

# **Audit Committee Annual Reports**

for the year 2022



European  
Investment Bank



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European Investment Bank  
98-100, boulevard Konrad Adenauer  
L-2950 Luxembourg  
+352 4379-1  
[info@eib.org](mailto:info@eib.org)  
[www.eib.org](http://www.eib.org)  
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# Annual Report of the Audit Committee for the 2022 Financial Year

## Introduction

The Audit Committee (AC) is established under European Investment Bank (EIB) Statute as a statutory body reporting to the Board of Governors (BoG).

In accordance with the EIB Statute (Art.12) and Rules of Procedure (Art. 24), the AC has three main responsibilities:

- I. Confirmation that the financial statements, as well as any other financial information contained in the annual report approved by the BoD give a true and fair view of the financial position of the Bank;
- II. Verification that the activities of the Bank are conducted in a proper manner, regarding risk management and monitoring; and
- III. Verification that the activities of the Bank conform to best banking practice (BBP) applicable to it.

On an annual basis and in 2022, the AC has fulfilled its responsibilities by:

- issuing of the AC Statements on the EIB and EIB Group's Financial Statements as of 31 December 2022, which are prepared for the review of the Management Committee (MC), are adopted by the BoD and are delivered to the BoG for approval, forming an intrinsic part of the EIB Group Annual Report,
- preparing this Annual Report to the BoG.

In 2019, the EIB Review and Evaluation Process (EIB REP) was set up as part of the decision to reinforce the oversight of the EIB Group and to add an additional role to the AC under the remit to verify compliance of the Bank with BBP. The EIB REP is based on the four supervisory pillars along the lines of the Supervisory Review and Evaluation Process, SREP - Business Model; Governance; Capital and Liquidity. AC presented the EIB REP assessment report, in the form of a pilot report (2022 EIB REP Pilot).

The AC Annual Report is addressed to the BoG and summarises the results of the AC's work and activities for the year 2022. The AC Annual Report includes a section on the REP and the outcome of the EIB REP Pilot report. The AC activities are presented in Annex 1.

## Financial Accounts

The AC has discharged its responsibilities under its first mandate related to the auditing of the EIB Group's accounts and oversight of the financial reporting process, which includes monitoring and assessing the integrity of the financial statements among others:

- discussing matters related to the financial statements close process applied to the 2022 yearend regarding the Bank's stand-alone and the consolidated financial statements of the EIB Group;
- probing Services and the external auditor (KPMG) on general and specific financial reporting matters including matters related to the system of internal controls and use of accounting estimates and judgements;
- reviewing financial reports during the year including the EIB Group Financial Report, Interim reports, as well as monthly and quarterly analytical financial statements;
- assessing key financial risks and financial statement risks;
- reviewing the financial statements of subsidiaries and the consolidation process of the EIB Group;
- assessing the Internal Control environment including the results and conclusions of the EIB's internal control functions.

Areas of specific focus during the year included internal processes and controls related to the valuation of private equity and venture capital investments, the disclosure requirements related to climate, and the adequacy of credit risk provisioning in view of the increasing economic uncertainty and heightened inflationary pressures, as well as the direct and indirect consequences of the conflict in Ukraine.

The EIB maintains its primary accounting and risk reporting framework under the EU Accounting Directives 2013/34/EU (EU AD), and the European Investment Fund (EIF) under International Financial Reporting Standards (IFRS). The EIB Group consolidated financial statements are established under both accounting frameworks, EU AD and IFRS.

Based on its work, AC made the following observations:

- The EIB stand-alone and EIB Group financial statements are fairly presented, in all material respect.
- AC underlines 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 processes.
- AC welcomes the Bank's commitment to examine whether, in the medium-term, internal and regulatory reporting, including key prudential risk indicators for capital and the results of stress testing exercises, should be prepared on an IFRS basis.

## Sustainability of Business Model

Over 2022 the external operating environment for the Bank has undergone structural changes triggered by inflationary pressures, the conflict in Ukraine, and the rapidly increasing interest rates. While Covid is receding in various parts of world, the lingering impact of the pandemic on the Bank's clients remains. Overall, the impact on the EU economy continues to be felt because of the disrupted supply chains, and the geo-political uncertainty.

The Bank continued to implement its public policy goals and EU priorities such as InvestEU<sup>1</sup>, REPower EU, NDICI<sup>2</sup>, financing of Ukraine and climate projects. In 2022 the Bank accelerated business development efforts to reach out to new clients, sometimes with higher risk profile. In that context, a more robust cost management would allow the Bank to manage its resources more efficiently and would certainly be beneficial in the uncertain operating environment facing the Bank.

AC would like to point to some trends in the business activities of the Bank, in particular:

- EIB has set up a new internal directorate, EIB Global, which covers all operations outside of the EU (existing and new). The AC highlights the importance of maintaining the same level of diligence to operations in EIB Global as is expected of the other EIB activities. EIB Global should monitor closely the Anti Money Laundering – Counter Financing Terrorism (AML-CFT), and Non-cooperative Jurisdictions risks of its activities and set specific risk appetite thresholds. AC will monitor closely the implementation of robust control framework, policies, and procedures at the EIB Global.
- With respect to the climate financing, EIB is on track to implement the ambitious targets as set out in its Climate Bank Roadmap. AC expects that the climate risks are managed prudently, and at a group level. AC will monitor the adequacy of the climate risk assessment methodology, the stress testing exercises and the integration of climate risk indicators in risk management policies.

AC notes that EIB's business model is anchored in the transfer of its AAA funding to clients. AC will continue to monitor the evolution of the Bank's business activities and expects:

- Further alignment between Operational Plans, RAF and Capital plans within the Bank and the Group in view of the efforts to grow the business, on-board new clients.
- Enhancement of the group oversight of credit and climate risks from a group perspective.
- Further improvements in the management of non-financial risks and of operational risk to ensure the operational resilience of the Bank and the Group.

AC believes that the appointment of a Group Chief Financial Officer (Group CFO) function would enhance management of costs and financial reporting and would underpin the financial results of the business. AC considers that it is an essential element supporting the sustainability of the business model and business activities of the Bank in a fast-paced external environment allowing the continued success and delivery of the Bank's mission and priorities.

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<sup>1</sup> To illustrate, the EIB Group (comprised of the EIB and EIF) will implement 75% of the EU budget guarantee (or €19.65 billion). Within the EIB Group, the [European Investment Fund](#) will implement the major share of InvestEU financing for small and medium-size companies.

<sup>2</sup> NDICI: Neighbourhood, Development and International Cooperation Instrument (NDICI) ([welcomeurope.com](#)). The Neighbourhood, Development and International Cooperation Instrument (NDICI) – 'Global Europe' for the period 2021-2027 is the EU's main instrument for international partnerships on sustainable development, climate change, democracy, governance, human rights, peace and security in EU neighbouring countries and beyond.



## Capital

The AC had regular discussions with Services, external and internal auditors, and the MC about the capital position of the EIB Group. As of yearend 2022, the capital position of the EIB Group remained strong given the risk level of the loan book. As of 31 December 2022, all financial EIB Risk Appetite Framework (RAF) indicators were within their risk appetite limits. AC notes that the management of the EIB Group capital position is anchored in group policies and plans such as the Group ICAAP, Capital, Operational, and Recovery Plans. The Bank's strong capital position remains at the core of its business model and is also recognised by the rating agencies which confirmed the AAA rating of EIB (most recently as of January 2023).

Given the Group priorities to contribute to InvestEU, REPower EU, to grow higher risk activities outside the EU under EIB Global and to finance climate projects, the risk of the Bank's operations is expected to increase. Availability of own capital resources underpin the Bank's ability to undertake these operations.

Based on its work, AC made the following observations:

- AC notes that it is essential to further strengthen capital planning and capital management (capital allocation and consumption monitoring/ management) at both EIB and the EIB Group level as the new and existing business priorities require a higher rate of capital consumption.
- The AC expects that the capital allocation and capital consumption plans are further expanded to allow a more granular view across the Group.

## Asset quality

The AC discussed the impacts of the increasing inflationary pressures, higher energy costs and the conflict in Ukraine on the Bank's portfolios and provisioning methodology. In 2022 the residual effects of the Covid-19 pandemic anticipated for the portfolio did not materialise to the extent forecasted.

AC has regularly reviewed asset quality reporting to obtain the necessary comfort that the Bank's risk metrics remains adequate.

Based on its work, AC made the following observations:

- AC reiterates the need to assess more proactively and timely the parameters and related factors which impact credit risk provisioning and to recalibrate approaches in case of changes to macro-economic factors.
- AC encourages the Bank to improve its forward-looking measures including scenario testing.
- Given the developments attributed to the invasion of Ukraine and the energy crisis, the AC remains watchful of the evolution of these issues and the impact they can have on EIB's profitability and portfolios.

## Liquidity and Funding

The Bank is subject to a specific oversight by the Banque Centrale de Luxembourg (BCL), in the context of the EIB's access to the Euro system. AC follows the BCL assessments of liquidity and funding and the actions undertaken by the Bank to address the relevant recommendations. AC notes that the liquidity and funding position of the Bank and the Group remain strong. AC is pleased that intra-day liquidity management was strengthened. In addition, over 2022, AC has received regular reports on the Bank's preparedness for the Global Interest Rate Benchmarks Reform.

Based on its work, AC made the following observations:

- Considering the increased focus on liquidity management and funding, AC encourages the development of an enhanced group oversight of liquidity.
- Moreover, AC has encouraged the EIB Group to improve the operational effectiveness of the group contingency funding plan.

## Group Information and communication technologies, Cyber Security and Business Continuity

The EIB Group Digital Ambition Strategy (DAS) was signed off by the BoD in May 2022. However, progress to implement the DAS was slow over 2022 and resourcing has been a challenge. The DAS is important to deliver

business more effectively to clients, as it is for the management of the Bank and for operational resilience. AC welcomes the appointment of a Group Chief Digital Officer and is looking forward to the full operationalization of that function.

Over 2022, AC saw continued focus on Digitalisation Strategy and Information Security Risk Management, including cyber-security. AC continues to consider cyber-attack as one of the key security risks for the EIB Group.

AC has seen improvements in the EIB Group's cyber defence during the year. However, internal reports suggest that a broader and wider understanding of the risk is still not where it should be.

AC expects further progress in the following areas:

- EIB Group's digitalization effort and implementation of the projects under the DAS, including a cloud strategy at the group level.
- Clarity about the deliverables under a detailed roadmap in relation to the DAS covering EIB and EIF.
- Ownership of IT and cyber security risks based in the Three Lines of Defence Model within the Bank and the group, continued awareness, and training of staff.
- Director Generals to ensure and report on their directorate's effectiveness and maturity with regards to cyber security and recovery plans as part of the regular self-assessments of the internal control framework.
- Continuing the efforts to enhance the management of IT Security, including cyber security risk, further development of the cyber incident response plan with a Bank and Group dimensions, enhanced Business continuity management, and Crisis management including exercises at the govern bodies level.
- In particular, in light of recent global cyber incidents, a centralised First Line of Defence action should be considered, aligning EIB and EIF under one EIB Group action plan. From AC perspective the cyber incident response plan and the regular testing of it plays a key role to respond effectively to potential cyber incidents.

## Group Alignment and Internal Controls

Group alignment remains a topic where there are still areas for improvement. Notwithstanding EIF's commitment to implement BBP as applicable to the EIB on a consolidated basis, the AC maintains that further synergies and upgrades could be explored and implemented to bring closer the practices of the EIB BBP and the EIF Best Market Practices (BMP).

Significant risk management gaps have been identified at the EIF. A comprehensive remediation plan has been adopted and implemented. AC will look for further assurance that these gaps have been closed. AC acknowledges the progress that the Group made in implementing the Three Lines of Defence Model.

Based on its work, AC made the following observations:

- AC noted that transversal Internal Control Frameworks are still limited by the silo approach of the Group. The fragmented nature of the control environment would benefit from a further clarification of the responsibilities and limit overlaps or duplications. This will benefit the operational risk environment at group level.

## EIB Review and Evaluation Process

In 2022, the AC, with the support of the EIB Review and Evaluation Process (REP) team, issued the EIB REP Pilot report. Additionally, the EIB REP team, under the guidance of the AC, finalised the EIB REP Methodology, setting forth the detailed approach and methodology for carrying out the annual EIB REP assessments and the EIB REP Implementing Rules.

The 2022 EIB REP Pilot covered a narrower scope of work in comparison with a fully 'rolled-out' and embedded EIB REP assessment. The scope was defined using a risk-based approach and the consideration of other control-related activities at the EIB, in order to avoid the duplication of operational efforts. Furthermore, a dynamic approach was adopted, where the intensity with which a particular risk was assessed, varied based on the risk's materiality to the EIB. The scope of the 2022 EIB REP Pilot covered the EIB at an individual and at a consolidated EIB Group level; the assessment of EIF-specific risks is planned for the 2023 EIB REP assessment.

With respect to the assessment of EIB Business Model, the 2022 EIB REP Pilot covered EIB's business environment, strategy, profitability, forward-looking projections and a peer group analysis. With respect to the assessment of Governance and Risk Controls, the 2022 EIB REP Pilot covered EIB's risk management function and

framework, data aggregation and reporting, EIB's compliance function and remuneration. Finally, with respect to EIB's Capital, the coverage included credit and operational risks, IRRBB and pension risk.

The 2022 EIB REP Pilot concluded that the EIB Group continues to be an institution with sizeable capital and liquidity positions, supported by a viable but evolving business model. However, the EIB Group should stay vigilant to the quickly changing macro-economic and geopolitical developments. As the EIB Group continues to grow in size and scope, it becomes increasingly important to focus systematically on organisational efficiency and risk measurement. The 2022 EIB REP Pilot identified areas where the EIB Group could converge further towards best banking practices.

**Luxembourg, 16 June 2023**

**Signed by:**

**CHRISTOPH HAAS**  
**CHAIRMAN (*ad interim*)**

**NUNO GRACIAS FERNANDES**

**KATJA PLUTO**

**IVAN SRAMKO**

**EVA-LENA NORGRÉN**

**JOHN SUTHERLAND**

**BEATRICE DEVILLON-COHEN**

**VASILE 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 BoD and reports directly to the BoG.

### Composition

As of the end of 2022, AC is composed of 6 members and 3 observers.

In June 2022, the Chairmanship passed from Mr. Audrius Linartas to Mr. Christos G. Triantopoulos. In April 2023, Mr Triantopoulos resigned. The composition of AC members has changed due to the departure of Mr. Linartas and Mr. Krier, and with the arrival of Mr. I. Sramko, Ms. Eva-Lena Norgren and Mr. Christoph Haas.

The Members of the AC are appointed by the BoG 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 CVs 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 representing the necessary important skills to discharge the function of the AC.

### Meetings and external liaison

- In 2022, AC held 11 regular meetings and 5 additional briefing calls. During its regular meetings, the AC had discussions with representatives from the Bank's Services, including Members of the EIB's MC, the Secretary General, Group Risk and Compliance, Transaction Management and Restructuring, Internal Audit, Inspectorate General, Financial Control, Operations, Finance, IT, Legal, Personnel, as well as the external auditors, KPMG.
- During the additional briefing calls, AC discussed various topics with Services, the REP team, the external auditors, the MC, the BoD and the EIF Audit Board.

During 2022, 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 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:

- with the Audit Board of the EIF to discuss common issues in relation to the risk management and risk governance at the EIF, the consolidated Financial Statements of the EIB Group or group policies for example for capital allocation within the Group, IT and cyber security, the outcome of Group internal audits, and
- with the MC, the BoD of the EIB to discuss the pilot REP report and the AC Annual Report.

### Details 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 examining the EIB's and the EIB Group's accounts

Duties	Action taken by the Audit Committee
<b>EIB Group Financial Statements</b>	
<b>AC review of the Financial Statements and other financial information</b>	<ul style="list-style-type: none"> <li>Reviewed the individual and consolidated Financial Statements and formulated its conclusions thereon, as enumerated in the AC's Statements issued to the BoG, which accompany the EIB Group's Annual Report. Discussed, the accounting policies applied under EU Directives and the processes and controls applied to the valuation of private equity investments.</li> <li>Met with Financial Control (FC) at 8 of AC meetings and briefing calls held in 2022.</li> </ul>
<b>Relationship with the external auditor</b>	<p>Met with the external auditor, KPMG, at 5 of the 11 AC meetings and briefing calls held in 2022. Held private sessions with KPMG without the presence of EIB Services at these meetings.</p> <ul style="list-style-type: none"> <li>Reviewed and challenged the application of the audit methodology and approach set out in KPMG's annual audit plan including key areas of judgement and estimation in the Financial Statements, areas of AC specific focus included the valuation of private equity investments.</li> <li>Monitored the execution of KPMG's audit plan, discussed the outcome of the audit procedures in relation to the priority audit areas/key areas of judgement, together with the identification and reporting of Key Audit Matters as set out in KPMG independent auditor's reports on the Bank's Financial Statements.</li> <li>Reviewed and discussed the summary of identified adjusted and unadjusted audit differences and read and challenged the content of regular written reports submitted to it from the external auditor.</li> <li>Received assurance from the external auditor that the audit process was achieved as planned, with support from the Bank's Services and discussed KPMG's recommendations, which are reported in their Management Letter to the Bank, as well as the status of the implementation of prior year recommendations.</li> </ul>
<b>Monitoring of external auditor independence</b>	<ul style="list-style-type: none"> <li>Received and discussed details of the various safeguards in place at KPMG to maintain auditor independence.</li> <li>Received written confirmation from KPMG that the members of the audit team remained independent within the meaning of regulatory and professional requirements and that the objectivity of the audit team, including the audit, was not impaired.</li> <li>Monitored that KPMG did not provide services to the EIB other than those defined, and pre-approved by the AC, in the Framework Agreement.</li> </ul>
<b>Mandate of external auditor</b>	<ul style="list-style-type: none"> <li>The term of KPMG's external mandate was extended to end with the approval of the 31 December 2026 EIB financial statements by the EIB BoG in 2027. KPMG has been the auditor of the EIB Group since 2009.</li> </ul>

**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**

<b>Duties</b>	<b>Action taken by the Audit Committee</b>
<b>Internal Audit</b>	
<b>Performance of the internal audit function</b>	<ul style="list-style-type: none"> <li>• Met with the IA function, at each of the 11 AC meetings held in 2022.</li> <li>• Examined and discussed the salient features of IA reports including recommendations and main conclusions.</li> <li>• Received quarterly updates of the status of implementation of the related agreed action plans and monitored the timely implementation of these action plans and reviewed and provided comment on the IA work plan for 2023.</li> </ul>
<b>Group Risk and Compliance</b>	
<b>Financial Risk Management</b>	<ul style="list-style-type: none"> <li>• The AC met with the Group Risk every one of the 11 regular AC meetings to discuss financial risk matters.</li> <li>• The AC discussed RM prudential documents and regular risk reports including the Monthly and quarterly Risk Reports covering the RAF Dashboard and key credit, market, capital, and liquidity risk metrics.</li> </ul>
<b>Compliance and non-financial risk</b>	<ul style="list-style-type: none"> <li>• The AC met with the Compliance and non-financial risk management function at 5 of the 11 meetings held. AC received regular updates on the status of implementation of the AML-CFT Dashboard and discussed the Sanctions Compliance Programme, the salient elements of the compliance risk assessment and the outcome of the compliance risk testing and monitoring plan.</li> <li>• AC received and reviewed the quarterly cyber-risk reports, the regular reporting on the operational risk preparedness as it related to the SMEi Spain initiative managed by the EIF, as well as on non-financial risk management.</li> </ul>
<b>Internal control framework</b>	
<b>Efficiency of internal control systems</b>	<ul style="list-style-type: none"> <li>• Met with the Financial Control - Internal Controls and Assertion Division on 3 occasions during 2022.</li> <li>• Examined and discussed the summary report regarding the implementation and maintenance of the Internal Control Framework.</li> <li>• Received updates on progress with initiatives intended to further strengthen the Internal Control Framework.</li> </ul>
<b>Inspectorate General</b>	
<b>Coordination with the Inspectorate General</b>	<ul style="list-style-type: none"> <li>• Met with the Inspector General at 2 of the 11 regular meetings held in 2022.</li> </ul>
<b>Portfolio Management and Monitoring</b>	
	<ul style="list-style-type: none"> <li>• The AC held 6 meetings with the PMM Directorate.</li> <li>• AC received regular updates on market developments of the impact of the increasing energy prices and inflationary pressures on loan portfolios. AC received the annual restructuring report and the quasi-equity report.</li> </ul>

<b>Finance</b>	
<b>Liquidity, Funding and Treasury Management</b>	<ul style="list-style-type: none"> <li>• The AC held 3 meetings with the FI Directorate.</li> <li>• Received an update on the Bank's preparedness for the Global Interest Rate Benchmarks Reform.</li> <li>• Reviewed the annual Funding and Treasury Management report and the Group Contingency Funding Plan.</li> <li>• Received updates on market developments, and on the Bank's liquidity and funding management.</li> </ul>

#### **The verification of EIB's compliance with Best Banking Practice**

<b>EIB Compliance with Best Banking Practice</b>	
<b>EIB REP team</b>	<ul style="list-style-type: none"> <li>• The AC met with the EIB REP team at every meeting and provided guidance as to the priorities and strategic development of the 2022 EIB REP Pilot project.</li> <li>• The AC kept up-to-date on the progress and emerging findings of the 2022 EIB REP Pilot.</li> <li>• The AC provided input into the 2022 EIB REP Pilot assessment report.</li> <li>• The AC discussed the findings of the 2022 EIB REP Pilot with the EIB Management Committee and finalized the report upon reflection of the discussion.</li> <li>• The AC guided the team in the development and refinements of the EIB REP Implementing Rules (Version 1.1) and the EIB REP methodology.</li> <li>• The AC discussed and helped to form the 2023 EIB REP work programme.</li> </ul>
<b>BBP Framework: BBP Guiding Principles, BBP Book, BBP Applicability Assessment Procedure, BBP Rules repository and BBP self-assessments</b>	<ul style="list-style-type: none"> <li>• The AC held 8 meetings with the Secretary General Directorate. AC reviewed the BBP self-assessments of Services, based on which, MC in agreement with Services, concluded that the overall level of EIB's compliance with BBP is assessed as "partially compliant".</li> </ul>

## ANNEX 2 – Summary table of open prior years ac recommendations<sup>3</sup>

Recommendations	
2	Prepare a strategic review of profitability per product and per mandate
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.
6&16 Merged	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. Develop a common data warehouse
7	Extend the EIB RAF to a group dimension 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.
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
10	Ensure that the ICF is further developed and is sufficiently robust, by integrating and enhancing the ICFs in each Directorate
11	Ensure the timely closure of outstanding IA AAPs
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
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
16 and 6 merged	Develop a common data warehouse
17	Develop the capability to calculate prudential ratios and stress testing results on an IFRS basis
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 MC 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,
19	Encourage a sound risk culture within the EIB Group 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,
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 effectively perform their duties and to deliver high quality work; close any recruitment gaps in the control functions as a matter of priority,

<sup>3</sup> Please note that the recommendations removed were completed by the Bank.



22	Address the gaps identified in remuneration policies 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,
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.

# Annual Report to the Board of Governors on the Investment Facility for the 2022 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. Financial Control

During the past year, the Audit Committee received updates and reviewed reports on the IF from Financial Control, which provided details about the recent developments and future orientations for the IF and the Bank's activities in Africa, the Caribbean and the Pacific ('ACP') region in general.

The Audit Committee met with Financial Control at 8 of AC meetings and briefing calls held in 2022.

### 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 each of the 11 AC meetings held in 2022. 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 2 of the 11 regular meetings held in 2022. 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 2022.

### **The financial statements as at 31 December 2022 and the annual statement of the Audit Committee**

The Audit Committee examined the Investment Facility's 2022 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.

#### **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 2022, 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.

Considering the scheduled termination date of the ACP-EU Partnership Agreement ("Cotonou Agreement") on 30 June 2023, the Audit Committee takes note that, as a result on a specific going-concern assessment, the Bank prepared the Investment Facility's 2022 Financial statements under the going concern assumption.

## Conclusion

In 2022, 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 2022, 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 2022, 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 2022 Financial Statements, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, as of 29 March 2023, 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 2023**

**Signed by:**

**CHRISTOPH HAAS**  
**CHAIRMAN (*ad interim*)**

**NUNO GRACIAS FERNANDES**

**KATJA PLUTO**

**IVAN SRAMKO**

**EVA-LENA NORGRÉN**

**JOHN SUTHERLAND**

**BEATRICE DEVILLON-COHEN**

**VASILE IUGA**

# Management Committee response to the annual report of the Audit Committee for the 2022 financial year

1. The Management Committee (MC) takes note of the content of the Audit Committee (AC) Annual Report for the 2022 financial year and is pleased to see recognized improvement by the European Investment Bank (EIB or Bank) in a number of areas, reflecting the effort that has gone into its processes and controls in recent years.
2. In 2022, the EIB was an integral part of the EU response to the many challenges that emerged during the year, from the invasion of Ukraine to the energy crisis provoked by the conflict. The EIB Group - i.e. the Bank and its subsidiary, the European Investment Fund (EIF) - signed financing agreements totalling €72.5 billion to promote sustainability and resilience in Europe and beyond. The Bank's financial strength remains strong: the major credit rating agencies currently attribute to the EIB their highest rating.
3. As part of an international response to the Ukraine crisis, the Bank mobilized financial support through the EIB Solidarity Package for Ukraine, to help the country meet urgent needs. Two major funding packages were approved in 2022: (i) a first package of €668 million shortly after the war began, to help the government pay for immediate exigencies, and (ii) a second package of €1.59 billion to repair damaged infrastructure and resume other critical projects, signed in July 2022. Further financial support has been deployed through the EIB Institute, the EU bank's social and cultural arm, and through grants provided under the Eastern Partnership Technical Assistance Trust Fund. In addition, and in cooperation with the European Commission, the EIB is currently working on providing further financing to help the government maintain critical public services for people who have stayed in Ukraine and the private sector.
4. The Bank also redoubled its efforts to support a green and innovative transition in 2022. Clean energy financing reached a record €19.4 billion, backing innovative projects in several EU countries, such as the upgrade of the Czech electricity grid, the acceleration of the integration of renewables into the Polish energy network, floating windfarms in France and the building of a 1,000-kilometre cable connecting renewable power plants in Sicily and Sardinia to Italy's grid. The EIB Group will also support the REPowerEU Plan, the European Commission's response to the global energy market disruption caused by Russia's invasion of Ukraine, with an additional €30 billion in loans and equity financing over the next five years, which will mobilise up to €115 billion of new investment directed to renewables, energy efficiency, grids and storage, electric-vehicle charging infrastructure and low-carbon hydrogen technologies.
5. The EIB has reshaped the way it operates outside the European Union to respond to global challenges with ever greater impact. EIB Global, the Bank's development arm launched in 2022, turns the European Union's goals on sustainability, development, climate action and digitalisation into real projects and products. Total EIB Global financing in 2022 reached €10.8 billion. Nearly half of EIB Global activities in 2022 supported climate action and environmental sustainability, with around 47% of its investments helping the least-developed and fragile states and nearly 25% improving gender equality. In addition to the first hub opened in Nairobi, Kenya, five more hubs are planned in Côte d'Ivoire, Serbia, Egypt, Ukraine and South Africa to improve the quality of investments, speed up project appraisals, and disburse financing faster.
6. The EIB Group is the main implementing partner of the InvestEU programme, the investment plan launched by the European Commission that builds on the successful model of the Investment Plan for Europe (EFSI) and will support sustainable investment, innovation and job creation in Europe, aiming to trigger more than €372 billion in additional investment over the period 2021-2027. In March 2022, the EIB and the EIF signed a Guarantee Agreement with the European Commission, under which the Group will implement up to €19.65 billion of eligible investments across four EU policy priorities: (i) sustainability infrastructure, (ii) research, innovation and digitalization, (iii) small and medium-sized companies and (iv) social investment and skills. The Bank will also be the European Commission's strategic partner for the InvestEU Advisory Hub, a central entry point for promoters and intermediaries seeking financial advisory and technical assistance for the identification, preparation and development of investment projects.

## Financial Accounts

7. While the EIF's primary accounting and risk reporting framework is maintained under IFRS, 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 the EU Accounting Directives (EU-AD). The Bank takes note of the AC's acknowledgement on the added complexity caused by the different financial and risk reporting process used for EIB and EIF.
8. The Bank will thoroughly evaluate whether to become a fully IFRS piloted bank or whether EU-AD remains the most suitable accounting standard applicable to the EIB business model. Such a decision needs to consider the role of the EIB as a public long-term financier, the predominance of assets with a buy-and-hold nature and the inexistence of a regulatory trading book on the Bank's balance-sheet. The Bank is carefully assessing such strategic move, which could only be adopted over a medium-term horizon. The production of risk metrics both in IFRS and in EU-AD, while this analysis is still ongoing, would be very resource intensive and therefore needs to be analysed from a cost-benefit perspective.

## Sustainability of Business Model and Capital

9. The risk and capital management framework that the EIB Group has implemented is built in line with frameworks of commercial banks, a unique feature among similar multilateral development institutions. This framework is designed to identify risks early, define appetite for such risks and ensure that the risks assumed by the Group in the pursuit of its objectives are commensurate with the defined risk appetite. Through the capital management framework, the Group ensures that it aligns its business strategy and planning with its available capital resources and hence that it remains sustainable. The MC is fully committed to maintaining and further developing the Group risk and capital management framework, to ensure it remains up to date with the evolving EIB mission and the changes in best banking practices as applicable to the Bank.
10. In light of the ambitious initiatives described above and the relevant challenges that the Bank is expected to face for their implementation, the Bank will continue to manage its strategy, business planning and risk assessment. The MC acknowledges the need to properly adapt its business delivery to respond to structural changes in market demand. The MC is committed to enhancing cost management to allow the Bank to manage its resources more efficiently, including also the introduction of a Group profitability report. Monitoring and reporting on the EIB Group's exposure to compliance risks will continue to be performed on a regular basis.
11. Lending activities of EIB Global are subject to due diligence procedures that are also applicable to EU lending activities, including compliance related processes and procedural steps to identify, assess, mitigate and monitor Anti-Money Laundering – Counter Financing Terrorism (AML-CFT) risks, in line with the EIB Group AML-CFT Policy, and counterparty due diligence, with relevant checks of Non-cooperative Jurisdictions (NCJ) links.
12. In the context of the implementation of the Climate Bank Roadmap (CBR), the Bank is enhancing its climate-risk assessment and management tools, process and capabilities, starting to extend them to other environmental risks. In particular, the Bank is looking at further integrating climate-related and environmental risks into its risk appetite framework, credit risk policies and tools and further developing climate stress testing capabilities.
13. The Group has enhanced and integrated its operational and capital planning processes, to ensure consistent business and capital planning for the Group. In particular, the Group Risk Appetite Framework and its cascading process at entity level and at more granular levels has been fully integrated within the operational and capital planning processes. While the level of granularity of cascading of risk metrics is sufficiently robust, given the business model of the Bank, the MC acknowledges the room for future improvements depending on the evolution of the Group's activities.
14. Enhancements have been undertaken in the management of non-financial risks and operational risk, including the development of a more robust framework (e.g. Group Event Reporting Procedure, streamlined Group Risk Appetite Framework for non-financial risks, preventive tools for operational risk identification as well as the regular conduct of staff awareness and training).

15. The Bank will consider the implementation of an EIB Chief Financial Controller function. Such a central function could be responsible for financial analytics and reporting at EIB Group level, including preparing financial statements.

## Asset quality

16. The quality of the Bank's portfolio remains highly adequate, even after the macro-economic stress occurred in the markets during the COVID-19 pandemic and after the start of the war in Ukraine. The Bank is operating with capital headroom and, even under the adverse macroeconomic stress test (MEST) scenario, it remains well within its risk appetite limits for capital.
17. In the context of the COVID-19 pandemic and the war in Ukraine, the Bank has prudently and timely adapted its level of credit provisioning (both under EU AD and IFRS), which to date has proved to be adequate, and included notably collective provisions on the back of portfolios' vulnerability assessments. The identification of any possible remaining compliance gaps to assess macro-economic risks will be addressed in the context of ongoing projects to review the different risk frameworks and capital planning.

## Liquidity and Funding

18. The MC welcomes the acknowledgement by the AC of the robustness of the liquidity and funding position of the Bank and the Group, and of the strengthening of the intra-day liquidity management. The Bank's liquidity framework remains strong and reliable, and the Banque Centrale du Luxembourg (BCL), responsible for the oversight of the Bank's liquidity risks and funding sustainability risks, has provided a positive assessment in its latest report.

## Group Information and communication technologies, Cyber Security and Business Continuity

19. The MC acknowledges the observations from the AC on implementing the Digital Ambition Strategy in 2022, notwithstanding significant time and effort expensed on establishing the governance framework and the progress made on prioritising flagship projects. A number of system improvements was delivered, as recognised by the AC, notably to enhance the availability and stability of IT, including cyber-defence. The appointment of the Group Chief Digital Officer has prompted a review of the implementation of the Group's Digital Ambition Strategy and of a number of recommendations that have been endorsed by the MC and are in the process of implementation. These are designed to strengthen further project prioritisation, increase focus on business transformation, improve the IT delivery model and enhance Group synergies.
20. The focus in 2023 will therefore be on delivery of "flagship" projects which are both customer-centric and transformational by design, as well as improving IT and Information Security underpinned by an updated IT Strategy, Business Continuity Strategy and Information Management Strategy. Central to these efforts will be the EIB Group Cloud Journey, building on the recently established Cloud Centre of Excellence, a revised Group Cloud Policy and Risk Assessment framework which are currently being finalised and on which significant progress is expected in 2023.
21. Further progress is expected on the review of Business Continuity plans by the First Line of Defence, recovery testing of interconnected IT applications and continued awareness and training for staff and for the Governing Bodies. The MC will ensure that these actions are implemented at Group level whilst giving further consideration to possible synergies between EIB and EIF's teams in the First and Second Lines of Defence, respectively in the context of the updated IT Strategy and work carried out in response to the internal reports.
22. To continue improving the Bank's cybersecurity posture and management of non-financial risks, the Bank conducts regular risk assessments, implements and performs gap analysis over robust information security management system (ISMS) policy framework, reviews and improves ICT Key Risk Indicators, continuously trains employees on cybersecurity best practices, performs annual vulnerability assessments, and ensures compliance with regulatory requirements

## Group Alignment and Internal Controls

23. Regarding Group alignment, the MC is supporting the further enhancement of the EIB Group organisational framework and is improving oversight by the EIB, as parent entity, over the EIF. The work on the consistent implementation of the relevant policies, procedures and documents designed at Group level is continuing. In the past 4 years, the Bank and the EIB Group underwent a transformational process by implementing different programmes, initiatives, and projects of the AC Roadmap and of the Group Alignment Implementation Plan.
24. As acknowledged by the AC, a comprehensive remediation action plan has been adopted and implemented to address certain risk management gaps identified at the EIF, in view of strengthening the second line and improving the risk culture within the Bank's subsidiary. The implementation of the plan was supported by a task force that monitored the progress of the several work streams (including risk governance and culture), the closure of audit findings and enhanced resource planning. This was yet another example of positive cooperation between the two entities of the Group in the pursuit of a common goal.
25. Commensurate with available resources, the Bank is continuously enhancing its internal control oversight methodology sustaining the management declaration of assurance on EIB's internal control environment. Developments in the internal control framework (ICF) maintenance and testing procedures implemented by the Bank's Financial Control function allow for transversal analysis (driven by processes) while the assertions are still provided separately per each directorate. The centralisation of the internal control testing within the Financial Control function has also contributed to standardization of internal control documentation, objectivity of assessments and efficiency gains resulting from an optimized ICF oversight approach, while fulfilling expected control assurance standards. Recent developments have also contributed to enhanced information reported to Senior Management in relation to main weaknesses identified in the EIB's internal control environment.

## EIB Review and Evaluation Process

26. The MC takes note of the outcome of the first Review and Evaluation Process (REP) pilot assessment, completed in 2022 and issued by the AC with the support of a dedicated team, and commends the cooperation between the services of the Bank and the REP Team during the exercise. While the acknowledgments made in the report on the Bank's strong financial position and its robust frameworks in several areas are welcomed, the MC takes note of recommendations to enhance organization and processes in specific areas. The Bank will focus resources on priority projects to address REP observations, aiming at promoting further convergence with best banking practice as applicable to the Bank.





# **Audit Committee Annual Reports** for the year 2022



**European Investment Bank**  
98 -100, boulevard Konrad Adenauer  
L-2950 Luxembourg  
+352 4379-22000  
[www.eib.org](http://www.eib.org) – [info@eib.org](mailto:info@eib.org)