



Audit Committee Annual Reports for the year 2015

AUDIT COMMITTEE

Annual Report to the Board of Governors

For the 2015 financial year

AUDIT COMMITTEE**ANNUAL REPORT TO THE BOARD OF GOVERNORS****For the 2015 financial year****Table of Contents**

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1. INTRODUCTION

The Audit Committee is established under EIB Statute as a committee independent from the Board of Directors. Its Members (and Observers, as the case may be) are appointed by, and report directly to, the Board of Governors.

This report is addressed to the Board of Governors, in accordance with the Statute and Rules of Procedure, and provides details on the work of the Audit Committee in relation to the audit of the 2015 financial statements, as well as on the other activities, including adherence to Best Banking Practice, performed by the Audit Committee since the date of the previous Annual Report.

The Audit Committee comprises six members with a non-renewable mandate of six consecutive financial years. A maximum of three observers can be appointed, also for a non-renewable mandate of six years, by the Board of Governors, on the basis of their qualifications.

At the date of this report the Audit Committee comprises five members and two observers. Both the members of, and observers to, the Audit Committee demonstrate the pre requisite experience in the fields of financial, audit or banking supervisory expertise, in both the private and public sector.

The Audit Committee is responsible for the auditing of the following financial statements:

- Bank statutory, under the general principles of the EU Directives;
- EIB Group consolidated, under the general principles of the EU Directives;

EIB Group: At 31 December 2015 the EIB Group is composed of the EIB and its subsidiaries, the European Investment Fund and EU Microfinance Platform FCP FIS.

Further information is available in note E.1 to the EIB Group Consolidated Financial Statements, prepared under the general principles of the EU Directives and note B.4 to the EIB Group Consolidated Financial Statements, prepared in accordance with IFRS.

- EIB Group consolidated, prepared in accordance with IFRS;
- Investment Facility;
- EU Africa Infrastructure Trust Fund; and
- Neighbourhood Investment Facility (NIF) Trust Fund.

As a result, in accordance with Article 12 of the Bank's Statute the Audit Committee's Annual Statements were issued and submitted to the Board of Governors for the financial statements as at 31 December 2015 listed above.

As required by Article 12 of the Bank's Statute the Audit Committee also verifies that the activities of the Bank conform to Best Banking Practice applicable to it, hereafter referred to as the 'BBP Framework'. Besides financial reporting, and audit matters, the Audit Committee focused attention on the progress made by the EIB in complying with Best Banking Practice in the fields of governance, and risk management activities of the Bank. The following sections of this report provide further detail in this respect.

The Audit Committee held meetings over 15 days in 2015 (2014: 15 days).

2. AUDITING ACTIVITIES

2.1 *Review of Audit Work*

In its work, the Audit Committee relies on the external and internal auditors and where appropriate, the work of external experts, from which it receives assurance on the accuracy of financial reporting and confirmation of the effectiveness of the internal control processes and procedures.

In addition, the Audit Committee obtains a representation letter from the President of the Bank, which is itself based on internal support letters from the Bank's services, confirming Management's responsibility for establishing and maintaining an efficient internal control framework, as well as its responsibility for the preparation and fair presentation of the financial statements.

2.1.1. *External auditors*

The audit of the financial statements of the EIB, set out in Section 1, is delegated to the external audit firm KPMG. The external auditors are appointed by, and report directly to, the Audit Committee.

The Audit Committee took note of the audit methodology and approach set out in KPMG's annual audit plan, where the following priority audit areas were identified:

- lending, including valuation of the loan portfolio;
- treasury, including valuation of the Bank's treasury and derivatives portfolios and related disclosures in the financial statements;
- the controls surrounding the financial reporting process, including the proper application of both new and revised accounting standards.

The Audit Committee monitored the execution of this audit plan through regular meetings throughout the reporting period with key audit personnel, including the lead audit engagement partner.

The Audit Committee was briefed on the progress and outcome of the audit procedures, in particular in relation to the priority audit areas set out above, as well as the follow up of the implementation of prior year external auditor recommendations, as reported in KPMG's Management Letter to the Bank.

The Audit Committee ensured that the external auditor submitted regular written reports on significant matters arising from the audit process in accordance with the requirements of International Standards on Auditing.

The Audit Committee was informed of the work performed by the external auditor in relation to the audit of the EIB Group Consolidated Financial Statements.

The Audit Committee stresses that, based on the governance structure of the EIB and European Investment Fund, the Audit Committee's work and Statement on the EIB Group, as set out in Section 1, Consolidated Financial Statements is formed upon the receipt of the audit opinion on the EIB Group Consolidated Financial Statements issued by the external auditors of the EIB, in accordance with International Standards on Auditing.

The Audit Committee received assurance that the audit process was achieved as planned, with support from the Bank's services. The Audit Committee was satisfied with the results of the external audit work, which enable the Audit Committee to formulate its own conclusions, as enumerated in the Audit Committee's Statements to the Board of Governors that accompany the Bank's financial statements, listed in Section 1 above.

The Audit Committee is also responsible for reviewing and monitoring the independence of the external auditor. The Audit Committee was presented with, and discussed, the various safeguards in place at KPMG to maintain auditor independence. In addition the Audit Committee received written confirmation that KPMG remained independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement audit Partner and audit staff was not impaired.

Furthermore, as an additional safeguard to maintaining auditor independence, the Bank's general policy is to not allow the incumbent external auditor to undertake work outside the scope of the Framework agreement for audit services. KPMG was not engaged to perform non-audit services for the Bank during the year ended 31 December 2015.

The current mandate of the incumbent external auditor is due to expire on approval of the 2016 financial statements listed in Section 1, by the Board of Governors in 2017. A call for tender process has been initiated in order to appoint the external auditor to be responsible for the audit of these financial statements from this date.

In accordance with the Bank's Statute and best practice requirements the Audit Committee is responsible for organisation of the tender procedure and will select and designate, following consultation with the Management Committee, the future external auditor of the Bank.

2.1.2. Inspectorate General including Internal Audit

The internal oversight function at the Bank is headed by the Inspector General (IG), which comprises four lines of service: internal audit (IA), fraud investigations, operations' evaluations and complaints' mechanism.

The Audit Committee took initiatives in 2015 to further strengthen the IA function, which included namely, measures to increase the independence of Internal Audit through direct access to the President. In addition the Head of Internal Audit retains unrestricted access to the Audit Committee, as well as may request private sessions; the Head of Internal Audit met on two such occasions with the Audit Committee during the reporting period.

The Audit Committee met throughout the reporting period, with both the Inspector General and the Head of Internal Audit to examine and discuss the salient features of IA reports issued, receive updates of the status of implementation of agreed action plans (AAPs), and discuss with the Fraud Investigations Division the on-going cases under their remit.

It was agreed with the Audit Committee that a review of the Bank's whistleblowing policy and reporting lines, which dates from 2009, be initiated by the main parties concerned which include IG.

During the reporting period the Audit Committee provided input into the scope of audits of the Bank's application of the Capital Requirement Directive (CRD)¹/Capital Requirements Regulation (CRR)². At the request of the Audit Committee two additional internal audit reviews began in Q4 2015 in respect of the EIB's forward capital planning and the completeness of EIB risk reporting and disclosures in view of the requirements of regulated financial institutions. The Audit Committee will be briefed on the outcome, including agreed action points, in the forthcoming reporting period.

The Audit Committee was consulted on and discussed the draft Internal Audit work plan for 2016-2018. The Audit Committee was informed of the inclusion in the internal audit plan of two reviews to be carried out in 2016 covering the internal controls, procedures, and evolution of the European Fund for Strategic Investment.

Furthermore, with the endorsement of the Audit Committee, an internal audit review will be carried out in 2016 into the EIB's approach to implementing the BBP Framework. The review will look at the set-up of the Best Banking Practice process throughout the EIB and the distribution of responsibilities, in particular in relation to the accuracy, maintenance of the inventory of BBP Framework, the reporting of Best Banking Practice status to management and the Audit Committee and the Bank's follow-up on new developments in Best Banking Practice in the market.

The Audit Committee will again be briefed on the outcome of these audits, including agreed action points, in the forthcoming reporting period.

¹ [Directive 2013/36/EU](#) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV)

² [Regulation \(EU\) No 575/2013 on prudential requirements for credit institutions and investment firms \(CRR\)](#)

In 2015 the Audit Committee noted continued progress with the implementation of AAPs, in particular the resolution of high priority matters. The Audit Committee expects the Management Committee to ensure the expedient closure of AAPs by the Bank's services.

2.1.3. Cooperation with the Audit Board of the European Investment Fund

The Audit Committee met with the Audit Board of the European Investment Fund. The two statutory bodies discussed specific areas of audit focus and shared matters of interest, which included where possible, and appropriate, common working practices and the coordination of the external audit mandate.

2.2 The Financial Statements as at 31 December 2015

The Audit Committee has examined the three sets of financial statements issued by the EIB and those of the Investment Facility, the EU-Africa Infrastructure Trust Fund, and the NIF Trust Fund for 2015.

The key elements of the various financial statements are presented below.

2.2.1. EIB

Statutory financial statements (non-consolidated):

The total balance sheet, as at 31 December 2015, amounts to EUR 571 billion, an increase of EUR 29 billion, 5%, compared to the previous year (31 December 2014: EUR 542 billion). Total own funds, at 31 December 2015, have increased by EUR 2.7 billion to EUR 63.3 billion, from EUR 60.6 billion at 31 December 2014.

The year-on-year total volume of loans to customers increased by EUR 11 billion to EUR 314 billion (2014: EUR 303 billion), a year-on-year decrease in the total volume of loans and advance to credit institutions of EUR 13 billion to EUR 155 billion (2014: EUR 168 billion), with an increase in debts evidenced by certificates on the liabilities side of the balance sheet of EUR 13 billion to EUR 469 billion (2014: EUR 453 billion).

The net surplus for the financial year ended 31 December 2015 stands at EUR 2,756 million, an increase of EUR 130 million (+5%), compared with 31 December 2014: 2,626 million.

Consolidated financial statements:

The consolidated financial statements comprise those of the Bank and those of its subsidiaries, the European Investment Fund ('the Fund') and, since 1 January 2015, the European Microfinance Platform FCP FIS ('EUMPF').

For further information regarding the consolidation of EUMPF refer to Note, A.4.1 'basis of consolidation' of the consolidated financial statements, prepared in accordance with EU Accounting Directives and IFRS, respectively. The individual financial statements of the Fund and EUMPF are prepared for the same reporting year as the Bank, using consistent accounting policies.

- Prepared in accordance with EU Accounting Directives

The total balance sheet of the Bank's consolidated financial statements prepared in accordance with EU accounting directives amounts to EUR 572 billion at 31 December 2015 (2014: EUR 543 billion).

The Bank's total consolidated net profit amounts to EUR 2,801 million, EUR 45 million higher than the net profit of the Bank's individual financial statements of EUR 2,756 million. The difference results from consolidation adjustments and the EIF's net profit for the year.

- Prepared in accordance with IFRS

The consolidated net profit for the year ended 31 December 2015, prepared in accordance with IFRS, amount to EUR 4,277 million, the year-on-year variance in the IFRS consolidated financial statements amounts to EUR 3,602 million. At the end of 2014, the IFRS consolidated net profit for the year amounted to EUR 675 million.

The year-on-year variance in the IFRS result is largely explained by the application of the fair value option accounted for in relation to loans, borrowings and ALM swaps. The fair value option is applied in accordance with the requirements of IAS 39 'Financial Instruments Recognition and Measurement'. Further detail on this impact is presented in note M to the IFRS consolidated financial statements.

2.2.2. Trust Funds

EU-Africa Infrastructure Trust Fund:

The total comprehensive loss of the EU-Africa Infrastructure Trust Fund, for the year ended 31 December 2015, is EUR 28 million compared to a total comprehensive loss of EUR 28.6 million in 2014.

NIF Trust Fund:

The total comprehensive loss of NIF Trust Fund, for the year ended 31 December 2015, amounts to EUR 8.2 million compared to EUR 2.5 million in 2014.

Investment Facility:

The total comprehensive loss of the Investment Facility for the year ended 31 December 2015, is EUR 3.3 million compared to a total comprehensive loss of EUR 46.7 million in 2014.

3 RISK MANAGEMENT

The EIB has seen a substantial increase over a short period of time to both the volume and nature of the Bank's operations through the financing of EUR 60 billion of additional lending in the period 2013-2015 supported by the EUR 10 billion capital increase.

The deployment of the European Fund for Strategic Investments (EFSI) and a sustained increase of mandates under management by the EIB on behalf of third parties such as the European Commission have placed further demands on the EIB's resources and infrastructure

With reference to the monitoring of risk management activities, the Audit Committee draws up its work plan with the objective of obtaining a thorough understanding of the Bank's activities throughout the year. The Audit Committee requests and reviews specific analyses to assess the risk impact of external developments and conditions, such as the changing macro-economic environment including the interest rate environment as well as various internal developments in the Bank, including the launch of new products and initiatives, including EFSI.

3.1. Three lines of defence model

In order to ensure that processes and controls continue to mitigate risks the Audit Committee underlines the importance of ensuring that the three lines of defence model is effectively deployed across the Bank and embedded within new products and operations, and that the responsibility for the functioning of daily process and controls, monitoring of performance as well as independent oversight and review is clearly identified and understood.

The Audit Committee believes that in deploying the three lines of defence model the EIB should, amongst other considerations see that:

- the first line of defence is sufficiently aware of responsibilities for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable;
- the third line of defence, Internal Audit, maintains the appropriate standing within the Bank to provide independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal controls;
- the management body is able to act objectively, critically and independently and, that unorthodox combinations of responsibilities, for example responsibility for the oversight of both first and second line of defence activities, should be reconsidered.

Furthermore, the Audit Committee considers that the promotion of a risk culture where all members of the EIB are aware of their own responsibilities in relation to risk management is paramount

In order to enhance the effectiveness of the EIB's internal control and risk management environment the Audit Committee has recently recommended the Bank to consider implementing an Enterprise Risk Management ('ERM') Framework. An ERM Framework would establish a complete map of risks and responsibilities overlain on the first, second and third line functions, which is agreed, understood and adopted throughout the EIB Group.

3.2. Review of Risk Management work

The Audit Committee dedicated significant time during the reporting period, at each meeting, to discuss, evaluate and assess the Bank's risk management practices.

In obtaining assurance in relation to risk management activities the Audit Committee met, discussed and made recommendations to the Bank's Risk Management (RM) and Transaction Monitoring and Restructuring (TMR) Directorates at each Audit Committee meeting.

The Audit Committee discussed specific different aspects of risk management, together with the regular reviews of the monthly risk reporting and dashboard. The Audit Committee focussed on topics such as credit risk assessment and monitoring, operational risk assessment and monitoring, liquidity risk management and capital adequacy requirements. Key elements presented are below.

In the delivery of the BBP Framework work programme by RM the Audit Committee welcomed the approval by the Board of Directors of the EIB's Prudential Risk Appetite Framework ('Prudential RAF'). The Audit Committee considers the Risk Appetite Framework to be a very important tool for management and the monitoring of risk at the EIB.

The Audit Committee has asked that enhancements to the document be considered in the coming year, as follows: first, that the scope of the Prudential RAF be extended to a full Risk Appetite Framework which considers non-financial/conduct risks; second, that the Bank establishes predetermined actions that will be taken once certain risk thresholds are reached; third, that the concrete measures to be taken upon any breach of the Bank's risk capacity be set out in a formal Recovery Plan; and fourth, that the EIB incorporates group risk considerations. The Audit Committee also considers that Risk appetite limits should also be effectively translated into first line of defence activities so as to embed prudent risk taking into the EIB's risk culture and day to day management of risk.

The Audit Committee also received presentations of the Bank's treasury risk guidelines, interest rate risk in the banking book, credit risk concentration in the Bank's portfolio, the impact for the financial activities of the Bank of the volatility in the financial markets and the treatment of unsecured project finance exposures in the Capital Adequacy calculation.

Credit risk

The Audit Committee held discussions throughout the year with Management concerning the trends of key risk indicators such as the capital adequacy ratio, evolution of loan gradings, large exposures, concentration risk, 'watch list' loans, and loan arrears.

The Audit Committee sought further explanations concerning the monitoring of operations reported on the 'watch list', loans where specific provisions had been established and loans where contractual clause related events had occurred.

The Audit Committee expects that the same credit risk management standards be applied to the awarding and monitoring of loans within the EFSI framework.

Liquidity risk

A signed agreement is in place between the Bank and the Banque Centrale du Luxembourg ('BCL') establishing the framework for the assessment of the Bank's liquidity situation and liquidity risk management by the BCL, as the Bank participates in the Euro System liquidity operations. The Audit Committee was informed that the BCL conducted an onsite liquidity assessment in 2015, which included a review of the EIB's implementation of the Liquidity Coverage Ratio methodology, as well as a review of the EIB's Contingency Liquidity Plan testing. The Audit Committee has asked to receive a copy of the BCL's report, once made available.

The Audit Committee reviewed and discussed the results of the Bank's key liquidity risk metrics throughout the reporting period, which included the implementation of the Liquidity Coverage Ratio. The binding introduction date (1 October 2015) of the Liquidity Coverage Ratio for credit institutions fall within the scope of the application of CRR (EU 575/2013)³. In addition, the Audit Committee was briefed on the status of the Bank's implementation of the Net Stable Funding Ratio, which will become a minimum standard for credit institutions by 1 January 2018.

EIB Cartography of Risk

The Audit Committee discussed with RM the annual update of the Bank's Cartography of Risks (CARE). The CARE document incorporates an assessment of credit, operational, compliance, market, reputational, and legal risks.

Capital adequacy reporting

The Audit Committee met with the Staff at each meeting to monitor and discuss the evolution of the Bank's Capital Adequacy ratio ('CAD').

With the objective of facilitating forward capital planning and managing expectations with regards to expected evolution of the CAD ratio, the Audit Committee asked that RM to quantify the CAD impact of implementing remaining BBP Framework gaps, as well as forthcoming Best Banking Practice requirements.

Further detail on the work performed by the Audit Committee in relation to the Capital Adequacy ratio, together with our response to the status of implementation of BBP Framework and the aforementioned recommendations made by IA, is detailed in section 4.2, 'Risk Management'.

4 EIB COMPLIANCE WITH BEST BANKING PRACTICE

The implementation of processes and procedures to ensure EIB Compliance with Best Banking Practice is, in the first instance, the responsibility of the Bank's Management, together with the Bank's services. The Audit Committee, in accordance with the responsibilities assigned by the Bank's Statute, verifies the Bank's compliance with Best Banking Practice, having carried out an annual exercise of verifying the Bank's compliance with Best Banking Practice.

4.1 Implementation and verification methodology

The Audit Committee, the Bank's Management and the services jointly established the BBP Framework which sets out the Best Banking Practice reference documents considered applicable to EIB, against which EIB's compliance with Best Banking Practice is assessed. The BBP Framework is based on a hierarchical set of reference documents (e.g. EU Treaty, the Bank's Statute, EU Directives, international standards, guidance and principles issued by regulatory bodies – collectively

^{3 3} Date established by the relevant Delegated Act dated 10 October 2014 to supplement EU Regulation.

referred to as “standards” in this report) that are considered relevant. EIB compliance is measured against the requirements of these reference documents.

On the basis of proposals from the Bank’s services, the Audit Committee approves updates to the BBP Framework, its implementation and verification of the BBP Framework, on an annual basis, of which selected details are provided below.

In 2015, the Audit Committee reviewed the annual self-assessment of compliance with the BBP Framework established, including all the Directorates concerned. The EU Bank Recovery and Resolution Directive (‘BRRD’) was added to the BBP Framework during the reporting period.

In addition to verifying the on-going maintenance of areas where the Bank achieves full compliance with the BBP Framework, the meetings aimed at highlighting:

- (i) areas where full compliance had not been achieved at the last self-assessment, the progress made to fulfil it for each applicable standards, towards its full implementation;
- (ii) developments in standard setting, including new standards and reformed standards; and
- (iii) new EIB internal developments and their possible relevance to the standards, namely to identify and decide whether new standards become relevant to EIB as new products and/or initiatives are developed or whether there is a change in compliance.

The Audit Committee considers that compliance with the BBP Framework is a process that constitutes an integral part of written processes and working procedures, the internal control environment, as well as the daily working practices of the Bank.

To complement the self-assessments reported by Directorates, the Audit Committee has requested that IA includes within Internal Audit Annual Plan the audit of at least one area of the BBP Framework each year, with the specific objective of providing assurance regarding the integration of Best Banking Practice into the corresponding internal written procedures of the Bank.

Furthermore, when planning and performing individual audit assignments, The Audit Committee asked IA to incorporate and perform tests of controls linked to the reference standards, with a view to providing further assurance in the form of an opinion on compliance.

4.2 Areas where full compliance not yet achieved

The Audit Committee has met and discussed at length with the Bank’s services the status of implementation of the BBP Framework and the results of the annual verification process, focussing in particular on progress made during the year in closing remaining compliance gaps.

Areas where full compliance has not yet been achieved are as follows:

Risk Management

The Bank reports its status with the areas under responsibility of the Risk Management Directorate, which includes compliance with the prevailing CRD/CRR, and current Basel Committee on Banking Supervision (BCBS), as well as the European Banking Authority (EBA) guidelines and practices.

In order to address the BBP Framework gaps under the responsibility of the Risk Management Directorate a detailed work programme was established in 2013. An internal working group was set up, which includes a project manager tasked with ensuring that the work programme is achieved and the progress reported to the Management Committee and the Audit Committee; also additional resources were recruited to undertake the work required to achieve and maintain, full compliance.

The Audit Committee took note of the evolution of the work in progress during the reporting period which included the approval of the Prudential RAF, implementation of the monitoring the Liquidity Coverage Ratio, the validation of selected internal credit risk models; extension of the derivatives valuation and risk system to produce credit and liquidity risk measures as well as enhancements to operational risk monitoring and modelling.

At the request of the Audit Committee the prioritisation of the BBP Framework projects under the responsibility of RM was revised at the end of Q2 2015 with a move to a greater focus on notable trends in the supervision environment (Pillar II and III of the Basel Framework, the implementation of a sound capital assessment and planning processes, risk disclosures and other key internal Risk Management processes) than on the quantitative pillar I models for measuring credit, market and operational risks.

The work plan presented to the Audit Committee in Q1 2016 identified 43 projects, with 14 projects considered to be high priority, 11 medium and 18 low. The project implementation for high priority projects is mostly scheduled to take place during 2016.

High priority projects planned for completion in 2016 include the finalisation of a draft recovery and resolution plan, enhancements to the stress testing framework and the Bank's stress testing capabilities, the development of a bank wide recovery plan, the elaboration of a Pillar 3 report and an Internal Liquidity Adequacy Assessment Process ('ILAAP') document, as well as revisions to the EIB's Internal Capital Adequacy Assessment Process ('ICAAP') document.

On the basis of the work programme presented the Audit Committee is encouraged that the Bank is working towards achieving full compliance with all prevailing requirements by the end of 2017, with a substantial part of the high priority elements of the programme to be completed by the end of 2016. The Audit Committee will continue to monitor progress with this work plan during the forthcoming reporting period.

Corporate Governance

The Audit Committee is aware that the Bank's Statute retains precedence with regards to the organisation, composition and nomination to the Bank's governing bodies.

The general orientation of the Bank therefore is to apply the following Best Banking Practice requirements to the extent possible, when not contradictory to the Bank's legal texts:

- Directive 2013/36/EU dated 26 June 2013 coordinating national provisions concerning access to the activity of credit institutions and investment firms, the modalities for their governance and their supervisory framework;
- EBA Guidelines on Internal Governance;
- EBA Guidelines on the assessment of the suitability of members of the management body and key function holders.

During the reporting period, the Bank continued to investigate ways in which can proactively bridge respective Best Banking Practice gaps, whilst maintaining the primacy of the Bank's Statute. To this end, the Audit Committee took note of the recent approval by the Board of Governors to;

- reinforce the role of the Ethics and Compliance Committee;
- create an appointment advisory committee with the task of providing non-binding opinions on candidates' suitability ("Fit-and-Proper") to perform the duties as member of the Management Committee;
- Amend the Rules of Procedures to include reference to 'suitability criteria' which require that Members of the Management Committee possess competence and have experience in financial, banking and/or European Union matters, and that the overall composition of the Management Committee aims to reflect an adequately broad range of expertise.

The Audit Committee welcomes these initiatives. The Audit Committee supports the on-going work of the Bank to further align, to the extent possible, the corporate governance practices of the Bank with the requirements of Best Banking Practice.

In view of this alignment, to the extent possible, of the corporate governance practices to Best Banking Practice and in the context of the implementation of an ERM Framework encompassing the deployment of the three lines of defence model, the Audit Committee recommended that the existing combination of responsibilities amongst the Management Committee be reconsidered.

The Audit Committee believes that members of the management body should be able to act objectively, critically and independently and, that unorthodox combinations of responsibilities, for example responsibility for the oversight of both first and second line of defence activities, should be reconsidered.

Furthermore, in accordance with the requirements of Best Banking Practice the Audit Committee considers that in order to ensure continuity in the collective functioning of the Bank's Management Committee, its Members should be appointed for an appropriate period of time.

Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT)

The Audit Committee received updates during the reporting period from the Office of the Chief Compliance Officer (OCCO) on the work underway to close remaining compliance gaps in the field of AML-CFT. In 2014 a roadmap was agreed with the Management Committee, establishing measures to implement over a period of two years, with full implementation of initiatives, as required by the revised AML-CFT Framework planned for completion by the end of 2016.

The Audit Committee reviewed and monitored the progress made during the year, including the creation of a dedicated 'Know-Your-Customer' Unit tasked with the oversight of the completeness and accuracy of KYC related data, the creation of a dedicated OCCO monitoring unit for on-going screening of integrity data, further development of an IT system related requirements, as well as additional 'KYC' data enhancements.

The Audit Committee requested an internal audit to examine the completeness and application of AML-CFT processes, which was completed in Q1 2016. The audit highlighted the need for a separate project to address 'KYC' requirements of selected existing counterparties, where AML/KYC documentation had not always been consistently obtained or appropriately maintained. A project plan will be developed to address the KYC requirements of this existing portfolio of counterparties and operations.

The Audit Committee considers that to report full compliance with the Best Banking Practice Framework, EIB has to maintain the prerequisite KYC records of all counterparties, both for its existing stock of loans, as well as for new business and operations. The Audit Committee considers that the timely elaboration and execution of the above mentioned plan to address these gaps with the BBP Framework is critical and will closely monitor its progress over 2016.

4.3 Accommodating new developments in Best Banking Practice

The application and assessment of compliance with the BBP Framework is an iterative process. The Bank's services are required to propose the inclusion of new or revised practices to the BBP Framework and to ensure that the EIB is compliant from the date such requirements become effective.

In the wake of the financial crisis a wave of new regulations has been developed to promote the stability of financial institutions. The Audit Committee is conscious that the implementation of new Best Banking Practice requirements can be resource intensive, involve extensive inter service consultation and cooperation, and requires an effective, demanding, and timely change management programme. As a result the Audit Committee recommends EIB to seek the implementation a holistic and forward looking oversight of Best Banking Practice, whereby impact assessments and the on boarding of new requirements, together with the maintenance of a full overview of adherence to Best Banking Practice requirements lead by the Management Committee.

Furthermore, the completion of an internal audit to take place in 2016 into the EIB's approach to implementing Best Banking Practice may also identify process improvements that the Management Committee should consider implementing in parallel.

5. ISSUES OF FOCUS FOR THE AUDIT COMMITTEE LOOKING FORWARD

The Audit Committee will continue to oversee that the Bank's risk management and control environment remains sound and is properly designed in view of the exceptional demands on the

Bank, in particular in relation to EFSI. The Audit Committee will seek to ensure that it meets the needs of the Bank's changing business activities, the deployment of new products and initiatives, requirements of Best Banking Practice including the changing regulatory landscape and the challenging macro-economic environment.

As a result, the Audit Committee will continue to devote significant attention to the changing business of the Bank, and will seek to ensure that there remains effective oversight of the identification, ownership and management of risks, including the management of credit, liquidity risk, operational risk, governance, conduct and compliance risk, that the design of the internal control environment remains appropriate, namely with full implementation of three lines of defence model, and that internal controls and segregation of duties continue to operate effectively.

With regards to EIB's compliance with Best Banking Practice, the Audit Committee will continue to concentrate on monitoring and reviewing the actions undertaken by the Bank's services to close the remaining compliance gaps, in particular with regards to achieving full compliance with the BBP Framework in areas under the responsibility of Risk Management which includes CRD/CRR, as well as the requirements of the prevailing AML-CFT Directive.

The Audit Committee is aware of the forthcoming revisions to International Financial Reporting Standards (IFRS), in particular IFRS 9 Financial Instruments. The new standard includes revised guidance on the classification and measurement of financial assets, as well as includes a new expected credit loss model for calculating impairment. Preparing for the impacts of these changes will demand considerable effort. The Audit Committee will liaise with the Bank's services to understand the implications for the Bank's processes, including IT system or data configuration requirements, as well as to ensure the Bank's readiness from the date of application.

Finally, in 2016 the Bank will conclude the current tender for external audit services and audit related reform will enter into force. The new EU legislation, in the form of a Directive and a Regulation, introduces additional requirements specific to the role and responsibilities of audit committees, changes to auditor oversight, introduces mandatory rotation of statutory audit firms, as well as additional restrictions on the non-audit services that audit firms can provide to their audit clients. Should a new external auditor be selected the Audit Committee will oversee a smooth transition between the audit firms. The Audit Committee will also initiate a review of its own procedures and audit related policies to ensure compliance with the new requirements.

6. CONCLUSIONS

The Audit Committee was able to carry out its work to fulfil its statutory mandate under normal, unrestricted conditions. The Audit Committee is satisfied that the audit assurance obtained during the meetings, corroborated by the review of the documentation deemed necessary, and its own analyses sustain its conclusions. On this basis, the Audit Committee issued its annual statements as of the date of signature of the audit report by the external auditors and of the adoption of the financial statements by the Board of Directors.

The Audit Committee's verification of the Bank's compliance with Best Banking Practice is a requirement of the Bank's Statute. Together with the Bank's services, the Audit Committee dedicated significant time throughout the year to oversee the actions taken to close remaining compliance gaps.

The Audit Committee considers that the Bank is compliant with requirements of the BBP Framework, with the exception of the points brought to your attention in section 4.2 above.

The Audit Committee considers that it had adopted a balanced work approach during the year in terms of focus, objectives and means utilised to obtain the necessary assurance.

The Audit Committee believes that it has retained appropriate standing within the Bank, and that it has maintained appropriate relations with the Management Committee and the Bank's staff, as well as external auditors and consultants, while remaining independent at all times.

In 2015 the Audit Committee received the expected full support from the Bank's Management and services, thus the Audit Committee being able properly to discharge its responsibilities.

Furthermore, based on work undertaken and the information received, including an unqualified opinion from the external auditors on the EIB's financial statements as set out in section 1, and a representation letter from the Management Committee of the Bank, the Audit Committee concludes that the financial statements, as set out in section 1, drawn up by the Board of Directors give a true and fair view of the financial position of the Bank and of the results of its operations and cash-flows for 2015 in accordance with the applicable accounting framework.

The Audit Committee is able to extend the same conclusion to the financial statements, as of the same date, of the EU-Africa Infrastructure Trust Fund and the Neighbourhood Investment Facility Trust Fund as these are covered to a large extent by the EIB's own risk control systems and internal and external audit arrangements.

Luxembourg, 25 May 2016

Signed by:

M. ÜÜRİKE, Member

JH. LAURSEN, Member

D. PITTA FERRAZ, Member

J. SUTHERLAND, Member

J. DOMINIK, Member

U. CERPS, Observer

M. MATEJ, Observer

AUDIT COMMITTEE

Annual Report to the Board of Governors

Investment Facility

For the 2015 financial year

AUDIT COMMITTEE**ANNUAL REPORT TO THE BOARD OF GOVERNORS****ON THE INVESTMENT FACILITY****For the 2015 financial year**Table of contents:

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1. INTRODUCTION - the role of the Audit Committee

The statutory role of the EIB's Audit Committee is to verify that the Bank's operations have been conducted and its books kept in a proper manner, as defined in the Statute and Rules of Procedure. The Financial Regulation of the Cotonou Agreement provides for the audit and discharge procedures of the Investment Facility to be the same as those defined for the Bank.

The Audit Committee issues a statement each year confirming, to the best of its knowledge and belief that the financial statements prepared for the Investment Facility give a true and fair view of its financial position, the results of its operations and of its cash flows for the respective year, in accordance with the accounting framework applied by the Bank (see section 3 for more details).

The Audit Committee is established under the EIB Statute as a committee completely independent from the Board of Directors, with the Members and Observers being appointed directly by the Board of Governors. 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.

2. AUDIT COMMITTEE REVIEW

The assurance expressed by the Audit Committee is based essentially on the external audit performed by KPMG, but also on the fact that the Investment Facility shares a number of systems with the Bank, notably those involved in risk management, human resources management, treasury management and financial reporting. The Risk Report for the Investment Facility prepared by the Bank services was also shared with us. The Audit Committee obtains an understanding of the activities and risks associated with the various developments by reviewing regular management reports and by interacting regularly with the relevant Bank services involved in the Investment Facility activities.

Meetings with Management

The Audit Committee has met during the past year with the Management of the IF, who offered details about the recent developments and future orientations for the IF and the Bank's activities in the ACP region in general. The Investment Facility portfolio, including the watch list, together with current project trends was discussed.

Monitoring Aspects

Continuing to build on progress made over the last few years with regards to enhancing the due diligence process and the control environment, the Bank has re-enforced the monitoring of operations by creating a segregated function tasked with the monitoring and post signature follow up of both loan and equity investments.

External auditors (KPMG)

The external auditors responsible for the audit of the Investment Facility'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 has properly monitored KPMG's activity, by requesting oral and written reports, by reviewing the external auditor's deliverables and making further inquiries and through a formal interview before the sign-off of the accounts.

We held discussions with the auditors throughout the year, in order to keep ourselves briefed on the audit progress and the audit and accounting issues. We conducted a private interview with KPMG before giving our clearance on the various financial statements. We received assurances that the audit process went as planned, with full support from the Bank services.

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

Inspector General

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

The Audit Committee is also informed about any alleged cases of wrongdoing and ongoing investigations relating to Bank projects, including Investment Facility operations. We also discuss with Internal Audit all the significant audit recommendations and agreed action plans, together with the unit responsible for implementation. No specific audits in relation to the Investment Facility have been performed by the EIB Internal Audit during the reporting period.

European Court of Auditors

The Audit Committee was informed of the outcome of an audit concluded by the European Court of Auditors in 2015.

The scope of the audit was to assess whether the Investment Facility added value to the EU's development cooperation with ACP countries.

The Audit Committee took note that the audit concluded positively with two recommendations, the first that the EIB should make sure that financial intermediaries include a reference to the Investment Facility in their on-lending contracts so that end beneficiaries are informed about the source of the funding and the second, that the EIB together with financial intermediaries, should ensure that end beneficiaries are fully able to benefit from technical assistance.

3. THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015 AND THE ANNUAL STATEMENT OF THE AUDIT COMMITTEE

The Audit Committee examined the 2015 financial statements of the Investment Facility and has interviewed the external auditors, in the presence of the Bank's management and in private, in order to obtain an understanding of the audit procedures applied.

The Audit Committee noted, in relation to the 2015 financial statements:

- Income statement: The Investment Facility recorded a loss for the year of EUR 3,3 million in 2015 compared to a loss of EUR 46,7 million in 2014.
- Balance Sheet: The total increased from EUR 2,429 million at 31 December 2014 to EUR 2,557 million at 31 December 2015.
- Credit risk: The Investment Facility had disbursed exposure totalling EUR 1,640 million at the end of 2015, increasing from EUR 1,471 million at 31 December 2014.
- Impairment: the balance of impairments increased from EUR 152 million at the end of 2014 to EUR 191 million at the end of 2015.

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 (Article 7, paragraph 3 of the Agreement). The accounting framework applied to the financial statements is International Financial Reporting Standards (IFRS) as endorsed by the EU.

4. CONCLUSION

In meeting its responsibilities in 2015 the aim of the Audit Committee was 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. We have received full cooperation from the Investment Facility during the reporting period.

Based on the work undertaken and the information we have received (including the opinion from the external auditor on the financial statements and a representation letter from the Management of the Bank), the Audit Committee concludes that the 2015 financial statements of the Investment Facility drawn up by the Board of Directors give a true and fair view of the of the financial position of the Investment Facility as at 31 December 2015 in respect of its assets and liabilities, and of the results of its financial performance and its cash flows for the year then ended, in accordance with IFRS.

On this basis, we signed our annual statement as of 10 March 2016, the date on which the EIB Board of Directors has approved the submission of the Investment Facility financial statements to the Board of Governors.

Luxembourg, 25 May 2016

Signed by:

M. ÜÜRİKE, Member

JH. LAURSEN, Member

D. PITTA FERRAZ, Member

J. SUTHERLAND, Member

J. DOMINIK, Member

U. CERPS, Observer

M. MATEJ, Observer

AUDIT COMMITTEE

**Response of the Management Committee
To the Annual Reports of the Audit Committee**

For the 2015 financial year

**RESPONSE OF THE MANAGEMENT COMMITTEE
TO THE ANNUAL REPORTS OF THE AUDIT COMMITTEE
FOR THE YEAR 2015**

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1 CORPORATE GOVERNANCE AND INTERNAL CONTROL

In line with its responsibilities assigned in the Bank's Statute, the Board of Directors has overall responsibility for maintaining a sound system of internal control that supports the achievement of the Bank's policies, aims and objectives while safeguarding its funds and assets. The Management Committee, under the supervision of the Board of Directors, has the day-to-day responsibility for the system of internal control based on ongoing identification, evaluation and management of the principal risks to the achievement of policies, aims and objectives.

The Bank is committed, through Article 12 of its Statute, to conform its activities to best banking practice (BBP) - as defined within a framework established jointly by the Audit Committee and the Bank's Management since 2010.

The framework establishes a hierarchy of the main legal and regulatory texts that are relevant and should be followed by the Bank. Flowing from this hierarchy, precedence is given to the "core EU legislation" including the EU Treaty, the Bank's Statute and the Rules of Procedure over other provisions such as EU Directives, Regulations or guidelines.

Also pursuant to Article 12 of the Statute and Article 24 of the Rules of Procedure, the Audit Committee shall annually verify that the operations of the Bank have been conducted and its books kept in a proper manner. The Audit Committee is also responsible for the auditing of its financial statements as well as verifying that the activities of the Bank conform to BBP applicable to it.

In addition to an annual external audit of the financial statements under the discharge rules of the Statute, a number of the Bank's activities under partnership agreements are also subject to separate external audit scrutiny. Furthermore, various audit procedures are required in connection with certain bond issues. As both a Community body and a financial institution, the Bank also cooperates with other independent control bodies such as the European Court of Auditors, European Anti-Fraud Office (OLAF) and the European Ombudsman. As such, the Bank is subject to significant independent review throughout the year, as well as at the year end.

Following a high level review of the Bank's Compliance and Control Framework by external consultants in 2014, the Management Committee, in collaboration with the Audit Committee, initiated a restructuring of the EIB's control and compliance functions during 2015. The changes should ensure a more holistic Compliance and Control Framework across the Bank's various Directorates; re-enforce responsibilities according to the "Three Lines of Defence model for Effective Risk Management and Control" and further align to those BBP applicable to the Bank. Key changes include: the creation of a Compliance and Controls Committee chaired by the responsible Vice President; restructuring of the Office of the Chief Compliance Officer (OCCO), Financial Control and Inspectorate General Directorates as well as the allocation of additional professional resources to those Directorates. Specifically in line with the Three Lines of Defence model, Financial Control's role in relation to the Bank's Internal Control Framework (ICF) has been strengthened with additional capabilities and resources with which to deliver these new responsibilities. Furthermore, in order to reinforce the Compliance role, the Data Protection function has been transferred to OCCO. Internal Audit will continue to focus on providing independent reviews of the first two "lines of defence".

The status of the Inspectorate General, OCCO and Financial Control as separate and independent Directorates has been reinforced. This is also manifested by the Inspector General, Group Chief Compliance Officer and Financial Controller having a direct reporting line and access to the President and Audit Committee.

In order to further re-enforce the Bank's Three Lines of Defence model and as recommended by the Audit Committee, the Bank is considering implementing an Enterprise Risk Management Framework. This would include due consideration of the combination of responsibilities of individual Management Committee members vis-a-vis responsibility for first and second line of defence controls in related activities, and with due regard to the decision-making power of the Management Committee under the Statute. The Audit Committee will be apprised of the outcome of the related deliberations.

During 2015, the Audit Committee initiated the call for tender process in order to appoint the Bank's external auditor from 2017. Under the EIB Group policy on auditor rotation, which was revised in 2014 to accommodate the EU rules regarding Statutory Audit (EU Directive 2014/56/EU and Regulation 537/2014) also referred to as the 'European Audit Reform', KMPG as the incumbent external auditor will be permitted to apply for a further engagement.

The Bank's 2015 Internal Audit Plan has been broadly achieved. In response to emerging business needs, relevant changes and reprioritisations to the Audit Plan which were introduced during the year to cater for special requests were endorsed by the Audit Committee following approval by the Management Committee. The Management Committee has continued to put emphasis on the timely clearance of Agreed Action Plans (AAPs), particularly those relating to high priority matters. Just two high risk AAPs were overdue at the end of 2015 neither of which were long overdue⁴ (end 2014: three), and already in 2016, the necessary work to close these AAPs has been performed. Continued emphasis will be placed upon the timely closure of medium and low risk AAPs.

The 2016-2018 Internal Audit plan was approved by the Management Committee following consultation with the Audit Committee. The audits planned for 2016 cover a broad scope of business areas according to perceived level of risk and with reference to results of prior related audits where applicable. New aspects to be covered in 2016 include reviews of the contractual framework, governance structure and envisaged implementation models of the European Fund for Strategic Investment (EFSI) and the European Investment Advisory Hub (EIAH), as well as a review of the EIB's approach to implementing the BBP framework. The BBP framework review will focus on the set-up of the BBP process throughout the Bank and the associated distribution of responsibilities. Adaptations to the Internal Audit plan for 2016 may already be envisaged given the emerging calls for the Bank to support the EU efforts in relation to migration and the refugee crisis which may entail new products and ways of working.

Notwithstanding the major evolution in the Bank's business activities, the Bank maintains a balanced approach to 'risk taking' and adopts an active approach to the mitigation of risk. The Management Committee remains satisfied that the major risks, to which the Bank is exposed, as identified through the risk management and internal control framework, are appropriately reviewed and that systems, policies and/or procedures have been established to manage those risks. The Bank's overall internal controls and procedures are effectively designed and operated to provide proper assurance on the integrity, legality and timeliness of the underlying transactions and processes of the annual financial statements. Further comments on governance are given in the context of the BBP framework in Section 3 below.

⁴ Overdue by more than one year since initial due date

2 RISK MANAGEMENT

2.1 General Risk Management Approach

In pursuit of its business strategy, the Bank accepts to take credit, market and liquidity risk up to the level where it remains aligned with its risk appetite and public mission. The Bank aims to retain its long-term AAA rating, which is at the core of its business model. At the same time, it aims for predictable earnings and preservation of the economic value of own funds, in order to support the self-financing of the Bank's growth in the long term.

In line with the Three Lines of Defence model, the Bank considers that risk management is the responsibility of all services, i.e. all Directorates and not just of the risk and control functions. As noted above, following recommendations by the Audit Committee, the Bank is considering implementing an Enterprise Risk Management (ERM) Framework. This would serve to clearly document responsibilities of first, second and third line of defence functions in relation to identified risks across all services and would therefore further promote a risk awareness culture throughout the Bank.

In December 2015, the Board approved the Bank's Risk Appetite Framework which formally defines and documents the level of risk that it is able and willing to incur in pursuing its activities in the context of its mandate and objectives. Risk appetite, including boundaries and early warning trigger levels, has been defined for a range of Statutory, Regulatory, Internal and External metrics. These metrics include relevant indicators such as the Capital Adequacy Ratio (CAD), Basel III Leverage Ratio, Liquidity Coverage Ratio and Gearing Ratio. At the request of the Audit Committee further improvements to the Risk Appetite Framework, including the addition of non-financial/conduct risks and the cascading down of the Bank's Risk Appetite Framework metrics, will be initiated in 2016 with an implementation period until 2018. A formal Recovery Plan will be finalised in 2016, and predetermined management actions established in case certain risk thresholds are reached so that concrete measures are taken should there be a breach of the Bank's risk capacity.

The Board of Directors is kept informed of the on-going risk-related developments, including the potential impact of changes in market circumstances, on EIB's financial stability and overall business model through monthly Risk Reports and a quarterly Risk Management Outlook and Dashboard Report. Within the Board of Directors, the Risk Policy Committee meets no less than four times per year (in 2015, eight times) to review the Bank's policies with regard to credit, market and liquidity risks. The Risk Reports are reviewed and discussed by the Risk Policy Committee as well as with the Audit Committee.

2.2 Specific Risk Management Activities

Capital Adequacy Reporting

The Bank uses the regulatory CAD ratio covering Pillar 1 and Pillar 2 (i.e. economic capital model-based) capital requirements as well as Basel III macro-prudential buffers to measure its capital adequacy, for which the regulatory minimum has been set at 18% based on the requirements introduced in 2015 (with a temporarily acceptable lower threshold of 14% in case of severe stress); the risk appetite boundary of 20% remains the key reference for maintaining the risk profile of the EIB within its risk appetite limits. The Bank will continue aiming to keep the CAD ratio above its risk appetite boundary.

The Banking Recovery and Resolution Directive (BRRD) framework has been implemented into the EIB's capital adequacy calculation during Q2 2015, leading to a deterioration of the CAD ratio by about -1.9%. As recommended by the Audit Committee, the Bank is in the process of quantifying the impact upon the CAD ratio

of implementing the remaining known areas for compliance with BBP applicable to it as well as forthcoming BBP requirements – see section 3.2 below.

Further information on the Bank's work plan with respect to capital adequacy requirements is also provided in section 3.2 below.

Credit Risk Monitoring

Going forward, the Bank will sustain high levels of lending activity; however at the same time it remains watchful that activity levels are financially sustainable in an uncertain economic environment. The focus on continuous assessment of credit risk is evidenced by low levels of impaired loans; since the beginning of 2013 the amount of watch listed loans relative to the Bank's risk portfolio has shown a continual downward trend (1.3% at end 2015). It should be noted that most of the watch-listed operations remain performing. The Management Committee is acutely aware that the high levels of lending activity include a 'high-risk' mix which has the potential to notably increase credit risk events. Hence related control and monitoring functions have been further strengthened.

Liquidity Risk Monitoring

Liquidity risk is managed prudently in order to ensure the regular functioning of the Bank's core activities in both normal and simulated "stressed" conditions. The adequacy of the Bank's liquidity buffer is monitored through liquidity ratios and indicators, which have to remain within the risk appetite boundaries. As part of the liquidity risk management process, the Bank also monitors its prospective cumulative funding gaps, leading to funding recommendations to limit annual re-financing needs.

In order to ensure compliance with the requirements of Basel III - CRD IV/CRR, the Bank included the Liquidity Coverage Ratio (LCR) in its suite of liquidity ratios and began actively reporting and monitoring the results from April 2015 onwards. As at end 2015 the LCR was above the future minimum regulatory level of 100%. Work is continuing on the implementation of the Net Stable Funding Ratio, which becomes a minimum standard for credit institutions from January 2018. The EIB started reporting on the Net Stable Funding Ratio in October 2015, based on a simplified calculation following Basel Committee on Banking Supervision (BCBS) standards, pending parametrisation of EU regulatory standards. Further work to refine the calculation methodology is on-going.

To further strengthen its liquidity resilience and ensure fulfilment of LCR requirements, the Bank began implementing a collateral management system in 2015 which is expected to be completed in 2017. The system will allow the Bank to enlarge its liquidity sources, in line with Central Bank of Luxembourg (BCL) recommendations made in 2013 and with BBP applicable to the Bank.

In relation to the 2014 Internal Audit review of "Liquidity Planning and the Eurosystem Facility", the main action points, in respect of improvements to the Bank's liquidity pricing methodology for unfunded products (e.g. guarantees and undisbursed loans) have now been implemented.

During 2015, the BCL conducted a liquidity assessment, including a review of the implementation of the LCR methodology and the Contingency Liquidity Planning testing – the findings of the review have not yet been made available.

EIB Cartography of Risk (CARE)

The CARE report provides the Management Committee and the Board with an overall picture of the Bank's risk profile at a particular point in time. The end 2014 report which was published in 2015 covers assessments of credit, operational, compliance, market and legal risk, and for the first time, an assessment of reputational risk.

3 BEST BANKING PRACTICE

3.1 Implementation and Verification Methodology

The Bank continually seeks compliance with prevailing BBP applicable to it including an annual self-assessment exercise conducted by each Directorate. As BBPs evolve, so too elements for further compliance by the Bank have been identified in 2015 and actions, reviews or investigations are underway to address them (see sections 3.2 – 3.5 for further details).

The overview and assessment of compliance with BBP applicable to the Bank is inevitably becoming increasingly complex and resource intensive for the Bank. This will undoubtedly continue and intensify in the future, especially in view of the waves of regulation aimed at promoting the stability of financial institutions coming into force. The Bank is reviewing the long term suitability of the current self-assessment methodology and the co-ordination of BBP activities across the organisation. It is in this context that the above mentioned Internal Audit review of the EIB's approach to implementing BBP applicable to it will be undertaken during 2016.

The Bank reiterates its recognition that evolution in banking activities will require continuous review of the BBP applicable to it and commits to the revision, if necessary, of the Bank's associated compliance measures.

3.2 Capital Requirement Directive (CRD)

The Bank remains broadly compliant with the qualitative and quantitative elements of the prevailing CRD. In 2014, in order to address remaining areas for compliance, a specific related BBP target road map was drawn up, additional resources recruited and an internal working group, including a programme manager, reporting regularly to the Management Committee and Audit Committee was established.

In total, 15 projects identified in the road map were completed in 2015. These include the closure of the following important gaps:

- the approval of the Risk Appetite Framework by the EIB Board of Directors;
- implementation of Liquidity Coverage Ratio monitoring in line with CRD IV/CRR requirements;
- the derivatives valuation and risk system (Numerix CVA) was extended to produce credit and liquidity risk measures. Internal validation of the CVA system plus a review by Internal Audit were both completed by the beginning of 2016; and
- calculation of economic capital at a transaction level was completed.

The remaining known areas for compliance are intended to be closed during 2016/2017, with the majority of the high priority projects, including finalisation of the Recovery Plan and enhancements to the stress testing framework, scheduled to be completed during 2016.

In addition to the identification and review of BBP applicable to the Bank embedded into all phases of the audit, each year Internal Audit perform a specific review of an aspect of the credit risk framework in order to comply with the requirements of CRD IV/CRR. The 2015 review focussed on compliance with the European Reporting Framework, credit risk models and the EIB's capital requirements and forward-looking capital planning. The audit work has now been completed and findings will be discussed with the Audit Committee in due course. The focus of the 2016 review will be discussed with the Audit Committee following consideration of the finalised 2015 reviews.

3.3 Banking Recovery and Resolution Directive (BRRD)

The introduction of the Banking Recovery and Resolution Directive (BRRD) in January 2015 has represented a material change to the banking regulatory environment, requiring a review of the Bank's policies and practices. On the back of an in-depth analysis of the regulation and its transposition into national law (as far as currently available), the Bank designed a set of comprehensive measures addressing the identified impacts of the BRRD, on both its lending and financing activities. The measures have been calibrated to balance, on the one hand, the importance of bank counterparts to EIB's business model and achievement of operational objectives; and on the other hand, the need to effectively mitigate and price the new risks the Bank is exposed to as a result of the Directive.

3.4 Corporate Governance and Transparency

The Bank applies the BBP applicable to it in the field of corporate governance and transparency to the extent possible, given the precedence of the Statute in respect of the organisation, composition and nomination to the governing bodies. Two new reference documents have been added to the framework for corporate governance during 2015, replacing superseded previous versions:

- BCBS revised version of Corporate Governance principles for banks; and
- OECD updated version of Principles of Corporate governance.

These guiding principle documents set out prudential corporate governance requirements, in particular, for selecting, appointing and monitoring the suitability of members of the management body and key function holders of credit institutions based on reputation, experience and governance criteria, both individually and collectively.

The Bank is investigating ways in which it can proactively bridge any related BBP gaps, whilst respecting the primacy of the Statute. In 2015, this has led to intensive discussions at the Ethics and Compliance Committee and at the Board's Working Group on Governance, following which a number of measures have been approved by the Board of Directors and also by the Board of Governors and will be operational in the second half of 2016: (i) reinforcing the role of the Ethics and Compliance Committee (ii) creation of an appointment advisory committee with the task of providing confidential, non-binding opinions on candidates suitability to perform the duties of member of the Management Committee (iii) amendment of the Rules of Procedure to include reference to "suitability criteria" for members of the Management Committee.

In March 2015, the Board approved a revised EIB Group Transparency Policy, which followed an extensive public consultation process and which is further aligned with EC Regulation 1049/2001. The policy sets out the EIB Group's approach to transparency and stakeholder engagement, and defines the EIB procedures concerning information requests from the public, as well as the information that the EIB makes routinely available to the public. An implementation report, in line with the requirements of EC Regulation 1049/2001, will be published on an annual basis. At the request of the Audit Committee, the Management Committee will also initiate a review of the EIB Whistleblowing Policy and reporting lines during 2016.

3.5 Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT)

The Bank considers that Compliance, including AML-CFT, is a shared responsibility of all decision-making bodies, Directorates and staff. Progress is being made to close remaining areas for compliance in the field of AML-CFT. In 2014, the

Management Committee approved the revised EIB Group AML-CFT Framework and roadmap for implementation. The roadmap details the long term structural changes required by the end of 2016 to ensure AML-CFT compliance. During 2015 the following key elements were implemented; the establishment of an OCCO Monitoring Unit and a Know Your Customer (KYC) Unit in the TMR Directorate, the upgrade of the Bank's central counterparts' database (PIRAT) to reflect data on EIB counterparts and related parties, an enrichment exercise to populate data systems until new AML-CFT processes are fully established and development of a new e-learning module for mandatory training on AML-CFT.

During 2016, in line with the Group AML-CFT Framework and roadmap, and subject to required system enhancements, the EIB AML-CFT Procedures will be finalised for approval by the Management Committee and specific related training on the AML-CFT Procedures, targeting client facing officers, will be delivered. Going forward, attendance of the mandatory AML/CFT courses will be closely followed up.

Following an Internal Audit review examining the completeness and application of AML-CFT processes, a project plan is under development to address the weaknesses in the application of KYC requirements to the "legacy" portfolio. The project will capture those existing counterparts and transactions that are not covered under the AML-CFT roadmap, and ensure appropriate application of KYC requirements. Given the importance of this issue, the work and resources needed to bring the "legacy" portfolio and its follow-up and monitoring to the required AML-CFT standards will be prioritised and the Audit Committee will be given progress updates during the year.

4 THE INVESTMENT FACILITY

The Bank is entrusted with the management of the Investment Facility (IF), financed by the EU Member States' budgets. Resources from the IF, alongside the Bank's own resources, are utilised in the finance 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 the Bank's own resources are complementary in nature. IF operations typically focus on the riskier market segment of private sector projects that would normally not meet the prudential requirements set under the financing of own resources supported operations.

The key transactions and internal activities related to the management of the IF are handled by the same processes, procedures and infrastructure of the Bank. Hence key management and internal controls, particularly in regard to risk management, internal audit, human resources, treasury and financial reporting are the same as those applied to the operations of the EIB. External mandates, including those of the IF, are subject to external audit.

During 2015 the European Court of Auditors conducted an audit assessing whether the Investment Facility added value to the EU's development cooperation with ACP countries. The audit concluded positively and the Bank considers that appropriate action has been taken to address the two recommendations for improvement.

5 LOOKING AHEAD

As expected, 2015 was a year of major transition with the early completion in March 2015 of the Growth and Employment Facility (GEF) made possible by the 2012 capital increase. This early completion of the GEF also allowed the early stages of the Bank's contribution to the Investment Plan for Europe (IPE) to start. All this was delivered by existing staff alongside the Bank's more traditional lending, blending and advising activities. The Operational Plan for 2016-2018 is even more ambitious both in form and substance. High volumes of traditional lending, blending and advising

activities are absolutely needed to make an imperative contribution to EU Policy Goals and to respect the Bank's overall responsibilities as the EU Bank. At the same time the Bank's overall contribution to the IPE is an unprecedented challenge requiring a quantum change in the Bank's business profile for some years to come. The Operational Plan 2016-2018 was approved by the Board of Directors in December 2015. However, since the beginning of 2016, the migration and refugee crisis has unfolded with a size and pace which calls for radical actions on an EU scale and to which the Bank is also fully committed to now support. Such support will undoubtedly require creative financing and advisory solutions to be designed, approved and implemented rapidly.

Against this background and whilst respecting the precedence of core EU legislation in conforming to BBP applicable to the Bank, in strengthening the Bank's services towards the Three Lines of Defence model for Effective Risk Management and Control, the Management Committee is making timely moves to ensure a cohesive, coordinated approach to the provision of on-going assurance that overall risk and control processes can and do operate as intended.

In particular, whilst the Bank's risk processes to assess proposals for new operations and the resolution of credit events on outstanding exposures are well established and have served well during the Bank's crisis response starting in 2009, the high expectations on EIB Group especially in relation to the IPE and refugee rapid response call for a stepped-up internal scrutiny of the activities of the Bank to which the Management Committee strongly commits.

In the rapidly evolving regulatory environment, particularly in the field of risk management, ensuring compliance with existing and emerging BBP which are applicable to the Bank has an impact on Bank-wide business processes *per se* which should not be under-estimated. Achieving and maintaining compliance with the prudential and non-prudential BBP requirements poses a material challenge to the Bank in terms of dedicated human resources available as well as systems and data capabilities. Whilst compliance with BBPs has continued to progress throughout the years, it is highlighted that further additional regulatory developments may impact not only the processes but also the Bank's operational and policy targets. In particular, a negative influence on the Bank's CAD ratio is to be expected in the future due to different regulatory initiatives including the revised securitisation framework, the revised BCBS Standardised Approach serving as a floor for the internal model based capital requirements, revision of the use of the BCBS Advanced Measurement Approach for operational risk and new requirements regarding interest rate risk in the banking book.

In addition to CAD impact, the Bank could be materially affected by possible future regulatory requirements or changes such as minimum liquidity ratios, limits on large exposures or treatment of sovereign risk. The Bank will continue to monitor the evolving regulatory landscape and report on its findings, possible mitigation, and expected impact on EIB processes and targets and not least on key risk indicators.

The Bank has monitored the finalisation of the IFRS 9 components which were published by the International Accounting Standards Board in July 2014, being effective for annual periods beginning on or after 1 January 2018. In this context, the Bank has already made significant plans in anticipation of the forthcoming implementation of IFRS 9 with a view to ensuring full compliance once the standard becomes applicable in the European Union most likely as from 1 January 2018. Preliminary simulations show that whereas the possibility to introduce hedge accounting and revoke substantially the application of the Fair Value Option will reduce the volatility of profits experienced in the past, the introduction of the new incurred loss model will create an additional source of substantial volatility.

Furthermore, the obligations regarding the disclosure and reporting of non-financial information are also likely to become more onerous. The Bank is involved in the European Commission's on-going consultation process for EU Directive 2014/95/EU on disclosure of non-financial and diversity information and will closely follow developments in this area.

6 CONCLUSION

The Bank services have maintained a collaborative approach in supporting the work of the Audit Committee and continue to foster mutually constructive, yet appropriately independent, relationships between the Management Committee, Audit Committee, the internal auditors and external auditors.

The Management Committee values the continued support and feedback provided by the Audit Committee during 2015 and takes note of the continued high level of commitment in terms of meeting days (15 days, in 2014 and 2015). It was also pleased to note that in light of specific requirements in relation to the role and responsibilities of audit committees included in the European Audit Reform, the Audit Committee will initiate a review of its own procedures and audit related policies to ensure conformity.

The Management Committee continues to place critical importance on the adherence to those best banking practice applicable to the Bank, particularly as on-going macro-economic uncertainty together with the unprecedented business role and related challenges evolve. The Management Committee retains confidence in its policies, procedures and staff to succeed in both delivering the operational plan, responding to other complex emerging business needs and, in parallel in ensuring effective risk management and control mechanisms.



**European
Investment
Bank**

The EU bank

Information Desk

☎ +352 4379-22000

☎ +352 4379-62000

✉ info@eib.org

European Investment Bank

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg

☎ +352 4379-1

☎ +352 437704

www.eib.org