

Audit Committee Annual Reports

for the year 2021



European
Investment
Bank

The EIB bank 

Audit Committee of the European Investment Bank

Annual Report to the Board of Governors
for the 2021 Financial Year

Annual Report to the Board of Governors
on the Investment Facility for the 2021 Financial Year

Response of the Management Committee
to the Annual Reports of the Audit Committee
for the 2021 Financial Year

July 2022

Audit Committee Annual Reports of the European Investment Bank for the year 2021

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Annual Report to the Board of Governors for the 2021 Financial Year

EXECUTIVE SUMMARY

This report summarises the results of the Audit Committee's (AC) work in 2021. 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 five headings:

1. Sustainability and Business Model;
2. Group Alignment;
3. Financial Reporting;
4. Group Information and Communication Technologies; and
5. EIB Review and Evaluation Process (EIB REP) and BBP.

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's¹ (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 2021, AC fulfilled its responsibilities by:

- the issuance of the Statements on the EIB and EIB Group's Financial Statements as at 31 December 2021, which have been delivered to the Board of Governors and form an intrinsic part of the EIB Group Annual Report, and
- the preparation of this Annual Report.

Over 2021, the EIB Group was involved in the implementation of several high level initiatives and financial tools developed by the EU such as the InvestEU, the Neighborhood, Development, and International Cooperation Instrument (NDICI) – Global Europe (under the Global Gateway)². Another paradigm change for the EIB Group is the implementation of the Climate Strategy and Climate Bank Roadmap (CBR), effective from 1st January 2021.

The unfolding situation in Ukraine is creating geopolitical uncertainty in the neighbouring region and globally. These events are reverberating across the economy, the financial sector, the supply chains and migration within the EU. While the Bank has to continue to operate within its public policy mandate, it may need to increase its support to Ukraine, and Member States, especially those neighbouring the conflict, by providing assistance and financing to projects, including in relation to energy security.

In terms of financial sustainability, AC acknowledges that the Bank's activities under the Climate Bank Roadmap and InvestEU are expected to change the nature and risk profile of its operations, and impact its business model. 2021 was a disruptive year for many of the Bank's clients and operations. Going forward, the Bank may have to operate under changing business assumptions to adapt to a less

¹ The EIB Group comprises the EIB and the European Investment Fund (EIF), which is majority-owned by the EIB.

² EC Budget: ec.europa.eu/info/strategy/eu-budget_en

buoyant asset growth and smaller loan portfolio. This will require new strategies to take on the challenge of preserving the cost coverage of the Bank's business model and thus financial sustainability. In addition, and similar to prior years, AC notes that a framework for capital allocation within the Group needs to be more clearly defined in order to embed the concept in the business planning.

AC reiterates that the Risk Appetite Framework (RAF) must be extended to a fully-fledged and integrated prudential and strategic group level policy document in 2022, covering both financial and non-financial risks, as well as climate-related and environmental risks.

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 continued to work on numerous projects and initiatives concerning the achievement of Group alignment in business, risk management and compliance areas. A critical component of safe Group management is an effective and efficient system of internal controls and risk management with the risks owned and monitored, in the first instance, by the first line of defence within the Group.

With reference to financial reporting AC is of the view that the maintenance of different primary accounting and risk reporting frameworks (EU Accounting Directives and IFRS) between the EIB and EIF adds complexity to both the financial and risk reporting process. It is also more resource intensive. AC encourages convergence in the medium term.

During December 2021 and January 2022, AC received copies of Internal Audit reports on EIF showing failings in the first and second lines of defence. This led AC to engage robustly with the EIF Audit Board (EIF AB), Management Committee (MC) and KPMG. Appropriate remedial activity is now underway which AC will monitor closely with MC and the EIF AB.

The AC expects that quick progress is achieved with the Group oversight of the first and second line of defence at the EIF and that governance is strengthened in line with the parent subsidiary model. The risk management function within the EIF needs to be effective, the internal control framework needs to be strengthened with enhanced oversight by senior management of the EIF and of the Group risk management.

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 has continued to provide guidance to the EIB REP team and worked actively completing the EIB REP framework.

AC saw continued focus on Digitisation and Information Security Risk Management (including cyber-security). The EIB Group - Digital Ambition (ICT) Strategy was signed off by the Board of Directors in May 2021, and now needs to be translated into concrete deliverables with a detailed roadmap to cover the EIB, the EIF and Group initiatives. Moreover, MC and the Board of Directors are invited to oversee the fostering of a strong cyber-security culture among employees and the requirement to develop effective recovery plans that are regularly updated and tested. Together, and led by an effective tone at the top, further promotion of a culture where the broader business is both aware of, and takes ownership of, IT related risks is needed.

During 2021, the EIB REP work included the closure of projects such as the Internal Capital Adequacy Assessment Process (ICAAP) review, the Business Model Assessment (BMA), and the systems and data project, and is expected to advance with the "pilot" REP assessment in 2022. In addition, the Board of Governors adopted the EIB REP Guiding Principles, which is one of the four elements of the EIB REP framework. The AC adopted the EIB REP Implementing Rules and the EIB REP methodology is in its advanced stages of final drafting.

Regarding the BBP Framework, the AC is pleased with the increased level of its maturity. The AC expects further progress with the implementation of the 3 lines of defence (LoDs) model and the further development of the regulatory compliance function, as well as with the financial and regulatory reporting of prudential ratios and to the development of the capacity to produce stress-testing results, on an IFRS basis, which is also an action point from the Board of Directors (BoD).

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.

Over 2021, the Bank completed the design phase of the three lines of defence model for credit and compliance, and the AC is looking forward to see the implementation side of the project.

The operationalization of the Group Chief Risk Officer (GCRO) function within the EIB Group with the numerous changes made to the group policies and procedures is expected to strengthen further the risk management and compliance processes within the Group and to especially enhance the governance, oversight by senior management and the functioning of the risk management function within EIF. In terms of BBP, and similar to the last year's observation, AC underlines the importance to bring closer the practices of the EIB BBP and the EIF Best Market Practices, which also need to be fully integrated within the operational processes of the subsidiary.

The recommendations raised by AC are subject to an AC implementation roadmap (AC implementation roadmap). AC expects MC to review that roadmap regularly and that the MC and Services will continue to implement these recommendations according to the agreed timeline. AC was presented with the completion status of recommendations, which can be found in Annex 2.

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 Management Committee and the Bank's staff, as well as the external auditors and consultants, while remaining independent at all times.

AC continued to receive in 2021 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.

MAIN REPORT

KEY OBSERVATIONS AND RECOMMENDATIONS

AC sets out below its key observations and recommendations as priorities for the MC, the Board of Directors and the Board of Governors. These are based on the AC activities during 2021 described in Section 2 of this report.

AC regularly monitored the implementation of the prior AC recommendations through the so-called AC implementation roadmap which covers the past AC recommendations and sets 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.

AC met with Services on five 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, and the one monitoring the group alignment projects are key control documents from one Annual Report to the next. In addition, the numerous projects initiated within the Bank and the EIF may require the setting-up of a centralised project management office to manage resources and priorities in a coordinated manner across the group. 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 roadmap recommendations and projects deliverables.

1. Sustainability and Business Model

Background

2021 was another year of continuing disruption caused by the pandemic on EU economies and small, medium and large-sized companies. While the progress with vaccination rates, and new treatment for the pandemic had some relief on the economic activities, the disruptions continued to affect the Bank's clients and suppliers as well as its employees, IT systems and facilities.

The EIB Group was involved in the implementation of several high level initiatives and financial tools developed by the EU such as the InvestEU, and the NDICI – Global Europe³.

InvestEU in particular, is expected to require the Group to significantly increase the Bank's operations with a higher risk profile. InvestEU and NDICI size, structure and underlying portfolio riskiness remain under negotiation.

The EIB Group also launched the EUR 25 bn European Guarantee Fund (EGF), for which the EIB Group had total approved operations of EUR 23.3 bn, as of end 2021.

In addition in September 2021, the EIB Board of Directors approved the Bank's proposal to set up a development branch to increase the impact of its activities outside the European Union. EIB Global, which will be the name of this branch was launched in January 2022.

The unfolding situation in Ukraine is creating geopolitical uncertainty in the neighboring region and globally. These events are reverberating across the economy, the financial sector, the supply chains and migration within the EU. While the Bank has to continue to operate within its public policy mandate, it may need to increase its support to Ukraine, and Member States, especially those neighboring to the conflict, by providing assistance and financing to projects, including in relation to energy security.

³ EC Budget: ec.europa.eu/info/strategy/eu-budget_en

AC observed that ongoing uncertainties in the operating environment continued to have an influence on volumes of EIB's activities, while demand for EIB financing remained constrained in highly liquid markets. This overall lower level of new business compared to prior years, needs however, to be considered in the context of the market environment and the increased efforts to sign operations under EGF.

Another paradigm change for the EIB Group is the implementation of the Climate Strategy and the Climate Bank Roadmap, effective from 1st January 2021. The ambitious targets⁴ set in the CBR are expected to change the nature of operations and also the types of clients. With respect to the climate-related risks and the CBR, AC discussed the climate risk assessment methodology endorsed by the Bank, the climate risk reporting templates, the stress testing results of the first climate stress test exercise and the operational plan targets for the CBR.

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

AC noted that some existing trends in financial intermediation were accelerated such as increased reliance on technology and IT solutions and third-party service providers. These trends link with the need for strengthened operational resilience of the Bank, need to define better the non-financial risks and to include them in the RAF and in the operational risk report in a disaggregated form. This confirms AC's view that the Bank needs to continue to focus and invest in the delivery of the Digital Ambition Strategy.

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).

Key Observations

Business model and sustainability – the Bank's activities under the Climate Bank Roadmap and InvestEU are expected to change the nature and risk profile of its operations, and impact its business model. AC underlines that cost coverage of mandates and activities remains essential for the Bank's financial sustainability. In addition, the various pandemic waves of 2021 were disruptive to the activities of many of the Bank's clients including the small, medium and large companies as well as financial institutions. Due to the market environment the Bank's volumes decreased overall and the Operational Plan projections were revised downwards. Disbursements planned for clients were also scaled down due to business and investment plan changes stemming from uncertainty. Going forward, the Bank may have to operate under changing business assumptions to adapt to a less buoyant asset growth and smaller loan portfolio. This will require new strategies to take on the challenge of preserving the cost coverage of the Bank's business model and thus financial sustainability.

On the funding side, the Bank's AAA rating is necessary to ensure appropriate market sources of financing and must be preserved. The Bank's AAA rating is anchored on its financial strength, good governance, conservative risk appetite, long-term sustainability and the support of the EU Member States as shareholders. These are intrinsic to its business model.

Regarding the Climate Bank Roadmap, AC expects that the Risk Appetite Statement is enhanced in relation to climate related risk and non-financial risks and that the RAF includes climate change risks

⁴ CBR targets include: the increase of climate action and environmental sustainability (CA&ES) activities to more than 50% of the Bank's overall lending by 2025, and the target to have all financing aligned to the Paris Agreement goal.

and non-financial risks in 2022. The management and integration of these risks in the day-to-day business activities of the Bank and of the Group would be essential for financial sustainability.

Credit quality – the pandemic had an impact on the Bank’s clients leading to numerous requests for forbearance, however, the impact on asset quality in the year following the pandemic remained benign, albeit with an increasing outlook for the medium term. AC acknowledged the work of the Bank to closely monitor asset quality and will continue to focus in this area going forward.

Capital adequacy and planning - AC noted the Bank’s focus on increasing the climate related operations as well as the changing business volumes and new structure to deliver on the mandate business. While capital at the Bank is abundant AC reiterates that it needs to be prudently managed and allocated to the business lines with the cost coverage in mind, in order to ensure the Bank’s financial sustainability.

In its prior year report, AC noted that a framework for capital allocation within the Group needed to be more clearly defined in order to embed the concept in the business planning, and increasingly include Environmental, Social and Governance (ESG) considerations.

Operational resilience – the pandemic and its implications to the operational environment of the Bank, through continued teleworking maintained the heightened risk of 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 enhanced monitoring, management and oversight of operational and technology risks, including cyber risks and other non-financial risks. The ongoing operationalisation of the Climate Bank Roadmap and the development branch will require considered deployment in order to see that processes, controls and systems remain adequate and effective in view of changing business needs.

Recommendations

AC recommends that the Bank continues to closely monitor cost coverage and eventual bearing on long term financial sustainability in view of ongoing business transformation encompassing the delivery of the Climate Bank Roadmap, the development branch and delivery of mandates business. To this end 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 2022, covering both financial and non-financial risks, as well as climate-related and environmental risks.

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 concerning the achievement of Group alignment in business, risk management and compliance areas as reflected in the Group Alignment Implementation Plan (GAIP). The AC notes that work was completed for the Implementing Provisions for the Group Risk Management Charter (GRMC), which still needs to be further enhanced to make it fully operational within the group and aligned with the ability of the Bank to exercise oversight and control over the subsidiary for the purposes of financial and prudential consolidation.

During December 2021 and January 2022 the AC received copies of Internal Audit reports on EIF showing failings in the first and second lines of defence. This led AC to engage robustly with the EIF Audit Board, Management Committee and KPMG. Appropriate remedial activity is now underway which AC will monitor closely with MC and the EIF AB.

The root cause appears to be poor resource planning and a less advanced group alignment programme in the EIF. There has been a silo mentality at risk management function between the EIF and EIB which has led to an incomplete picture being available to MC, GCRO and AC. This will be significantly rectified with unrestricted access to EIF documentation and data for the risk assessment by the GCRO. In addition AC will work closely with AB to ensure complete cooperation between the EIF and EIB.

From a regulatory standpoint shareholders have a responsibility to ensure that adequate controls are in place to reflect risks associated with all kinds of operations. EIB as majority shareholder, all other EIF shareholders and the EIF itself must take this responsibility seriously, monitor the timely implementation of the remediation plan, ensure sufficient resources are made available, and impose where necessary, measures on EIF management. This can be done in a way that does not hamper EIF's agility and market orientation, but protects shareholders against risks materialising as a surprise.

The AC expects that quick progress is achieved with the Group oversight of the first and second line of defence at the EIF and that governance is strengthened in line with the parent subsidiary model. The risk management function within the EIF needs to be re-organised to be effective, the internal control framework needs to be strengthened with enhanced oversight by senior management of the EIF and of the Group risk management. In addition, monitoring of the risk profile of EIF by the Bank's RM function, in terms of cost coverage, capital, liquidity, asset quality and management, needs to be enhanced.

The AC acknowledges that other Group prudential policies were further developed or elaborated in 2021, such as the Group Internal Capital Adequacy Assessment Process (ICAAP) and the Group Risk Appetite Framework. The AC further expects that the group dimension will soon cover the Recovery and Contingency Plan by H2'22.

AC reiterates that the Bank and the EIF should maintain their own prudential documents to cover the Bank's/ EIF's risk profile and to have Bank's/ EIF's ICAAP, Internal Liquidity Adequacy Assessment Process (ILAAP), RAF, Recovery and capital contingency plan and a contingency liquidity plan.

A long term project in relation to the Group data warehouse and the risk measurement, monitoring and reporting at a group level, continues to be under development and AC regrets the slow pace of progress on this essential project. AC underlines that 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 and is essential for systemically important banks of the size of EIB.

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. 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 Digital Officer (GCDO) and a Group Chief Financial Officer (CFO) are also necessary. These group functions should be equivalent to the GCRO function to be effective.

With reference to sound internal control systems, a comprehensive project aimed at strengthening the Internal Control Framework is underway. 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 (transaction related) controls, and that these challenges need to be addressed.

Credit appraisal and approval process - AC acknowledges the closure of the design phase of the three lines of defence model for credit activities and AML-CFT compliance function as achieved by the 3 LoDs Task Force. The project aims to strengthen the 1st LoD ownership and accountability for new business, strengthen the management of existing exposures and refocus the responsibilities of the 2nd LoD. Achievements during 2021, include the adaptation of the organisation of the Operations Directorate towards the 3 LoD model, clarification of the (independent, delineated) roles and responsibilities of the 1st LoD and the 2nd LoD in underwriting credit risk, centralization of middle office activities and further strengthening of 2nd LoD in the area of credit risk guidelines and reporting.

AC reiterates that 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 expects that MC will subsequently look to implement the re-organisation of Services based on the design phase and then analyse/complete the delegation part of the project. That is a key factor to maintain and strengthen the long term sustainability of the Bank.

AC noted that work continues to address the second important part of the 3 LoD project, namely the priorities set out in the AML-CFT Transitional Roadmap along two main pillars Governance and Structure and Counterparty/Operation Lifecycle. AC received updates on the status of implementation and is satisfied with progress.

Recommendations

In 2022, 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, reporting and monitoring, and with the management of operations and the parent-subsidiary business model through education, building awareness of group-level governance and organizational issues.

3. Financial Reporting

Background

One of AC's key responsibilities is the oversight of the financial reporting process, which includes monitoring and assessing the integrity of the financial statements as well as significant accounting judgements.

In order to discharge its responsibilities the AC dedicated substantial time to providing robust challenge to Services and external auditor KPMG on specific financial reporting and accounting judgements and the related control environment.

AC's review of financial reporting during the year included the Annual Report, Interim Report and monthly and quarterly internal analytical financial statements. Areas of AC focus included the processes and controls related to the valuation of private equity and venture capital investments, the accounting policy applied to pensions under EU Accounting Directives (EU AD), the disclosure requirements, and eventual implications on the accounting for derivatives in relation to the IBOR reform and Covid related considerations including the impact from the pandemic on loan portfolios and related specific provisioning.

Key Observations

The EIB maintains its primary accounting and risk reporting framework under EU AD, and EIF under IFRS. EIB publishes standalone financial statements under EU AD, and EIF stand-alone financial statements under IFRS. EIB Group consolidated financial statements are also established under both accounting frameworks, EU AD and IFRS.

AC discussed in particular the difference in EU AD and IFRS accounting policies applied for the accounting for pensions, as disclosed in the respective notes to the financial statements. AC noted Management's decision to shorten the amortisation period of cumulative prior year actuarial deficits under EU AD.

AC is of the view that the maintenance of different primary accounting and risk reporting frameworks between the EIB and EIF adds complexity to both the financial and risk reporting process. It is also more resource intensive.

Recommendations

AC noted the impact on the financial statements due to the differences in accounting policies between EU AD and IFRS, for example the accounting for pensions. AC encourages the Group alignment and convergence of IFRS-based financial reporting frameworks between the Bank and the EIF in accordance with Best Banking Practice in the medium term.

In the long-term, regulatory reporting including key prudential risk indicators of capital and the results of stress testing exercises should be prepared under an IFRS basis.

AC exchanged with the external auditor on the main private equity and venture capital valuation challenges, namely the timely availability/receipt of financial information at year end from fund managers used by both EIB and EIF to form the basis of the valuation of these investments. AC invites EIB and EIF to further review the existing process in order to expedite the receipt of timely and processing of financial information submitted by fund managers at year end.

4. Group Information and Communication Technologies

Background

The EIB Group Digital Ambition Strategy was signed off by the Board of Directors in May 2021. AC would now like to see clarity about deliverables with a detailed roadmap. This must cover the EIB, the EIF and Group initiatives.

The AC saw continued focus on: Digitisation Strategy and Information Security Risk Management (including cyber-security).

AC still sees cyber-attack as a key risk for the EIB Group. A successful attack has the capacity to stop operations in a damaging and serious way. During the course of the year AC has engaged closely with IT Security. AC has been pleased to see improvements in the Group's cyber defence during the year. However, a number of internal audit reports show that wider understanding of the risk is not where it should be. This is addressed in detail below.

A potential cyber-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 cyber-security strategy.

AC is pleased to note that the tone has moved away from 'if' an attack will happen to 'when' it will happen. The IT Security led TIBER-EU⁵ exercise in Q4 2021 was a welcome major test of the Group's defences.

Key Observations

AC notes MC's decision to appoint a Group Chief Digital Officer at Director level. AC remains of the opinion this should be at Director General level to reflect the strategic dimension of the position at Group level, equivalent to the function of the GCRO and looks to MC to achieve this over time.

After the approval of the Digital Ambition Strategy, the AC would now like to see implementation to progress speedily. In a first step, the AC expects business management of EIB and EIF to clearly define the current and likely future needs of their clients, mandatory and other stakeholders. These needs might well relate to the Group's digitalisation efforts but will include additional, wider process or operations amendments. In a second step, the defined digitalisation needs will have to be prioritised by the business management and translated into a practical roadmap. Only then, as a third step, will the IT department be able to execute the digitalisation of the Group in line with requirements. This third step will require significant financial and human resources, management focus and possibly extended skill sets.

AC considers that EIB and the EIF should enhance their awareness and ownership of the IT risks as this is essential for the improved understanding of cloud security protocols, third party risk management frameworks, enhanced employee discipline in terms of using unapproved systems, password discipline of social media accounts, website security, and building awareness around social engineering attacks (for example, phishing and spear phishing).

⁵ TIBER-EU is the European framework for threat intelligence-based ethical red-teaming. It is the first EU-wide guide on how authorities, entities and threat intelligence and red-team providers should work together to test and improve the cyber resilience of entities by carrying out a controlled cyber-attack.

AC was disappointed in particular with the evidence of failures of IT governance collaboration between the EIB and EIF. AC expects MC to address these shortcomings through the Director Generals of EIB and the Chief Executive (CE) of the EIF.

AC observed there has also been considerable investment in improving the hardware and software defences of the group. However IT Security and cyber defence is not an ICT problem, it is a business problem. And as such should be reflected in the Risk Management Framework investment in systems and people. AC sees investment in hardware and software defence as only one of four dimensions of IT Security and cyber defence. The four, to be reflected in monitoring in appropriate Key Risk Indicators (KRIs), are:

1. Employees: password responsibilities, not using unapproved systems/websites, reporting lost equipment, training, awareness of IT Security when designing new products and processes
2. Social engineering defence: volume and success rate of phishing and spear phishing attacks, training to avoid being taken in by attacks
3. Hardware and software defence
4. Ability to recover systems

AC expects DGs to comment on their Directorate's effectiveness in regards to dimensions 1, 2 and 4. Dimension 3 is MC led in terms of agreed budgets and investment in systems.

AC sees these basic flaws in the Group's approach and looks to Services of EIB and EIF to address this. In particular, in light of recent cyber global incidents, a centralised 1st LoD action should be considered, aligning EIB and EIF under one Group action plan. AC also notes it has yet to see the cyber incident response plan it asked for last year.

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. Although the TIBER-EU exercise was a welcome investment, the cyber incident response plan is a key element of dimension 4, recovery.

Recommendations

AC repeats two recommendations from last year:

In 2022, AC expects that more substantial progress is made with the elaboration of the EIB Group Digital Ambition Strategy roadmap with its conclusion by summer 2022. This strategy should encompass 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 Digital Officer at DG level is essential. AC notes the substantial planned financial investment has been agreed but sees the need for a detailed roadmap of deliverables signed off by MC and BoD.

AC expects that both the MC and BoD give further evidence in relation to their responsibility for a strong tone from the top. This tone should encompass the needed large capital investment, the fostering of a strong cyber-security culture among employees and the requirement to develop effective recovery plans that are regularly updated and tested.

AC adds two recommendations as follows:

- AC considers that the 1st LoD in IT Security would be strengthened at Group level if a centralised IT Security team for EIB and EIF was in place. This would allow optimization of skills, experience and resources to the benefit of the Group and better coordination in the case of a cyber-incident.
- AC expects that DGs acknowledge their responsibilities related to the IT security and cyber defence with a view to ensuring that IT Security is owned by them rather than being a concern solely for the IT function.

5. EIB Review and Evaluation Process (EIB REP) and BBP

Background

The purpose of the EIB REP is to implement an EIB-specific review and evaluation process based on the European Banking Authority's (EBA) Guidelines on SREP. The EIB REP approach takes duly into account the EIB's statutory framework and specific features and reflects the Best Banking Practices (BBP) framework, in particular the BBP Guiding Principles and the BBP Book of the EIB. The EIB REP has 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.

2021 was a year of significant development of the activities of the EIB REP team which on behalf of the AC set out policies and procedures, established relationships with the different Services of the Bank and welcomed seven new team members.

The majority of the new colleagues (five) were hired externally and have a supervisory background. The team is now staffed with twelve people and consists of a balanced mix with experience within the Bank and relevant knowledge from supervisory authorities. The recruitment process for a permanent Head of the EIB REP team is underway and shall be finalized during 2022 and AC has been actively involved as an observer in the process.

AC continued work on establishing the operational framework of the EIB REP which consists of a three tier model and follows a top-down sequencing in development:

- *The EIB REP Guiding Principles* as the first tier of the EIB REP framework: Set 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. Adoption of this document by the Board of Governors was obtained in March 2021;
- *The Implementing Rules* as its second tier: outline the organization and role of the EIB REP function, define the scope, the planning and the execution of the EIB REP assessment, clarify the outcome and reporting of the EIB REP assessment, and set a process for following up the AC recommendations adopted as a result. The Implementing Rules were endorsed by the Board of Directors in November 2021 and adopted by the AC in December 2021;
- As part of the third more technical tier, the EIB REP team on behalf of the AC is in the process to develop and adopt an *EIB REP methodology* specific to the EIB Group via the EIB REP team. The development of a first EIB specific methodology document is ongoing.

In addition to the further development of the framework, the EIB REP team has produced first preliminary supervisory reviews in selected areas of interest to the AC and analyzed and explored the need for the adoption of standard supervisory reporting. Further details are provided in the following section.

2022 will mark an important year for the AC as the EIB REP assessment will be carried out for the very first time. While this “pilot” REP assessment will cover the full REP scope - one year earlier than originally envisaged, it will be a proof of concept with a focus on the successful delivery of the process as such and shall support the refinement of the EIB REP methodology whose initial version is planned to be available by the end of Q1 2022.

Key Observations

As AC in its supervisory role is responsible for the EIB REP planning, execution and conclusion – the annual and multi-annual REP cycle, AC continued to ensure the EIB REP dialogue with the EIB governing bodies. In perspective, after the implementation of the governance changes in the context of the group alignment the REP intends to be further extended to any subsidiaries of the EIB.

AC recognises the intensive work done by the REP team. While the first and second tier of the EIB REP were successfully built in 2021, the AC is looking forward to the development of the third tier document, which will rely largely on guidelines and methodologies elaborated and applied by EBA and European Central Bank (ECB) Single Supervisory Mechanism (SSM).

In 2022, AC will carry on the development of the REP approach through continued development of the individual elements of the REP methodology. 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.

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

Work and achievements of the EIB REP team in 2021

Besides the continued development of the EIB REP framework as outlined above, the AC together with the EIB REP team achieved the following main working results in 2021:

ICAAP review

In its 2020 Annual Report, the AC set out that it would carry on the development of the REP approach through the delivery of a pilot review in one of the ECB SSM supervisory priority areas in addition to the continued development of the Implementing Rules and the individual elements of the REP methodology. The AC decided to leverage on the newly formed REP team’s resources, by delivering a high-level review of the EIB Group ICAAP and has prepared a deep dive report on the EIB Group ICAAP.

As part of this review, the EIB REP team reviewed internal documentation and engaged with internal stake- holders to explore how the EIB Group ICAAP compared against standards and methodologies set by the ECB SSM in a number of key interest areas. These areas included the ICAAP governance and the capital planning processes, a number of risk quantification methodologies used within the Group, the use of stress tests and a high-level review of some risk sharing mandates within the Group.

The REP team made a number of observations relating to these areas, which were shared with the AC and then communicated to internal stakeholders of the EIB Group with the expectation that they would drive enhancements to the ICAAP process in the future.

As the EIB REP methodology is currently under development, the EIB REP team did not provide any quantitative assessments or opinions on EIB Group's own funds requirements in the EIB Group ICAAP review.

Business Model Assessment (BMA)

As mentioned in last year's Audit Committee Annual report, the continued development of the EIB REP BMA methodology has been envisaged for 2021. In line with this the REP team has performed a targeted assessment of the business model risks facing the Bank based on the BMA part of the EBA SREP Guidelines. The BMA was a proof of concept/ working-paper type report as the REP methodology was not yet developed and aimed to assess the Bank's business model viability and sustainability of its strategy.

The targeted assessment carried out by the EIB REP team was comprised of various topics across the following BMA sub-elements: preliminary assessment, identification of the areas of focus for the BMA, the assessment of the business environment facing the Bank, a backward-looking quantitative analysis of its financial performance, and a qualitative analysis of the business model. The assessment has been conducted in parallel to the development of the REP BMA methodology and has been used to validate the approach with consideration of the EIB specificities.

The EIB REP team's body of work in 2021 has built the foundations for carrying out a comprehensive assessment of the Bank's business model in next year's REP cycle.

Systems and Data Project

In 2021 the EIB REP team, supported by external consultants, undertook a project with the main purpose to: identify and document the regulatory reporting production and capabilities at the EIB, perform a gap analysis and mapping of data sources with respect to the full set of standardized supervisory reporting (FINREP/COREP/STE)⁶ and collect additional internal or external EIB specific reporting useful for the supervisory process not covered in regulatory reporting templates and provide guidance on SREP best practices.

The outcome of the project will be able to serve as input for the design considerations of a future reporting framework capable of supporting the EIB REP assessment with relevant, reliable and high-quality information. How this reporting framework will look like is yet to be defined.

2022 "pilot" REP assessment

The high-level principles of the EIB REP are outlined in the EIB REP Guiding Principles approved by the Board of Governors in March 2021. The scope of EIB REP activities have been further specified in the EIB REP Implementing Rules and include four basic elements – business model assessment, governance and risk management assessment, assessment of risks to capital and assessment of risks to liquidity and funding. Furthermore, as and when agreed with the AC, EIB REP activities could also include specific in-depth reviews or thematic examinations.

⁶ FINREP refers to the Financial Reporting framework and COREP to the Common Reporting framework implemented in the EU by the European Banking Authority (EBA) based on EU regulation 575/2013 (Capital Requirements Regulation, CRR). STE refers to ECB's so-called Short-Term Exercise which is addressed to significant institutions in the Euro Area and that covers data and information on internal risk and profitability measures (incl. ICAAP and ILAAP).

As foreseen in the EIB REP Implementing Rules, the assessment of risks to liquidity and funding, as well as the adequacy of liquidity resources to cover these risks are subject to a specific oversight by Banque centrale de Luxembourg, in the context of EIB's access to the Eurosystem. The BCL assessment shall be the basis for the EIB REP outcome as regards to this specific EIB REP element. Nevertheless, the REP team will perform additional high-level checks to monitor the evolution of key liquidity indicators to detect any material change in the evolution of the liquidity risk and detect cross- risks impacting the assessment of the other REP elements.

The 2022 "pilot" REP assessment will cover the full REP scope with the aim to provide an overview of the risks and vulnerabilities that might affect EIB cost coverage and sustainability. This means that each of the four EIB REP elements will be assessed and scored, according to the respective identified risks, based on the findings. The outcome of those individual assessments will form the basis for the overall EIB REP assessment, representing the AC view of the EIB's risks, viability and sustainability on a consolidated and individual basis. Notwithstanding the aforementioned, even if scoring and measures will be raised already in the pilot cycle, the EIB REP assessment will need to be refined in every iteration of the cycle. It will require several cycles in order to reach a holistic in-depth view of the institution.

Additionally, the "pilot" assessment shall act as a proof of concept with a focus on the successful delivery of the process as such and to support the refinement of the EIB REP methodology whose initial version is planned to be available by the end of Q1 2022. It is also for this reason that in-depth reviews, which require a significant amount of time and effort outside of the regular EIB REP process, are not foreseen for 2022.

Best Banking Practice

AC recognises the continued positive development achieved with the BBP Framework⁷ of the Bank. AC reviewed 8 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. The compliance outlook has again improved and is more positive than last year.

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. AC underlies 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 progressed with the implementation of 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. Over 2021, the Bank completed the design phase of the three lines of defence model for credit and compliance, and the AC is looking forward to see the implementation side of the project.

The operationalization of the GCRO function within the EIB Group with the numerous changes made to the group policies and procedures is expected to strengthen further the risk management and compliance processes within the Group and to especially enhance the governance, oversight by senior management and the functioning of the risk management function within EIF. In terms of BBP, and

⁷ The BBP Framework consists of: BBP Guiding Principles, BBP Applicability Assessment Procedures, BBP Book of exemptions and BBP Rules Repository.

similar to the last year's observation, AC underlines the importance to bring closer the practices of the EIB BBP and the EIF Best Market Practices, which also need to be fully integrated within the operational processes of the subsidiary.

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. Following the analysis performed by the EIB REP team (referring to the FINREP/COREP project), AC is of the opinion that this regulatory reporting, while important for the Bank, is not necessary at this stage for the work of the EIB REP team.

Progress has been achieved with respect to the AC recommendations related to the completion of an Equity Strategy, the revised Codes of Conduct of the governing bodies, the enhanced management of the BBP Program and the design phase of the three lines of defence model for credit risk and compliance. AC understands that the implementation of IFRS for financial and regulatory reporting is a medium to long-term project and that some progress was achieved with the intermediate steps for this AC recommendation. Similar to last year, AC underlines that 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, AC, together with the EIB REP team, aim to speed up the delivery of the EIB REP project. AC acknowledges progress with the strengthening of its supervisory role, with the operationalisation of the EIB REP, with the preparation of the EIB REP Implementing Rules and the progress achieved to elaborate the EIB REP methodology. .

Regarding the BBP Framework, AC is pleased with the increased level of its maturity. The AC expects further progress with the implementation of the 3 LoDs model and the further development of the regulatory compliance function, as well as with the financial and regulatory reporting on an IFRS basis.

Luxembourg, 16 June 2022

Signed by:

**A. LINARTAS
CHAIRMAN**

CH. TRIANTOPOULOS

N. GRACIAS FERNANDES

P. KRIER

K. PLUTO

B. DEVILLON-COHEN

J. SUTHERLAND

V. IUGA

ANNEX 1 - AUDIT COMMITTEE ACTIVITIES

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's⁸ 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.

Composition

As of the end of 2021, AC is composed of 5 members and 3 observers.

In June 2021, the Chairmanship passed from Mr. László Balogh to Mr. Audrius Linartas. The composition of AC members has changed to include Ms. Katja Pluto. The AC has a new Code of Conduct also published on the EIB website.

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.

Meetings and external liaison

In 2021, AC held 10 regular meetings over 20 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.

AC held 5 extraordinary briefing calls to cover various topics with Services, the Management Committee, the Board of Directors and for its annual meeting with the ECB/ SSM.

⁸ EIB's Financial Statements under the EU Directives comprise each unconsolidated and consolidated balance sheets as at 31 December 2021, 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 2021, 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.

During 2021, 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 one occasion, with the Management Committee, the BoD of the EIB to discuss the AC Annual Report.

Detail of Audit Committee’s 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 the main report above.

i. the auditing of the EIB’s and the EIB Group’s accounts

Duties	Action taken by the Audit Committee
EIB Group Financial Statements	
AC review of the Financial Statements and other financial information	<ul style="list-style-type: none"> • 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. • Discussed in particular: <ul style="list-style-type: none"> - the accounting policies, processes and controls applied to the valuation of private equity investments. - pensions related accounting policies applied under EU Directives. • Noted Management decision to revise the amortisation period of cumulative prior year actuarial deficits under EU Directives and as disclosed in the notes to the financial statements. • Met with Financial Control (FC) at 7 of 10 Audit Committee meetings held in 2021.

<p>Relationship with the external auditor</p>	<p>Met with the external auditor, KPMG, at 4 of the 10 Audit Committee meetings held in 2021. Held private sessions with KPMG without the presence of EIB Services at these meetings.</p> <ul style="list-style-type: none"> • 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, areas of AC specific focus included the valuation of private equity investments, accounting policy applied to pensions under EU Directives, impact of the IA report IT Governance on KPMG’s audit approach, IBOR reform and covid relation considerations. • Discussed the audit requirements issued by the Group auditor to the component audit team including component materiality and identified significant risks of material misstatement of the Group financial statements. • Monitored the execution of KPMG’s audit plan through regular meetings with senior members of the audit team, including the lead audit engagement partner. • Challenged the existing format of audit opinions compared to the requirements applied to the audit of regulated EU Banks. • Discussed the outcome of the audit procedures, in particular in relation to the priority audit areas/key areas of judgement including those listed above, 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. • Inquired as to the nature of any identified significant deficiencies in internal control identified at the component level, as well as any other matters that may be relevant to the group audit, the component auditor’s overall findings, conclusions and opinion. • Reviewed and discussed the summary of identified adjusted and unadjusted audit differences. • 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.
<p>Relationship with the external auditor</p>	<ul style="list-style-type: none"> • Received assurance from the external auditor that the audit process was achieved as planned, with support from the Bank’s Services. • 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.

Monitoring of external auditor independence	<ul style="list-style-type: none"> Received and discussed details of the various safeguards in place at KPMG to maintain auditor independence. 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. Monitored that KPMG did not provide services to the EIB other than those defined, and pre-approved by the AC, in the Framework Agreement.
Mandate of external auditor	<ul style="list-style-type: none"> The term of KPMG's external mandate ends upon approval of the 31 December 2024 EIB financial statements by the EIB Board of Governors in 2025. KPMG's has been the auditor of the EIB Group since 2009.

ii verification that the 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

Duties	Action taken by the Audit Committee
Internal Audit	
Performance of the internal audit function	<ul style="list-style-type: none"> Met with the IA function, at 9 of the 10 meetings held in 2021. Held private sessions with the acting Heads/Head of the IA function without the presence of EIB Services at these meetings. Examined and discussed the salient features of IA reports including recommendations and main conclusions. Received quarterly updates of the status of implementation of the related agreed action plans and monitored the timely implementation of these action plans. Reviewed and provided comment on the draft IA work plan for 2022. Discussed the adequacy of resourcing of the IA function.

Internal control framework	
Efficiency of internal control systems	<ul style="list-style-type: none"> • Met with the Financial Control - Internal Controls and Assertion Division on 2 occasions during 2021. • Examined and discussed the summary report regarding the implementation and maintenance of the Internal Control Framework.
	<ul style="list-style-type: none"> • Received updates on progress with initiatives intended to further strengthen the Internal Control Framework.
Inspectorate General	
Coordination with the Inspectorate General	<ul style="list-style-type: none"> • Met with the Inspector General at 3 of the 10 meetings held in 2021. • Noted the status of on-going fraud investigation cases and of the status of the complaints received • Discussed and reviewed the outcome of various evaluations performed during the year together with the status of implementation of related recommendations.
Compliance	
Coordination with Compliance	<ul style="list-style-type: none"> • The AC met with the Compliance function at 5 of the 10 meetings held. • Received regular updates on the status of implementation of the AML-CFT Transitional Roadmap. • Discussed the Sanctions Compliance Programme, progress and outlook, the salient elements of the compliance risk assessment and the outcome of the compliance risk testing and monitoring plan. Acknowledged the key indicators of the ML- FT dashboard, including Know Your Client status/completeness.
Risk Management	
	<ul style="list-style-type: none"> • The AC met with the RM Directorate at 10 of the 10 regular AC meetings, and held a special briefing call to hold an RM Seminar. • The AC discussed RM prudential documents and regular risk reports including the Monthly Risk Report covering the Risk Appetite Framework (RAF) Dashboard and key credit, market, capital and liquidity risk metrics, as well as the monthly Operational Risk Report and the EIB Group RM Disclosure Report.

Risk Management within the EIB Group and the GCRO	<ul style="list-style-type: none"> The AC assessed the GCRO function which has become fully operational, and for which relevant group provisions and charters have been either developed or strengthened. The Implementing Provisions for the Group Risk Management Charter were also reviewed by the AC.
	<ul style="list-style-type: none"> The AC reviewed the group risk management processes which were further enhanced by group prudential documents, such as a Group RAF, and a Group ICAAP. Bank's ICAAP, ILAAP and other prudential documents were reviewed.
Credit and Market Risk	<ul style="list-style-type: none"> Reviewed the impact of the pandemic on the loan and equity portfolios and the required provisioning. Received updates on FX risk, the intraday liquidity risk and funding. Discussed the profitability per product reports.
Capital adequacy, Stress Testing, Liquidity and Funding	<ul style="list-style-type: none"> Reviewed the following: the Bank's and Group's ICAAP document, the Group ILAAP, the Bank's and Group's RAF, and the clarifications re the future Group RAF and the implementation of non-financial risks, as well as the Group stress testing Program for 2022, the Bank's Recovery and Capital Contingency Plans, as well as the Group Contingency Funding Plan. Received updates on model risk management and models inventory. Received the Bank's regular liquidity and funding reports to the BCL supervision team, as well as the BCL assessment report.
Prudential Risk Management: Regulations Monitoring and Prudential BBP Program	<ul style="list-style-type: none"> Received regular updates on regulatory monitoring within RM, and has also received semi-annual in-depth updates of the Prudential BBP Program in RM. 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. The work of the Task Force was completed as it relates to credit risk and the design phase of the three lines of defence model in the Bank.
Operational Risk and Information Security	<ul style="list-style-type: none"> Received and reviewed the EIB Group Monthly Operational Risk Report and an overview of the setting up of the second LoDs for Information Security.

Transaction Management and Restructuring	
	<ul style="list-style-type: none"> The AC held 6 meetings with the TMR Directorate.
Monitoring and Reporting of Asset quality Restructuring of operations	<ul style="list-style-type: none"> 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. Received the annual restructuring report and the quasi equity report.
Finance	
	<ul style="list-style-type: none"> The AC held 6 meetings with the FI Directorate.
Liquidity, Funding and Treasury Management	<ul style="list-style-type: none"> Received an update on the Bank's preparedness for the Global Interest Rate Benchmarks Reform. Reviewed the annual Funding and Treasury Management report. Reviewed the Group Contingency Funding Plan. Received updates on market developments, and on the Bank's liquidity and funding management.

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

EIB Compliance with Best Banking Practice	
<p>BBP Framework: BBP Guiding Principles, BBP Book, BBP Applicability Assessment Procedure, and BBP Rules repository</p>	<ul style="list-style-type: none"> • The AC held 4 meetings with the Secretary General Directorate related to BBP Applicability Assessment Procedures, and reviewed 8 such procedures on various subjects and was also briefed on the revised focus of the BBP Program. • The AC also discussed on 5 occasions the progress with AC recommendations of prior years. • The AC was consulted with subsequent versions of the BBP Book.
<p>BBP self-assessments</p>	<ul style="list-style-type: none"> • The AC reviewed the BBP self-assessments of Services. • In terms of overall level of compliance with BBP, on the basis of the 2021 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.
<p>Review of Prudential Risk Management documents and Prudential BBP Program</p>	<ul style="list-style-type: none"> • The AC reviewed Bank's prudential risk management documents such as the ICAAP, the ILAAP, the RAF, Stress testing Program, the Recovery and capital contingency plan, the Group contingency funding plan, as part of its sessions with RM. • The Prudential BBP Program, within the responsibilities of the RM Directorate, remained focused in 2021 mainly on the high priority projects.
<p>Task Force on the three Lines of Defence</p>	<ul style="list-style-type: none"> • The AC met on 3 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 and the AML-CFT compliance process.
<p>Meetings with the EIB REP team</p>	<ul style="list-style-type: none"> • The AC met at every meeting with the EIB REP team and provided guidance as to the priorities and strategic development of the REP project. • Guided the team in the development of the EIB REP Implementing Rules and EIB REP methodology, and in relation to the other projects.

ANNEX 2 – SUMMARY TABLE OF PRIOR YEARS AC RECOMMENDATIONS

	Recommendations 2018	Average of Completion rate Q4'2021
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	88%
2	Prepare a strategic review of profitability per product and per mandate	76%
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.	100%
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.	87%
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	100%
6	Develop the capability within the EIB Group to capture and aggregate all material risks, enhance group reporting and build a common data warehouse, 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	85%
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.	68%
8	Address the findings in the IA report on the credit appraisal and approval process	100%
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	75%
10	Ensure that the ICF is further developed and is sufficiently robust, by integrating and enhancing the ICFs in each Directorate	71%
11	Ensure the timely closure of outstanding IA AAPs	97%
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.	100%
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	81%
14	Close the remaining BBP compliance gaps with applicable BBP, 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	94%
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 projects with a view to anticipate and proactively manage upcoming regulatory changes impacting the EIB and the EIB Group	100%
16	Develop a common data warehouse	43%
17	Develop the capability to calculate prudential ratios and stress testing results on an IFRS basis	10%

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	80%
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,	49%
20	Review the Code of Conduct of the Management Committee and the Board of Directors,	100%
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,	60%
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, and remuneration disclosure requirements in line with best banking practice,	80%
23	Ensure that the findings of the IA and the Task Force reports (on the administration of benefits) 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	60%

Annual Report to the Board of Governors on the Investment Facility for the 2021 Financial Year

INTRODUCTION

The Audit Committee is responsible by the EIB's Statute and Rules of Procedure for the following: the auditing of the EIB and the EIB Group's accounts, for which the Audit Committee largely relies on the external auditor; 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 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).

AUDIT COMMITTEE REVIEW

The assurance expressed by the Audit Committee is largely based on the work of the external auditor performed by KPMG, but also on the fact that the IF relies on a number of functions provided by the Bank, notably the ones of: risk management, compliance, internal audit, lending, 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.

1. 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.

2. 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.

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.

3. Internal Audit

The Internal Audit ('IA') Department is an independent function within the EIB with a statutory reporting line to the Bank's President and a functional reporting line to the Audit Committee. 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 9 of the 10 meetings held in 2021. 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.

4. Inspectorate General

The internal oversight function at the Bank is headed by the Inspector General ('IG'). The Inspectorate General comprises three divisions: fraud investigation, operations evaluations and complaints mechanism.. 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 in particular ongoing cases with the Fraud Investigations Division.

The Audit Committee met with the Inspector General at 3 of the 10 meetings held in 2021. 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.

5. 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 2021.

THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021 AND THE ANNUAL STATEMENT OF THE AUDIT COMMITTEE

The Audit Committee examined the Investment Facility's 2021 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 Services 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 2021, 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.

CONCLUSION

In 2021, 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 2021, 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 2021, 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 2021 Financial Statements, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, as of 10 March 2022, 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, 16 June 2022

Signed by:

**A. LINARTAS
CHAIRMAN**

CH. TRIANTOPOULOS

N. GRACIAS FERNANDES

P. KRIER

K. PLUTO

B. DEVILLON-COHEN

J. SUTHERLAND

V. IUGA

Response of the Management Committee to the Annual Reports of the Audit Committee for the 2021 Financial Year

KEY MESSAGES

- 1 The Management Committee (MC) takes note of the Audit Committee (AC) Annual Report for the 2021 financial year and looks 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 European Investment Bank (EIB or Bank) Review and Evaluation Process (REP).
- 2 2021 has been again a year of unprecedented challenges, with lasting impacts on society, health systems and the global economy. From the beginning of the outbreak EIB staff worked remotely for the main part and onsite presence has been on a voluntary basis. Travel has been restricted to business-critical activities only. In spite of the demanding circumstances, the EIB Group has continued to operate, deliver and, at the same time, move forward and develop itself, with multiple projects and programmes advancing to support core business. The biggest part of the EIB Group's pandemic response is the Pan-European Guarantee Fund (EGF), established in May 2020 with the aim of mobilising up to EUR 200bn through the use of circa EUR 24.4bn in guarantees provided by 22 EU Member States. The fund, fully operated by the EIB and the European Investment Fund (EIF), is providing at least 65% of the investment mobilised for SMEs, up to 28% for mid-caps and larger corporates, and up to 7% as quasi-equity for innovative companies hampered by the crisis. At the end of 2021, the EGF had reached EUR 23.2bn in approved investments, or about 95% of the available resources, in little over a year. These investments will mobilise EUR 174.4bn in total financing, putting the EGF close to its target of mobilising up to EUR 200bn of investment.
- 3 EIB has taken immediate measures to address another recent tragic event, Russia's military aggression towards Ukraine. The EIB has worked with Ukraine since 2007 in line with the European Neighbourhood Policy (ENP), the Eastern Partnership (EaP) and other EU bilateral agreements, with strong impact on the labor market, preserving existing jobs and creating new jobs. Immediately after the invasion the Bank has approved EUR 668m financial support to help the Ukrainian authorities to meet most urgent financial needs, including buying food, medical supply and fuel for its citizens. Certain EIB infrastructure projects in Ukraine will be repurposed to meet immediate investment and reconstruction needs. EIB experts are currently assessing the needs of countries in Ukraine's neighbourhood and within the EU that are welcoming refugees from Ukraine, in order to find solutions to make financial and technical assistance urgently available to these countries and regions. Through the EIB Institute, a humanitarian aid donation of EUR 2.5m has been made, partnering with international organisations, to provide food, water, medicine, protection and trauma care for people impacted by the conflict. The Bank will strictly follow all rules stemming from the new sanctions imposed by the EU and US in view of Russia's and Belarus' actions against Ukraine.
- 4 In November 2020, the EIB Board of Directors approved the Climate Bank Roadmap (CBR), an ambitious roadmap to step up EIB Group's support for the European Green Deal and help accelerate the move to a carbon-neutral continent by 2050. The EIB Group's objectives under the CBR are twofold: (i) to accelerate the transition to a low-carbon, climate-resilient and environmentally sustainable economy by investing and mobilising significant volumes of 'green finance', and (ii) going forward, to align all financing activities with the principles and goals of the

Paris Agreement. The enhanced system of the CBR is already applicable to all EIB operations signed as of 1 January 2021. Future work will be structured around ten new action plans, conceived as an internal planning tool to ensure progress in all areas.

- 5 On 7 March 2022 the EIB Group and European Commission signed the guarantee agreement underpinning InvestEU. This newly signed mandate will make available circa EUR 26bn in guarantees from the EU budget with the aim of mobilising at least EUR 372bn in final investment in projects related to sustainable infrastructure, research, innovation and digitalisation, small and medium-sized enterprises, social investment and skills. EIB Global, the new development arm of the EIB, will deploy operations in Neighborhood countries, Sub-Saharan Africa, Asia and Pacific, Americas and the Caribbean through the implementation of the Neighborhood, Development and International Cooperation Instrument Global Europe, known as NDICI. This new instrument will particularly support countries most in need to overcome their long-term developmental challenges and will contribute to achieving the international commitments and objectives of the Union.
- 6 The MC is closely monitoring the evolution of the EIB Group profitability, focusing also on the progression of both revenue and cost trends. At the level of the EIB Group, financial sustainability is ensured as part of the Group Capital Planning cycle and it is piloted on the basis of the related tools and documents.
- 7 Regarding Group alignment, the MC is clearly committed to further enhancing the EIB Group organisational framework, in order to ensure effective oversight by the EIB, as parent entity, over the EIF and any future subsidiaries, as well as the consistent implementation of all EIB Group policies, procedures and documents and the respect of relevant EIB Group standards by all EIB Group entities. In terms of group oversight, the MC acknowledges the findings of the Internal Audit reports on EIF and the Bank, acting as parent entity of the Group, is monitoring closely the timely implementation of the remedial activities which are currently on-going at EIF.
- 8 In 2022, the MC will support the continuing development of the EIB Group Risk Appetite Framework (RAF), to reflect changes in the business environment, EIB Group operations and regulatory framework. For financial risks, new risk metrics are being developed to assess the vulnerability of the EIB Group's portfolio to climate and environmental risks. RAF indicators in the area of interest rate risk will be substantially refined and new limits for liquidity risk RAF indicators will be proposed to the Board. The Bank is developing a common classification for non-financial risks at the EIB Group level to enhance alignment with Best Banking Practice (BBP) and the coverage of risks at more granular level. A refined set of non-financial risk metrics will capture the categories identified through the new classification and highlight, more transparently, potential elements of concern for both existing and new risk areas, for instance climate and environmental risk.
- 9 The EIB Board of Directors approved in May 2021 the Digital Ambition Strategy for the period 2021-2025 and the Digital Roadmap, defining its implementation plan. The roadmap is based on two preconditions that will receive priority at the outset of the implementation to position the EIB Group to succeed overall: (i) digital foundations including appropriate digital governance and organisation and (ii) a gated approach to financing and staffing. The first mobilisation phase towards the EIB Group digital transformation started in 2021 and it covers the Digital Transformation Office (DTO), the recruitment of the EIB Group Chief Digital Officer (GCDO) and the first steps of the transformation for Group 1 (Lending, Finance and Personnel) value chains, including three pilot projects aiming at reviewing, optimising, streamlining and digitalising processes and documents. Roadmaps with clear deliverables for Group 1 will be agreed by Q3 2022. The recruitment of the GCDO started in 2021 and it is near to closing. In 2021, the EIB continued to strengthen further the EIB Group's IT and information security posture, notably by increasing dedicated resources, taking technical measures to strengthen the Bank's cyber resilience, enhancing governance, in particular through continued enhancements to the policy framework, improved controls and reinforced risk culture by delivering on a Security Awareness

Program. The MC however acknowledges that further efforts are required in particular to boost cyber resilience and recovery capabilities, strengthen the EIB Group approach to cyber security risk management, further enhance the cyber risk culture and keep pace with the expected evolution of the regulatory environment.

- 10 The Bank manages its strategy, business planning and risk assessment on the basis of accounts drawn under EU Accounting Directives, both from a standalone and consolidated (i.e. Group) perspective. In terms of financial reporting, the Bank publishes semi-annual and annual statutory financial statements under EU Accounting Directives and consolidated financial statements under EU Accounting Directives (AD) and International Financial Reporting Standards (IFRS). Consequently, a change of the accounting basis would thus represent a fundamental change in the way the EIB Group strategy and business planning are set, managed, monitored and reported. In this context, the MC welcomes the AC's acknowledgement that a change to IFRS reporting should be a medium term objective.
- 11 The MC also welcomes the AC's acknowledgment that the BBP Framework has reached a stage of maturity. In terms of EIB Group, the MC believes that further synergies need to be explored and implemented to bring closer the practices of the EIB BBP and the EIF Best Market Practices (BMP), probably on the basis of the maturity achieved and processes established with regard to the EIB BBP.
- 12 The Bank will continue to monitor and report on projects aiming to address and implement the AC recommendations and on activities that strive to further strengthen the EIB Group dimension. The MC regularly reviews the reporting, thus providing impetus for timely implementation. A number of AC recommendations from previous years have already been closed and, in general, those still open show a neutral or positive trend when it comes to implementation. For example, recent developments in one project (BCBS 239), showing a negative implementation status in both roadmaps, are expected to have a positive impact on its implementation trend. Going forward, the monitoring and reporting will be focusing on the recommendations themselves and will probably need to be adjusted when the EIB REP is fully implemented, following the conclusion of their first assessment. Based on the developed structured mechanism to facilitate the design, planning, accountability and task distribution of certain Bank-wide or Group-wide projects, the Bank may explore ways to enhance resource planning and prioritisation of relevant projects.

RESPONSE TO THE KEY AUDIT COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

1. Business model and sustainability

Business Model and Sustainability

- 13 The EIB's cost structure is impacted by its dual nature combining the characteristics of an EU body with that of a financial institution. The EIB as an EU entity supports the implementation of EU policy priorities in its activities in and outside the EU. The EIB is also a strategic partner of the European Commission (EC) for the implementation of EU mandates. This role comes with specific obligations in terms of due diligence, compliance, reporting and monitoring procedures. As a financial institution, the EIB adheres to relevant BBP and its business model relies on its solid credit standing.
- 14 In 2021, business delivery continued to be affected by a challenging operating environment and demand for EIB financing remained constrained in highly liquid markets. The Operational Plan targets (under own resources) were revised during the year, in order to adjust the incentives for business implementation. The Bank delivered overall a solid result and signatures finished the year

strongly, considering in particular the large volume of third party resources operations signed under the EGF. Moving forward, the EIB Group will refocus on addressing structural investment gaps in support of EU policy priorities, and it wants to be even more ambitious in the key policy areas of climate and development, innovation and digitalisation, cohesion, and focus on impact. Next to the EIB Group's own risk and own resources engagement in priority areas, a key element of its plan for the coming years will remain the implementation of EU mandates under the Multiannual Financial Framework (MFF) 2021-2027.

- 15 The EIB will continue to adapt its business delivery, in order to respond to structural changes in market demand. Enhancements of the EIB's product offering are envisaged, and will vary, depending on sector and type of counterpart, with a further shift to private sector financing, more complex operations and smaller ticket sizes and a targeted advisory offer. The deployment of new products will require the EIB to adapt its culture, processes and tools. The EIB's strategy of a gradual shift to higher risk activities has also an impact on the EIB's cost structure, as various characteristics of higher risk activities (such as new counterparts, new sectors, more complex, smaller size), drive up origination and monitoring costs. In parallel, continued high regulatory and governance demands in line with BBP and stakeholder expectation frame the EIB's activity, and further underpin the cost structure of the Bank.
- 16 The gradual shift towards higher risk taking remains in line with ensuring the EIB Group's future financial sustainability. While higher risk activity under mandates has paid a toll on the Bank's revenue generation capacity in the past years, own higher risk activities have a higher profitability and provide greater strategic autonomy to the Bank. The EIB is a non-profit maximising organisation with the duty to remain financially self-sustainable. The need to cover costs and to maintain adequate reserves is part of the financial sustainability model. With a view to mitigate declining revenue and increasing cost trends, the Bank will continue to actively manage its costs and work toward further optimising its revenues, including product and business mix adaptations, as well as increased standardisation and streamlining of procedures.
- 17 The EIB will remain watchful as to the progression of both revenue and cost trends. 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 2021. In its current format, the framework is fully aligned with the EIB Group Capital Plan, EIB Group Operational Plan and EIB Group Risk Appetite Framework in terms of granularity. It has a holistic nature, as it captures the entire revenue and cost structure base of the Bank and fully reconciles with the Profit and Loss (P&L) under EU AD on Bank-wide level. Additionally, the report was enriched with "Special Focus" sections targeting topics of particular interest for the specific reporting period. The "Profitability per product line" Report is issued with quarterly frequency and presented to the AC on a regular basis. Important parts of it have also been integrated in the EIB Group Risk Report, issued with monthly frequency. Additional developments related to the profitability monitoring framework are foreseen for 2022, such as exploring the possibility of extending the scope to the EIB Group.
- 18 Finally, following all above-mentioned developments, the Bank successfully closed prior year AC recommendation concerning the Bank's 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.

Credit Quality

- 19 Despite the general context of uncertainty, the credit quality of the Bank's loan portfolio remains adequate. The trend going forward will depend on the development of the COVID-19 pandemic and wind-down of supportive measures in place and its impact on key portfolios and more vulnerable sectors. Furthermore, while the ultimate impact is difficult to quantify at this stage, the evolution of the current escalation of the Ukraine / Russian Federation conflict is being closely

monitored for potential direct and indirect impacts on the EIB's portfolio, including the effect of sanctions, and the energy and raw material market volatility, which in some cases may exacerbate the COVID-19 impact. The impairments for potential losses in respect of EIB's loan portfolio introduced in May 2020, in order to reflect the COVID-19 effects were fully reversed as of June 21, due to the update of internal ratings following the yearly rating cycle, the progression of individual financial reviews and the reduction in lifetime Expected Credit Loss.

- 20 As part of its response to the economic effects of the COVID-19 pandemic, the EIB has provided until June 2021, 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 has assessed requests for such measures on a case-by-case basis within the limits of certain specific conditions. These measures were 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 granting such measures. In the context of national, EU and international measures taken in response to the COVID-19 pandemic, the EIB Group has implemented additional supportive measures and programmes (e.g. the Pan-European Guarantee Fund).

Capital Adequacy and Planning

- 21 In accordance with the EIB Group Capital Sustainability Policy, the Bank has been drawing up its EIB Group Capital Plan since the 2020 operational planning. The EIB Group Capital Plan aims to efficiently allocate available capital to new business, to allow the EIB Group to achieve its mission to support EU objectives and policy goals. The EIB Group Capital Plan ensures sustainable delivery of EIB business, within existing risk appetite and available capital, thus protecting the Bank's high credit standing. The EIB Group Capital Sustainability Policy, applicable to each Group entity ensures that business planning of the EIB Group and its entities is sustainable and compatible with the EIB Group RAF limits.
- 22 The EIB Group's capital planning also includes assessment of the potential evolution of RAF risk metrics under stress. For the 2022 EIB Group Operational and Capital Planning exercise, two scenarios (baseline and downturn) were developed in the context of the Macroeconomic Stress Test (MEST) and were fully integrated in the planning process. Due to the persisting uncertainties, the EIB Group has prudently based its capital planning on the downturn scenario, reflecting the potential downside risks to its capital metrics stemming from adverse macroeconomic conditions and the possible negative impact of the on-going COVID pandemic on the EIB Group's portfolio. Moreover, the RAF thresholds for capital metrics are calibrated with reference to specific stress scenarios and sensitivities. This approach ensures that the capital position of the Group should remain strong, and well within any applicable BBP requirements, even under stressed conditions.
- 23 Moreover, the capital planning of the EIB Group includes the impacts of both the known or reasonably expected changes to regulation 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 EIB Group is sufficient to ensure sustainability of the business plan over the extended planning horizon.
- 24 As a further enhancement of the EIB Group capital planning process, the capital allocation in the 2022 EIB Group Capital Plan (approved in the context of the 2022 EIB Group Operational Plan)

explicitly included an allocation also for the EIF own risk business and for Outside EU operations. This ensures that the impact of new business on the EIB Group (i.e. consolidated) capital is fully captured. The EIB Group Operational and Capital Plans aligns EIB and EIF planning processes and combine the EIB and EIF Operational Plans into one single Plan, ensuring consistency and allowing oversight of EIF business planning by the EIB Board of Directors.

Group Risk Appetite Framework and Inclusion of Non-Financial Risk (Including Climate Risk)

- 25 In June 2021, the EIB Board of Directors approved the first EIB Group RAF Policy, incorporating the EIF and providing a comprehensive and holistic perspective on risks across all EIB Group's entities. The EIF retains its standalone RAF, aligned with the Group RAF, to manage its risk profile within the limits allocated from the Group whilst maintaining its autonomy to develop risk metrics specific to the EIF business model and monitor its statutory metrics. Furthermore, the Board of Directors approved and adopted a new EIB Group Risk Appetite Statement (RAS) that includes climate and environmental risks and specific appetite statements for non-financial risks.
- 26 The Bank continues to further enhance and develop the EIB Group RAF, to reflect changes in the business environment, EIB Group operations and regulatory framework. For financial risks, new risk metrics are being developed to assess the vulnerability of the EIB Group's portfolio to climate and environmental risks. RAF indicators in the area of interest rate risk will be substantially refined and new limits, now underpinned by a methodology, will be proposed to the Board for liquidity risk RAF indicators. Moreover, the Bank is developing a common classification for non-financial risks at the EIB Group level to enhance alignment with BBP and the coverage of risks at more granular level. A refined set of non-financial risk metrics will capture the categories identified through the new classification and highlight, more transparently, potential elements of concern for both existing and new risk areas, for instance climate and environmental risk.
- 27 Further enhancements are also planned for the RAF Non-Financial Risk (NFR) Key Risk Indicators (KRIs). In 2020, NFRs were integrated into the RAF and reported via "synthetic" KRIs related to four NFR categories (Conduct & Compliance, Operational Risk, ICT and Reputational Risk) i.e. an aggregation of several underlying KRIs into single risk indicators. The Synthetic KRIs are included in the RAF Dashboard and reported quarterly in the EIB Group Risk Report. With the EIB Group RAF 3.0 – NFR project, the EIB is now revising the approach as part of a comprehensive initiative to establish a common Group-wide NFR classification based on the market leading ORX (Operational Riskdata eXchange Association) approach, enhance existing NFR KRIs and related aggregation methodology and develop metrics capturing the EIB Group dimension (foreseen by the end of 2023). Non-financial risks have been included in the RAF reporting during 2020. Since Q3 2020, quarterly reporting to the Bank's governing bodies on Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT) specific risk indicators in the form of the EIB Group ML/FT Dashboard complements these. During 2022, the Bank will continue to reinforce the management of non-financial risks in line with the new organisation of the Group Chief Risk Officer (GCRO) function with a particular focus on developing a bank-wide risk classification for non-financial risks, associated KRIs and reporting as well as clarifying roles and responsibilities for all non-financial risks with reference to the 3 Lines of Defence (LoD) model.
- 28 As part of the ongoing RAF review and enhancement, the RAS will also be reviewed to reinforce the alignment with applicable BBP and extended to specifically include climate and environmental risks. This will be complemented by a further and progressive 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, as per the requirements applicable as BBP and the availability of data.

Operational Resilience

- 29 The first EIB Group Operational Risk Policy was approved in May 2021 and subsequent work to strengthen the EIB Group operational risk management framework includes: (i) work carried out under the EIB Group RAF project; (ii) the development of a EIB Group Operational Risk Report benchmarked against BBP; (iii) enhancements to the operational risk capital calculation model and loss database; and (iv) implementation of operational risk framework for insurable risks.
- 30 Work in 2022 (excluding under the Group RAF project) will focus on strengthening operational procedures, preparing for the implementation of a Governance, Risk Management and Compliance (GRC) software, development of forward looking and preventive tools, such as back-testing and scenario analysis as well as the closure of Internal Audit findings, with consideration to be given to the achievement of synergies between operational risk management and work on the Internal Control Framework (ICF).

2. Group Alignment

Group Oversight and Group Functions

- 31 Already a few years ago, the EIB started the strengthening of EIB Group functions. The function of the GCRO was the first one to be created, followed by the GCDO who is currently being recruited. The setting up of other EIB Group functions may be considered in the short term, accompanied by a strengthened EIB Group oversight and organisational framework, in order to ensure that EIB Group policies, procedures and documents are consistently implemented by all EIB Group entities and to uphold in all EIB Group entities relevant EIB Group standards.
- 32 As part of strengthening group risk oversight in the areas of risk management and compliance, the Risk Policy Committee of the Board of Directors and the Working Group on Tax and Compliance matters are increasingly discussing agenda topics and opining on policies with relevance for the EIB Group. Furthermore, in 2021, the Group Risk Steering Panel was set-up, chaired by the GCRO and composed of representatives of EIB and EIF risk and compliance functions, as well as representatives from other second line functions, to oversee all Group Risks and to serve as a discussion forum for Group Risk documents. It meets on a regular basis, to discuss Group related risk topics, documents and work streams.
- 33 Finally, in terms of group oversight, the MC acknowledges the findings of the Internal Audit reports on EIF and the Bank, acting as parent entity of the Group, is monitoring closely the timely implementation of the remedial activities which are currently on-going at EIF.

Group Chief Risk Officer, Group Risk Management Charter and its Implementing Provisions

- 34 The ongoing work on risk and compliance related Group functions continues in order to develop synergies and Group alignment possibilities. The establishment of the GCRO function, stronger alignment of internal audit activities between the Bank and the European Investment Fund (EIF) and the ongoing work on the strengthening Group compliance in the last years are examples of projects already being established. Appointed in September 2020, the GCRO 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. The EIB Group Risk and Compliance Directorate ('GR&C'), created during 2021 by reorganising the risk and compliance functions, is responsible for both Financial Risks and Non-Financial Risks relating to the EIB Group's business.
- 35 In line with BBP as implemented by the Group Risk Management Charter (GRMC or Charter), 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.

- 36 In 2021, the Bank continued implementing the revised EIB Group GRMC by codifying jointly with the EIF a set of implementing provisions. As per those implementing provisions (approved by the MC and the EIF Chief Executive), the EIF reports on Group Risk matters to the EIB through the GCRO. The GCRO also has direct access to EIF's Chief Executive and the Deputy Chief Executive. Furthermore, in 2021, for the first time, the GCRO participated in meetings of the EIF Board of Directors and provided opinions included in EIF documents with relevance for Group Risks (e.g. EIF Internal Capital Adequacy Assessment Process (ICAAP), EIF Internal Liquidity Adequacy Assessment (ILAAP)). Further to the implementing provisions, in 2022, progress is on-going to provide access for GR&C Group functions to relevant EIF systems and databases. Finally, the EIF Risk Management Charter was updated by the EIF, to address internal audit findings and to reflect group alignment in risk management and compliance areas.

Group Alignment Implementation Plan

- 37 The Group Alignment Implementation Plan (GAIP) was officially launched in the context of the EIF's capital increase, following a decision by the EIB Board of Directors. As of end 2021, already 40% of the projects have been closed, whereby the good majority of still ongoing projects concern risk management, internal control, financial consolidation or the strengthening of the EIF Audit Board.
- 38 With respect to Risk Management, the Prudential BBP Programme projects with a Group dimension are incorporated into the GAIP, so that consistency be ensured between the GAIP and the Prudential BBP Programme and to ensure that these would remain priorities at Group level. With respect to Compliance, Group related items of the Compliance work programme for 2021 were incorporated in the GAIP and focused on:
- The revision of Group policies and guidelines relating to AML-CFT (EIB Group AML-CFT Policy adopted in July 2021), Conflicts of Interest (ongoing), Market Abuse (EIB Group Market Abuse Policy adopted in July 2021) and Whistleblowing;
 - Further developing the Group approach for the Group Compliance Risk Assessment (CRA) and Group ML-FT Dashboard,
 - Developing and operationalising Group RAF non-financial risk indicators, with a particular focus on AML-CFT risk and the related RAS.
- 39 Since the approval of the EIB Group Market Abuse Policy, work has progressed significantly on the deployment of policy-implementing procedures and strengthening market abuse controls, including those related to personal transactions. At the same time, a comprehensive review of the EIB Group Guidelines on Conflicts of Interest has been initiated, with the aim to strengthen further the institutional Conflicts of Interest framework and controls by mid-2022. In 2022, the Compliance function will also continue to enhance the control environment for the management of market abuse risks. Other group related items of the Compliance work programme for 2022 include the implementation, during 2022/2023, of a Group Client Lifecycle Management solution ("OMEGA") and group harmonisation of the underlying processes, methodologies and information sharing.

BCBS 239 /Group Data Warehouse

- 40 The EIB Group is committed to applying best banking practices in accordance with the EIB BBP Framework. This includes achieving compliance with the BCBS 239 principles as implemented in the EU. In Q1 2021, the second from three waves from the multi-annual BCBS 239 programme was launched and continues to roll out the Target Operating Model, to further improve data governance and risk reporting measures, and to significantly improve the BCBS 239 maturity level

for further RAF KRIs. The scope of the ongoing Wave 2 also contains improvement measures to resolve internal audit action plans (AAPs). Due to resource constraints materialised on EIF side some deliverables planned in wave 2 have been replanned for the future waves of the project. A set of mitigation actions was endorsed by the MC and the EIF Chief Executive and are being implemented to ensure capacity constraints are addressed and the timely delivery of the BCBS 239 programme is ensured. The implementation of the multi-year programme is expected to result in a 'broad compliance' with BCBS 239 principles and a common data warehouse and reporting platform for the EIB Group by 2024.

Implementation of 3LoD Model - Credit Appraisal and Approval Process

- 41 The design phase of the credit side of the 3LoD Programme has been concluded on all underlying action points, with the exception of credit envelopes for low-risk clients, on which further discussions will take place only once the Board discussions on lending delegations from the Board of Directors to the MC have concluded, expected before the end of 2022. In parallel to the efforts of closing the design phase, the implementation phase is under way, with clearly defined milestones for its completion. A detailed update on the Programme has been presented to the AC in December 2021. Another update is planned to take place by the end of 2022.

Transitional Roadmap: Strengthening the (AML-CFT) 3LoD Model

- 42 The fight against money laundering and financing of terrorism remains a priority for the EIB Group. The EIB Group's internal control functions and risk management systems are consistent with the 3LoD model. However, further work is required to fully align with BBP with regards to AML-CFT by strengthening the 1LoD's capacity ability to identify, assess, mitigate, monitor and report on risks, while refocusing 2LoD activities on the related policies, procedures and processes, more complex cases and control verification. The EIB compliance function, together with relevant services, established a Transitional Roadmap approved by the MC in 2020, aimed at strengthening the role of the 1LoD with regard to AML/CFT and enabling the EIB compliance function to focus on its responsibilities as 2LoD. In 2021, key areas of focus of the Transitional Roadmap included the revision of the AML-CFT framework documents, further improvements to the CRA and CMP and to reporting to governing bodies, changes to the Bank's procedures [notably related to Know Your Customer (KYC) and Politically Exposed Persons (PEPs)], the delineation of roles and responsibilities between the 1LoD and 2LoD, as well as improvements in data quality.
- 43 The focus in 2022 will shift to IT enhancements, implementation of new and enhanced responsibilities by the 1LoD and further enhancement of the compliance function's 2LoD role and remediation of the backlog relating to KYC Periodic Reviews. In particular, the OMEGA project promoting a new digital Client Lifecycle Management system will be the key enabler for the 1LoD to effectively assume new and enhanced tasks.

Internal Control Framework

- 44 In 2021, several methodological improvements have been introduced in order to enhance Internal Control Framework (ICF) oversight and enhance readiness for expected EIB REP. These include developments such as (i) the migration of bank wide process/risk/control data into ICAT database and (ii) the definition of new application ICF reporting features (expected to be implemented in 2022/2023), these will constitute a significant digitalisation step to align the bank with best practices in relation to control risk oversight and monitoring. The application is also expected to be a backbone element in the application of a consistent ICF review process at Group level. Progress was also achieved in the structuring of ICF data per "transaction" or "transversal processes" and control's operational effectiveness testing continued to be developed as a

recurrent practice fundamental to sustain sound control assurance statements. Moreover, bringing closer the New Product Approval Process team and ICF team has enabled upfront detection of internal control impacts stemming from the onboarding of new products. Eventually, the yearly bank wide ICF awareness training program for new joiners as well as for established staff has also contributed to the strengthening of the “risk & control” culture in 2021.

- 45 In 2022, challenges impacting EIB’s ICF will be further reviewed notably in relation to the increased expectations from the EC regarding the Management Declaration of Assurance and the “Summary Report of Audits and Controls”. If originally these reporting requirements were limited to mandates that fell under the Financial and Administrative Framework Agreement (FAFA) then now the reporting requirements have been extended to new mandates from which resource impacts should be considered. Development will also be expected in order to define a Group ICF Policy and reconcile ICF review practices.

3. Financial Reporting

Regulatory Reporting Including Key Prudential Risk Indicators of Capital and Stress Testing Prepared Under IFRS

- 46 The Bank manages its strategy, business planning and risks assessment on the basis of accounts drawn under EU AD, both from a standalone and consolidated (i.e. Group) perspective. In terms of financial reporting, the Bank publishes semi-annual and annual statutory financial statements under EU AD and consolidated financial statements under EU-AD and IFRS. Consequently, the EIB Group capital management framework, including the EIB Group RAF, EIB Group Stress Testing Framework, EIB Group ICAAP, and EIB Group Risk Reporting are based on EU-AD. A change of the accounting basis would thus represent a fundamental change in the way the EIB Group strategy and business planning are set, managed, monitored and reported. In this context, the Bank welcomes the AC’s acknowledgement that a change to IFRS reporting is an objective in the medium term.
- 47 The Bank acknowledges that computation and reporting of risk metrics under IFRS would increase comparability with the financial sector. The MC will therefore carefully consider the costs and benefits of switching the Bank’s primary accounting standards and the related risk calculations to IFRS, giving due regard to the policy objectives of the Bank. Furthermore, as mentioned under the section in BCBS 239, the Bank remains committed to further enhancing its data and systems integration across the Group, aligning its data structures and taxonomy with the banking industry and further developing its reporting capabilities.

Private Equity Valuation Challenges

- 48 In the context of the 2021 year-end audited financial statements, the EIB and the EIF have enhanced the processes covering the valuation of equity investments notably in respect of subsequent event review. More particularly, specific processes and controls have been established in order to determine if any material change in the valuation result has occurred between Q3 Net Asset Value (NAV) and unaudited Q4 NAV. The related process and control will be further developed by EIB and EIF’s services in close consultation with the Bank’s external auditors.

4. Group Information and Communication Technologies

A Group Approach to an IT Strategy

- 49 Based on the assessment of the EIB Group digital maturity, the EIB Board of Directors approved in May 2021 the Digital Ambition Strategy for the period 2021-2025 and the Digital Roadmap, defining its implementation plan. The roadmap is based on two preconditions that will receive priority at the outset of the implementation to position the EIB Group to succeed overall: (i) digital foundations including appropriate digital governance and organisation and (ii) a gated approach to financing and staffing. In order to undertake the journey towards the EIB Group digital transformation, a mobilisation phase for both the Digital Transformation Office (DTO), and the value chain Group 1 (Lending, Finance and Personnel) was initiated in order to leverage on business and DGO teams and to establish foundations for the new digital organisation for full preparedness of a new delivery model. The mobilisation phase for the Lending value chain ended in February 2022. Pending recruitment of vacant posts, the DTO commenced with key tasks using existing resources. The work for the Finance and Personnel value chains is still progressing.
- 50 Regarding the mobilisation phase for the DTO, the lead role steering the strategy will be the EIB GCDO. The EIB is recruiting a GCDO (the campaign started in December 2021) to set and implement the vision and an overarching strategy for the management of the EIB Group's IT and Data services, and lead the EIB Group digital transformation and process innovation. The recruitment campaign is near to closing, with a proposal expected for early Q2 2022. Within the current organisation of the Bank, the GCDO is not yet at a level of a Director General, however this option can be considered at a later stage once the function has demonstrated the performance and capacity to deliver at Group level. It is to be noted that some key positions crucial to the delivery of EIB Group's digital transformation are vacant, pending the selection of the GCDO. This will allow the GCDO to be directly involved in the selection of those key managers in the team.
- 51 The purpose of each mobilisation phase is to undertake the first steps of the transformation for each value chain in-turn. For value chain Group 1 this entailed:
- Set-up of multi-disciplinary delivery teams, working groups, and the EIB DTO;
 - Review of the project portfolio for prioritisation and definition of qualitative and quantitative Key Performance Indicators (KPI) for monitoring;
 - Refinement of the Digital Ambition Strategy and budget allocation at value chain (process) level;
 - Launch of the innovation market watch on trends and solutions for the above-mentioned processes;
 - Definition of a cultural change management and communication plan.
- 52 In the context of the value chains, the EIB will launch three pilot programmes (the third one is still to be validated by the Transformation Steering Committee in April) to focus on process streamlining and accelerating innovation:
- I. Lending Pilot, focusing on the review and optimisation of the core lending end-to-end process(es), whilst fostering innovation for a target and modern core lending solution. This will entail a proof of market check to analyse what other digital solutions exist on the market and are in use, whilst progressing with the value chain. This will define the target architecture for the core lending and the roadmap to implement it by end of Q3 2022;
 - II. Personnel Pilot, focusing on recruitment process streamlining and digitalisation while developing the target architecture for the Personnel systems. Both parts should deliver their roadmap by Q3 2022;
 - III. Decision-making Pilot, focusing on the Governing Bodies Digital Dashboard. SG will run a pilot, streamlining documents submitted to the Governing Bodies i.e. from the agenda, to the action log generated during live meetings, up to the meeting minutes.

53 The plan is still to launch, in the course of late 2022, subject to budget and resource availability, the following value chains (as announced to the Board of Directors in May 2021): Risk Management & Regulatory Reporting, Counterparty Management & Compliance, Information Exchange & Decision Making, Financial Control & Procurement, and Corporate Services to cover remaining transversal activities. As for Lending, the mobilisation phase for each value chain listed above will generate the target architecture and the reviewed roadmap to deliver it. All roadmaps will be reviewed on an annual basis, as the value chains are the tools to operate the new demand management driven by the business, taking into account EIB Group priorities, budget and resource availability. Pending the launch of the future value chains, the GDO teams are working with their business counterparts to deliver the existing roadmaps previously defined.

Cyber Security

54 The EIB has continued to further strengthen the EIB Group's IT and information security posture notably in the context of the outbreak of COVID-19 and transition to a hybrid working culture. More specifically the EIB Group has increased resources dedicated to IT and information security, taken technical measures to strengthen the Bank's cyber resilience, enhanced governance, notably through continued enhancements to the policy framework, improved controls and reinforced risk culture by delivering on a Security Awareness Program.

55 In 2021, EIB Group made significant progress in implementing the Threat Intelligence-based Ethical Red Teaming (TIBER-EU) framework for managing cyber resilience activities, successfully carried out Society for Worldwide Interbank Financial Telecommunications (SWIFT) and Target 2 mandatory compliance certification exercises, implemented a new Phishing and Information Classification and Data Leakage Tool. Furthermore, multi-factor authentication (MFA) and logs are in place, along with internal Virtual Private Network (VPN) with EIB Group external offices and Multiprotocol Label Switching line dedicated to the EIB. The cyber vault isolation of safeguarded data copies in a protected environment has been implemented, protecting especially against ransomware attacks. Screening of incoming e-mails is also undertaken through filters as well as content filtering. For security monitoring, Darktrace, Splunk, and Security Operation Center (SOC) are all in place. Additionally, Bitlocker has been activated on all EIB Group devices and encryption is applied. If a device is stolen, the hard drive is encrypted with Bitlocker.

56 A single 1 LoD and 2 LoD for EIF and EIB with regards to IT and Information Security will be considered as part of the EIF Risk Management Action Plan. Concerning the Cyber Incident Response Plan (CIRP), a session on the CIRP was organised in Q4 2021 with the IT subgroup of the AC; in addition, the CIRP was presented to the Risk Policy Committee of the Board at the end of 2021. Furthermore, the MC is kept informed of cybersecurity events worldwide on a monthly basis and quarterly Cybersecurity Dashboards are presented to the AC providing information on CIRP related issues.

57 The MC however acknowledges that further efforts are required in particular to boost cyber resilience and recovery capabilities, strengthen the EIB Group approach to cyber security risk management, further enhance the cyber risk culture and keep pace with the expected evolution of the regulatory environment. Efforts will focus on these areas and more specifically Improvements in threat detection, security monitoring and incident handling, data restoration tests and Data Leakage Prevention measures.

5. EIB Review and Evaluation Process and BBP

EIB Review and Evaluation Process – MC and Services Support to Implementation

- 58 In 2021, the two first layers of the EIB REP Framework were adopted. In March 2021, the EIB Board of Governors approved the EIB REP Guiding Principles setting forth the general principles, rules and provisions regarding the governance, the organisational structure and the functioning of the EIB REP. In accordance with those principles, the AC adopted the EIB REP Implementing Rules in December 2021, following endorsement from the Board of Directors. These rules lay down organisational arrangements to ensure the due process, including but not limited to the specification of the roles and responsibilities of the EIB REP team, access to information and the Bank's departments, reporting lines, and procedures for documenting and recording the EIB REP findings, procedures for the approval and communication of the findings. In 2022, the AC will adopt the EIB REP Methodology. In all the related processes, the MC and EIB Services will provide the AC with the necessary support.
- 59 During 2021, the Bank's Services contributed to the targeted assessment of the business model risks facing the Bank, carried out by the EIB REP team. This involved providing the EIB REP team with information (primarily in the context of the backward-looking quantitative analysis of financial performance) and explanatory sessions covering specific topics. In 2021, furthermore, risk management supported the EIB REP team in the 2020 ICAAP review undertaken by the EIB REP team. The observations formulated as an outcome of that review have been taken into account and informed the EIB Group ICAAP work plan for a targeted framework enhancement over a 2-year horizon.
- 60 In 2022, an EIB REP pilot exercise will take place and Services have already started to contribute to the exercise. The MC, the Secretary General and the Services in general will ensure that the process is smoothly incorporated into the overall culture and processes of the EIB Group.

Recommandations of Banque central du Luxembourg (BCL)

- 61 By the end of December 2021 and on a cumulative basis, thirty-three BCL recommendations have been closed, while three are still outstanding. The first one relates to the delivery date of the yearly ILAAP to BCL by the regulatory deadline of 30 April of each year. It is expected that the Bank will be in a position to comply with such requirement starting in 2022. The other two recommendations refer respectively to the set-up of integrated systems and risk data aggregation (which the Bank is addressing with the BCBS 239 project) and to improvements to correspondent bank arrangements and testing procedures (which are expected to complete in 2022).
- 62 Independently from BCL recommendations, as part of its continuous efforts to improve its risk management practices, in 2021 the Bank completed a revision of its internal liquidity risk framework and of the methodology for setting liquidity risk RAF limits. The new limits will enter into force in 2022 upon the yearly approval of the Group RAF by the Board of Directors.
- 63 The 2LoD 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 Group risk exposures, which are not yet consolidated in one dedicated data repository. The ongoing BCBS239 initiative is crucial to ensure compliance with BBPs in the domain of data at EIB Group level. In addition, notwithstanding the outcome of the BCBS 239 initiative, further improvements in the data accessibility for the preparation of key EIB Group risk documents, targeting to allow unrestricted data access for the Group Risk Function to all EIF data, have been agreed to be implemented by 2022.

Best Banking Practice – Set-up of BBP Framework and Implementation of BBP Requirements

- 64 As acknowledged by the AC, the BBP Framework has achieved a mature stage. Based on the BBP Guiding Principles approved by the Board of Governors in 2018, a comprehensive tracking of new regulatory developments has been set up. This is the basis for the applicability assessment procedures leading to regular, at least annual, updates and reviews of the BBP Book, approved by the Board of Directors, and to a mapping of applicability of BBP requirements, further defining the BBP as applicable to the EIB on an individual and consolidated basis. This mapping is being reflected in the BBP Repository, which is currently a simple database, but will evolve to a more sophisticated tool starting in 2022.
- 65 In terms of EIB Group, and notwithstanding the current EIF commitment to implement the defined BBP as applicable to the EIB on a consolidated basis, further synergies need to be explored and implemented to bring closer the practices of the EIB BBP and the EIF BMP, probably on the basis of the maturity achieved and processes established with regard to the EIB BBP.
- 66 On an annual basis, the compliance status of the Bank is assessed through the BBP Self-Assessments carried out by each Service listed in the framework adopted in 2010. In light of the BBP and EIB REP frameworks, it is important to start a discussion on the possible update of the current framework and on the interplay between all the various BBP compliance assessment and monitoring mechanisms. In this sense and with a view to fulfilling the AC request of further enhancing the regulatory compliance function, Services are working on the design and implementation of a revised framework to enable (i) a robust follow up of the implementation of BBP applicable to the EIB and EIF and (ii) adequate reporting.
- 67 In terms of overall level of compliance with BBP and based on the related BBP Self-Assessments, the EIB has been assessed as partially compliant with BBP, given the number of gaps that remain to be closed. However, although the assessment outcome has not changed, generally the compliance outlook has again improved and is more positive than last year, because not only progress has been made to close the compliance gaps identified, but also further enhancements of the BBP Framework contributed to an outcome more aligned with BBP as applicable to the EIB.
- 68 In 2021, the Bank delivered a number of enhancements to the management of the Prudential BBP Programme, partly in response to prior year's AC recommendation that has been successfully closed. The improvements in terms of roles and responsibilities, processes and governance ensure that the Programme has the right scope, adequate resources, as well as a prioritisation process of BBP Projects with a view to anticipate and proactively manage upcoming regulatory changes affecting the EIB and the EIB Group. Regular reporting on the status of BBP implementing projects is provided to the AC with links made to the internal applicability assessment procedure and the annual BBP Self-Assessment in the area of risk management.

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 EC 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 2021



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