the REP team's achievements:

- *Established ECB/ SSM collaboration* - building relationships to avail of support in the areas of training and methodological queries.
- *Developed approach for Business Model Analysis* – assessed the methodology/ approach starting with Balance Sheet and Profit & Loss decomposition.
- *Established contact with the Banque Centrale du Luxembourg* – assessed the current supervisory work on liquidity oversight for EIB's access to the Eurosystem, and examined the future cooperation with BCL in view of the EIB REP framework.
- *Evaluated the FINREP/ COREP feasibility* – launched the evaluation of feasibility of supervisory reporting and processing and options.

### **EIB REP and Best Banking Practice**

AC recognises the progress achieved with the development of the BBP Framework<sup>3</sup> of the Bank. AC reviewed 9 BBP AAPs and is pleased with the work completed by the BBP Watch Team. The AC also received the BBP Self-assessment of Services, which evaluates the overall Bank's status as "partially compliant", unchanged from last year, but with a more positive outlook. While progress was achieved, some more work remains to be done to close gaps with best banking practice.

The strengthened AC supervisory role and the EIB REP process will contribute to the completeness of the application of the best banking practices at EIB, and the process of oversight and verification of compliance with BBP. With this the AC is of the view that EIB will become a leading MDB in applying and verifying compliance with BBP and prevailing banking regulations.

Similar to last year's report, the AC underlines the importance of further developing a fully-fledged regulatory compliance function within the EIB in order to monitor compliance with the BBP, the completion of the BBP Rules Repository of applicable regulatory rules for EIB.

AC recognises that the Group continued to implement the governance proposals, part of the July 2018 decisions of the BoD, which includes the deployment of the three lines of defence model in credit risk and in compliance. In addition, the recruitment of the GCRO on 1 September 2020 is considered a welcome development as this function strengthens the risk management and compliance processes also at a group level. In terms of BBP, the AC underlines the importance to narrow the divergence between the EIB BBP approach and the EIF Best Market Practices.

In its prior year reports, the AC has strongly encouraged the Bank to explore the adoption of the regulatory reporting mechanisms of FINREP/ COREP, which are of particular relevance in the context of the REP. At present the EIB REP team is looking to analyse further and explore the needs for such regulatory reporting, including the obstacles to implementation. This reporting framework would facilitate the Group risk measurement, data aggregation, risk reporting, and its consistent and comprehensive measurement – all essential elements of best banking practice. It would also provide for a comparative analysis within the EU banking environment and would provide a transparent picture to the MC and other stakeholders. As underlined in the last year's report, the AC

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<sup>3</sup> The BBP Framework consists of four elements: the BBP Guiding Principles, the BBP Applicability Assessment Procedures, the BBP Book of exemptions and of the BBP Rules Repository.

would be looking to support a positive development in that regard, potentially taking into account the impact of the pandemic on the Bank in terms of priorities and actual implementation.

Progress has been achieved with respect to the AC recommendation to ensure that the stress-testing exercises are performed in line with prudential requirements of the European Banking Authority, and that EBA EU-wide stress test is replicated. This however includes the calculation of stress-testing results and prudential ratios on an IFRS-basis, which still needs to be achieved. This would ensure comparability between the risk profile of the Bank and other financial institutions. The Group RAF project needs to become operational and to be implemented in the whole of the EIB Group.

### Recommendations

With respect to the EIB REP, the AC, together with the EIB REP team aim to speed up the delivery of the EIB REP project, and the development of the Implementing Rules, as well as a pilot body of work in one of the ECB SSM priority areas in 2021. AC acknowledges progress with the strengthening of its supervisory role and with the operationalisation of the EIB REP with the preparation of the EIB GP. The framework of reporting of EIB REP results to the Board of Governors directly by the AC needs to be elaborated via the modification of the EIB Rules of Procedure.

Regarding the BBP Framework, the AC is pleased with the increased level of its maturity and is looking forward to the setting up of the BBP Rules repository. The AC expects further progress with the implementation of the 3 LoDs model, further development of the regulatory compliance function, and AC 2018/19 recommendation is reiterated, which is related to the reporting of prudential ratios and to the development of the capacity to produce stress-testing results, on an IFRS basis, also an action point from the BoD.

## 2 AUDIT COMMITTEE ACTIVITIES

### 2.1 Mandate

The AC is established under European Investment Bank Statute as one of the EIB's four governing bodies, which is independent from the Board of Directors and reports directly to the Board of Governors.

In accordance with the EIB Statute and Rules of Procedure, AC has three main responsibilities:

- i. the auditing of the EIB and the EIB Group's<sup>4</sup> accounts, which is performed while relying largely on the external auditor,
- ii. the verification on an annual basis that the operations of EIB are conducted and its books kept in a proper manner in particular with regard to risk management and monitoring; as well as the monitoring of the internal control environment, risk management, compliance, the inspectorate general and internal audit activities, and
- iii. the verification that the Bank's activities conform to the best banking practice.

### 2.2 Composition

As of the end of 2020, AC is composed of 5 members and 3 observers.

In June 2020, the Chairmanship passed from Mr. John Sutherland to Mr. László Balogh. For the new appointments to the Audit Committee, please refer to the Bank's website.

The composition of AC observers has changed and the current observers are: Mr. John Sutherland, Ms. Beatrice Devillon-Cohen, and Mr. Vasile Iuga.

The members and the observers of AC are appointed by the Board of Governors and are independent experts and professionals with knowledge, expertise and skills in finance, banking, accounting and auditing, risk management and banking supervision in both the private and public sectors. The CV's of the AC members and observers are available on the EIB's website.

The AC has established a skill matrix that serves to monitor whether its members are disposing with the necessary important skills to discharge the function of the AC.

### 2.3 Meetings and external liaison

In 2020, AC held 11 regular meetings over 24 business days (2018: 12 meetings over 26 business days). During its regular meetings, the AC had discussions with representatives from the Bank's Services, including Members of the EIB's Management Committee, the Secretary General, Risk Management, Transaction Management and Restructuring, Internal Audit, Inspectorate General, Compliance, Financial Control, Operations, Finance, IT, Legal, Personnel, as well as the external auditors, KPMG.

The outbreak of the pandemic intensified AC's work, as it necessitated a closer monitoring of the developments and impacts on the Bank. AC meetings since mid-March 2020 were held in a virtual video mode, and hence, the

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<sup>4</sup> EIB's Financial Statements under the EU Directives comprise each unconsolidated and consolidated balance sheets as at 31 December 2020, the profit and loss account and the cash flow statement for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information. The EIB's consolidated Financial Statements under IFRS comprise the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated Financial Statements, including a summary of significant accounting policies and other explanatory information.

AC held 12 additional video briefing calls over 9 business days and met virtually with Services to discuss Bank's response and measures taken to address the impacts of the pandemic on employees and activities.

During these additional briefing calls, AC also received reports related to the Bank's operational readiness, status of internal controls, stress-testing and capital planning, and discussed topics such as the setting up of the EGF, the progress with the EIB REP, the Operational Plan developments, the liquidity and funding management, prudential documents, and revisions of the IA Plan.

AC also met:

- on three occasions, with the Audit Board of the EIF to discuss common issues in relation to the consolidated Financial Statements of the EIB Group or group policies for example in the field of risk management, capital allocation within the Group, IT, and the outcome of Group internal audits, and
- on two occasions, with the BoD of the EIB where common issues of interest were covered including in relation to the process of approving the EIB Group/ EIB Financial Statements, and the EIB REP Guiding Principles.

**Luxembourg, 18 June 2021**

**Signed by:**

**L. BALOGH  
CHAIRMAN**

**A. LINARTAS**

**CH. TRIANTOPOULOS**

**P. KRIER**

**N. GRACIAS FERNANDES**

**B. DEVILLON-COHEN**

**J. SUTHERLAND**

**V. IUGA**

## ANNEX 1 – DETAIL OF AC DUTIES/ ACTIVITIES DURING THE YEAR

This section contains a summary of AC's activities, classified in accordance with the AC's statutory duties, listed above.

The key observations and recommendations raised by AC as a result of its activities enumerated below are set out in Section 1 of this report.

### *i. the auditing of the EIB's and the EIB Group's accounts*

Duties	Action taken by the Audit Committee
<b>EIB Group Financial Statements</b>	
<b>AC review of the Financial Statements and other financial information</b>	<ul style="list-style-type: none"> <li>Reviewed the individual and consolidated Financial Statements and formulated its conclusions thereon, as enumerated in the AC's Statements issued to the Board of Governors, which accompany the EIB Group's Annual Report.</li> <li>Met with Financial Control (FC) at 7 of 11 Audit Committee meetings held in 2020.</li> </ul>
<b>Relationship with the external auditor</b>	<ul style="list-style-type: none"> <li>Met with the external auditor, KPMG, at 7 of the 11 Audit Committee meetings held in 2020. Held private sessions with KPMG without the presence of EIB Services at 5 of these meetings.</li> <li>Reviewed and challenged the application of the audit methodology and approach set out in KPMG's annual audit plan including key areas of judgement and estimation in the Financial Statements. Discussed the impact of Covid-19 on the audit approach.</li> <li>Monitored the execution of KPMG's audit plan through regular meetings with senior members of the audit team, including the lead audit engagement partner.</li> <li>Discussed outcome of the audit procedures, in particular in relation to the priority audit areas/key areas of judgement and Covid-19 audit considerations, together with the identification and reporting of Key Audit Matters as set out in KPMG independent auditor's reports on the Bank's Financial Statements.</li> <li>Reviewed and discussed the summary of identified adjusted and unadjusted audit differences.</li> <li>Read and challenged the content of regular written reports submitted to it from the external auditor, addressing the various stages of the external audit process and including audit methodology and audit approach, the results of audit testing, levels of materiality, audit differences, significant matters arising from the audit process and auditor independence.</li> </ul>
<b>Relationship with the external auditor</b>	<ul style="list-style-type: none"> <li>Received assurance from the external auditor that the audit process was achieved as planned, with support from the Bank's Services.</li> <li>Discussed KPMG's recommendations, which are reported in their Management Letter to the Bank, as well as the status of the implementation of prior year recommendations.</li> </ul>
<b>Monitoring of external auditor independence</b>	<ul style="list-style-type: none"> <li>Received and discussed details of the various safeguards in place at KPMG to maintain auditor independence.</li> </ul>

	<ul style="list-style-type: none"> <li>Received written confirmation from KPMG that the members of the audit team remained independent within the meaning of regulatory and professional requirements and that the objectivity of the audit team, including the audit, was not impaired.</li> <li>Monitored that KPMG did not provide services to the EIB other than those defined, and pre-approved by the AC, in the Framework Agreement.</li> </ul>
<b>Mandate of external auditor</b>	<ul style="list-style-type: none"> <li>Extended by mutual consent, in consultation with the Management Committee in accordance with Article 26 of the EIB's Rules of Procedure, the term of KPMG's external mandate for a period of three years, to end upon approval of the 31 December 2024 EIB financial statements by the EIB Board of Governors in 2025.</li> <li>KPMG's has been the auditor of the EIB Group since 2009.</li> </ul>

*ii. verification operations of EIB are conducted and its books kept in a proper manner in particular with regard to risk management and the monitoring of the internal control environment*

<b>Duties</b>	<b>Action taken by the Audit Committee</b>
<b>Internal Audit</b>	
<b>Performance of the internal audit function</b>	<ul style="list-style-type: none"> <li>Met with the acting Heads/Head of the IA function, at 8 of the 11 meetings held in 2020, and at each of the 3 meetings held jointly with the EIF Audit Board to review joint audits of EIB/ EIF.</li> <li>Held private sessions with the acting Heads/Head of the IA function without the presence of EIB Services at 8 of these meetings.</li> <li>Examined and discussed the salient features of IA reports including recommendations and main conclusions.</li> <li>Received quarterly updates of the status of implementation of the related agreed action plans and monitored the timely implementation of these action plans.</li> <li>Reviewed and provided comment on the draft IA work plan for 2021-2022.</li> <li>Discussed the adequacy of resourcing of the IA function.</li> </ul>
<b>Internal control framework</b>	
<b>Efficiency of internal control systems</b>	<ul style="list-style-type: none"> <li>Met with the Financial Control - Internal Controls and Assertion Division on 3 occasions during 2020.</li> <li>Examined and discussed the summary report regarding the implementation and maintenance of the Internal Control Framework.</li> <li>Received updates on progress with initiatives intended to further strengthen the Internal Control Framework.</li> </ul>
<b>Inspectorate General</b>	
<b>Coordination with the Inspectorate General</b>	<ul style="list-style-type: none"> <li>Met with the Inspector General at 4 of the 11 meetings held in 2020.</li> <li>Examined and discussed the status of on-going fraud investigation cases.</li> <li>Received regular presentations from the Complaints Mechanism of the status of the complaints received, reviewed the anti-fraud activity report and reviewed the outcome of various evaluations performed during the year together with the status of implementation of related recommendations.</li> </ul>



<b>Compliance</b>	
<b>Coordination with Compliance</b>	<ul style="list-style-type: none"> <li>• The AC met with the Compliance function at 4 of the 11 meetings held.</li> <li>• Received updates on the status of implementation of IA AML-CFT related recommendations. Examined and discussed in Q3 the AML-CFT Transitional Roadmap which encompasses two main pillars: 1) Governance and Structure and 2) Counterparty/Operation Lifecycle. Each of these pillars are organised into different work streams and subsequent actions, to be implemented within a 2 to 3- year period and subject to reporting the MC and AC.</li> <li>• Discussed the Sanctions Compliance Programme, progress and outlook, Compliance function organizational transformation and the compliance risk assessment cycle, including the testing and monitoring plan. Acknowledged the key indicators of the ML-FT dashboard, including Know Your Client status/completeness.</li> </ul>
<b>Risk Management</b>	
	<ul style="list-style-type: none"> <li>• The AC met with the RM Directorate at 10 of the 11 regular AC meetings, and at 5 of the 12 AC briefing calls. The AC discussed regular risk reports including the Monthly Risk Report covering the Risk Appetite Framework (RAF) Dashboard and key credit, market and operational risk metrics, as well as the monthly Watch List and the EIB Group RM Disclosure Report.</li> </ul>
<b>Risk Management within the EIB Group and the GCRO</b>	<ul style="list-style-type: none"> <li>• GCRO function was established, and relevant group processes are being established.</li> <li>• Group risk management processes will be strengthened by the group prudential documents, such as a Group RAF, Group Recovery and Capital Contingency Plan, building on the Group Capital Plan and the Group Sustainability Policy, and on the continued work on the Implementing Provisions for the Group Risk Management Charter.</li> </ul>
<b>Credit and Market Risk</b>	<ul style="list-style-type: none"> <li>• Reviewed the impact of the pandemic on the loan and equity portfolios and the required provisioning.</li> <li>• Received updates on FX risk, the intraday liquidity risk and funding.</li> <li>• Discussed the profitability per product project.</li> </ul>
<b>Capital adequacy, Stress Testing, Liquidity and Funding</b>	<ul style="list-style-type: none"> <li>• Reviewed the following: the Bank’s ICAAP document including Group elements, the Group ILAAP, the Bank RAF, and the clarifications re the future Group RAF and implementation of non-financial RAF, the results of the stress-testing exercises evaluating the impact of the pandemic on portfolios, and Group stress testing Programme for 2021 entailing the replication of the EBA EU-wide stress testing exercise, the Recovery and Capital Contingency Plans, as well as the Group Contingency Funding Plan of the Bank.</li> <li>• Received updates on model risk management and models inventory.</li> <li>• Received the Bank’s regular liquidity and funding reports to the BCL supervision team, as well as the BCL assessment report.</li> </ul>
<b>Prudential Risk Management: Regulations Monitoring and Prudential BBP Program</b>	<ul style="list-style-type: none"> <li>• Received regular updates on regulatory monitoring within RM, and has also received semi-annual in-depth updates of the Prudential BBP Program in RM.</li> <li>• Received updates from the Task Force on the Implementation of the three Lines of Defence (LoDs) model within the Bank and regular updates on the progress with this project in the area of credit risk.</li> </ul>

<b>Operational Risk and Information Security</b>	<ul style="list-style-type: none"> <li>Received and reviewed the Monthly Operational Risk Report and an overview of the setting up of the second LoDs for Information Security.</li> </ul>
<b>Risk Management within the EIB Group</b>	<ul style="list-style-type: none"> <li>Reviewed the revised Group Risk Management Charter, the first Group Capital Plan.</li> </ul>
<b>Transaction Management and Restructuring</b>	
	<ul style="list-style-type: none"> <li>The AC held 10 meetings with the TMR Directorate and at 2 of its 12 briefing calls.</li> </ul>
<b>Monitoring and Reporting of Asset quality</b>	<ul style="list-style-type: none"> <li>At the request of the AC, a new report was developed by TMR, focusing on Covid-19 impacts on the portfolio on a weekly basis which was then transformed to a regular monthly report; reviewed the revised TMR methodology for EWS/ NPE exposures and regularly received the resulting monthly EWS/NPE report, as well as other regular TMR reporting, including the monthly Watch List report, prepared jointly with RM.</li> </ul>
<b>Restructuring of operations</b>	<ul style="list-style-type: none"> <li>Received the annual restructuring report and the quasi equity report.</li> </ul>
<b>Finance</b>	
	<ul style="list-style-type: none"> <li>The AC held 4 meetings with the FI Directorate (2 at the regular AC meetings and 2 at the briefing calls).</li> </ul>
<b>Liquidity, Funding and Treasury Management</b>	<ul style="list-style-type: none"> <li>Reviewed the annual Funding and Treasury Management report,</li> <li>Received an update on the Bank's preparedness for the Global Interest Rate Benchmarks Reform.</li> <li>Reviewed the Group Contingency Funding Plan.</li> <li>Received updates on market developments, and on the Bank's liquidity and funding management.</li> </ul>

*iii. the verification of EIB's compliance with Best Banking Practice*

Duties	Action taken by the Audit Committee
<b>EIB Compliance with Best Banking Practice</b>	
<b>BBP Framework:</b> - BBP Guiding Principles, - BBP Book, - BBP Applicability Assessment Procedure, and - BBP Rules repository	<ul style="list-style-type: none"> <li>• The AC held 5 meetings with the Secretary General Directorate related to BBP Applicability Assessment Procedures, and reviewed 9 such procedures on various subjects.</li> <li>• The AC also discussed on 3 occasions the progress with AC recommendations of prior years.</li> <li>• The AC was consulted with subsequent versions of the BBP Book.</li> </ul>
<b>BBP self-assessments</b>	<ul style="list-style-type: none"> <li>• The AC reviewed the BBP self-assessments of Services.</li> <li>• In terms of overall level of compliance with BBP, on the basis of the 2020 self-assessments prepared by the Services, the MC in agreement with the Services, concluded that the EIB is assessed as “partially compliant” with BBP. There are key BBP requirements that still need significant efforts to close existing gaps. The AC concurs with the MC’s conclusion and will continue to oversee the closure of the identified gaps according to their agreed timeline included in the Bank’s roadmap prepared as a result of the AC recommendations included in the Annual Report to the Governors issued in 2019.</li> </ul>
<b>Review of Prudential Risk Management documents and Prudential BBP Programme</b>	<ul style="list-style-type: none"> <li>• The AC reviewed prudential risk management documents such as the ICAAP, including at a Group level, the ILAAP, the RAF, Stress testing Programme, the Recovery and capital contingency plan, the Group contingency funding plan, as part of its sessions with RM.</li> <li>• The Prudential BBP Programme, within the responsibilities of the RM Directorate, remained focused in 2020 mainly on the four high priority projects.</li> </ul>
<b>Task Force on the three Lines of Defence</b>	<ul style="list-style-type: none"> <li>• The AC met on 1 occasion with the Task Force to discuss the recommendations for the implementation roadmap of the 3 LoDs model within the credit appraisal and approval process.</li> <li>• The AC met on 1 occasion with the Implementation office for the 3 LoDs model, which was set up during 2020.</li> </ul>
<b>Meetings with the EIB REP team</b>	<ul style="list-style-type: none"> <li>• The AC met regularly with the Head of the EIB REP team and provided guidance as to the priorities and strategic development of the REP project.</li> <li>• Guided the team in the development of the EIB REP Guiding Principles, and in relation to the other tiers of the EIB REP.</li> </ul>

## ANNEX 2 – SUMMARY TABLE OF PRIOR YEAR AC RECOMMENDATIONS

AC will review the status of the MC implementation roadmap with Services in July/ October and December 2021.

	Key Observations	Summary of prior year AC recommendations	
1.	<b>Sustainability and Business Model</b>	<p>1. monitor closely the viability of the evolving and more diversified business model of the Bank, as well as the trends in margin, net surplus and asset quality as contributing factors to the Bank's sustainability,</p> <p>2. prepare a strategic review of profitability per product and per mandate, and</p> <p>3. develop further the capacity to analyse revenue and expense drivers as well as cost coverage with the aim to ensure adequate profitability per product and per mandate and ensure the Bank's financial sustainability.</p>	<p>- AC would like Management Committee to explore digitalisation of processes across EIB Group as one means of many to address upward pressure on the overall cost base, and to make best use of cloud computing.</p> <p>- In view of the EIB Group pledge to initiate climate investments in the decade of 2030 and to be the key implementing partner to the EU for InvestEU and other priorities, AC reiterates the need for cost coverage of all mandates, including those under negotiations.</p>
2.	<b>Group Alignment</b>	<p>4. prioritise group alignment within the EIB Group by creating a genuine group structure with the parent company exercising effective oversight of the EIF, and of any future subsidiaries, and including group control (second and third lines of defence) and support functions. As a matter of priority, the EIB needs to ensure that the three lines of defence model functions in the existing structure, and to ensure the group oversight of risk management and the establishment of group control functions. The AC recommends that the focus of the group alignment in 2019 be on Risk Management,</p> <p>5. ensure a coordinated approach within the EIB Group of the equity and quasi-equity operations as these activities have grown in importance over the past few years. This approach should aim to avoid an overlap of product offerings between EIB and EIF and to ensure a clear delineation of roles and responsibilities within the EIB Group,</p> <p>6. develop the capability within the EIB Group to capture and aggregate all material risks, enhance group reporting and build a common data warehouse,</p>	<p>- AC expects further progress with the development of the Group data warehouse.</p>

		<p>as well as establish group IT policies; invest in appropriate IT infrastructure as the current state of such group infrastructure also poses increased operational risks, and</p> <p>7. extend the EIB Risk Appetite Framework to a group dimension in order to steer the risk profile of the EIB and the EIF within the group, as well as develop the ICAAP, ILAAP, stress testing framework, liquidity, capital contingency plans and recovery plan at a group-level.</p>	
3.	<b>Risk Management and Internal Control</b>	<p>8. address the findings in the IA report on the credit appraisal and approval process,</p> <p>9. complete the review of the terms of reference of the control functions, of the roles and responsibilities within each control functions, and across the EIB Group,</p> <p>10. ensure that the ICF is further developed and is sufficiently robust, by integrating and enhancing the ICFs in each Directorate,</p> <p>11. ensure the timely closure of outstanding IA AAPs, and</p> <p>12. enhance the oversight and control of IT, cyber security preparedness and operational risks in view of increased operational threats and elevate cyber security within the Bank and the EIB Group by adopting a group approach and policies.</p>	<p>- AC expects further progress with the enhancements to the ICF.</p> <p>- AC recommends that the EIB Group further enhances the oversight of the Non-Financial Risks, including AML-CFT compliance, conduct and cyber risks.</p>
4.	<b>Best Banking Practice</b>	<p>13. complete the development and fully operationalize the holistic BBP Framework by implementing the necessary processes and procedures within the EIB and the EIB Group,</p> <p>14. close the remaining BBP compliance gaps, including the closure of the BCL's recommendations in relation to systems integration and risk data aggregation, liquidity stress testing and the ILAAP document, as well as the development of a group approach to liquidity management,</p> <p>15. enhance the management of the prudential BBP Programme and its implementation within the right scope, timeline and resourcing, including in IT, as well as the right prioritisation of BBP</p>	<p>- AC expects that the MC explores the options to build up the FINREP COREP reporting.</p> <p>- AC expects the Bank to continue work to close existing gaps to achieve full compliance with BBP in the field of AML-CFT.</p>

		<p>projects with a view to anticipate and proactively manage upcoming regulatory changes impacting the EIB and the EIB Group,</p>	
		<p>16. develop a common data warehouse,</p>	
		<p>17. develop the capability to calculate prudential ratios and stress testing results on an IFRS basis,</p>	
		<p>18. in terms of best governance practices and the full deployment of the three lines of defence at the Bank, complete the review of the responsibilities of the Members of the Management Committee be completed, and ensure that the requirements of EU law are applied to their collective and individual skills, knowledge and experience; the review should be completed in conjunction with the review of the terms of reference of the control functions (referred to under AC's recommendations for Risk Management and Internal Control).</p>	
<p>5.</p>	<p><b>Culture, Conduct, Resources and Remuneration</b></p>	<p>19. encourage a sound risk culture within the EIB Group in order to ensure that it includes such features as sufficient challenge from the second line of defence, accountability, a tone from the top, and incentives to speak-up,</p>	
		<p>20. review the Code of Conduct of the Management Committee and the Board of Directors,</p>	
		<p>21. ensure the appropriate, efficient and effective pace of hiring of the second and third lines of defence within the Bank to enable them to perform effectively their duties and to deliver high quality work; close any recruitment gaps in the control functions as a matter of priority,</p>	
		<p>22. address the gaps identified in remuneration policies in order to foster sound risk culture within the EIB Group, and ensure that remuneration practices are better balanced to reflect not only volume-based KPIs as a driver of objectives setting; enhance the remuneration governance, remuneration structure, performance assessment,</p>	

		and remuneration disclosure requirements in line with best banking practice, and	
		23. ensure that the findings of the IA and the Task Force reports on the gaps related to the inefficient and complex administration of staff benefits be addressed by the development of an action plan, which must be implemented quickly.	

## LIST OF ABBREVIATIONS

AC	Audit Committee
AML-CTF Directives	Anti-Money Laundering and Counter-Terrorist Financing Directives
BBP	Best Banking Practice
BCL	Banque Centrale du Luxembourg
BoD	Board of Directors
BoG	Board of Governors
CAD	Capital Adequacy Ratio
COP	Corporate Operational Plan
COREP	Common Reporting (COREP) is the standardized reporting framework issued by the European Banking Authority (EBA) for the Capital Requirements Directive reporting. It covers credit risk, market risk, operational risk, own funds and capital adequacy ratios.
CRD IV/ V	Capital Requirements Directive IV / V
CS	Corporate Services
CSSF	Commission de Surveillance du Secteur Financier
DG	Director(s) General
EBA	European Banking Authority
ECB-Banking Supervision SSM	European Central Bank-Banking Supervision Single Supervisory Mechanism
EFSD	European Fund for Strategic Investments
EIB Group (Group)	EIB Group comprises the Bank and the European Investment Fund (EIF).
EIB	European Investment Bank
EIF	European Investment Fund
EIB REP	EIB Review and Evaluation Process (built on the four pillars of EBA Supervisory Review and Evaluation Process, SREP Guidelines)
EC	European Commission
EU	European Union
FC	Financial Control
FI	Financial Directorate
FINREP	Financial Reporting (FINREP) intends to step up the harmonization in supervisory reporting. It applies to all credit institutions and investment firms (IFPRU Firms) across the EU that consolidate their financial reports based on IFRS.
GAAP	Generally Accepted Accounting Principles



GRMC	Group Risk Management Charter
G-SIB	Global Systematically Important Bank
IA	Internal Audit
IBOR	Interest rate Benchmarks such as LIBOR, EURIBOR and TIBOR
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technologies
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IG	Inspectorate General Directorate
ILAAP	Internal Liquidity Adequacy Assessment Process
JU	Legal Directorate
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LoDs	Lines of Defence
MC	Management Committee
MDB	Multilateral Development Bank
MP	Mandates Portfolio
NCA	National Competent Authorities
Net Surplus	Net Surplus of the Bank
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OCCO	Office of the Chief Compliance Officer
OPS	Operations Directorate
Personnel	Personnel Directorate
P&L	Profit & Loss
PJ	Projects Directorate
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
REP	Review and Evaluation Process, including for EIB
REP GP	Review and Evaluation Process Guiding Principles
RM	Risk Management Directorate
RWA	Risk Weighted Assets

SG	General Secretariat Directorate
SMEs	Small and medium sized enterprises
TMR	Transaction Management and Restructuring Directorate

# ANNUAL REPORT TO THE BOARD OF GOVERNORS ON THE INVESTMENT FACILITY FOR THE 2020 FINANCIAL YEAR

## 1. INTRODUCTION

The Audit Committee is responsible by the EIB's Statute and Rules of Procedure for the following: i) the auditing of the EIB and the EIB Group's accounts, for which the Audit Committee relies on the external auditor; ii) the verification on an annual basis that the operations of EIB are conducted and its books kept in a proper manner in particular with regard to risk management and monitoring, as well as the monitoring of the internal control environment, compliance and internal audit activities; and iii) the verification that the Bank's activities conform to best banking practice ('BBP').

This report from the Audit Committee to the Board of Governors provides a summary of the Committee's work focused more specifically on the Investment Facility during the period since the last annual report date. The Audit Committee issues a statement each year, confirming to the best of its knowledge and belief, that the Investment Facility's ('IF') Financial Statements, prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union ('IFRS'), give a true and fair view of the IF's financial position, its financial performance and its cash flows for the year then ended (see section 3 for more details).

## 2. AUDIT COMMITTEE REVIEW

The assurance expressed by the Audit Committee is based on the work of the external auditor performed by KPMG, but also on the fact that the IF relies on a number of systems provided by the Bank, notably the ones of: risk management, human resources management, treasury management and financial reporting. The Audit Committee obtains an understanding of the activities and risks associated with the various developments by reviewing management reports and by interacting with the relevant Bank services involved in the IF activities.

### Meetings with Management

During the past year, the Audit Committee received updates and reviewed reports on the IF, which provided details about the recent developments and future orientations for the IF and the Bank's activities in Africa, the Caribbean, and the Pacific ('ACP') region in general. The IF portfolio, including the watch list, together with current project trends were discussed.

### External auditors (KPMG)

The external auditors responsible for the audit of the IF's Financial Statements are appointed by and report to the Audit Committee. In order to be able to rely on the work performed by the external auditors, the Audit Committee properly monitored KPMG's activity, by requesting verbal and written reports, by reviewing the external auditors' deliverables and making further inquiries and through a formal interview before the sign-off of the accounts.

The Audit Committee held discussions with the external auditors throughout the year, in order to keep the Audit Committee briefed on the audit progress and the audit and accounting issues. The Audit Committee had an audit

de-briefing meeting with KPMG before giving its clearance on the various Financial Statements. The Audit Committee received assurances that the audit process went as planned, with the full support from the Bank's Services.

The Audit Committee assesses regularly the external auditors' independence, including the absence of conflicts of interests.

## Internal Audit

The Internal Audit ('IA') Department is an independent function within the EIB with a direct reporting line to the Bank's President. The Head of IA retains unrestricted access to the Audit Committee and may request private sessions.

The Audit Committee met with the Head of IA at 8 of the 11 meetings held in 2020. The Audit Committee discussed all the significant internal audit recommendations and agreed action plans. The EIB's Internal Audit performed no specific internal audits in relation to the IF during the reporting period.

## Inspectorate General

The internal oversight function at the Bank is headed by the Inspector General ('IG'). The Inspectorate General comprises three lines of service: fraud investigation, operations evaluations and complaints mechanism. IG has a privileged relationship with the Audit Committee; the Inspector General retains unrestricted access to the Audit Committee and may request private sessions. In carrying out its responsibilities, the Audit Committee meets regularly with IG and examines reports and ongoing cases with the Fraud Investigations Division.

The Audit Committee met with the Inspector General at 4 of the 11 meetings held in 2020. The Audit Committee examined and discussed with IG the ongoing cases under their remit and was informed about any alleged cases of wrongdoing and ongoing investigations relating to Bank projects, including IF operations, if applicable.

## European Court of Auditors

The Audit Committee notes that the European Court of Auditors did not perform any audits related to the IF during the year ended 31 December 2020.

## 3. THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020 AND THE ANNUAL STATEMENT OF THE AUDIT COMMITTEE

The Audit Committee examined the Investment Facility's 2020 Financial Statements, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union and had discussions with the external auditors, in the presence of the Bank's management and in private, in order to obtain an understanding of the audit procedures applied. Going forward, it is expected that the Investment Facility operations are to be folded under the new Neighbourhood, Development and International Cooperation Instrument (NDICI).

## Basis of accounting

In accordance with the Investment Facility Management Agreement ('the Agreement'), the Bank prepares Financial Statements guided by International Public Sector Accounting Standards or International Accounting Standards as appropriate. The accounting framework applied to the IF's Financial Statements is the International Financial Reporting Standards, as adopted by the European Union.

The Financial Statements of the Investment Facility comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in contributors' resources, the statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information and are prepared in accordance with the accounting framework mentioned above.

## 4. CONCLUSION

In 2020, the Audit Committee aimed to achieve a balanced approach in terms of focus, issues handled and means utilised to obtain the necessary assurance. The Audit Committee is of the opinion that it has been able to carry out its work to fulfil its statutory mission under normal, unrestrictive conditions. The Audit Committee received full cooperation from the Management of the Investment Facility within the EIB during the reporting period.

Based on the work undertaken and the information received (including the opinion from the external auditors on the Financial Statements and a representation letter from the Management Committee of the Bank), the Audit Committee confirms that the Financial Statements of the Investment Facility, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in contributors' resources, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, give a true and fair view of the financial position of the Investment Facility as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

On this basis, the Audit Committee signed its annual Statement on the Investment Facility's 2020 Financial Statements, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, as of 11 March 2021, the date on which the EIB Board of Directors approved the submission of the Investment Facility Financial Statements to the EIB Board of Governors.

**Luxembourg, 18 June 2021**

**Signed by:**

**L. BALOGH  
CHAIRMAN**

**A. LINARTAS**

**CH. TRIANTOPOULOS**

**P. KRIER**

**N. GRACIAS FERNANDES**

**B. DEVILLON-COHEN**

**J. SUTHERLAND**

**V. IUGA**

# RESPONSE OF THE MANAGEMENT COMMITTEE TO THE ANNUAL REPORTS OF THE AUDIT COMMITTEE FOR THE 2020 FINANCIAL YEAR

## I. KEY MESSAGES

1. The Management Committee (MC) takes note of the Audit Committee (AC) Annual Report for the 2020 financial year and concurs with the AC that 2020 has been an extraordinary year with unprecedented challenges for the world and its citizens. Since the beginning of the pandemic, in March 2020, the Bank took swift measures to move to a completely remote working environment, which was made possible, with very little disruptions, by the adoption of appropriate IT measures. A dedicated Crisis Management Committee was established to assess the developments of the pandemic, provide regular updates to the MC and propose measures and solutions for the daily business of the EIB Group. The EIB Group's staff continued to demonstrate strong commitment and flexibility despite the extraordinary challenges of the COVID-19 pandemic.

2. The EIB Group's immediate COVID-19 response focused on extending loans and guarantees, temporary payment deferrals and other measures designed to alleviate liquidity constraints in particular for SMEs & MidCaps. By end 2020, the Bank signed EUR 22.4bn COVID-19 operations of which EUR 9.6bn was disbursed. The EIF signed EUR 3.0bn. The EIB Group also established the Pan-European Guarantee Fund (EGF). The Fund will support up to EUR 25bn of guarantees with a focus on SMEs & MidCaps, corporates and public sector companies and entities active in the area of health or health-research or providing essential services related to the health crisis. It aims to generate up to EUR 200 bn of financial support to the European Union (EU) economy and the 22 participating EU Member States in proportion to their respective share in the EIB back it. As of end of December 2020, the EIB Group approved 79 projects in several Member States amounting to EUR 5.4bn in the form of guarantees and equity products.

3. Beyond the short term, a challenge for the coming years will be the implementation of EU mandates in the Multiannual Financial Framework (MFF) 2021-2027 and programmes under the Next Generation EU. The EIB Group stands ready to deliver on the new mandates, in order to support the EU's post-crisis recovery and provide the foundations for sustainable long-term growth based on the key EU priorities in areas of climate, digital and cohesion. The partially agreed InvestEU Regulation contains provisions describing the role of the EIB Group as a privileged Implementing Partner under the InvestEU Programme, with the responsibility for managing 75% of the overall budgetary capacity of the instrument. In the context of the Partnership, it was also agreed that the EIB Group would be providing banking functions for the InvestEU Fund, including in the form of non-binding opinions to the European Commission (EC) on the financial terms of the agreements to be concluded between the EC and other Implementing Partners.

4. While the EIB's and EU policy priorities have been dramatically re-ordered in the face of the COVID-19 pandemic, fighting climate change continues to be one of the most defining challenges of our time. The EIB Group remains committed to continuing to increase its share of financing dedicated to support Climate Action and Environmental Sustainability. The EIB developed a Climate Bank Roadmap, approved by the EIB Board of Directors in November 2020. It represents a business development plan covering the EIB Group's financing and advisory activities supporting Climate Action and Environmental Sustainability up to 2025, building on the 2015 Climate Strategy. The Climate Bank Roadmap has three main sections corresponding to three strategic areas in the current Climate Strategy: (i) accelerating the transition through green finance; (ii) aligning EIB financing activities with the goals of the Paris Agreement; and (iii) ensuring transparency and quality.

5. The MC takes note of the AC recommendations and will ensure the timely implementation of the roadmap to address them, which defines timelines, accountabilities and milestones for the respective programmes and

projects. During 2020, the Bank's activities and workload were partially affected by the COVID-19 pandemic response and existing resource constraints. The extra effort made by Services, particularly in the second half of 2020, allowed initiatives to be successfully closed and a significant number of projects to be completed. The vast majority of initiatives have registered a positive or neutral trend, delivering on track and catching up delays.

6. The MC is closely monitoring the evolution of the EIB Group profitability and cost coverage of activities, in particular of mandates. Regarding profitability, the Bank continued to further refine in 2020 the methodology and developed functionalities linked to profitability monitoring, including risk- return considerations, aligning it with the most important EIB Group documents that are the basis for the annual planning of EIB Group activities. On a Group wide basis, financial sustainability is ensured as part of the Group Capital Planning cycle. Regarding cost coverage, the key drivers are closely dependent on the characteristics of the underlying target operations, such as the size, complexity and maturity. In the area of mandates, a combined approach needs to be adopted, taking into account an adequate fee structure, risk-revenue sharing mechanics, proactive pricing towards end clients and increased internal efficiency.

7. As part of the roadmap to address the AC recommendations, Services assessed the Bank's management of the information and communication technology (ICT), identifying gaps and conducting detailed security risk management testing as part of the Internal Controls Assertion process. Although a step change in digitalization capabilities may imply a significant increase of costs and the need for additional resources, the EIB Group is fully committed to improve internal processes, increase automation and ensure that its Information Security adheres to best practice. More specifically, the MC is taking steps to strengthen the Group's control environment and is exploring options for the creation of a Group Chief IT and Data Officer function to drive this critical agenda. Robust progress is being made in developing an EIB Group ICT Strategy, that is nearing completion and which, following approval by the MC, will be discussed with the AC, still in the course of 2021. The MC also takes the topic of digitalization and cyber security extremely seriously and the Bank is exploring measures to ensure that its systems remain capable of withstanding cyber-attacks which continue to develop in their complexity.

8. Regarding Group Alignment, the EIF is consolidated in the financial perimeter of the EIB and the MC is enhancing the mechanisms to strengthen risk oversight over its subsidiary, in line with best banking practice (BBP) as applicable to the EIB. This requires the implementation of a number of corporate governance, financial consolidation and related oversight mechanisms across the EIB and the EIF. It also calls for aligned and consistent application of relevant prudential and non-prudential policy requirements and standards, taking due account of the specificities of each entity. In parallel, and beyond the aforementioned remit, the EIB and the EIF have for a long time sought, and continue to seek to improve policy coordination, leverage synergies and maximize efficiency, including through bilateral agreements at service level. In order to ensure a holistic approach and a coordinated implementation of those actions, both institutions are working, since December 2020, in setting up a Group Alignment Implementation Plan (GAIP), which includes all projects and initiatives aiming at reinforcing group alignment. The GAIP follows an approach similar to the one successfully used in the context of the roadmap to address the AC recommendations, i.e. creating a common platform to plan, follow up and report on progress, setting of priorities, identifying clear responsibilities and promoting a culture of collaboration and transparency among the teams. During 2021, the EIB and the EIF will continue working together to complete the GAIP Dashboard, assess priorities, define detailed timelines per project and develop guiding principles for the GAIP monitoring and reporting.

9. The EIB is committed through Article 12 of its Statute to conform to BBP and adhering to all relevant EU banking regulatory requirements, in line with the principles adopted and decisions taken by the competent EIB governing bodies. The EIB BBP Framework, consisting of the BBP Guiding Principles, the BBP Book and the Applicability Assessment Procedure (AAP), is now established and regularly maintained. The Bank has put in place a regulatory watch service that is the basis of the coordinated and collective work of the BBP Watch Team on the monitoring of regulatory developments and assessment of regulatory requirements. The BBP Repository, a database providing a comprehensive overview of all regulatory requirements applicable to the EIB, on an individual and consolidated basis, is being progressively built, starting with the outcome of the assessments carried out by the BBP Watch Team. The MC is pleased with the AC recognition that this process has reached a mature stage.

10. The MC has fully supported and will continue to support the AC on the establishment of the EIB Review and Evaluation Process (EIB REP). This support has covered the logistical aspects of staffing and budgetary resources, but also the setting up of the EIB REP Framework. Whilst following the best supervisory references and benchmarks, this framework will need to respect the EIB specificities and statutory framework.

11. The MC is looking forward to a continued constructive co-operation with the AC, in particular to further strengthen the effectiveness of the internal control systems, risk management and internal administration, as well as the setting up of the EIB REP process.



## II. RESPONSE TO THE KEY AUDIT COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

### 1. SUSTAINABILITY AND BUSINESS MODEL

#### Business model and sustainability

12. The EIB methodology for cost coverage is defined as the difference between total operating revenues and total operating costs. A separate, but broader concept, is that of profitability requiring the inclusion of all revenue and cost components. In the analysis of sustainability, it is therefore instrumental to analyse all revenue components that contribute to the profitability of all EIB activities.

13. Following the introduction of regular “Profitability per product line” reporting in 2019, the Bank continued to further refine the methodology and develop functionalities linked to profitability monitoring over the course of 2020. Consequently, the framework in its current format is fully aligned with the EIB Group Capital Plan, Operational Plan and Risk Appetite Framework (RAF) in terms of granularity. It is holistic, as it captures the entire revenue and cost structure base of the Bank and fully reconciles with the P&L under EU-AD on Bank-wide level. The report was enriched with “Special Focus” sections targeting topics of particular interest for the specific reporting period.

14. The “Profitability per product line” report is issued with quarterly frequency and presented to the AC on a regular basis. Important parts have also been integrated in the new EIB Group Risk Report, issued with monthly frequency. Additional developments of the profitability monitoring framework are foreseen for 2021, including exploring the possibility of extending the scope to the EIB Group.

15. The key drivers of cost coverage, both for mandate and non-mandate operations are closely dependent on the characteristics of the target operations such as the size, complexity and maturity. In the case of mandates, total operating costs must also include mandate-specific costs (e.g. overhead mandate governance, contracting, monitoring, reporting, etc.). To achieve cost coverage for the mandate business, the following set of options need to be explored: (i) obtain mandate fees from the mandator (ii) calibrate risk-revenue sharing mechanics, (iii) increase EIB pricing to final beneficiaries and (iv) improve the EIB’s productivity.

#### Credit quality

16. Despite the general context of uncertainty, the credit quality of the Bank’s loan portfolio remains high, as the EIB relies on a risk management strategy based on adequate levels of security and guarantees, as well as standard protective clauses included in its loan agreements. While it is difficult, at this stage, to quantify the ultimate impact of the economic effects of the COVID-19 pandemic on the EIB, certain value adjustments and impairments for potential losses in respect of EIB’s loan portfolio have been reflected, as applicable. The level of these additional value adjustments and impairments however remains low.

17. As part of its response to the economic effects of the COVID-19 pandemic, the EIB has decided to make a number of supportive measures available to its clients in certain circumstances, which include, among other things, (i) the temporary easing (including waivers) of financial covenants and other key clauses, (ii) the re-profiling of cash flows by setting new repayment schedules or the temporary standstill of repayment obligations, and (iii) certain other complementary supportive measures, such as the signing of new contracts, accelerating loan disbursements and increasing amounts lent to borrowers. The EIB is assessing requests for such measures on a case-by-case basis within the limits of certain specific conditions. These measures are intended to be extended to clients who are temporarily affected by the economic effects of the COVID-19 pandemic, but who are not experiencing any structural financial difficulties or solvency issues and are considered to be a going concern at the time of the granting of such measures. If, as a result of the assessment, a client does not meet these requirements or the EIB identifies risks for the long-term sustainability of the client’s business model, it will consider any other appropriate measures and, if necessary, follow the EIB’s standard restructuring processes.

## Capital planning and stress testing

18. In accordance with the Group Capital Sustainability Policy, the Bank has been drawing up its Group Capital Plan since the 2020 operational planning. The Group Capital Plan aims to efficiently allocate available capital to new business, to enable the EIB Group to achieve its mission to support EU objectives and policy goals. The plan ensures sustainable delivery of EIB business, within existing Risk Appetite and available capital, thus protecting the Bank's high credit standing.

19. The Bank has accelerated the design and implementation of the EIB Group RAF project, to be completed in 2021 (one year earlier than originally planned), to ensure an effective oversight of the EIB Group. Together with the Group Capital Sustainability Policy already applicable to each Group entity, the Group RAF will ensure that, after the upcoming EIF capital increase, the EIF business planning going forward is and remains sustainable.

20. The Bank's capital planning includes assessment of the potential evolution of RAF risk metrics under stress. Due to the outbreak of COVID-19, the Bank has prudently based its capital planning on a stressed baseline, reflecting the potential downside risk to its capital metrics stemming from the possible negative impact of the COVID-19 pandemic on the Bank's portfolio. Moreover, the Bank's RAF thresholds for capital metrics are calibrated with reference to specific stress scenarios and sensitivities.

21. The capital planning of the Bank includes the impacts of both the known or reasonably expected changes to potential BBP requirements as applicable to the EIB and the likely changes to the capital calculations stemming from the conclusion of BBP projects, to the extent that these impacts can reliably be estimated. Capital projections made in the context of the operational and capital planning include projections of net surplus over an extended planning horizon. Despite the challenging environment of negative interest rates, the internal capital generation of the Bank is sufficient to ensure sustainability of the EIB business plan over the extended planning horizon.

22. The RAF of the Bank, and hence also its capital management, including stress testing, is consistent with the standalone financial statements prepared under the EU Accounting Directives. Stress tests are (i.a.) reflecting the potential risks to the Bank's accounting own funds and therefore need to be run consistently with the way the accounting of own funds are calculated.

## Group RAF and inclusion of Non-Financial Risk (including Climate Risk)

23. Non-financial risks have been included in RAF reporting during 2020. Since the third quarter of 2020, these are complemented by quarterly reporting to the Bank's governing bodies on money laundering and financing of terrorism (AML-CFT) specific risk indicators in the form of the EIB Group ML/FT Dashboard. The EIB Group ML/FT Dashboard (i) provides more granular information on underlying risks relating to AML-CFT, in order to reflect the status of the relevant risk indicators within the Group and (ii) has been developed to align to market practice. It captures information on ML-FT risks by counterparty and exposure, as well as for specific risks factors such as exposure to higher risk jurisdictions and the status of KYC reviews. The work programme for 2021 will focus on further developing the EIB Group approach for the Compliance Risk Assessment and EIBG ML-FT Dashboard, refining Group RAF non-financial risk indicators, with a particular focus on ML-FT risk and the related Risk Appetite Statement.

24. Furthermore, as part of the ongoing RAF review and enhancement, the Risk Appetite Statement (RAS) will be reviewed to reinforce the alignment with best banking practice and prevalent regulatory guidelines. In this context, the new RAS will be extended to specifically consider climate and environmental risks as key policy objectives. This will be complemented by a further expansion of the coverage of climate-related models for physical and transition risks to new operations and treasury exposure in addition to the existing loan and equity books.

## The three lines of defence reform: credit appraisal and approval process and AML/CFT transitional roadmap

25. The three lines of defence reform includes both credit and compliance dimensions. In line with BBP, the programme aims to define, strengthen and delineate better the roles and responsibilities of the three lines of defence.

26. In July 2020, the MC endorsed a comprehensive Action Plan on the application of the three line of defence model to the management of credit risk. In September 2020, the MC also approved the AML/CFT Transitional Roadmap, aiming to address a clearer allocation of responsibilities between the first and the second line of defence in the area of compliance.

27. Clear work plans have been defined, both for credit and compliance projects, and dedicated teams from the services directly involved are working on their implementation, in collaboration with other Bank services. External consultants support the teams. Given the size and complexity of the project, the implementation of the different action points will be progressive.

28. A Programme Steering Board, chaired by a member of the MC, has been set up to provide overall guidance on the project. The execution of the work plans are ensured by the Project Implementation Office (PIO), which oversees the coordination of both projects.

## 2. GROUP ALIGNMENT

### Group Alignment Implementation Plan (GAIP)

29. In the context of the approval of the EIB's participation to the last EIF capital increase, the EIB Board of Directors requested that a roadmap is presented to the Board concerning the implementation of the proposed actions aimed at further strengthening the EIB Group dimension. Therefore, the Bank and the Fund are together developing, since December 2020, a Group Alignment Implementation Plan (GAIP), listing all projects and initiatives required to enhance the alignment between the two institutions. In this context, the EIB and the EIF have agreed on some key principles and guidelines to be applied to the group alignment exercise across all governance and policy initiatives, namely:

- Accountability, decision-making, and financial autonomy and financial resources;
- Strategy & business model; and
- Best Practices & Efficiency.

30. Moreover, the implementation of the GAIP based on the above key principles shall be divided in 4 separate clusters:

- i. Actions in the areas of corporate governance, financial consolidation and related oversight, aimed at ensuring proper financial consolidation, risk management and related oversight as required under BBP;
- ii. Actions aimed at improving financial resource allocation, policy coherence, not strictly required under BBP;
- iii. Actions aimed at enhancing group wide efficiency and leveraging synergies;
- iv. Other agreed actions not falling under i, ii or iii.

31. During 2021, the EIB and EIF will continue working on the GAIP, in order to further align the categorization of initiatives with the main clusters identified in the key principles and guidelines, develop timelines with clear deliverables and deadlines per project, centralize the monitoring and reporting of the GAIP process.

32. In the area of risk management, the projects of the Prudential BBP Programme with a Group dimension were all incorporated into the GAIP, so that consistency be ensured between the GAIP and roadmap to address

the AC recommendations. More specifically, in the area of compliance risk, EIB Group related items of the Compliance work programme for 2021 were incorporated in the GAIP and will focus on:

- The revision of Group policies relating to money laundering and financing of terrorism (AML- CFT), Market Abuse and Whistleblowing;
- Further developing the Group approach for the Group Compliance Risk Assessment (CRA) and ML-FT Dashboard;
- Developing Group RAF non-financial risk indicators, with a particular focus on AML-CFT risk and the related Risk Appetite Statement.

## Oversight of Group Risks & GRMC Implementing Provisions

33. The ongoing work on Group functions continues in order to develop synergies and Group alignment possibilities. The establishment of the Group Chief Risk Officer (GCRO) function, stronger alignment of internal audit activities between the Bank and the EIF and the ongoing work on the strengthening Group compliance in the last years are examples of projects already being established.

34. In line with BBP, as implemented by the Group Risk Management Charter (GRMC), the EIB as the parent entity is responsible for exercising oversight of Group Risks. To the extent required for consolidation purposes under BBP, the EIB shall set and oversee risk management policies and procedures, risk limits and risk controls related to the Group and commensurate with the statutory framework and activities of each Group Entity.

35. The GCRO was appointed in September 2020 and is responsible for overseeing the EIB Group financial and non-financial risks, also covering compliance responsibilities, whilst preserving the necessary autonomy of the compliance function, in line with BBP.

36. The Bank will continue implementing the revised GRMC by codifying jointly with the EIF a set of implementing provisions, to be adopted by the EIB and the EIF in the first half of 2021.

## Risk Policy Committee of the Board of Directors and Group Risk Steering Committee

37. As part of strengthening group risk oversight in the area of risk management, it is also worth noting that the Risk Policy Committee of the Board of Directors is increasingly discussing agenda topics and opining on policies with relevance for the EIB Group. At operational level, a Group Risk Steering Committee is in place, chaired by the GCRO and composed of representatives of EIB and EIF risk and compliance functions. It meets on a monthly basis, to discuss Group related risk topics, documents and work programmes. Furthermore, once adopted, the GRMC Implementing Provisions will formalise the Group Risk Steering Panel (which will replace the Group Risk Steering Committee), to oversee all Group Risks and to serve as a discussion forum for Group Risk matters.

## Group RAF and Group Recovery Plan

38. The Bank is enhancing, in close collaboration with the EIF, the RAF to incorporate the Group dimension. The finalisation of the Group RAF Policy and the introduction of Group-level indicators for financial risks and money laundering and financing of terrorism (AML/CFT) is foreseen for 2021 whilst a comprehensive review of other non-financial risks is planned for 2022.

39. Once the Group RAF implementation for financial risks has been completed, and using its conclusions as inputs, the Bank will extend its existing Recovery Plan to the EIB Group level by incorporating EIB subsidiaries fully within the scope of the Recovery Plan.

## Group ICAAP

40. In 2021, the EIB Group ICAAP is further extending the Group dimension by proposing a refined Group focus and an expanded scope of Group projections compared to the previous year. In the context of the implementation of the Group Risk Function, in 2021 the GCRO has for the first time provided a formal opinion to the EIF 2020 ICAAP, included in the EIF Board document prior to its approval by the EIF Board of Directors and prior to the incorporation of its main elements and findings in the EIB Group ICAAP.

## Group ILAAP

41. The ILAAP, as of 31 of December 2020, will be the second one prepared at a Group level (EIB Group 2020 ILAAP) which will continue to contain extensive information on the liquidity risk frameworks in place at EIB and EIF. The Group ILAAP features a quantification of the liquidity risk of the Group via the consolidated LCR and NSFR, which are well above their regulatory EU minima. Over 2020, EIF has increased the calculation frequency of its liquidity indicators and the list of liquidity risk vulnerabilities has been harmonized between EIB and EIF. Furthermore, the introduction of additional scenarios (idiosyncratic, market-wide and combined, in line with the applicable supervisory expectations by the ECB) has improved the Group coverage of the stress testing exercise in the Group ILAAP 2020. The Group Risk function has been actively consulted – in its role of second line of defence – during the preparation of the 2020 EIF standalone ILAAP: in this respect the GCRO has for the first time provided a formal opinion to the EIF 2020 ILAAP, included in the EIF Board document prior to its approval by the EIF Board of Directors and prior to the incorporation of its main elements and findings in the EIB Group ILAAP.

## Group Contingency Funding Plan (CFP)

42. The Contingency Funding Plan (CFP) as of 31 of March 2021 will be the second one prepared at Group level (EIB Group CFP) and includes the 2021 EIF CFP prepared on a stand-alone basis by EIF. A mitigating option introduced in the latter is the newly established contingency (secured) liquidity line with EIB, to cover potential liquidity shortfalls at EIF. The stress scenarios in the EIB Group CFP are aligned with those defined in the ILAAP. Eleven mitigating options are defined. Estimates of the funding capacity for each mitigating option, under different stress scenarios, are provided, together with potential negative effects (in terms of P&L, reputation and business model) associated with their activation, as well as evidence of the testing exercises performed throughout the year.

## Transitional roadmap: strengthening the AML-CFT three line of defence model

43. The fight against money laundering and financing of terrorism remains a priority for the EIB Group. Further work is required to further and fully align with the three lines of defence model with regards to AML-CFT by strengthening the first line capacity to identify, assess, mitigate, monitor and report on risks and refocusing second line activities on the related policies, procedures and processes, more complex cases and control verification. The EIB compliance function, together with relevant services, has established a Transitional Roadmap, requiring elements of cultural change supported by training, new IT systems, process and governance to gradually relinquish some responsibilities from the second line, enabling it to focus more on complex escalations, policy setting, monitoring and reporting. The compliance work is in progress, is carried out jointly with the EIF, and will continue to be closely monitored and reported to the EIB governing bodies and the AC.

## BCBS 239

44. Wave 1 of the BCBS 239 project – the project is divided into different “waves” – was successfully concluded in 2020, delivering on all planned developments. In 2021 the second of the three waves of the project has started, covering further implementation and development on data governance, IT& architecture and risk re-

porting (total of 300 deliverables planned between 2021 and 2022). Wave 2 of the project will enhance compliance – among others – of the Group RAF metrics with BCBS 239 principles. Following the already achieved development of an EIB Group Risk Report in wave 1, wave 2 will further extend Group reporting capabilities to Group RAF monitoring and additional selected EIF information. Integration of preliminary climate risk reporting is also featured as part of the 2021 planning for the Group.

### Internal Control Framework (ICF)

45. In 2020, the Bank continued to extend the scope of the ICF with respect to processes covered and controls reviewed, introduced several methodological improvements in the ICF itself, began pilots to introduce internal control's operating effectiveness testing and reinforced internal control assertions issued at directorate level. These evolutions enhanced the maturity of the ICF bank wide and continued to bring the bank closer to expected internal control oversight standards and future EIB REP requirements. The implementation of the GRC tool centralizing "process, risk and control" information has continued; in a future project, this initiative will also involve the EIF, in order to further align EIB Group methodologies, whilst a Compliance Monitoring Programme has been introduced to test controls related to compliance risks. Meanwhile, the new product approval process has been consolidated, operational risk management has been strengthened and a review of the Bank's Operational Risk Framework is nearing completion. Collectively, these actions are progressively allowing the Bank to enhance the analysis of operational risks and strengthen internal controls by process moving away from an organizational siloed approach.

## 3. GROUP INFORMATION AND COMMUNICATION TECHNOLOGIES: GROUP STRATEGY, DIGITISATION AND INFORMATION SECURITY RISK MANAGEMENT (INCLUDING CYBER SECURITY)

### Cyber security

46. The second line control function overseeing information security and cyber risk continued to strengthen the Bank's Cyber Risk Management in conjunction with the strengthening of the Bank's cyber resilience, of its IT governance, and the continuous improvements of the IT ICF in line with regulatory expectations. The Information Security function progressed on its roadmap by delivering on Security Awareness Program, continuous alignment to BBP, maintaining compliance of Bank activities with regulatory requirements, updating its Information Security Policies and ensuring their implementation particularly for Cloud Outsourcing Arrangements. The Information Security function works closely with IT Security to assess cyber risks and contribute to technological means to defend against cyber-attacks and increase Bank's cyber resilience.

47. The Bank is currently reinforcing its technical means to mitigate the effects of a serious cyber- attack, notably through a "cyber vault", which will be implemented in the first half of 2021 and which will segregate critical data and backups from the operational network. Discussions are progressing with the EIB treasury to store the most critical reports in the cyber vault and to develop recovery procedures.

48. The Bank will continue its efforts to operationalize its current IT Security Incident Management Policy by defining a detailed Cyber Incident Response Plan (CIRP), which will further elaborate and clarify on roles and responsibilities that are already established and documented in the IT Security Incident Management Policy. The first line of defence teams will jointly develop the CIRP in IT security and business continuity, in close cooperation with the second line of defence in information security (risk management). This is to ensure completeness and usability of the CIRP as well as establish reporting mechanisms in the form of key performance indicators, where feasible.

## An EIB Group approach to an ICT strategy

49. As part of the Group's Digital Ambition strategy, the ICT Strategy under preparation builds on the Cloud Security Policy, agreed at EIB Group level in 2020, which provides a flexible approach for the increased usage of Cloud solutions. In principle, only the most sensitive data (labelled internally as "strictly confidential") is not a candidate for Cloud hosting. Regarding Artificial Intelligence and data analytics, the Bank's proposals will be included in the ICT Strategy, to boost IT investment and staffing, so that internal capabilities are reinforced and an investment in new tools is assured.

50. As a strategic response to the risk of ongoing reliance on End User Computing solutions, the EIB Group developed in 2020 a secure technical framework (the "hybrid platform") to host end-user developments and to provide them with secure access to data, a mechanism ("API" layer) to expose functionalities across the Bank and appropriate change control mechanisms to ensure production stability. Following successful pilots in 2020, the first implementations with Finance and Risk Management are being done in 2021.

51. The creation of a Group Chief IT and Data Officer function is part of the Group Alignment Implementation Plan, to be finalized by end of 2021.

## Operational resilience

52. As the outbreak of COVID-19 and transition to a virtual working environment raised the risk of cyber-attacks, the Information Security Awareness Program became a key element in Bank's response and preparation to this new situation. Increased effort is spent on organizing security awareness sessions and providing timely information to staff on emerging threats and attacks. Furthermore, since 2020, the Bank has extended its portfolio of eLearning courses with a dedicated Cyber Security training available to all staff, which is meant to educate, increase vigilance and give practical defensive advice to employees to deal with the most common types of cybersecurity threats.

## 4. EIB REVIEW AND EVALUATION PROCESS (EIB REP): AC'S SUPERVISORY ROLE, PROJECT STATUS AND IMPLEMENTATION ROADMAP

### BBP Framework

53. The EIB BBP Framework has reached a mature stage. The BBP Guiding Principles and the BBP Book are regularly maintained and their update and review is based on the applicability assessment procedures of relevant EU banking regulatory requirements. The Bank has set up a regulatory watch service to ensure the timely and comprehensive update on the latest regulatory developments to the benefit of the whole BBP Watch Team, composed of representatives of all the EIB services and the EIF. This surveillance mechanism also serves as an input to the pipeline of applicability assessment procedures, carried out by the BBP Watch Team. Those assessments also define the compliance roadmap and outline the respective milestones. The concluded assessments are key for progressively building up the BBP Repository (that has started in 2020) listing the regulatory requirements applicable to the EIB as BBP, on an individual and consolidated basis.

### Regulatory compliance function

54. Based on the current stage of the BBP Framework, the MC believes that it is now time to rollout a holistic mechanism to ensure bankwide compliance monitoring and reporting (as foreseen by the MC in 2019), replacing the current BBP Self-Assessments Framework. The additional efforts by the BBP Watch Team to ensure the harmonization of templates and presentation of BBP Self-Assessments will be explored as the basis for setting up

such a mechanism and reflect the future responsibilities of the EIB REP team, which will assist the AC in assessing the compliance status of the EIB with the applicable BBP regulatory framework.

## **EIB Review and Evaluation Process (EIB REP)**

55. The MC has fully supported and will continue to support the setting up of the EIB REP and the related EIB REP Framework, in particular the adoption of the EIB REP Guiding Principles and the forthcoming adoption of the EIB REP Implementing Rules. This second tier will define the EIB REP organizational arrangements, which will need to take into account the EIB specificities and be mindful of the EIB statutory framework, as well as of the oversight role of the BCL, already covering the assessment of the liquidity situation of the Bank.

## **Prudential BBP Programme**

56. During 2020, two of the key priority projects, RAF 2.0 Financial and Non-Financial Risks, as well as Intraday Liquidity Risk, were brought to a successful closure. Measurable progress with key milestones was made on the remaining key priority projects in the Prudential BBP Portfolio: IRRBB and BCBS 239. In addition, the Group RAF was identified as a key priority project given its criticality in strengthening the Group Risk Management function. Regular status updates both on the key priority projects and the overall Prudential BBP Portfolio have been and will continue to be provided to the Governing Bodies and the Audit Committee as reflected in their respective work plans. The reporting frequency to the Management Committee has increased from bi-annually to quarterly, while the reporting to the Board Committee on Risk Policy and Audit Committee remained bi-annually. Key BBP projects with a Group remit and sponsored by the Group Chief Risk Officer (function introduced in the second half of 2020) are part of the roadmap to address the AC recommendations, the Climate Bank Roadmap and the Group Alignment Implementation Plan.

57. The portfolio of the Prudential BBP Programme has also expanded to cover areas where regulatory pressure is increasing, such as integration of climate change risk into the prudential risk management framework and where compliance needs to be improved such as operational risk, model risk management and model governance. A number of foundational, "BBP enabling" projects have now been brought up to completion, such as data virtualisation, and the LEF data and system update, as well as BBP projects, including the revised EIB Recovery Plan which now also integrates the EIB Capital Contingency Plan and the development of the Group Model Risk Management Policy and overall framework.

## **Liquidity - BCL recommendations**

58. In their 2020 Liquidity Assessment Report, the BCL confirmed that the Bank has closed outstanding observations in line with the agreed timeline for implementation as per the roadmap agreed between the Bank and the BCL. As from 2021, this "BCL roadmap" is updated on a quarterly basis in order to reflect the latest implementation status.

59. The implementation of the Prudential BBP project on Intraday Liquidity Risk has proceeded and, despite the difficulties posed by the pandemic outbreak in 2020, the related project has been closed in line with the timeline communicated to the AC. In 2020, the Bank has integrated its functionalities for reporting on intraday liquidity risk exposures (already live since 2019) with the development of projections capabilities and stress testing, hence improving the intraday liquidity risk measurement capabilities of its second line of defence in the Risk Management Directorate.

60. In the last quarter of 2020, the Bank has further developed its tools to calculate the Net Stable Funding Ratio (NSFR) in line with Regulation (EU) 2019/876, by implementing the related regulatory templates by significant currency. Such templates will start to be reported to the BCL in July 2021, in line with the prescribed regulatory EU deadlines.



61. In the context of the 2020 EIB Group ILAAP, as mentioned above, the Bank integrated its liquidity stress test library with stress scenarios of idiosyncratic, market-wide and combined type, as prescribed by the ECB Guide to the internal liquidity adequacy assessment process (ILAAP).

62. Starting in March 2020, the Bank has provided regular written reports to the BCL about its resilience to the COVID-19 pandemic outbreak. The reports – shared with the AC – have been covering the resilience of the Bank from an operational standpoint, its capability to fund itself and to perform the necessary hedging transactions on the financial markets as well as the foreseen liquidity impact of the new initiatives triggered by the pandemic outbreak (e.g. European Guarantee Fund).

63. The second line of defence for liquidity risk is highly dependent on the data quality of the systems used for monitoring and reporting, as well as on the operational effectiveness of the latter. This is particularly true in the case of EIB Group risk exposures, which are not yet consolidated in one dedicated data repository. Further action will be taken in 2021, in order to identify the best solution to enhance the robustness of the Bank's monitoring and reporting capabilities in the area of liquidity risk.

### Risk reporting and stress-testing results on an IFRS basis

64. The MC takes note that the AC reiterates its recommendation for the Bank to build-up the capability to calculate prudential ratios and stress testing results on an IFRS basis. The Bank currently manages its business and its risks on the basis of its statutory accounts (under EU Accounting Directives). The Operational Plan of the Bank is also based on the EU Accounting Directives. Hence, the primary accounting standards used internally for managing the Bank are, at present, the EU Accounting Directives. Consequently, risk measurement is aligned to these standards.

65. A change to IFRS-based risk reporting would require an adaptation of the EIB accounting systems, internal financial and risk reporting, risk models, policies and procedures to enable the steering of the Bank under IFRS. It would also coincide with other multi-year transformational projects like BCBS 239.

66. The MC, in close co-ordination with the EIF's management, will therefore carefully consider the costs and benefits of switching the Bank's primary accounting standards and the related risk calculations to IFRS, taking into consideration the related implication for decision making and giving due regard to the policy objectives of the Bank.

### COREP/FINREP

67. At present, the BBP Book approved by the Board of Directors in May 2019 indicates that the Bank is not subject to supervisory reporting obligations (i.e. COREP and FINREP). The Bank nevertheless acknowledges the need to enhance its data and systems integration across the Group and is committed to align its data structures and taxonomy with the banking industry and to further developing its reporting capabilities.

68. The Bank will carefully reconsider the need to produce regulatory reporting taking into account the requirements of the EIB REP team and the costs and benefits associated, including as the case may be the possible adoption of parts of the COREP/FINREP.

### III. THE INVESTMENT FACILITY

69. The Bank is entrusted with the management of the Investment Facility (IF), including also the sub-envelope Impact Finance Envelope ('IFE'), financed by the EU Member States' budgets through the European Development Funds. Resources from the IF, alongside the Bank's own resources under the Cotonou Mandate, are utilised in the financing of operations in the African, Caribbean and Pacific Countries (ACPs) and in the Overseas Countries and Territories (OCTs). The operations flowing from the IF (and from the IFE) and the Bank's own resources are complementary in nature. Operations under the Bank's own resources under the Cotonou Mandate focus on public sector projects (e.g. sovereigns). In comparison thereto, IF operations typically focus on the riskier market segment of private sector projects and in specific cases also cover high-risk public sector operations. IFE operations focus on high-risk, high-impact projects that would normally not meet the prudential requirements set under the financing of own resources supported operations.

70. The key transactions and internal activities related to the management of the IF (and of IFE operations with financial institutions) are handled by the same processes, procedures and infrastructure of the Bank. Hence, key management and internal controls, particularly concerning risk management, internal audit, human resources, treasury and financial reporting are the same as those applied to the operations of the EIB. Operations pursued under the Impact Finance Envelope of the IF other than loans to financial institutions follow the provisions laid down in the general mandate risk principles for impact finance mandates, included in the relevant section of the Bank Risk Guidelines. The internal processes of the Bank are complemented by an external governance structure in the form of the IF Committee, which is the forum in which representatives of the Member States and the European Commission set the policies and operational guidelines of the IF and give an opinion on operations. External mandates, including those of the IF, are subject to external audit.



# Audit Committee Annual Reports

for the year 2020



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